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Summer holidays are over. It’s time to reassess the world economy

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This is the week when the world of work returns to normal. It is often also when economists and financial markets reassess how things are after the summer break. This weekend the leaders of the G20 countries have been making their assessment at a meeting in Hangzhou in China.

How does the world economy look now?

A year ago the markets were in a funk about the Chinese stockmarket and, by extension, the Chinese economy. I argued at the time that the stockmarket weakness was nothing to write home about and, although the Chinese economy had slowed, this was not extraordinary and would not lead to anything like a hard landing.

A year on, this view now seems to be widely accepted. The Chinese stockmarket is roughly flat over the past year, and it looks as though the Chinese economy has grown by 7pc according to the official data, and in reality by perhaps 4.5pc.

Of course, China is not going to be able to grow at the rate it managed a few years ago, but something like 5pc to 6pc is eminently achievable. Moreover, given the scope for effective policy action if the growth of aggregate demand falters, something like these rates of growth should be realised.

In Japan it looks as though Shinzo Abe’s ambitious plans to raise the country out of its torpor are not succeeding. Japan will probably grow by only about 0.5pc this year. Mind you, because of a contracting workforce, this is probably about all the economy is now capable of. Admittedly, this is poor, but the world has had to get used to weak Japanese growth for many years.

Meanwhile, most of the rest of Asia has recently experienced an acceleration in growth. More importantly, worries about the fragility of the US economy have not been vindicated. It will probably grow by about 2pc this year, and employment is still increasing at a decent, although unspectacular, pace, as confirmed by the jobs figures on Friday.

Interest rates are likely to rise soon, perhaps even later this month, although more probably in December. But the pace of increases over the next two years is likely to be moderate. For much of the past year the markets have also been concerned about the global effects of low oil prices.

This seemed paradoxical, because previously low oil prices were thought to be a good thing for the economy, and for a number of countries they have indeed been good this time round. But the markets were worried about the adverse effects of low oil prices on oil producers, including in the United States and, of course, on a large number of countries whose prosperity is heavily dependent upon oil.

In recent months, however, these worries have been, to some extent, allayed. The oil price is off the bottom and seems to have stabilised at about $50 a barrel. Meanwhile, there are signs of stabilisation, if not quite improvement, in some of the countries that the markets have been worried about, particularly Russia.

To my mind, the biggest source of legitimate concern is the eurozone. By its own low standards, recent economic performance in the zone has actually not been bad. Over the past year, the eurozone as a whole has grown by about 1.5pc. Even the Italian economy has managed to perk up a bit.

But the underlying situation is not good. The eurozone economy has benefited greatly from the effects of low oil prices, which have increased consumer real incomes and thereby underpinned consumption. As the effects of last year's falls in oil prices drop out of the inflation rate, the rate of increase of consumer real incomes is set to fall back.

Meanwhile, the Italian banking system continues to be fragile, and across Europe there is considerable anxiety about the EU's future post-Brexit. Brexit has, of course, recently been the dominant factor for the UK. To be fair, on its short-term effect on the economy the jury is still out, and it is likely to stay out for some time, at least until the shape of Britain's new relationship with the EU is crystal clear.

Even then there could be considerable time lags before the full effects are evident in the data.

But, it has to be said, the signs with regard to the immediate impact have been pretty favourable and it looks as though the UK economy has weathered the Brexit storm very well. So much for the serried ranks of "experts" who prophesied imminent disaster. Surprising? I will leave that for you to judge.

Rupert Pennant-Rea, a former deputy governor of the Bank of England, has recently suggested that a sanguine assessment of Brexit's impact will prove to be misleading because price inflation is set to rise substantially as a result of the weaker pound, and this will erode real incomes and thereby weaken consumption. He suggests that the lower pound has made us all appreciably worse off.

However, this judgment could not be more wrong. Even without Brexit, we could not possibly have carried on as we were, with a current account deficit of 5pc of GDP, and in some quarters more than this. Something had to give. The British economy has been in sore need of an increase in net exports. It is not yet clear that this necessarily means lower consumption; it may just mean slower growth of consumption while exports grow much faster.

In any case, it is wrong to blame Brexit for delivering a squeeze on consumers when Brexit has merely been the agent for bringing about a fall of the pound that was absolutely necessary anyway. It is particularly unhelpful to concentrate on the effects of sterling's recent weakness on the spending power of British holiday-makers going abroad.

Yes, they have lost out by being able to buy fewer euros, or dollars, or baht, for their pounds. But this is just a small part of the overall economic picture. Man cannot live by foreign holidays alone.

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