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## Global Growth Slowing this Year; Expansion Still Vulnerable to Risks from Protectionism

WASHINGTON—Global economic growth has lost momentum since last year, according to economists at the Peterson Institute for International Economics. Most large economies are likely to continue to expand in 2019 and 2020, but the cyclical boom of recent years appears to have given way to growth that is near or, in some cases, below trend. These and other assessments are being presented today at PIIE's semiannual Global Economic Prospects event.

Karen Dynan, nonresident senior fellow at PIIE and former chief economist at the US Department of Treasury, will lead off the discussion with a general economic assessment. Joseph E. Gagnon, senior fellow, will summarize his new analysis of the US Phillips curve and its implications for the inflation forecast and Federal Reserve monetary policy. Martin Chorzempa, research fellow, will discuss the state of credit markets, monetary stimulus, and financial stability in China.

With fiscal stimulus waning, US economic growth is heading back toward its trend pace. In 2019, real GDP growth is likely to fall well short of last year's 2.9 percent pace, and growth should fall further in 2020. The unemployment rate is on track to bottom out at 3.7 percent this year, and tight labor markets should push inflation modestly above 2 percent by 2020, according to Dynan. Incoming data and recent developments point to a step-down in growth in many other large economies as well. Dynan also cautions about downside risks in the United States and other countries, particularly if slower growth increases resistance to positive structural reforms and fuels support for populist policies such as trade barriers.

New analysis of the Phillips curve, a longstanding model holding that low unemployment puts upward pressure on inflation, by Gagnon also projects inflation in the United States to edge up over the next couple of years, to a level slightly above the Federal Reserve's target of 2 percent. The stability of inflation over the past decade despite large increases and decreases in the unemployment rate has caused many economists to question the usefulness of the Phillips curve. Gagnon explores the hypothesis that the Phillips curve is not linear, as is commonly assumed, but instead bends when inflation is low. This curvature explains why high unemployment did not lead to lower inflation after the Great Recession of 2009. But Gagnon's analysis suggests that unemployment has returned to a range where it may push inflation moderately up over the next few years. Gagnon's work implies that the Fed still has the ability to manage inflation and achieve its target.

Assessing the outlook for the Chinese economy, Chorzempa forecasts a continued decline in GDP growth, closer to 6 percent than the government target of 6.5 percent. He expects the slowdown to persist due to a host of medium-term challenges including insufficient private sector access to credit, inefficient state companies, and local government imbalances. Contrary to market expectations for a large government stimulus, Chorzempa forecasts that the government will refrain from opening the credit taps to maintain longer-term growth stability. At the same time, the state of credit markets is a key growth inhibitor. Chorzempa projects the Xi administration will not successfully direct enough credit to private and small firms, which will continue to be a drag on growth. While China has restrained riskier business practices and is no longer relying as much on non-bank credit channels to sustain growth, it comes at the expense of private companies that depended on shadow banks.

## ABOUT THE SPEAKERS

Karen Dynan is a professor of the practice in the department of economics at Harvard University and a nonresident senior fellow at PIIE. She was assistant secretary for economic policy and chief economist at the US Department of the Treasury from 2014 to 2017, leading analysis of economic conditions and development of policies to address the nation's economic challenges. From 2009 to 2013, she was vice president and codirector of the economic studies program at the Brookings Institution. Before that, she served in various roles in the Division of Research and Statistics at the Federal Reserve Board, including as assistant director and senior adviser.

Joseph Gagnon, a senior fellow at the Peterson Institute since September 2009, was visiting associate director of the Division of Monetary Affairs (2008–09) at the US Federal Reserve Board. Previously he served as associate director of the Division of International Finance (1999–2008) and senior economist (1987–1990 and 1991–97) at the Fed. He has also served at the US Treasury Department (1994–95 and 1997–1999) and has taught at the Haas School of Business, University of California, Berkeley (1990–91).

Martin Chorzempa, PIIE research fellow, joined the Institute in 2017. He gained expertise in financial innovation while in Germany as a Fulbright scholar and researcher at the Association of German Banks. He conducted research on financial liberalization in Beijing, first as a Luce scholar at Peking University's China Center for Economic Research and then at the China Finance 40 Forum, China's leading independent think tank.

## ABOUT THE INSTITUTE

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