Will the estimated global economic recovery be strong and will it last?
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Increasingly over the last few months, there have been positive reports of a turnaround in the world economy away from recession and towards a resumption of economic growth (see Tables 1 and 2).

Table 1

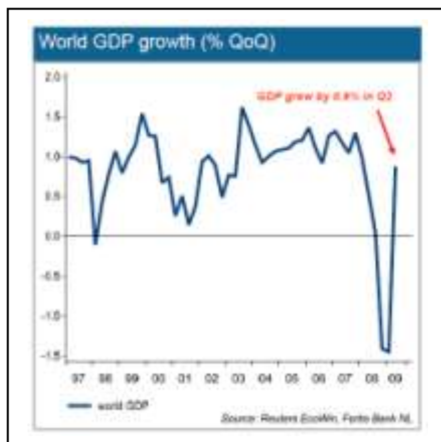
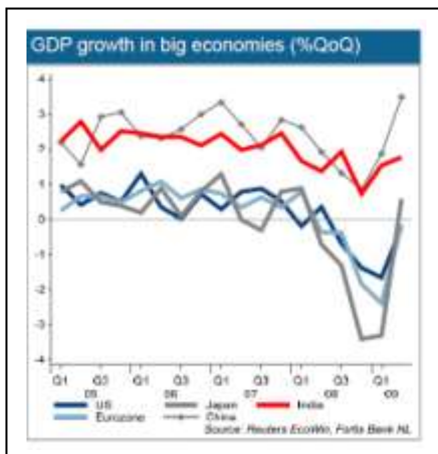


Table 2

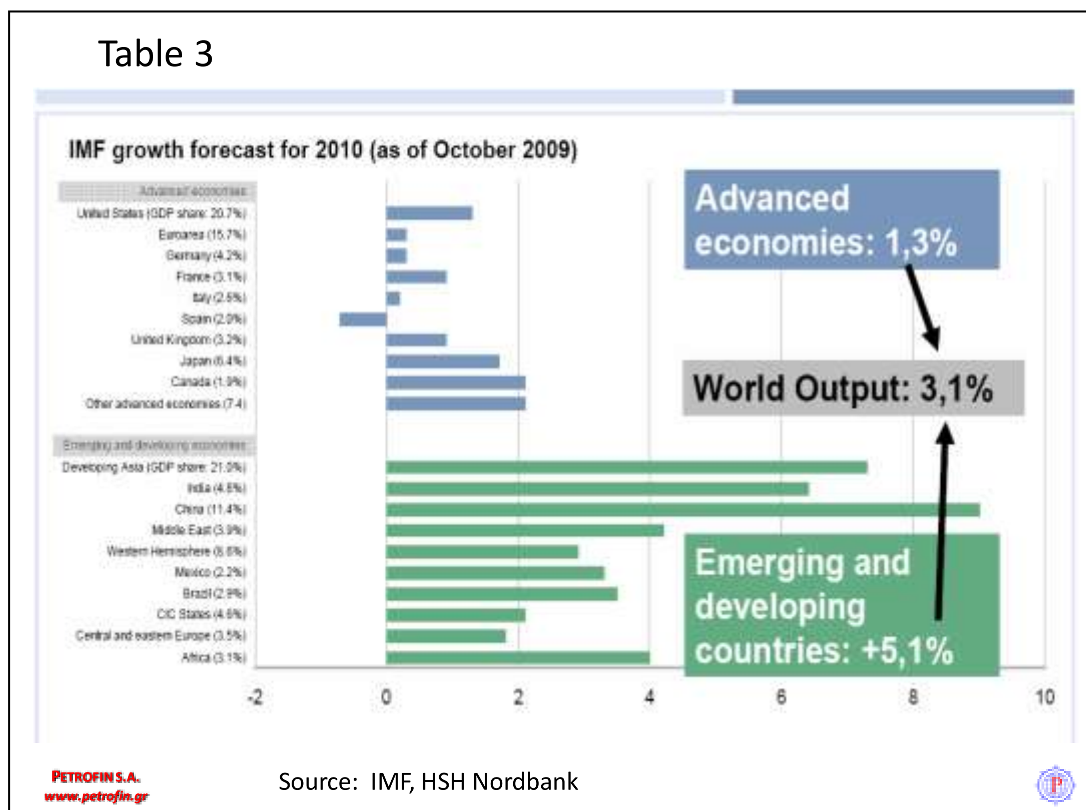


Coupled with the robust performance of the Chinese economy and the easing of the world banking / liquidity crisis, global economic growth resumed at 0.9% in the second quarter of 2009 and increased to between 1 – 1.5% in the third quarter with even higher growth expected in the fourth quarter.

Such has been the gathering pace of the recovery that, increasingly, economic growth forecasts have been revised upwards. Indeed for 2010 the revised IMF

economic growth forecasts point to 3.1% GDP growth, which is rather impressive (see Table 3)

Table 3



Source: IMF, HSH Nordbank

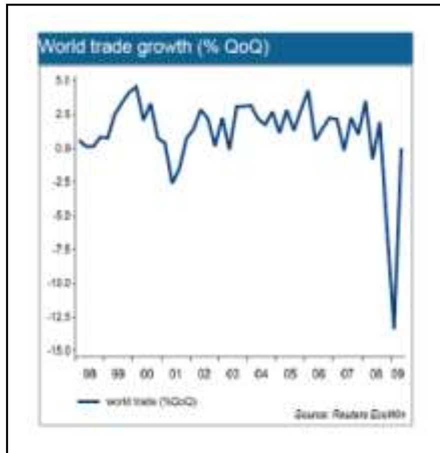
Looking back to the prevailing conditions of just six months ago, would have generated a different and more sombre picture. So what has changed?

The main reason for the change lies with the unprecedented quantitative easing which injected enormous liquidity into the global economy with the US and Great Britain leading the way and Europe following closely behind. China, too, adopted a programme of financial and investment stimulation which kept its growth to 7.9% p.a. with a rising tendency.

Coupled with record low interest rates and a significant pick up in public investment programmes, the world economy recovered aided also by the stabilisation of the world's banking system.

The risk of deflation forced central banks to keep the monetary stimulation going and it is expected that this policy of abundant liquidity and low interest rates, shall not ease until 2011. As such, central banks are prepared to risk the return of inflation and budget deficits in order to achieve a sustainable economic recovery and eliminate the risk of deflation. World trade too has staged a sharp turnaround, based on banks recommencement of financing international trade. Whereas at one stage in late 2008 international trade had virtually stopped, it has now rebounded to pre-crisis levels. (see Table 4)

Table 4



This is excellent news for shipping from the demand point of view, and it is fair to say that dry bulk demand has fared relatively much better than wet demand, let alone container demand. The container trade has been decimated by the collapse of demand from the US / Europe, as a result of poor consumer spending and loss of confidence last year.

Whereas consumer confidence has recovered, but still lies at about 75% of the levels of 2 years ago, business confidence has not only recovered but has surpassed the 2007 corresponding levels.

There are also good news from the US housing market which has come off its lows, as well as a return to bullishness in the world stock markets and a reduction of credit risk costs.

Having achieved a robust global economic recovery as a result of all the above mentioned factors, the key questions that emerge are:

a) How strong will it be, and
b) Will it continue or falter on the way.

The main protagonists to the double dip or W recovery scenario, point out that the recent economic recovery has been based on the artificial stimulation of the economy via unprecedented monetary and fiscal easing. It is reckoned that at some time the above lax conditions will need to be reversed in order for financial control to be re-established. The consequence of seeking to stabilise and then reduce debt deficits would drive interest rates higher and thus put the brakes on the world recovery / growth.

They also point out that the de-leveraging process will need a number of years to run and that the banking system may have averted a catastrophe but is still far from healthy and not restored to pre-crisis levels.

The shipping industry plagued by the over-capacity threat of the enormous order book, will be particularly reliant to a sustained economic recovery with healthy rates of growth in the world economy and international trade.

The short answer to both the questions posed is that I do not support the view of an anaemic and double dip recovery. Whereas the rate of economic growth may well be variable, the idea of a second crash or returning to negative rates of growth is unlikely. With the high unemployment and reduced capacity utilisation prevailing conditions are hardly ripe for a return to high inflation rates. High unemployment has not thwarted robust recoveries in the past and has even supported such recoveries once the business and consumer confidence recovers. Central banks are likely to keep their foot on the accelerator rather too long rather than lift it abruptly for fear of deflation, hence the cost of lending and rising economic expectations are supportive of a sustained economic recovery. Although the de-leveraging process will continue, its effects are expected to wane over time.

As equity markets and house prices recover and unemployment stabilises, consumers will consider that the worst is over and will start to feel safer based on their rebounding net worth levels, and shall start buying again. It is expected that the US and UK shall lead the way in consumer recovery.

Moreover, as bank liquidity and capital adequacy shall be restored, and the economy shall recover, banks will need to start expanding once again to provide the necessary investment returns to their shareholders. This process may well come to support economic growth at a time when the monetary and fiscal stimuli shall cease.

Rising asset values shall assist both business and banks in providing a more solid basis for fresh loans and for banks to claw back bad provisions.

Central banks shall continue with closer monitoring and management and will be very sensitive to avoid mistakes such as over-tightening. They will take immediate steps to address any slowdown in the economy below pre-defined thresholds.

Readers should be aware that the deeper the recession, the steeper the recovery and the current recovery appears to justify the rule. The risks of a double dip recession are reduced by the rapid and steep economic recovery as well as the eagerness by central banks to keep it going.

The good news for shipping is that world trade is now expected to rise by 6% in 2010, on the basis of a 3% plus growth in global GDP. Maintaining world trade growth at such levels is seen as a very positive factor for shipping whilst the over-supply picture unravels via cancellations, scrapping and reduced ordering. Excessive greed and misplaced complacency with orders might lead to the anomaly of robust world trade growth but poor shipping markets. Should this occur, the shipping industry shall have once again only itself to blame.