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ANALYSIS | 7 things that could go horribly wrong in 2016: Don Pittis

Forewarned is forearmed as we take a gloomy look around the world

By Don Pittis, CBC News Posted: Dec 31, 2015 5:00 AM ET | Last Updated: Dec 31, 2015 1:24 PM ET

A beggar kneels in front of an advertising billboard in the centre of Vienna in November. If world economies weaken in 2016 it will become harder to narrow the gap between rich and poor. (Reuters)

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About The Author

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Earlier during this holiday season I offered an optimistic view for the coming year that we would be **possessed by animal spirits**, making 2016 a boom year for growth and exports.

But a scan of financial stories looking to the year ahead shows there is a lot of pessimism out there as well. Here is a selection of some of the gloomier predictions of what could go wrong with the economy.

1. China crash

A perennial cause for worry, China's economy has been so strong for so long, there always seem to be perfectly good reasons why everything could go terribly wrong.

In 2015 there were many new warnings, but an especially strong one from the Jim Cramer organ TheStreet.com says the middle kingdom faces a **"sudden stop"** in its economy.

A failing currency, a shrinking real economy, a real estate bubble, industrial overcapacity, say the worriers, all mean the Year of the Fire Monkey in the Chinese zodiac could spell doom for what is by some measures the world's largest economy.

2. Emerging-market bankruptcy

International Monetary Fund boss Christine Lagarde has been warning for months what would happen to an unstable developing world if the U.S. began raising rates.

Convinced by global hype that BRIC countries were the future, companies and countries overborrowed, leaving many with a giant

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Don Pittis has been a Fuller Brush man, a forest fire fighter and an Arctic ranger before discovering journalism. He was principal business reporter for Radio Television Hong Kong before the handover to China and has produced and reported for CBC and BBC News. He is currently senior producer at CBC's business unit.

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External Links

- ETFs to play main role in the next crisis (Financial Times)
- China Faces 2016 Crisis as Bad as U.S. Mortgage Meltdown (The Street)
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- Canada's housing market could finally cool down in 2016 (Globe and Mail)

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hangover.

The Economist magazine says Brazil faces "**political and economic disaster**," Russia has been hammered by falling oil prices, and China worries are mentioned above. That leaves India as the final BRIC success story. Can it last?

3. Oil to $20

There are few better indicators of global overcapacity than cheap oil.

But rather that scaling back on output, there are worries that new production from Iran could increase the glut just as a slumping developing-world economy cuts demand. Meanwhile, Saudi Arabia is cutting back on expenditures, saying it will pump cheap crude till other world producers cry uncle.

New York bankers Goldman Sachs say oil could **fall below $20 a barrel** in 2016.

4. Markets meltdown

If oil and commodities continue their plunge in 2016, low prices could eventually cause serious damage to oil producers and mining companies that can't be solved by layoffs.

There are distinct worries that the troubles of resource companies could be passed on to banks. **Junk bonds and ETF markets** are also a source of concern.

Janet Yellen, chair of the U.S. Federal Reserve, looks toward Thomas Perez, U.S. secretary of labor. Yellen has warned there is a 10 per cent chance of an economic shock that could drive the U.S. recovery off course. (Andrew Harrer/Bloomberg)

Any one of those things could represent the "10 per cent chance" of an unexpected economic shock that Fed chair Janet Yellen warned about in her last policy presentation.

5. Escalating global conflict

This is obviously not just an economic concern. In fact, an escalation of hot war could be an instant solution to the commodities glut.

As usual, the most frightening danger could come from an overwrought, unstable leadership such as those in North Korea or Pakistan popping a nuke at a hated enemy.

But according to the Atlantic magazine, there are **plenty of chances for expanding conflict**. And that list only includes those that would directly affect the United States.

6. Canadian property crash

Other evergreen sources of doom and gloom in the Canadian economy are the overheated property market and record levels of consumer borrowing.

This week even the Globe and Mail, which is usually reluctant to be gloomy about real estate, warned that Canadian property may have "**finally met its Waterloo**" in 2016.

A combination of tighter mortgage rules, rising U.S. interest rates and crashing resource prices may conspire to slow the Canadian real estate

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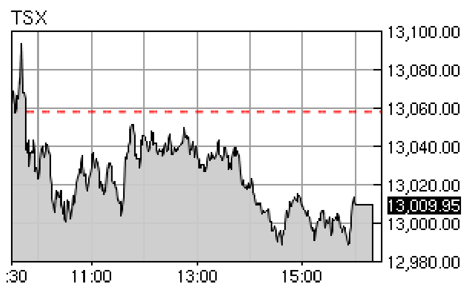

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NASDAQ	5007.41	-58.44
SP 500	2043.94	-19.42
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rocket.

The question remains: Can, as optimists hope, the rocket stop and hover at the top of its trajectory, or must it reverse course?

7. U.S. failed takeoff

One of the only true bright spots in the global economy is a steady recovery in the U.S. In her most recent media outing Yellen said the U.S. domestic economy was on the upswing despite sagging exports.

But with everyone else from Europe to China to Brazil to Canada running on slow, can the U.S. pull itself up by its bootstraps? That may be difficult, especially when its currency is surging to new highs.

Without growth, the global spread between rich and poor will likely worsen. Continued U.S. weakness might be a short-term palliative for Canadian property prices, but without America to pull us all out of the long-term morass, we are more likely to stay there.

Happy 2016.

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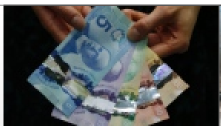

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