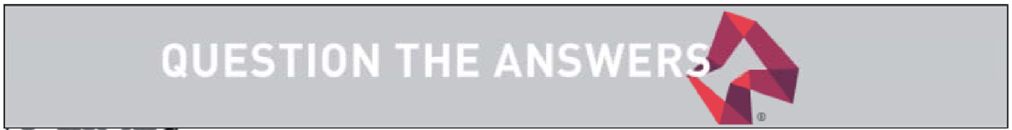

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Global recovery is stalling, index signals

By Chris Giles in London   Author alerts


IMF chief Christine Lagarde has called for action to improve the global outlook

The global economic recovery is stalling and too reliant on the US, according to the latest Brookings Institution-Financial Times tracking index.

The index, released before the International Monetary Fund annual meetings this week, highlights a widespread loss of momentum in output growth across most emerging and advanced economies, prompting forecasters to scale back expectations for growth this year.

The IMF is expected to cut its estimate of global growth in 2014 from 3.4 per cent to a little over 3 per cent this week as poor second quarter figures from Germany, Japan and other countries weigh on the outlook. As recently as April, the IMF was expecting 3.6 per cent growth this year, faster than the long-term average.

Eswar Prasad, an economist and senior fellow at Brookings, said: “The world economy is now being powered mostly by the US growth engine, a situation that is untenable for a sustained and durable global economic recovery”.

“To support more balanced growth, other economies will have to start pulling their weight, ideally by generating more domestic demand rather than replying on exports.”

FT Interactive – Tiger Index

Explore the index, which delivers a snapshot of the state of the global economy, with an interactive graphic

The Tiger index – Tracking Indices for the Global Economic Recovery – shows how measures of real activity, financial markets and confidence compare with their historical averages.

Annual growth in real activity in emerging markets has shown particular weakness. Growth in China appears to be losing momentum, Brazil and Russia remain “in a torpor”, according to Mr Prasad, and the only bright spot in large emerging economies is India, which is recovering “after a rough period of declining growth”.

The findings chime with the downbeat mood of delegates who will gather in Washington for the World Bank and IMF annual meetings. Christine Lagarde, IMF managing director, has called for global action to improve the outlook. Last week she urged “bolder policies to inject a ‘new momentum’ that can overcome this ‘new mediocre’ that clouds the future”.

Some other indicators of economic activity are more upbeat. A composite measure of the purchasing managers’ indices for the global economy, compiled by JPMorgan, showed a reasonably high level of growth momentum in September. Rob Dobson, of JPMorgan said if the figures translated into real output, the implied third quarter rise in global gross domestic product was “the best growth outcome since the second quarter of 2010”.

Expert and financial market sentiment, however, is much weaker as it has been depressed by rising geopolitical tensions, difficulties in securing economic reforms and the eurozone’s slow slide towards deflation.

The most worrying aspect of the global economy, according to Mr Prasad, is that while low interest rates have bought time for reform, those months have been used badly. “The temporary policy space provided by aggressive monetary policy actions has not been used well by most major economies, which have squandered the opportunity to push forward with reforms,” he said.

With the dollar rising rapidly, the world cannot rely on the US as the global engine of growth, he added, and the current situation was likely to result in renewed global tensions over currency valuations.

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