

GOVERNMENT

Consumer confidence returning, but political risks remain

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Economic outlook is positive, but politics risks growth continuing; Image courtesy of Aventura Mall

By JEN KING

LISBON, Portugal The dust of the three successive shocks of the last decade the commodity price collapse and the financial crisis of Europe and the United States have settled and economic recovery is now synchronized globally.

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During "The Economic Outlook" session at the Financial Times' Business of Luxury Summit May 15, the former president of the European Commission and former prime minister of Portugal spoke with the FT's Martin Wolf, CBE about how politics and economics have become inexplicably intertwined. The shocks of the last year, namely the Brexit vote, the election of President Donald Trump and the rise of populist, nationalist politics in France, did not hamper economic growth, with the Eurozone, United Kingdom and the U.S. all seeing decent recovery.

"[Consumers] have adjusted to it," said Martin Wolf, CBE, associate editor, chief economics commentator at the **Financial Times**. "While the consequences of that is synchronized recovery, basically every significant economy is now growing to a greater or lesser extent, than since before the economic crisis.

"The big question, of course, is how long will this last and how strong will it be? There is a very good story you could tell," he said.

"It goes something like this, confidence is returning. Confidence in business will finally lead to an investment upswing. Investment has been very weak everywhere except China since the global financial crisis. Once that picks up, we get productivity growth and an underlying strong dynamic in the world economy."

Trade trepidations

Consumers have more or less adjusted to the political climate and economic state of today's markets, there are still risks that could impact global stability.

Mr. Wolf explained that there will be a populist backlash as the legacy of these votes will be long lasting and remain in consumer's memories for years to come.

There is also concern about the Trump administration's protectionism and the impacts of nationalistic U.S. policies.

Also of worry is the extent of the Trump administration's financial deregulations and if it will lead to a repeat of dangerous credit.



From left to right: Martin Wolf, CBE and Jose Manuel Barroso at the FT Business of Luxury Summit

The stability of Chinese growth and the nation's reliance on debt need to be considered as well.

Finally, Mr. Wolf stressed that the effects of European, Chinese and U.S. policies have an impact on emerging countries. Many of these policies will cause rising interest rates and dollar value, which will cause financial strain on economies that are still developing.

While these risks are relevant and their impact is yet to be fully determined, the global economy is forecasted to grow this year and next after many years of downgrades.

Trade is also on pace to continue its growth trajectory after a period of stagnation in 2016.

Political perspectives

From a political point of view, the world at large is mainly stable, but risks still remain.

For Europe, the heart of the luxury industry, populist and nationalist sentiment has risen in popularity. The growth of these ideologies is worrisome for Europe as the concepts are fundamentally against what Europe stands for and its mindset.

While the U.K.'s Brexit decision, which will end its E.U. membership, is a complex issue ([see story](#)), the worry that French voters would have elected Marine Le Pen would have been even more detrimental to Europe's overall health.

If France had not elected Emmanuel Marcon, with 66 percent of citizens voting for him ([see story](#)), there would have been a fundamental impact on other countries in the E.U.

As FT's Mr. Wolf suggested in his session introduction, today's political climate is intertwined with economics. Though social issues, such as refugees and E.U. and U.K. residents' civil rights, are hot bed topics of discussion, trade agreements are a main concern for economists.

Jose Maunel Barroso, chairman of Goldman Sachs International, and the former president of the European Commission and former prime minister of Portugal, explained a pressing concern is how President Trump reworks U.S. trade agreements.

In Mr. Barroso's personal opinion, the U.S. leaving the TTP is a mistake because it will pull out the "red carpet" for China. But, the U.S.' trade policy updates may lead to great opportunities for the U.K.

The U.K. is in a clever position and can serve as a bridge between Europe and the U.S. Economically speaking, a trade agreement between the U.K., Europe and the U.S. makes a lot of sense.

As for trade agreements between the E.U. and the U.K., Mr. Barroso is optimistic, but acknowledges the challenges the financial services sector will face as the two part ways. Although the current situation is frustrating, both sides do not want outright failure and he believes that compromises will be established similar to how the E.U. has agreements with Canada, South Korea and Peru, among many others.

"A transitional phase is unavoidable," said Jose Manual Barroso, chairman of [Goldman Sachs International](#), former president of the [European Commission](#) and former prime minister of [Portugal](#).

"Focus on two years for political agreement, then launch the transitional phase [for social issues]," he said. "The discussions of money will be somewhere in the middle."

"Financial services will be difficult, but socially people will be protected by the E.U. and the U.K., regardless of where they reside. Anything else would be against our fundamental interests."

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