

WORLD ECONOMIC OUTLOOK – SEPTEMBER 2019

In democracies, people pain means a change of government. In command economies (Russia, China) people pain is of no consequence. China can tolerate a lot of pain.

China wants Trump gone – Democrats are more to their liking. Especially the Elizabeth Warren variety of Democrat. But of course this will not happen.

Upshot 1: China will not give Trump what he wants in the current trade spat. Either Trump settles for a lot less (although selling it as a victory) or there is BIG trouble for the world economy with a continued standoff. The latter is unlikely with the US election in 2020.

Latest estimates for country exports/imports as a percent of GDP are as follows:

China 20/18 Russia 26/21 Japan 14/14 US 8/12 UK 31/32 Canada 31/33 Germany 47/40
Australia 21/21 New Zealand 18/19

These figures suggest Trump has a point and 4% of US GDP is a big number. Of course, there are no holds barred in love or war. And we do have a trade war currently. Trump could die in the right.

Upshot 2: If a settlement is reached, China will demand a high price, but this is probably the best result for the world economy if it happens. Brexit is also another potential shock for the world adding to the problems.

Overall conclusion: Turmoil for the world economy for the rest of 2019 with financial markets heading south.

Solutions: Monetary policy is tapped out. Further QE is not a solution in a world of negative (real) interest rates as currently. A concerted world infrastructure rebuild with fiscal deficits is needed to reflate the world economy. But is there leadership for this? Both Germany and the US appear unlikely leaders at this point and who else is there? With its trade surplus, Germany has a unique opportunity to reassert a world-leading role. But German politics may prevent this.

Silver linings: Australian resource stocks favoured if a world infrastructure rebuild eventuates. A China “win” means New Zealand and Australian exports to their biggest market remain steady.