

**Global economic growth**

## Global economic rebound hit by supply squeezes, energy costs and inflation

Brookings-FT tracking index shows growth is slowing in China and US



Strong growth over the summer appears to have slowed sharply in the eurozone © Bloomberg

**Chris Giles** in London OCTOBER 10 2021

The sharp global rebound from the coronavirus recession “appears in danger of stalling” amid supply bottlenecks, surging energy prices and rising inflation, according to an exclusive research for the Financial Times.

Global growth showed historic momentum earlier in 2021 but is now slowing in China and the US, the world’s two largest economies, as the threat of Covid-19 still hangs over the global economy, according to the latest [Brookings-FT tracking index](#).

The findings indicate that policymakers will no longer simply be able to boost spending power without serious risks.

“Policymakers in many major economies now face the difficult conundrum of supporting growth while keeping inflation under control, even as they continue to be hit by domestic and external supply disruptions,” said Eswar Prasad, senior fellow at the Brookings Institution.

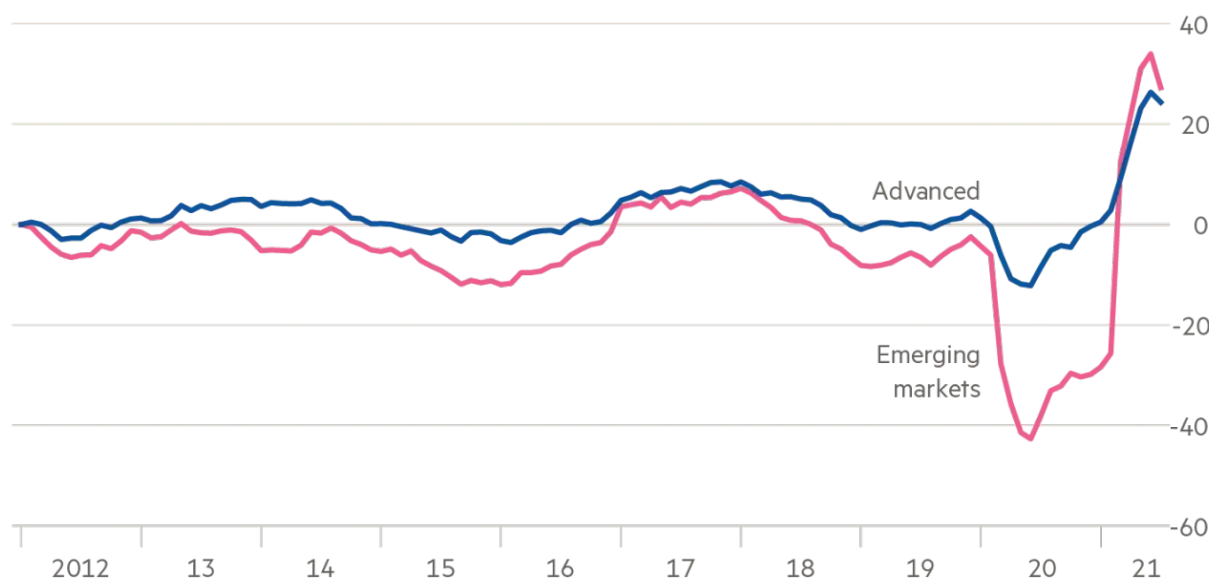
“Additional stimulus measures, especially monetary easing, are likely to yield an increasingly unfavourable trade-off between short-term benefits and longer-term vulnerabilities.”

The Brookings-FT Tracking Index for the Global Economic Recovery (Tiger) compares indicators of real activity, financial markets and confidence with their historical averages, both for the global economy and individual countries, capturing the extent to which data in the current period is normal.

The latest twice-yearly update shows a sharp snapback in growth since March across advanced and emerging economies as confidence surged with the success of Covid vaccinations.

## Global growth momentum has stalled after a strong initial rebound from the Covid-19 recession

Index of the historical strength of a composite range of economic indicators



Source: Brookings Institution  
© FT

Even though the rollout of vaccines to emerging markets and low-income countries was far from complete, economic and financial data reached series highs in recent months as the short sharp recession from coronavirus appeared to be in the past despite the pandemic.

But more recent supply shortages, energy price increases and rising inflation have created new problems for the global economy just ahead of [this week's annual meetings](#) of the World Bank and IMF, where finance ministers and central bankers will meet in a slimmed-down but in-person gatherings in Washington.

The recent economic news has been increasingly downbeat as momentum has stalled, while financial markets have lost the shine of recent months and households and businesses have become more concerned that the recovery is running out of steam.

Advanced economies have hit these bumps in the road as they came close to recovering lost output from the crisis which had suggested a historically promising recovery. But in emerging and low-income countries, the signs of longer-term scars are becoming more evident, especially where governments and central banks cannot easily boost demand without running into even more difficult inflationary pressures.

“The spike in energy prices is emblematic of the problems created by supply disruptions that could eventually hurt aggregate demand, particularly if central banks are forced to take more aggressive actions to contain inflation,” Prasad said.

## Financial market performance has stalled in advanced economies and has fallen in emerging markets

Index of the historical strength of a range of financial indicators



Source: Brookings Institution  
© FT

In the US, where the latest official data showed the [jobs recovery stalled](#) for a second consecutive month in September, lower business and consumer confidence suggests a softening outlook for growth, while the Federal Reserve sees the need to take a more aggressive stance towards monetary support amid continued high inflation.

In China, the government is grappling with sporadic outbreaks of the Delta coronavirus variant and renewed attempts to rebalance its economy away from investment and towards consumption amid an energy shortage. These trends have increased financial volatility, especially in the real estate sector, undermining the growth momentum of its economy.

In Europe, strong growth over the summer appears to have slowed sharply in the eurozone and UK, which had enjoyed a welcome bounce since the spring, buoyed by its early vaccination campaign.

With global growth momentum falling, governments should carefully manage demand to stop it running ahead of constrained supply while also seeking to improve the productivity and longer-run growth prospects, Prasad said. In the meantime, they faced “difficult policy trade-offs”.

