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The world economy

America drops, Asia shops

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Thanks to the vigour of Asia's consumers, it is a good time for the American economy to slow



IT IS a commonplace that American consumers have kept the world economy spinning. Asians are frugal, Europeans are gloomy, so if Americans do not keep spending as fast as they have been lately, the world economy is in trouble.

That view will be tested over the next couple of years as Americans adjust to the end of their housing bonanza. By virtually every measure America's housing market is in trouble. Home sales and residential construction are tumbling, the overhang of unsold homes has soared and, according to some statistics, house prices have started to slide. And despite the odd bit of good news, such as this week's figures showing that housing starts rose unexpectedly in September and builders' gloom had lifted slightly, the painful truth is that America's housing adjustment probably has a lot further to go.

The effect of that adjustment on Americans' spending has yet to be felt. So far, the housing bust has hit builders most. America's GDP growth slowed to a crawl over the summer as builders cut back. Consumers have barely noticed, mainly because unemployment remains low and tumbling fuel prices have boosted their bank balances and buoyed their spirits. Petrol prices have fallen by almost 30% over the past two

months. The strength of consumer spending has led many economists to argue that America is headed for a soft landing. Perhaps, but as the housing bust deepens, even the most spendthrift Americans will keep a tighter grip on their wallets. America may avoid recession, but it won't avoid a slow-down. Will it drag the world economy with it?

The reason it will not is that the common view of the American consumer as the engine of the world economy is flawed. IMF figures show that Asia, not America, has been the main driver of global demand, powering the world economy through its fastest five-year period of growth since the early 1970s. That is not just because Asians are producing so much more, but also because they're buying so much more. Asian consumers are on a spending spree, splashing out on anything from mobile phones to designer clothes.

They know how to spend

Asia is the world's fastest-growing consumer market. The IMF forecasts that total household spending there will rise by almost 7% in real terms this year. In comparison, the 3% growth in American consumption looks almost parsimonious. Although America's consumer spending is still larger than the whole of Asia's in current dollars, the growth in Asian spending this year will be half as big again as that in America. Asia's consumer market already exceeds America's if converted at purchasing-power parity (which makes sense, because housing and domestic services are much cheaper in poorer countries, leaving more of a given sum to spend on consumer durables and the like). No wonder Wal-Mart, the world's biggest retailer, is eager to expand in China. This week it agreed to buy the country's second-largest hypermarket chain. International retailers are battling to get a stake in China as rising living standards and rapid urbanisation create masses of new consumers. On today's trends, the consumer market there, measured in PPP, will overtake America's by 2020.

Economists, who tend to be less excitable than retailers, point out that Asian consumption levels are still fairly low. In Asia, household consumption accounts for only around 55% of GDP on average, compared with 71% in America. But it is the pace of the increase in consumer spending as much as its share of GDP that determines overall growth. And the lower consumption's current share of GDP, the more scope there is for it to grow.

Still, however bouncy Asian consumers are feeling, slowing growth means that America will buy fewer goods from the rest of the world. So the big question is how much the rest of the world depends on exporting to America. And the answer is: less than is generally thought. Smaller Asian economies, notably Taiwan, are heavily export-dependent. But the bulk of growth in China, India and Japan in recent years has been driven by domestic demand (see [article](#)).

It is true that China runs a large current-account surplus with America and rising net exports have contributed almost two percentage points of China's growth over the past year, but even without that boost, China's GDP growth would still have been an impressive 8.5%. Moreover, America is not the only importer. Indeed, its share of world imports has fallen from 21% to 16% over the past five years—further proof that demand is strong elsewhere. If America imports less, Asia's GDP growth will slow, but by less than doomsters predict.

Buoyant Asian demand should help keep Europe afloat, too, for European exporters are a lot more dependent on Asia, and a lot less dependent on America, than they used to be. Exports to Asia last year were €244 billion, €44 billion higher than in 2001. Those to America were, at €185 billion (\$230 billion), only a little more than they were four years ago.

Europe cheers up

European demand should also do its bit for the world economy. Europe's recovery is not, as is widely held, purely export-driven. Most of the euro area's current growth comes from domestic demand, as spending by firms and households has perked up. Third-quarter GDP figures are likely to show the euro-area economies outpacing America's for a second consecutive quarter. The euro zone has a reasonable amount of spare capacity, which could allow it to grow above trend for a few years. And European consumers have not been as profligate in recent years as American ones, so they have the scope to reduce their saving and spend more. As a result, the euro area is likely to make a bigger contribution to global growth over the next few years than it has of late.

Asia's growth has changed the global economy in a lot of ways, mostly for the better. One of them concerns the rest of the world's vulnerability to the vagaries of the American economy. In the past, American recessions meant global recessions. But this time round, even if America drops sharply, the world won't stop.