Rising Cyclical Risks for Emerging Markets

ECRI’s indexes reveal a growing confluence of cyclical risks for emerging market economies.

Widening Weakness  Our broad coverage of emerging market (EM) economies allows us to closely track the evolution of cyclical risks – including cross-country cyclical contagion – in those economies. Today, decisive downturns in our EM long leading index growth rates are warning of sharply elevated cyclical risks.

Specifically, our Emerging Markets Long Leading Index Growth Diffusion Index (EMLLIGDI) had turned down, falling to a 1½-year low last summer and, despite edging up a little, remains in a downswing (Chart 1, top line). Following this downturn, the Emerging Markets Coincident Index Growth Diffusion Index (EMCIGDI), which has started to fall, is likely to continue its decline (bottom line).

The EMLLIGDI and EMCIGDI respectively measure the proportions of the EM economies regularly monitored by ECRI – which include Brazil, India, China and South Africa, as well as Mexico, Korea and Taiwan – whose long leading index and coincident index growth rates have increased over a one-year span. In essence, we are likely to see a further spread in EM slowdowns. This is in line with the ongoing downswing in global growth, which is set to continue (ICO Essentials, May 2018).

Meanwhile, as we detail below, along with deteriorating prospects for overall global growth, the downcast outlook for growth in the global industrial sector has an exaggerated impact on the EM economies, underscoring their rising cyclical risk.

Emerging markets are facing increasing pressure from the strengthening U.S. dollar, whose upturn is being supported, for now, by cyclical divergences captured by ECRI’s international indexes.