

Global economic growth

Inflation and trade disputes taint prospects for global economy

Composite tracking index suggests momentum is fading just as risks are mounting



Financial markets suggest challenging times ahead © AP
Chris Giles in London 57 MINUTES AGO

Momentum in the global economy has peaked and risks ranging from higher inflation to trade disputes and debt appear likely to taint prospects for 2018, according to the [tracking index](#) compiled by the Brookings Institution think-tank and the Financial Times.

The latest update to the index shows that forces contributing to growth remain strong but have levelled off below last year's peak, while financial markets suggest more challenging times ahead.

The findings follow a series of disappointing business surveys across the world and weak industrial data, which have reduced confidence among economists that 2018 would be the most successful year of the decade so far.

Christine Lagarde, managing director of the IMF, last week [warned](#) of an “inexcusable, collective policy failure” if trade tension undermined the world economy. She suggested the fund would not downgrade its 3.9 per cent global growth forecast on Tuesday, when it releases its latest economic outlook.

The more up-to-date Brookings-FT Tracking Index for the Global Economic Recovery (Tiger) shows the latest data suggest that momentum is fading.

Eswar Prasad of the Brookings Institution said: “The world economy’s growth momentum remains strong but is levelling off as the winds of trade war, geopolitical risks, domestic political fractures,

and debt-related risks loom, with financial markets already reflecting mounting vulnerabilities.”

The index compares many indicators of real activity, financial markets and investor confidence with their historical averages for the global economy and for individual countries.

In advanced economies, the composite index has dipped in 2018 on the back of slightly weaker hard data on output and jobs and a sharp decline in financial market prices.



Investment and [productivity](#) were strong in 2017, especially in the eurozone, but wage growth remained weak in most economies. The US still appears strong, buoyed by the Trump administration’s tax cuts, but that is beginning to stir inflation, asking tough questions of the Fed on the pace of its interest rate rises.

“The US is engaged in a perilous macroeconomic experiment, with the injection of a significant fiscal stimulus even as the economy appears to be operating at or above its potential,” Prof Prasad said.

With very weak industrial output growth in the first quarter, the European economy has cooled and the UK still appears to be suffering the effects of the Brexit vote on purchasing power and confidence.

Global business surveys have reflected a decline since the end of 2017 with the global services and manufacturing purchasing managers’ index, produced by Markit, a research consultancy, dropping to a 16-month low in March.

Performance in financial markets has dipped in 2018

Financial index

— Advanced
— Emerging Markets



Source: Brookings Institution

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Many emerging markets are still enjoying momentum from last year but there are increasing concerns about rising debt and vulnerability to capital flight as richer countries' interest rates rise. Those which only recently emerged from recession, Russia and Brazil, are struggling to return to strong levels of activity.

China and India have fewer concerns for the immediate outlook but still need to reform their economies to help living standards catch up with advanced economies, according to Prof Prasad.

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state-owned enterprises.”

He said: “The key challenge for China is the execution of proposed reforms not just to the financial system but also to other parts of the economy, especially the

Across the world, monetary and fiscal policies remain stretched after the 2008-09 global financial crisis so governments would find it difficult to respond to a synchronised downturn.

“Any of the multitude of risks on the horizon could derail growth if policymakers count on growth momentum continuing without additional measures to increase their economies' resilience,” Prof Prasad said.

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Opinion **FT View**

The global economic recovery has hit some resistance

Spatterings of weak data should have policymakers worried



Shoppers in Tokyo: Japanese consumer spending and wage growth has been weaker than expected © AFP

Not everything in the world has been going badly, at least until now. There may have been rising tension over geopolitics and trade, but the [global economy](#) has continued to achieve broad-based growth in the past couple of years. More recently, however, there have been a few [spatterings of rain](#) out of an apparently clear sky.

A series of downbeat business surveys in the eurozone, plus an unexpected third successive [monthly fall](#) in industrial production in February, have cast some doubt on the robustness of the European recovery. Employment in the US has been weaker than expected, as has Japanese consumer spending and wage growth, meaning Japan is likely to remain below its 2 per cent inflation target for some time to come.

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