

The myth of “synchronized global growth”

For some months now, that has been the narrative. The Fed has embraced the idea, with new chair Powell introducing “avoidance of overheating” in his first speech (testimony), while resident dove Brainard, as her “wind analogies”, which swirled from “head” to “tail”, has changed from dove to hawk.

As this [parsing](#) of Brainard’s speech put it:

Brainard: Cutting to the chase, I am now a hawk

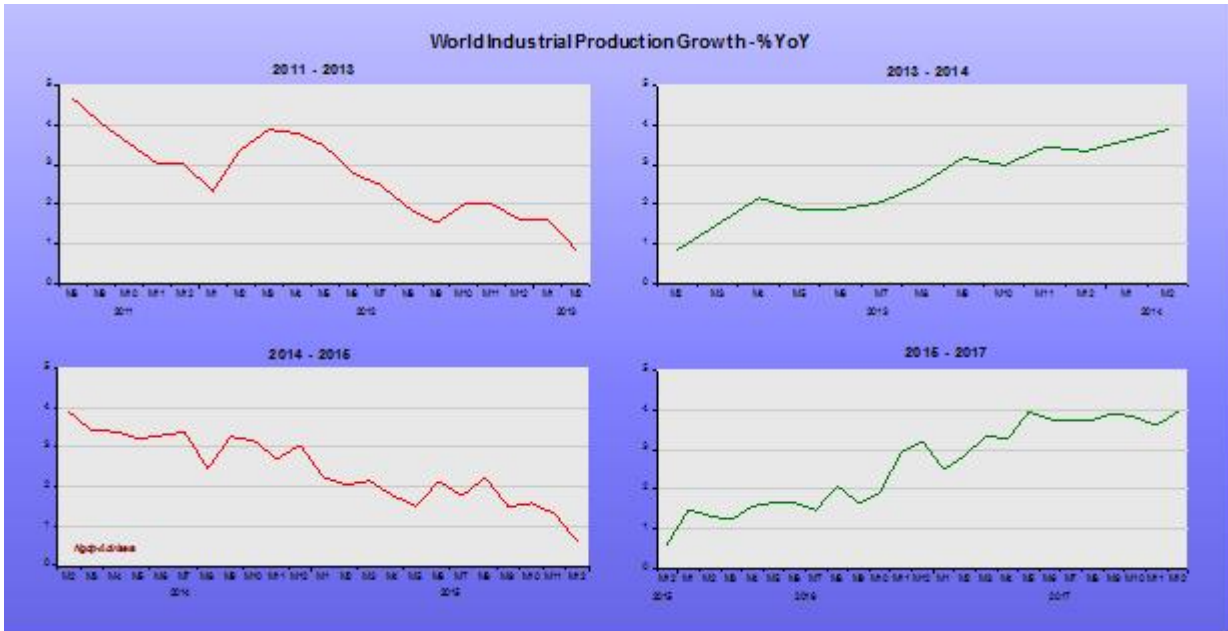
At the very start of her speech, [Brainard](#) says:

Many of the forces that acted as *headwinds* to U.S. growth and weighed on policy in previous years are generating *tailwinds* currently.

Today many economies around the world are experiencing synchronized growth, in contrast to the 2015-16 period when important foreign economies experienced adverse shocks and anemic demand.

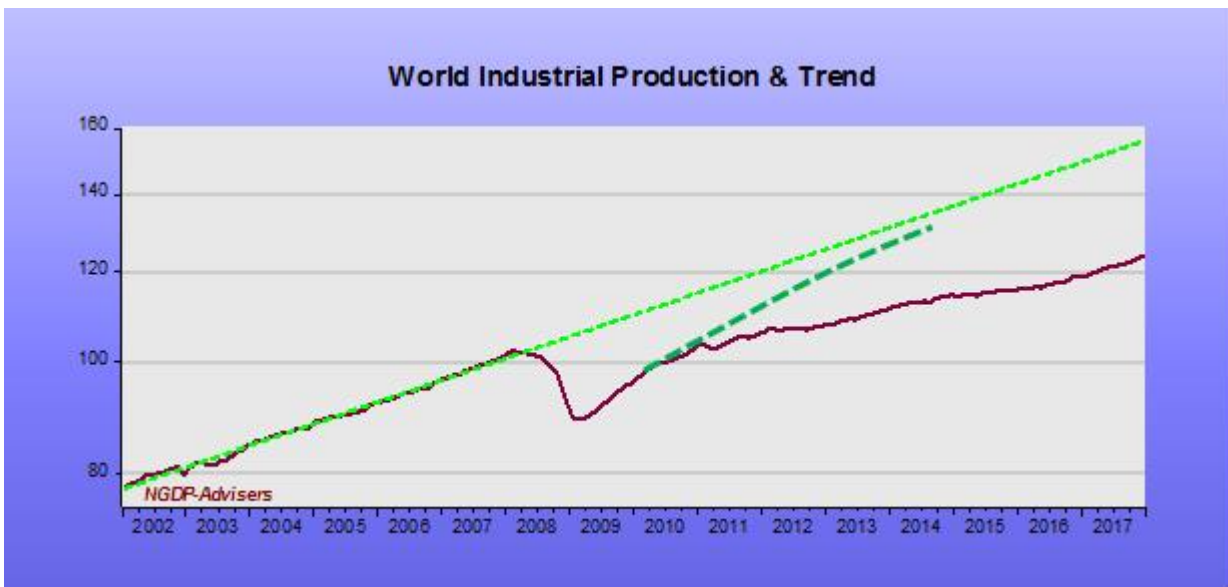
The International Monetary Fund revised up its outlook for the world economy in January, continuing a recent pattern of upward revisions, in contrast to a string of downward revisions in 2015 and 2016. Stronger economies abroad should increase demand for America’s exports and boost the foreign earnings of U.S. companies.

The dates are not exactly right, but that’s irrelevant. Using world industrial production growth as a proxy for world output growth, we observe that “headwinds & tailwinds” have been blowing on the world economy for a while.



Note that the “waves” have been “low”, rising from 1% to 4% and back again. The latest has remained flat near 4% for some time. Will it “build-up” again from this level? Or splash?

The level chart indicates that world industrial production tanked in 2008 and never recovered, remaining depressed. In fact, a nascent recovery was nipped in the bud.



The point is that if the Fed and other central banks buy into the “synchronized global growth” narrative, their actions will almost guarantee “headwinds” will blow again.