ECRI
International Cyclical Outlook
ESSENTIALS

Global Industrial Slowdown to Intensify

With the Chinese "inflation tiger" slinking back into its cage, there is more room for policy stimulus.

Deepening Downturn Global industrial growth, having fallen sharply in 2018, is set to weaken further. That is the latest forecast from ECRI's leading indexes, which is at odds with the growing sense that the worst may be behind us.

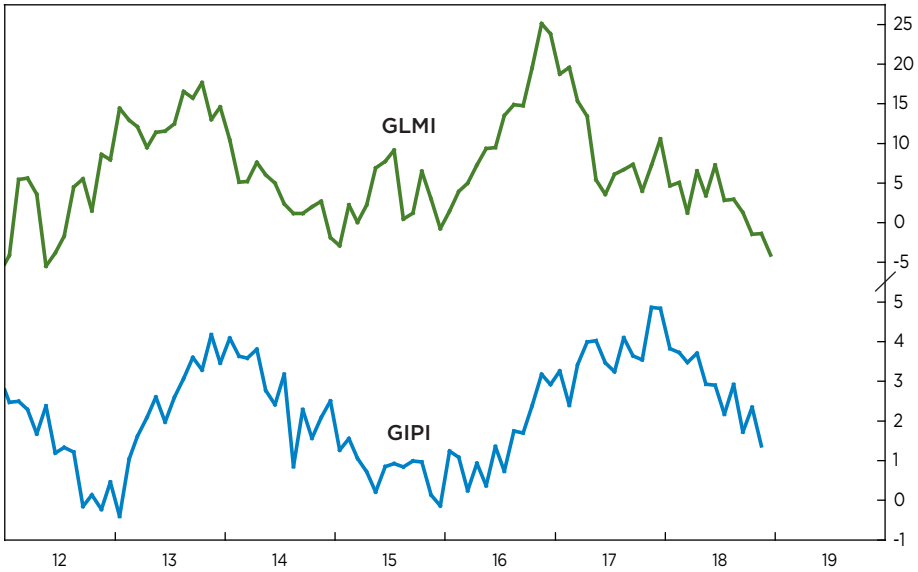
After the Fed "blinked" early this month, walking back its projected rate hikes, a rally in risk asset prices – including those of industrial commodities like crude oil – followed. In essence, last month's recession scare was superseded by expectations of a "soft landing." Yet, the relief rally is not supported by our forward-looking indicators.

Last month, we noted the rise in our Global Industrial Growth Long Leading Index (GIGLLI) to a 26-month high *(↗ICO Essentials, December 2018)*. Explaining the implications, we observed that, "to confirm the GIGLLI's upturn, we need to see cyclical upswings in shorter leading indexes of global industrial growth" like Global Leading Manufacturing Index (GLMI) growth, which had fallen to a nearly-four-year low *(↗EWU, January 18, 2019)*.

Unfortunately, GLMI growth has since tumbled to a 6½-year low (Chart 1, top line), failing to confirm the upturn in the GIGLLI, which dipped in its latest reading (not shown). Thus, it remains premature to predict a cyclical revival in global industrial growth. On the contrary, Global Industrial Production Index (GIPI) growth, which has already declined to a 28-month low (bottom line), is set to fall further.

Regardless of the prospects of imminent monetary policy shifts or long-term structural changes, the cyclical story will unfold along the lines foreseen by ECRI's leading indexes, with downturns in both global growth and inflation intensifying in the months ahead.

Chart 1: Global Leading Manufacturing Index and Global Industrial Production Index, Growth Rates (%)



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