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ASIA AND ITS TRADING PARTNERS: IT IS NOT A VERY BULLISH PICTURE

The real and (rightly or wrongly) perceived economic problems, plaguing the largest single economy of the world, are taking its toll of many of the economies of Europe.

It is only a matter of time before Asian exporters will feel the full impact of what is fast becoming an American *'fungus'*, sweeping the planet.

And all of the (US) President's horses and all of the (US) President's men are unlikely, in a hurry, to be able to put the US economy back on the right path, again.

According to **TARGET**'s research, investment intentions have fallen off dramatically in the **U**nited **K**ingdom (UK), of late, brought about by the turmoil on international financial markets, turmoil which had its roots in the US.

It started in the US housing market as positive equity fell to become negative equity, resulting in multiple foreclosures, following swiftly in the wake of this situation, and, then, the situation graduated to the financial markets, resulting in an international credit squeeze.

Which is what many parts of the world is facing, today.

Many European countries are suffering similarly – France, Germany, Italy, Spain, Greece, and so on.

Earlier increases in bank rates have not helped matter, at all.

The service sector of the economies of Europe appears to have been especially susceptible to the current, tight-money problems; and, many a company's purse strings have been drawn very tightly.

It was noted that domestically orientated manufacturers are deferring investment decisions as it becomes only too obvious that the US fungus will slow economic growth, throughout Europe.

With world growth for the remainder of this year, being a big unknown, there has been a marked reduction in investment intentions.

Tighter credit conditions have impacted on market values of commercial property as well as the finance sectors.

It is not so much about the here and the now, but about the possible future effects of tighter credit conditions on economic growth throughout the region.

External demand for European goods appears to remain fairly firm, at least for the time being, despite difficulties in trying to export to the US.

The fall-off in demand from the US is being offset, to a great extent, by the strength of domestic purchases by Europeans, and by increased sales of goods and services to the Middle East, Asia and Africa, it seems.

Sales, originally destined for the US market, are being diverted to other markets, especially the growing markets.

The translation value of the US dollar vis-à-vis the euro and sterling, especially, are playing their part in muddying the waters in the 2 largest economies of the world: The US and Europe, the latter-mentioned, taken as a whole.

The financial turbulence, facing the economies of the world, is set to take a slice out of the economies of Europe irrespective of the actions of the central banks of Canada, the UK, the European Union and Switzerland.

Even The Bank of England has confirmed this as accepted fact.

Last Tuesday, it was announced that the US Federal Reserve, Bank of Canada, The Bank of England, The **E**uropean **C**entral **B**ank (ECB) and **S**wiss **N**ational **B**ank (SNB) had banded together in order to be definitive as to the action that needed to be taken in order to try to ameliorate the current situation on the world's major financial markets.

The result: The Fed will lend $US200 billion to primary dealers for a term of 28 days, instead of overnight, the intention of this massive loan *'intended to promote liquidity in the financing markets of Treasury and other collateral and thus to foster the functioning of financial markets more generally …'*.

In addition, The Fed authorised increases in its existing temporary reciprocal currency arrangements with the ECB and the SNB, the idea here, being to provide US dollar amounts up to $US30 billion and $US6 billion to these 2 lenders, respectively.

While it is fact that the People's Republic of China (PRC) has created, and is continuing to expand the creation of, a *'hungry'* domestic market, the country will not be immune to the problems, facing the US and Europe, regardless of the actions, taken in the interim by some of the most-powerful banks of the world as a measure to try to stop the rot.

Manufacturing output in Europe fell in January and February, but production for the domestic markets appeared to have been maintained at a fairly healthy pace.

It is unlikely that this situation will persist for very long.

Domestic orders are, already, waning, according to the latest statistics, and a slowdown in production must be the inevitable result of this situation.

As the housing markets of Europe continue to suffer, with prices, falling, causing negative equity for many a family, manufacturers and importers of building materials and consumer goods are feeling the pinch.

Furniture producers in the PRC will start to feel the effects of the fall-off in orders from the US and Europe in the coming quarter as consumers of the largest markets of the Middle Kingdom go to ground and manufacturers hunker down for a very long and, seemingly, dry summer.

Due to the situation in the housing market of the UK, the growth in the construction industry has eased appreciably of late.

A *'soft'* private-sector, housing activity was the chief cause of this situation, necessitating UK construction companies and property developers to try to sell inventories to Asia, in addition to trying to offload properties for which financial commitments had been made, but the plans for which are, still, only on the drawing board.

Commitments to build have fallen off while a large number of projects are being shelved for fear that there will be few takers for the finished products.

<u>The Service Sector</u>

There has been a decided weaker demand for professional and financial services in Europe.

As one would expect, there is reduced labour demand by builders of homes, throughout Europe.

Vacancies in companies are not being filled, particularly in positions where skills are not of a very high standard.

As a result of the above, there has been a further easing in labour-cost increases due to slower growth in the variable component of pay.

Meanwhile, prices are rising throughout Europe due to the record-high price of energy, worldwide, crude oil, oil derivatives, building materials and food imports.

The cost of international freight continues to rise, also.

Fuel surcharges, imposed by shipping companies are commonplace, these days.

It has been noted that there have been material increases in the price of intermediate goods from the PRC and, to a lesser extent, from India.

As domestic prices rise in these 2 countries – the January inflation rate in the PRC, alone, was 8.70 percent – so those increases are reflected in the cost of goods that are sold to Europe.

Compounding the situation is the fact that there has been considerable depreciation in the translation value of sterling, vis-à-vis the US dollar, and a decided appreciation of the euro to the greenback.

A compression in profit margins was the natural result of the above problems.

While all this was taking place, prices in the High Street were rising, reflecting all of the above … and, then, some.

Consumer price inflation is on the move to much higher ground, it seems only too apparent.

Significant increases in the cost of imports of foodstuffs caused upward pressure on prices at the till.

For the PRC, the economy of which is, still, heavily weighted to filling orders for US and European customers, the 2008-year could well turn out to be the most difficult time of the past 5 years.

Time will tell, of course, but the way that things stand at this juncture, one cannot be too optimistic for the remainder of the year.

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