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Interview with Spire's Group Managing Director Leon Perera

## **General global economic outlook 2010**

### Synopsis of Interview

Will 2010 see a global economic recovery? In a live television interview, Group Managing Director of Spire Research and Consulting, Leon Perera, commented on the global economic outlook as we welcome the New Year.

### **Will the world see robust growth in 2010?**

The world economy will return to weak growth rather than robust growth, in the order of 2-3% global GDP growth. This is because the world is held back by the G3 economies (US, EU, Japan), which are mired in high unemployment, a slow return to credit health and consumer spending that is still sub-par due to high household debt levels.

As we move through the year, the unwinding of fiscal stimulus and creeping commodity prices will ensure a lackluster performance from the G3. But on the upside, emerging countries will see a much brighter outlook in 2010, as can be seen in their continued growth in 2009, with a few exceptions. For most emerging countries, growth is essentially driven by the virtuous cycle of rural-urban migration leading to productivity growth, consumer spending and investment, with a helping hand from strong government spending.

## **What sort of growth can we expect from the US in 2010?**

The US economy will see a return to weak growth, with GDP growth of about 1-2% for 2010 as opposed to a contraction in the US economy in 2009.

This growth picture will modulate across the year. There will be stronger growth in the first half of 2010 and weaker growth in the second half, as unwinding fiscal stimulus measures and creeping commodity prices start to bite.

Having said that, I think the US economy will fare better than Europe and Japan in 2010.

## **When will the Fed tighten monetary policy?**

I do not expect this to happen any time soon, at the earliest late 2010 but probably 2011. The objective reality is that the danger on the growth front far outweighs the danger on the inflation front.

Furthermore, the Fed is very cautious of the danger of reversing loose monetary policy and unwinding fiscal stimulus too soon coming out of a recession. Ben Bernanke is a great student of the 1930s recession, where this was the Hoover administration's mistake.

If we look at the Fed's recent language, such as for example emanating from the FOMC Meeting in December 2009, it confirms this basic prognosis of no major change to loose monetary policy in the foreseeable future. Hence, I would expect this to continue into 2011.

## **When will we see a recovery in the US jobs market?**

In my opinion, there will be some muted recovery as the unemployment rate is at a very high level currently. It is now at 10%, an improvement from

10.2% in October 2009 but historically, still at an extremely high level, close to record highs after the Second World War.

But any recovery in unemployment will be held back by the various factors we have discussed, including lackluster consumer spending, slow return to credit health and the unwinding of fiscal stimulus

Companies in this climate are cautious about creating substantial numbers of new jobs. Many of the US companies are investing more aggressively abroad because of the growth of emerging markets and the need to reduce cost. Thus, I will expect US unemployment to vary in the band of about 8-10% throughout the course of 2010.

### **Are you optimistic about China's economy this year?**

China's economy will do very well in 2010 as the short-to-mid-term fundamentals are healthy. China is set to achieve better than the 9% growth of 2009. Key indicators are mostly positive, including consumer spending, which is in double digits and driving a lot of the growth. There are also strong PMI numbers and industrial production numbers.

However, the two risks might be growing bubbles in stocks and property on the one hand, and on the other hand, the prospect of what will happen when the government appreciates the value of the RMB against the US dollar – which will happen at some point. I suspect this will happen in a significant way only after the Communist Party congress in 2012, so I think this will not be a short-term issue at all.

### **Will the India economy continue to propel the world economy forward?**

India's economy will do well, though not as well as China. We expect growth of about 8% in 2010. This will be strongly driven by the consumer story, a lot of growth in organized retail, in cars, mobile phones and so on. This healthy cycle of consumer spending fuels both domestic and foreign investment.

I think India's growth will be slightly slower than China in the short term because the quality of the infrastructure is lower and also the government is in a weaker position to pump prime the economy through fiscal stimulus spending. However, in the long term, India does have certain advantages vis-à-vis China in terms of demography, with a younger population, and in terms of English speaking ability.

### **What's your assessment of Singapore's economy in 2010?**

2010 will be a good year for Singapore with about 5% GDP growth compared to a contraction in 2009. The manufacturing sector will recover in line with the global demand recovery. In other words it will be a slow and gradual recovery, sometimes zigzagging, due to the weak growth outlook for the G3 economies. However, the service sector should see a more positive outlook due to the launching of the integrated resorts, giving the tourism industry a massive boost. There will be upside in the marine and aviation sectors as well, which play a regional role out of Singapore.