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Lots of LUV

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Remember the debate back in January about whether the economic recovery was going to be L-shaped, U-shaped or V-shaped? A definitive answer hasn't really emerged over the past eight months and the alphabet soup is that much thicker now with lots of talk about a 'double-dip' or a W-shaped recovery.

Let's just get it right as to what each letter means.

An L-shaped recovery basically has the economy going straight down and staying down.

A U-shaped recovery goes down and then gradually turns around and heads back up. This is the easiest and most gentle sort of recovery to live through.

A V-shaped recovery sees the economy going down in dramatic fashion and then recovering in equally dramatic fashion.

And of course the W shaped recovery is essentially two back-to-back V-shaped recoveries. The reason the W is being talked about currently is that economies, well at least share markets which are supposed to signal the direction of underlying economies, have had something of a V-shaped recovery.

After the awful time we lived through in 2008, share markets around the world staged an impressive recovery from March last year, and it was dramatic – a 70% lift in five months. But then, from the beginning of this year, markets have lost their enthusiasm and have fallen just under 10% year to date (though for those living through it, it has felt like a lot bigger fall). Hence the suggestions that the rally that began last year was a fool's rally, far too enthusiastic and way premature. So that means, we'll have to live through another dip, not as large as last time, but energy-sapping nevertheless, before we get to the final leg which will be positive, and it will probably be significant.

Of course we're only going to know in hindsight which letter of the alphabet our economic recovery most resembles.

But the most interesting aspect to emerge from this debate is the prospect that we might have several shapes emerging in this recovery and, good news for this incurable romantic, those shapes will be L, U and V.

It all comes down to which part of the economy you are looking at.

There is most definitely an L-shaped recovery happening in the housing market. Home sales continue to fall, time to sell is increasing, mortgagee sales are still a regular feature, and there are few signs of life in new housing starts.

But have a close look at consumers and there is something of a U shape emerging. Our confidence is lifting; retail sales are improving by the month; we are less concerned than we were about losing our jobs or having to pay significantly higher mortgage rates, so we are, albeit tentatively, becoming more prepared to spend.



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So where is the V-shaped recovery happening? The short answer is, everywhere else. We have seen improved corporate profits, employment intentions, manufacturing data, car sales, dividends, and did I mention profits? In this battle of recoveries, the V is winning because it is widespread. This is important and gives us a genuine reason to be optimistic.

You've just got to LUV the direction we're heading in!

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