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The world economy

Recession watch

SAN FRANCISCO

Global growth is slowing, but not stopping—yet

SINCE 1900 the global economy has fallen into recession, as defined by a year-on-year decline in GDP per person, about once a decade on average. In 2020 the world experienced the deepest downturn since the end of the second world war. Just two years on, is another recession on the way?

Worries are certainly mounting. The war in Ukraine has triggered higher food and energy prices, which have hammered households' disposable incomes. Lockdowns in China are disrupting supply chains. And central banks are rapidly raising interest rates to tame inflation.

Fears about the state of the world economy have jolted financial markets. In the past month stockmarkets in rich countries have fallen by more than a tenth. Risky assets, including tech stocks and cryptocurrencies, have taken a nasty blow. Economists, meanwhile, are steadily downgrading their forecasts for global growth. To what extent are recession fears already materialising? A look at the data gives grounds for cautious optimism—for now, at least.

True, in many places people sound as though the recession is already here. Across the OECD, a club mostly of rich countries that accounts for more than 60% of global GDP, consumer confidence is now lower than it was when the coronavirus first struck (see chart on next page, top panel). A gauge of American consumers' sentiment constructed by the University of Michigan this month fell to its lowest level in a decade, according to a preliminary estimate. Respondents were gloomier about their own financial situations; fewer of them thought it a propitious time to buy durable goods, on account of high inflation. If consumers hold back from spending, the economy will slow.

Yet, so far, what people say and what people do seem to be different things. Global restaurant bookings on OpenTable, a reservations website, are still above the pre-pandemic norm. In America retail sales are still increasing, and hotel occupancy continues to improve. A high-frequency measure of Britons' spending habits, constructed by the Office of National Statistics and the Bank of England, shows little sign that people are holding back from social activities, or from purchases that could be deferred.

Consumers are likely to be able to carry on spending for a while, even as inflation cuts into purchasing power. Households across the OECD are still sitting on roughly $4trn of savings (worth 8% of GDP) accumulated during the pandemic, according to our estimates. And, contrary to what is commonly supposed, not all that money is in the hands of the rich. In America the bank accounts of low-income families were still 65% fatter at the end of last year than in 2019.

Businesses too look resilient for now. Rising costs are hitting the profits of some retailers (see Business section). But the OECD's measure of business confidence remains solid. Data from Indeed, a jobs site, suggest that vacancies in rich countries may have stopped increasing—but they are still plentiful. There remains appetite for investment, too. Analysts at JPMorgan Chase, a bank, reckon that global capital spending rose by 7.6% in the first three months of the year, compared with the same period the year before—twice its rate towards the end of 2021.

Some countries do look weak. Goldman ▸▸

Sachs, another bank, produces a "current-activity indicator", a high-frequency measure of economic growth based on a combination of surveys and official data (see chart, bottom panel). The Russian economy has sharply slowed since Western countries slapped on sanctions in response to the invasion of Ukraine. And in China, where the government's zero-covid strategy has led to the strictest lockdowns since early 2020, the economy may well be shrinking (see next story).

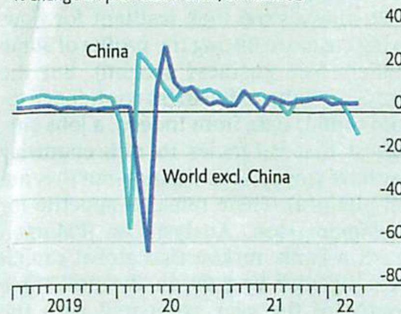
But most places are stronger. Adapting a weekly GDP series for 45 countries, including India, Indonesia and the G7, produced from internet-search data by Nicolas Woloszko of the OECD, we estimate that global GDP growth has remained steady in recent weeks. Overall, Goldman's measure of economic activity is lower than it was in early 2021, when economies reopened, but it is still respectable.

The data could yet shift—if Russia turns off the gas taps to Europe, China tightens lockdown restrictions further or central banks are forced to raise interest rates faster than they currently expect. When America's labour market has been this tight in the past, notes JPMorgan, a recession has tended to follow in "the medium term". But the 12th global recession since 1900 does not seem to have started just yet. ■

Down in the dumps

Consumer confidence
Long-term average=100

Current-activity indicator*
% change on previous month, annualised



*High-frequency measure of economic growth for 50 countries, accounting for 90% of world GDP
Sources: OECD; Goldman Sachs

China's economy

When bad data are good

HONG KONG

Even China's official economic figures look bleak

When China was locked down during the first wave of the pandemic in early 2020, economic forecasters had to make two predictions: how much would the economy suffer? And how much of this suffering would the official statistics be allowed to reflect? When China reported a historic 13.5% decline in industrial production in January and February 2020, compared with a year earlier, it surprised many forecasters not because it diverged from their bleak view of the economy, but because it challenged their cynical view of the statisticians.

Now that China is squirming under its most stringent lockdowns since early 2020, the same conundrum has returned. How bad will the economy get? And how faithful will the data be? An early answer to both questions arrived this week. The data were worse than expected, and therefore worthier than feared.

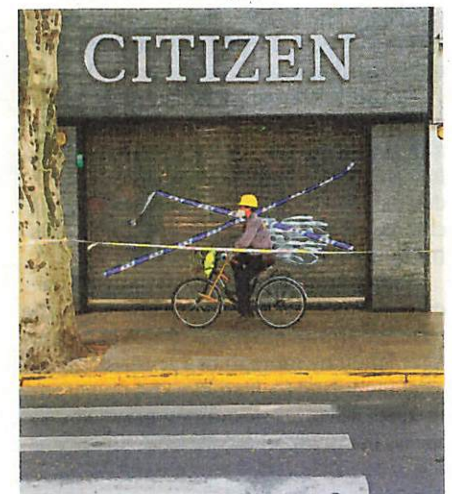
On May 16th China reported that industrial production fell by 2.9% in April compared with a year earlier. Compared with the previous month, it fell by over 7%, according to the National Bureau of Statistics. The number was the most consequential surprise since the spring of 2020, according to a measure by Goldman Sachs, which considers both the scale of the forecast error and the significance of the indicator. Retail sales fell by 14% compared with a year earlier, once adjusted for inflation. Catering fell by more than 22% and car sales by over 30% in nominal terms. In locked-down Shanghai, sales of cars were "about zero", according to the Shanghai Automobile Sales Association.

Some of the most spectacular declines were in the all-important property sector. Sales of new homes fell by 42% and housing starts by over 44%. Even China's unemployment figures, long mocked for their uncanny stability, were morbidly interesting. In 2018 China rolled out a new unemployment survey in its cities. This superseded an older, spectacularly uninformative measure, which counted the number of people who qualified for, and were able to claim, unemployment benefits. The new survey showed unemployment rising to 6.1% in April, still a little below its peak of 6.2% in February 2020. But in 31 big cities, unemployment is now 6.7%, whereas it reached only 5.7% in 2020. This suggests that Omicron—or the policy response to it—has hurt China's larger cities disproportionately. The pattern of economic pain is different this time.

It remains to be seen whether these grimly realistic monthly indicators will translate into a similarly unflattering official GDP figure for the second quarter. When the pandemic first struck, China had yet to commit itself to an official growth target for the year. That perhaps gave it more leeway to report a big drop in first-quarter GDP. This year, by contrast, China's leaders have already set a target of around 5.5%, and promised as recently as April 29th to try to meet their economic goals.

It is just not clear how. On May 15th China's authorities said the floor on mortgage rates would be cut for first-time buyers. But that will make little difference if people cannot go out to view properties. The government has also placed great emphasis on infrastructure investment. But this increased by only 4.3% in nominal terms in April, compared with a year earlier—far short of the 18% pace that Natixis, a bank, thinks it needs to reach if China is to grow anywhere near 5% this year.

Until the authorities relax their covid controls, their efforts to revive growth are likely to be ineffective. They must therefore be hoping that Omicron recedes fast enough to allow growth to catch up later in the year. Alternatively, if China cannot bring itself to abandon its growth target, it may have to fiddle its GDP figures. That would be a pity. Many of China's economic indicators may be shrinking dramatically. But their credibility edged up this week. ■



The economy is going nowhere