



Global economy at last finding its wings

The late, great Tom Petty wrote “I'm learning to fly, but I ain't got wings, Coming down is the hardest thing, Well the good ol' days may not return... What goes up must come down”.

His lyrics could be applied to the deep recession of 2008-09 and the very anaemic recovery of the world economy that followed in this decade. Many commentators believe that the slow recovery is pay-back for the strong, credit-fuelled growth that occurred in the lead up to the economic crash in 2008. Deleveraging has held back the recovery, as businesses and households focused on reducing high debt levels.

Thus, super low interest rates and quantitative easing by central banks have been seen as achieving only limited success in terms of stimulating growth. Indeed, many feared that the ‘good old days’ of strong global growth could be behind us and would not return.

However, more recent data give cause for hope, suggesting that the global recovery may at last be finding its wings. In particular, data published in the past week have been very strong in all the major economies.

Global economic activity has been gaining strength for the past year or more, helped by an improvement in investment, manufacturing and world trade. Activity improved in advanced economies in the second half of 2016, with stronger performances in the US, Eurozone, UK and Japan.

This trend extended into 2017, with particularly good growth in all the major economies in the second quarter of this year, apart from the UK. The OECD expects growth in the world economy to accelerate from 3.0% in 2016, its lowest rate since 2009, to 3.5% in 2017 and 3.6% in 2018. The IMF is forecasting similar growth rates for 2017/18.

The latest data suggest that the risks to these forecasts are to the upside. The ISM manufacturing index in the US hit a 13-year high in September, with the index for the services sector reaching a 12-year high. The Eurozone PMI is near a 6-year high, with particularly strong German industrial production data released yesterday.

Meantime in Japan, the key quarterly Tankan business survey published last week reached a 10-year high, with China's official manufacturing PMI rising to its highest level in 5 years last month.

In a further positive sign, oil prices have also started to rise again recently on the back of a pick-up in demand as economic growth strengthens. Stock markets have also moved higher in the past month on improving data.



It would seem that the combination of continuing very loose monetary policies and a more supportive stance to fiscal policy is at last triggering stronger economic growth. Activity is also being aided by good employment growth and very low inflation, which is boosting real incomes and thus spending power. Credit growth is also starting to pick up in many economies.

Central banks across the globe have been indicating that monetary policy can remain very loose despite the stronger growth because of the persistence of very low inflation. This should help sustain the upturn in economic activity.

The one exception to the generally improving picture is the UK. Activity slowed in the opening half of the year as high inflation and weakening wage growth dampened consumer spending, with uncertainty over Brexit holding back business investment. The data in recent months suggest that UK growth remained subdued in the third quarter.

Thus, the Bank of England is faced with slowing growth and high inflation, the polar opposite to the situation that most other central banks find themselves in. Ironically, it looks set to hike rates next month.

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