Economic Views for Investors

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Is the global economy accelerating or decelerating?

How strong is the world economy? Is it surging on the back of huge fiscal and monetary stimulus's, or subsiding under the weight of intolerable consumer debt and mindless bureaucratic incompetence? During the third quarter of 2009, when published numbers were generally improving, most forecasters were optimistic. Indeed, many thought that activity might become strong enough to risk a reversion to unacceptably fast inflation. That threat was dissipated in the fourth quarter as the data became a little more mixed, but commentators were slow to revise their expectations. Only a few voiced concerns that activity might slip back into recession in 2010.

The jury is out. But the Singapore numbers imply the latter

More might do so after the publication last week of Singapore's estimate of GDP in the fourth quarter of 2009 – down on the preceding period at an annual rate of almost 7%! What had happened? How could the Lion City, ferociously efficient and devastatingly competitive, have faltered? How could it be that China was booming, but Singapore not participating? Lots of questions; not many answers!

Japan is stuttering, and the EZ, Germany excepted, is dead in the water

Amongst the major economies, meanwhile, there was another trend that forecasters had failed to anticipate: the improvement in conditions in the US relative to those in the EU and Japan. None of the three was faring at all well, but the former, after a dull start, seemed to be outpacing the latter. Arguably, the development was a reflection of relative competitiveness. The dollar had fallen a good deal against the euro and the yen. And corporations in America had cut levels of employment significantly, while those in Europe and Japan hadn't.

By comparison, the US looks almost satisfactory

In manufacturing, the US's recent numbers were noticeably better than the EU's or Japan's. In services, the difference was even larger. How would this be reflected in GDP estimates? Nobody was sure, but it was not impossible that growth in the former might be a couple of percentage points faster than that in the latter.

Not so Britain. It's handicapped by a bloated public sector

Unsurprisingly, Britain's economy had been slow to return to growth. Though currency weakness boosted competitiveness, huge increases in the size of the public sector have neutralised the benefit. Not until balance was restored would the country's prospects improve. It might be a long wait. Though Cameron would win the election, it looked as if it would be Brown's policies that prevailed.

Something that Cameron's boys are not fussed about

Differences between New Conservative and Old Labour were barely perceptible. Both were supine in relation to the EU; both supportive of military action in the Middle East; and both happy to waste taxpayer funds in the support of the public sector establishment. Was it worth having an election? If the procedure would change nothing, if new Tweddledum was to be indistinguishable from old Tweddledee, wouldn't it be better not to bother?

The cost imposed by Local Authority incompetence is insupportable

The "cold spell," meanwhile, did nothing to lift people's spirits at home nor the country's image abroad. In earlier decades, when weather conditions had been comparably bad, roads got gritted, bus services weren't cancelled and schools didn't close. It was rather shaming that, in the twenty-first century, after excellent meteorological forecasting, the public sector had found itself in such a shambles. More justification, perhaps, for Government Ministers to wield the axe.

But, near term, the local equity market is flying

The good news, and there's not much of it, is that the London equity market is performing well. Its total return in the fourth quarter was about 9%; and, in 2009 as a whole, 25%. The new year had begun strongly, moreover. It was a combination of easy money on the one hand and satisfactory profits on the other. Would the recipe last? Yes; it probably would. If Singapore were anything to go by, the global economics environment would be dull. That'd undermine the bargaining position of employees (keeping profit margins spritely), and it'd cause the authorities to fret about a recurrence of recession (keeping credit policies expansive as well).

And will probably continue to do so for a while

Another advance of 25% was on the cards—enough to restore the index to its previous all time high. That'd be excellent news for the pensioner. Beware the taxman, though. He'd got form. He's not to be trusted. Let him nowhere near the money.

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