

How Long Can Europe Recover After Catching the US's Cold?



Since the last autumn, financial market turbulence and in particular the slump in stock markets has increased the skepticism about the European economic outlook. Financial institutions around the world face \$400 billion of write-offs as a result of the US subprime mortgage crisis, according to Group of Seven estimation. European banks were hardest hit. In fact, European economy became sick again as happened in the US. In 2001, an eight-month recession caused the US economy to grow just 0.8% for the year. That was followed by a rebound to a 1.6% rate in 2002 and 2.5% in 2003. The euro area, by contrast, grew 1.9% in 2001 and then slowed below 1% in the next two years. The German, French and Italian economies all shrank. This time, the European downturn may take noticeably longer to run its course than the US one since the persistent inflation and budget deficits may prevent policy makers in

the 15 nations that share the euro from moving as aggressively as their US counterparts to cut interest rates and taxes. The US central bank has cut interest rates five times in less than five months by a total of 2.25 percentage points. The US Congress also passed an economic-stimulus package worth about \$168 billion. However, ECB has left its benchmark unchanged at 4% for eight months as inflation accelerated to the highest level in 14 years and workers sought more pay in response. According to Bloomberg, Europe's labor laws will make it harder for companies to speed a recovery in profits by reducing payrolls. For example, German unions are still seeking above-inflation pay agreements. With regard to the current economic situation, December retail sales in the euro region fell the most since 1995 and service industries grew in

January at the slowest pace in more than four years. According to the median forecast of economists surveyed by Bloomberg News, the economy is expected to expand 0.4% in the fourth quarter, half the pace of the previous three months. Nevertheless, UK just surprised us. Since the bank of England reduced the benchmark interest rate by a quarter-point to 5.25% on Feb. 7, after a cut of the same size in December to stimulate economy, the retail sales finally increased at the fastest annual pace in four months in January as more food shopping offset weaker demand for clothing. Despite gloomy economic sentiment in the continental Europe, the UK's economy let us see the "decoupling" performance in Europe again.

Microscope

The economy of Europe comprises more than 710 million people in 48 different states. Like other continents, the wealth of Europe's states varies, although the poorest are well above the poorest states of other continents in terms of GDP and living standards. The difference in wealth across Europe can be seen in a rough East-West divide.

Europe's largest national economy is that of Germany, which ranks third globally in nominal GDP; and its second is that of the United Kingdom, which ranks fifth globally in nominal GDP. As a single country the European Union would be the world's largest (as determined by the IMF and the World Bank - 2005) or second largest economy (CIA World Factbook - 2006) In early 2004, 10 mostly former communist states joined the EU in its biggest ever expansion, enlarging the union to 25 members, with another eight making associated trade agreements. The acceding countries are bound to join the Eurozone and adopt the common currency Euro in the future. The process includes the European Exchange Rate Mechanism, of which some of these countries are already part.

MARKET BRIEFING

YTD % (local curr)

US DJ
12,182 (-8.2%)
Nasdaq
2,304 (-13.1%)
Euro Stoxx 50
3,701 (-15.9%)
HSI
23,469 (-15.6%)
Japan NK225
13,017 (-15%)
China Shanghai Composite
4,599 (-12.6%)
Singapore
2,931 (-15.4%)
India BSE30
17,464 (-13.9%)
Brazil BOVESPA
59,075 (-7.5%)
Aus All Ord
5,723 (-10.9%)
US-10yr Bond
Yield 3.62%

As at 08/02/08

Insight: "Premium Financing"

Premium Financing can furnish an individual with an opportunity to bequeath millions of dollars to loved ones with minimal risk and no money down. The technique involves the lending of funds to a person or company to cover the cost of an insurance premium. Premium finance loans are often provided by third party finance entity known as a "Premium Financing Company"; however insurance companies and brokerages occasionally provide premium financing services. To finance a premium, the individual or company requesting insurance must sign a premium finance agreement with the premium finance

company. This is a loan contract that lasts for the life of the insurance coverage. The premium finance company then pays the insurance premium and bills the individual or company, usually in monthly

installments, for the cost of the loan. As such, the benefits to financing an insurance premium include (1) Elimination of the requirement for a large up-front payment to an insurance company and (2) Multiple insurance policies can be attached to a single premium finance contract, allowing for a single payment plan to cover all insurance coverage. However, the consumers should consider the risk of premium financing as well. Since the interest due on the money lent to pay premiums is tied to an index, like the LIBOR (London Interbank Offered Rate) if interest rates rise, the total interest charge will rise as well.

A-Z Financial Tools

LIQUIDITY RATIO compares the amount of liquid assets with current debt. In financial planning, this ratio shows how many months of debt can be funded if income ceased and liquid assets were needed to meet current debt obligations. A higher liquidity ratio is important to those people who are fairly conservative and wish to have a peace of mind.



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