The world economy

Switching engines

Global economic growth has become less dependent on American spending

IN RECENT years the American economic locomotive has pulled along the rest of the world, while frugal firms and households elsewhere have preferred to save not spend. So, at least, goes the popular wisdom. Signs that America's boom may be fading have therefore caused concern around the globe. Typically in the past, when America's economy has weakened, the rest of the world soon flagged. But this time-so far, anyway-looks different. The rest of the globe has speeded up even as the American engine has lost steam.

The figures are striking. The annual rate of growth of America's real domestic demand dropped from 4.4% in 2004 to only 1.9% in the second half of last year. The main culprit was the sickly housing market: although consumer spending has held up better than expected, the construction of homes has collapsed. So is the rest of the world also wobbling? On the contrary, many other economies have put on a spurt. Japan's GDP grew by 4.8% at an annual rate in the fourth quarter, mainly thanks to stronger domestic demand. Granted, Japan's GDP figures are notoriously erratic, and this jump follows a poor third quarter. Even so, it was much stronger than expected and gave the Bank of Japan the confidence at last to raise interest rates by another quarter of a percentage point (see page 85). Equally surprising was the euro area's annualised growth of 3.6%. GDP per person is now growing faster in the euro area than it is in America. Domestic demand is also booming in emerging economies in Asia, the Middle East and Russia.

All of this is helping America to sell more abroad. In the year to the fourth quarter, its merchandise exports rose by 15% in value, their fastest pace since 1988. By contrast, import growth slowed to only 4%. In 2006 as a whole, America's sales to China rose by a third, almost twice as fast as its (admittedly larger) imports from that country. Last year was the first since 1997 in which America's exports rose faster than its imports. America's trade deficit is still huge, but it began to narrow at the end of last year, amounting to 5.3% of GDP in the three months to December, down from 6.1% in the same period of 2005. Indeed, by the fourth quarter net trade with foreigners added to America's GDP growth rather than pulling it down.

A reason to be cheerful

The idea that the world economy was being pushed along in an American supermarket trolley was always an exaggeration: the $500 billion increase in America's current-account deficit over the past five years may seem huge, but it is equivalent to an annual increase of only 0.2% of global GDP. The difference now is that the rest of the world is doing more of the carrying.

Of course, countries like Japan, Germany and China still run large trade surpluses, which means they are producing more than they buy. But it is the change in a country's surplus, not its absolute size, which adds to its growth. For example, China's current-account surplus hit a new record of around 8% of GDP last year. But according to Goldman Sachs, the increase in China's net exports accounted for 2.2 percentage points of the country's 11% GDP growth last year, down from 2.7 points in 2005. The investment bank thinks this contribution will shrink to 1.6 points this year. Most of China's growth comes not from exports but from domestic demand-and consumption is stronger than the official figures suggest (see page 87).

These are early days, so don't get carried away. The real test of the rest of the world's stamina will come over the next year, as the negative wealth effects of falling home prices start to weigh on American consumer spending. But also take some confidence from the evidence thus far: the world economy may be able to cope without American shoppers. •

Fonte: The Economist, v. 382, n. 8517, p.18, 24 Feb. 2007.