The Telegraph

I'll eat my hat if we are anywhere near a global recession

The fiscal spigot is opening in the US, China and Europe, and the world's money growth is near a 25-year high

China is cranking up stimulus again Photo: ALAMY

By Ambrose Evans-Pritchard

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The damp kindling wood of global economic recovery is poised to catch fire.

For the first time in half a decade of stagnation, government policy has turned expansionary in the US, China and the eurozone at the same time. Fiscal austerity is largely over. The combined money supply is surging.

Such optimistic claims are perhaps hazardous, given record debt ratios in most areas of the world and given that we are six-and-a-half years into an aging economic cycle that might normally be rolling over at this stage. It certainly feels lonely.

"It is a very benign picture for the world. We should see above trend growth over the next year"
Tim Congdon, International Monetary Research

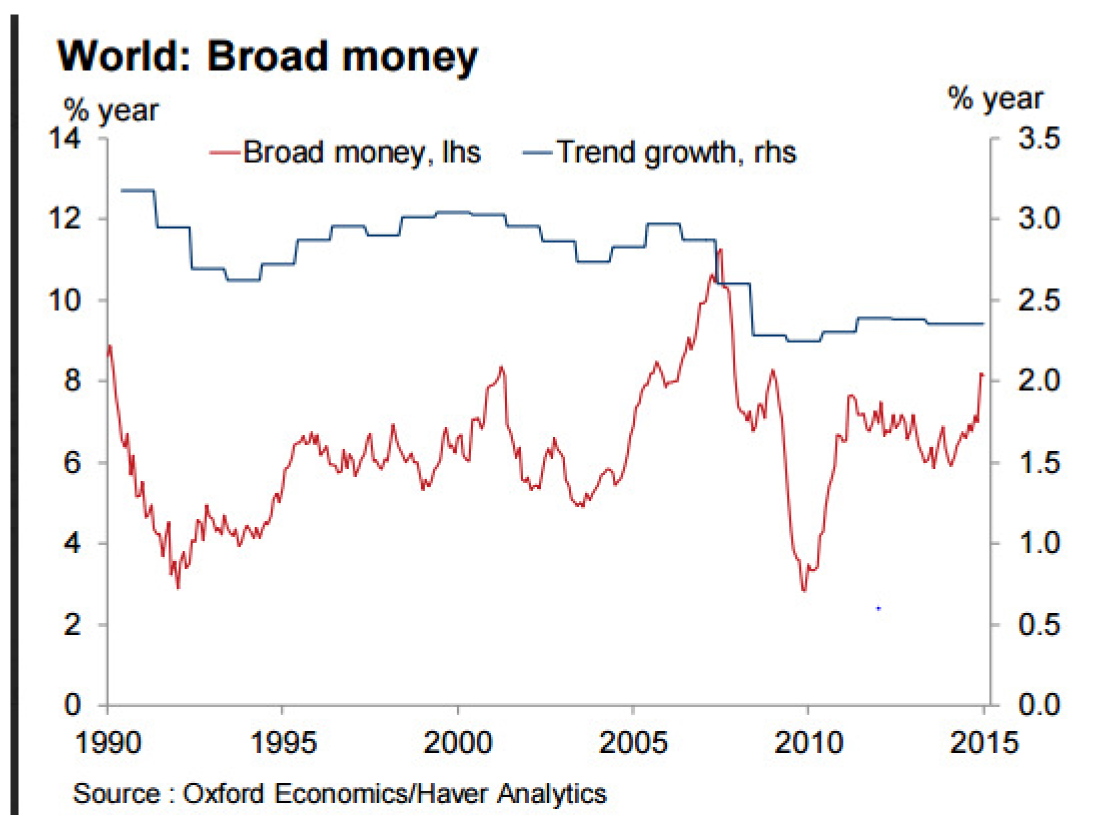
Citigroup's Willem Buiter has issued a global recession alert. Professor Nouriel Roubini from New York University joined him this week, warning that the odds of a fresh slump have doubled to 30pc.

Mr Roubini's gloom is unsettling for me. We saw the world in almost exactly the same way in the lead-up to the Lehman crisis, when it seemed obvious to both of us that sharply rising interest rates would prick the US housing bubble and the EMU credit bubble.

This time I dissent. Years of fiscal retrenchment and balance sheet deleveraging have prevented the current global economic recovery from gathering speed, and have therefore stretched the potential lifespan of the cycle.

The torrid pace of worldwide money growth over recent months is simply not compatible with an imminent crisis.

A combined gauge of the global money supply put together by Gabriel Stein at Oxford Economics shows that the "broad" M3 measure grew by 8.1pc in August, and by almost as much in real terms. This is the fastest rate in 25 years, excluding the final blow-off phase of the Lehman boom.



The index has since fallen back slightly as the US settles down but the pattern is clear. It bears no relation to the **monetary implosion** in early to mid-2008 before the

collapse of Fannie Mae and Freddie Mac, the twin mortgage giants that in turn brought down the banking system.

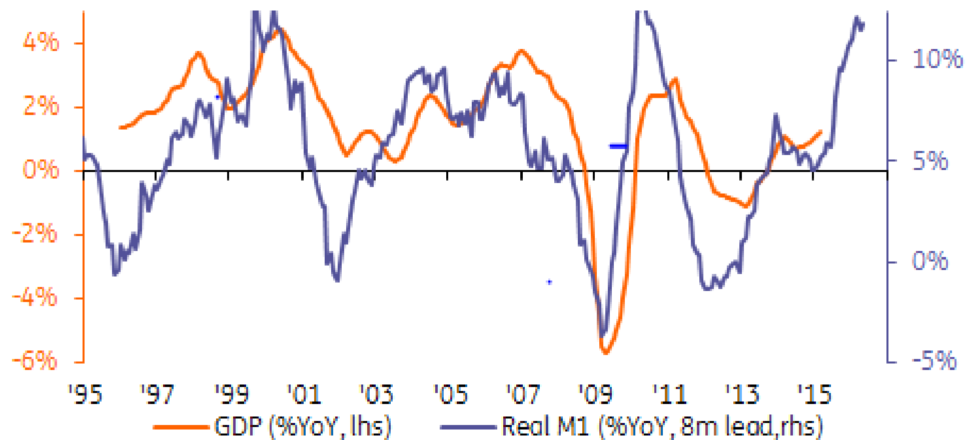
It is, of course, possible that money signals have lost their meaning in our brave new world of zero rates and secular stagnation, but the current pace of growth would typically imply a flurry of economic activity over the following year or so.

"It is a very benign picture for the world. We should see above trend growth over the next year," said Tim Congdon from International Monetary Research.

"Finally, government at all levels is giving the economy a boost"
David Wessel, head of the Hutchins Center on Fiscal and Monetary Policy at Brookings

Mr Congdon said the expansion of broad money in China has accelerated to an annual pace of 18.9pc over the past three months, thanks in part to equity purchases by the central bank (PBOC), a shot of adrenaline straight to the heart - otherwise known as quantitative easing with Chinese characteristics.

The eurozone is no longer hurtling into a 1930s deflationary vortex. A trifecta of cheap money, cheap oil and a cheap euro have entirely changed the landscape, and now the European Central Bank seems curiously determined to push stimulus yet further by doubling down on QE. Central banks are strange animals, pro-cyclical by nature.

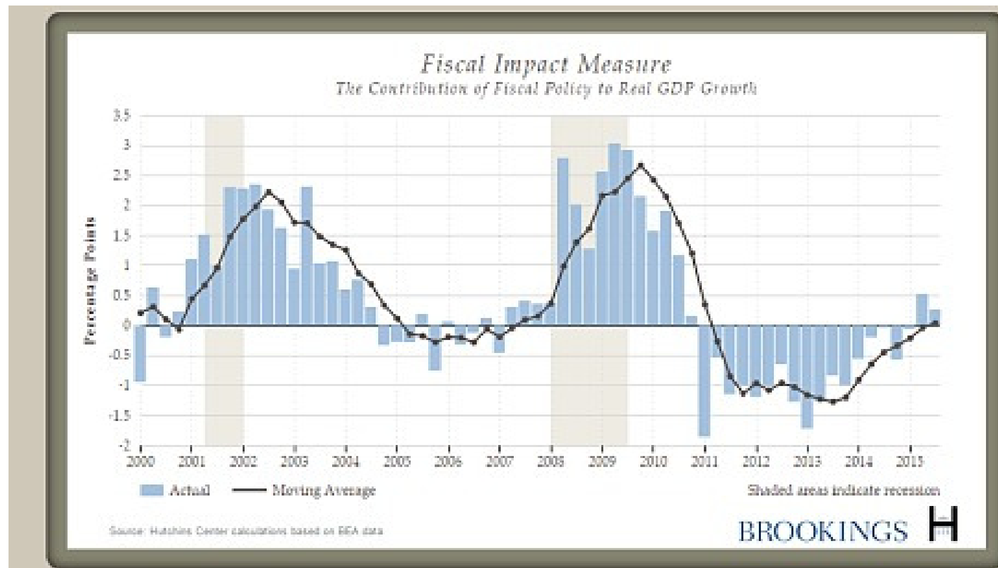


The monetary results are already clear. The narrow M1 measure of cash and checking accounts - watched as an early warning indicator of short-term spending - rose at an explosive pace of 11.7pc in September. Lending is at last picking up. For those who dismiss monetarism as akin to voodoo or soothsaying, the story is much the same on the Keynesian front. Passive fiscal loosening is under way in all three economic blocs.

The drastic fiscal squeeze that aborted the eurozone recovery four years ago and nearly destroyed monetary union is nothing more than a bitter memory. Italy, Spain and France are taking matters into their own hands, and Brussels has lost faith in its

own theories of expansionary fiscal contractions. Berenberg Bank says EMU fiscal policy is neutral in 2015 and 2016.

The fiscal barometer published by the **Brookings Institution** in Washington shows that the austerity policies of US federal, state and local governments subtracted 1pc annually from GDP growth over most of the past five years.



They are now adding net stimulus. State and local governments have launched an investment blitz and are taking on an extra 30,000 public employees a month, the fastest pace since the Lehman crisis.

"There can be little doubt that they [China] are stoking another mini-cycle of growth"

The federal budget deal in Congress will add even more juice next year. "Finally, government at all levels is giving the economy a boost," said David Wessel, head of the Hutchins Center on Fiscal and Monetary Policy at Brookings.

A parallel process is under way in China. Fiscal policy has swung from a violent crunch at the beginning of the year - hence the **Chinese recession** - to an accelerating take-off over the past four months. It jumped from 11.8pc in June, to 13.4pc in July, 14.8pc in August and 16.4pc in September.

It is worth dwelling on this fiscal saga since so many of the global doom scenarios circulating at the moment work from an assumption that China's economy is still spiraling downwards and will soon take the rest of the world with it.

The official **budget data** - to be treated with care, of course - shows that government spending slowed sharply late last year and then contracted by a staggering 19.9pc in January. No economy in the world could endure a shock of this kind.

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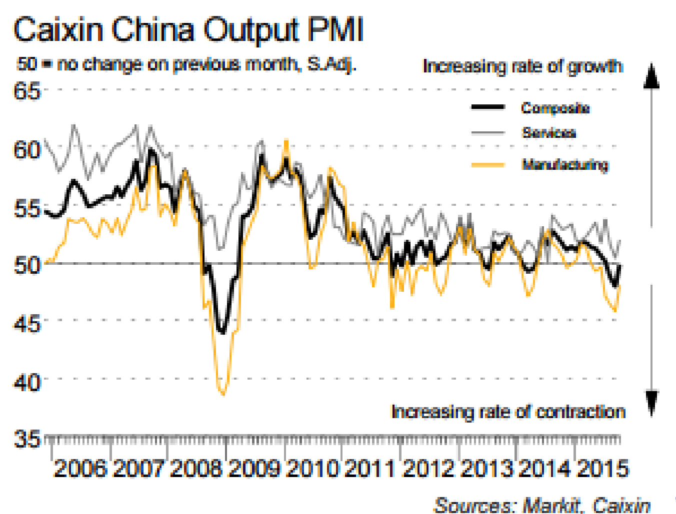
We know what happened. Local governments were banned from bank borrowing as of January, but there was no bond market ready to pick up the slack. It was paralysis.

The local government bond market finally got going in April. It was cooking by June, when $118bn of bonds was issued in a single month. The budget crunch is now over, and so is the Chinese downturn.

We can all argue over whether or not it is wise for China's Communist leaders to keep their country on a permanent caffeine fix and put off the day of reckoning yet again, but there can be little doubt that they are stoking another mini-cycle of growth.

The Caixin composite index of manufacturing and services released this week confirms that the economy bottomed out in June and is now back to trend growth, probably around 5.5pc using the proxy measure of Capital Economics.



Freight shipments have surged 28pc since June. Property sales rose 23pc last month from a year earlier. House prices have been rising nationwide for the past three months. This is not an economy facing imminent collapse.

The risks in the world have not gone away. We still do not know how emerging markets will cope with $4.5 trillion of dollar debts when the **US Federal Reserve raises interest rates** in earnest, nor do we know whether the entire global debt edifice is really stable.

Yet the dangers are a year or two away. Central banks might find that they are behind the curve and have injected too much stimulus into the system long after it was necessary, igniting the fuse on secular reflation. The day they suddenly have to slam on the brakes is when it will turn ugly.