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Global Risk Watch Newsletter

Has the prospect of 'Secular Stagnation' receded?

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Overview Macroeconomic and Financial Risks (Trends & Topics)

◆Has the prospect of 'Secular Stagnation' receded? (Tsuyoshi Oyama, Partner/Head of Center for Risk Management Strategy at Deloitte Touche Tohmatsu LLC.)

In the last month' volume, we have pointed out the synchronization of bond and equity markets, both of which have been overheated thanks to two market prerequisites that (1) single resilient US economy would lead the world economy, and: (2) Quantitative easing (QE) due to long-standing disinflation in EU and Japan would continue for a while – a wobble in both prerequisites resulted signs of fluctuations in both asset markets.

The past one-month's trends can be observed as enduring doubts looming over the prerequisite of 'long-standing disinflation in EU' on one hand, while various indicators supported the 'resilient US economy' and gradually dispelling the concerns of its slowing down. As the result, the overall strength of advanced economies has become noticeable. In the case of Europe, for example, we have finally observed recovery in France and Italy, which have then firmed the steady recovery process of Eurozone economy. Another good news was a gradual rise of HICP, of which May number has recovered to 0.3% yoy level. Meanwhile in Japan, Q1 GDP growth reached annualized rate of 3.9% on the backdrop of strong capital investment. There has also been a sign of household consumption recovery emerging. And finally, US recent employment and retail sales indicators also showed strong signs of recovery from the disappointed negative growth in Q1 due to bad weather and other unfortunate factors.

These developments shall call for a new set of fluctuations in the financial market. Specifically, surging interest rate in bonds market. The deflationary concerns have receded in Europe, while the anticipation of policy rate hike at an earlier timing has increased in US. Thus, the likelihood of 'secular stagnation' that sustained the recent overheated bonds market have slightly decreased. Simultaneously, stronger economy in advanced countries with an upward trend of interest rate hike led to a significant capital outflows from the sluggish emerging economies. Maybe owing to the halt of rebounding oil prices, most of emerging economies regardless of oil producing or not have concurrently suffered from currency depreciation and declining stock prices.

The composition of 'Strong economy in advanced countries vs. unable emerging economies' is forming, yet remains at an uncertain stage. Particularly, the underlying macro-economy in the advanced countries remained with a strong reliance on quantitative easing. Whether these countries can emerge away from such condition is the focal point moving forward. As the economy continue to remain on a gradual upward trend, the 'flip side' (e.g. fiscal support for southern periphery countries in Europe, and fiscal finance in Japan) supported by the quantitative easing should also be widely noticed. Moving forward, these dilemmas may create further uncertainties in the market.

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