



2015

A DIVERGING WORLD: OUTLOOK FOR THE GLOBAL ECONOMY AND INDUSTRIES IN AN UNCERTAIN ECONOMIC ENVIRONMENT

Diverging Paths Amidst Uncertainty

- Between October 2014 and January 2015, **oil prices collapsed 50%**, with dated Brent price per barrel falling from \$97.3 to \$48.7. This compounded the effects of the **Dollar, which had already begun its rise** in global currency markets.
- Budgets of many companies were set in the Fall of 2014, prior to these historic changes. While some are **scrambling amidst outdated budget assumptions**, others are rushing to **seize newfound opportunities**. Complicating matters is the potential for prices to remain low for several years.
- Low oil prices can't be viewed in isolation. Oversupply and weak Chinese demand are placing downward pressure on other **commodity prices** as well, which **change the profitability** of many operations in the short and long term.
- Various segments of the oil industry are obvious losers from these conditions. But where there are losers, **winners emerge** with improved margins and new growth opportunities.
- Beyond macroeconomic and industry changes **new risks emerge** as oil producing nations struggle with low revenues. Social unrest, capital flight and economic policies will alter the security landscape and political engagement within foreign markets. These actions will be critical to business success.

Study Outline

IHS is developing a comprehensive scenario analysis that will evaluate the new opportunities and risks, winners and losers, across multiple industries and global markets.

This comprehensive study will be delivered in four modules. *Each assume a sustained period of low oil prices.*

Those modules include:

Module 1 – Macroeconomic Simulations

Module 2 – Industry Sector Simulation

Module 3 – Assessing Operating Risk

Module 4 – US Regional Simulations

Each Module is summarized on the following slides.

Testing the impact of alternative scenarios for oil price

Pathway 1
Oil price returns to October 2014 levels

Pathway 2
Dated Brent falls to \$30 by end-2015

Pathway 3
Lower oil price (\$30) combined with strong USD

Macroeconomic impact



Industry impact



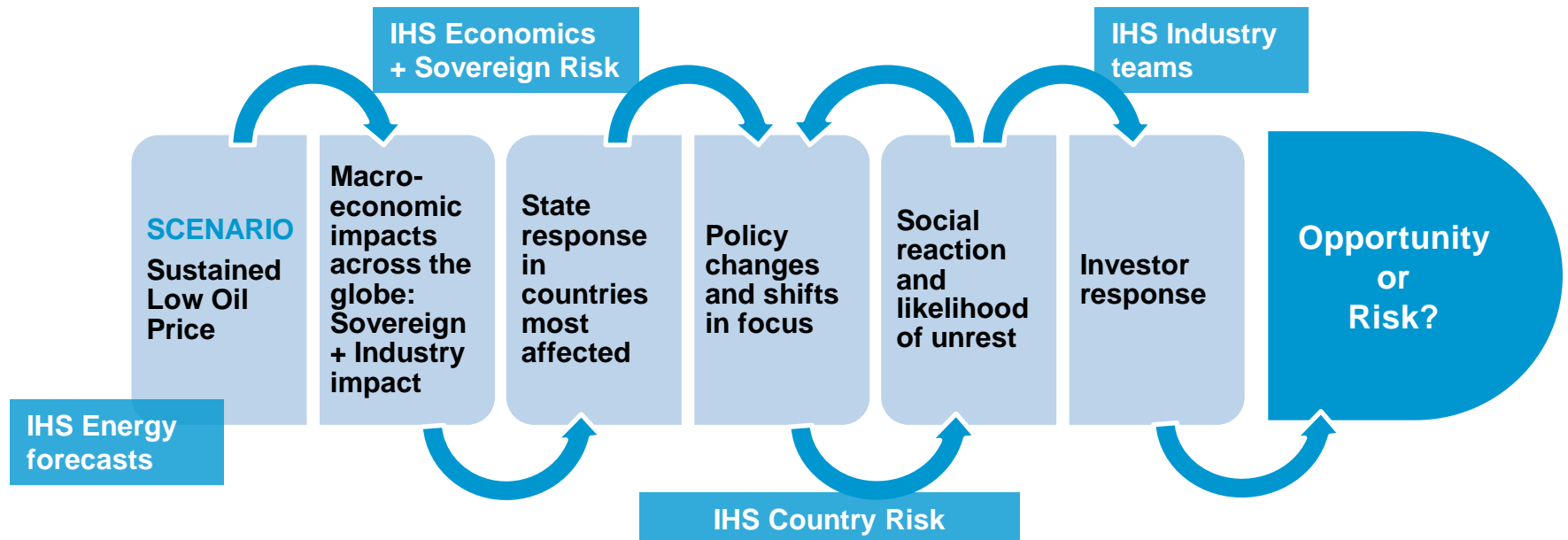
Operational risk impact

How would a period of sustained low oil price impact on national economies and sectors?

Who will be the 'winners' and 'losers'?

Where will there be direct or indirect political and social fall-out that will risk disrupting client operations?

The study will build on scenarios and forecasts from IHS Energy and IHS Economics and Country Risk



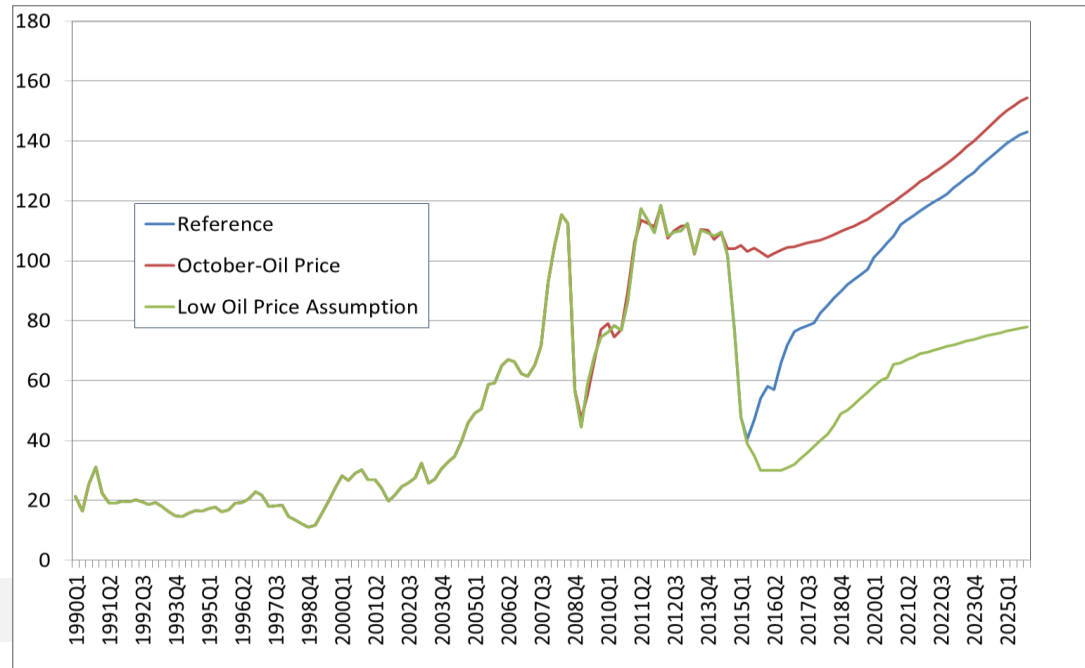
Core benefits?





Study Outline: Macroeconomic Module

Module 1: Macroeconomic Simulations Assumptions



Scenarios

Scenario 1: Reference

Reference Scenario:
February 2015 Baseline
Forecast

Scenario 2: High Oil Price

Impacts using the
October 2014 Oil Price
Forecast

Note: This was the
price under which
many annual budgets
were set.

Scenario 3: Low Oil Price

Dated Brent falls to \$30
by end-2015 and rises
very slowly thereafter.

Other commodity
prices will be adjusted
including: WTI, Gas in
NA, Europe and Asia,
Coal and Electric;
Aluminum, Copper,
Iron Ore, Nickel, Wheat,
Corn, Rice, Cotton,
Cocoa, etc.

Scenario 4: Strong Dollar

Built on Scenario 3, we
assume lower oil
prices exacerbates
movements in
exchange rates,
causing a significantly
stronger appreciation
of the US\$.

Macroeconomic Module: Table of Contents

- I. Global context and justification of the four scenarios
- II. Consequences on world growth and inflation
 - World total and then by region
 - The “reference” scenario in all cases will be the Feb baseline
- III. Impact on key balances (balance of payments, public finances)
- IV. Winners and losers under each scenario outlook
 - By country
 - By stakeholder:
 - Consumers
 - Companies
 - Government

Setting the Scene

Although low oil prices mean good news for consumers and energy dependent producers, they negatively impact many stakeholders.

Commodity producing countries see budget and trade balances worsen and FX reserves shrink, which threaten growth, exchange rates and external financing.

In some markets, this will lead to social disorder, political instability and mounting insecurity.

Energy producers whose budgetary balances depend on high oil prices will have to make painful adjustments to fiscal policies.

Energy importers whose investments in renewables relied on persisting high oil prices may slow or delay their plans.

Exchange rates will react, with some countries experiencing an appreciation of their currency and others a depreciation.

This results in potentially major changes in capital allocation and FDI, and mounting financial stress.



Study Outline: Industry Module

Module 2 – Industry sector simulations

Using the IHS World Industry Service and Global Link Model, IHS will simulate impact on industries and related supply chains.

We will simulate impacts on sector output and pricing power.

This module will illustrate rankings of industry output and impacts of linkages across sectors.

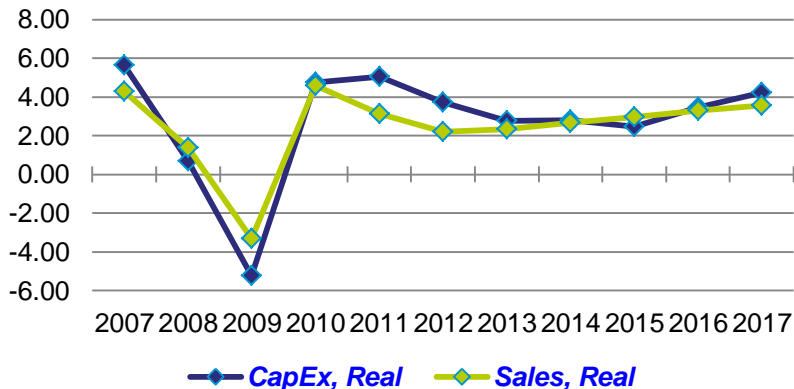
Where are the opportunities for growth and which sectors are more immune?

What sectors will be slowing vs. growing and how does that shape your portfolio of customer markets?

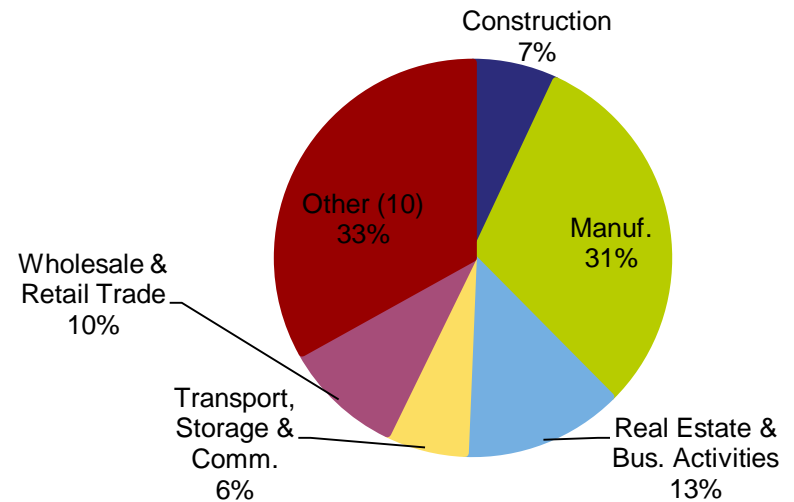
Industry Module Analysis: Table of Contents

- I. Rank of growth prospects over forecast period for industry/sectors
- II. Describe the impact on sector outlooks based on the scenarios
- III. Demonstrate and explain linkages among industries

All Sectors Total in World, Sales and CapEx, Long Term
All Sectors Total, World



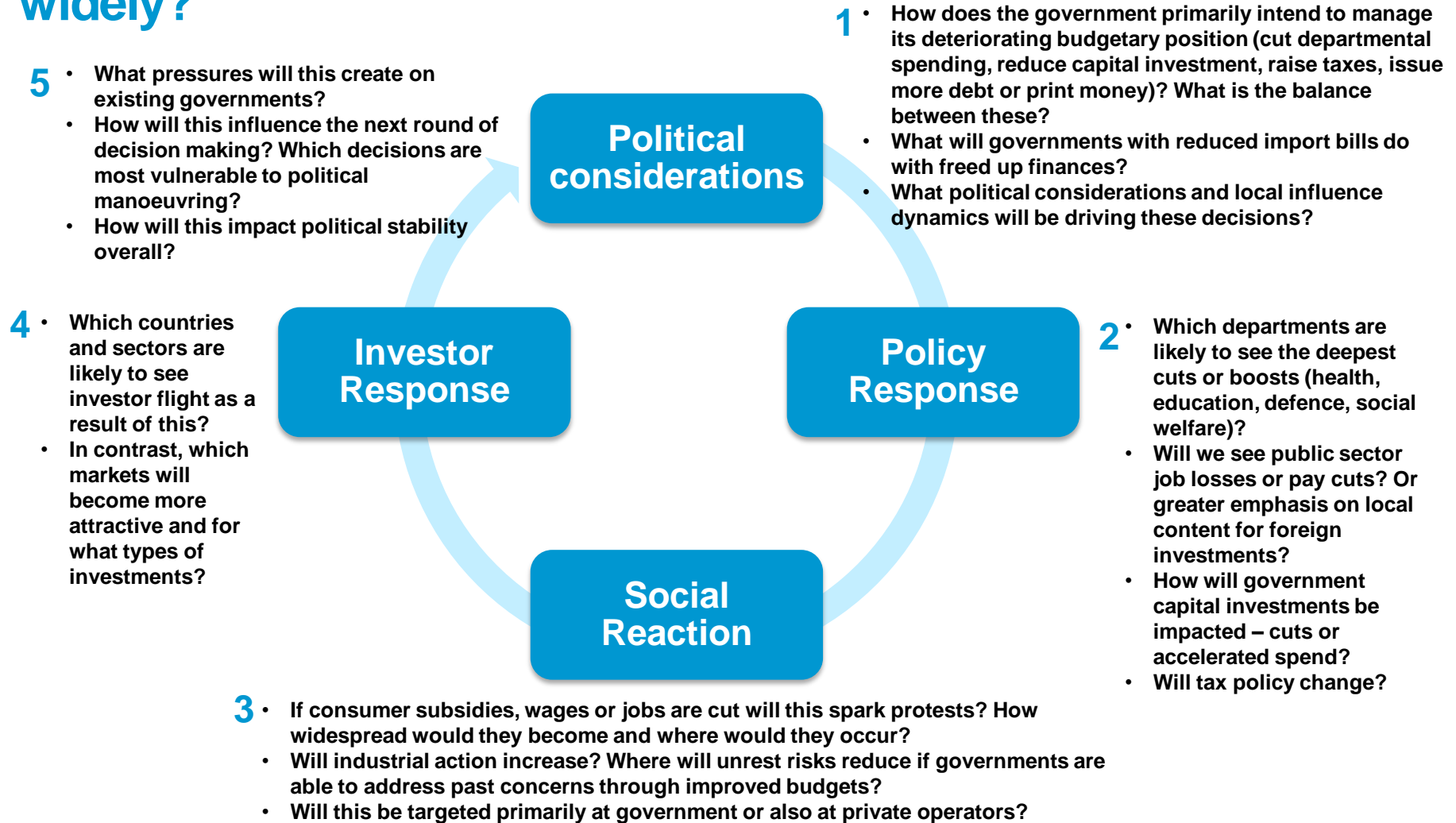
Sales, Industry Breakdown, 2014
All Sectors Total, World





Study Outline: Assessing Operating Risk

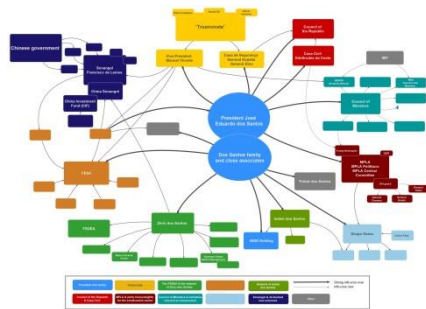
Module 3 – What will be the impacts for economic and sector development in these countries and political stability more widely?



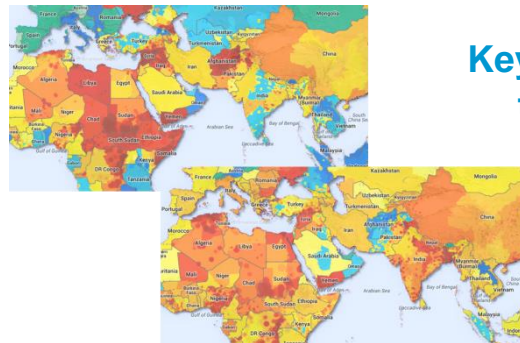
Module 3 – Outputs and Deliverables

For high impact countries we will provide maps of shifting political influence and likely impact on foreign investors.

For each scenario we will adjust our geospatial risk model to provide a differentiated view of risk distribution globally. The scenario-driven geospatial views will enable participating clients to run portfolio exposure analytics for each of the study scenarios.

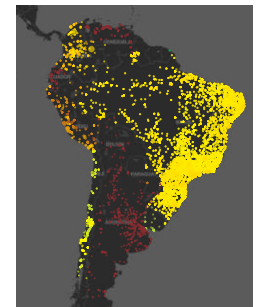


Influence maps for high impact markets to show impact on political stability and policy direction



Scenario-driven impact maps for unrest and political violence

Key sector exposures to political risks by geography





Study Outline: US Regional Module

Module 4 – US regional simulations

Low oil prices will have varied impacts across the United States with some regions benefitting more than others. Module 4 looks at these regional variations.

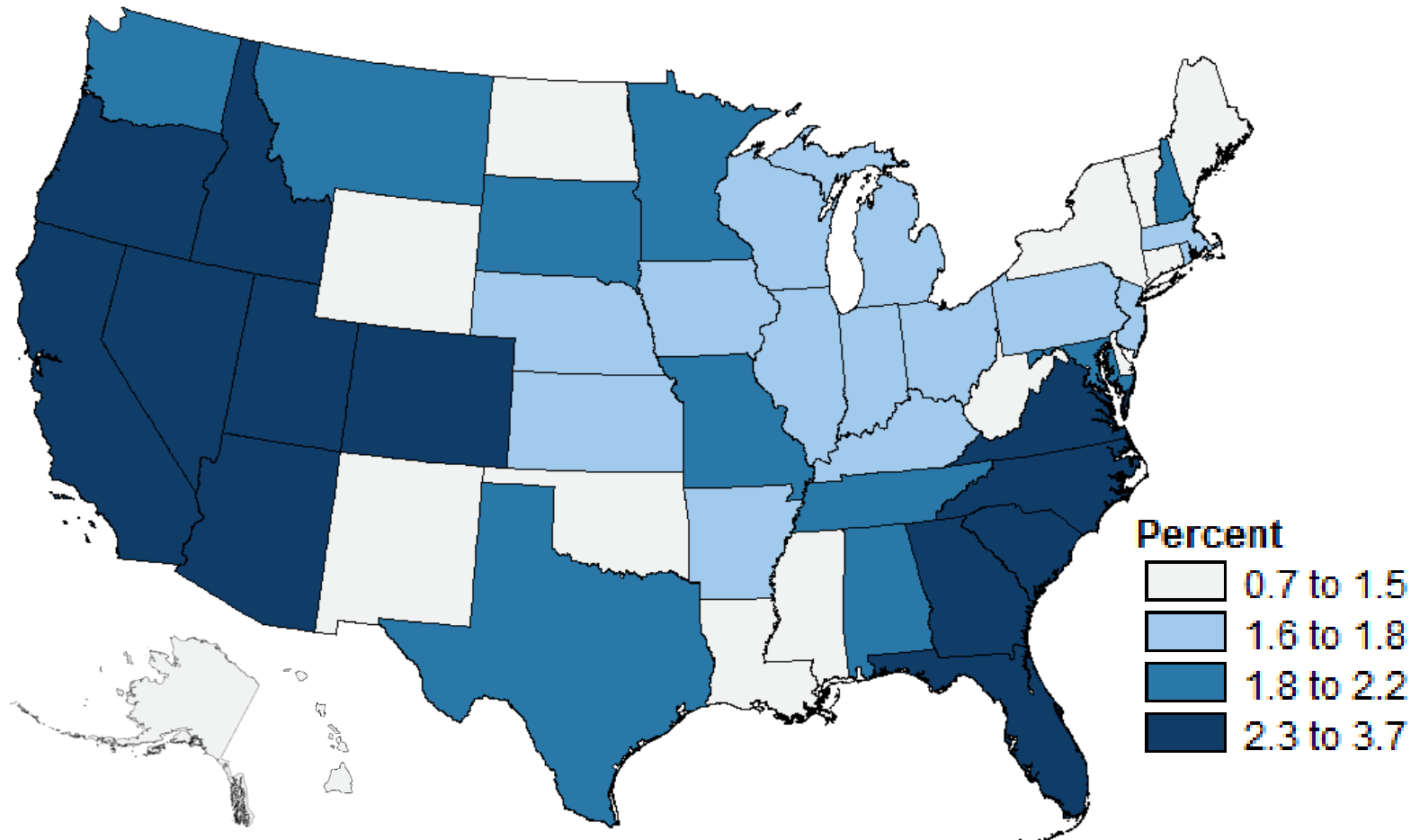
This module provides a full forecast of economic conditions in all US states and metros. The analysis will provide perspective on areas that have experienced the benefits of oil and gas industry investment and spending, as well as those that are not core producing regions.



Which markets will expand and contract across regions, states and metros?

Job growth under each of the macro scenarios will be a key output in Module 4

Employment growth, 2015Q4 (percent change vs. year-ago)



Deliverables Overview

An aerial, long-exposure photograph of a complex multi-level highway interchange at night. The image shows multiple levels of elevated roads curving and crossing each other. Light trails from cars create vibrant streaks of white, red, and blue across the roads. The scene is illuminated by streetlights, creating a warm yellow glow. In the background, city buildings and trees are visible under a dark sky.

What you get?

Core Deliverables for all Modules

Draft & final reports
Executive Summary

Webcast presenting key findings &
participant discussion with study experts

Specific deliverables by Module

Module 1 – Macroeconomic simulations

10-year global and country forecasts for core indicators including growth, inflation and exchange rates
Indicators of fiscal and monetary situations
Impacts on investment and consumer related sectors
Report narrative highlighting results from the scenario
Scenario data in XLS and PPT formats

Module 2 – Industry sector simulations

10-year forecasts for selected sectors on a global basis
Focus on supply chains and end markets for key sectors, including energy, transportation and technology
Report narrative ranking industries and sources of growth; identified linkages with IHS macro-economic forecasts and industry verticals

Module 3 – Assessing operational risk

Report narrative including a baseline risk assessment as well as alternative views and indicators for political stability, sovereign risk, security, financial risks
Scenario impact maps
Exposure analytics by risk type and asset for high impact countries

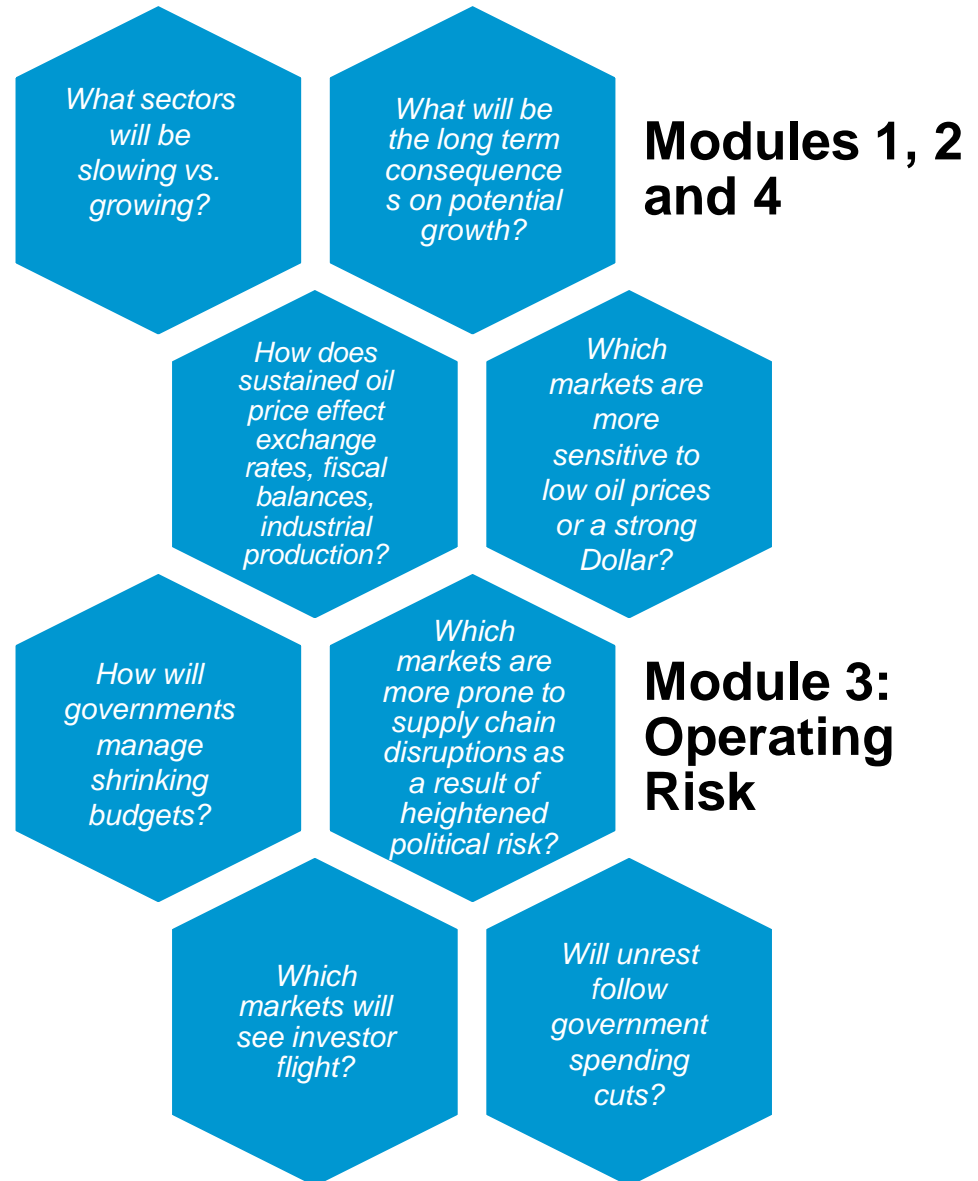
Module 4 – US regional simulations

5-year forecasts for selected sectors across 50 states, District of Columbia, and 363 metropolitan areas
Key concepts include changes in sectors' industrial production, employment and income
Report narrative highlighting delta between baseline and alternative scenarios
Relevant tables and graphs in XLS and PPT format



Core Benefits & Questions Answered

Key Questions Answered





Appendix: Why IHS...

How the IHS Diverging World Study helps Solve these Complicated Problems





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