
"Green shoots" will not flower soon
Fiona Hayes
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My name is Fiona Hayes and I'm the Economist at Aviva Investors Ireland. I'm going to spend the next five minutes talking about our view for the global economy, in particular the early signs of the worst is over and the likelihood of a bumpy and uneven path to recovery, and the particular problems faced by Ireland.

We've been hearing a lot about green shoots in the global economy, are we now on a path to recovery?

It did seem for a while late last year and early this year that the world was about to end. Global trade, output, unemployment fell off a cliff and equities really looked like they were converging to zero. In the end the world did not end, helped in no small part by extreme actions by central banks and governments, and because things couldn't get much worse they got marginally better. The pace of decline slowed and the news became less bad, or maybe we just became immune to the bad news, and people started to talk about the green shoots of recovery.

But are you seeing any evidence of them?

The most salient evidence that we've seen globally, not just in the US but also in Asia and Europe, is that business confidence bottomed out late last year or early this year from the extreme lows reached post-Lehman crisis in September. They have improved but they're still pointing to contraction. What's going on here really is classic economics, the inventory cycle. When growth fell off a cliff late

last year companies instead of meeting their demand by boosting output used their stocks instead. But now stock levels are so low that they're starting to increase output again. The hope among the optimists is that this will quickly broaden out to lead to a sustained recovery, a v-shaped recovery, but we have some doubts about this.

For companies to be confident enough to invest in the future they need access to credit, they need pricing power and they need confidence in end user demand, and none of these conditions are really in place. On the consumer side in particular, consumers are extremely constrained by high unemployment, falling or at best flat income growth and by hefty debt burdens. And there is some government demand propping up growth in some economies but even in the case of the US, for example, the Obama stimulus measures run out towards the middle of next year and they will have to be paid for eventually in the form of higher taxes.

And where does Ireland fit into this global view?

In many ways Ireland is an extreme example of what went on globally. We had an extreme credit and housing market bubble which falsely flattered the headline economic data and the public finance numbers too. Now we've seen a situation where growth has imploded. GNP growth is down 12½% from the best levels, unemployment is headed for half a million before the end of the year, and the government finances are in extreme deficit. So while other economies had the opportunity to delay painful fiscal decisions until later on in the cycle when their economies could better cope with them, Ireland has to face up to higher taxes now and in the future. Perhaps the only positive piece of evidence in our economy at the moment is that workers have seemed to willing to take some wage cuts in the hope of restoring competitiveness, and this really is our only way out, to restore competitiveness and pray for global recovery. But it's clearly not a process that's going to happen this year, it's going to take quite some time for this healing process.

And the jobs that are going now from the Irish economy, will they come back in better times or are they gone for ever?

It is worrying because we're now back at 11.9% unemployment rate, a rate we haven't seen since the early 1990s, so all the jobs from the Celtic Tiger are gone in terms of absolute numbers. And we could be heading back to the 1980s too. Obviously construction was the first area to be hit, quickly broadened out to finance, all manner of services, manufacturing's been under pressure for years, and we're really going to have to find a new way of positioning ourselves for future growth opportunities, find new niche areas. We do still have the advantage of a very low tax regime, which is always going to attract multinationals, a skilled and English-speaking workforce, but we've got to find ways to find new competitive advantages to participate in the global recovery when it comes.

Fiona Hayes, thank you very much.

Thank you.

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