

The world economic slowdown

The Central Banks of the USA, Euro area, UK and China have all been slowing the economies they regulate. The US economy has done the best, as the Fed has allowed substantial credit growth in the private sector to offset some of the impact of rate rises and the reduction of Quantitative easing money and repayment of bonds. As a result the US economy which started to grow at more than 3% may manage more than 2% this year. The impact of the tax cuts and fiscal stimulus administered by the government is helping.

The Bank of England has been the toughest, cutting money growth considerably, reining in car loans and consumer credit, putting through two rate rises and ceasing all Quantitative Easing. The European Central Bank has been the softest, continuing with large amounts of money creation and bond buying up to the end of last year, and flagging no rate rises for the foreseeable future. Their current interest rate of 0% is lenient.

Despite this the Euro area economy is slowing the most. Italy is in recession, reporting reductions in output in both the third and fourth quarters last year. Germany had a down quarter in the autumn and may have had another down quarter to December 31. Greek and Cypriot output remains miles below the 2007 levels, with Italian GDP also still lower than pre crisis in real terms. French growth is slowing markedly and the whole Eurozone is back in stagnation. The UK is managing slower growth, which shows underlying strength given the squeeze being administered by both the Bank and the Treasury.

China has seen a small slowdown in growth on the official figures, with reports of a sharper slowdown for manufacturing and imports. Chinese money policy has also been more restrictive than in the past, with the authorities now signalling they wish to relax a bit to avoid more damage to growth.

It is difficult to see what the Eurozone can and will do to lift things. It is a poor background for the traditional parties fighting the European elections in May, but it is the result of the disciplines of the Eurozone. All the time the Germans and the other richer surplus countries decline to send more grants and cash to the poorer parts, it reinforces the need to squeeze budgets to keep finances in control. This in turn leads to slower or no growth, which in turn means less tax revenue and a bigger budget squeeze.

The Euro, just like the Exchange Rate Mechanism it replaced, is a recession machine for the weaker economies. That is why the Italian government tried to get a different budget, and one of the reasons why populist parties around the continent are making progress electorally.