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PIIE Forecasts Global Growth Gaining Momentum

WASHINGTON—The global economy as a whole has gained momentum, according to economists at the Peterson Institute for International Economics (PIIE), in a shared expansion rarely seen. This strong recovery results in part from more accommodative monetary policies and fiscal policies that have shifted from appreciable restraint to mild stimulus. These and other assessments will be presented in PIIE's semiannual Global Economics Prospects program on Thursday, October 5. This welcome outcome was foreseen in the previous PIIE Prospects meetings, which notable were more bullish on Chinese, Japanese, and European growth prospects than the then consensus. David J. Stockton, Peterson Institute senior fellow and former Federal Reserve chief economist will lead off the discussion with his latest forecast for the global and US economy. Nicholas R. Lardy, the Institute's Anthony M. Solomon Senior Fellow, will assess the risks to China's financial sector. And José De Gregorio, PIIE nonresident senior fellow and former governor of the Bank of Chile, will update his assessment of the long-term growth prospects for Latin American.

In the United States, the prospects remain favorable for steady growth and low inflation in the next couple of years, according to Stockton. While fiscal policy outcomes in the United States remain highly uncertain, the effects on the economy of any sizable stimulus package—whether in the form of tax cuts, increased spending, or both—would likely be offset by higher interest rates, given that the economy is currently operating near full employment. In an especially encouraging development, business investment has now picked up after languishing in recent years. Tightening labor markets appear to be yielding modest upward pressure on wages, but that has yet to leave any clear mark on price inflation, creating challenges for the Federal Reserve. President Trump will have an opportunity to appoint five members to the Fed's Board of Governors, including the Chair, and Stockton concludes that these appointments could tilt the Fed toward more accommodative monetary policy.

Nicholas R. Lardy projects that China's economy will grow between 6 and 7 percent in 2018, based on continued strong increases in private consumption, which has offset most of the softening of Chinese investment and export growth in recent years. He argues that the evidence contradicts the widespread contention that China's rapid credit growth in recent years poses a major risk to the Chinese economy. Lardy says that China's leadership including President Xi Jinping has made controlling financial risk a top priority, encouraging regulators to crack down on risk increasing practices. Finally, if the slowdown in credit expansion seen recently does lead to a modest economic slowdown, he argues that the leadership may choose not to restart rapid credit growth. They can achieve their goal of doubling GDP in the decade to 2020 with an average growth rate of only 6.2 percent over the next three years, and thus do so without incurring additional financial risks.

De Gregorio's assessment for the growth prospects in Latin America is in contrast to the rest of the global outlook. He believes that growth will remain sluggish for the next couple of years. While Brazil and Argentina are recovering slowly from recessions, Chile, Colombia, and Peru are still experiencing long but vulnerable expansions. Monetary policy has been loosened throughout the region, but fiscal space remains limited, reducing the prospects for any government stimulus. Taking a long-term view, potential growth in the region is only between 3 and 4 percent at present, which is far lower than Latin America's growth rates prior to the Great Recession. In addition, short-term risks—including potential political crises, particularly in Brazil—make that difficult to achieve.

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