Getting growth back worldwide

Whilst the UK has been preoccupied by Brexit a far more important struggle for our prosperity has been going on globally about growth in the world economy. Markets have been signalling that Central banks are tightening money too much, and governments are still too wedded to austerity outside the USA.

The Euro economy has suffered most, with German national income and output falling in the third quarter of 2018 and still weak in the fourth quarter. Car output in particular has been hit by the Chinese slowdown, by regulatory change from the EU and by the pace of technical and regulatory change workdwide. The UK economy has performed better despite both a monetary and fiscal tightening last year of some severity.

The world's two giant economies, USA and China, have both followed tight money policies which have slowed them down. Interest rate sensitive areas like homes and cars have seen sales hit by dearer and scarcer credit.The Chinese stock market fell to half its elevated high of 2016, and Wall Street had a sharp sell off in November and December. It now looks as if both these leading economies will abate the severity a bit, which is necessary to sustain growth. China has announced lower reserve ratio requirements for banks, and the Fed has backed off full support for a more aggressve set of rate rises in 2019.

The Eurozone will have to announce no rate rises for the foreseeable future and no move to Quantitative tightening if it wants to avoid recession. It may end up allowing a little bit of fiscal relaxation as France struggles to respond to the gilet jaunes and as Italy's government insists on just a little less austerity. The problem is that without proper transfers within the Eurozone from taxpayers in rich countries to the poor in lower income countries they do need to keep up a stricter discipline. This bites more on the poorer areas in the zone, causing political tension and fuelling populist movements.With the AFD doing better in polls, the German government will need to get even tougher about budget controls on weaker Eurozone members, and reaffirm a no new grants or bail outs policy.

There is no great inflation problem the Central banks need to pre empt or control. There is a shortage of demand and slow real wage growth which sensible economic policies need to combat. The UK economy needs the £ 39 bn to spend over the next two years on a mixture of public service improvements and real wage boosting tax cuts.

There does need to be a better policy response in the UK to the collapse of car sales. The UK has made the general global situation worse at home by its big hike in Vehicle Excise duties and the uncertainty over future tax and regulatory policy towards diesels. With so much change in the air over future engine styles, autonomous vehicles and extent of urban controls over cars the traditional car makers are struggling. On both sides of the Atlantic monetary policy is also affecting the price and availability of car purchase loans.