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Some good news, some bad news!

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On the economic and business front, there are always good news and bad news.

As they say, let us hear the bad news first.

The bad news is from the Paris based think tank, the Organization for Economic Co-operation and Development (OECD) of 34 advanced countries, including Australia and New Zealand from the Pacific region, besides United States (US), United Kingdom (UK), Germany and others.

The OECD issues growth forecasts twice a year: November and April. The April forecasts have revised downwards from the November 2013 forecasts, the economic growth forecasts for major countries, including the United States (US), China and Australia except the United Kingdom (UK).

For 2014, the global economic growth will be 3.4 percent, down from its November forecast of 3.6 percent; for United States (US) 2.6 percent down from 2.9 percent; for China 7.4 percent down from its 8.2 percent; and for Australia 2.9 percent down from 3.2 percent.

The OECD Secretary General Angel Gurría said "We are still not out of the woods yet". However, every cloud has a silver lining.

That is the sign of recovery in the UK. The OECD predicts the UK growth of 3.2 percent for 2014, up from its November forecast of 2.4 percent. It has also revised upwards its 2015 growth rate to 2.7 percent from 2.5 percent.

What is the recipe used by UK for its recovery, which is the best among all the seven advanced countries, known as G7? The OECD says "very accommodative monetary policy". That was the key to growth, which triggered the increase in jobs.

Noting the sluggish recovery in Europe, OECD wants European Central Bank to adopt the same policy: cut the benchmark interest rate to zero and consider bond purchases similar to those by the US Federal Reserve (the Fed). The Fed purchased bonds since 2008 and the balance sheet has swelled with liabilities of \$4 trillion.

The good news

In April, America created 288,000 new jobs. This is the highest monthly increase in more than two years. The rate of unemployment (number of people unemployed for every 100 job seekers) also dropped to 6.3 percent, the lowest since September 2008, the year when the recession began.

Further, the rise in jobs is more in professional and business services and manufacturing and construction aside from the rise in low-wage activities such as retail, restaurants and supermarkets. Thus the growth in jobs is broad based.

Impact on the rest of the world

Presently economies such as New Zealand are experiencing heavy capital inflows. The New Zealand equities and bonds fetch higher returns. They are considered both safe and profitable investment by investors in US and Europe, where interest rates are low. Secondly, the Reserve Bank of New Zealand has raised the benchmark interest rate twice in as many months which made Kiwi investments increasingly more attractive. The result is the Kiwi dollar has been appreciating, hurting agricultural exports.

If the American economy recovers fast and is on expansion path, the expectations are that the US Fed would end bond purchases; there will no more monthly additions to money supply; and interest rate in US would rise; and there would be reversal of capital inflows. With rising capital inflows, the US dollar would rise. The currencies in the rest of the world, including the Kiwi dollar would depreciate.

The US expansion would have a favourable impact on the rest of the world, including China. Pacific islands including Fiji would experience rise in tourist arrivals. Exports from the rest of the world would pick up again. The mineral exporting economies would be happy too! After all, the world needs an expanding American economy.

The US Fed has just decided to reduce another US\$ 10 billion in its monthly purchase, the fourth reduction since December. It will be only \$45 billion, down from an original \$85 billion. It looks monthly addition to money supply would cease by year's end.

The Fed Chair Janet Yellen told the US Congress Joint Economic committee on Wednesday that the Fed will maintain its bond holdings at above \$4 trillion and keep long-term rates and short-term rates near zero to help recovery.

Just as there are positive gains from the US recovery, there will be negative impact as well. Aside from a commodity boom resulting from the recovery, oil price will shoot up. Countries which would experience gains from depreciating currencies, and Fiji and other island countries will have to pay more for their imports that would include oil!