



## Global Economics Annual Report

# Gradual recovery signaling needs for continued policy support

### Overview

The trajectory of the current economic cycle could be best summarized by three "C" words – "crisis, convalescence and consolidation." The time of "crisis," is now over. Large stimulus programs and unconventional monetary policies have managed to stabilize the economy in the wake of the crisis. The second phase, a time of "convalescence," has now come. At present, the recovery pace is slowing down following the rebound of the first period. Most sectors, especially the housing and banking sectors, have stabilized but still remain weak. Government intervention is still much needed until at least late 2010, considering that the economy remains fragile.

**Economic perspective for 2010 and onward.** Collective efforts of governments and central banks have managed to rescue the global economies out of the recession. However, the industrialized economies remain fragile. They will continue to recover, but at a slower pace in comparison to 3Q09. We expect GDP growth to reach 2.3% YoY and 0.6% YoY in the US and in the Euro area respectively in 2010. These economies remain below their potential, and inflationary pressures will be low. We forecast that the expansionary monetary policy is likely to remain until 3Q10 while the fiscal policy is expected to be tightened from 2011 onward.

**New US industrial policy.** The government's new industrial policy centers on sectors including healthcare, clean energy, and infrastructure building. The US government has already invested significantly in these sectors as part of the stimulus package. In particular, the on-going energy and health reforms, as part of extensive government efforts, will help to reshape the US industrial base. In the long term, the new industrial policies are expected to slow the rapid increase of government debt, create a more sustainable model of growth, and generate employment opportunities.

**New US corporate profit cycle.** The new growth and corporate profit cycles will exhibit the pattern commonly seen in periods following the onset of a crisis. The rebound in profitability will take place in the initial stage of recovery due to aggressive cost cutting strategy. Nevertheless, the pace of profitability increase should slow down in the coming quarters in the context of deleveraging and very high unemployment rate. The fragile macroeconomic condition has prompted enterprises to adopt cash hoarding strategies. Healthcare, energy, and technology sectors are the most promising sectors in the years to come because of government backing, large cash holdings, and relative resilience. General Electric is a perfect example of a corporation adapting its industrial strategies to this new profit cycle.

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