The Federation of International Employers
Your Multinational HR Alliance

Head office: Adam House, 7-10 Adam Street,
The Strand, London WC2N 6AA, UK
Tel: (0044) (0)20 36084412
Tel: (+357) 222 56381
https://www.fedee.com
press@fedee.com

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Feast or Famine? The truth about global prospects for growth

Although the International Monetary Fund's (IMF) July forecast was that global GDP would rise from 3.2% this year to 3.5% in 2020, all the other forecasts and economic evidence has been pointing to a sharp cut in growth next year. FedEE has been forecasting, for the last year, that we would be in a global recession by Q3 2020 and many other economic forecasters are now falling in line with our projections. Why then, all the IMF optimism?

The inescapable fact is that the OECD Composite Leading Indicator has been the most reliable predictor of economic cycles in modern times and it has not been lower than the last published figure – for June 2019 – since the last recession in August 2009. What it is also necessary to note is that the IMF is not as reliable as everyone assumes. It actually has an index of "trade uncertainty" that is based on how many times the words "uncertainty" or "uncertain" are cited in Economist Intelligence Unit reports. On that basis why bother to collect economic data at all? Much easier and better to count the number of people searching online for a new car and use that as an indicator of GDP movements.

GDP is, we agree, a very uncertain statistic in itself - as there are many governments around the world that seek to use data to impress investors, raise their economic status, maintain domestic confidence or gain international aid. In August, for instance, the Vietnamese government actually found an extra 25.4% of its total national wealth was missing and added it to its GDP figure. Its explanation was that between 2010 and 2017 it had failed to record the output of 76,000 companies.

Then this week we have the revelation that the UK's GDP is not falling at all. In fact, the "provisional figures" for July suggests that GDP is precisely 0%. So, does this mean all is OK - or was the figure snatched from thin air just in time for the big Brexit showdown?

Let us take the UK as a useful case study in the questionable integrity of data collection. The UK balance of payments deficit is running on a moving three-month average at a modern all-time high. It is haemorrhaging at a rate of over £4bn a quarter and is, like it has always done in recent years, been kept from being much worse by a healthy financial services positive trade balance. According to the Office for National Statistics (ONS) the latest available data for financial services relates to the first quarter of this year. This puts the financial industry trade balance at +£1.03bn, a bit down on the first quarter of 2018, but up on the pre-Brexit vote figure of just under £1bn in the first quarter of 2016. However, all the evidence from the City of London is that financial

FedEE Corporate Services Ltd: Registered in Cyprus No HE356183
Registered Office: 10 Pithagorou, Strovolos, 2040 Nicosia, Cyprus. EC VAT No. CY10356183Y
Head Office: Adam House, 7-10 Adam St, The Strand, London WC2N 6AA,UK.

service firms and major funds have been moving out of the UK to Frankfurt, Paris, Singapore and even Dublin. So how can such a balance be sustained?

The truth, of course, is that balance of trade statistics are so inherently difficult to collect, especially for the service sector, that they can easily be “adjusted” for a range of necessary purposes. Look on the ONS website and there is a string of adjustments after the fact that are all put down to "error". When it comes to balance of trade in goods the job of hiding the truth is much more difficult. The UK government has been demonstrating its prowess as a trading nation by visiting other countries around the world to find trading alternatives to the EU after Brexit. There has also been a lot of political attention to playing down imports - actually claiming that, as the pound loses its value, imports are falling. That is certainly not the way that the laws of economics work. The reverse must be true - unless the UK economy is in a very, very bad way.

According to The Secretary-General of the Federation of International Employers (FedEE), Robin Chater, "*The UK keeps sucking in imports from many countries outside the EU at increasingly high rates. For instance, the trade balance with China has deteriorated by 31% since the beginning of 2016 and with India by 220% over the same period. The only major country with which the UK has improved its trade balance over the last three years has been Russia. Whatever happened to those USA and EU trade embargoes? The IMF might be right about the world economy next year. I hope it is. But as we are all running blind - thanks to statistical manipulation, incompetence (or both) - it is going to be a guessing game how things really stand.*"

For further information please contact Eustace Fernsby at the FedEE Press Office on press@fedee.com and 0044 203 608 4412.

What is FedEE?

The Federation of International Employers (FedEE) is a leading corporate membership organisation for multinational companies. It was founded in 1998, with financial assistance from the European Commission. Today it is an independent body with corporate members all around the globe.