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More and more producers...but will there be enough consumers?

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The world economy is increasingly based on a duality of strong consumption in the US (and in some other countries, including the UK, France and Spain) and rising industrial output in the emerging countries. World industry is gradually relocating to low-wage countries (led by China and Eastern Europe), allowing consumer prices on manufactured goods exported to the developed countries to remain extremely low. This movement has also benefited industry in Japan and Germany, which are each well placed to profit from the concomitant boom in capital investment. This has come, however, at the price of great wage austerity, limiting domestic demand in the two countries. On top of this, the low wages of the emerging countries go hand in hand with their very weak purchasing power internationally, limiting their imports and generating huge trade surpluses. These surpluses are accumulated by their central banks (to the tune of \$1.2 trillion in the case of China) and for the most part reinvested in the United States, making it possible to finance the increasing debt of American households and the US government. This flow of funds has functioned well for four years, but one may question whether it is stable

The situation in the US contains two threats for the world economy

The US situation contains the seeds of two dangers. The first is on the level of consumption, which although still strong at the start of 2007, is threatened by the fall in real estate prices, which could encourage banks to restrict lending and households to increase savings. Second, US public opinion, after having seen the consumer benefits of industrial globalisation, could refocus on the accompanying disadvantages for domestic producers, and demand more protectionist policies from the next administration. If, for one reason or another, American import demand should temporarily dry up, the world economy would face important supply-demand imbalances in the majority of sectors: electronics, cars, iron and steel, transport and others. The latent deflation in consumer goods could burst forth. The revival of consumption in the emerging countries – and also in Germany and Japan – will be vital in sustaining world growth in the years to come.

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