

Will the dominoes keep falling?

The dominoes keep falling but is there a gap in the chain of dominoes that will prevent the UK economy tumbling down like some of the other world economies are? Some commentators feel that given we have recently experienced one of the worst falls in the stock markets than seen in the previous 4 years this could affect the wider UK economy. The world stock markets closed off the last quarter with a decline of between 7 and 15%, the worst hit being Shanghai (falling nearly 25%). Is the fall in world stock markets going to effect the wider economy in the UK?

However Shanghai is a far smaller stock exchange than other exchanges and therefore its greater demise could be explained by what is happening in China. The reality is China has tried to rebalance its economy away from exports and towards domestic consumption. China devalued its currency in August with a view to achieving a slower sustainable growth, this will of course have impacted on the decline in the stock exchange. The focus on domestic consumption for China will affect many countries which are reliant on commodity export to China, such as Australia. However given the UK's export position with China is smaller, when compared to other developed economies, this limits the UK exposure to China's slow down.

The UK is still benefiting from some of China's investment in the UK notwithstanding the rebalancing of the Chinese economy. This is demonstrated by the recent announcement by George Osborne of potential investments by Chinese Investors worth £11.8 billion in respect of HS2. Clearly the effects of this will have a significant impact on the UK economy with infrastructure projects including cross-rail in London, which will create employment opportunities in wider sectors such as second and third tier suppliers and service industries supporting the contractors. Therefore the impact is wider than just new rolling stock. You have to think of the commitment for HS2 as being a flywheel which takes a long time to start but once started the momentum it creates in the economy will continue for many years to come.

In my view it is having the vision to start infrastructure projects of this kind, as well as the forethought to put in place support mechanisms for manufacturers, that will help support the domino that is the UK economy and avoid it tumbling over by other faltering economies.