



PIIE PETERSON INSTITUTE FOR
INTERNATIONAL ECONOMICS

A Clouded Growth Outlook

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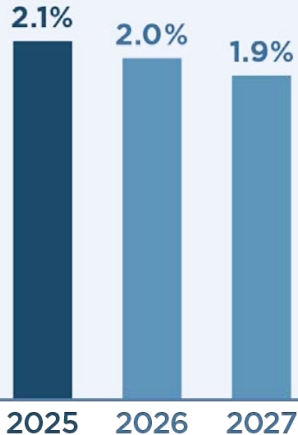
Advanced economies will see weaker growth this year and next than they saw in 2025

Real GDP Growth

Percent change from previous year

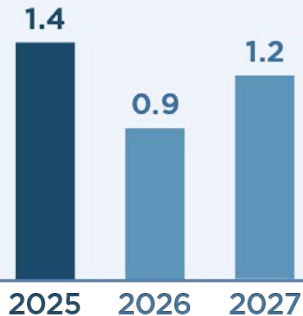
US

US growth supported by AI but still moderating



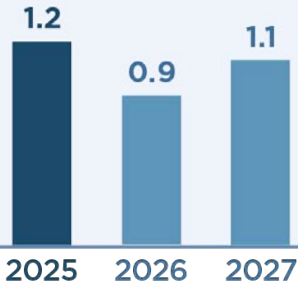
Euro area

Euro area faces near-term slowdown from energy shock; then gradual recovery



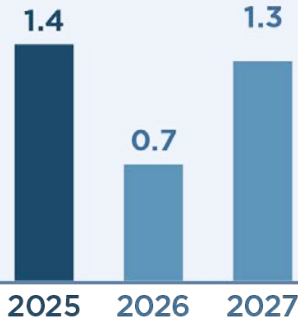
Japan

In Japan, fiscal stimulus will partly offset energy drag



UK

UK growth subdued as fiscal restraint and energy shock limit momentum



Annual-average-over-annual-average growth rates. PPP weights.
Sources: Consensus Forecasts for 2025; author's forecasts for 2026–2027.

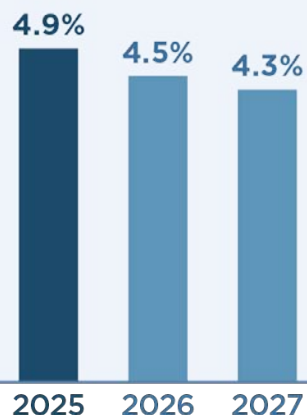
Underlying growth varies across emerging market economies, but most are slowing

Real GDP Growth

Percent change from previous year

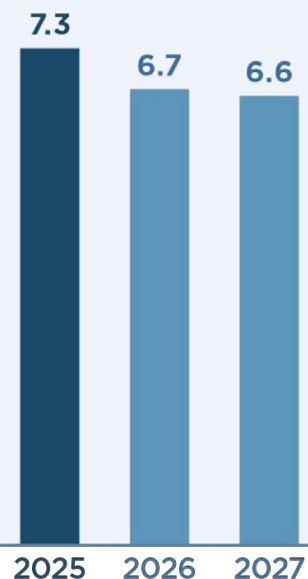
China

Chinese exports strong, but property slump weighing on domestic demand



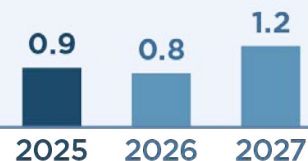
India

India's energy dependence slows activity a bit



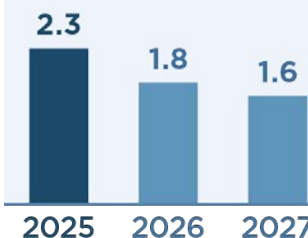
Russia

Russian growth soft but higher energy prices provide a lift



Brazil

Brazil sees modest growth amid policy uncertainty and higher input costs



Annual-average-over-annual-average growth rates. PPP weights.
Sources: Consensus Forecasts for 2025; author's forecasts for 2026–2027.

The energy shock from the Iran war lowers expected growth and adds uncertainty

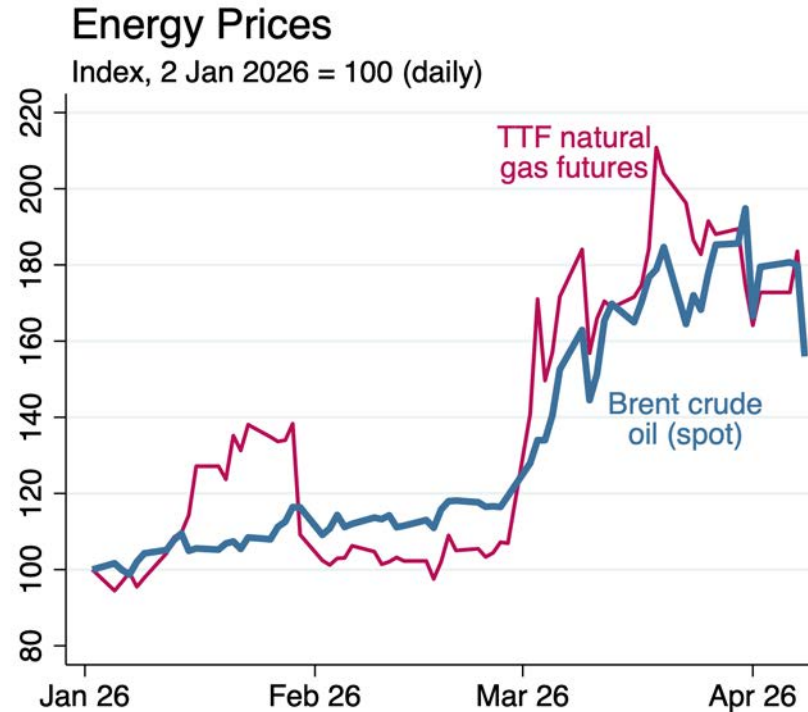
As before the war, the global economic outlook continues to be bolstered by the boom in **artificial intelligence** and dampened by the **trade war**, other **policy uncertainty**, and various **structural challenges**

The significant **disruptions from the war** to global energy markets and to supply chains for key non-energy products have lowered expected growth and pushed up expected inflation

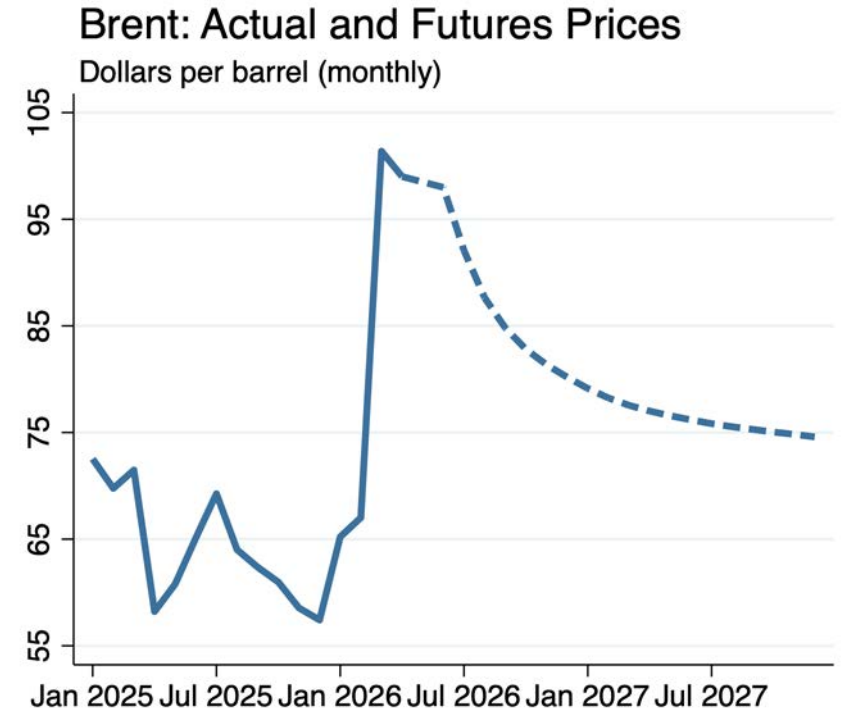
Even with the improvement since Tuesday evening, **energy prices are still up sharply** from before the conflict—and **uncertainty is high** about whether the pause in fighting will endure

Energy prices remain very elevated but are expected to recede gradually in 2026:H2

Nearly one quarter of the world's oil is shipped through the Strait of Hormuz—which also carries significant amounts of natural gas, fertilizer, helium, and other raw materials

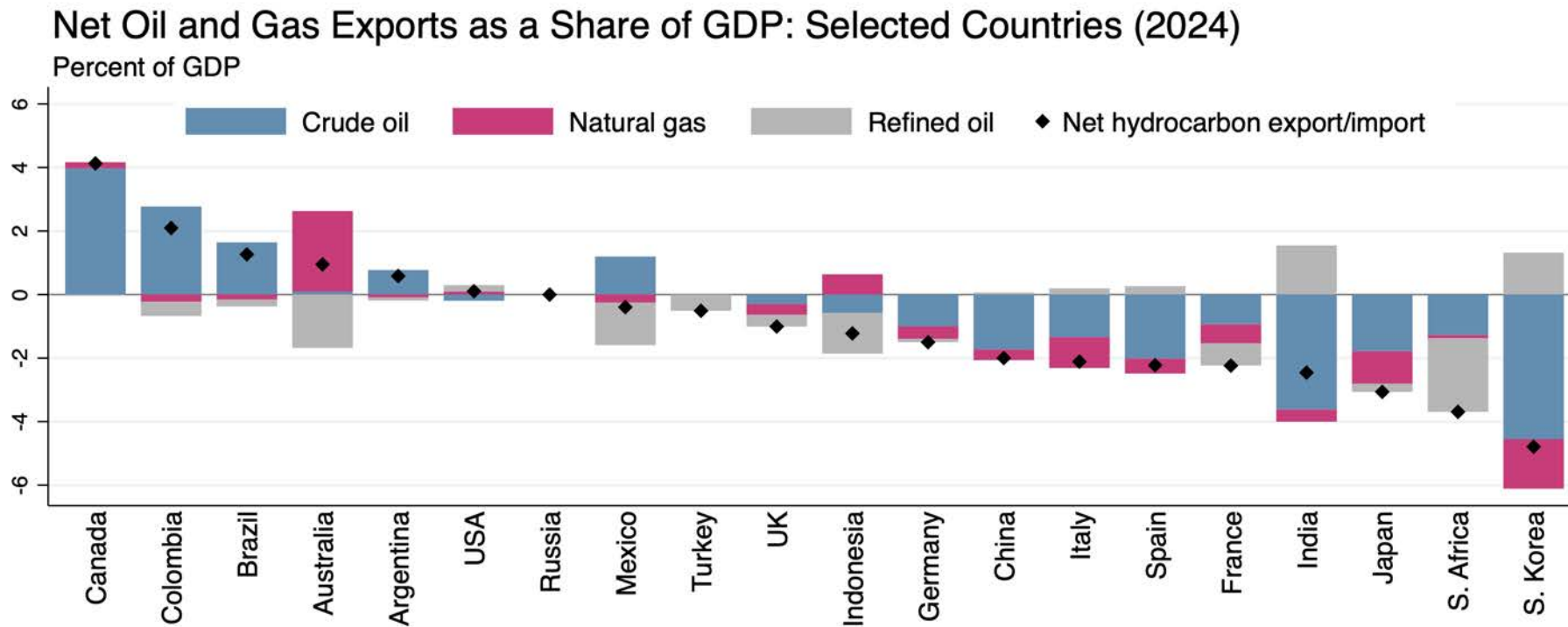


Data source: Bloomberg. Last data point: April 8, 2026 (156 for Brent and 159 for TTF).



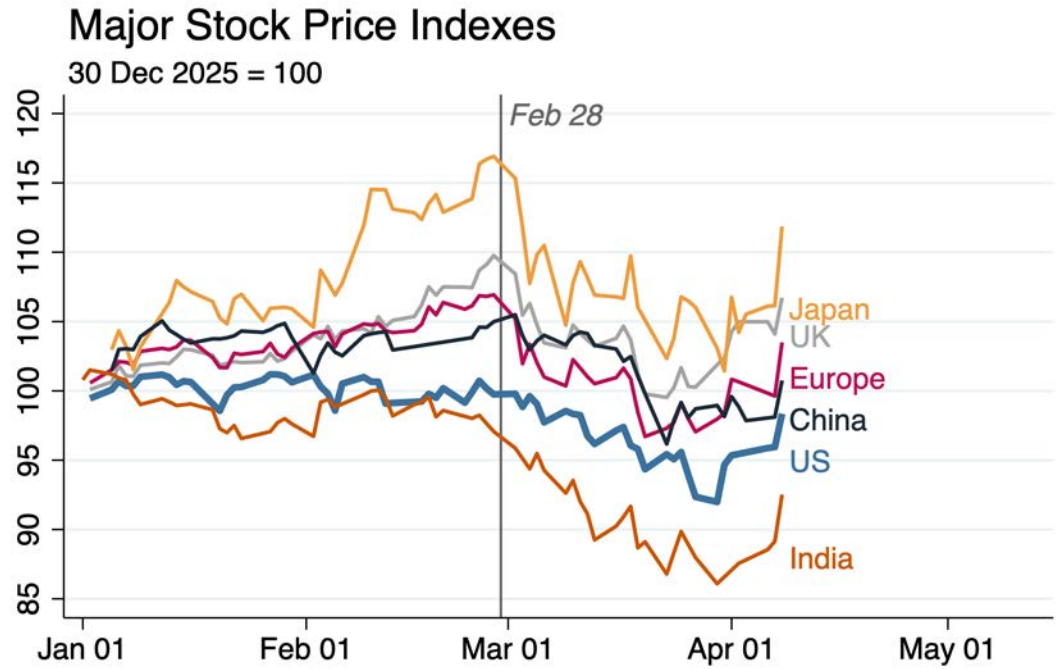
Data source: Bloomberg. April 2026 actual data point equals spot price as of April 9, 2026. Dotted line corresponds to futures price.

Some Asian and European countries are especially exposed to the energy shock

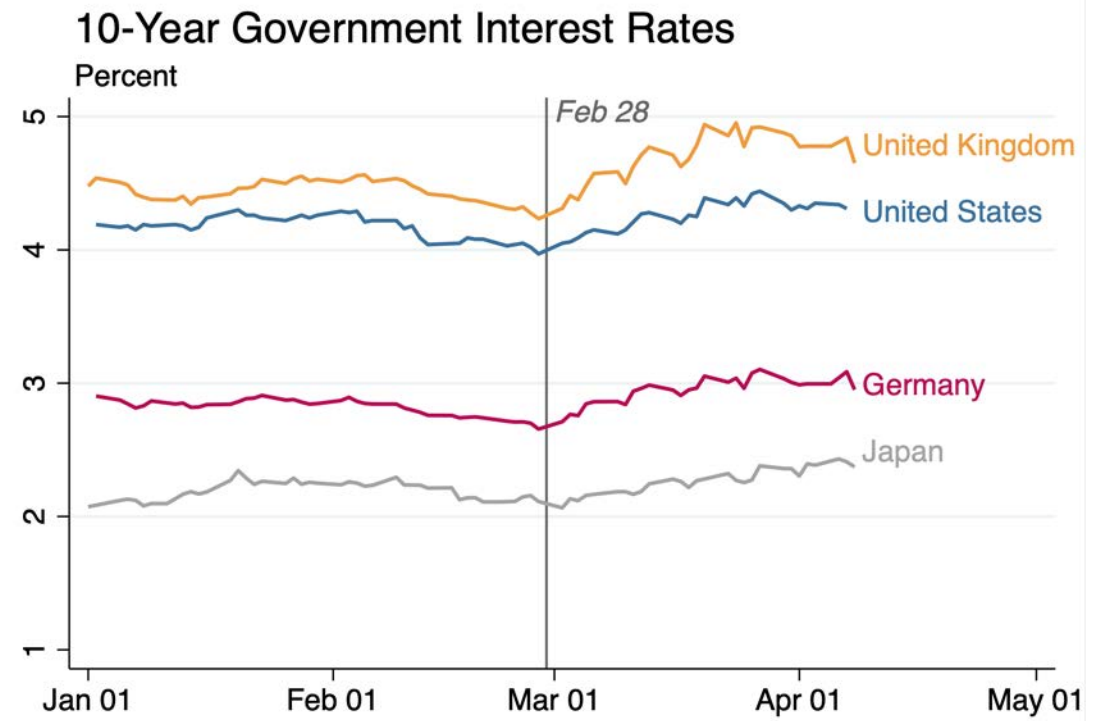


Data source: Author's calculations using data from UN Comtrade and the World Development Indicators

Stock prices and interest rates have reversed part but not all of moves since the war began



Indexes used are NIFTY 50 for India, Shanghai Composite for China, STOXX 600 for Europe, Nikkei 225 for Japan, FTSE100 for the UK, and S&P 500 for the US.
Data sources: Federal Reserve (via FRED) and Tullett Prebon (via Wall Street Journal).
Last data point: April 8, 2026.

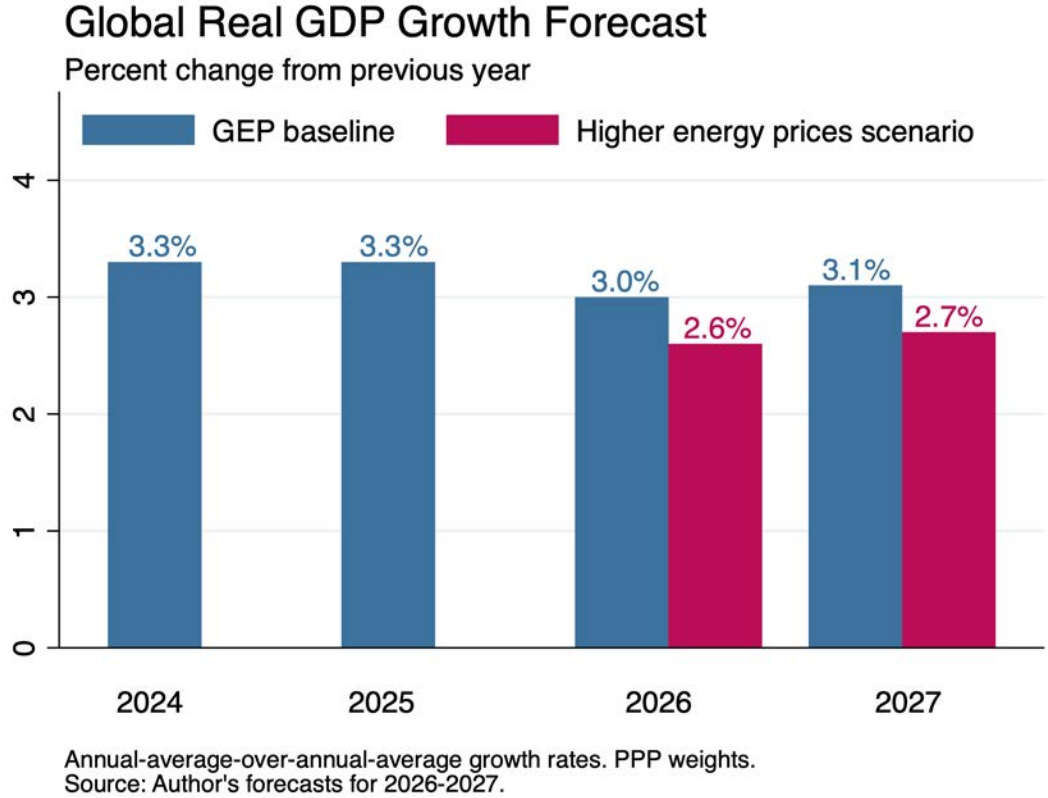


Data sources: Federal Reserve (via FRED) and Tullett Prebon (via Wall Street Journal).
Last data point: April 8, 2026.

GEP projection assumes energy prices follow futures, but outcomes could well be worse

Brent Crude Oil Price dollars per barrel		
	GEP baseline*	Alternative scenario
Current	\$99	\$99
2026:Q2	\$98	\$150
2026:Q3	\$88	\$120
2026:Q4	\$81	\$100
2027:Q1	\$76	\$90

* Roughly follows futures curve as of April 9.



Key US background factors beyond energy

Sharp pullback in immigration—has reduced both labor supply and demand

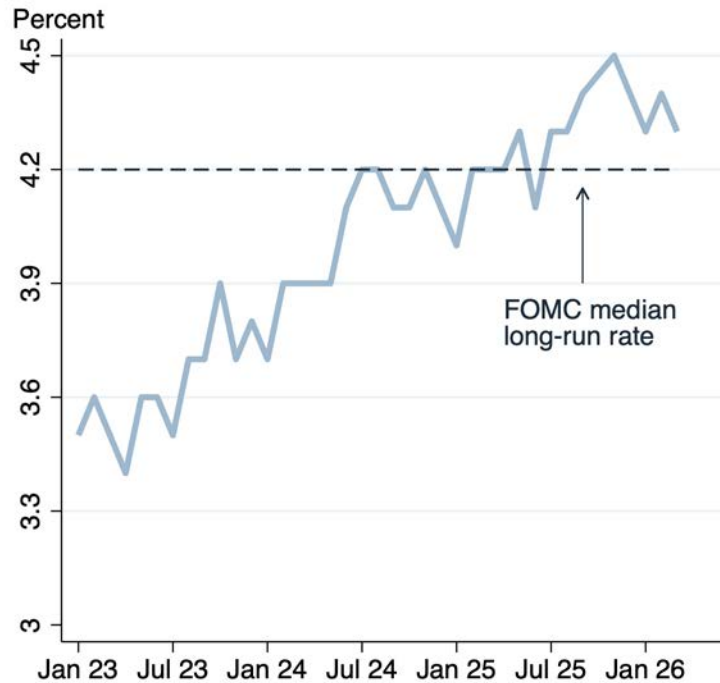
Artificial intelligence boom—continues to boost investment and support consumption via lagged wealth effects

Tax cuts from the One Big Bill—have created fiscal impulse that will provide modest support to demand this year

Elevated uncertainty about tariffs, Fed leadership, federal spending, private credit fallout—are weighing on private decisionmaking

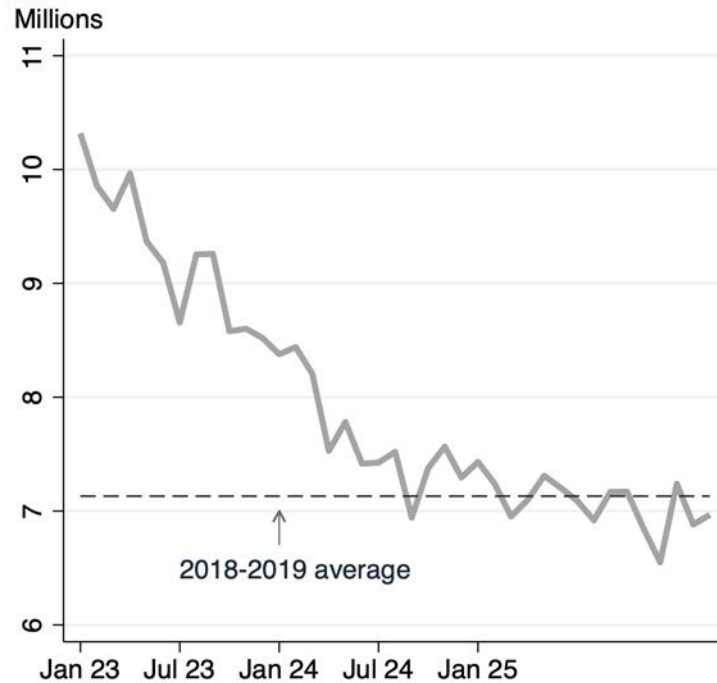
US labor market has cooled, but appears close to full employment

Unemployment Rate



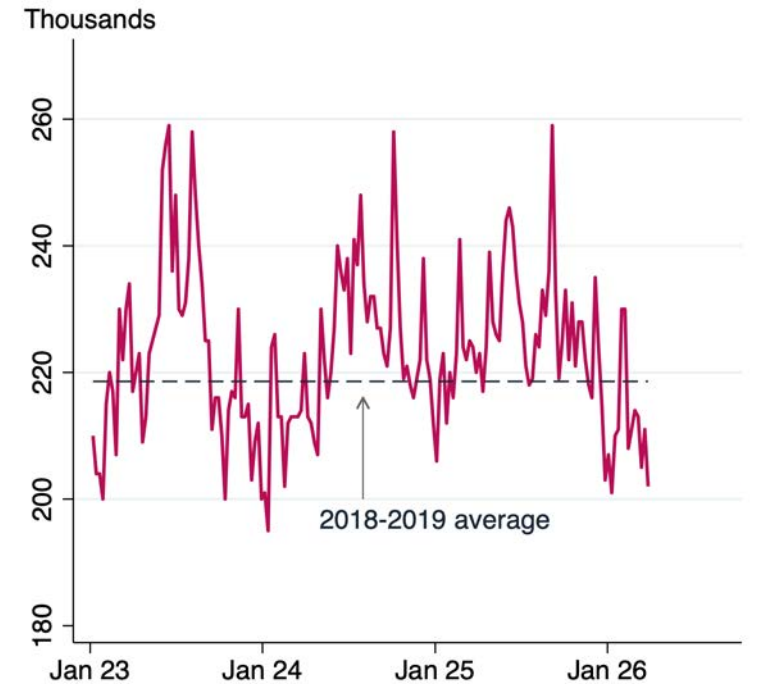
Data source: Bureau of Labor Statistics (via FRED).
Last data point: March 2026.

Job Openings



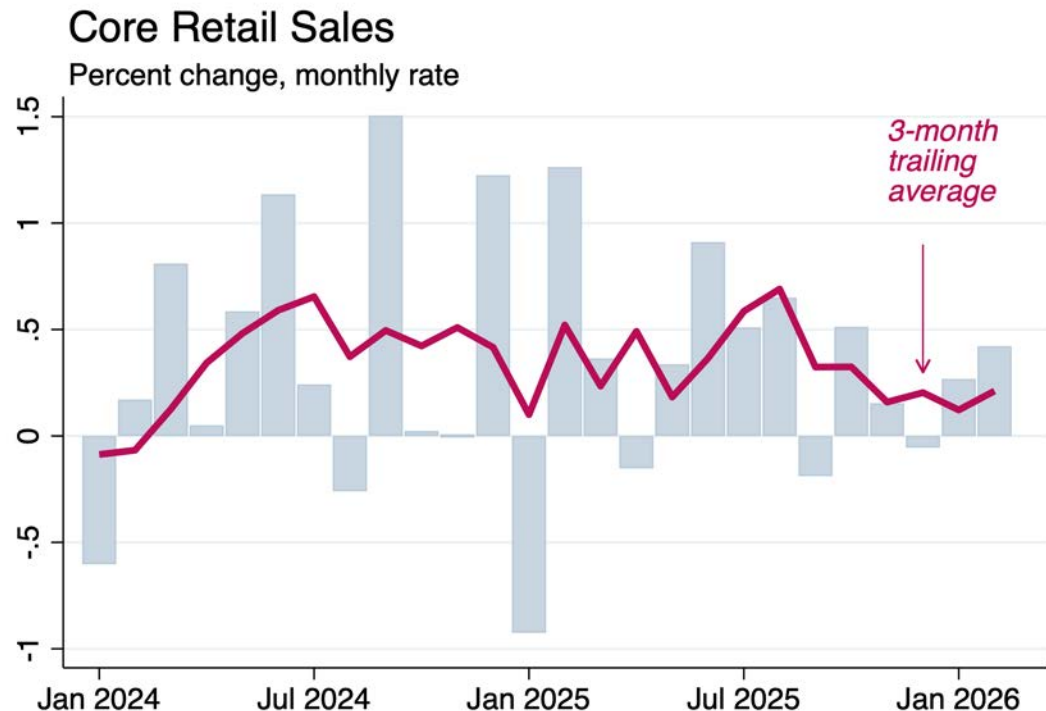
Data source: Bureau of Labor Statistics and Indeed (via FRED).
Last data point: March 2026 (estimated based on Indeed data).

Initial Claims for Unemployment Insurance

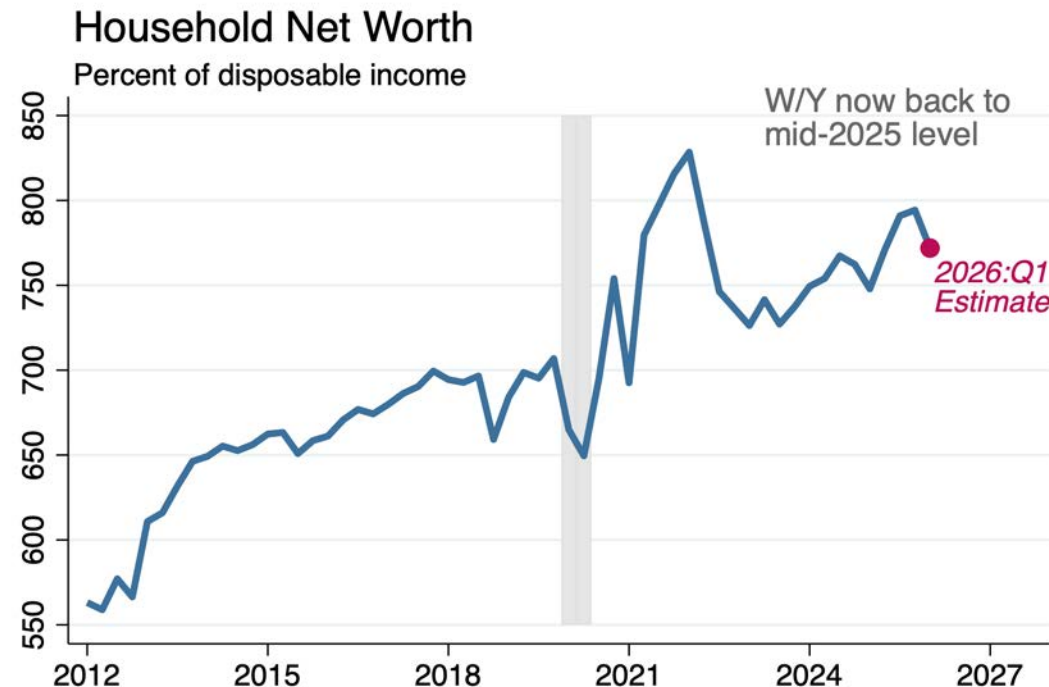


Data sources: Bureau of Labor Statistics.
Last data point: March 28, 2026.

US consumption growth has moderated and will likely slow further as wealth effects wane



Data source: Census Bureau (via FRED). Total retail sales minus outlays on autos, building materials, and gasoline. Last data point: February 2026.

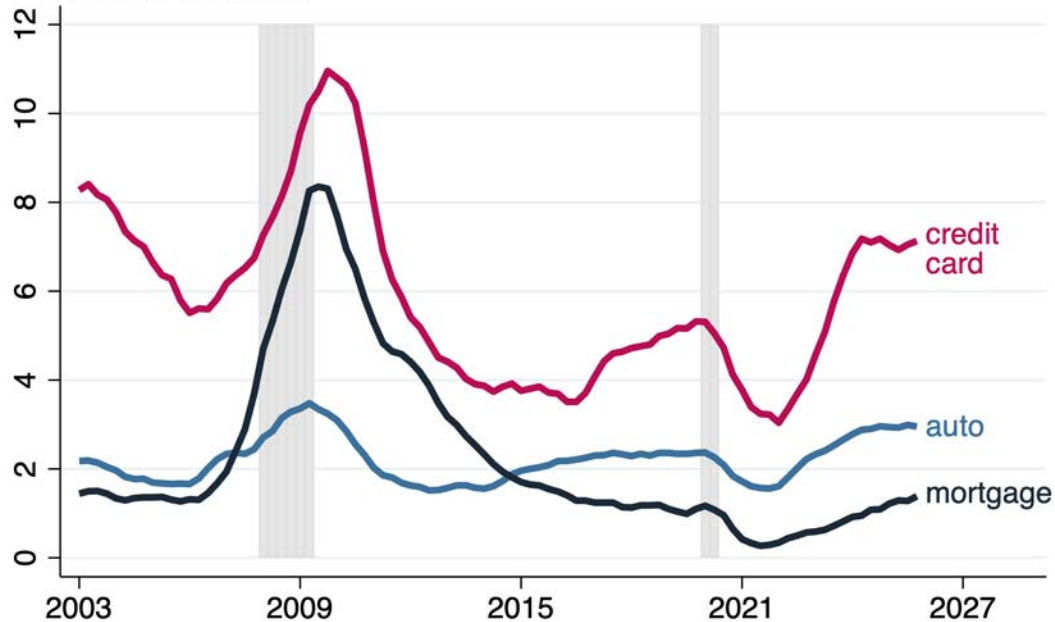


Data source: Federal Reserve, Bureau of Economic Analysis, Zillow, and S&P Dow Jones (via FRED). Last data point: 2026q1 (estimated based on actual stock prices and no home price growth). Shaded area is recessions.

The available data suggests household financial distress still remains limited

Loans Transitioning into Serious Delinquency

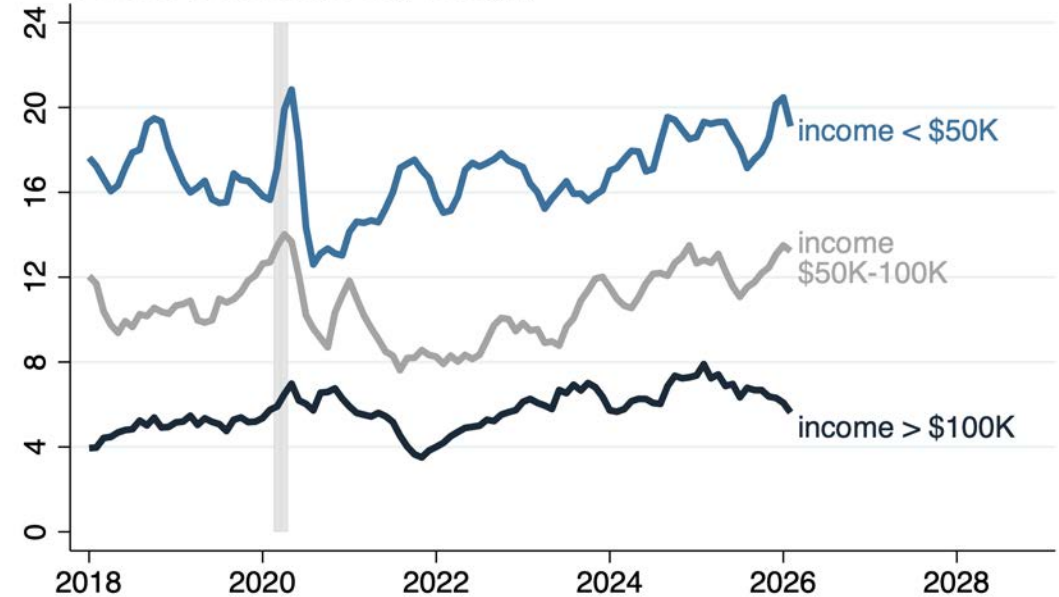
Percent of balance



Data source: Federal Bank of New York. Serious delinquency at 90+ days. Shaded areas are recessions. Last data point: 2025:Q4.

Delinquency Expectations by Income

Percent (3-month moving average)

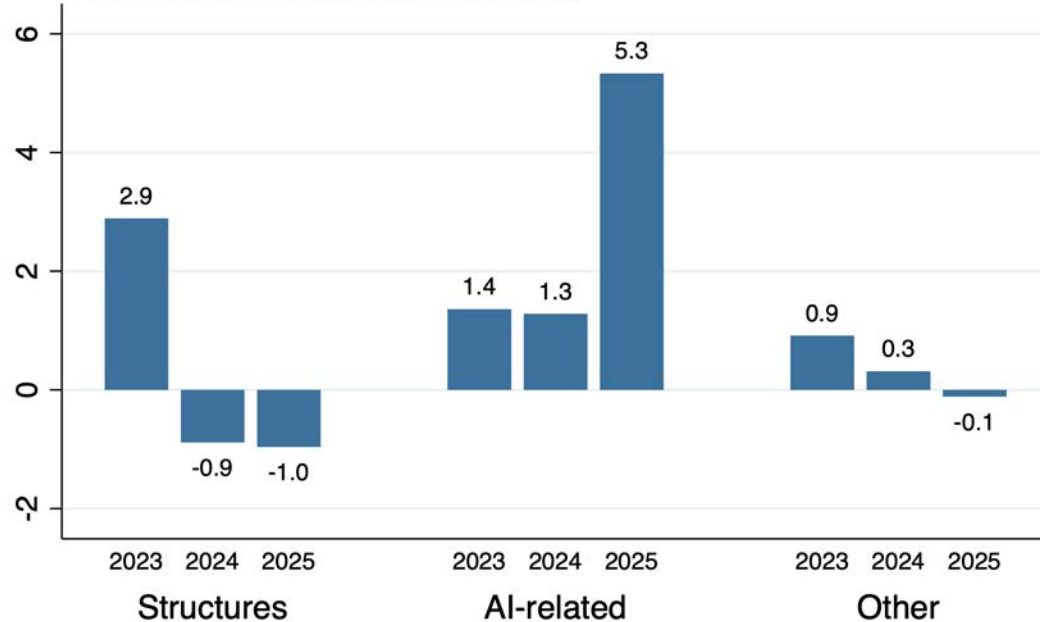


Data source: Federal Reserve Bank of New York. Mean probability of not being able to make minimum debt payment over the next 3 months. Shaded area corresponds to recession. Last data point: February 2026.

AI optimism continues to offset the drag on business investment from policy uncertainty

Contributions to Business Fixed Investment Growth

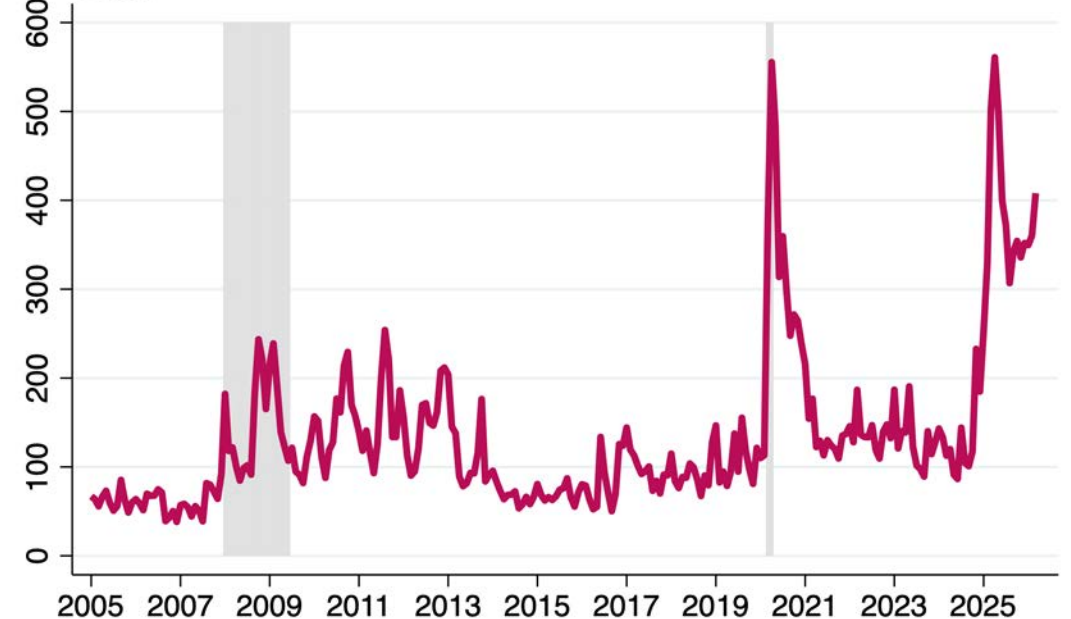
Percentage points (average for period)



Sources: Bureau of Economic Analysis (via FRED) and author's calculations.
AI-related category includes information processing equipment, software, and R&D.

Economic Policy Uncertainty

Index

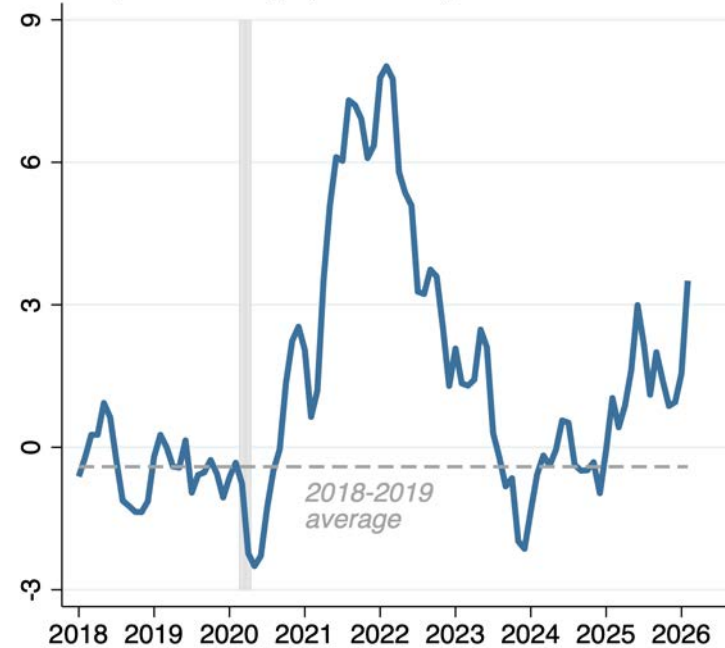


Data source: Baker, Scott R., Bloom, Nick and Davis, Stephen J. (via FRED).
Shaded areas correspond to recessions. Last data point: April 2026 (to date).

Core shelter inflation is back to earlier norm, but core goods and other services are elevated

PCE Core Goods Inflation

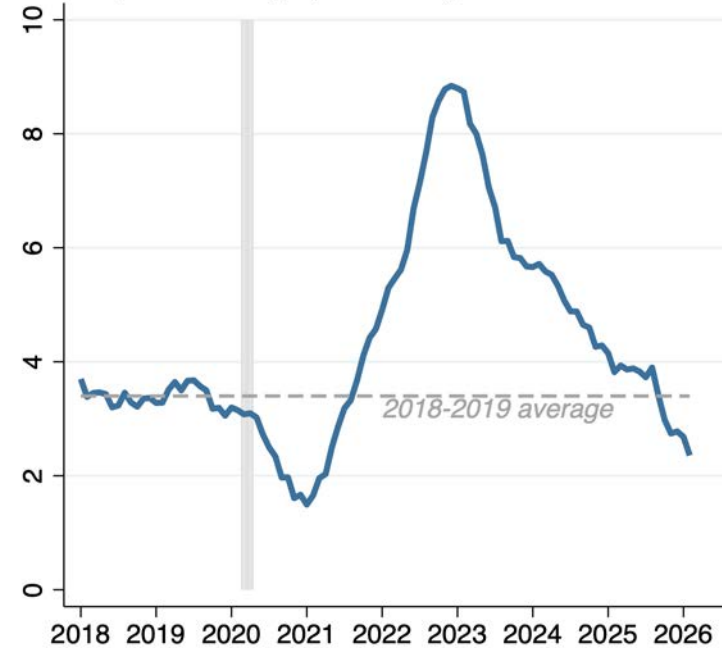
6-month percent change (annualized)



Data source: Bureau of Economic Analysis. Shaded region corresponds to recession. Last data point: February 2026.

PCE Core Housing Services Inflation

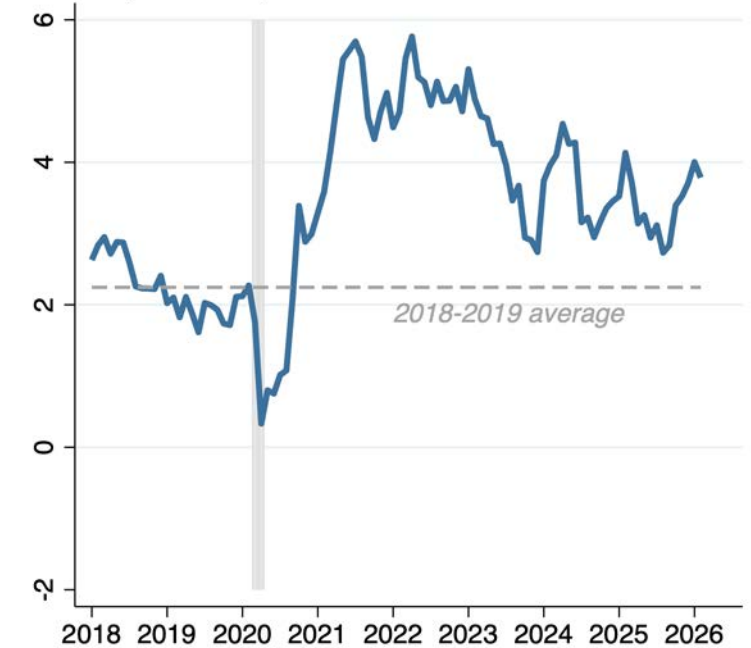
6-month percent change (annualized)



Data source: Bureau of Economic Analysis. Shaded region corresponds to recession. Last data point: February 2026.

PCE Core Services Ex. Housing Inflation

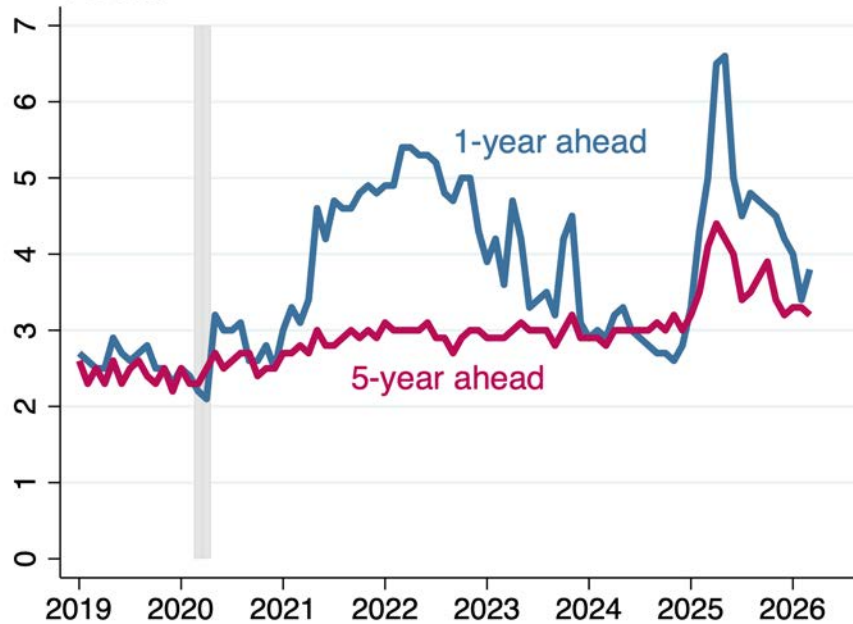
Percent (annualized)



Data source: Bureau of Economic Analysis. Shaded region corresponds to recession. Last data point: February 2026.

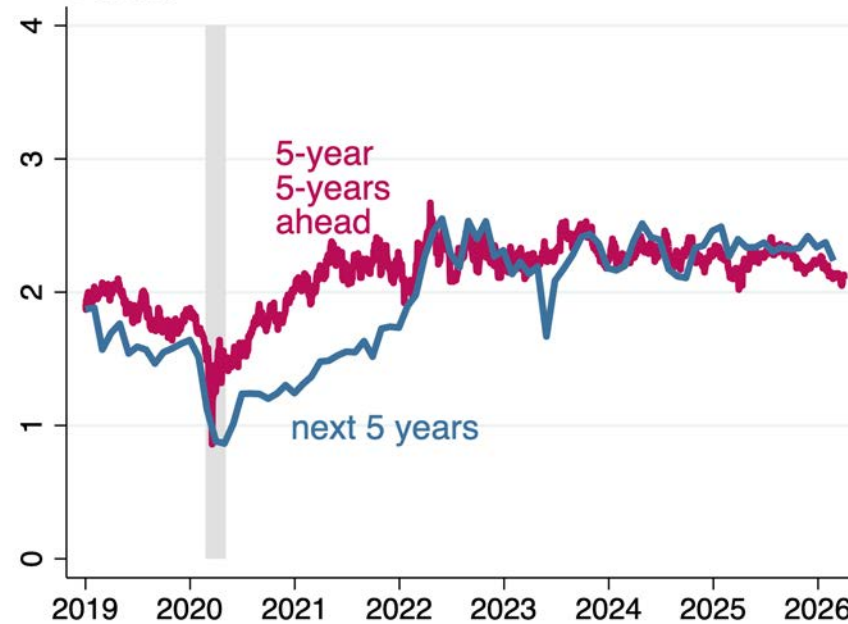
So far, inflation expectations have remained largely anchored

Mean Expected Inflation: Households
Percent



Data source: University of Michigan Surveys of Consumers. Shaded area is recession. Last data point: March 2026.

Median Expected Inflation: Markets
Percent



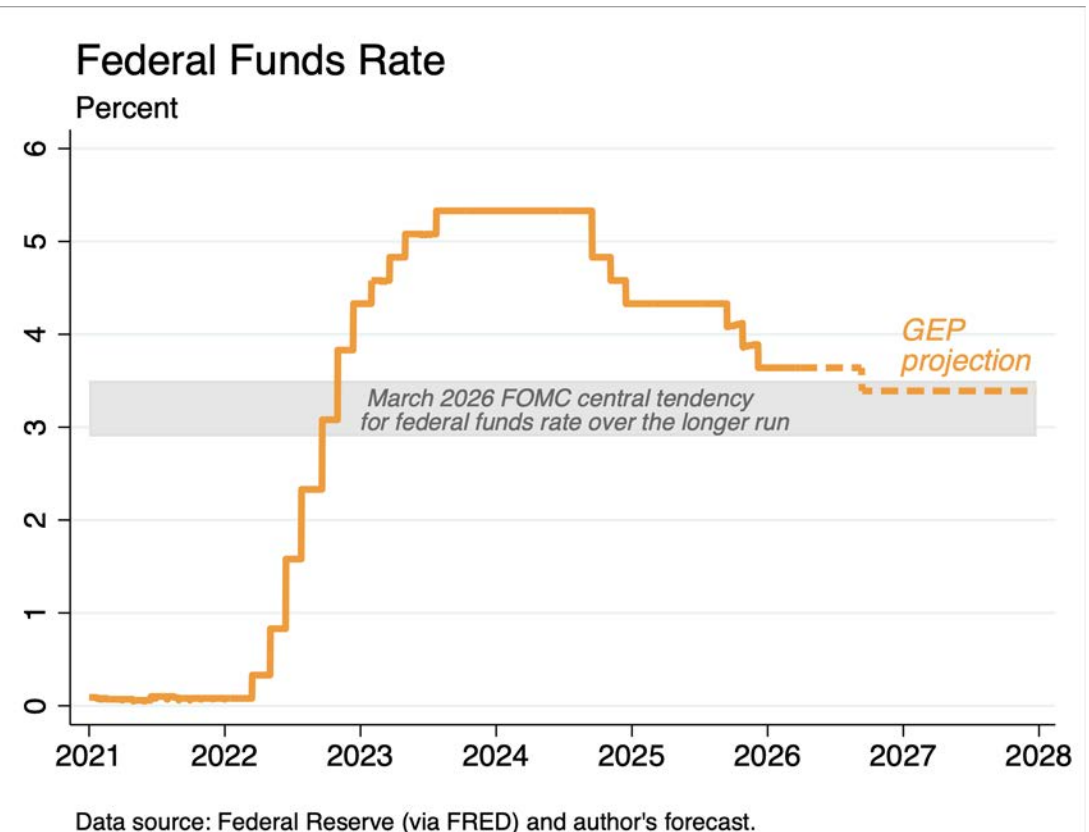
Data source: Federal Reserve Bank of Cleveland (via FRED). Breakeven inflation rates derived from TIPS. Last data point: April 8, 2026.

However, expectations are probably less firmly anchored in the wake of the COVID inflation surge ([Gagnon and Kamin, 2025](#))

Under baseline energy price assumptions, the Fed is likely to hold steady before easing later this year

The Fed will be especially data dependent given uncertainty about:

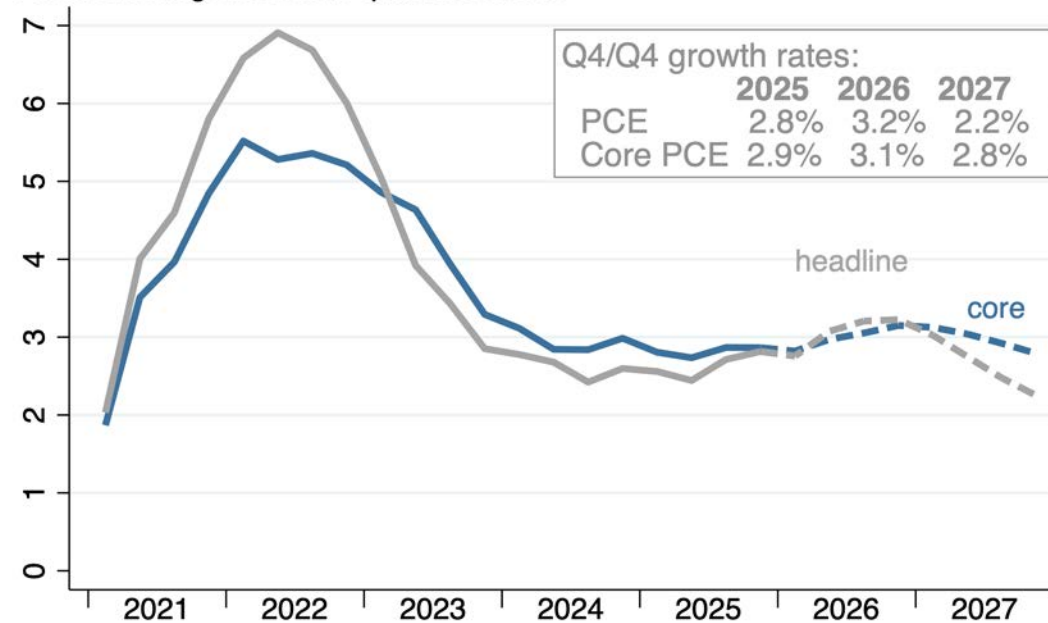
- the underlying inflation path
- the evolution of energy prices
- effect of energy shock on US output and prices now that the US is a net energy exporter
- how firmly inflation expectations are anchored



Inflation will rise in coming quarters, and unemployment will edge up

US PCE Inflation

Percent change from four quarters earlier



Source: Bureau of Economic Analysis, author's forecast.
Dashed line is projection.

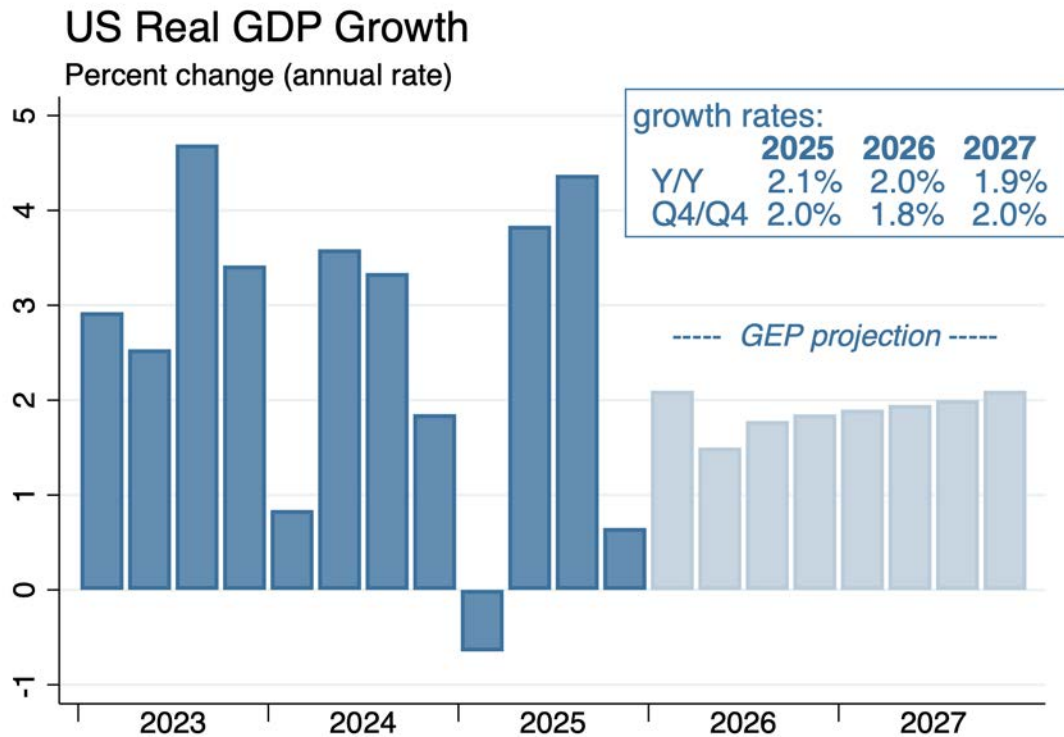
US Unemployment Rate

Percent



Source: Bureau of Labor Statistics, author's forecast.
Dashed line is projection.

US economic growth will be soft in coming quarters and then return to a moderate pace



Data source: US Bureau of Economic Analysis(via FRED) and author's projection.

Faster growth could occur because of the AI boom, but the sharp slowing of immigration and broad policy uncertainty could weigh more heavily on the economy—and developments in the Middle East remain a substantial risk

Global Growth Outlook

Real GDP Growth (Y/Y)	2024	2025	2026	2027
Global Growth	3.3	3.3	3.0	3.1
United States	2.8	2.1	2.0	1.9
Euro Area	0.9	1.4	0.9	1.2
Japan	-0.2	1.2	0.9	1.1
United Kingdom	1.1	1.4	0.7	1.3
China	5.0	4.9	4.5	4.3
India	6.5	7.3	6.7	6.6
Russia	4.3	0.9	0.8	1.2
Brazil	3.4	2.3	1.8	1.6

Source: Consensus Forecasts for 2024-25; PIIE for 2026-2027. Annual-average-over-annual-average growth rates. PPP weights.



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