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PIIE Forecasts Strong Global Economic Growth Continuing through 2019 but Slowing in 2020; Protectionism Could Disrupt the Outlook

WASHINGTON—The global economy is enjoying a cyclical boom that will likely continue through 2019, according to economists at the Peterson Institute for International Economics. This outlook results from stimulative fiscal policy in the United States and accommodative monetary policy around the world. These and other assessments will be presented at PIIE's semiannual Global Economic Prospects event on April 4. 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. Marcus Noland, executive vice president and director of studies at the Institute, will assess the economic impact of trade conflicts with China, NAFTA partners, and other countries. Jacob Funk Kirkegaard will close the session with a discussion of the causes of weak wage growth in most advanced economies

The US economy will likely grow faster in 2018 than in 2017, but growth is projected to slow from its current pace by 2020 because increasingly tight labor markets and modest productivity growth will not support continued fast output growth. The unemployment rate will likely fall to 3.5 percent, and inflation will rise modestly to a little over 2 percent, according to Dynan. Growth in other large economies will ease up from 2017 levels. Dynan cautions that a trade war triggered by protectionist policies is one major risk to the global economy, and that the Federal Reserve may tighten monetary policy at a faster pace than currently expected if inflation rises higher than forecast.

Assessing President Trump's protectionist policies, Noland argues that the administration's goals seem aimed at limiting US trading partners' market access by using unconventional methods, such as invoking national security to curb steel and aluminum imports. If protection were applied in all cases under consideration, the share of US imports under special protection would roughly double from its current level. It would also more than double the share of Chinese imports under special protection from 9 to 21 percent. Noland argues that these policies will depress productivity growth by encouraging the misallocation of resources, disrupting supply chains, and deepening uncertainty in trade-dependent businesses, but without imposing large macroeconomic damage on the US economy. On the other hand, a major trade war, especially with China, could lead to a recession in the United States.

Wage growth in the United States, euro area, and Japan has remained stagnant despite the labor market tightening, according to Kirkegaard, though US workers should soon see wage increases. Underemployment in the United States is approaching its pre-crisis levels, and the labor force participation rate has been steadily increasing since 2016. But Kirkegaard says that slow productivity growth, declining unions, increasing monopsony power, and the rise of the gig economy, all create uncertainty about wage growth in the United States. Wage inflation in Japan and the euro area will likely remain stagnant in the near term as their underemployment rates remain high. The surging German economy is likely to only exert moderate upward pressure on euro area–wide wages.

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. Visit https://piie.com/sites/default/files/supporters.pdf to view a list of all financial supporters.