

Manufacturing gloom

The latest figures from German industry point to a continuing recession, with substantial falls in orders from the peaks last year. The US is still stronger, but even there the forward indicators are now in negative territory suggesting a downturn. As forecast here we are living through a nasty world manufacturing downturn.

I do find it bizarre that a few people write to tell me the UK share index has gone down this week owing to Brexit, when all the world share markets are flashing red over global events led by EU manufacturing figures.

What can the authorities do about it?

The first thing they need to do is to review their policies towards the vehicle market. There is a gap between what the governments want people to buy and what they are prepared to buy. The big transition from diesel and petrol to electric is proving difficult to achieve at the pace the governments want, leading to a shortfall in demand. As the governments want to intervene extensively in this market they need to help the industry adjust.

The second thing is to examine other areas where demand is falling short or capacity is too extensive and see if government itself can speed transition to new products or can stimulate demand for things that are still needed and valued.

General demand for industrial products is affected by numbers in employment, by levels of income, and the impact of taxation. India is now joining the USA with a large reduction in company taxation to act as a stimulus to investment and activity. China has introduced some tax cuts to boost consumer demand. The US and UK have good recent records at increasing employment and real incomes, which should help.

Some believe further monetary activism could assist. Clearly if home loans, car loans and other consumer credit is readily available to those who can afford it, at low interest rates, it should help demand. The US car market looks as if it is improving following interest rate cuts. However, in the Eurozone and Japan official rates are already at or below zero so there are limits to how much monetary action can achieve. The UK does have a severe monetary squeeze which is helping slow our economy.

Those who write in saying we should not borrow more should remember that borrowing is an important part of an enterprise economy. Of course it should not be taken to excess, and lenders need to satisfy themselves that practically all of their borrowers will be able to repay. There is everything to recommend a business borrowing to expand where there is a profitable market to serve. There is nothing wrong with an individual borrowing to buy a home or a decent car if they have reasonable prospects of continuing employment with future pay rises.

The manufacturing fall probably means Germany is now in overall recession, given the salience of manufacture and the car industry to her economy. China is still growing, but as the world's major manufacturer it too has been slowed by recent trends.