



Dr. Gertrud R. Traud
Chief Economist/Head of
Research

research@helaba.de

Editor:
Dr. Stefan Mitropoulos

Publisher:
Landesbank Hessen-Thüringen
MAIN TOWER
Neue Mainzer Straße 52-58
60311 Frankfurt am Main
phone: 0 69/91 32-20 24
fax: 0 69/91 32-22 44

Plenty of Reasons to be Happy

Many market observers are currently playing Cassandra, even if the facts are by now speaking a very different language. The favorite bugaboo in this context is now a W economy. What is overlooked is that many effects are self-reinforcing, not only on the way down, but now also on the way up. The recovery that is currently taking shape could happen more quickly and be much more robust. In that case, the Cassandra calls would turn out to have been a Siren's song.

Cassandras out in force

There is once again reason for joy, but apart from German consumers, hardly anyone is daring to say so out loud. The GfK consumer climate has tended to improve since October 2008, in spite of the financial crisis. But the gloomy Cassandra calls point out that this will only be temporary, and that the mood of the German consumer will drop into the basement next year, at the latest. Economists like to invoke Cassandra also with their alphabet soup, even though the figures are by now speaking a very different language. The favorite bugaboo at this time is the "W" recovery, that is, after a rapid rise we will supposedly see another sharp decline in the coming months, with the result that we would end up in the economic doldrums for years.

Economic recovery unambiguous

The current economic data, however, offer no reason to complain. Quite the opposite: there is cause for rejoicing again. After the first leading indicators already turned up at the beginning of this year, coincident indicators – such as manufacturing and GDP – are now confirming the turn-around. In some countries around the world, including China, growth rates of nearly eight percent have been realized again – surely a reason for joy in The Middle Kingdom. And even though the strong growth in China is largely due to the economic stimulus package with a focus on domestic demand, this has already brought some movement back into German exports, as well.

German labor market relatively stable

Even the lagging indicator of the labor market is providing pleasant news, when measured against the severity of the recession. In the winter quarters, Germany had slid into the deepest recession of the post-war period, but the rise in unemployment remained relatively restrained. Of course, we know that "cosmetic" changes to the statistics played a part in this, but that alone does not explain the moderate rise.

Short-time work regulation with positive effect

The expansion of the regulation on short-term work is said to have played an important role in moderating the effects of the unemployment caused by the economic slump.

German way perhaps the more efficient one

It is also possible, however, that businesses decided against letting employees go in order to protect themselves against the shortage of workers and skilled experts that is expected over the medium term. In the US, on the other hand, there is already a discussion about whether businesses have gone too far with job cuts, which means that we could see a countermove in the labor market quite soon in that country. In this recession, the German way could thus turn out to be the more efficient one, for with their anticyclical behavior, companies save the costs of searching for new employees while at the same time protecting themselves against negative demographic effects.

DAX with potential

The summer time high in the economic skies is also making the stock markets shine. Thus, the indexes in the emerging markets have reached their pre-Lehman levels again, and even the German stock market is regaining momentum. Since its low in March, the DAX has posted a rise of about fifty percent. However, by historical standards this rise is nothing unusual, even assuming that the structural problems that exist worldwide – such as budget deficits that are getting out of control – will pose a burden in the years to come. Thus, history shows that even in difficult times, considerable price increases occurred in the stock markets. One could mention, for example, the 60s and 70s in Germany or Japan since 1990. On average, these cyclical bull markets lasted between eighteen months (Germany) and twenty-four months (USA), and involved average price increases of between 60% (US) and 77% (Japan). This makes clear that after a recovery that has only lasted five months so far, a rise of “only” fifty percent has by no means exhausted the cyclical potential for stocks.

Self-reinforcing effects on the way up

The aftershocks of the financial crisis will surely preoccupy us for some time yet. Still, one should not overlook the opportunities that are opening up. Many effects are self-reinforcing not only on the way down, but also on the way up. As a result, the recovery that is currently looming on the horizon could be much stronger than expected, and the Cassandra calls would turn out to have been wrong.

Editorial in *Die Welt*, 8 August 2009.

This publication was very carefully researched and prepared. However, it contains analyses and forecasts regarding current and future market conditions that are for informational purposes only.

The data is based on sources that we consider reliable, though we cannot assume any responsibility for the sources being accurate, complete, and up-to-date. All statements in this publication are for informational purposes. They must not be taken as an offer or recommendation for investment decisions.