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Still Expanding

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We hold our regular quarterly investment conference next week and in preparation we have been reviewing the data coming out of the key world economic sources.

It is very striking that the world economy is still very much in expansion mode with global growth set to accelerate into 2018. The aggregate global PMI, the economy by economy survey of purchasing manager intentions, has rarely been stronger recently showing at 53/54 and it is still trending strongly upwards.

The world economy continues in a globally synchronised reflation and indeed, should Mr Trump get his way, the US will be turbocharged by a sharp – but badly timed – fiscal boost as corporate tax rates are slashed.

Unsurprisingly in view of present uncertainty, the only key economy bucking the trend and exhibiting weakness is the United Kingdom with the key lead indicator pointing to slowing activity and rising inflation squeezing household incomes in a period of still very muted wage growth.

We have noted before in these pages that business investment requires confidence which is borne of visibility over the outlook. Even the most ardent Brexiteer would find it hard to argue that businesses currently have the comfort of a stable political and economic future. There are large question marks overhanging domestic demand and future trade relationships both in goods and more importantly to the British economy, services. There may be a shining city on a hill post Brexit but it's very hard to see through the fog of dissimulation lowering over the Channel.

What is also interesting about the UK is that the drivers of Brexit don't appear to be economic although there will be profound economic consequences should Brexit happen and/or the May government fall.

Income inequality for example has often been cited as a reason for voter dissatisfaction; the wealthy have a lower propensity to consume than those less well-off impairing growth. But, interestingly, income inequality peaked in the UK in 2001/2 and has been falling since so it's hard to see that as a trigger. Equally, labour share of income has been broadly constant since the end of the 1990's so it's hard to argue there has been a transformational shift in resources from labour to capital.

What is true and remains so is that British productivity trails the rest of the developed world by a large margin; the economic pie is simply smaller than it should be.

Comparing the UK to the rest of the world, it's hard not to see the fixation with Europe as little more than a quixotic tilt at the wrong target.

Current data suggests that the long recovery from the Global Financial Crisis remains intact but the British economy seems to be missing out as jawboning over Europe crowds out time, energy and investment. Energy which could rather be spent on training, R&D, capex, marketing; in short, on raising British productivity.

performance is not a guide to future results, and the value of investments can go down as well as up.