

NORTH AMERICAN & INTERNATIONAL ECONOMIC HIGHLIGHTS

The probability of a double dip in the US appears to be the main focus these days. And you cannot blame the market for getting a bit nervous given the latest array of disappointing numbers coming from the US economy.

But the real story is not whether there will be a double dip or not. After all, even if we avoid a double-dip recession, economic growth in the US will, in all likelihood, be so slow that it will feel like a double dip.

The more important question is what kind of an economy is emerging following the recession and the brief recovery? In this context many talk about a new normal. That is, a new economy that will see a much weaker growth trajectory in the coming five years or so, a weaker consumer due to deleveraging, a much larger role played by the government, low interest rates, and low inflation.

But this kind of assessment assumes that the US economy does not adjust to the new reality in any significant way. This assumption, I think, will be proven wrong. Key here is the role that emerging markets will be playing in changing the nature of the US economy.

A necessary condition to any previous US and, in fact, global recovery was a rebound in housing and consumer spending. These two sectors were always the pioneers of the recovery. Today this, of course, is not the case. The housing market is probably entering double-dip territory, and the consumer is busy deleveraging and saving, with the saving rates reaching well over 6% .

What's different this time around is the fact that housing and consumer spending are not the only necessary and sufficient conditions for a sustainable US recovery. Just look at the contribution of exports and investment to recent US performance and you find that for the first time on record, the contribution of these two sectors to overall GDP growth during a recovery was larger than the combined contribution of housing and consumption.

Is this sustainable? The shorts answer is yes. While in previous recessions and recoveries, emerging markets were too small to impact the US economy; that is not the case this time around. Emerging markets now account for almost 25% of global GDP and are close to 80% of the size of the US economy. That's large enough to impact the trajectory of US exports. In fact, no less than 55% of US exports go to emerging markets, and with emerging markets likely to continue to outpace developed economies, this share will continue to rise.

Increased exports lead to increased investment by corporations. And the question is to what extent corporate America is ready to take advantage of the increased demand for its products. And if you look at the recent improvement in productivity in US manufacturing, the increased investment in capital intensive industries and the elevated cash position enjoyed by corporate America, the likelihood is that we will see an even stronger push into emerging markets given limited opportunities at home.

Given this dynamic, it is not unthinkable that the new economy will see a much smaller share of housing and consumption and a much larger share of exports and investment. So maybe we should be talking about a new growth mix as opposed to a new normal.