Global economy enters period of 'synchronised stagnation'

Research by Brookings and FT shows indicators at lowest levels since early 2016

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A downturn in manufacturing and investment is weighing on the world economy © Bloomberg

The global economy has entered a period of "synchronised stagnation" with weak growth in some countries and no growth or a mild contraction in others, according to research by the Brookings Institution think-tank and the Financial Times.

Headline economic indicators have slipped to their lowest levels since the spring of 2016, with real activity in both advanced and emerging economies losing momentum, compounded by falling economic confidence, the latest update of the tracking index has found.

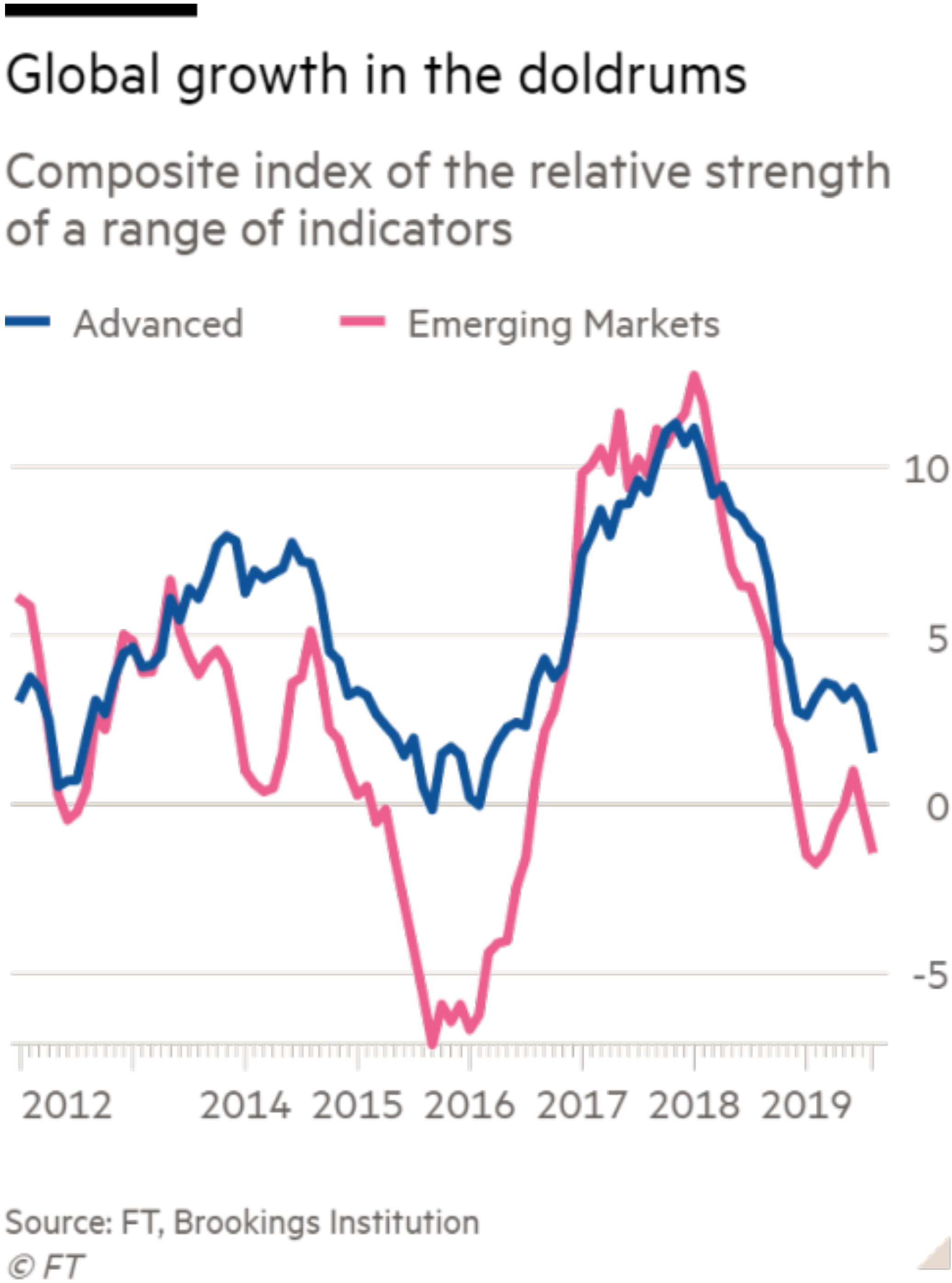
Only relatively strong performance in financial markets stopped the index from falling further into negative territory.

Although there are few signs yet of the poor performance turning into a global recession, policymakers have struggled in recent months to revive their economies, raising fears that they have limited scope to stimulate growth and little appetite for effective reform.

The gloomier outlook in both sentiment indicators and in recent months' hard data across the world will overshadow this week's IMF and World Bank meetings, the first with Kristalina Georgieva as the fund's new managing director.

In a speech last week Ms Georgieva said the IMF would revise its economic forecasts downwards and "in 2019, we expect slower growth in nearly 90 per cent of the world".

All other leading forecasters have also been losing optimism about global economic trends, with the World Bank, the OECD and most private sector economists cutting their forecasts for global growth to the weakest levels since the 2008-09 financial crisis.

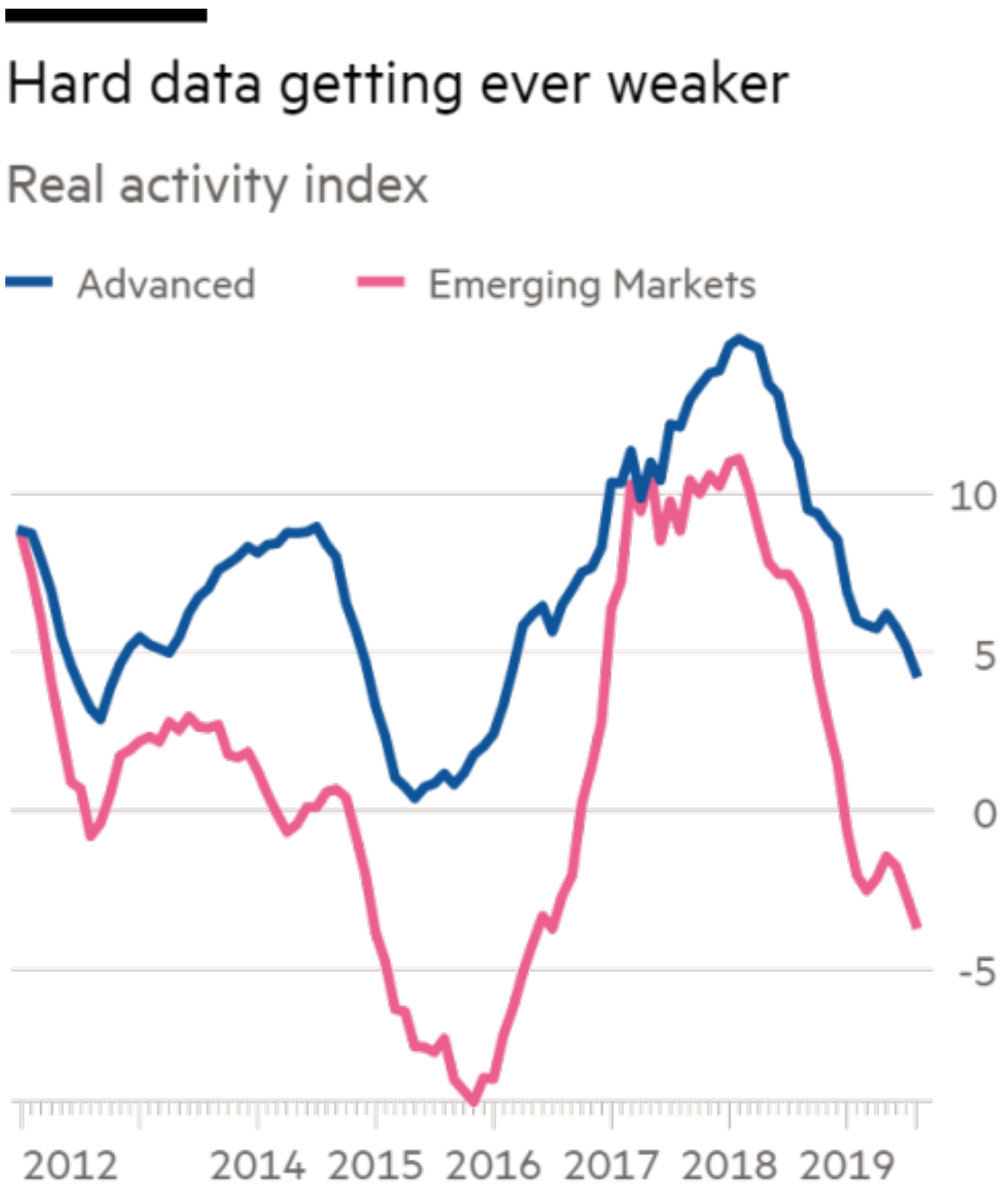


Eswar Prasad of the Brookings Institution said: “Persistent trade tensions, political instability, geopolitical risks and concerns about the limited efficacy of monetary stimulus continue to erode business and consumer sentiment, holding back investment and productivity growth.”

Despite the widespread weakness, Prof Prasad added, “fears of an imminent global recession seem premature” because employment is holding up around the world, strengthening incomes and maintaining robust household expenditure.

The areas under the greatest pressure are those most exposed to global trade, which has been hard hit by the tit-for-tat trade war between the US and China. The World Trade Organization expects global trade volumes to increase by only 1.2 per cent this year.

The Brookings-FT Tracking Index for the Global Economic Recovery (Tiger) compares indicators of real activity, financial markets and investor confidence with their historical averages for the global economy and for individual countries.



Source: FT, Brookings

The headline indices have been falling since a peak in January 2018, when US president Donald Trump alerted the world that his rhetoric on tariffs would be put into action.

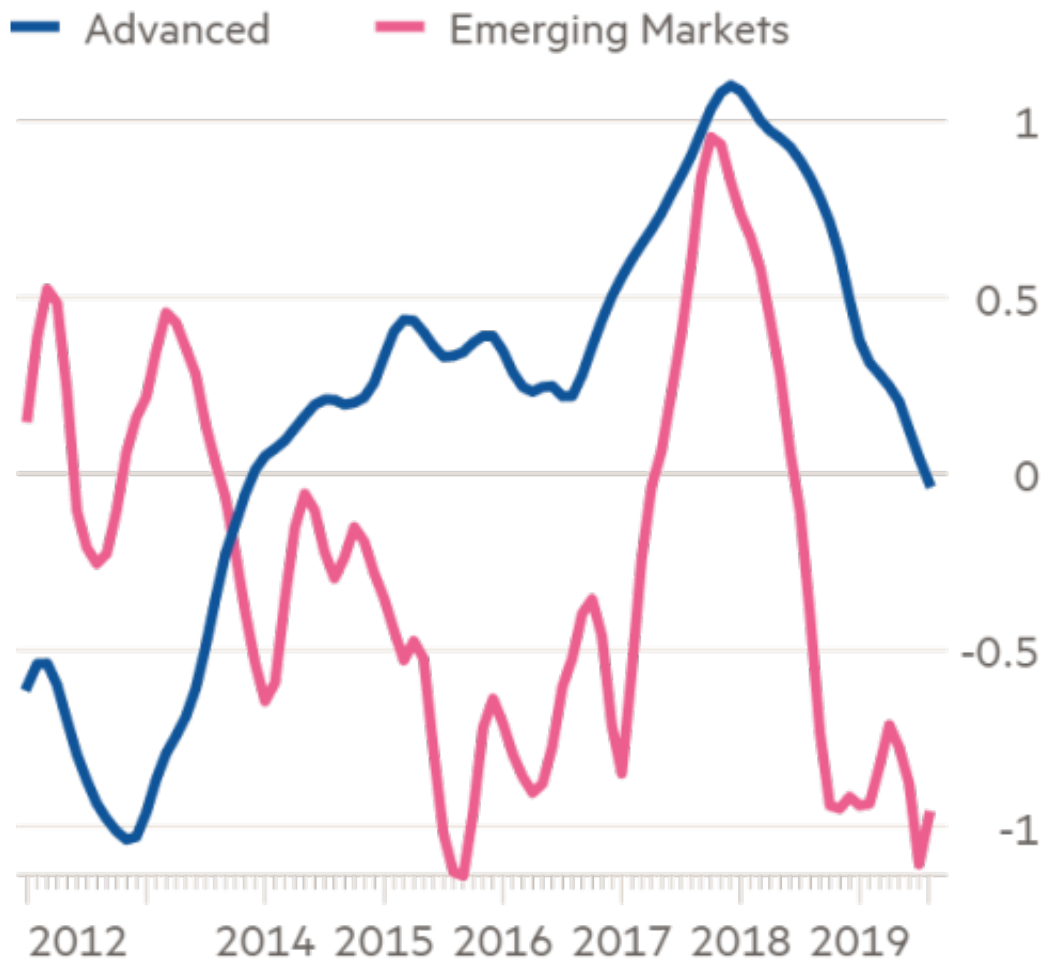
The Tiger index for the US showed a mixed picture, with households and employment still robust but the manufacturing and services sectors slowing sharply. The trade wars had “sapped business confidence, hurt corporate profits, and led to a contraction of business investment”, Prof Prasad said.

Germany is flirting with a recession but its performance is benefiting from still-strong household spending and a brighter outlook for its large neighbours, France, Spain and the Netherlands.

Among emerging economies, China’s growth is slowing although its fortunes have not been hit hard by US trade tariffs, while India is an outlier in facing relatively weak household consumption and tight credit conditions.

Declining sentiment

Confidence index



Source: FT, Brookings

Other large emerging economies are showing greater signs of stress, with little growth in Brazil, Russia and Mexico.

Central banks around the world have begun to cut interest rates and some are restarting stimulus measures in an attempt to reverse the slowdown.

But with interest rates already close to historic lows, ultra-loose monetary policy is unlikely to provide much succour to vulnerable economies, although it could prop up asset prices and encourage households to take on more debt.

“Unless governments make a broader commitment to structural reforms and the prudent use of fiscal policy, persistent low rates will remain a malignant feature of the world’s synchronised stagnation,” said Prof Prasad.