Ahmet Jakupi
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Deflation can be more savage to economic growth than inflation. If expectation sets in that prices are falling, in other words put off buying today as tomorrow the price will be lower, people stop buying and demand sinks. This is the exact reason why it took so long to climb out of the Great depression of the 1930s. Of the 46 countries whose central banks target inflation, 30 are below their inflationary targets. As always, some price reductions are welcome. For instance, the tumbling oil prices in particular, can be as economic stimulus by boosting discretionary spending and reducing overall costs.

However, deflation and wage stagnation are a deadly mix. Roughly, 45 million workers in the rich OECD countries are unemployed. The global expectation of investors is lower than expected inflation. Short term interest rates are at all time lows (near zero). Central banks can not cut interest rates any further to effectively boost spending. The only ammunition left is quantitative easing and other forms of money printing.

A global low inflation threat is a good reason for central banks to keep monetary policy loose. Once the economic conditions merit change, a slow revision of inflation targets upwards can be made.

Imagine both Mario Draghi and Angela Merkel driving down the autobahn, Mario Draghi the understood driver of the car has his foot on the gas pedal to the metal. Angela Merkel keeps pulling harder on the handbrake as Mario seems to gain momentum. The tires are spinning, engine is roaring and the car has stopped moving; Stagnation. Consistent deflation has been present in the Eurozone for more than 12 months. Stagnation and deflation are a dangerous mix. Under this scenario the EU and Europe can't hold out too long.

China, the eternal dragon can not even must up a puff of smoke let alone blazing hot flames. How China comes out of this intact is hard to see. Growth is slowing at a greater pace than desired. Global spending is down. Trade has become very regionalized in the last three years. Lastly, China has failed to ignite its great white hope "consumer spending" amongst its own citizens. In a nation where personal saving rates exceed 50% and very few avenues to invest, Chinese savers have been turning to short term deposits since the collapse of the biggest boom in real estate period. Entire cities were being built in a matter of months at the height of the real estate market.

So what's next? As I have stated many times, the Eurozone and its peripheries must undergo deep reforms. Not enough has been done so far. The longer the Eurozone stales, the deeper China's trade flows to Europe decline.

In North America, a few elements are combining to create the perfect storm. The midterm election points to a Republican overtake. Dropping oil prices will act as quantitative easing since the Fed has made clear it will print no more for now.

The last important element in this jet fuel mix is job creation which has been constantly improving!