

Global Outlook: August 2009

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In the early part of 2009 the markets were priced for an extreme and protracted recession. Now however, a more rosy view has emerged which is reflected in equity markets which have seen a significant recovery. However this does leave the markets more vulnerable to any downside risks in the near future.

With such a fragile recovery, it is vital that we actively monitor the strength of the real economic recovery, and not just the degree of market stability that has emerged. The **STANLIB Global Economic Recovery Monitor** focuses on economic variables that allow us to access the strength, depth and quality of any global economic recovery.

Gradual recovery

Over the past few weeks there has been relatively positive news, although the global economic recovery remains relatively fragile. The global economy is likely to see a gradual recovery towards the end of 2009, building further into 2010. However we expect the recovery in 2010/2011 to be relatively modest and well below average or trend growth.

There are six economic highlights to emphasize in the past few weeks:

1. The modest decline in the US unemployment rate in July was very much unexpected as no-one expected a reduction. Weekly jobless claims have continued to ease.
2. There has been a broad improvement in global PMI (manufacturing) readings for July.
3. There have been further improvements in global confidence indicators.
4. Europe has seen surprising strength in the second quarter with GDP down only 0.1% compared to the previous quarter.
5. Japan recorded a 3.7% annualized growth in GDP in the second quarter compared to the previous quarter.
6. US house prices rose in May, which is the first increase since July 2006. A relatively broad base of US housing data appears to be improving.

Downside risk

US consumer spending still feels very weak. Retail sales continued to decline in July, while consumer credit shrank further. In addition, global merchandise trade is still fairly sluggish, with only modest evidence of improvement in Asian trade.

Global economic recovery monitor

STANLIB Global Economic recovery monitor (19/08/09)

	Indicator	No improvement	Tentative improvement	Clear improvement
1	US building permits	No		
2	US new orders for goods			Yes
3	US weekly jobless claims		Tentative	
4	US consumer credit demand	No		
5	US retail sales	No		
6	German IFO business climate		Tentative	
7	German new export orders		Tentative	
8	German consumer confidence		Tentative	
9	Japan machine tool orders	No		
10	Japan exports		Tentative	
11	Japan small business survey		Tentative	
12	UK retail sales		Tentative	
13	China imports from Asia-Pacific		Tentative	
14	China retail sales		Tentative	
15	China exports	No		
	Score	5/15	9/15	1/15

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Only one of the fifteen economic indicators selected has improved meaningfully since the crisis started; and that is the US ISM (manufacturing) new orders index.

Nine of the fifteen indicators are showing a tentative improvement.

Five of the fifteen variables selected are not showing any real sign of improving, although some may have bottomed-out.

This includes:

- US building permits which remain near record lows
- US consumer credit demand which has declined by a massive \$60bn in the past five months
- US retail sales which are clearly still very fragile
- Japan machine tool orders which had been decimated in the second half of 2008, but may now be stabilizing
- China's exports which remain under huge pressure.

Outlook

Our own base case still suggests that we will see more convincing signs of a global economic recovery before year-end. This would include positive GDP growth in most major economies with most of the key economic indicators improving further within the next 6 months. However, we need to stress that the recovery is still fragile and is expected to be very modest and below trend in 2010. Furthermore, there are still very significant risks to this base case that require constant monitoring.