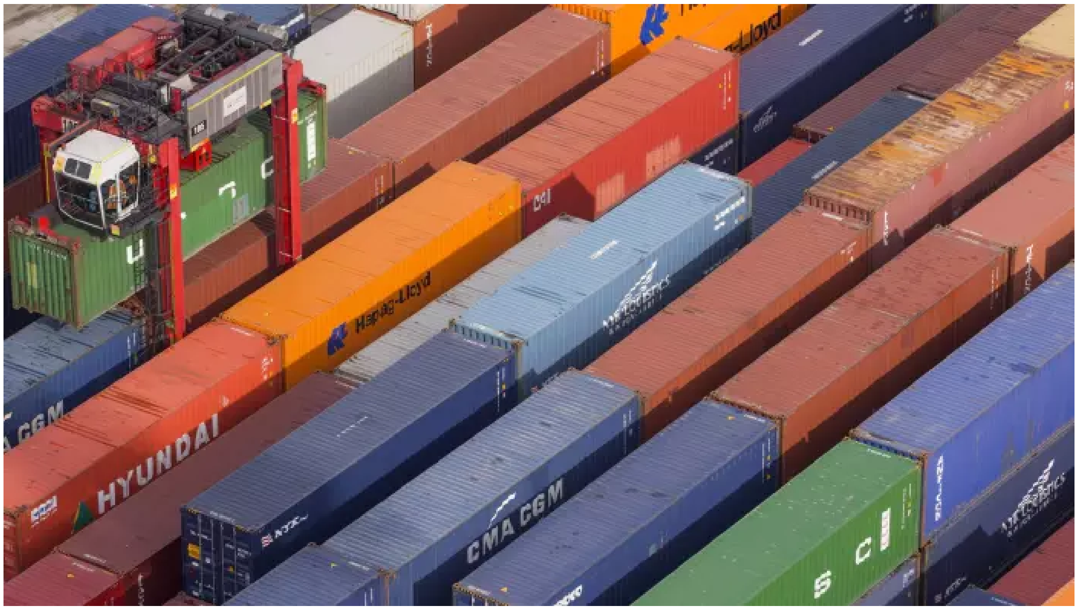
Global economic growth

Weak productivity growth hampers global recovery

Tiger index shows outlook for rest of year and 2018 remains healthy



Index echoes concerns that further economic reforms are needed to maintain growth rates and stave off another downturn © Bloomberg

OCTOBER 8, 2017 by Chris Giles in Washington

The global economy is experiencing its broadest and strongest upturn for more than five years, but that improvement is being undermined by weak productivity growth.

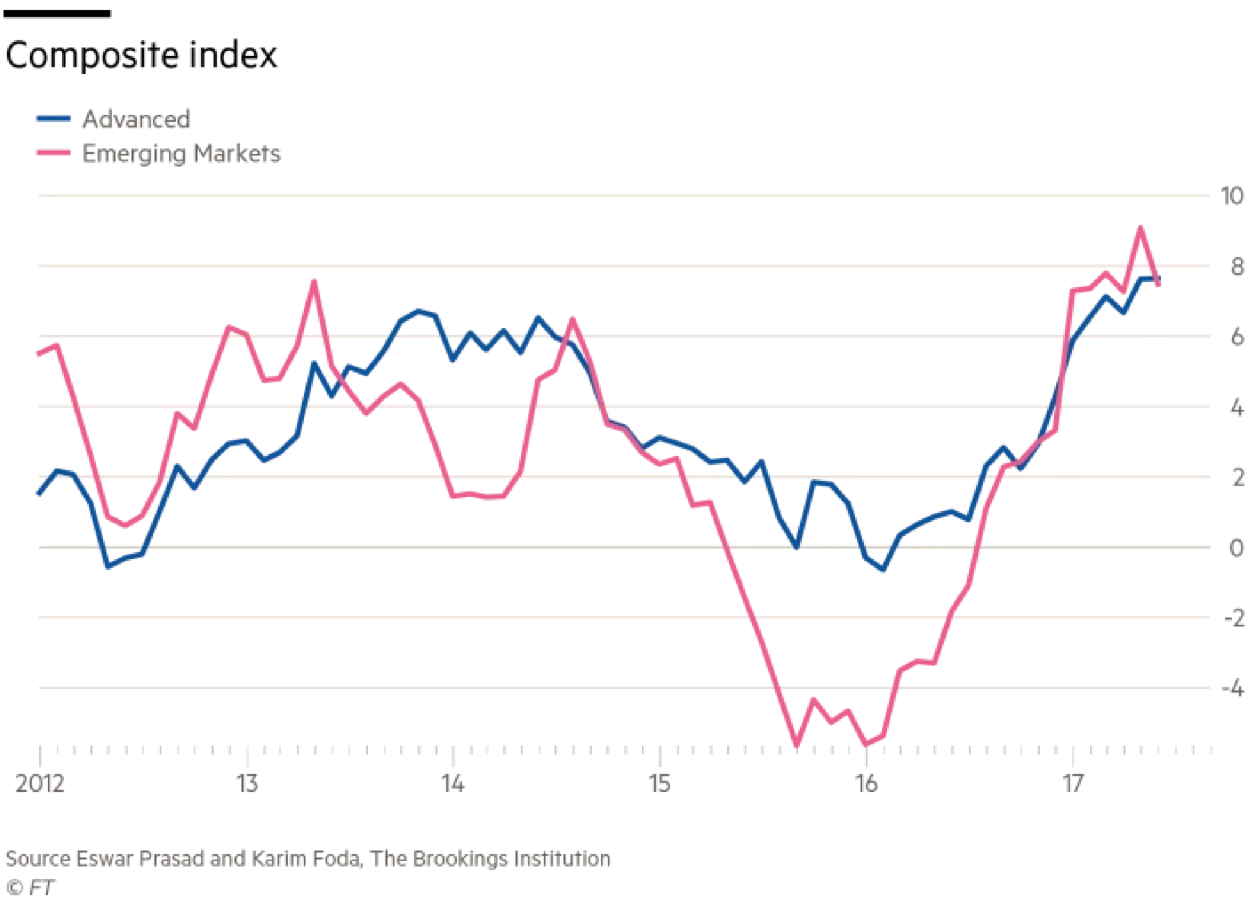
An update to a tracking index compiled by the Brookings Institution think-tank and the Financial Times confirms the momentum of the global growth cycle and shows that the outlook for the rest of the year and 2018 remains healthy.

The index, which covers all significant advanced and developing economies, is at or close to five-year highs on measures of the real economy, confidence and financial conditions.

But with global growth rates well below those before the financial crisis that began a decade ago, the results echo concerns that further economic reforms are needed to maintain growth rates and stave off another downturn.

In recent weeks the OECD has urged finance ministers and central bankers to use the “window of opportunity” created by the upturn wisely after the economic troubles of the past decade. Christine Lagarde, managing director of the International Monetary Fund, has urged them not to let a decent recovery “go to waste”.

Professor Eswar Prasad, an economics professor at Cornell University and a senior fellow at the Brookings Institution, said that while the recovery was broad based and reasonably strong, “policymakers seem averse to the broader and tougher reforms that may be necessary to kick growth into a higher gear”. He said recovery from the financial crisis was still hampered by “weak productivity and investment growth”.



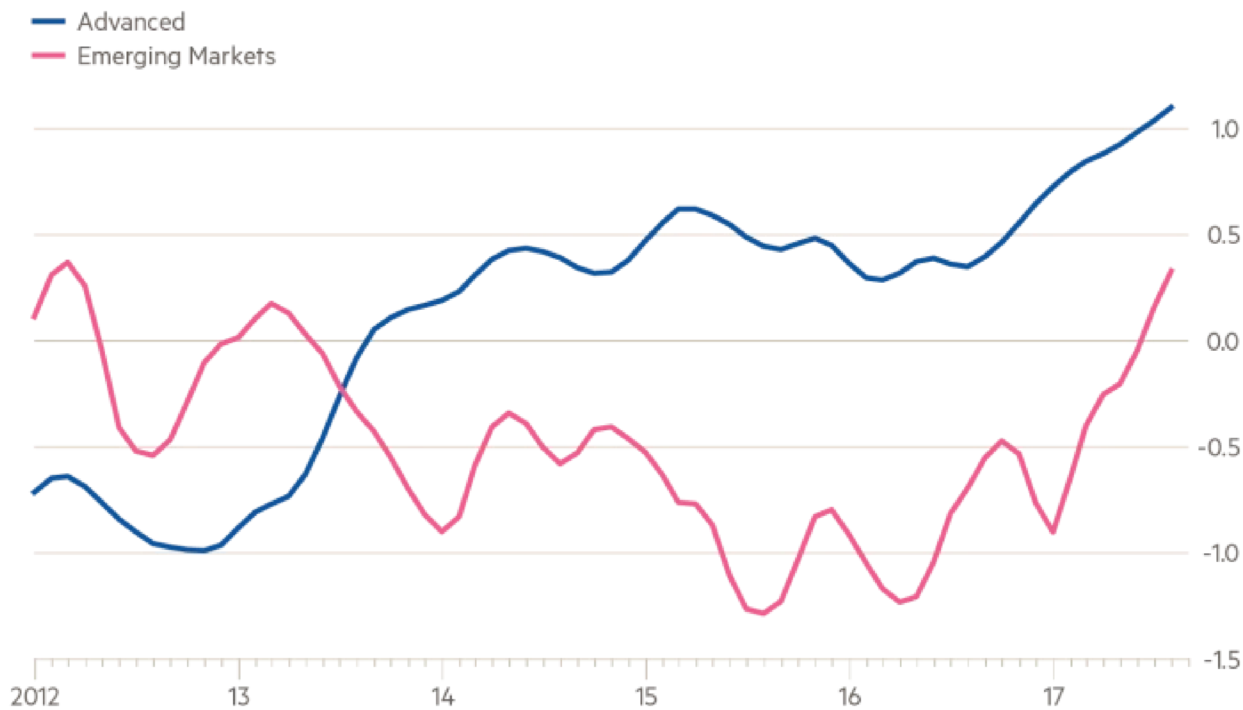
The Brookings-FT Tiger index compares many separate indicators of real activity, financial markets and investor confidence with their historical averages for the global economy and for each country separately. The data suggest growth, financial conditions and confidence has improved in both advanced economies and emerging markets in recent months.

The composite Tiger index is at its highest level since 2012, indicating that economic data, on average, across the world is significantly stronger than it has been at any time in those five years. Confidence is particularly strong in advanced economies. The US picked up after President Donald Trump’s election victory late last year, while confidence has improved in the resurgent eurozone this year.

A sharp recovery in commodity exporters, which have repaired much of the damage of the oil price slump that began in 2014, has enabled the emerging economies index of real economic data to improve towards recent highs. Exuberant stock markets have also helped financial conditions remain supportive of growth in the global economy.

Although 2017 is likely to show a significant improvement on 2016, there are concerns that the global economy is still not generating a sufficiently strong expansion to raise living standards in many countries and ease some of the financial strains of the past decade.

Confidence index



Source Eswar Prasad and Karim Foda, The Brookings Institution
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"The combination of weak productivity and investment growth does not portend well for an increase in growth or even for the sustainability of the current low growth," Prof Prasad said.

"Policymakers should use the breathing space they have been granted to strengthen the resilience of their economies and policy frameworks to the inevitable next downturn. Otherwise, next time may be no different."