

## 9 Economic Trends to Watch in 2014

# From the rise of rich, stupid people to the death of peak oil, here's what's trending in the global economy.

From:

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Predicting trends is no easy task, especially in the short term. Most people who can do it accurately in the world of economics and finance are millionaires, or they should be. But if you don't have a crystal ball, at least you can watch some short-term trends with long-term implications. Here are nine of my favorites for the coming year -- and beyond.

### *1. East Asia's declining share of world output*

Washington's strategic pivot to Asia seems to have fizzled -- but has the world's economic pivot as well? In 2013, East Asia's share of global output was expected to drop, relative to those of the United States and the European Union. For years, investors have been borrowing cheaply in the United States and elsewhere to capture high rates of return in East Asia. But a midyear signal from the Federal Reserve that the days of easy money are numbered has sent the East Asia's emerging markets tumbling, while manufacturing looks to be returning to Western shores. With China possibly cooling as well during its process of economic and financial reform, will other regions take the lead in growth?

## *2. Eurozone inflation worries*

The European Central Bank's top officials like to say that they have asymmetric target for inflation. Too high is bad, but so is too low. Not surprisingly, inflation fell well under the target of "below, but close to, 2 percent" during the economic downturn of recent years. The question is why it has been allowed to do so again, during a more stable period in which other central banks have continued their aggressive attempts to bolster growth and employment. The officials say risks to prices are balanced right now, but are they really?

## *3. Slugging U.S. service sector productivity*

For decades, manufacturing employment in the United States has dropped as the productivity of manufacturing workers has increased. Today, about 70 percent of American workers are in private service industries. Those among them who don't compete with foreign labor -- hair stylists, gardeners, doctors, and the like -- have slightly more bargaining power than their counterparts in manufacturing and agriculture. But if their productivity doesn't rise, they'll still have trouble obtaining higher wages.

## *4. The costs of America's staggering wealth inequality*

As I've written before, wealth inequality is much more important than income inequality in determining access to opportunity. Severe wealth inequality raises the chance that an opportunity in the economy will go to a rich, stupid person rather than a poor, smart one. This misallocation of opportunities hurts economic efficiency and growth, making the pie smaller for everyone. Right now, the United States has some of the highest wealth inequality in the world; the net worth of the bottom half of families is equivalent to just 1.5 percent of the wealth of the top 10 percent. The results of the 2013 Survey of Consumer Finances will reveal whether this trend is getting even worse.

### 5. *Oil, oil everywhere*

Peak oil? That buzzword of the last several years seems nothing more than a silly catchphrase now. Since prices shot up roughly a decade ago, countries and companies have had a huge incentive to find new sources of the black sticky stuff. Rates of oil production have set new records annually since 2010, thanks to fracking and geological exploration around the world. With proved reserves having risen by half in only a decade, it's hard to imagine such a rapid increase continuing for long. Yet if it doesn't, rising demand from the growing global economy will push prices higher again.

### 6. *Buy Japan*

Remember Japan, the world's third-largest economy? It may be the perennial punching bag of the financial press, but it's still responsible for an important share of world output. Growth in Japan would give the global economic recovery a shot in the arm, and share prices tend to be a good indicator of future booms. Japan's recent shift to massively expansionary monetary policy could spark growth, but it could also lead to inflation. So far, expectations for inflation in the Bank of Japan's quarterly survey, which are consistently biased upward, haven't changed much since Shinzo Abe resumed the office of prime minister in December 2012 and launched the new "three arrows" policy regime. By contrast, stock prices have almost doubled, far exceeding the concurrent rise in the Standard and Poor's 500.

### 7. *The price of rice*

After an enormous spike in early 2008 that led to shortages, export bans, and even riots, the price of rice has finally dipped below its earlier trend. Indeed, stockpiling by governments and other policies intended to encourage production and exports have added plenty of slack to the market. Still, a return to strong and sustained growth in the economies where rice is a staple food could

quickly lead these problems to recur. Next time, a global downturn might not arrive just in time to tame demand.

#### *8. China's shadow-banking housing bubble*

Given the lack of transparency in many Chinese companies, real estate is an especially popular investment in the world's second-biggest economy. Thanks to restrictions in the Chinese financial system, a huge "shadow" banking industry has arisen to finance these purchases. The industry may have been worth about \$6 trillion this spring and has been growing fast. Beijing has started a combination of financial reforms that will pave the way for a crackdown on shadow banking, but any dislocations that result could cause havoc throughout the Chinese economy. Because new house prices depend in part on expectations about interest rates and the attractiveness of other assets, they could offer an early tipoff about trouble to come.

#### *9. The rise of bitcoin*

A successful currency serves three functions: as a unit of account, a store of value, and a medium of exchange. Bitcoin is making progress as a medium of exchange, with a growing number of vendors accepting it for payment through services like Bitpay. Yet the huge fluctuations in its exchange rate and the apparent ease of theft threaten its usefulness as a store of value and, by consequence, as a unit of account. Who cares how many bitcoins you have if you don't know what they're worth from one moment to the next? The adoption of bitcoin around the world is likely to continue in 2014, but it won't last much longer if the currency fails to stabilize.

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