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Economic recovery picks up pace, but expect some turbulence ahead

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Despite a number of recent shocks, the global economic recovery is getting on to a firmer footing.

The latest update of the Brookings Institution-FT Tracking Indices for the Global Economic Recovery (TIGER) indicates that resurgent job growth and rising business and consumer confidence are solidifying the recoveries in many advanced economies. Emerging markets are still doing well but some of the shine is coming off these economies as they tighten policies to cope with inflationary pressures.

The Overall Growth Index for the G20 economies shows a slight uptick in recent months, led by a gradual rebound in real activity. After the initial post-recession surge, financial markets have pulled back a bit, at least in terms of growth in stock market indexes and valuations. One bright spot is the resurgent business and consumer confidence in both advanced and emerging economies.

Rising uncertainty has kept financial markets on edge. Nevertheless, real GDP growth and industrial production growth have not done too badly in recent months considering all the shocks that have hit the world economy, from debt crises in Europe to rising oil prices due to political instability in the Middle East.

There are two positive omens in the data. The first is job growth in the advanced economies, which should drive up private consumption. The second is rising confidence levels in the private sector. Business confidence, in particular, has risen sharply in recent months. In tandem with the large cash reserves built up by corporations in many of the major economies, this could herald a surge in investment activity. On the other hand, continued weak growth in credit raises some questions about the availability of financing needed to sustain growth in overall domestic demand.

At the country level, the results show the uneven nature of the recovery across countries and also the mixed signals from different indicators within each country.

In the United States, stronger job growth and rising confidence levels are helping to firm up the recovery. While equity markets have not been doing too badly, credit growth remains weak and could be a drag on growth.

After a surge in activity during the initial phase of the recovery, the Japanese economy was struggling to maintain momentum even before the recent natural disasters, whose effects on growth are not yet fully reflected in the data shown here.

Germany remains the star performer – relatively speaking – among the advanced economies with a strong real activity index, reflecting robust industrial production and employment growth, as well as rising confidence levels among households and businesses.

The emerging markets carried the world economy on their shoulders during the worst of the crisis. Now they face policy complications related to rising inflation and, in some cases, capital inflows and pressures for rapid currency appreciation. But they have been able to manage these pressures reasonably well so far.

Growth in China is cooling off a tad as policymakers there focus on battling rising inflation. Growth rates of industrial production and exports eased off towards the end of last year, but the Chinese economy still has strong growth momentum. The same is true for other major emerging market economies like Brazil and India, which are still growing strongly but beginning to lose some steam as they cope with rising inflationary pressures.

While it is still premature to declare victory after the ravages of the global financial crisis, the world economy is now in a far better state than it was a year ago. However, a variety of unpleasant shocks – revolution, war, natural disasters, rising food prices and debt crises – all signal choppy waters ahead.

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