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HOW LONG WILL THE RECESSION LAST ?

Where Does One Go For Honey

On Monday, share prices collapsed on the world's largest equity markets as the fear of more bank collapses revisited investors.

On Tuesday, share prices recovered on the world's largest equity markets, following a statement by US Treasury Secretary Timothy Geithner to the effect that most US banks were well capitalised, allowing them to withstand most potential losses.

On Wednesday, there was more selling of stocks and shares on Wall Street, resulting in the key index of The New York Stock Exchange wilting away, once again.

Wednesday's selloff on the world's largest equity market was due in large part to 2, unrelated profits announcements: One from Morgan Stanley and Boeing Company.

The results were a shock to many investors.

In **TARGET**'s view, investors should have expected financial results of this kind in view of the recession that has a vice-like grip on the world.

It was noted by **TARGET** (), however, that the rebound in stock and share prices on Tuesday was most apparent on US equity markets, with the key indices of European equity markets, recording tiny fractional gains, only.

This was because the US financial stimulus packages are starting to have a telling effect in certain quarters while, in Europe, efforts to assist in crucial areas of the economies of the 27 members countries are not moving at the pace of the world's largest, single economy.

There is investor fear, out there.

It is well justified.

The big questions, today, are, of course:

1. How long will the recession last?

2. Which country(ies) will be the first to recover?

US President Barack Hussein Obama has gone on record, stating that he has seen a glimmer of light in the US economy, suggesting, **TARGET** supposes, that it is his view that the recession in the US has hit its zenith and is, now, about to start to go into decline.

Prime Minister James Gordon Brown of the **U**nited **K**ingdom (**UK**), only last week, stated that the worst of the recession is over for the UK!

Whether or not these prognostications are wishful thinking or rhetoric, aimed at trying to placate the masses, **TARGET** cannot say, but this medium tends to swing more toward the wishful-thinking tack.

Be that as it may, the recession cannot go on forever.

Somewhere down the road, the recession will end and, as soon as there are definitive signs of its end, there will be a boom.

As with all economic cycles of this nature, deep depressions are always followed by fast and furious and extravagant recoveries: The deeper the recession, the faster and more furious and extravagant will be the recovery stage.

Various economists have made a variety of predictions as to the likely timescale for the end of the current recession, some suggesting that it could be over by the end of the year.

Others have suggested that it is likely to continue into the middle of next year.

TARGET does not have the ear of the Almighty and, therefore, will refrain from making Holy Prognostications.

But, all things being equal, one can make a reasonable prediction, subject to the facts as they are known, today, plus or minus a couple of months.

Looking At The Facts

Created in 1944 with a goal to stabilise exchange rates and to assist in the reconstruction of the world's international payment system, The **I**nternational **M**onetary **F**und (**IMF**), which is a private, international organisation, overseeing the financial system, using macroeconomic policies of its member countries, recently brought out a rather frightening report.

The IMF maintains that:

> '• *Recessions associated with financial crises tend to be severe. Recoveries from such recessions are typically slow. If such recessions are globally synchronized then they tend to last even longer and be followed by recoveries that are even weaker.*
>
> '• *Countercyclical policies can be helpful in ending recessions and strengthening recoveries. In particular, expansionary fiscal policies seem particularly effective. Monetary policy can help shorten such recessions, but is less effective than usual.*
>
> '• *These findings suggest that the current recession is likely to be unusually long and severe, and the recovery sluggish. However, strong countercyclical policy action, combined with action to restore confidence in the financial sector, could improve prospects for recovery.'*

In a report about the Global Financial Crisis, headlined, ***'Further Action Needed to Reinforce Signs of Market Recovery'***, released last Tuesday, the IMF said:

> ***'Overall global writedowns***
>
> *'For all financial institutions, the report estimates that writedowns on assets that were originated in the United States will total about $2.7 trillion, up from the roughly $2.2 trillion projected in an interim report in January. The $2.7 trillion writedown (off a total of about $27 trillion in U.S.-originated assets) covers both losses already recognized and those yet to come this year and next and incorporate a number of assumptions about the economic outlook and financial conditions.*
>
> *'The latest* GFSR *extends its writedown estimates to include losses on loans and related securities that were originated in Europe and Japan (see table), which will total approximately $1.3 trillion.*

> *'The Fund estimates that potential writedowns, including about $1 trillion already taken, could be nearly $4.1 trillion on some $58 trillion of assets originated in the United States, Europe, and Japan (although the owners of these assets can be anywhere in the world). The assumptions used to make these broader estimates are subject to significant uncertainty. The estimates could be lower depending upon policy actions and more favorable outcomes than assumed.*
>
> *'Banks will likely bear about two-thirds of the $4.1 trillion in writedowns, which together with their exposure to emerging markets, is about $2.8 trillion in actual and potential writedowns. Writedowns will also be borne by other financial institutions, including pension funds and insurance companies, the GFSR said.*
>
> ***'Emerging markets feel the impact***
>
> *'As institutions reduce assets during a period of deleveraging, international capital flows to emerging markets have been curtailed. The effects have been harsh in some cases. The retrenchment from cross-border markets is outpacing the overall deleveraging process. On balance, emerging markets could experience net outflows of private capital in 2009, with but slim chances of recovery in 2010 and 2011. Banks in countries which were dependent on such cross border flows have suffered greatly, but the effects are also being felt by companies in many emerging market.*
>
> *'Within emerging markets, eastern European economies have been the hardest hit. The linkages between western Europe and emerging European banking systems make the region particularly vulnerable. Western European banks may reduce the funding of their eastern European subsidiaries and losses from emerging Europe may damage western European balance sheets. Fortunately, there are promising regional initiatives in which some western banks have agreed to keep credit flowing to the subsidiaries…'.*

The IMF emphasised that *'further decisive and effective policy actions will be needed to stabilize the international financial system.'*

The IMF, ended its report, saying that various states might have to nationalise, partially or in total, certain corporate entities – the emphasis, here, was on banks and finance companies:

> *'It is essential to stabilize the financial system – without which a robust and sustained economic recovery will be difficult to attain.'*

The IMF is forecasting that the UK will see its economy shrink by about 4.10 percent in 2009, the economy of the US is likely to shrink by about 2.80 percent in 2009, Germany, by about 5.60 percent in 2009, France, by about 3.00 percent in 2009, and Japan, by about 6.20 percent in 2009.

Frightening stuff!

The IMF has no axe to grind and holds no candle for anybody or any country or government.

It is known to be an impartial and objective observer of international financial events and publishes its financial analysis on a multitude of subjects in a timely manner.

It is, in fact, the international lender of last resort; its headquarters are in Washington, D.C.

With no political affiliations and with a bevy of economists on which to rely for analyses of situations, its determinations in respect of world's financial crises are, normally, held in high esteem.

The above statements of the IMF seem to fly in the face of some of the recent statements of some of the world's leaders, including US President Barack Hussein Obama and Prime Minister of the UK, Mr James Gordon Brown.

All of the known facts to date about the US economy and that of the People's Republic of China (PRC), the last-mentioned country, clearly, is a key player in the recovery programme of the world's economies, suggest that the earliest possible date for a turnabout situation is the final quarter of 2009, at the earliest.

But before the recovery is full-blown, there is bound to be a time when it is acknowledged that the recession of 2008-2009 was the deepest in 60 years.

(In fact, this has been acknowledged by most reputable economists.)

The PRC Government's Solution

The Government of the PRC, as well expected by this medium, has placed a great deal of emphasis on stimulating its domestic market.

This policy is paying handsome dividends.

If Germany, Italy and France, to name just 3, European powerhouses, had embarked on such a policy as has the PRC, and had not been as dependent on exports as they are, today – Germany was the largest exporter of the world in 2008 and may still be so – then, these countries, perhaps, would have been better able to withstand the present economic situation which has reached crisis proportions.

The PRC, with its huge consumer market of about 1.30 billion people, will require it to import a great many commodities in sufficient quantities in order to continue to fuel its factories which, in turn, will, eventually, meet the demands of its consumers.

The restructuring of the economy and resulting efficiency gains have contributed to a more than tenfold increase in the country's Gross Domestic Product since 1978.

Measured on a **p**urchasing **p**ower **p**arity (**PPP**) basis that adjusts for price differences, the PRC in 2008 stood as the second-largest economy in the world after the US, although in per capita terms , the country is still lower middle-income.

The industrial growth production rate in the country is, currently, running at about 10.70 percent.

While crude-oil production is about 3.725 million barrels per day, crude-oil consumption is about 7.88 million barrels per day.

The country imports a little more than 4 million barrels of crude oil per day.

The PRC continues to be thirsty for crude oil and this situation is likely to continue for some time to come.

The country, also, is hungry for other essential commodities in order to meet the demands of its many factories, which are churning out motor vehicles in material numbers, far greater than Detroit, Michigan, the US, that used to be the hug of motor-vehicle production, worldwide, as well as an assortment of goods, from garments to condoms to airframes.

The huge domestic demand in the PRC will cause commodity prices, around the world, to start to rise, quickly – Supply-demand factors, kicking in.

Countries with large inventories of commodities – oil, steel, copper, gold, bauxite, coal, etc – will be among the first to benefit when the PRC rings the bell for greater supplies of commodities.

It would not be surprising to see North America – Canada in particular – experiencing the first signs of amelioration in the global recession while Western Europe lags North America.

In effect, therefore, Western Europe is quite likely to suffer this recession longer than North America.

This is due to the make-up of the economies of Western Europe, especially, as has already been mentioned in the case of Germany, which is heavily dependent on its exports for its daily bread.

Weak domestic demand throughout a great part of Europe will stay with this part of the world, probably throughout all of 2010 and, possibly, into 2011 by the looks of things, today.

It will be in Asia where the quickest recovery is likely to be felt, with the PRC, coming in first.

Its success in dealing with its economic problems will cascade down the line to other Asian countries.

The PRC is, today, the second-largest economy of the world, having knocked Japan completely out of the box and it is unlikely that Japan will ever fully recover its glory of yesteryear.

The economy of the PRC accounts for about 20 percent of all of the emerging markets and developing economies of the world.

This is one of the chief reasons that the currency of the PRC, the renminbi, is in such heavy demand, internationally.

It is unlikely that this situation will wane in the near future and, if anything, the renminbi could well strengthen considerably between today and 2010.

No other country in the world can match the economic might of the PRC, today.

As the United States of America likes to think of itself as being the hub of goodness, righteousness and democratic freedoms, all of which, it maintains, must be taught to the peoples of the world, so the PRC, without uttering a dicky bird, is by far the most-solvent and fastest-growing economy of the world.

Its international powers will grow.

Clearly, Asia is the place to be in these trying times and for the foreseeable future.

Lastly, one caveat must be mentioned in closing:

> As soon as an economic recovery is seen as being in full swing, probably in the middle of 2010 at the latest, the monetary authorities of many countries will be forced to rein in the money supply in order to keep a cap on inflation.
>
> The PRC Government could be among the first to take this action.

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