Beware of Central Banks who want things to be "normal"

In recent weeks there has been a big outbreak of pessimism about the future of the world economy. The US stock market has led the way down, just as it powered the optimism a year ago. Wall Street watchers turned worriers are alarmed at the way the Federal Reserve Board is tightening money in the name of creating a more normal policy. Their money supply growth has slowed noticeably. The Fed has put through a number of interest rate hikes to make borrowing dearer, and has started a big programme of Quantitative tightening, reducing the amount of government bonds it owns. This is double banking the monetary squeeze.

On the other side of the world the Chinese too are busily tightening their money supply. Worried by past build ups of debt and bad debts, they are requiring their banks and other financial institutions to go easy on the new credit and tidy up the old credits that have gone wrong at a faster pace. Money supply growth has fallen by a third as they adjust policy.

The Euro area too is slowly wanting to look a bit more" normal", so it is cancelling all new money creation to buy bonds under Quantitative easing. Even the Japanese who can be relied on to print and buy bonds until the end of time are easing up on the amount of such bonds they buy and the money they create to do so.

The UK has put through two rate rises, ended all new Quantitative easing and has presided over a large drop in money growth, with credit for car and home purchase affected as we see in the output and transaction figures. These toughening monetary measures have reinforced the negative effects of higher taxes on car sales and some home transactions.

The danger is the pursuit of an old normal, with no QE and base rates above 3%, is not compatible with reasonable growth and is not necessary to contain inflation. The Central banks should be data dependent, and note the cooling of inflationary pressures with oil and commodities weak and plenty of global spare capacity and excess supply of many goods.

It is good news that despite the squeezes the latest UK PMI for manufacturing showed a decent rise and is indicating continued expansion. Demand is increasing, real wages are rising and businesses can expand. Those who wish to see everything through negative I don't like Brexit glasses say this is just stock building ahead of a possible no deal exit in March. There's an irony there. If as they think demand will fall on exit, why would anyone wish to increase their stocks ahead of such an event? If demand did fall – which I disagree with – stock levels would automatically be higher as a precautionary measure anyway without buying more stock. It is also interesting to see that the people who say the good PMI is just the result of people preparing for a no deal exit, are usually the same people who tell us no deal is not going to happen.