Peterson Institute for International Economics

News

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PIIE EXPERTS FORECAST SLUGGISH GROWTH FOR THE GLOBAL ECONOMY IN 2015–16, BUT NO PANIC OVER CHINA

WASHINGTON—Economists at the Peterson Institute for International Economics forecast continued sluggish growth for the global economy in 2015–16, despite generally favorable economic performance among the major advanced economies. Economic difficulties among some large emerging-market economies are limiting global growth. The PIIE experts, however, do not share the widespread panic over downsize risks to Chinese growth, and their putative spillovers to the United States and others beyond some particularly exposed commodity exporters and Asian neighbors.

The Institute's semiannual Global Economic Prospects program will be presented (and webcast) at 12:15 pm (ET) on Thursday, October 1. Nicholas R. Lardy will first discuss the risks facing the Chinese economy while challenging the view that China is headed for a dramatic downturn. David J. Stockton will then give his global forecast, building on his detailed assessment of the US economy, and consideration of lack of policy options available in case risks materialize. Paolo Mauro will give an additional perspective, discussing longer-term income growth projections for the global economy and their interaction with potentially lower sustainable growth rates and fiscal constraints. The video, transcript, and PIIE experts' presentations will be available on the Institute's website after the event.

Opening the session, Lardy challenges recent pessimistic assessments of Chinese economic growth and their potential for triggering a global recession. Such assessments fail to take into account that services, not industry, have been the main factor in China's growth in recent years and that the service sector, though notoriously hard to measure, will be an increasingly important source of expansion in the future. In fact, China's nonagricultural job creation has been greater of late than when the economy was growing at double digit rates in prior years. A further correction in the property market is the biggest vulnerability for China and could slow overall growth to 6 percent in 2016—which would still be above most recent market forecasts.

Stockton forecasts continued moderate growth for the US economy in coming years in response to a strengthening labor market, improved household balance sheets, and recovery in housing markets. US economic growth (real GDP Q4/Q4) is projected to be 2.3 percent in 2015, 2.2 percent in 2016, and 2.0 percent in 2017. The unemployment rate is expected to continue downward, reaching 4.7 percent at the end of 2017. Stockton expects the Federal Reserve to begin removing its monetary accommodation by the end of the year, but the process will be gradual. A potential falloff in growth in China could reverse US economic gains, however. Stockton argues further that given the low level of interest rates, the economic and political constraints on fiscal policy, and the already well-below-target inflation rates in most advanced economies, there is little room for policy response to a new shock. Therefore, the risks posed by any appreciable weakening in global activity are greater than usual.

Mauro predicts improved worldwide distribution of individual incomes through 2035, though he finds that worldwide income growth will remain better distributed across countries than within countries. Emerging economies will continue to be engines of growth for the world economy over the long term, despite associated risks and challenges. Mauro establishes that long-run growth forecasts tend to be overly optimistic, however, especially for developing economies. He cautions that declines in long-run economic growth have historically been associated with rising public debt problems.

About the Forecasters

David J. Stockton, PIIE senior fellow and senior adviser at Macroeconomic Advisers, was chief economist for the Federal Reserve Board from 2000 to 2011.

Nicholas R. Lardy, the Institute's Anthony M. Solomon Senior Fellow, is the author of the widely-acclaimed book *Markets over Mao: The Rise of Private Business in China*.

Paolo Mauro joined the Institute as a senior fellow in October 2014, after 20 years at the International Monetary Fund in increasingly senior roles in the Fiscal and Research Departments.

About the Institute

The **Peterson Institute for International Economics** is a private, nonprofit institution for rigorous, intellectually open, and indepth study and discussion of international economic policy. Its purpose is to identify and analyze important issues to make globalization beneficial and sustainable for the people of the United States and the world, and then to develop and communicate practical new approaches for dealing with them. The Institute is widely viewed as nonpartisan. Its work is funded by a highly diverse group of philanthropic foundations, private corporations, and interested individuals, as well as income on its capital fund. About 35 percent of the Institute's resources in its latest fiscal year were provided by contributors from outside the United States. A list of all financial supporters for the preceding four years is available online.