Broader Global Slowdown Ahead

As growth in the major developed economies decelerates, global growth prospects will weaken further.

Spreading Slowdown The Fed held off on a September rate hike despite "solid job gains," with the assurance that it "is monitoring developments abroad." But U.S. job growth has since worsened. And, as we recount below, so has the outlook for global growth beyond China, which makes a rate hike even harder to justify.

Growth has already slowed in the majority of the 20 economies ECRI monitors — not just in China. This is shown by the decline in the 20-Country Coincident Index Growth Diffusion Index (20CIGDI) — the proportion of those economies' coincident indexes whose growth rates have risen over a 12-month span — from a three-year high in late 2013 to under 0.5 earlier this year (Chart 1, bottom line).

But the equivalent forward-looking measure — the 20-Country Long Leading Index Growth Diffusion Index (20LLIGDI) — has dropped sharply of late, so that any further dip would place it at a four-year low (top line). Given its deepening downturn, the international slowdown is set to spread further, resulting in progressively poorer global growth for the foreseeable future.

Thus far, China has been partly to blame for the widening weakness. This is evident from the drop in China's imports from some of the most export-dependent economies. Since the beginning of 2014, China's imports have declined by $3 billion from South Korea, $4 billion from Japan, $1½ billion from both Germany and Brazil, $1¾ billion from Taiwan, and over $5 billion from Australia (Chart 2). Indeed, this falloff in Chinese imports is largely responsible for the weakness in Japanese GDP.

Starting in the spring, however, many of these countries' exports to China have started to stabilize, with the exception of Japan, with some even seeing slight

Three grand experiments — the Fed exiting ZIRP, Abenomics, and a smooth transition in China — are at increasing risk of failing.

Chart 1: Diffusion Indexes of 20-Country Long Leading and Coincident Index Growth