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OFF THE NEWS

Europe Worse Than Japan's Lost Decade?

Markets and market commentators have failed to notice that the decade of the euro has been far more catastrophic than Japan's "lost decade."

On all these vital measures—GDP growth, debt, labor costs, and labor productivity—the whole era of the euro from beginning to end has been catastrophic for the economies that comprise the common currency area, both separately (including Germany) and collectively, by making them less competitive not only against the dynamic emerging economies but also against the mature economies of the United States and Japan.

GDP. Eurozone GDP grew more slowly during the euro era than did Japanese GDP during the "lost decade."

Debt. At 5.7 percent, euro era debt growth in the eurozone is three times faster than that of Japan in the "lost decade."

Overall Productivity. Over the course of its "lost decade," Japan had an average annual productivity growth of 3.4 percent—more than three times eurozone productivity growth in the era of the euro.

Manufacturing Productivity. During its "lost decade," Japan had an average annual manufacturing productivity growth of 3.6 percent, almost twice as fast as the eurozone's from 2002 onward.

Manufacturing Labor Costs. During its "lost decade," Japan controlled the growth of its manufacturing labor costs at 1.1 percent—a mere 12 percent fraction of the eurozone rate of growth.

—Criton Zoakos

Better Late Than Never

"In just the last two years, oil production in … America has increased by more than two million barrels per day (and by 37 percent), from 5.52 million barrels per day in July 2011 to 7.55 million barrels per day last week, and has completely reversed a multi-decade decline in U.S. oil output. Amazingly, it took more than twenty years for U.S. oil output to decline by two million barrels per day between 1989 and 2011, and then only twenty-four months to completely reverse that decline with a two million barrel per day increase in oil output since the summer of 2011.

—Mark Perry
The American

Drilling the Bakken formation, North Dakota.

Ugly Chinese Facts

NOT GETTING RICH ON CHINA

"China's twenty-year economic boom has boosted the wealth of its 1.3 billion citizens at the fastest pace worldwide and spawned some of the biggest companies in history. Foreigners earned less than 1 percent a year investing in Chinese stocks, a sixth of what they would have made owning U.S. Treasury bills.

"The MSCI China Index has gained about 14 percent, including dividends, since … 1993. That compares with a 452 percent return in the Standard & Poor's 500 Index, 322 percent in the MSCI Emerging Markets Index, and 86 percent from Treasuries. Only the MSCI Japan Index had a weaker performance among the ten largest markets, losing about 1 percent."

—*Bloomberg*

INVESTMENT MORPHINE?

"Between 2000 and 2010, China has added 28,000 square kilometers of urban space, the equivalent of 322 Manhattans, much of which was devoted to industrial development and housing."

—Wall Street Journal

WHAT SHIFT TO CONSUMPTION?

On average, Chinese save 30 percent of their disposable incomes, up from 23 percent a decade ago.

—*Louis Kuijs,*
Royal Bank of Scotland

INCREASINGLY A CREDIT ILLUSION

Comparing the rapid rate of credit creation to the slowing rate of GDP growth, it appears each $1 of new credit in China now yields only 17 U.S. cents in GDP growth compared to 83 cents of growth per credit dollar in 2007.

—*Bloomberg*

A LEHMAN IN THE MAKING?

China's shadow banking activity, which extends financing to high-risk sectors, has doubled since 2010 and is now valued at $6 trillion, or 70 percent of China's GDP.

—*JPMorgan Chase*

Ugly American Facts

CRUCIAL HISTORY LESSON

The ten-year interest rate on U.S. Treasury notes has in recent years moved within a range of roughly 1.5 percent to 2.5 percent. In mid-2007 the rate was at 5 percent. Since mid-1976, the ten-year rate has averaged 6.9 percent.

WEAKENING INFORMATION-GROWTH LINK

From 1995 to 2004, non-farm labor productivity increased more than 3 percent per year, with half the improvement coming from information technology. Since 2004, average annual gains in productivity growth have been halved. Information technology has provided roughly a third of the gains.

—*Federal Reserve*

GROWTH SCORECARD

On the basis of purchasing power, emerging markets this year accounted for more than half of world GDP.

—*International Monetary Fund*

WASHINGTON: CALL YOUR OFFICE!

From 1960 to the late 1990s, 30 percent of developing world economies managed to increase their per person output faster than America did. Since the late 1990s, however, 73 percent of developing countries outpaced America by an average of 3.3 percent per year.

—*Arvind Subramian and Martin Kessler,*
Peterson Institute for International Economics

BOND BLUES

"Investors are cashing out of bonds but remain hesitant to plunge into stocks, preferring instead to buy money market mutual funds despite their low returns. The surprise move highlights persistent investor anxiety with equities even as stock indexes reach new highs. Investors withdrew an estimated $43 billion from taxable bond mutual funds [in June 2013], the largest-ever monthly outflow."

—Wall Street Journal