

Neptune Global Economic Update
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Such was the magnitude of the events that occurred in the US financial sector last year that the aftershocks continued to be felt going into 2009. Across the OECD unemployment rose, US retail sales dropped, and global trade and production levels plummeted at a faster rate than during the Great Depression. However, over the last two months, key economic data has indicated that the immediate effects of 2008 are now easing and that the global economy is no longer collapsing. That said, the economy is not yet at the recovery stage – a process that will be long and drawn out and, when complete, will not see the global economy reverting to its old habits of the last decade.

The legacy of the Lehman Brothers bankruptcy, the AIG bailout and the required government-backing of Fannie Mae and Freddie Mac debt in September and October 2008 has been widely felt. Between September 08 and January 09, US retail sales fell 12%* whilst US unemployment soared. With the US consumer accounting for over 20% of global GDP, the effects of this have been significant: world exports have declined dramatically with global industrial production and trade hitting record lows**. Increased risk aversion saw India and Russia suffer as foreign capital was withdrawn and the global economy suffered widespread contraction. However, data is now indicating that these dramatic declines are moderating and that the global economy is no longer in freefall. Importantly, US retail sales, which are at the core of global demand, appear to have bottomed.

The extraordinary nature of the current crisis means that when the recovery does occur, it will be a laborious process. The enormity of the debt burden in the private sector is the defining feature of this recession and as people pay off their debt, consumption patterns are likely to change. In the short term, deflation remains a risk, with monetary policies struggling to filter through to the real economy owing to the broken banking system. In the long term, however, we do expect inflation to return.

The past decade has seen the global economy being driven by the Western consumer, particularly in the US, to an unsustainable degree. However, over the next ten years we expect consumers in the emerging markets to account for a greater share of world consumption, along with the capital flow from the emerging markets to the developed world reversing. Indeed, we see the emerging markets as the primary drivers of global growth and we fully expect to take advantage of the enormous potential that they offer.

*Source: Bureau of Economic Analysis

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