IS THE US HEADED FOR A RECESSION?

INTERVIEW TRANSCRIPT

RADIO SINGAPORE INTERNATIONAL

January 26, 2008

Hello and welcome to Perspective with me, Melanie Yip.

Fears of an impending US economic slowdown prompted massive sell-offs in stock markets all over the world recently.

Many Asian stock markets also felt the shocks.

Singapore's Straits Times Index saw its worst one-day plunge in almost two decades when it fell by 6 percent on 21 January.

Many analysts attributed the panic attack to the lull in the performance of the US housing sector, caused by the sub-prime crisis late last year.

Philip Overmyer, Chief Executive of the Singapore International Chamber of Commerce elaborates.

PO: The fact that these mortgages are coming up for a change in their rate level. They were offered at very low discounts and now they are coming to the point where the banks and the lending institutions raise the rates and people have discovered they can’t pay the increased rates so they default on their mortgage. These sub-prime rate mortgages had been sold and resold and packaged and bundled into different kind of economic and financial vehicles and sold to banks, and individuals and funds all over the United States and of course to some extent, all over the world at the same time. The problem is people didn’t have a full understanding about what they had invested in and not only individuals but large corporate institutions and only now over the last several months, they’ve discovered that as these funds default, they have enormous financial risks and liabilities that are outstanding, so that’s the basic cause of the problem. What’s happen in the last couple of weeks is that these financial institutions have started to report on their results which reflect these enormous financial losses and we've seen that with companies like Citibank, with Bank of America, Merrill Lynch and other firms like that pulling down the now core financial institutions in America.

While fourth quarter results on the US economy will continue to show limited growth in both employment and consumer spending figures, it remains unclear if the US will definitely head towards a recession, says Mr Overmyer.

PO: In the Christmas period, we saw much lower spending by consumers and the United States economy is heavily a consumer-driven economy so we clearly have seen the beginnings of a slowdown in the economy. Will it turn into a real recession or not? I think people today are betting probably so to some degree. However, most of everyone continues to think that as this sub-prime issue filters out of the news and through the financial institutions that the fundamentals in a number of industries, as you mentioned the electronics industry is very strong and that that will tend to pull the economy back up towards the later half of 2008.

Chief Economist for Asia excluding Japan from Singapore's Daiwa Institute of Research, P K Basu offers his take on the steps Asian markets can take to soften the impact of a volatile stock market.

PKB: There is a little bit of fluff in the property market but the real economy is sound and is set to continue to grow strongly. There was one quarter of contraction that was purely because of pharmaceuticals. Pharmaceuticals are rarely weak for more than 2-3 months at a time. They are likely to resume their normal, strong growth in the first quarter, and we're going to get another quarter of very good economic growth in Singapore in the first quarter of this year, and into the rest of this year. Similarly, if you look at the rest of Asia, when it appeared from 1990-1993 that the US was facing a similar period of sluggish growth, Asian exports continued to grow more than 10% right through that period. So I think something similar will happen this time around, and even more so because there's ample scope for domestic demand to pick up around the region. That'll boost intra-Asian exports and keep Asia's growth engine chugging along very nicely.

One strong indicator that Asian markets are able to tide over the economic crisis is the increasing economic presence of emerging superpowers like China and India.

This according to David Cohen, Director of Asian Economic Forecasting at Action Economics in Singapore.

DC: The Chinese and Indian economies certainly have a much bigger profile on the global economy than they did just a couple of years ago. They have been growing very strongly, contributing the biggest portions of global economic growth. What is unknown is how much, in turn, will they feel the impact of a US slowdown, in particular, China where the US is a key customer and would the US slowing down still feed back to the rest of Asia? And could the momentum that is evident in today's strong GDP report for China in Q4 be capable of sustaining still healthy growth in Asia in 2008? I think the mainstream view is that perhaps growth will slow from the very strong pace in 2007, but Asia will still enjoy respectable growth in 2008.

Singapore's Prime Minister Lee Hsien Loong has expressed confidence about Singapore's ability to weather a possible economic downturn.

Mr Lee added that the government will stick to its growth forecast of 4.5 to 6.5% this year, despite fears of sluggish performance in the US economy.

George Abraham, Chairman of the GA Group in Singapore – explains the reasons behind Prime Minister Lee's confidence.

GA: One has to look at the larger perspective as to what Singapore has achieved since the last melt-down in 1997. Some of the measures that have been put in place in terms of bank reforms, fiscal policies and also new kinds of investments that have come in including the integrated resort that are planned to take off in the next couple of years. I would say there are three things going for us which are very positive. One is we have always served the economies in the region with our export services. And we have a whole lot of events that are now building up in Singapore, and this has been growing in the last five years. And more importantly, we have been enjoying a construction boom, and there are so many projects in the pipeline that should keep the construction sector active. In the case of Singapore, the fact that we have over the years been signing free trade agreements with our major trading partners and working out effective measures for increased bilateral trade, which is accompanied by the flow of direct investments into those countries, all these are factors that would certainly help.

Mr Abraham also pointed to Singapore's increasing ties with China and India as one of the factors which might help Singapore weather this storm.

GA: We have always enjoyed good trade relations with them but this has seen a great increase. And this increase is not only bilateral, but also in terms of companies locating here. According to available figures, I think there are almost 3,000 or more Chinese and Indian companies, which makes a total of 6,000 plus operating in Singapore. And they are in various services. Both these markets have been a good source of exports for Singapore. And exports not just of goods, but also of services. Now, India for example has seen an increase in the demand for consumer goods which are basically in higher end technology, superior end products and in the various kinds of consumer durables that are used by the middle class. This has seen a big jump in the exports that we have made to India for example. So the fact that we have very good economic relations which are also substantiated by investments in infrastructural areas where they need help, this is something that is going to help us.

For those of you deliberating on how best to take stock of the Asian market volatility and get the best out of your dollar, Chief Marketing and Strategy Officer of AXA Singapore, Annette King has this advice.

AK: Keep a view on their long term financial goals and keep their plans in place and money invested because markets do go up and down from time to time. But generally, our advice is to stick to your plan, so if you have queries, go back to a qualified financial advisor and make sure you got those queries answered. One of the worst things that people can do, unless they have got immediate needs for their money right now, one of the worst things people can do is to sell or re-balance when the markets plummet, because it is likely selling when the prices are low. Usually people buy when the prices are low like any bargain sale in the great Singapore sale. Now is a great time to buy when you've got spare cash. But history shows that when you're selling out of markets in decline and over the long term, it will actually cost you money.

Following the stock market tumble, the US Federal Reserve announced an unprecedented 75 basis point cut in interest rates to appease market volatility.

This followed the Bush Administration's recent announcement of a multi-billion dollar economic stimulus package, which includes tax rebates, and incentives for new business investments.

However, market response remains mixed on the sustainability of a rate cut by the Fed,.

Some accuse the rate cut measure of coming in too little and too late.

The Fed will next meet again in one week's time to deliberate on the best possible solution to ease fears surrounding a US economic slowdown.

How global markets will react to that then is anyone's guess.