

Ten steps for a sustained recovery

Global economic update: December 2009

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In line with STANLIB's expectations, the world is gradually pulling itself out of recession although significant challenges remain. There are still four key steps that need to take place in order for the recovery to be sustained, starting with an increase in consumer demand. Retail spending figures from the US suggest a slight, but encouraging, improvement in consumer confidence.

Consumers and governments will recover slowly

Consumers are still under severe pressure as the rate of unemployment (jobs lost) is now higher than that of the previous three recessions. Most governments have found themselves facing a massive increase in debt due to bail-outs and various economic stimulus programs. Global recovery is therefore likely to be subdued as consumers gradually recover and government debt is slowly reduced.

UK lags the recovery

The United States, Europe and Japan are already officially out of recession, posting positive GDP (gross domestic product) growth in the third quarter of 2009. The United States recorded annualised economic growth of 2.8% quarter-on-quarter compared to Europe's 1.6% and Japan's 4.8%. The only major economy still battling to end its recession is the United Kingdom which registered its sixth consecutive quarter of decline during the third quarter of 2009, dropping by 0.3% quarter-on-quarter.

Ten steps to sustainable recovery

These ten steps must be taken for the global economic recovery to be sustainable. So far, numbers 1-6 have been mostly addressed; however we remain stuck on number 7.

1. Banking and financial market stability

Banks need to be willing to lend to each other and to consumers. In this regard, the financial system appears to have mostly normalised.

2. Monetary and fiscal policy relief and stimulus for the consumer and business sector

This was achieved by cutting interest rates and taxes, and by providing massive stimulus packages.

3. Elimination of the massive global inventory surplus

Companies need to reduce their excess stock levels. This has been happening for 13 consecutive months already, and appears to be slowly coming to an end.

4. Increase in new manufacturing orders and the leading economic indicators

There has been a noticeable rise in the leading economic indicators within all of the G7 economies.

5. Reduction in the rate of increase in unemployment

Judging by the current declining trend of new people claiming unemployment insurance for the first time, this appears to be improving.

6. Increase in consumer and business confidence

The indicators have bottomed out, but a full recovery will only occur once the unemployment numbers stabilise.

7. **Increase in consumer 'final' demand**

Consumer spending drives 73% of the US economy. If the consumer is not feeling confident and chooses rather to pay off debt (deleverage) and increase savings, the US will battle to sustain an economic recovery. For the past three months, retail sales have turned positive. While this trend is encouraging, it is not yet robust enough to give confidence that recovery is sustainable.

8. **Meaningful rise in capacity utilisation**

Factories will only start running at full capacity when consumers start spending again. This has not occurred yet. Capacity utilisation levels remain extremely low.

9. **Increase in fixed investment spending**

Businesses will only need to expand when they are making full use of their existing factories and durable goods. This has not yet happened.

10. **Increase in employment**

Finally, the economy will only look to add new jobs once the above nine steps above have been completed. We think this will only start to happen towards the end of next year.

US retail spending may point to a happier Christmas

US consumers are still under a lot of pressure, as shown by the weak labour market and depressed consumer confidence. However, the latest US retail spending data is a little more encouraging. Although the improvement in retail activity is fragile, it appears to suggest that consumers are a little more willing to increase their spending; so maybe it won't be such a bleak Christmas after all.