

The world recovery will be fine

There are many fears and alarms expressed about the state of various economies around the world. The curious thing is in recent years none of these has come true. The world economy has continued to grow at a modest pace, with contributions from all the advanced countries led by the US and UK growth rates. China too has kept a steady growth of over 6% going, with many critics claiming it is about to end. This year we may also get some turnaround in Brazil and less of a drag from the oil and commodity based economies which suffered in recent past years from low oil and commodity prices.

The background with the Euro area continuing to create extra money and buying up sovereign bonds, Japan doing the same, and the persistence of ultra low interest rates outside the USA, is favourable for more growth. It is true there has been an uptick in US, UK and Euro area inflation this year. This owes much to the higher oil price, aided by some Chinese price rises on exported goods to reflect the higher input prices they are paying for energy and raw materials. This may well abate later this year, as oil and commodity prices have been weaker recently. Higher inflation has not so far impeded reasonable growth in consumer spending in all these affected areas.

Mr Trump's new found ability to get a Healthcare reform through the House of Representatives means he may be able to get through some reflation as well. He still has to get the Healthcare Bill through the Senate, who may wish to amend it and cause difficulties. Getting some kind of healthcare reform through is an important first step prior to tax cuts which will be easier to achieve if healthcare reform delivers some expenditure savings. Serious tax cuts in the USA would power more growth, which would benefit the rest of us as well.

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