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US Tax Cuts Spur Global Economic Growth in 2018; Long-Term Prospects Are Worrisome

WASHINGTON—The global economic expansion has become less even, according to economists at the Peterson Institute for International Economics (PIIE). Overall global growth is expected to reach 3.8 percent in 2018 and 2019, led by a fiscal-driven pickup in US GDP growth. However, most other advanced economies are likely to see slower growth than they did in 2017. Furthermore, the risks of economic growth being derailed have risen in some emerging-market countries with weak fundamentals and in the United Kingdom, where doubts about a smooth exit from the European Union have increased.

These and other assessments will be presented at PIIE's semiannual Global Economic Prospects event on October 4. Karen Dynan, nonresident senior fellow at PIIE and former assistant secretary for economic policy at the US Department of the Treasury will present an overview of the global economic outlook. Jason Furman, nonresident senior fellow at PIIE and the former chair of the Council of Economic Advisors, will give an in-depth analysis of wage developments in the United States, focusing on the causes of wage stagnation among the working class. Monica de Bolle, PIIE senior fellow, will present her assessment of emerging-market risks, with a deep dive on Brazil and Mexico.

Dynan expects the global economy to grow 3.8 percent through 2019 driven largely by the United States, which is expected to reach nearly 3 percent growth in 2018 and decline to 2.5 percent growth in 2019. Inflation will likely modestly overshoot the Federal Reserve's target of 2 percent in 2019 and 2020 amid further tightening in the labor market, with unemployment expected to fall to 3.5 percent next year. The Federal Reserve is expected to continue its gradual normalization of monetary policy with four rate hikes in 2018, three in 2019, and one in 2020, though interest rates will likely remain low by historical standards. Dynan cautions that the outlook could be downgraded if a trade war spills into the financial markets, inflation rises more sharply than expected, or US asset prices experience a material decline.

Furman argues that sluggish productivity growth likely explains the "wage puzzle" of why wages in the United States have not increased as they did in the late 1990s, even as the labor market continues to tighten. Additionally, lower nominal wage growth may reflect lower inflation expectations. Another "wage puzzle," the fact that wage growth has not increased more dramatically in the last few years, is more puzzling and may reflect a continued process of downgrading expectations for productivity growth. Furman argues that lawmakers should enact policies to raise productivity growth and ensure the benefits are more broadly shared.

The major emerging-market economies are in precarious states, with Argentina, Turkey, and Brazil the worst affected, according to de Bolle. Argentina and Turkey's current account balances, reserves, exchange rates, and high levels of corporate debt leave both countries with no policy room to improve their economies and more vulnerable to economic shocks. Mexico's economy remains strong, and the newly announced United States–Mexico–Canada Agreement (USMCA) on trade staves off investment concerns in the coming months. Brazil is proving to be a major concern because of a chaotic presidential race in which the major candidates support policies that would exacerbate the country's fiscal and debt problems.

About PIIE

The Peterson Institute for International Economics is a private, nonprofit institution for rigorous, intellectually open, and in-depth 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.