

Surprising resilience

Global economic update: April 2010

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The updated Economic Crisis Monitor shows a clear improvement in the global recovery. The message from the market is one of remarkable resilience, but the question is whether the recovery will continue once the stimulus packages come to an end.

Reasons for resilience

The market resilience has probably been helped by the European Union's pledge of support for Greece, the recent better-than-expected US retail sales data, and the fact that the Federal Reserve recently confirmed that the US interest rate will remain "exceptionally low" for an extended period.

Taking the foot off the gas: how to end the stimulus packages

The biggest challenge for governments across the world – and one of the main risks facing the global economy and financial markets - is how governments will wind down their massive economic stimulus policies, which have seen historically low interest rates and a surge in government spending, without damaging the prospects for a sustained economic recovery.

Ideally, policymakers need a sustained improvement in employment and consumer activity, without a worrying rise in inflation. Unfortunately, employment remains under pressure in all the major economies. This will continue to undermine the strength of the consumer, which is desperately needed for the global economy recovery to continue.

STANLIB Economic Crisis Monitor.

The aim of the crisis monitor is to try to measure whether or not policy responses to the global economic crisis are working. This applies especially to the United States, as it remains the key global economy. We chose 15 indicators that reflect three key areas of the US economy: **Housing Activity**, **Credit Markets**, and the **Real Economy**. Some of the variables for these indicators have continued to improve:

- **The US leading indicator:** This is the most accurate indicator of US growth in 6 to 12 months time. This indicator continues to move sharply up but is expected to peak in the next couple of months.
- **Jobless claims:** The number of people claiming unemployment insurance for the first time has been disappointing in the past few weeks after falling noticeably lower in late 2009.
- **Inventory levels:** The excess level of stocks held by businesses at the end of 2008 appears to have gone and the amount of inventory held as a percentage of sales has returned to the pre-crisis levels.
- **US housing market:** Activity has fallen but apparently due to extremely poor weather conditions. Many components of the housing market recovery remain fairly fragile. A key test will be after April 2010, when the current tax stimulus for the purchase of new and existing homes is scheduled to stop.

STANLIB Economic Crisis Monitor

Indicator	No improvement	Tentative improvement	Clear improvement
Housing activity			
1	House prices		Yes
2	Home inventories		Yes
3	Home sales		Yes
4	Housing permits	No	
5	Mortgage applications (new)		Yes
Credit markets			
6	Mortgage rates		Yes
7	Mortgage refinancing		Yes
8	Corporate bond spreads		Yes
9	Vix index		Yes
10	TED spread		Yes
Real economy			
11	ISM		Yes
12	Leading indicator		Yes
13	Weekly jobless claims		Yes
14	Commodity prices		Yes
15	Inventories		Yes
Score	1/15	0/15	14/15

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