

## Economic recovery remains the theme for 2011

Global economic update: February 2011

By Kevin Lings and Laura Jones, STANLIB economists

The world economy has moved passed the bounce-back phase and is entering a slow, solid growth pattern for the year

Economic recovery remains the theme for 2011. The World Bank estimates that the world economy is moving from a post-crisis, bounce-back phase of recovery to slower but still solid growth this year and next, with developing countries contributing almost half of global growth.

### Growth remains strong in developing economies

Economic growth, which expanded by 3.9% in 2010, will slow to 3.3% in 2011 before it reaches 3.6% in 2012. The projected growth figures in the table below show that growth in developing countries will continue to outstrip growth in high-income countries.

	2010	2011	2012
Developing countries	7%	6%	6.1%
High-income countries	2.8%	2.4%	2.7%

In most developing countries, GDP has regained levels that would have prevailed had there been no global credit crisis.

### Eyes remain on the US

Critically, within the United States most economic variables improved steadily during the course of last year, especially indications of consumer activity. Consequently, the consensus 2011 GDP forecast for the US economy has been revised systematically higher in the past few months. It currently stands at 3.1% for 2011 but as recently as October 2010 it was 2.4%.

This does not mean that the US economy is firmly on track to return to previous growth rates. There remain a number of key structural economic concerns:

**Housing:** The housing market remains exceptionally weak and is probably still the single weakest aspect of their economy. There is, unfortunately, a structural over-supply of housing, which argues against any meaningful recovery in US housing market conditions for a number of years. Housing is, however, relatively cheap so current price levels could be maintained.

**Employment:** The US job market has clearly improved since the recession officially ended in June 2009. However, in order to start reducing the unemployment rate on a sustained basis (without any change in the labour market participation rate), the economy needs to consistently add around 100 000 jobs a month, which it is still struggling to do.

These factors suggest that the US economy will struggle to return to previous average growth rates, but equally the US economy appears to have successfully navigated the worst of the credit crisis and has avoided a double-dip recession.

### Europe struggles

The recovery that we have seen in the US is eluding many European countries. These economies, which include Greece, Ireland, Portugal and Spain, are straining under huge debt and harsh austerity measures which impose large spending cuts and tax increases. Although these measures may eventually lead to healthier economies, the process will take many years and in the meantime, the drag on growth is increasing pressure on the Euro.

The International Monetary Fund (IMF) anticipates that countries using the Euro will grow at an average of a mere 1.5% this year. The longer-term picture is not that much better either. By 2015, the IMF anticipates growth in the Euro-area to come in at only 1.7%. These numbers point to a long and painful journey back to prosperity.

### Food inflation a concern

An important area of concern that has emerged in the past few months is the risk of higher global inflation. Internationally, food commodity prices are up around 30% (in US dollars), over the past year, while the oil price has moved up sharply to almost \$100 a barrel. In addition, many industrial commodity prices are at record levels.

The impact of these price pressures on inflation will be heavily influenced by the strength of the global recovery and the flexibility of individual economies to respond to mounting price pressure.

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