Gloomier Global Economy

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The U.S. economy has regained its health. Outside of the U.S., the outlook has deteriorated. Not surprisingly, the stock markets around the world have become volatile and, contrary to expectations, long-term interest rates have declined. These are signs of weak economies, not strong and healthy economic conditions. Stock and bond markets are like temperature gauges for economies. What are the financial markets telling us about the economies of the key countries? Geopolitical turbulences from Middle East to Eastern Europe are one of the reasons. Economy is another.The U.S. economy seems to be the healthiest of the group. Employment gains have been healthy. As more and higher paying jobs are available, people are rejoining the labor force. The unemployment rate has been falling faster than anticipated. After the first quarter decline in economic growth due to poor weather, the U.S. economy has rebounded nicely during the second quarter. Earnings for the U.S. companies have been good. Among the S&P 500 companies that have reported results for the second quarter, two-thirds of the reports beat the analysts' estimates, the highest percentage since mid-2011. Furthermore, the revenue and earnings gains have been broad-based. Outside of the U.S., the dark clouds have returned. In the Eurozone, economic growth has ground to a halt. Dismal performances in Germany, Italy and France are worrisome. The currency block's economy today is smaller than it was before the financial crisis almost six years ago. Germany has joined Japan in sporting long-term bond yield of below 1 percent. The geopolitical tensions over Ukraine and Russia have begun to take its toll. In the Eurozone, the biggest concern is the threat of deflation. In July, price increase was only 0.4 percent from a year ago. In order to prevent the Eurozone economy from slipping into deflation, the European Central Bank (ECB) has begun to take action beginning last June. The U.S. style Quantitative Easing is a possibility. In Japan, Abenomics has pulled the economy out of deflation, a significant achievement, but as a result of the sales tax increase last April, economic growth during the second quarter plunged. Another sales tax hike is scheduled for sometime next year. Production and exports are falling as unsold inventories build. Also, there is growing discontent in the economy. Wages adjusted for inflation have fallen 3.8 percent from a year ago as employers try to hold down costs. Most of the jobs created are part-time and temporary. Regular full-time employment has fallen during Mr. Abe's tenure. In China, the government has resorted to periodic mini-stimulus ranging from building railroads to low income housing in order to meet the goal of 7.5 percent in economic growth. Exports have rebounded. In addition, the central bank has supplied ample credit to the economy to keep economic growth on track. A worry is that China's economic growth would dip below the government's goal once the effects of the mini-stimulus measures work itself out. Despite the concerns, Beijing has the resources and the leverage to keep the economy growing. In Korea, economic growth during the second quarter was disappointing as a result of the ferry disaster in April. Private consumption was weak. Recently, a new economic team was installed and a set of fiscal stimulus program was announced. In addition, measures were taken to make it easier for consumers to borrow money. This should improve the property-market conditions leading to a positive wealth effect. Separately, the Bank of Korea has cut the key interest rate and has created a new lending facility for small- to medium-sized companies. The global economy is not out of the woods. Even in the U.S., where the outlook is relatively good, economic growth will be at best moderate. In other parts of the world, economic prospects remain cautious. While major corrections in the stock markets are not around the corner, the best days are behind them. Likewise, long-term yields won't be rising significantly.