German Companies Signal Looming Recession After Demand Plunges

German manufacturers are reinforcing concern that Europe's largest economy is headed into a recession.

A nationwide gauge showed orders at factories and services companies are dropping at the fastest pace in six years, and more companies now expect output to fall than rise over the next 12 months. That's the first time that's happened since 2014, according to the Purchasing Managers' Index from IHS Markit.

The peek into the engine room of European industry provides a damning snapshot of the economy, which shrank in the second quarter. The persistent weakness – driven in particular by mounting global trade tensions, car industry woes and slowing demand in China – doesn't bode well for the broader euro area.

European Central Bank policy makers have already started laying the groundwork to add monetary stimulus, and are expected to cut interest rates at their next meeting in three weeks. In Germany, the government has made only tentative steps toward a fiscal stimulus program aimed at supporting growth.

“Somehow they are not looking at this data,” said Carsten Brzeski, chief German economist at ING in Frankfurt. “The German government should react. We have this stagnation of the entire economy now and we really need some fiscal stimulus.”

While the headline German composite PMI unexpectedly rose in August to 51.4 from 50.9, the index for factories remained far under 50, signaling a seventh month of contraction. Backlogs of work across both sectors fell for a 10th month and the pace of hiring slowed, with employment in manufacturing declining at the fastest pace in seven years.

What Bloomberg’s Economists Say…

“There’s a little light at the end of the tunnel for Germany’s economy. The PMI — a trusted gauge of economic activity — picked up a little in August. The big risk is that a fresh blow to manufacturing materializes — the U.S. goes ahead with tariffs on EU car exports, for example — or that weakness in the industrial sector spreads to services.”

Composite figures for France and the euro area also beat expectations, and the euro rose. Bunds declined, though 10-year yields are still well below zero.

“Germany remains a two-speed economy, with ongoing growth of services just about compensating for the sustained weakness in manufacturing,” said IHS Markit economist Phil Smith. “Although improving slightly, the survey’s output data haven’t changed enough to dispel the threat of another slight contraction in gross domestic product in the third quarter.”

– With assistance by Matthew Miller

Qatari investments in Russia around $13bn, says official

(MENAFN – Gulf Times) Amid strengthening political, economic, and cultural relations between Qatar and Russia, Qatar's investments in the Russian Federation are estimated at around $13bn, according to an embassy official.

Rashid bin Majid Awad al-Suwaidi, first secretary of the embassy of the State of Qatar in Russia, made the statement on Monday in a meeting with Qatar Chamber officials, who received a visiting Russia delegation.

Citing the country's 19% share in Russian oil giant Rosneft, al-Suwaidi noted that Qatar's investments have witnessed a 'strong continuing in Russia.

The meeting, led by Qatar Chamber assistant director general for Government Relations Ali Busherbak al-Mansouri, discussed Qatar’s participation in the St Petersburg International Economic Forum slated in Russia next year.

The forum is an annual Russian business event for the economic sector, which has been held in St Petersburg since 1997 under the auspices of the Russian president since 2005.

Al-Suwaidi said the Russian delegation’s visit to Doha aims to facilitate the participation of Qatar in the forum, which is attended by more than 20,000 participants and more than 1,000 Russian companies, as well as 500 companies from other participating countries.

He noted that the importance of Qatar’s participation in the forum lies in the signing of trade agreements and enhancing co-operation between participating Qatari companies and their counterparts from other countries.

The forum, al-Suwaidi said, will witness the participation of officials and Qatari delegations comprising business owners, as well as on the cultural side, considering that last year was the year of cultural co-operation between Qatar and Russia.

Al-Mansouri said the forum represents an important opportunity to discuss the strengthening of co-operation relations between the Qatari private sector and its Russian counterpart, in addition to reviewing the attractive investment climate in Qatar and promoting the Qatari economy and private sector projects.

He also noted that the forum would explore the possibility of strengthening alliances between Qatari businessmen and their Russian counterparts to establish joint ventures whether in Qatar or Russia, adding that the Chamber will encourage Qatari companies to participate in the forum and the accompanying exhibition.

Other members of the visiting Russian delegation include Ekaterin Sharbatenko, Andrei Igorov, and Diana Charmadova, who delivered a presentation about the forum and its objectives, as well as its significance to Qatar and its participating companies.

The inequality of nations

MILAN – The eighteenth-century British economist Adam Smith has long been revered as the founder of modern economics, a thinker who, in his great works “The Wealth of Nations” and “The Theory of Moral Sentiments”, discerned critical aspects of how market economies function. But the insights that earned Smith his exalted reputation are not nearly as unassailable as they once seemed.

Perhaps the best known of Smith’s insights is that, in the context of well-functioning and well-regulated markets, individuals acting according to their own self-interest produce a good overall result. “Good,” in this context, means what economists today call “Pareto-optimal”, a state of resource allocation in which no one can be made better off without making someone else worse off.

Smith’s proposition is problematic, because it relies on the untenable assumption that there are no significant market failures, no externalities (effects like, say, pollution that are not reflected in market prices), no major informational gaps or asymmetries and no actors with enough power to tilt outcomes in their favor. Moreover, it utterly disregards distributional outcomes, which Pareto efficiency does not cover.

Another of Smith’s key insights is that an increasing division of labour can enhance productivity and income growth, with each worker or company specialising in one isolated area of overall production. This is essentially the logic of globalisation: the expansion and integration of markets enables companies and countries to capitalise on comparative advantages and economies of scale, thereby dramatically increasing overall efficiency and productivity.

Again, however, Smith is touting a market economy’s capacity to create wealth, without regard for the distribution of that wealth. In fact, increased specialisation within larger markets has potentially major distributional effects, with some actors suffering huge losses. And the refrain that the gains are large enough to compensate the losers lacks credibility, because there is no practical way to make that happen.

Markets are mechanisms of social choice, in which dollars effectively equal votes; those with more purchasing power thus have more influence over market outcomes. Governments are also social choice mechanisms, but voting power is, or is supposed to be, distributed equally, regardless of wealth. Political equality should act as a counterweight to the weighted “voting” power in the market.

To this end, governments must perform at least three key functions. First, they must use regulation to mitigate market failures caused by externalities, information gaps or asymmetries, or monopolies. Second, they must invest in tangible and intangible assets, for which the private return falls short of the social benefit. And, third, they must counter unacceptable distributional outcomes.

But governments around the world are failing to fulfill these responsibilities, not least because, in some representative democracies, purchasing power has encroached on politics. The most striking example is the United States, where electability is strongly correlated with either prior wealth or fundraising ability. This creates a strong incentive for politicians to align their policies with the interests of those with market power.

To be sure, the Internet has gone some way towards countering this trend. Some politicians, including Democratic presidential candidates like Bernie Sanders and Elizabeth Warren, rely on small individual donations to avoid becoming beholden to large donors. But the interests of the economically powerful remain significantly overrepresented in US politics, and this has diminished government’s effectiveness in mitigating market outcomes. The resulting failures, including rising inequality, have fuelled popular frustration, causing many to reject establishment voices in favour of spoilers like President Donald Trump. The result is deepening political and social dysfunction.

One might argue that similar social and political trends can also be seen in developed countries, Italy and the United Kingdom for example, that have fairly stringent restrictions on the role of money in elections. But those rules do not stop powerful insiders from wielding disproportionate influence over political outcomes through their exclusive networks.

Joining the "in" group requires connections, contributions, and loyalty. Once it is secured, however, the rewards can be substantial, as some members become political leaders, working in the interests of the rest.

Some believe that, in a representative democracy, certain groups will always end up with disproportionate influence. Others would argue that more direct democracy, with voters deciding on major policies through referenda, as they do in Switzerland, can go some way towards mitigating this dynamic. But while such an approach may be worthy of consideration, in many areas, such as competition policy, effective decision-making demands relevant expertise. And government would still be responsible for implementation.

These challenges have helped to spur interest in a very different model. In a "state capitalist" system like China's, a relatively autocratic government acts as a robust counterweight to the market system.

In theory, such a system enables leaders, unencumbered by the demands of democratic elections, to advance the broad public interest. But with few checks on their activities, including from media, which the government tightly controls, there is no guarantee that they will. This lack of accountability can also lend itself to corruption, yet another mechanism for turning government away from the public interest.

China's governance model is regarded as dangerous by much of the West, where the absence of public accountability is viewed as a fatal flaw. But many developing countries are considering it as an alternative to liberal democracy, which has plenty of flaws of its own.

For the world's existing representative democracies, addressing those flaws must be a top priority, with countries limiting, to the maximal extent possible, the narrowing of the interests the government represents. This will not be easy.

But at a time when market outcomes are increasingly failing to pass virtually any test of distributional equity, it is essential.

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