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Britain's stalling economy blamed on inflation and product shortages

Last quarter survey of 2021 shows firms worried about raised interest rates, and cash flow and debt issues, prior to plan B Covid rules. Britain's economic recovery stalled before the arrival of the Omicron variant of Covid and the dampening effect of the government's plan B restrictions on consumer spending in the Christmas shopping period, a wide-ranging company survey has found.

Businesses blamed spiralling inflation and shortages of imported goods for a decline in sales in the fourth quarter, which meant that an expansion during the spring and summer ground to a halt.

In a message that will concern the chancellor, Rishi Sunak, the British Chambers of Commerce added that many respondents to its quarterly survey of almost 5,500 firms revealed that they were running low on cash and had ditched investment plans to stay afloat into the new year. SurenThiru, the BCC's head of economics, said sales growth stalled as firms struggled with the “mounting headwinds” of inflation, a scarcity of skilled workers, and problems sourcing products from overseas.“The persistent weakness in cash flow is troubling because it leaves businesses more exposed to the economic impact of Omicron, rising inflation and potential further restrictions,” he said.

The survey also found that the prospect of Bank of England officials raising interest rates was another concern for firms that had taken on extra debt over the last 20 months to cope with the pandemic. The bank raised rates to 0.25% in December. A series of reports have shown the UK economy heading into a challenging spring, with a strong rise in consumer prices hitting household disposable incomes and denting consumer confidence.

Official figures showed the consumer prices index (CPI) jumped to 5.1% in November following persistent increases in oil and gas prices and other commodities, including wheat and copper. Consumer spending has underpinned the recovery, accounting for more than 80% of the UK's growth, while spending on government services such as the NHS has made up much of the difference.

Only a minority of businesses have pushed ahead with spending on new equipment, buildings and machinery, despite the offer of tax subsidies on investment, made in the budget last March. In the second quarter of 2021 GDP growth hit 5.5%, but fell back to 1.3% in the third quarter. The BCC survey, which was conducted in the last week of November, indicated that the economy was on course to flatline in the fourth quarter.It was likely the economy would contract in the first months of this year as the message to work from home and avoid large gatherings affected sales, Thiru said.

China's Long Game Beats America's Short Game

Beijing's focus on economic ties will outlast Washington's on military alliances. Submarines are stealthy, but trade is stealthier. Both generate security—the former by deterrence, the latter by interdependence. But the kind of security created by trade lasts longer.

Submarine deals are easy to walk away from. Just ask France, which this year lost a long-standing contract to provide attack submarines to Australia. Economic interdependence created by trade deals is harder to unravel. Just ask Trump, who couldn't break up the North American Free Trade Agreement and had to settle for a cosmetically renegotiated pact.

This contrast highlights the difference between the short-term game Washington is playing in the Indo-Pacific and the long-term one played by Beijing. The United States is betting on the AUKUS security pact it signed with Australia and the United Kingdom, the main feature of which is a promise to deliver submarines to Australia. China is betting on using trade to win over its neighbours, particularly the members of the Association of Southeast Asian Nations (ASEAN), the most successful Asian bloc.

Washington is right on one point. Superficially, the three AUKUS members have strong connections and largely see eye to eye. ASEAN, on the other hand, looks like a ramshackle outfit barely able to manage errant member states such as Myanmar. The bloc is also struggling to generate a coherent regional response to the growing U.S.-China rivalry. Nor can it calm the troubled waters of the South China Sea. But if ASEAN is too weak to impose its will on its own members, let alone on others, that unimposing weakness is also its strength, allowing the bloc to build trust in the region and beyond.

Following the end of the Vietnam War, during which ASEAN supported the United States, hostility and distrust between Vietnam and ASEAN were palpable. But when the Cold War ended, ASEAN integrated Vietnam into the region's economy, helping the country emerge as another East Asian economic miracle. The most important lesson Vietnam learned from ASEAN was to trade even with one's adversaries, just like the original members of ASEAN overcame their distrust of one another through trade. That's why trade between India and Pakistan only tripled from 1991 to 2021, while trade between Vietnam and China—which had fought a war against each other in 1979—grew 6,000 times over. In short, ASEAN's culture generated peace and prosperity.

Another major ASEAN breakthrough was to generate greater economic engagement between Japan and South Korea. Although the two countries are both U.S. allies, Washington can barely persuade them to talk to each other. Indeed, in recent years, there was neither consultation nor consensus between Seoul and Tokyo. And yet, despite this, ASEAN has persuaded the two East Asian neighbours to sign a free trade agreement among themselves (and with China too): the ASEAN-initiated Regional Comprehensive Economic Partnership (RCEP), signed in 2020 by the ten ASEAN member states, Australia, New Zealand, China, Japan, and South Korea. Indeed, the economic integration of the powerful Chinese, Japanese, and South Korean economies will generate most of the RCEP's economic boost. It was ASEAN that accomplished this little-noticed miracle.

The answer will be Australia. Washington's affection for Australia is genuine and its concern heartfelt, which goes a long way toward explaining AUKUS. Yet geopolitics is also a cruel business, where emotions create a competitive disadvantage. If Beijing focuses on ASEAN and the RCEP and Washington focuses on Australia and AUKUS, Beijing will win.

US Employment

WASHINGTON (Reuters) -Since adopting a new approach to U.S. monetary policy weighted towards ensuring a strong labor market, Federal Reserve officials have been reluctant to define key terms like "maximum employment," arguing they did not want to prejudge how many jobs the economy could produce but feel their way toward that end. They are hesitant no longer, and data on Friday showing the unemployment rate fell here to 3.9% in December is likely to confirm the growing sense at the central bank that its mission on jobs is finished - despite millions of positions still missing from before the coronavirus pandemic and large shortfalls in women's employment particularly. The U.S. Labor Department's latest monthly jobs report showed a slowdown in hiring last month, with only 199,000 positions added. But it also bolstered the case, laid out in the minutes here of the Dec. 14-15 policy meeting, for why Fed officials feel the current job market is "very tight" and poised for "rapid progress" to their maximum employment goal - clearing the way for the central bank to raise interest rates perhaps as soon as March.

Despite the weak job creation last month, wages surged and the unemployment rate fell below the 4% level that Fed officials feel is sustainable, and even further below the 4.3% rate policymakers expected by the end of 2021."There is nothing here to dissuade the Fed from raising rates in March" and trimming its balance sheet soon after, wrote

Karim Basta, chief economist for III Capital Management.

In the context of the discussion underway since the start of the pandemic, when more than 22 million jobs disappeared in a collapse that fell heaviest on lower-income workers and racial and ethnic minorities, the minutes showed the limits of how far the Fed is willing to go in ensuring the jobs recovery is "broad and inclusive" as well as complete. The difficulties that remain in the job market, Fed officials said in their discussions, now have less to do with monetary policy and more to do with ongoing disruptions from COVID-19 - factors like school reopenings, child care and health conditions - that it cannot influence. Workers may wait longer to take jobs again, they acknowledged, than had been expected.

Global Economic Outlook

The threat of the Omicron variant notwithstanding, the near-term outlook for the global economy is promising. There should be continuation of well above long-term trend real GDP growth in 2022 (3.9 percent year-over-year), led by continued expansions in the US and Asia, and recoveries from the pandemic throughout much of the rest of the world. However, elevated inflation globally is likely to persist in 2022 and potentially into 2023. Global Economic Outlook 2022: From Pandemic Downturn to Growth Revival, a series of reports released by The Conference Board, tracks the future of the historically rapid resurgence for the years ahead including 2022–2031 GDP projections for key economies across Asia, Europe, the American, the Gulf Region, and beyond.

Amid rising global demand, cost pressures are building. They have been particularly intense in commodities' markets, including energy and food. Intense global inflationary pressures are likely to last longer as disruptions caused by the pandemic result in order backlogs amid factory shutdowns, stymied transportation activity due to labor shortages (e.g., trucking), and shipping container shortages. Moreover, a delay in the transition away from primary goods consumption to a more balanced consumer spending mix that includes in-person services will also keep overall price levels higher for longer. More permanent factors that could drive inflation up in the coming years include labor shortages (due to an ageing population), a continued imbalance in demand and supply for microchips and deglobalization which may lead to less optimal allocation of capital and labor which will likely raise costs. Although the overall monetary stance is still broadly accommodative, even in most emerging markets, central banks around the world are shifting towards less accommodative monetary policies to counteract inflation. For example, the US Federal Reserve Bank is signaling three rate hikes next year and has accelerated the tapering of its emergency assets purchasing program.

Growth Prospects for the future

Over the next decade, The Conference Board projects global growth to gradually moderate to an average annual rate of around 2.5 percent from the high growth rates seen in the immediate aftermath of the pandemic recession. The severe contraction induced by the global pandemic may leave a permanent scar on global growth in the long run, but global growth is expected to return to close to, but not higher than, previous projections made before the pandemic. Factors that have for a large part driven global growth in the last two decades, including the greater supply of labor and fast growth in capital stock to worker ratios, are expected to weaken substantially over the next decade. These slowing factors will only be partially offset by a shift towards greater contributions from qualitative growth sources, driven by accelerating digital transformation and productivity improvements, as well as additional long-term investments in physical and social infrastructure in large economies including the United States.

The Conference Board forecasts that US Real GDP growth will rise to 6.5 percent (annualized rate) in Q4 2021, vs. 2.1 percent growth in Q3 2021, and that 2021 annual growth will come in at 5.6 percent (year-over-year). Looking further ahead, we forecast that the US economy will grow by 3.5 percent (year-over-year) in 2022 and 2.9 percent (year-over-year) in 2023. This forecast is an upgrade for growth in Q4 2021, but a downgrade for growth momentum in 2022.

After contracting by 6.5 percent in 2020, The Conference Board forecasts Real GDP in Europe to expand by 5.2

percent in 2021 and 4.1 percent in 2022. After a major growth slowdown in the fourth quarter of 2020 and the first quarter of this year, GDP growth resumed in the second and third quarters and is likely to continue to do so in the remainder of the year. Europe is on track to continue its recovery with demand expected to continue in the short-term. Bigger problems are on the supply side in the short-term, with shortages and supply chains disruptions negatively affecting activity in the manufacturing sector, especially in Germany.

For China Conference Board expects official real GDP growth to come in at 7.9 percent year over year in 2021, and slow to 5.0 percent next year. Rapid weakening of domestic demand, as seen in both household spending and corporate financing, accompanied by rising inflationary pressures, may induce policy easing. This could include a relaxation of production controls and monetary loosening. However, any such pro-growth measures are unlikely to reverse the downward trajectory of economic growth that is anticipated to last into 2022.

The Gulf region driven to a large extent by a reduction in energy-related economic output, overall GDP declined by 4.8 percent in 2020. For the full year 2021 we again expect a stronger contribution from non-energy related GDP to drive an overall GDP growth rate of 3.5 percent. A fuller resumption of global oil demand and related Gulf oil production should then lift the 2022 GDP growth rate to 5.5 percent. Qatar and the UAE rebounding rather faster than Oman, Bahrain, and Kuwait.. Between 2022 and 2031, the region's economies are expected to focus on their renewable energy and digital transformation targets while creating more room for competition and innovation in the non-oil private sector.

Fiscal deficits and Interest rates

In January, Peter R. Orszag, Robert E. Rubin, and Joseph E. Stiglitz warned (presciently) that current low interest rates may not last forever. Uncertainties about future interest rates and their impact on government borrowing call for a cautious approach to fiscal deficits. Unpredictable factors like global shocks and climate change require greater use of budgetary "automatic stabilizers" that self-activate in response to economic distress. The authors endorsed fiscal stimulus through 2022 but disagreed over policies if and when circumstances change in later years. They supported a "permanent" infrastructure program focused on projects that could be quickly undertaken to stabilize economic fluctuations and avoid destructive cuts or delays during recessions.9. The pandemic's long reach: South Korea's fiscal and fertility outlook.

As part of a 2020–21 research series on the Korean economy, Jacob Funk Kirkegaard wrote that the limited fiscal impact of COVID-19 is fortuitous for South Korea, as the pandemic coincided with the country's rapidly shrinking working-age population and rapidly accelerating aging. South Korea had the lowest fertility rate of any advanced economy in 2020, which Kirkegaard says is a drag on the economy. But government action to increase fertility levels is likely to be modest.