

# The Changing Dynamics of the World

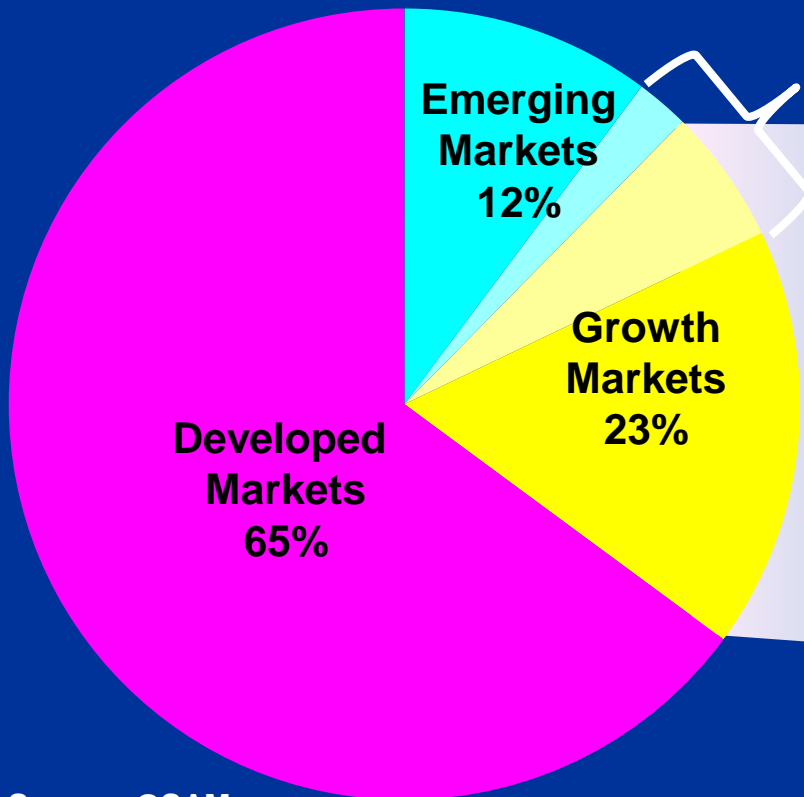
**Jim O'Neill**

**Chairman, Goldman Sachs Asset Management**

October 2011

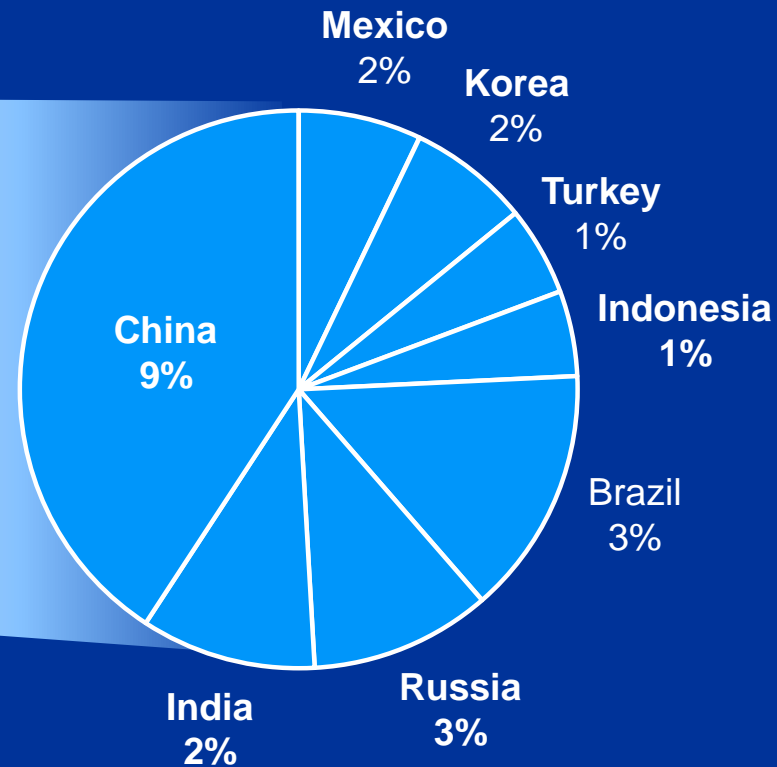
# Country Classification by 2010 GDP Share

## World



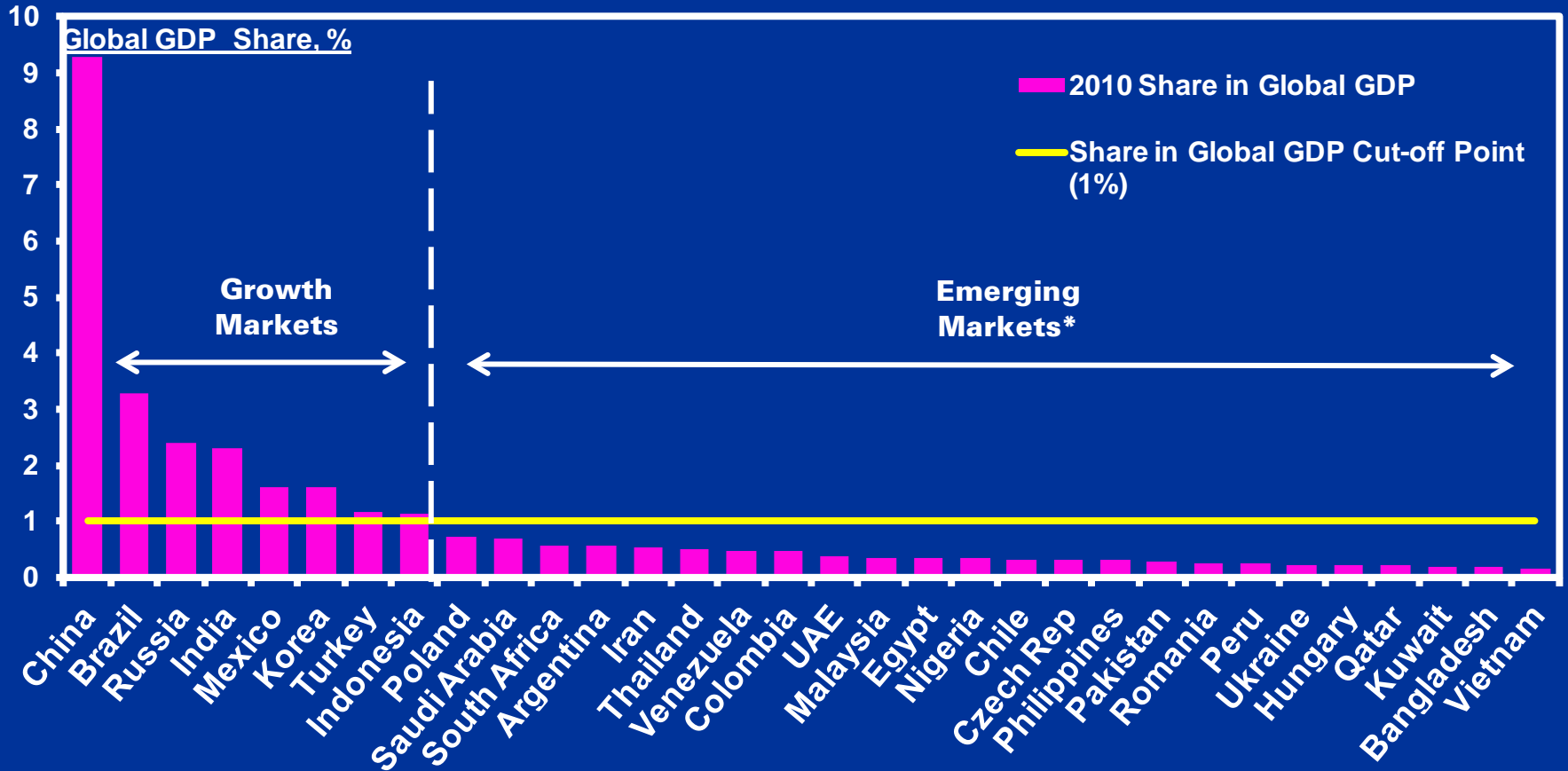
- N11**  
 Bangladesh  
 Egypt  
 Iran  
 Nigeria  
 Pakistan  
 Philippines  
 Vietnam  
 Mexico  
 Korea  
 Turkey  
 Indonesia

## Growth Markets



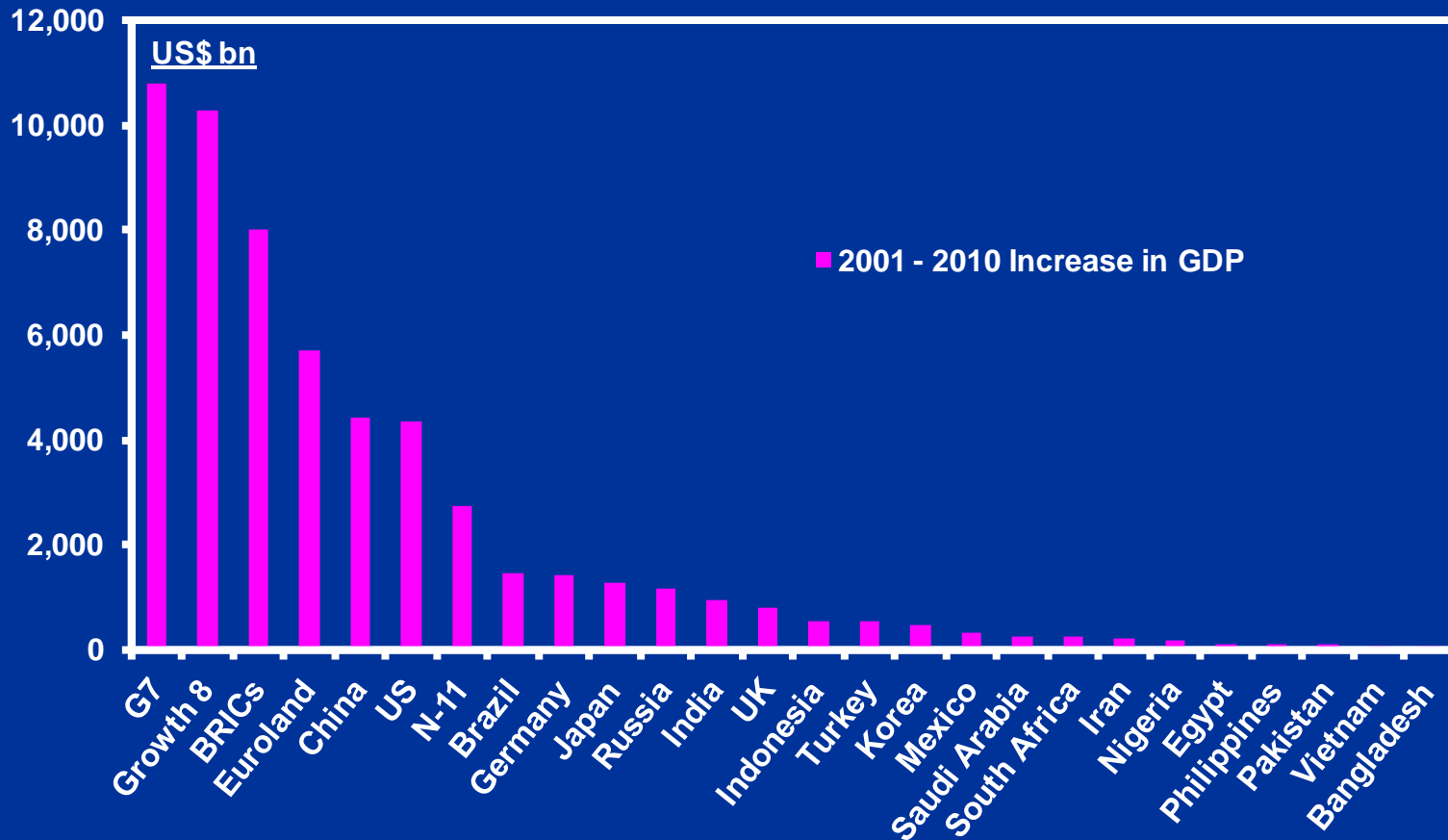
Source: GSAM

# Growth Market / Emerging Market Split



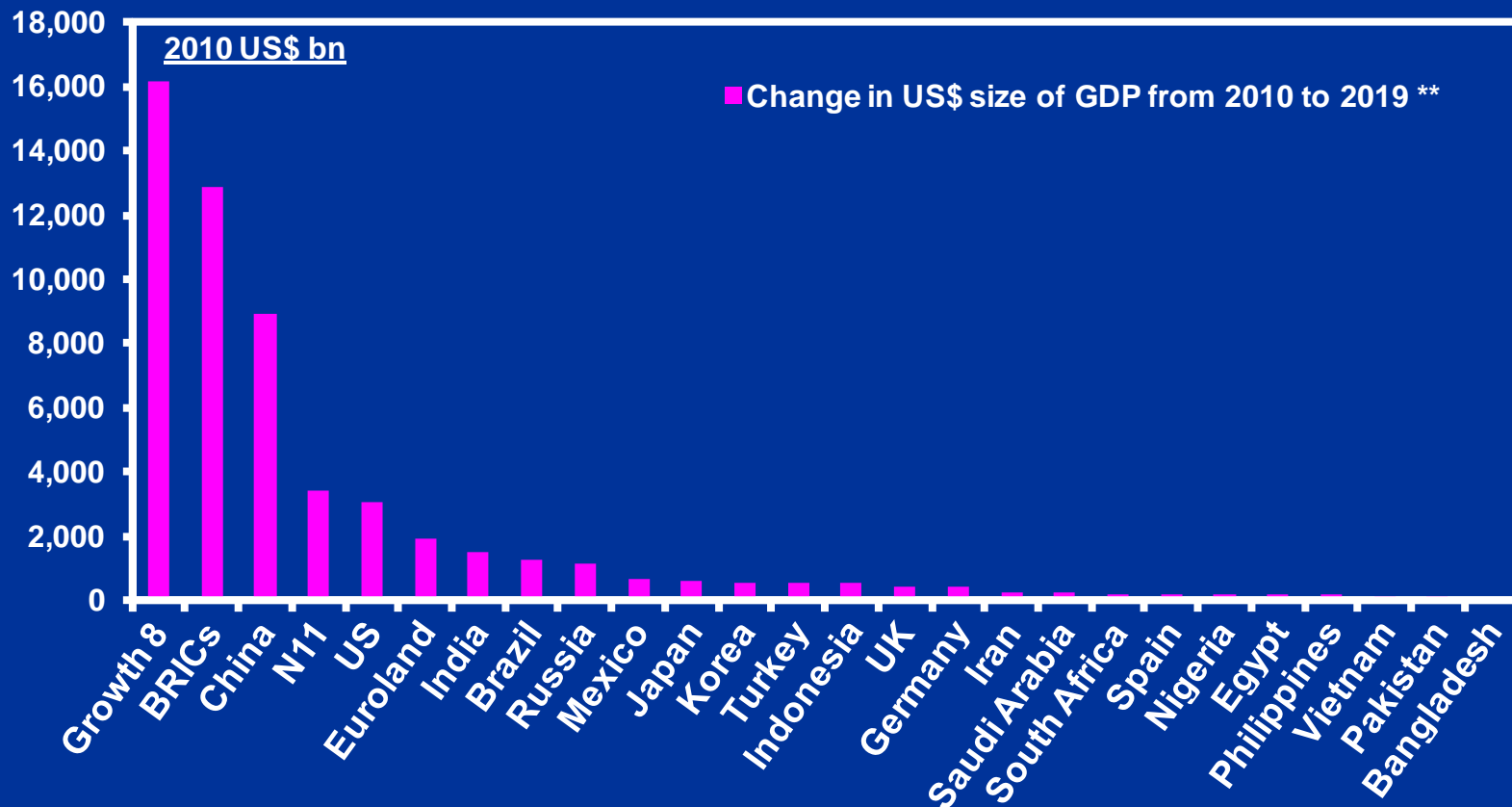
Note, original projections are rebased from 2007 to 2010.  
 Source: Global ECS Research, GSAM calculations

# 2001 - 2010 Change in Global GDP



Source: IMF

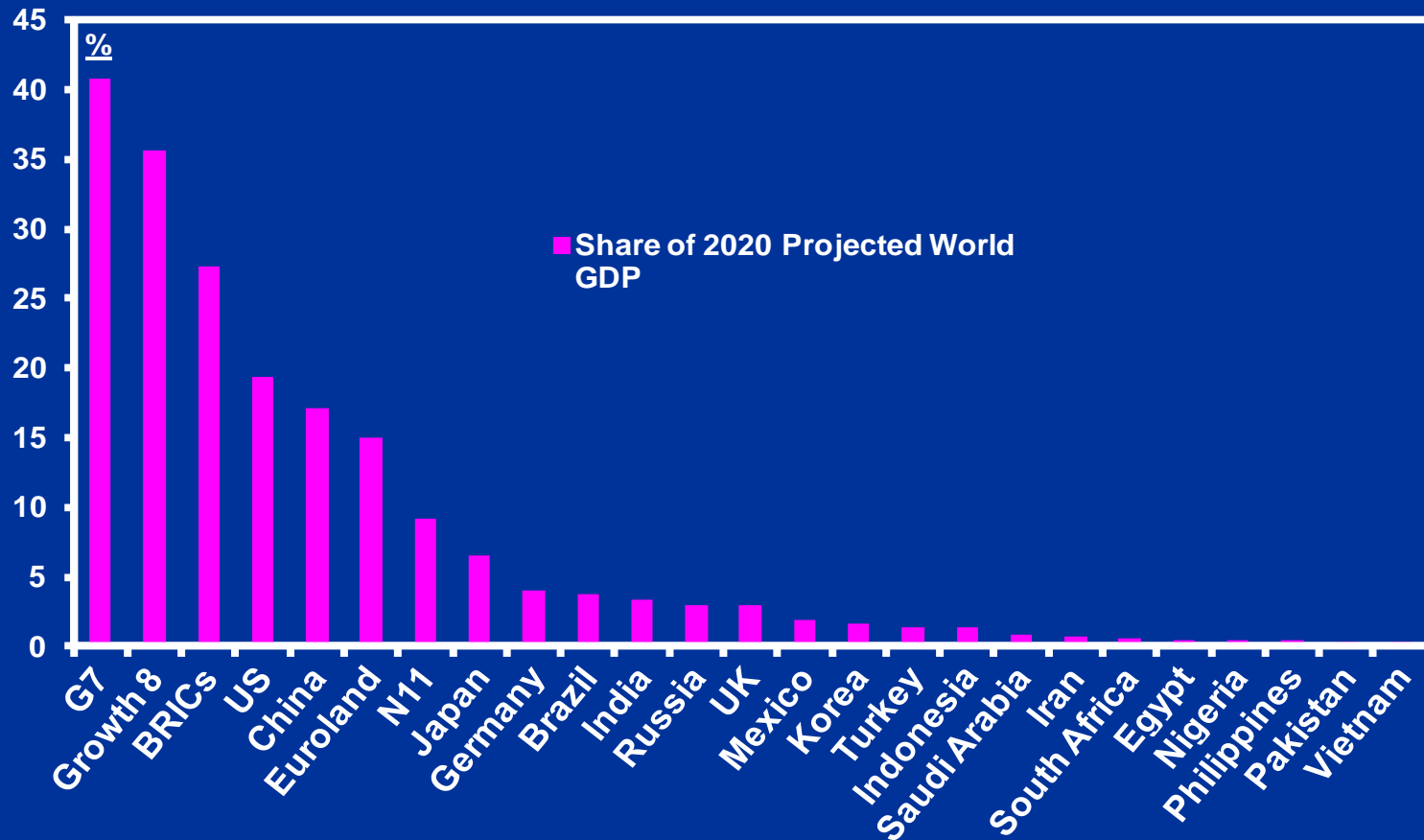
# Change in US\$ Size of GDP from 2010 to 2019



\*\*GDP projections have been re-based from 2007 to 2010 to incorporate recent data. Growth and currency appreciation paths from 2011 to 2050 are kept the same

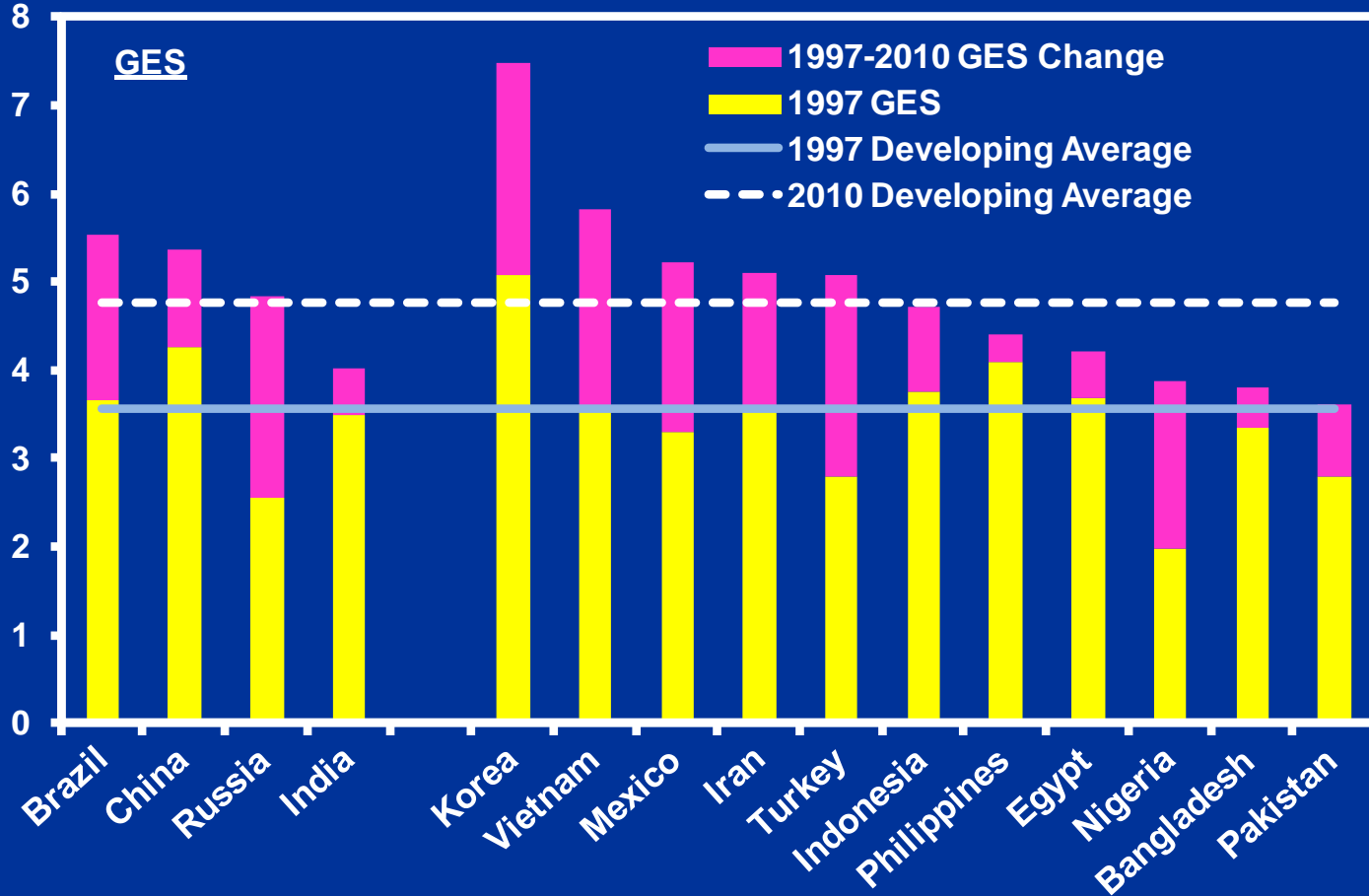
Source: GS Global ECS Research. GSAM Calculations

# Share of Global GDP in 2020



**\*\*GDP projections have been re-based from 2007 to 2010 to incorporate recent data. Growth and currency appreciation paths from 2011 to 2050 are kept the same**  
**Source: GS Global ECS Research. GSAM Calculations**

# BRICs & N11. 2010 Growth Environment Score (GES)



Source: GS Global ECS Research

## GES For Growth Markets (and US)

	India	Indonesia	Russia	Turkey	Mexico	China	Brazil	Korea	United States
<b>Total</b>	4.0	4.7	4.8	5.1	5.2	5.4	5.5	7.5	6.9
Rule of Law	5.1	3.9	3.5	5.2	3.9	4.3	4.6	7.0	8.1
Corruption	4.3	3.6	2.8	5.2	4.5	3.9	4.9	6.0	7.4
Political Stability	2.6	3.7	3.6	3.2	3.6	4.1	5.6	5.4	5.8
Govt. Deficit	0.7	4.2	2.1	1.7	3.8	3.9	3.3	6.1	0.0
Ext Debt	8.3	7.5	8.0	6.9	8.4	9.3	8.6	..	..
Inflation	7.3	8.8	7.1	8.4	8.7	10.0	8.8	9.3	10.0
Life Exp	5.7	7.2	6.6	7.4	8.0	7.6	7.5	9.0	8.7
Computers	0.4	0.3	1.8	0.8	1.9	0.8	2.1	7.7	10.0
Mobiles	3.0	6.2	10.0	8.9	7.1	4.8	7.8	9.4	8.9
Internet	0.6	1.1	4.3	4.6	3.0	3.0	5.0	10.0	10.0
Investment	7.0	5.5	4.4	4.0	4.4	8.4	3.8	5.9	3.6
Schooling	4.4	6.5	6.9	7.1	6.9	6.1	7.9	9.5	8.7
Openness	2.7	2.7	2.1	2.5	3.4	3.3	1.7	4.5	1.8

**Source: GS Global ECS Research**



# Budget Balances and Government Debt in the Growth Markets

	Budget Deficit (%GDP)*	Gross General Government Debt (% GDP)**
China	-1.6	17.7
Brazil	-2.6	50.1
Russia	-4.0	9.9
India	-7.9	51.2
Mexico	-2.8	26.8
Korea	-0.4	30.9
Turkey	-3.6	31.9
Indonesia	-2.0	26.9

\*Source: Global ECS Research. As of end 2010

\*\*Source: National Sources, IMF World Economic Outlook,  
Datastream and Global ECS Research

# Budget Deficits and Government Debt

	Cyclically Adjusted Budget Deficit (% GDP)*	Gross General Government Debt (% GDP)**
Germany	-1.4	82.5
France	-3.9	84.4
Italy	-2.6	119.9
Spain	-4.3	63.6
Netherlands	-2.5	63.2
Belgium	-2.9	100
Austria	-3.2	72.8
Greece	-6.1	149.6
Finland	0.8	46.0
Ireland	-9.2	102.7
Portugal	-4.9	94.0
Slovakia	-4.8	42.3
EMU Average	-3.0	86.8
UK	-6.5	76.8
US	-8.9	93.2
Canada	-2.2	84.0
Japan	-7.3	220.3

\* Source: Eurostat and National sources. European countries 2011 forecast. Non EU not cyclically adjusted

\*\* Source: Eurostat and Haver Analytics. Figures for European countries as of Q3 2011.

## GDP Forecasts

%yoy	2009	2010	2011		2012	
			GS	Consensus*	GS	Consensus*
USA	-3.5	3.0	1.7	1.6	1.4	2.1
Japan	-6.3	4.0	-0.6	-0.5	2.2	2.4
Euroland	-4.1	1.7	1.6	1.7	0.1	1.0
UK	-4.9	1.4	1.1	1.2	1.0	1.8
Brazil	-0.6	7.5	3.5	3.9	3.3	4.1
China	9.2	10.3	9.1	9.1	8.6	8.6
India	8.0	8.5	7.0	7.5	7.4	8.4
Russia	-7.9	4.0	4.2	4.3	3.5	4.3
BRICs	5.6	8.8	7.4	7.6	7.2	7.5
Growth Markets	4.0	8.3	6.9	7.1	6.4	6.9
Advanced Economies	-3.6	3.0	1.6	1.7	1.3	2.1
World	-0.8	5.1	3.8	3.9	3.5	4.1

\* Consensus Economics September 2011

Source: Consensus Economics, GS Global ECS Research

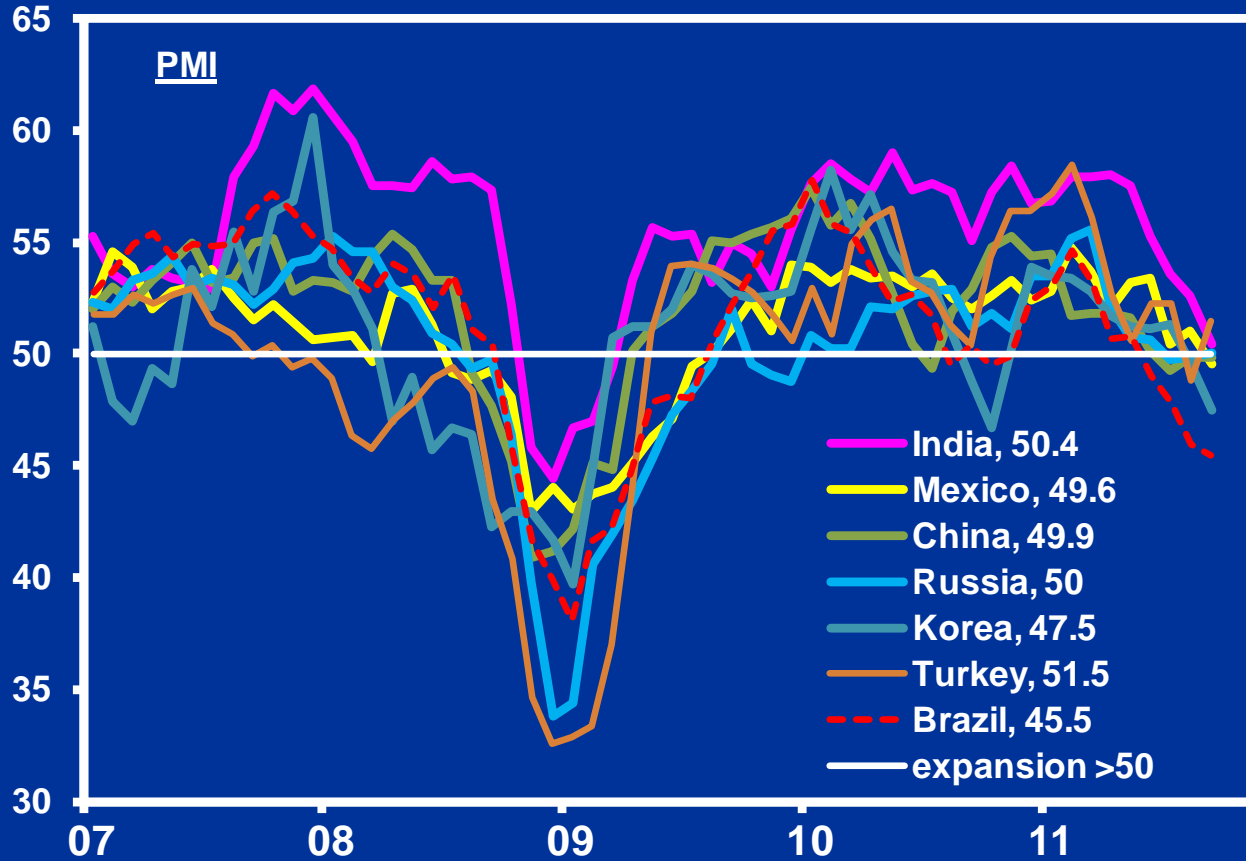
## Inflation Forecasts

%yoy	2009	2010	2011		2012	
			GS	Consensus*	GS	Consensus*
USA	-0.3	1.6	3.2	3.1	2.3	2.1
Japan	-1.3	-0.7	0.1	-0.2	0.1	-0.2
Euroland	0.3	1.6	2.6	2.6	1.4	1.8
UK	2.2	3.3	4.4	4.4	2.5	2.7
Brazil	4.9	5.0	6.6	6.2	5.8	5.0
China	-0.7	3.3	5.4	5.3	3.1	3.9
India	3.8	9.6	8.6	8.6	5.1	6.3
Russia	11.7	6.8	8.6	8.1	6.2	7.2
BRICs	2.5	5.4	6.6	6.5	4.2	5.0
Growth Markets	2.9	5.2	6.2	6.0	4.3	5.0
Advanced Economies	0.2	1.6	2.8	2.7	1.9	1.9
World	1.7	3.4	4.5	4.3	3.3	3.5

\* Consensus Economics September 2011

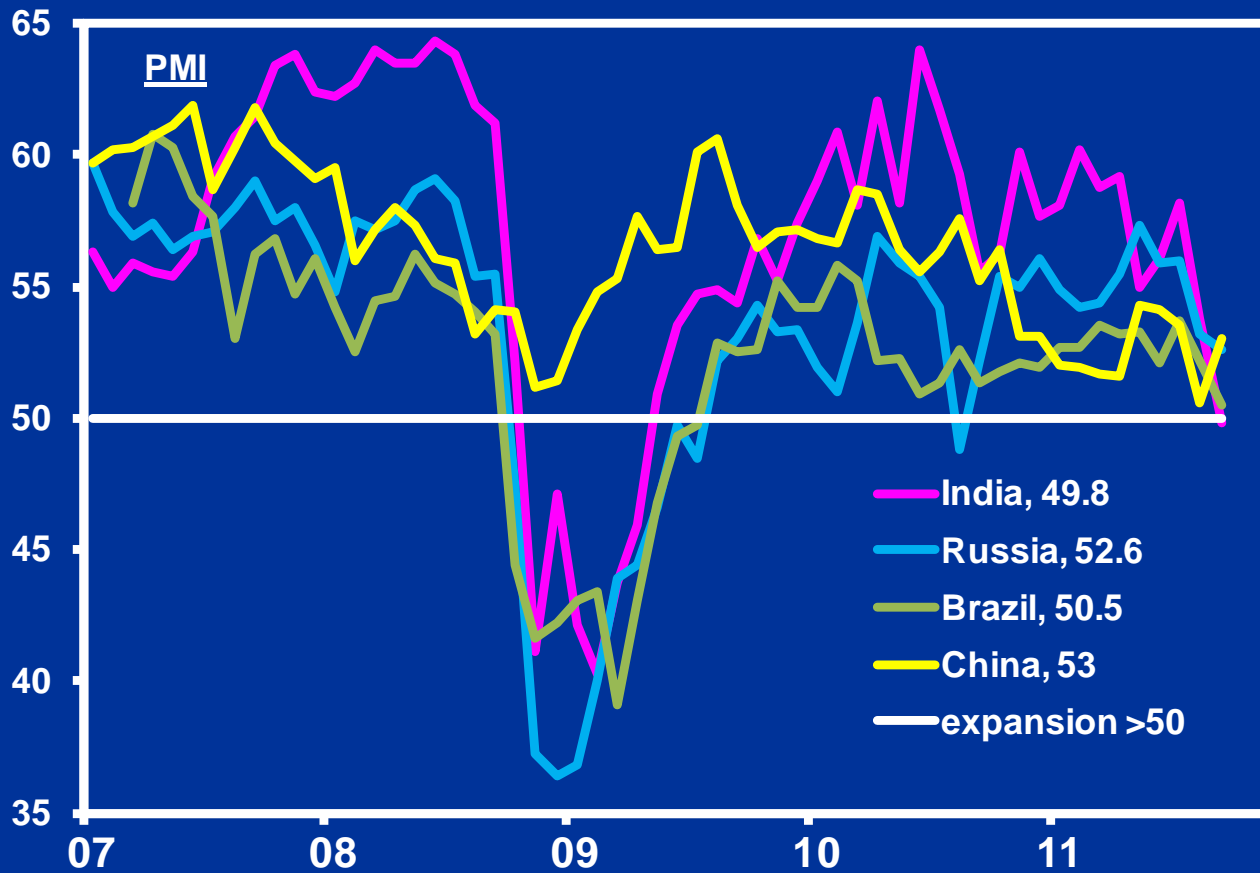
Source: Consensus Economics, GS Global ECS Research

# Manufacturing PMI's in Growth Economies



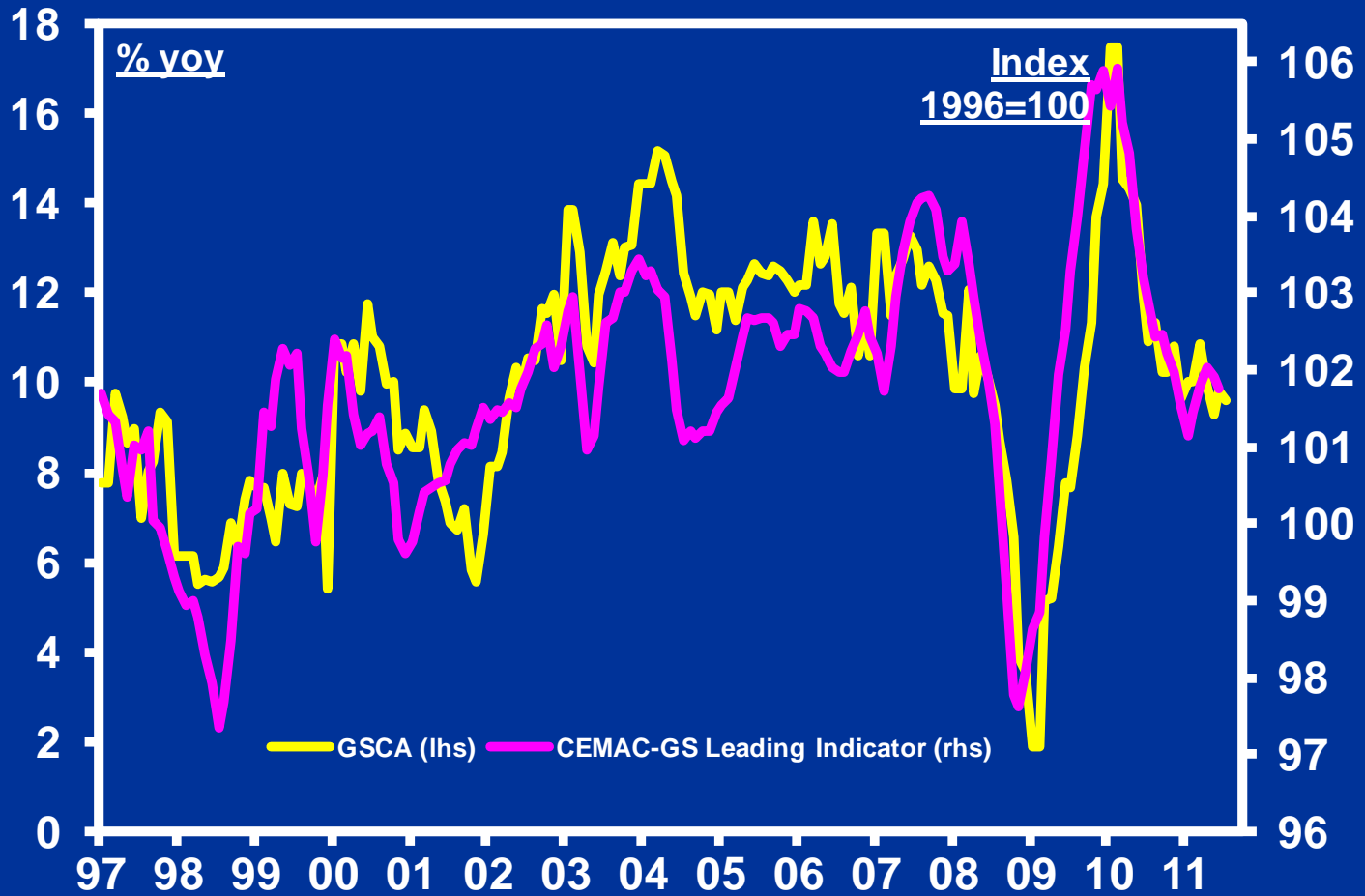
Source: Haver Analytics and GSAM

# Services PMI's in Growth Economies



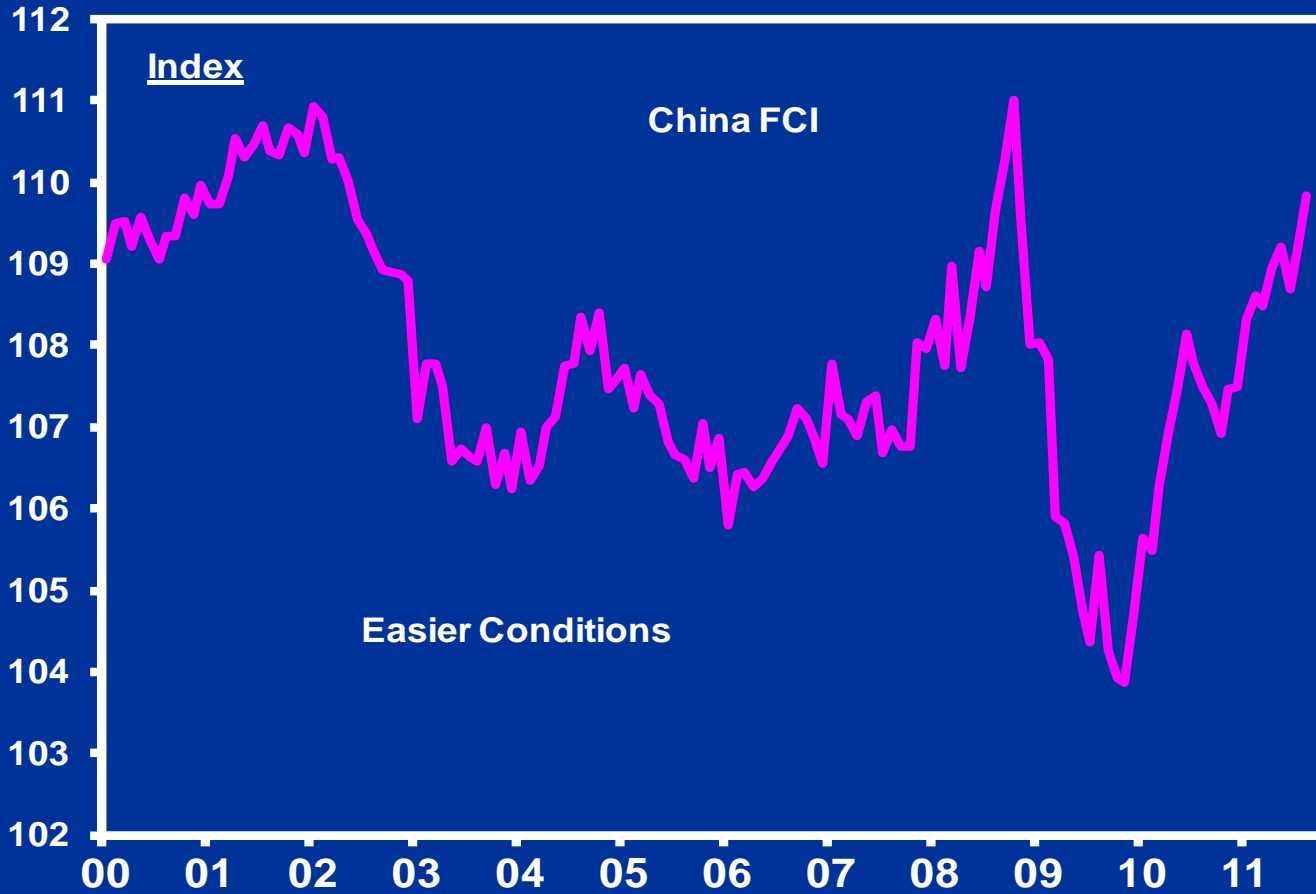
Source: Haver Analytics and GSAM

# China Lead Indicators



Source: GS Global ECS Research

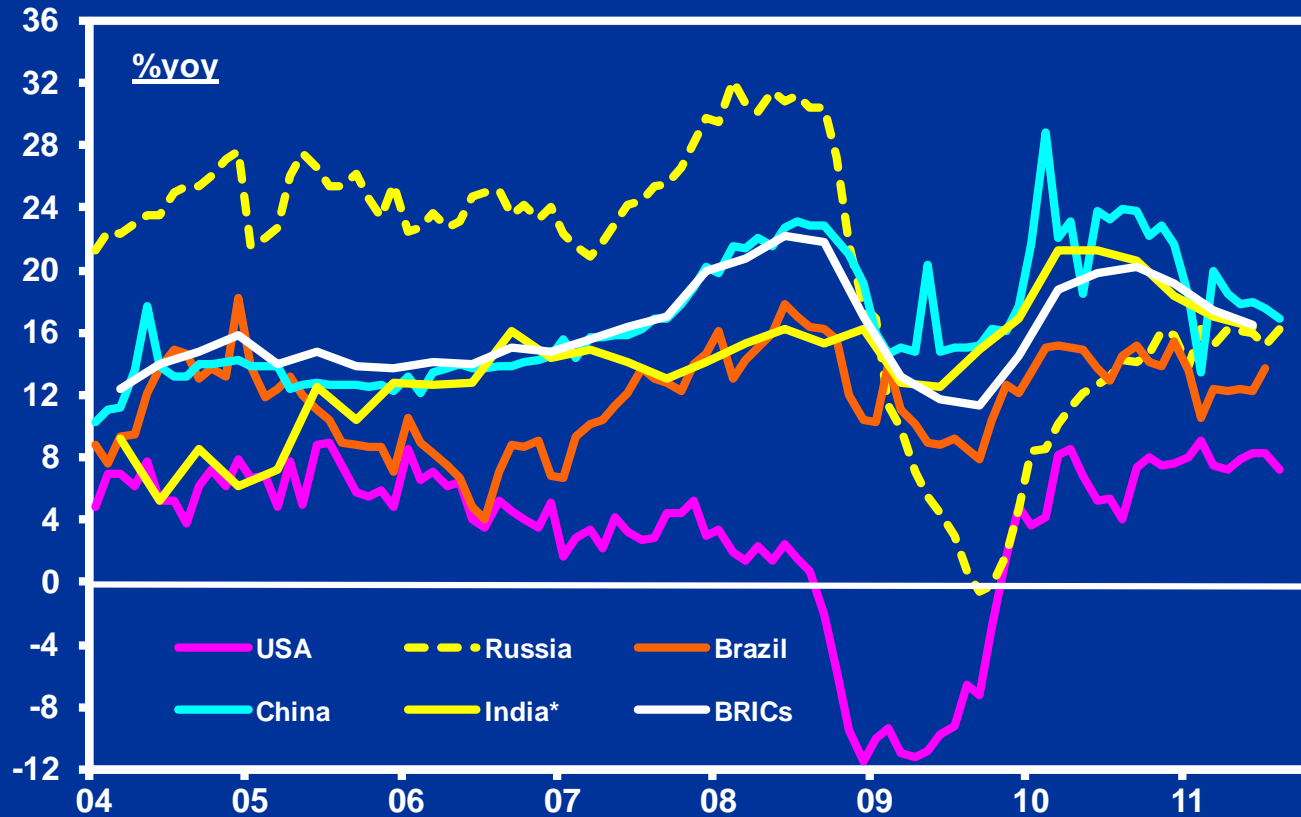
# China FCI



Source: GS Global ECS Research



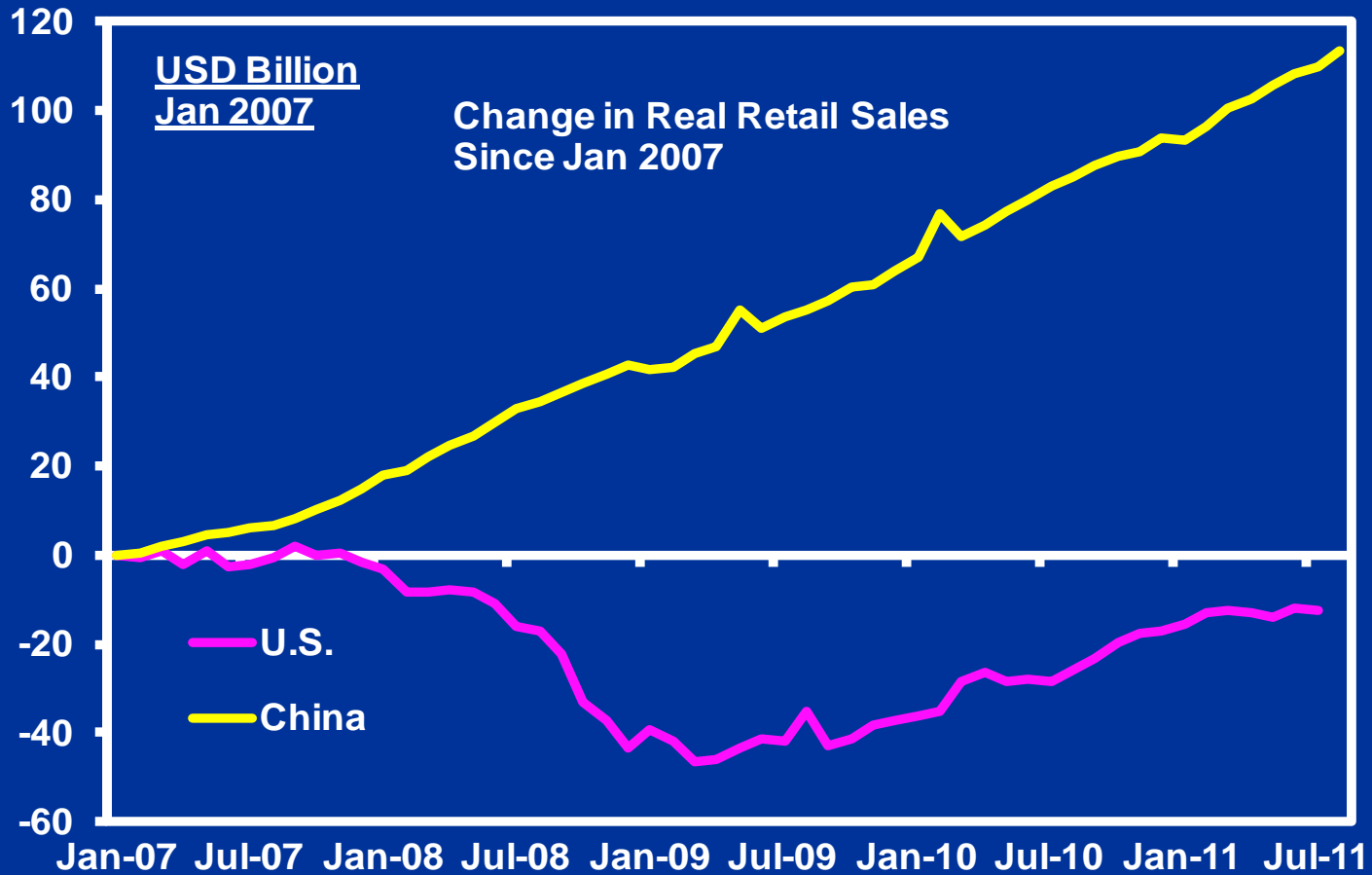
# Retail Sales US and BRICs



\* Private final consumption

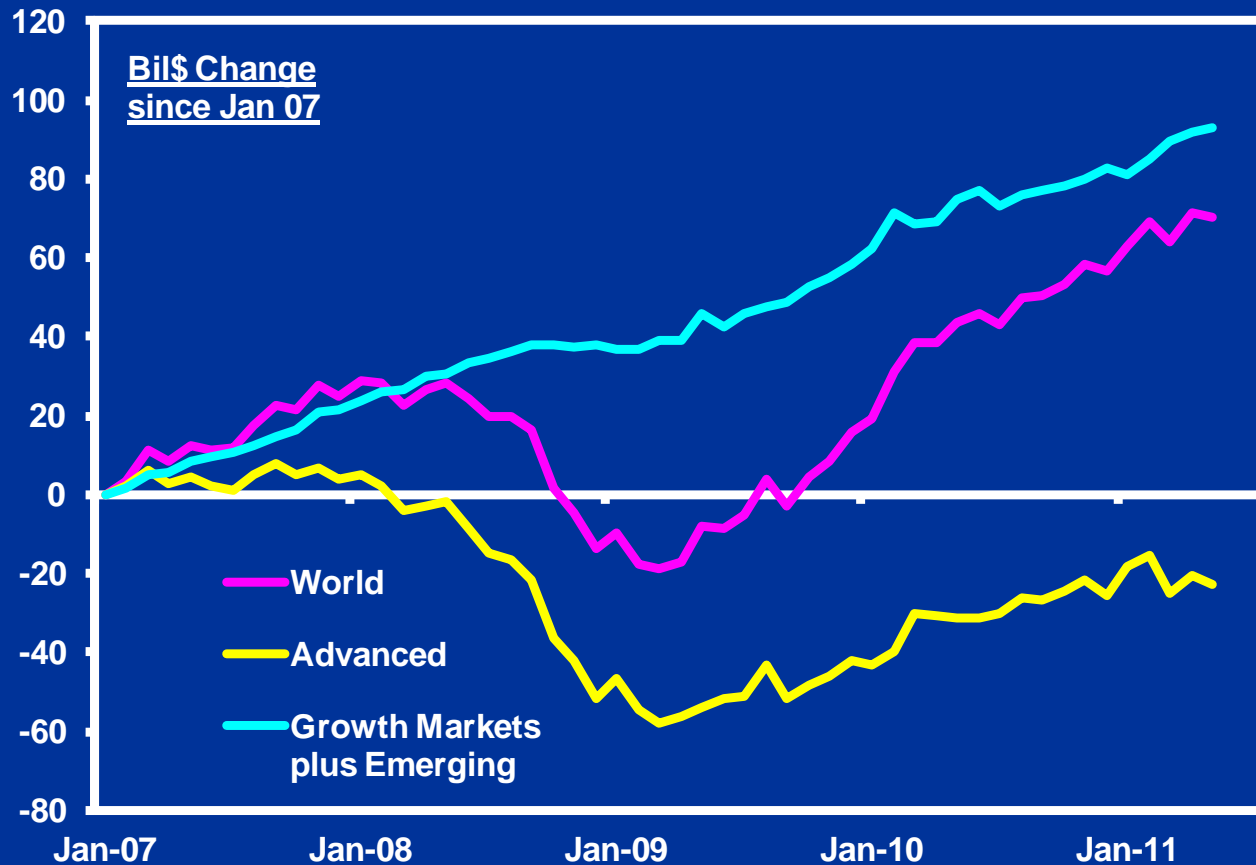
Source: GS Global ECS Research

# Recent Trend in Real Retail Sales



Source: Haver Analytics and GSAM calculations

# Change in Real Retail Sales in Developed vs Growth Plus (Jan '07 to Present)



Source: National Sources, GS Global ECS Research.

## China GDP Components

2010 US\$ bn	Private Consumption	Public Consumption	Investment	Net Exports	GDP
<b>2010</b> <i>share, %</i>	1,969 33%	792 13%	2,831 48%	232 4%	5,926
<b>2020</b> <i>share, %</i>	5,600 35%	-	-	-	16,000
<b>2020</b> <i>share, %</i>	7,200 45%	-	-	-	16,000

Source: Haver Analytics and GSAM Calculations.

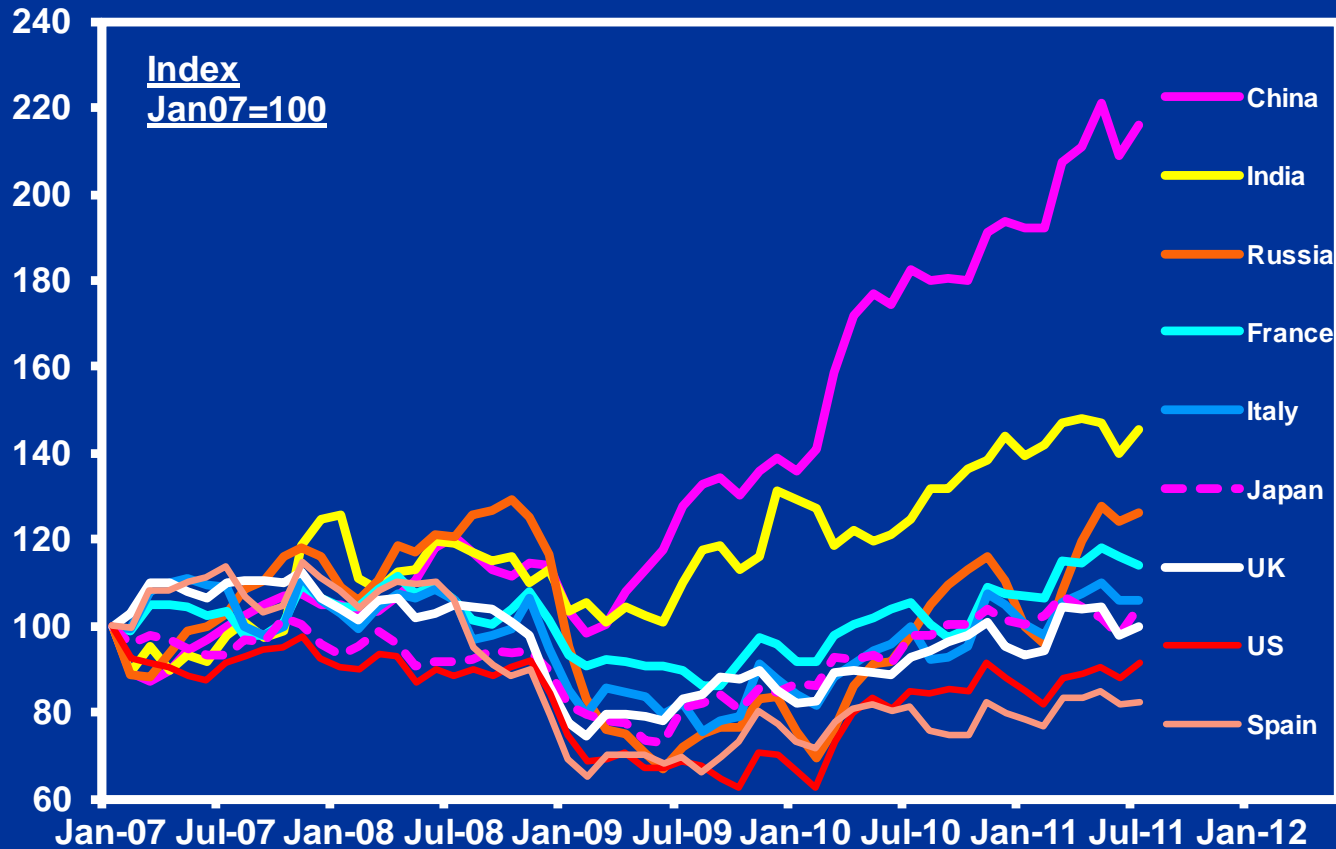
# Change in \$ value of BRIC Consumption and Imports

USD, bln	Consumption		Imports	
	China	Total BRIC	China	Total BRIC
2000:2001	43	25	19	26
2001:2002	44	37	50	54
2002:2003	55	173	118	150
2003:2004	91	269	149	211
2004:2005	99	381	97	179
2005:2006	143	426	131	218
2006:2007	227	672	163	305
2007:2008	335	736	181	394
2008:2009	181	84	-136	-343
2009:2010	196	778	392	573
2010:2011	390	985	285	437
2019:2020*	573	902	341	420

\* Note: Assumes consumption share of GDP rises to 42% for China and remain at today's levels of 60%, 60% and 50% for Brazil, India and Russia Respectively. Forecast is in 2010 USD so not adjusted for inflation. Import shares at last decade average.

Source: Haver Analytics and GSAM Calculations.

# Germany's Exports to Asia Rising – Stabilisation Elsewhere



Source: Haver Analytics, GS calculations

# US Exports to Key Destinations



Source: Haver Analytics and GSAM Calculations.  
\* Countries in the legend ordered by export volume.

# Real returns in Growth Markets Have Strongly Outperformed Developed Markets

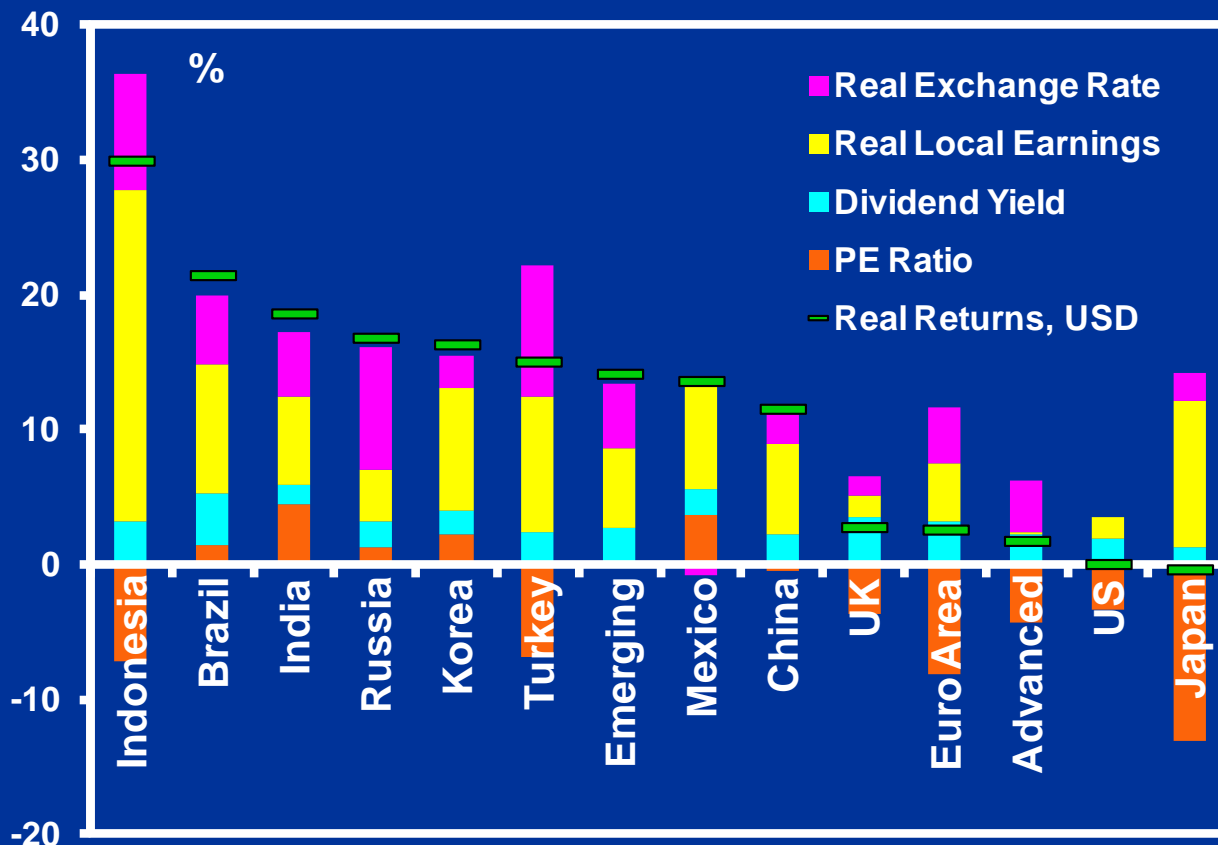


Source: Datastream, Haver Analytics and GSAM Calculations.

\* Constructed as a market cap weighted average



# Real Exchange Rate Appreciation and Growth Have Driven Growth Market Returns in the Last Decade



Source: Datastream, Haver Analytics and GSAM Calculations.

Notes: All equity series are country MSCI indices. The Euro Area is proxied using France. Earnings series are smoothed due to volatility (using HP filter) and PE ratios adjusted accordingly.

## Decomposition of Equity Returns

Q1 2001 - Q1 2011	Real Return (USD)	PE ratio	Dividend	Real Earnings (local currency)	Real Exchange Rate
<b>Indonesia</b>	30.0	-7.1	3.2	24.5	8.7
<b>Brazil</b>	21.5	1.4	3.8	9.6	5.1
<b>India</b>	18.6	4.4	1.4	6.6	4.9
<b>Russia</b>	16.8	1.3	1.8	4.0	9.0
<b>Korea</b>	16.4	2.2	1.8	9.1	2.4
<b>Turkey</b>	15.1	-6.9	2.5	10.0	9.7
<b>Emerging</b>	14.2	0.2	2.5	5.8	4.9
<b>Mexico</b>	13.6	3.7	2.0	8.2	-0.8
<b>China</b>	11.6	-0.5	2.3	6.7	2.5
<b>UK</b>	2.8	-3.7	3.4	1.6	1.5
<b>Euro Area</b>	2.6	-8.1	3.1	4.3	4.1
<b>Advanced</b>	1.8	-4.3	2.3	0.1	3.9
<b>US</b>	0.1	-3.4	1.9	1.7	0.0
<b>Japan</b>	-0.3	-13.0	1.3	10.9	2.0

**Source:** Datastream, Haver Analytics and GSAM Calculations.

**Notes:** All equity series are country MSCI indices. The Euro Area is proxied using France. Earnings series are smoothed due to volatility (using HP filter) and PE ratios adjusted accordingly.

# Current Estimates for the Equity Risk Premium\*

	Real GDP Growth	Real Earnings Growth	+ Dividend Yield	= Expected Real Return	- Real Bond Yield	= Implied ERP	Expected Inflation	Expected Nominal Return
US	2.5	2.5	2.2	4.7	0.1	4.6	2.0	6.7
UK	2.3	2.3	3.4	5.7	-0.7	6.4	2.0	7.7
Europe ex UK	2.0	2.0	3.9	5.9	0.8	5.1	2.0	7.9
Japan	1.5	1.5	2.4	3.9	1.2	2.7	0.5	4.4
Brazil	5.0	5.0	4.0	9.0	6.0	3.1	4.5	13.5
China	8.0	8.0	3.9	11.9	0.9	11.0	3.0	14.9
India	8.0	8.0	1.4	9.4	4.3	5.0	4.0	13.4
Russia	5.0	5.0	2.5	7.5	2.6	4.9	6.0	13.5
<b>GDP-weighted</b>								
Advanced	2.2	2.2	2.9	5.0	0.4	4.6	1.8	6.8
BRICs	7.0	7.0	3.4	10.4	2.5	7.9	3.8	14.2
World	3.4	3.4	3.0	6.4	1.0	5.4	2.3	8.7
<b>PPP-weighted</b>								
Advanced	2.2	2.2	2.9	5.1	0.4	4.7	1.8	6.9
BRICs	7.3	7.3	3.2	10.5	2.4	8.1	3.7	14.2
World	4.1	4.1	3.0	7.1	1.2	6.0	2.5	9.7

\* As of 27 September 2011

## Source: GSAM Calculations

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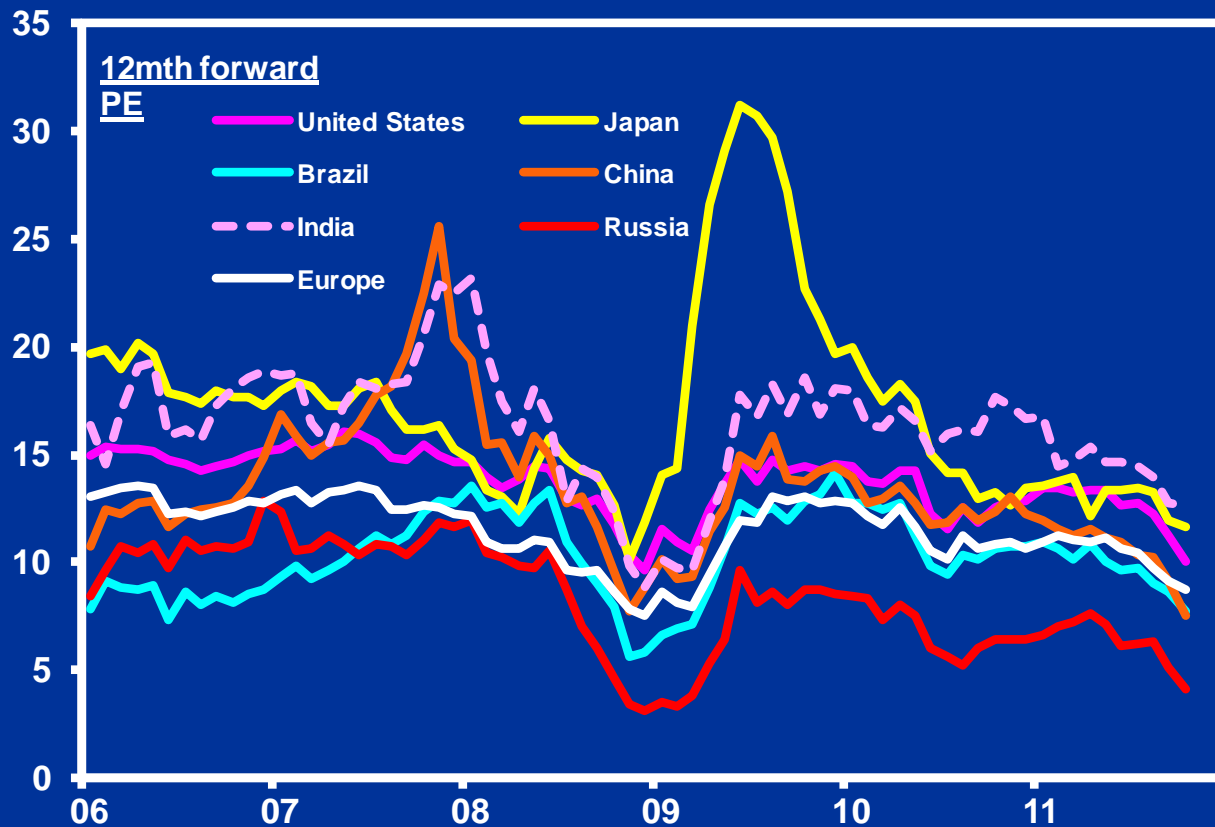
# ERP for Growth Market Economies

	Real GDP Growth	Real Earnings Growth	+ Dividend Yield	= Expected Real Return	- Real Bond Yield	= Implied ERP	Expected Inflation	Expected Nominal Return
<b>Brazil</b>	5.0	5.0	4.0	9.0	6.0	3.1	4.5	13.5
<b>China</b>	8.0	8.0	3.9	11.9	0.9	11.0	3.0	14.9
<b>India</b>	8.0	8.0	1.4	9.4	4.3	5.0	4.0	13.4
<b>Russia</b>	5.0	5.0	2.5	7.5	2.6	4.9	6.0	13.5
<b>Mexico</b>	3.0	3.0	2.1	5.1	3.5	1.6	3.0	8.1
<b>Korea</b>	4.8	4.8	1.6	6.4	0.8	5.6	3.0	9.4
<b>Indonesia</b>	5.8	5.8	2.6	8.4	2.2	6.2	5.0	13.4
<b>Turkey</b>	5.0	5.0	2.4	7.4	4.1	3.3	5.5	12.9

\* As of 27 September 2011

Source: GSAM Calculations

# Trend in Forward P/Es



Source: Datastream

# Cyclically Adjusted PE (CAPE) Ratios

	Latest CAPE	Forward PE	Total Average CAPE	Deviation from avg.	CAPE vs FY1 PE	CAPE History
Indonesia	21.4	12.5	21.8	-2%	71%	2001
US	18.0	10.9	18.6	-4%	65%	1973
Japan	17.5	11.6	47.1	-63%	51%	1975
India	17.4	12.9	22.6	-23%	35%	2001
Mexico	15.8	13.9	19.4	-18%	14%	2001
Canada	15.2	11.5	19.3	-21%	32%	1975
Australia	13.9	10.1	15.8	-12%	38%	1975
China	12.8	8.2	17.8	-28%	56%	2001
Korea	11.9	8.4	16.8	-29%	42%	2001
Brazil	10.5	8.3	15.6	-33%	27%	2001
Germany	9.9	8.0	19.2	-49%	23%	1976
UK	9.2	8.8	13.8	-33%	4%	1975
Turkey	8.8	9.6	15.8	-44%	-9%	2001
France	8.7	8.1	20.0	-57%	8%	1975
Spain	7.2	7.8	18.4	-61%	-9%	1985
Russia	6.6	5.0	14.8	-55%	33%	2001
Italy	5.9	6.8	22.7	-74%	-13%	1989

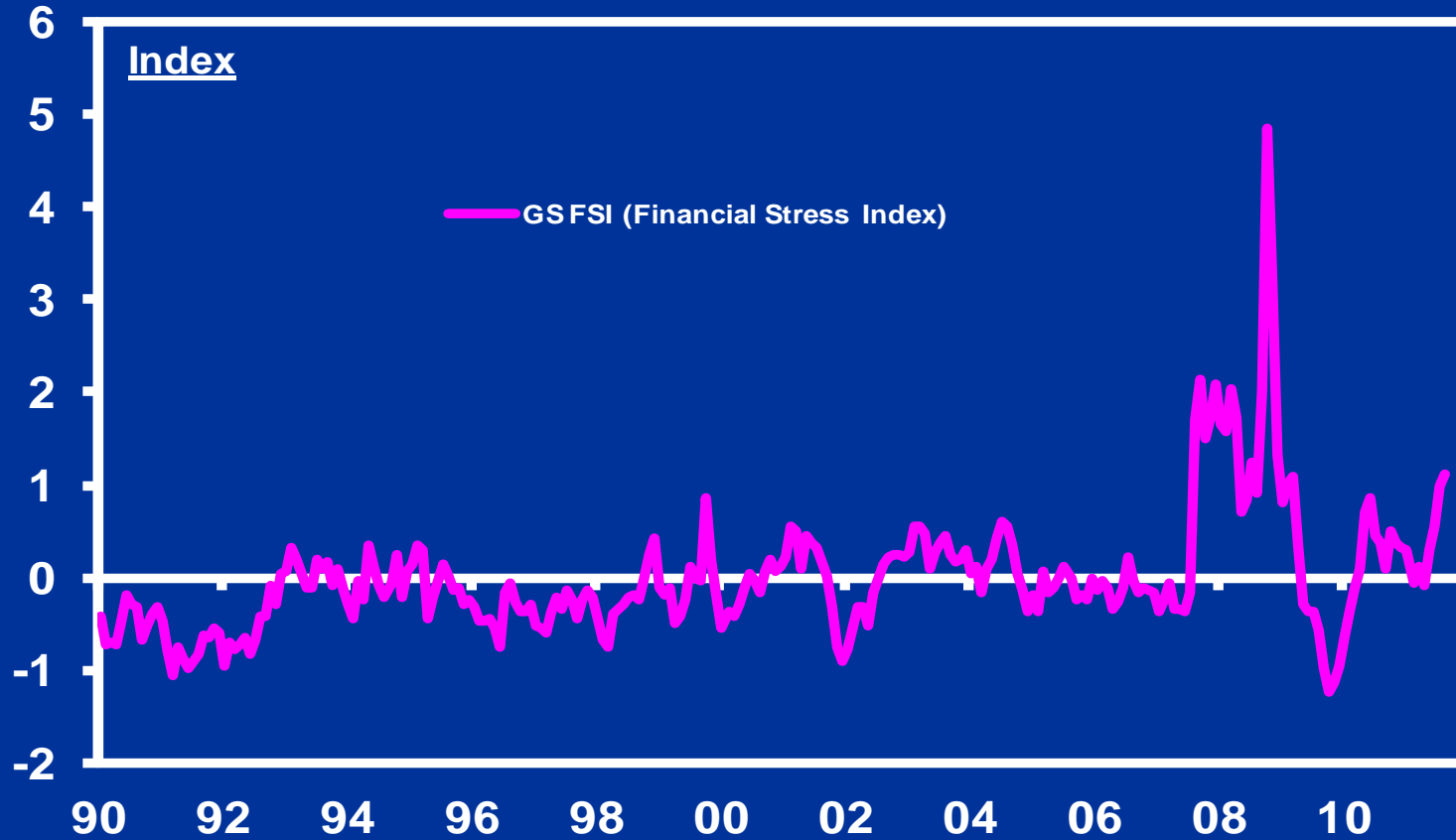
**Source: Datastream and GSAM Calculations. As of 03 October 2011**

# GSAM Benchmark Allocation in Growth Market World

	<b>Group GDP Share</b>	<b>Market Cap</b>	<b>GSAM</b>
<b>China</b>	10.3%	2.6%	6.4%
<b>Brazil</b>	3.7%	2.1%	2.9%
<b>India</b>	2.7%	1.3%	2.0%
<b>Korea</b>	1.8%	2.2%	2.0%
<b>Russia</b>	2.6%	0.8%	1.7%
<b>Turkey</b>	1.3%	0.3%	0.8%
<b>Mexico</b>	1.8%	0.6%	1.2%
<b>Indonesia</b>	1.2%	0.3%	0.8%
<b>Developed Markets</b>	69.4%	85.2%	77.3%
<b>Growth Markets</b>	25.3%	10.2%	17.8%
<b>Emerging Markets</b>	5.3%	4.6%	4.9%

Source: GSAM Calculations

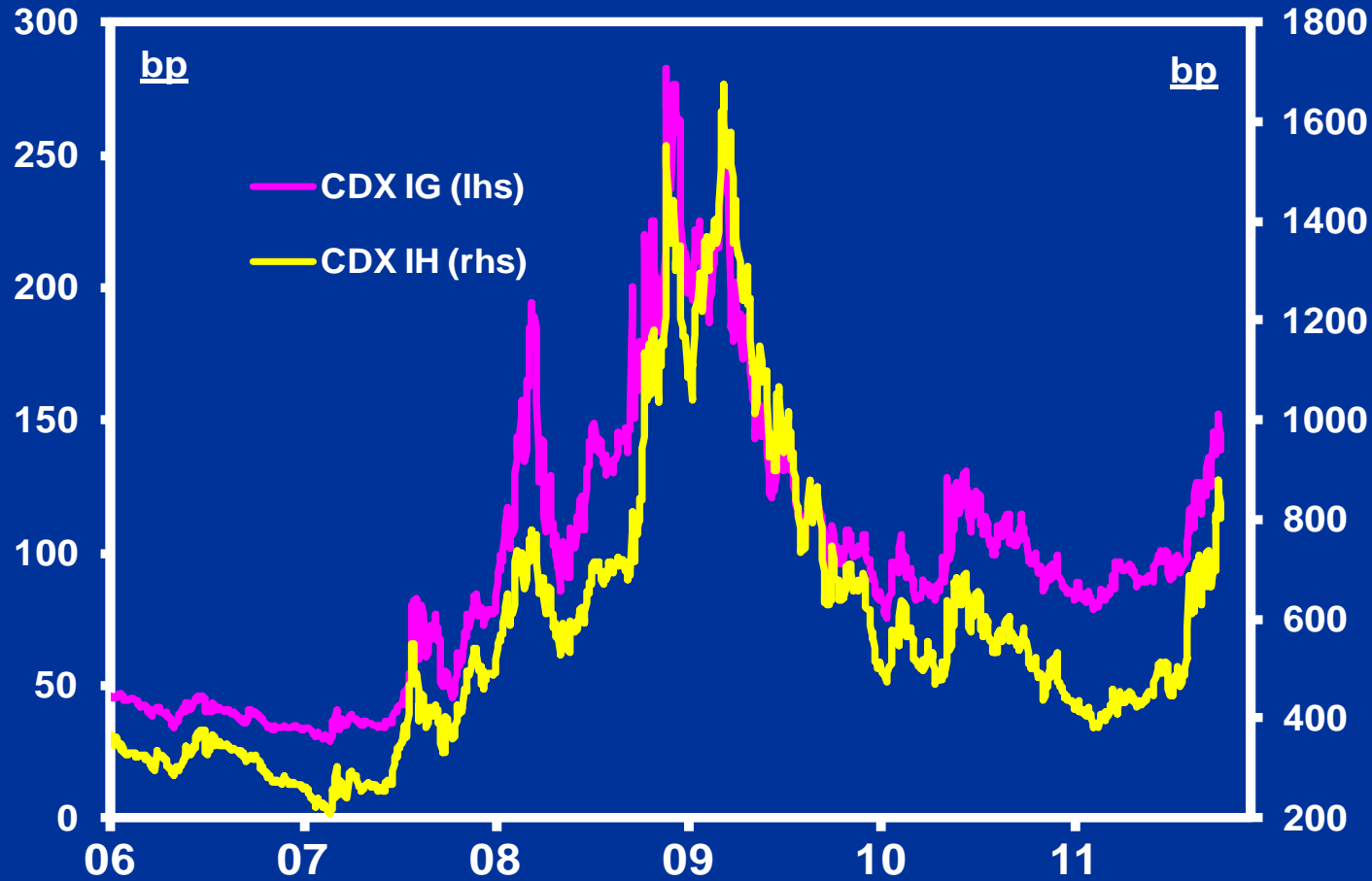
# 'Crisis' Indicator



Source: GS Global ECS Research

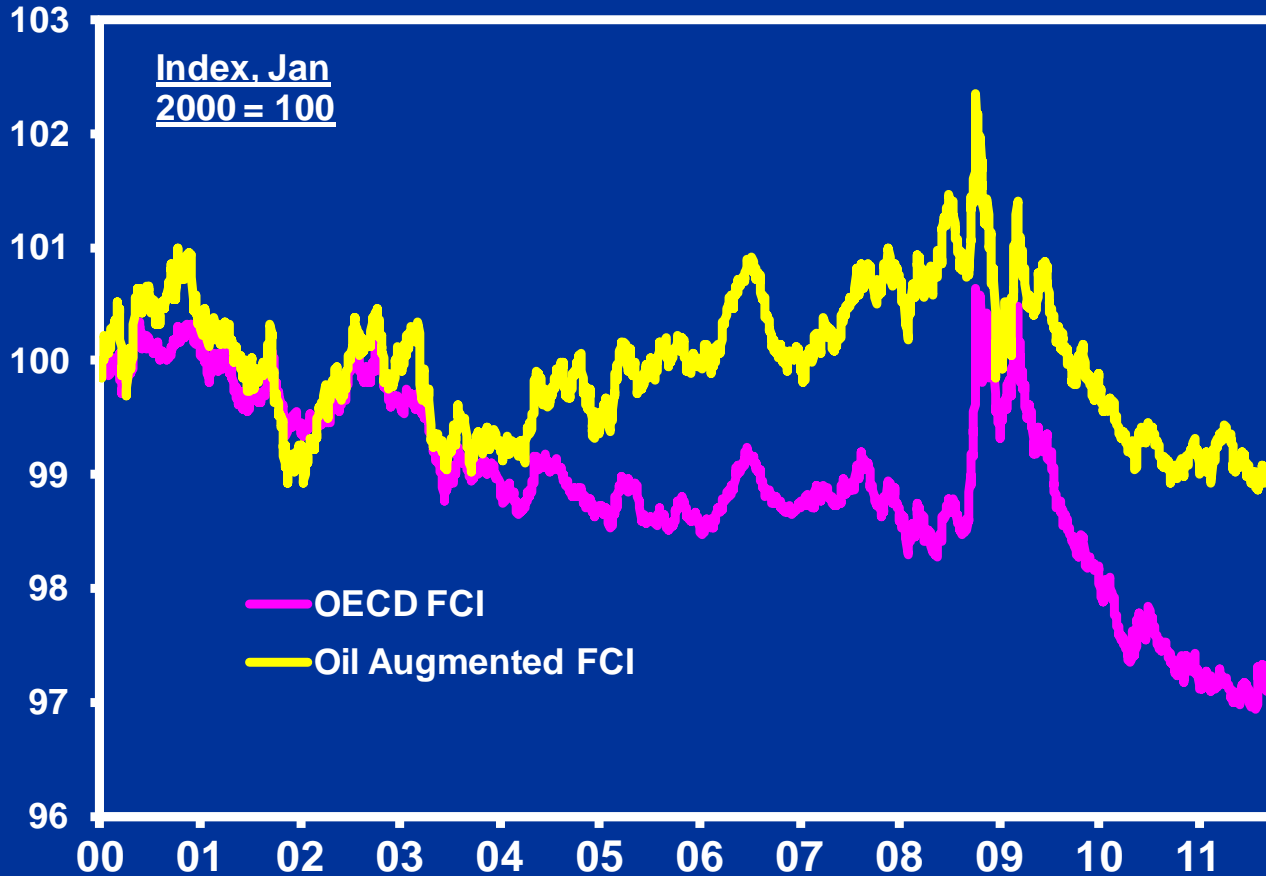


# Credit Spreads



Source: GS Global ECS Research

# OECD Financial Conditions



Source: GS Global ECS Research

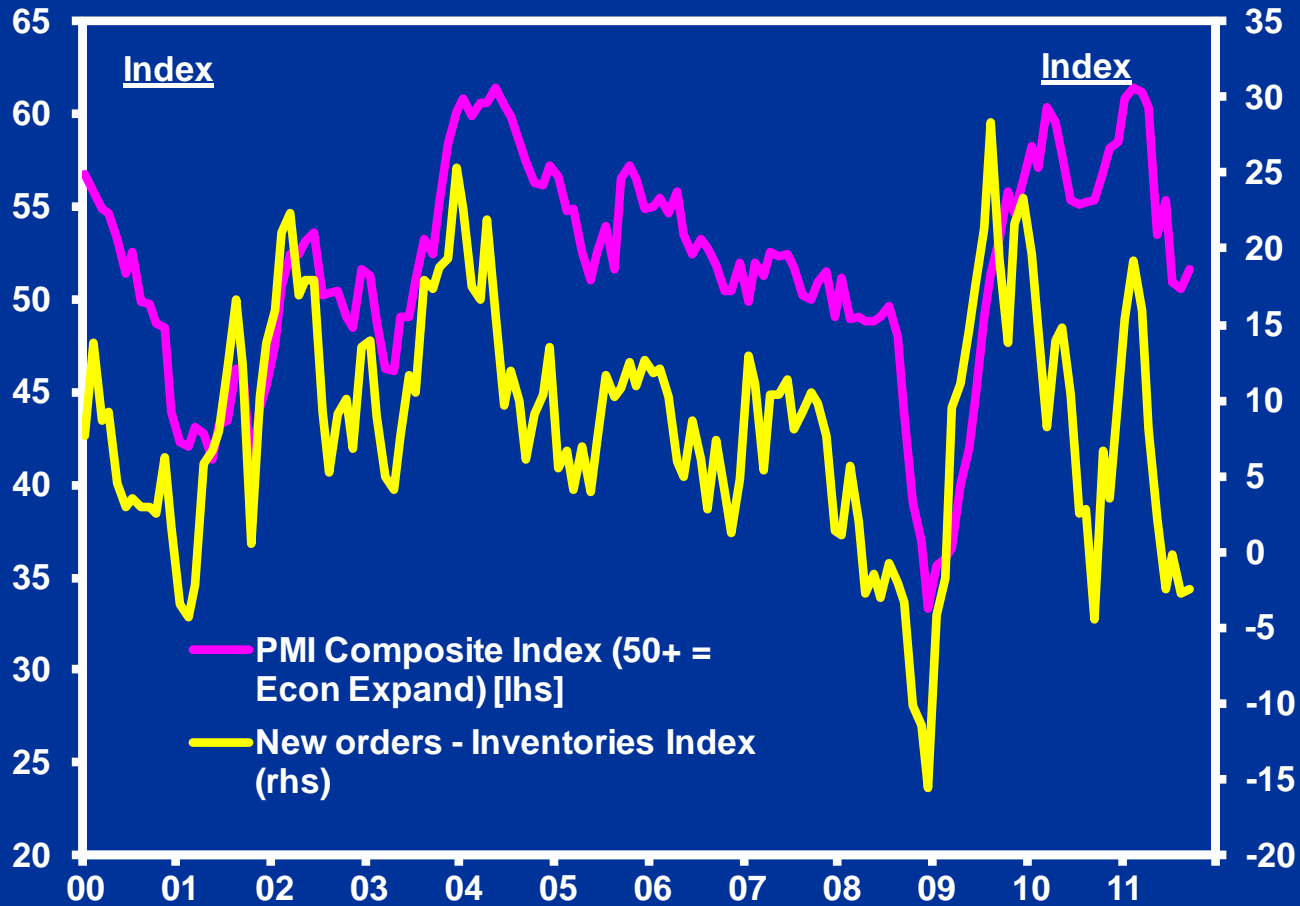
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# US Weekly Job Claims



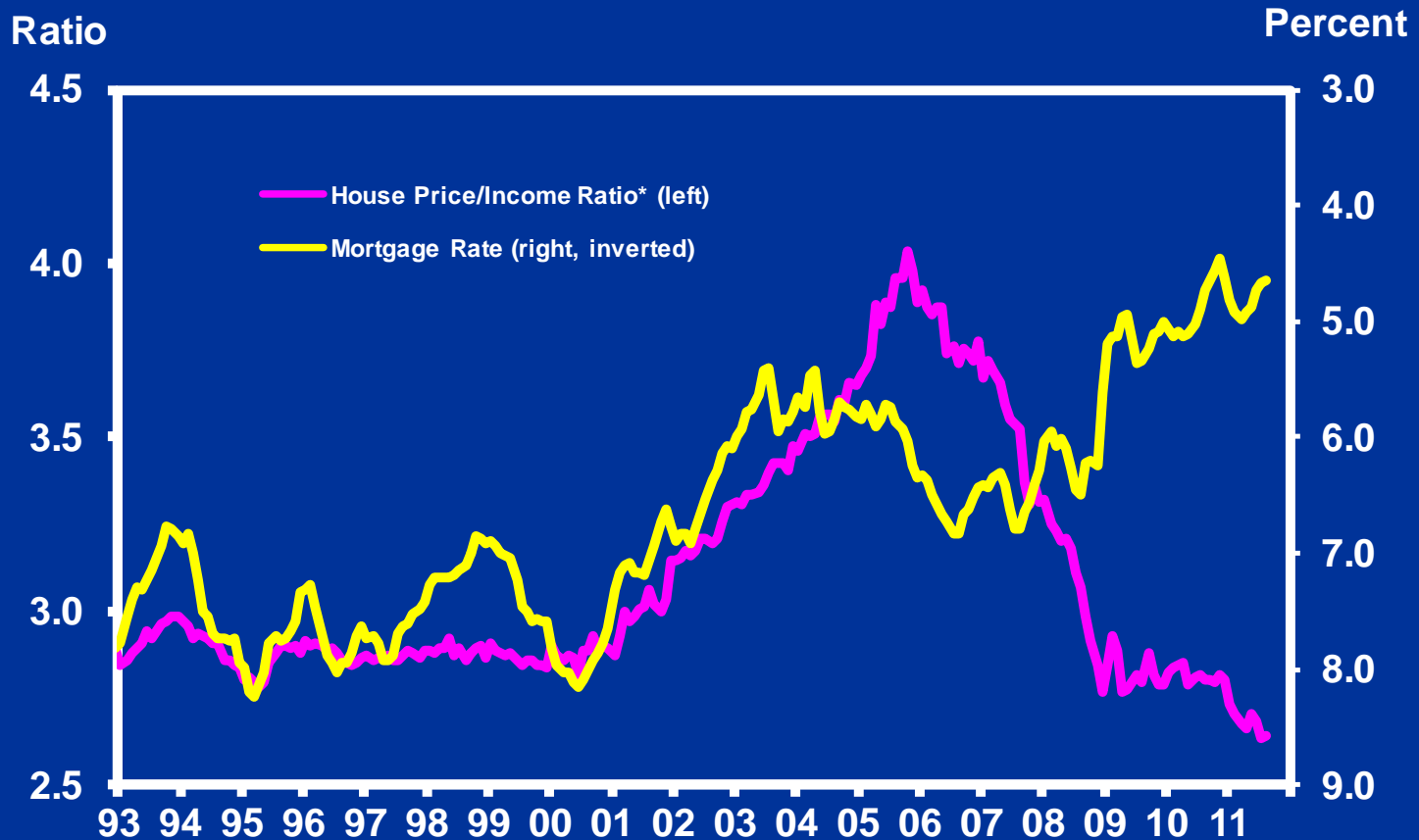
Source: GS Global ECS Research

# ISM Manufacturing Index



Source: GS Global ECS Research

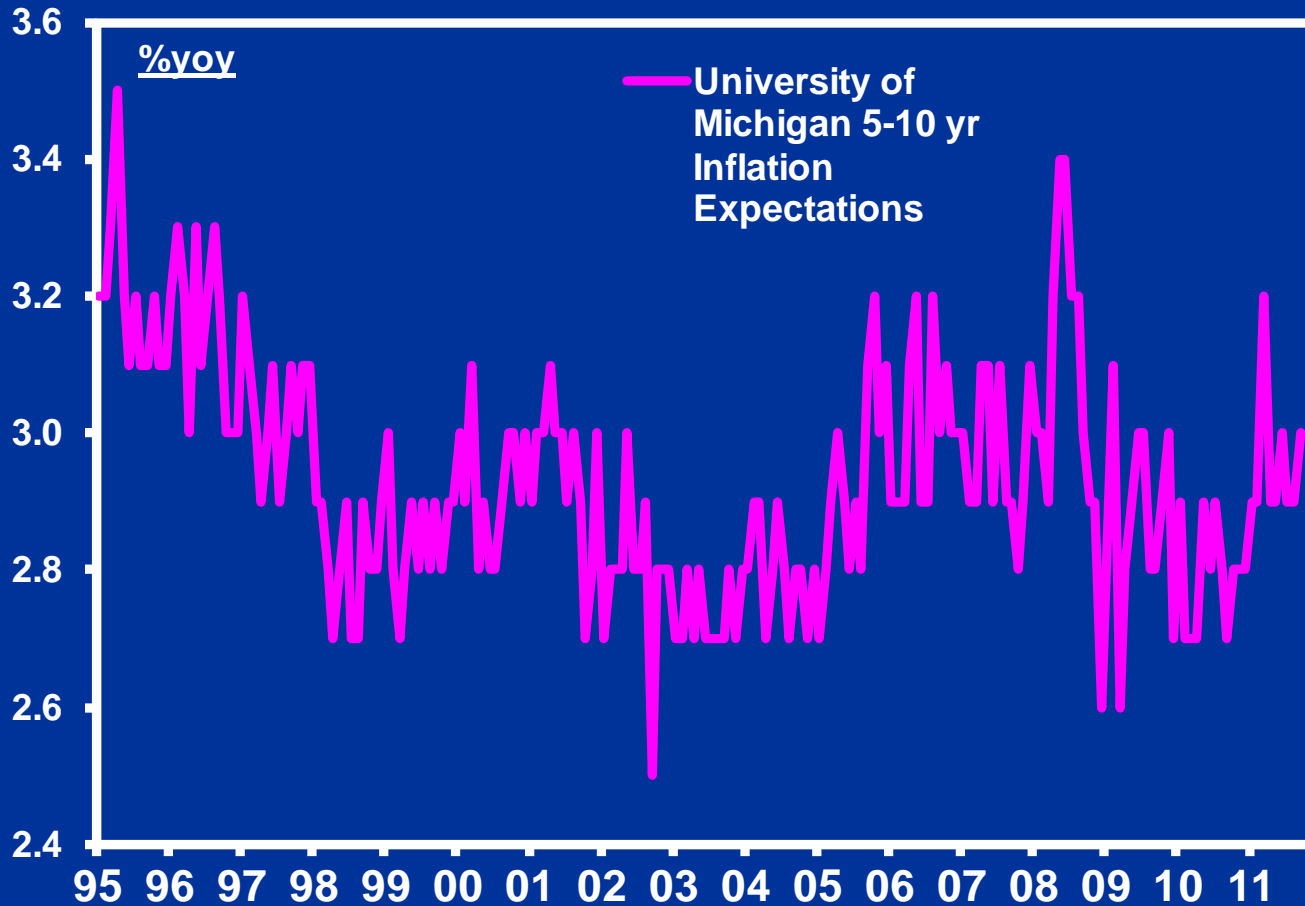
# US House Prices vs Income



\* S.a. median home price divided by median family income.

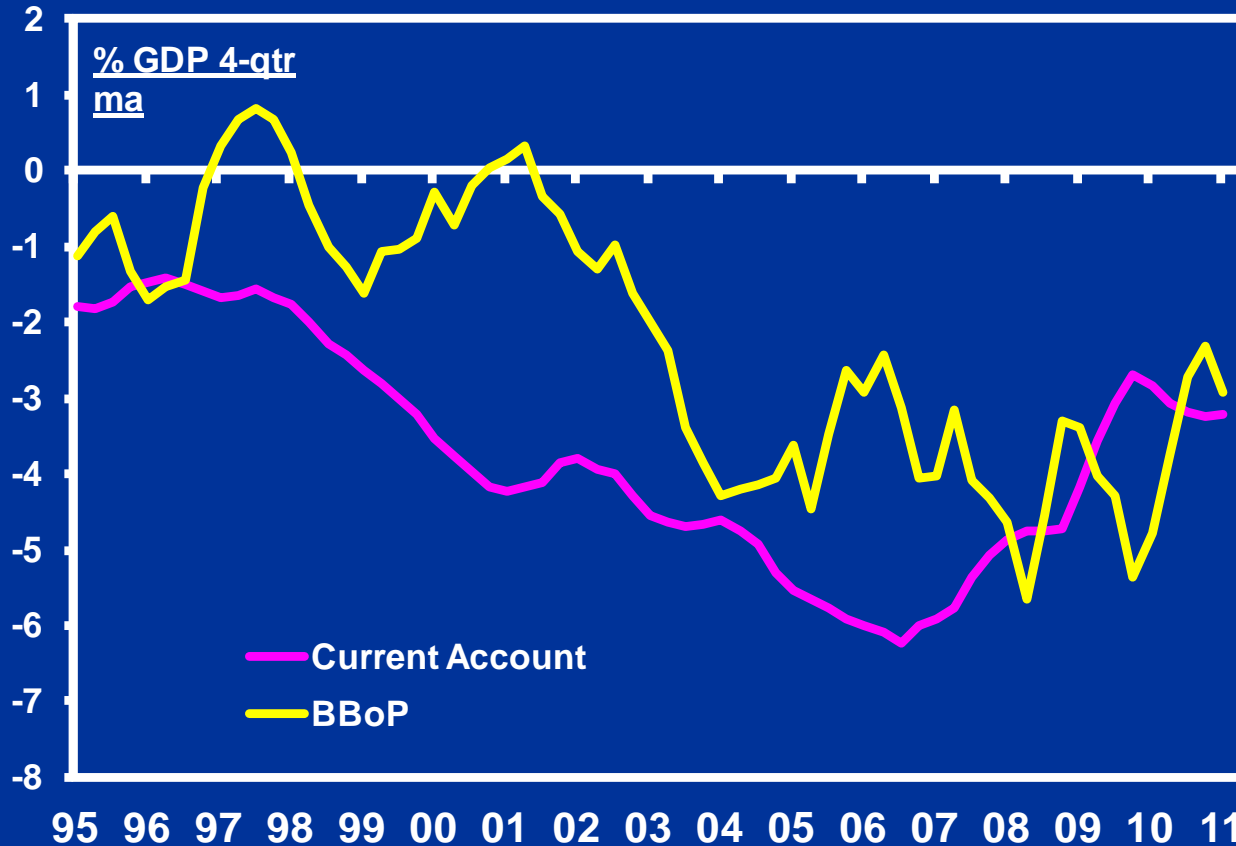
Source: Department of Commerce. FRB. NAR.

# Inflation Expectations in US



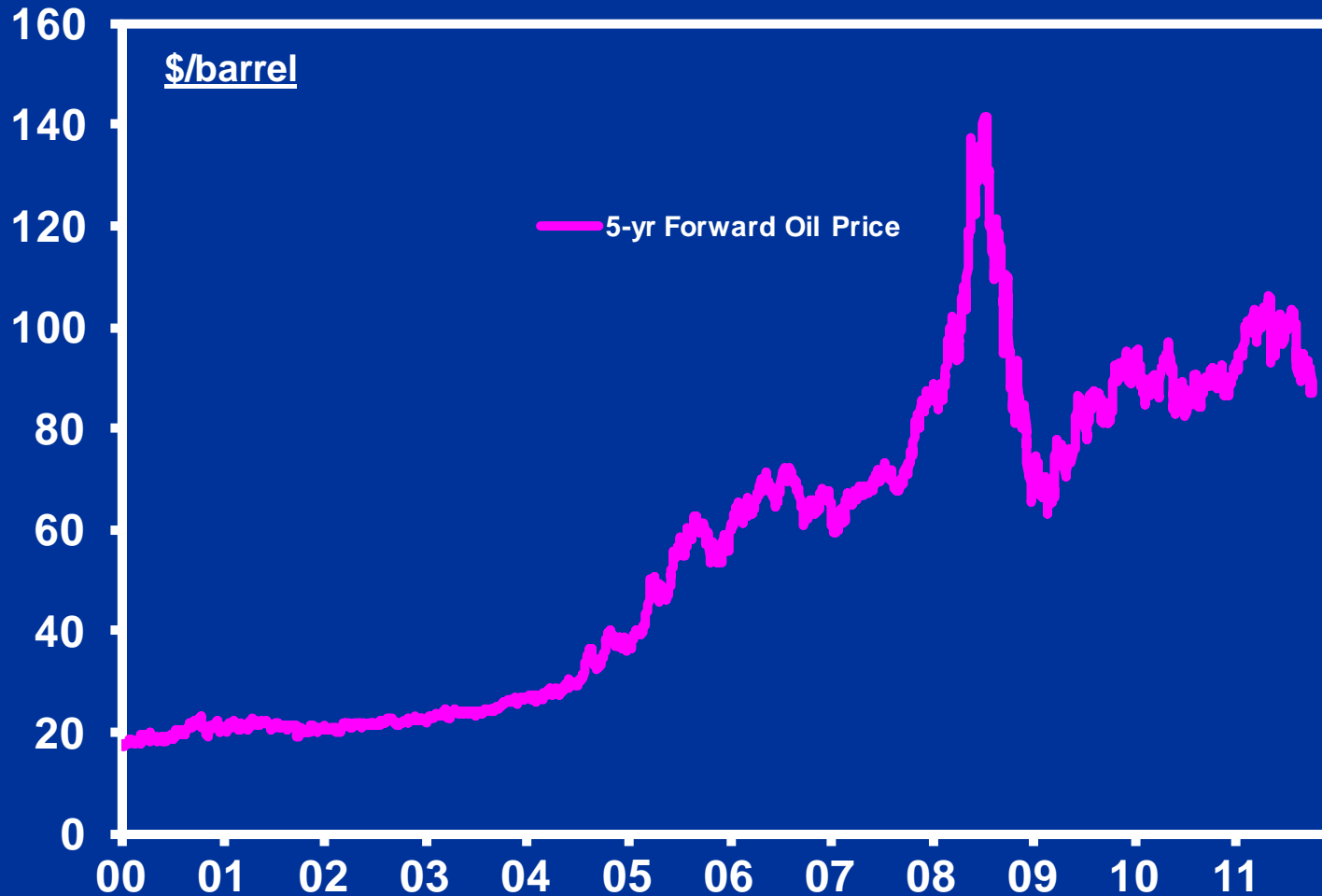
Source: GS Global ECS Research

# US BBoP vs Current Account



Source: GS Global ECS Research

# Five Year Forward Oil Price



Source: GS Global ECS Research

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