FINANCIAL TIMES

ft.com > comment > blogs >

FT Data

Click here to try **our new website** — you can come back at any time

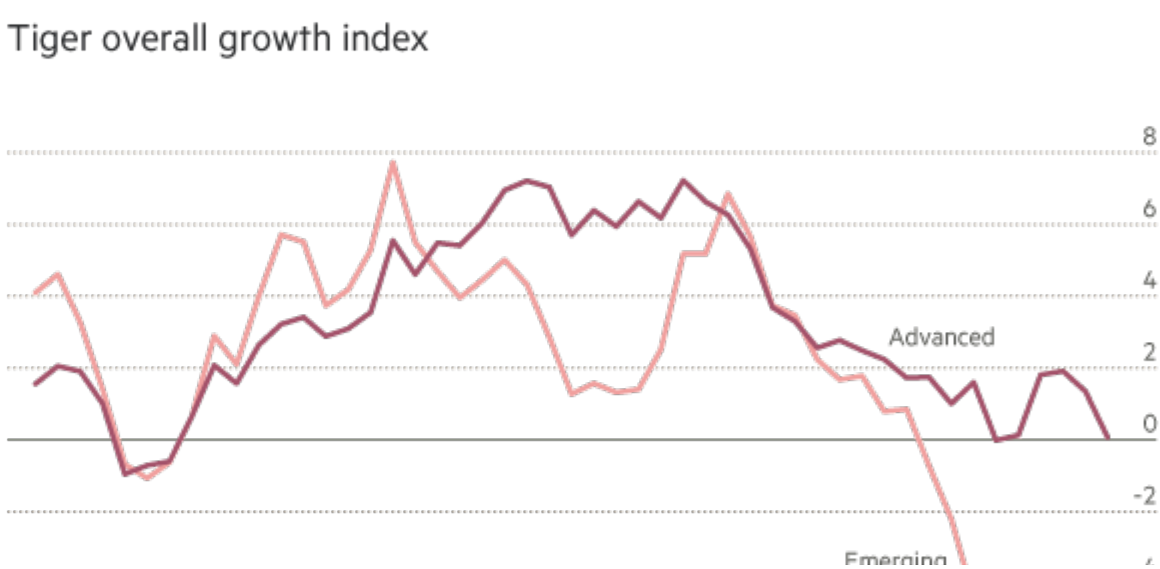
World economic recovery: Fragile and fleeting?

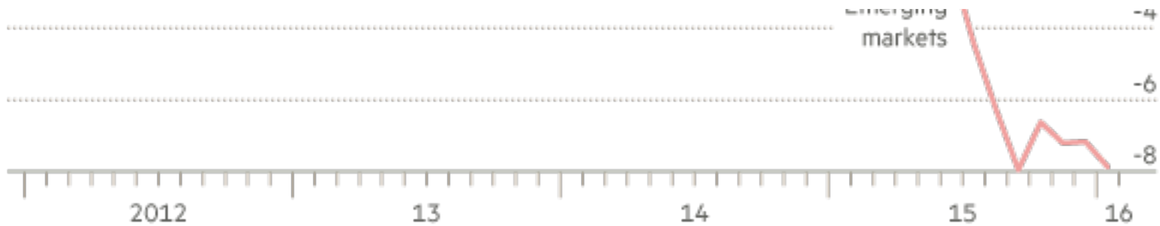
FT Author alerts Apr 10 11:00 2 comments

Guest post by Eswar Prasad and Karim Foda

The world economy continues to be beset by mediocre growth, hesitant or impotent policy actions by national governments, and a dearth of confidence among households and businesses. The worst may be over but after yet another year of tepid growth in 2015 the world economy in 2016 faces the unsettling prospect of more of the same—at best.

The latest update of the Brookings-FT TIGER (Tracking Indexes for the Global Economic Recovery) shows that the global economic recovery remains weak, uneven, and in danger of stalling yet again. A common theme, from the best performing economies to the worst, is that growth of physical capital investment is sluggish, industrial production growth is negative or, at most, weak, and business confidence is falling. Unless governments demonstrate the ability and willingness to undertake reforms and use policy measures to aggressively support growth, even the anticipated weak growth could be knocked off track.





Source: Eswar Prasad and Karim Foda, The Brookings Institution

The US business cycle continues to diverge from that of most other advanced economies. Employment growth has remained strong, as have the growth rates of retail sales and credit. Consumer confidence has picked up, which bodes well for consumption. But weak business confidence and minimal increases in investment, despite large corporate profits and stashes of cash, portend a growth pattern that is uneven and of questionable durability.

The UK economy continues to grow at a decent pace, both in terms of GDP and employment, although uncertainty related to the referendum in June on membership of the European Union may have a temporary dampening effect on investment and growth.

The eurozone appears to be on slightly stronger footing than in 2015. Germany's GDP, industrial production, and employment continue to register modest growth, but exports are falling. The picture in other eurozone economies such as France and Italy, which emerged from recession about a year ago, is similar. However, investment, retail sales, and consumer confidence remain weak across the eurozone, raising concerns about the sustainability of the recovery.

In Japan, GDP growth has plateaued at a positive but low level. Industrial production growth has turned negative again and retail sales continue to decline, but employment growth has been mildly positive.

The ECB's and BOJ's aggressive attempts to boost economic activity, stave off deflation, and increase exports have gotten limited traction. The spectre of policy interest rates persistently at or below zero, along with further direct asset purchases and attempts to keep their currencies weak, shows how these and other central banks remain the focal point of policy actions long after the financial crisis.

China's growth continues to slow, although a hard landing appears to have been averted for now. Industrial production growth has fallen below 5.5 per cent, its slowest pace since 2009, and exports are slumping, but growth in retail sales, household incomes, and employment have held up better. Concerns about destabilizing dynamics of capital flight and a falling currency have eased. The government appears willing to take policy measures to keep growth at its target of around 6.5 per cent. But the government is not showing much appetite for substantive market-oriented reforms, especially reform of the state enterprise sector, at a time of weak growth.

India's reported headline growth of over 7 per cent, which makes it the fastest growing major economy, glosses over many problems beneath the surface. Low oil prices have been a boon for the Indian economy, inflation remains moderate, and the government continues to maintain fiscal discipline. However, investment growth has fallen sharply and industrial production is actually contracting, raising questions about the durability of India's rapid growth.

Brazil and Russia continue to suffer from deep recessions. In both economies, virtually every indicator of economic activity continues to decline and business confidence has plunged. Other emerging markets are mostly a picture of gloom, with some having little policy space to revive growth and others having to deal with both economic and political instability.

Overall, the world economy is clawing its way back to at least a temporary sense of normalcy. Emerging markets have survived the Fed liftoff, uncertainties about China's growth prospects and exchange rate policy, and low commodity prices without any major crises. But many of these economies remain vulnerable to shifts in external circumstances and investor sentiment as well as political instability.

In most advanced and emerging market economies, governments have done little to push forward on fundamental reforms necessary to spur business confidence, revive investment growth, and raise productivity. Consequently, even the weak recovery could prove all too fragile and fleeting.

Prasad is a professor in the Dyson School at Cornell University and a senior fellow at the Brookings Institution. Foda is a research associate at Brookings.

Posted in Data | Permalink