

Is it a V, U or W? No, it's a recovery

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THE world got a pleasant surprise a few days ago when Germany and France managed to grow their economies in the April to June quarter.

Around the same time, the Federal Reserve Board said the US economy is "levelling out", an indication that the recession is close to its end.

Sometimes, what is important is to look for what's not said and the Reuters newswire spotted this.

"It is the first time since August 2008 that the committee's statement has not characterised the economy as contracting, weakening, or slowing." These are yet more evidence that the global recession, sparked by the collapse of the US property market in 2007, has reached its bottom. It's unlikely that economists will change their forecasts for the global economy this year. The International Monetary Fund thinks the world economy will shrink 1.4 per cent in 2009.

But it does lend credence to the expectation that the world will recover in 2010.

Some may argue that it's not growth that's important but sustainable growth. I agree but some growth is better than no growth at all. More importantly, good news will have an effect on consumer confidence. When people are more confident of the economy, they tend to loosen their purse strings because they're not worried about losing their jobs.

I also think that because of technology like the Internet and mobile phones, consumers are better and, this is crucial, faster informed. This means that the world will probably get out of its funk much quicker.

If there is one thing that history has taught us, it is that recessions never last. Economists are now talking about recovery and much of that talk has turned alphabetical. Is the economic recovery shaped like a V, a U or a W? A steep drop followed by an equally steep climb is a V-shaped recovery. U implies a quick fall to the bottom, followed by a slow and gradual rise. The worst of the lot is probably the W where the economy takes a roller-coaster ride to recovery.

Those vocal about the V, like Capital Dynamic's Tan Teng Boo, a fund manager, thinks China and India can hoist the world out of recession. He also thinks that stock markets are ready to run.

A rising stock market normally makes the investing public feel wealthier and this in turn boosts their confidence.

At the other end, those who warn us about the W, like Nobel laureate Paul Krugman, say recovery will be temporary because it will be driven by government spending. As governments cannot continue to spend more than what it earns, economies could slip back into recession.

I think the real danger is that we become complacent about what we want to do when the economy finally turns around.

Remember that much abused line, the crisis is also an opportunity? Remaking the economy will take time but Malaysia must stay the course.

We must encourage competition, improve the education system and cultivate and support creativity. We may have missed the boat as most of our manufacturers still cannot boast innovative products of their own but we probably have the edge in Islamic finance as the world leader.

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