International Inflation Pressures
Turn Down

The advent of the global industrial slowdown is sapping underlying inflation pressures.

Cooling Off A new international inflation cycle downturn is now assured. Yet, even as inflation pressures have begun to ebb, the major central banks have turned less dovish, or more hawkish.

ECRI’s International Long Leading Future Inflation Gauge (ILLFIG) and our 11-Country Future Inflation Gauge (11FIG) together make up a sequential leading indicator system for international inflation cycles. We had written earlier that, because they had “both dipped ... and especially in the context of the global industrial growth downturn ... they bear watching” (ICO Focus, May 2017).

We now have a couple more months of data, and can report that the ILLFIG has tumbled to a 13-month low (Chart 1, top line). Moreover, following the downturn in the 11FIG, which has now declined to a five-month low (middle line), year-over-year (yoy) growth in our 11-Country CPI (11CPI) has also turned down, falling to a five-month low (bottom line). This is the start of an international inflation cycle downturn clearly telegraphed by the ILLFIG and corroborated by the 11FIG.

Please recall that, after our “global reflation” call last summer (ICO Essentials, August 2016), we had predicted the global growth upturn in the fall (ICO Essentials, October 2016), followed in the winter by a prescient recognition of the brightest global growth outlook since 2010. Indeed, on balance, global growth prospects are still positive.

In particular, Chinese Long Leading Index growth remains near its recent multiyear high, while Japanese Long Leading Index growth has climbed to a 3½-year high.

The major central banks — convinced we have turned the corner in a structural sense — are more hawkish, or less dovish. But last year’s turnaround was cyclical, not structural, and that cycle is reversing.