

# A Wide U-Turn

**Benjamin Reitzes**, Economist

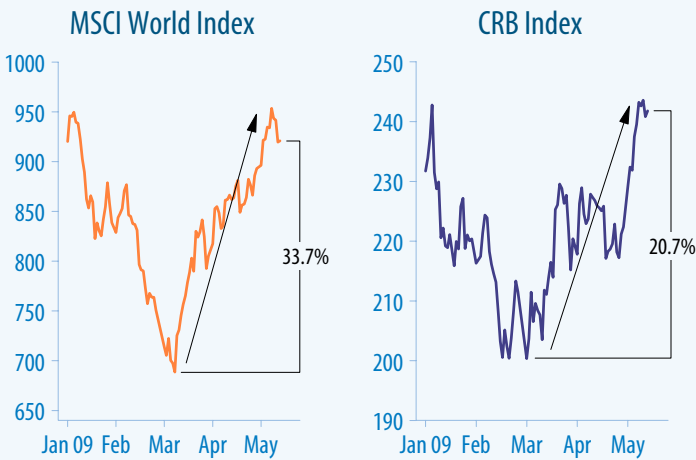
The ongoing flow of improving data (i.e. green shoots, hasn't that term grown tiresome?) is encouraging, but talk of recovery may be premature and the renewed vigour in financial markets risks going too far, too soon (*Chart 1*). While the economic data have perked up to less-bad levels, they remain very weak for the most part. When markets cheer for a still-hefty 539k drop in U.S. employment (as they did last week) you know the threshold for positive news is low. The story is true internationally as well. Japan is a good example, as industrial production rose 1.8% in March (production intentions are also up) and exports for that month increased as well, but both remain far below year-ago levels (34% and 44%, respectively).

The trend of better data will likely continue over the coming months, signalling that the worst might be over, but good times aren't necessarily around the corner. Indeed, as spending collapsed, so did goods orders and production. Companies cut orders amid falling sales to facilitate a drawdown in stocks, leading to even weaker production and the extreme plunge in global output over the past six months. As inventories are drawn down to appropriate levels, a bounce in production is likely as stockpiles can't fall forever. The improvement in global manufacturing PMIs in April (especially new orders) hints at such a move (*Chart 2*).

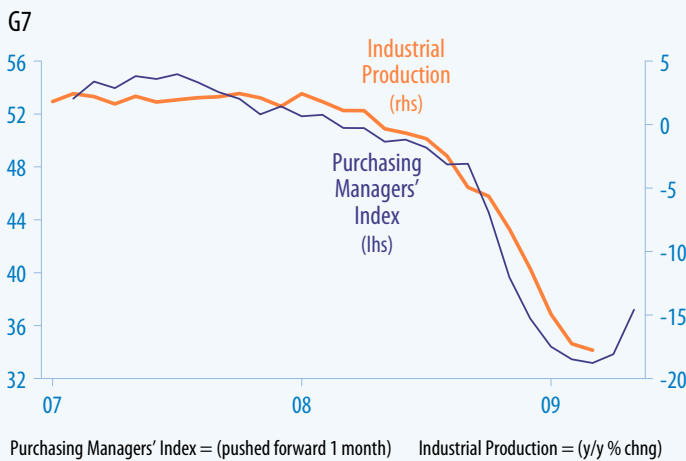
However, after an initial boost in production back to suitable levels (so inventories are no longer being drawn down), production should only grow with sales, which aren't expected to recover quickly in the developed world, as savings rates rise. China and other developing economies will be a source of growth, but aren't yet large enough to carry the global economy like the U.S. consumer has for the past decade (*Chart 3*). That could mean that the decent data over the next couple of months will paint an overly optimistic picture.

If the recovery assumes more of a U-shape, as we expect, we're likely entering the flat bottom of the U, as opposed to a sharp upslope. The recent spate of better data is definitely good news and probably signals that the worst is over, but we won't see meaningful growth until 2010.

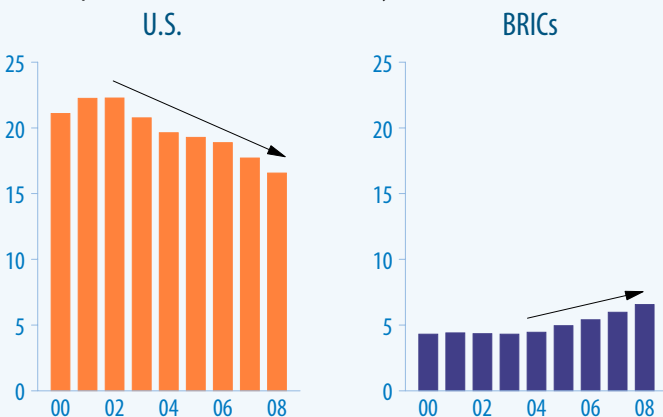
**CHART 1**  
**TIME TO CURB YOUR ENTHUSIASM?**



**CHART 2**  
**PRODUCTION BOTTOMING?**



**CHART 3**  
**U.S. CONSUMER STILL DOMINANT**  
Consumption Share of the Global Economy (percent)



The information, opinions, estimates, projections and other materials contained herein are provided as of the date hereof and are subject to change without notice. Some of the information, opinions, estimates, projections and other materials contained herein have been obtained from numerous sources and Bank of Montreal ("BMO") and its affiliates make every effort to ensure that the contents thereof have been compiled or derived from sources believed to be reliable and to contain information and opinions which are accurate and complete. However, neither BMO nor its affiliates have independently verified or make any representation or warranty, express or implied, in respect thereof, take no responsibility for any errors and omissions which may be contained herein or accept any liability whatsoever for any loss arising from any use of or reliance on the information, opinions, estimates, projections and other materials contained herein whether relied upon by the recipient or user or any other third party (including, without limitation, any customer of the recipient or user). Information may be available to BMO and/or its affiliates that is not reflected herein. The information, opinions, estimates, projections and other materials contained herein are not to be construed as an offer to sell, a solicitation for or an offer to buy, any products or services referenced herein (including, without limitation, any commodities, securities or other financial instruments), nor shall such information, opinions, estimates, projections and other materials be considered as investment advice or as a recommendation to enter into any transaction. Additional information is available by contacting BMO or its relevant affiliate directly. BMO and/or its affiliates may make a market or deal as principal in the products (including, without limitation, any commodities, securities or other financial instruments) referenced herein. BMO, its affiliates, and/or their respective shareholders, directors, officers and/or employees may from time to time have long or short positions in any such products (including, without limitation, commodities, securities or other financial instruments). BMO Nesbitt Burns Inc. and/or BMO Capital Markets Corp., subsidiaries of BMO, may act as financial advisor and/or underwriter for certain of the corporations mentioned herein and may receive remuneration for same. "BMO Capital Markets" is a trade name used by the Bank of Montreal Investment Banking Group, which includes the wholesale/institutional arms of Bank of Montreal, BMO Nesbitt Burns Inc., BMO Nesbitt Burns Ltée/Ltd., BMO Capital Markets Corp. and Harris N.A., and BMO Capital Markets Limited.

TO U.S. RESIDENTS: BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd., affiliates of BMO NB, furnish this report to U.S. residents and accept responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd.

TO U.K. RESIDENTS: The contents hereof are not directed at investors located in the U.K., other than persons described in Part VI of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001.

™ - "BMO (M-bar roundel symbol) Capital Markets" is a trade-mark of Bank of Montreal, used under licence. © Copyright Bank of Montreal.