

From: Damon de Laszlo

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DABERIAM XVII

Before putting pen to paper, I sometimes read my previous report, although often I don't, as it is difficult not to be influenced by one's previous comments.

However, since May not a great deal has happened to change my view of the world, except in my domestic life. The arrival of a grandson, Arthur, on the 19th June delightfully disrupted home life for a while. Further disruption was provided by my son's epic return to London on the 4th of July, having spent 26 days 21 hours and 14 minutes rowing around Britain with three companions in a 23-foot boat. This has earned the four intrepid oarsmen a place in the Guinness Book of World Records as it is the first time anyone has been nutty enough to make an attempt – a task considered rather more difficult than rowing across the Atlantic. Do visit their website – www.gbrowchallenge.com

The Federal Reserve Bank's quarter point hike in interest rates last week was well trailed and will probably be followed by at least one more hike before the end of the year.

The French rejection of the EU constitution, along with the Dutch, caught no one by surprise except apparently Brussels and the French Government. The relief from other Governments around Europe that they were not the ones to derail this venture was as interesting as the pronounced determination of the respective Heads of State to continue with the process anyway. While I am keen on the concept of a European free trade area, the political integration has always seemed to me to be an aberration and a dangerous bureaucratic dream that could lead to major instability in Europe. It's difficult to see which way things will go but I fear that this incompetently managed piece of legislation will cause unnecessary instability in the EU and this is not good news economically.

Back to the major world players, the US economy is going well, wages and employment are holding up and indeed increasing. Productivity is also improving and capital expenditure is going well. While I would expect pressure on margins, new capital expenditure is anecdotally improving productivity at a faster than expected rate. US inflation just seems to be creeping up and the Fed will continue to raise interest rates; from a stock market point of view this will be countered by the recent up-tick in M4.

On the trade front, US exports are rising while the growth of imports is declining, implying a small move in the right direction vis-à-vis the US balance of trade.

Asia seems to be moving along nicely with China apparently slowing. The increased US Government pressure on China to revalue is probably postponing the day on which they will act. In any event, it won't make much difference to the US balance of trade. While the Chinese economy is growing, corporate profitability is negligible, it's becoming a sort of "not for profit" economy!

India, on the other hand, seems to be fulfilling an old promise of a genuine profitable economic expansion and, along with Japan, is beginning to add weight to the Asian economic growth.

Europe shows no sign of being able to create a world-class institution. France, where in effect only half the population is in productive employment, is rudderless. The Government has lost control of the reform process and is unable to implement any reforms.

Italy, running a deficit of 7% of GDP, is getting into deeper and deeper economic problems. The only bright spark is Germany, where its industry seems at last to be focussing on getting its own act together regardless of Government.

This leaves the UK where economic growth is collapsing under the weight of "Government Initiatives"; bureaucracy strangles slowly but surely and as the proportion of the population that is working in the Government sector or on entitlements nears 50%, huge Government deficits and the inevitable tax increase will bring Britain into line with the rest of Europe.

Damon de Laszlo
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