

Officially in a growth phase

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Now that the global economy has officially entered into a growth phase, the question is whether this is sustainable.

The IMF (International Monetary Fund) World Economic outlook for October 2009 showed that the global recession is ending but that a subdued recovery lies ahead. World growth for 2010 has been revised up to roughly 3%.

During August the US leading economic indicator rose by slightly less than expected. This indicator comprises of 10 underlying components such as money supply and the average number of working hours. It has a good track record in forecasting GDP (Gross Domestic Product) economic growth by up to 12 months, and has a strong correlation with the equity market. The index has now increased for 5 consecutive months, which points to an economic recovery.

As mentioned above, the global economy has now entered a growth phase that is in contrast with the six month period from the last quarter in 2008 till the first quarter this year. During that six month (credit crisis) period, business and consumer weakness was rapidly spreading between most countries through trade and financial links. There was a rush to increase liquidity and clear inventories (stocks on hand.) Many of these forces are now in reverse, and should feed off each other, leading to a phase of very strong growth.

But will this recovery be sustained?

Consumer watch

This will only happen once the consumer (representing final demand) comes back strongly; the biggest threat to the recovery is if the labour market remains under severe pressure.

Below is a brief update of some of the key variables that help to measure the current strength of the US consumer:

- US house prices have now risen for 3 consecutive months (May, June and July), after declining in each month since August 2006
- The consumer confidence index rose by more than expected in September, which is the highest level since January 2008
- US retail sales (shopping) rose more than expected in August 2009
- US net wealth rose by almost \$2 trillion in Q2 2009, which is the first increase in household wealth since Q3 2007 (see graph below)
- US personal savings fell to 4.2% of disposable income in July, down from a peak of 6% in May 2009. While a reduction in savings is clearly not a 'positive' factor it does suggest that consumers are a little more willing to spend a greater portion of their monthly income.
- US weekly jobless claims have generally continued to trend lower, albeit a little unconvincingly
- US consumer credit has continued to decline, falling by a record \$21.6 billion in July 2009. Although a reduction in consumer credit can be viewed positively, it does suggest that consumers are still deleveraging (paying off their debt), which tends to dampen overall consumer activity.

Overall, it is clear that most of the key variables relating to US consumer activity are slowly moving in the right direction. Certainly the rate of deterioration has dissipated fairly significantly. This augurs well for a sustained recovery in 2010, albeit a modest and below average recovery.

Quarterly change in US household net wealth

