Macro Snapshot – Chief Economist Jean Ergas

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Update October 5th 2015

Stock markets up – relief rally – fundamentals unchanged

Stock markets are up globally buoyed by the twin forces of the prospect of lower interest rates and a rise in Glencore shares, reducing the systemic risk component. Markets appear to be breathing a sigh of relief rather than applauding any shift in the macro- economic fundamentals. These are beating a hasty retreat with Euro Zone PMI data indicating that the ECB QE strategy is still in the "struggle" phase.

We still see the major goal for the European Central Bank to be the struggle against deflation which is increasing the real cost of debt in an economy financed largely by bank financing. We need to add that for the first time since 1945, Euro Zone governments are repaying debts in non-devalued money – a sobering thought.

International trade and FOMC minutes this week

With regard to data, this week we shall be seeing international trade data for the US. The focus shall be on whether US exports are succeeding in surmounting the dual hurdles of a relatively strong US dollar and slowing global growth. To what extent US exporters have any real measure of pricing power, remains a critical issue.

We continue to see scant need for capital equipment as companies globally struggle with overcapacity. This is reflected in the continued export of deflation driven by ever lower producer prices as "dumping" shows no signs of easing.

We shall also be seeing the FOMC minutes. These shall be closely scrutinized with regard to any indications as to which concerns predominated in the course of the last US central bank meeting.

Are we still in an IPO monetary policy – you are pricing off the stock market and not off the economy.

Economic perspective

Continue to see slowing global growth – systemic risk increasing

We continue to see slowing global growth, as forecasts for a broad range of economies continue to be revised downwards. We are seeing little cheer emanating from the emerging markets and the US now looks more brittle, with industrial activity on the cusp of contraction. We see it of little avail to be told that we need to interpret this data – ex –energy and mining. These sectors are part of the economy and that is it!

Markets have focused on the US employment data – wages going nowhere! Fewer Americans working for less

With regard to the US, markets have focused on the employment data, which was sharply lower than expected. We see the key points as being the drop – from an already very low level – of the labor force participation rate – and wage stagnation. The US economy is now in the enviable position of having a lower share of the population working for less.

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Labor market problems are structural – labor slack by now self-reproducing

We see the labor problem as structural and continue stubbornly to believe that the Federal Reserve has both:
Considerably underestimated the amount of "slack" in the labor force
Not grasped that this excess labor has become a structural and self-reproducing part of the labor market.

As ever greater numbers of workers join or are "joined" to the "sharing economy", work becomes ever more temporary, with a rotation between "time outs". There have been repeated comments as to the "New World of Work" - it shall not be pleasant!

Emerging markets, storm clouds darkening!

The emerging markets – some of which may soon be re-named "sub-merging" markets – are coming under increasing pressure. Commodity prices are providing scant succor for the exporters and slowing domestic economies are crushing corporate cash flow for both the commodity exporters and importers. In addition, a US Dollar which has strengthened considerably since the EM boom years and access to easy credit has increased debt repayments.
Many EM countries focused their diversification drive on other EM economies – not realizing the degree of correlation. We continue to foresee pressure on the "real economies" and expect that any currency strengthening shall prove fleeting.

"Big honcho" slowing down – world is coming out of denial!

With regard to the "big honcho" China, we continue to see timid moves towards a "downsizing" of economic growth for 2015 – with some brave souls now edging towards 6. 5 %. We see this – when government investment and accretion of bad loans are taken into account - as still too high and reflecting blind hope as opposed to optimism, which needs to rest on a bedrock of reality.

When studying auditing, I was told to ignore management assertions and to focus instead on the "analytics" – the analytics using bottom up industrial data in China are not encouraging!

Euro Zone once again in deflation, monetary measures scant impact

We are not surprised to see that the Euro Zone is once again in deflation, with price growth negative. While this shall undoubtedly spur on the ECB to re-double its efforts, we see this as increasingly difficult. Chinese overcapacity is leading to ever more "dumping" and a raw materials collapse is lowering input prices.

Growth remains modest and uneven, with unemployment "sticky" – governments cannot hire due to austerity and companies are reluctant to hire without a thorough reform of the labor system.

With regard to the "crown jewel" of economic history – the Euro- we expect it's powers of ascension to be limited and mostly restricted to the unwinding of the EM carry trade.

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He is an Adjunct Assistant Professor at New York University's School of Professional Studies and an Adjunct Faculty member at Manhattanville College. In 2014 he received the award for teaching excellence from NYU School of Professional Studies.

He is fluent in English, French, German, Italian, Spanish and Portuguese. He also has a certificate in Arabic – from NYU School of Professional Studies.

His career has spanned the complete range of macro risk analysis - energy / commodities with ENI - Global Fortune 500 17 - leading global natural resources group, capital markets with Swiss Bank Corporation (now UBS) and insurance / reinsurance with the A.M.Best Company. Jean contributes regularly to international media commenting on key macro-economic issues.

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