



FutureScape Issue 3 – July 8th 2009

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Welcome to Issue 3 of FutureScape

FutureScape is the fortnightly(ish) research and insights newsletter from Fast Future. As Rohit's still rebuilding his back, while he's recovering we present some of our recent work on scenarios for how the global downturn might develop.

We hope you find this of use and interest and look forward to receiving your feedback, contributions and suggestions for future issues.

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We know some people didn't get last week's Bulletin - you can download all our previous newsletters at <http://community.icontact.com/p/fastfuture>

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Scenarios for Economic Recovery

In our current work with clients, we are focusing on four main scenarios for how this downturn could play out. These all are plausible – if not equally likely – scenarios for how the key engines of the global economy may develop over the coming five to six years. As none of us truly knows how the next few years will play out, we cannot rely on a single set of assumptions. Instead, as governments, businesses, nonprofits and individuals we have to prepare for a range of possible scenarios and have strategies in place to deal with each of them. In the interest of brevity we have focused here largely on the economic outlook. Elsewhere we have expanded the scenarios to look at the impact of and implications for other factors such as the environment, energy prices, science and technology, innovation, regional development perspectives, social values and governance structures.

Scenario 1 – Love is in the Air - The 'V' shaped recession.

Under this scenario, the recovery starts towards the end of 2009 / early 2010. Tough banking reforms and 'bad bank' models are adopted in most of the hardest hit economies. As many developing economies such as China and India manage to avoid recession, confidence returns to those markets more rapidly. A wave of new lending by developing economy banks from China to the Middle East helps improve the flow of credit in developed markets and simpler loan structures also help improve transparency and increase investor

confidence in the borrowers.

In the more developed economies, despite concerns over the potential US\$600 trillion of outstanding derivatives contracts and a possible US\$1 trillion of 'at risk' Eastern European debt, the system largely withstands the pressures, major new shocks, are prevented, only a few economies fail and confidence gradually returns to the real economy. While redundancies, wage cuts, short time working and other measures continue to be adopted for at least another year, most developed economies have turned the corner by the end Q1 2010. Public sector debt and the measures to address it act as a brake on the recovery but we see an eventual return to 2008 growth levels by 2013-14 at the latest. However concern is also growing in developed economies over how to deal with an ageing society, a growing pensions shortfall and the overhang of public sector debt.

Scenario 2 – Suspicious Minds - The 'U' shaped recession.

The much heralded economic decoupling is more evident in this scenario as China and India recover faster than much of the more developed world, bringing a number of developing economies along in their wake. A strong outflow of investment funds from developed economy firms and funds into developing markets helps accelerate the recovery process as the investors seek to offset negative conditions in their home markets. China and India in particular see rapid development trajectories and are back to their 2008 growth levels by 2011 – driven by high levels of infrastructure spending and rising domestic consumption.

Most of the larger economies in Europe, the US and Japan don't pull out until later in 2010 or early 2011 and do not get back to 2008 growth levels until 2015 or later. During 2010 one or two major new shocks emanating from the banking system serve to erode confidence and slow the pace of developed economy recovery. Developing economy banks don't start lending to the developed world at significant levels until the second or third quarter of 2010 as they wait to ensure that the bottom has definitely been reached. Nervous consumers continue to emphasise savings over spending through most of 2010. Redundancies and other cost cutting measures continue through 2010 and into 2011 – with the public sector in some countries seeing some of the biggest job losses.

Scenario 3 – Dancing in the Dark - The 'W' shaped or 'sine wave' recession.

Pent up demand, plentiful supplies of available talent and cheap asset prices lead to a short term recovery towards the end of 2009 / early 2010 as businesses and consumers start spending again. However a series of new shocks emerge from the banking system through 2010, bringing more bank failures, further nationalisations and rising bailout costs. The result is declining business and consumer confidence as credit dries up and increasingly negative sentiment dominates the media. By 2011 we fall back either into a much deeper and longer lasting recession or experience a series of oscillations in and out of recession over a four to five year period. The result is zero net growth over the period for Europe, the US and Japan. Corporate investment in particular shifts rapidly to selected developing economies until the end of 2010. Investment slows rapidly from 2011 onwards as firms around the world focus on conserving cash and batten down the hatches for a prolonged period of uncertainty.

While China and India don't actually fall into recession, growth rates fall to 3-4% as the collapse in demand from Western markets takes its toll along with a rapid decline of confidence and negative economic outlook in many other developing economies. 2010 is the year of the Asian takeover as cash rich Chinese and Indian firms in particular acquire businesses cheaply across global markets. Country bankruptcies happen more frequently. Redundancies are commonplace through to 2012-13. Confidence only really starts to return once consumers have adapted to a lower income lifestyle and investors and businesses start to accept they are operating in new era of lower profit margins. Particularly painful restructuring of state and company pension funds and rolling back of pension commitments lead to high levels of public unrest and even bring down some governments. Eventually the 2009-10 stimulus package investments in infrastructure, education and green technologies start to generate new economic opportunities and yield new jobs.

Scenario 4 – Road to Nowhere - The 'L' shaped recession.

In this scenario, we go into a long and deep downturn in Europe, the US and Japan with only faint signs of recovery by 2014. China and India could well dip into recession and many developing economies would fail. Small scale inter-country conflicts would be highly likely in the developing world and in parts of Eastern Europe. Company failure rates of 25-30% and unemployment of 25% are experienced in some economies.

Huge levels of debt default by countries, corporates and individuals generates further economic uncertainty.

The recovery when it comes is not uniform. A combination of massive cuts in public services, higher tax rates, business support grants and cheap loans are all adopted as measures to help stabilize finances and encourage growth. Pension systems are reformed and payments are scaled back. Growth is driven by new technologies, processes and business models in areas such as green technologies, food production, infrastructure and education. A new breed of low cost, low price businesses emerge in every sector. A simplified and highly regulated banking system evolves with a clear legal differentiation between consumer banks and commercial banks. The complex investment banking products, securitised debt derivatives and hedge fund structures have all but disappeared as the new mantra is of one of control, simplicity and transparency.

Responding to the Scenarios

We know that in reality the recovery won't quite reflect any of these scenarios. However the aim is not to predict the exact trajectory of recovery but to paint a range of possible pictures of what it could look like. The challenge for leaders and individuals is to assess each scenario (or develop your own) and determine what your response would be before the event rather than while it is happening.

We'd be fascinated to hear your views on what the recovery scenarios could like and the kinds of strategies you see as appropriate in each case.

About Fast Future

Fast Future is a research and consulting firm which focuses on helping clients anticipate and develop innovative responses to the forces, patterns of change and ideas shaping the future. To book Rohit for a speech or workshop, or to discuss your research and consulting needs please contact rohit@fastfuture.com or call +44 (0)20 8830 0766

Forthcoming Dates for your Diary

This is a selection of 'future focused' events that we think could be of interest. Those marked with an R are the ones where Rohit is speaking and / or chairing the event. We've had to take the weblinks off as this seems to cause problems with some firewalls.

July 15th – 16th, 2009 World Technology Summit & World Technology Awards, New York, USA. Cost \$995 - \$1,650

July 21st - 24th, TED Global, Oxford, England. Cost \$4,500

September 18th - 20th (R), Get Inspired - International Association of Facilitators European Conference, Oxford, England. Cost - IAF Members £592.25 / Non Members £649.75

October 14th-16th (R), Visioning 20.20 – Escaping the Age of Stupid, 5th European Futurists Conference, Lucerne, Switzerland. Cost €1040 - 20% early bird discount for bookings before July 31st

October 21st -24th, Poptech 09 – America Reimagined, Camden Maine, USA. Cost US\$3,500

November 5th - 6th (R), Courage! – 7th Annual European Food Service Network CEO Conference, Cologne, Germany.