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Global economic outlook: February 2010

Cautiously optimistic for a modest recovery

By Kevin Lings, economist and Melissa Dyer: STANLIB

2009 was a year of both economic turmoil and important historic moments. Entering 2010, the feared collapse of the global banking system has been replaced by cautious optimism for a modest global economic recovery. However, there is a risk that growth in developed markets will slow down in 2011 as interest rates are increased.

2009: New leadership

Last year we saw a significant change in leadership at home and abroad. Jacob Zuma was inaugurated as South Africa's new president. Morgan Tsvangirai was sworn in as the new Prime Minister of Zimbabwe in a groundbreaking power-sharing agreement. Barack Obama became the 44th president and first African American president of the USA.

We also witnessed a shift of political and economic power which saw the G20 group of countries, including South Africa, take on greater influence over the global economy than the original G8 super economies.

2010: Economies are fragile, but improving

The global economy is recovering and financial markets worldwide have shown impressive recoveries. Most countries, including South Africa, returned to positive real growth rates in the third quarter of 2009. Some started showing positive growth from the second quarter.

Although many economies remain fragile, economic indicators point to further improvement in economic conditions during 2010.

Domestic spending boosts China's economy

The large emerging economies, or BRIC countries (Brazil, Russia, India and China), continue to attract a great deal of attention from investors, especially Brazil and China.

Economic activity in China is accelerating, especially domestic spending. China's economy grew by 10.7% year-on-year in the third quarter of 2009 and is up an impressive 8.7% year-to-date – and all of this activity was domestically driven. Despite the drop in exports (which have recently improved), China is well on track to achieve at least 9% growth for 2010 as a whole.

Impact of the withdrawal of stimulus packages

There is uncertainty about when governments around the world will withdraw their massive stimulus packages, and what will happen as a result. We could see global interest rates start to increase. Already, China has started to tighten its monetary policy, and this has had a negative impact on the equity markets.

It is vital that the stimulus is withdrawn gradually and only when there is more evidence that economic recovery can be sustained – for example an improvement in employment figures.

Beyond 2010: growth may slow down

STANLIB's view is that while there is evidence of a reasonable economic recovery that should unfold more fully over the next 12 months, there are a number of factors that suggest that world growth, especially in the developed world, may run out of steam going into 2011 as governments cut back on spending, increase interest rates and start to face the public debt that was incurred in stimulating the global economy.