Global Growth Outlook Darkens

Global industrial growth has rolled over and is poised to weaken in the near term, but there may be a light at the end of the tunnel.

About-Face Global growth prospects are now the worst they have been in six years. This is evident from the nosedive in 20-Country Long Leading Index (20LLI) growth, which has plunged in just eight months from a 6¼-year high to a six-year low (Chart 1, top line).

Following our forecast of an improving global growth outlook one year ago (ICO Essentials, October 2016) and our recognition early this year of the “Brightest Global Growth Outlook Since 2010” (ICO Essentials, February 2017), world GDP growth has surged to a 3½-year high, and is a hair’s breadth from a 6½-year high (bottom line). Naturally, this stronger GDP growth has fostered high hopes for sustained strength in global growth. What most do not understand is that this global growth upswing is cyclical in nature and, by definition, susceptible to a reversal. The rapid about-face in the forward-looking 20LLI growth rate tells us that a fresh global growth downturn will begin to take hold in short order.

Part of the prevalent optimism comes from the fact that such a synchronized global growth upswing – with both advanced and emerging economies taking part – has not been seen since 2010. Please recall, however, that ECRI’s indicators had already presaged the breadth of the upturn by the end of last year, when we noted that “Economic prospects have improved in three-quarters of the economies monitored by ECRI – the highest proportion in over four years” (ICO Essentials, December 2016). Shortly thereafter, that proportion climbed to its highest reading

Monetary policy frameworks will come under increasing pressure as global economic growth and inflation wind down, while jobless rates approach multi-decade lows.

Chart 1: 20-Country Long Leading Index and World Real GDP, Growth Rates (%)

Shaded areas represent cyclical downturns in world real GDP growth.