Jackhammer

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Global economic picture darkening, as Europe slows and US-China talks stagger on

This week's German export numbers presented a rare bright spot in an otherwise darkening picture as far as the global economy is concerned.

According to estimates by the European commission, overall growth in the Eurozone is likely to ring in at a decidedly modest 1.3%. Strikingly, within that 1.3% growth projection, the forecast for Germany amounts to just 1.1%, the second lowest in the entire Eurozone after Italy, which is already in recession.

It's a fairly bleak picture, and one that will have the Europeans twitchy as the Brexit departure date looms ever nearer, given that Britain is one of Germany's biggest export markets.

Whether or not that salient economic fact will be enough to force any change of heart at a political level is an open question. It's true that German Chancellor Angela Merkel has a certain freedom to be creative now that she has set a definitive end-date to her reign as Europe's number one power broker.

On the other hand, she also runs the risk of having anything she decides set aside by her successors.

Meanwhile, Theresa May's own writ barely carries in her own party, never mind the country, and the UK remains as irredeemably divided on Brexit as ever, even as it too inches closer to economic stagnation.

It all makes the economic growth rates in the US and China look positively robust.

But economists are pessimistic here too. Chinese growth is slowing, and structural problems around corporate debt are a cause for real concern. There are some signs that the business cycle is bottoming out, but against that renewed US economic pressure is beginning to bite, as trade talks lurch on inconclusively and markets clutch at the air for some form of steer as to how they're going.

What's more, the Chinese, after thirty years of powering the global economy with cheaply manufactured goods, are starting to come to terms with the idea that they may no longer quite have the competitive edge they once did. Other, cheaper manufacturing hubs are emerging elsewhere in Asia, and in jurisdictions that don't carry encourage intellectual property theft and cybercrime in the same way.

Of all the great economic hubs the US is probably in the best shape, but it too is feeling the chill wind of economic slowdown. The actual numbers remain good, especially in employment where the Trump regime rightly trumpets record numbers across several segments of the population.

But policymakers at the US Federal Reserve can see what's coming.

Last year they were distinctly hawkish on US interest rates, arguing that several increases were likely to be necessary to forestall any kind of bubble forming from the current growth spurt. This year, the tone has become decidedly cautious, a change that's taken place over just a few months.

Interest rates are likely to be held for the foreseeable future now, at least according to most pundits, as the US looks to try to find insulation where it can from the troubles of the rest of the world.

It has a certain advantage in its new, and unexpected status as the world's number one producer of energy. The manipulation of oil prices is not the anti-US tool it once was, and oil producing nations like Venezuela, which at one point might have enjoyed some leverage in leaner times, are now struggling to stay relevant on the global scene.

Saudi Arabia has embarked on a costly and apparently unwinnable foreign war, and Russia, for all its posturing and high profile foreign interventions, remains a second rate power at best on the economic stage.

So, while in a sense the US is still in charge of its own destiny, in the wider economic context, in the globally interconnected world, it's still vulnerable. What's more, it's taking many of the country's leaders a long time to realise this, and it's likely to take the electorate even longer.

And that opens up new lines of uncertainty. We know what a Trump-led US looks like in circumstances of relative prosperity. But what a Trump-led US looks like in times of economic hardship is an altogether different prospect.

It's something neither the markets, nor the Chinese, nor Mr Trump's Democratic critics would want to contemplate.

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