

This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers visit <https://www.djreprints.com>.

<https://www.wsj.com/articles/the-world-braces-for-slower-growth-11548116422>

DAVOS

The World Braces for Slower Growth

The U.S., China and Europe are all expected to see GDP gains ease in 2019

By Jon Hilsenrath

Jan. 21, 2019 7:20 p.m. ET

Get ready for chapter three in a shifting global growth story.

In the first chapter, 2017, the world's leading economies accelerated in sync and stock prices rallied in unison, spurred on by low global interest rates and by hopes for a business-friendly agenda in Washington that included tax cuts and deregulation.

In the second chapter, 2018, the U.S. economy charged ahead, thanks in part to delivery of that fiscal stimulus, while the rest of the world slowed as global trade frictions mounted. World stock markets—including the U.S.—stumbled.

In chapter three, 2019, the world is in sync again. This time, though, it's slowing together, not speeding up. U.S. output, after rising by around 3% in 2018, is projected by many economists to slow in 2019 to closer to the 2% annual growth trend of its long expansion. China, stung by U.S. tariffs, is expected to slow too.

You can add Europe, hit by Britain's rocky exit from the European Union and Italy's fiscal troubles, to the slowdown list. Germany, a major exporter in its own right, saw industrial production fall in November, a sign of the sweep of the brewing synchronized slowdown.

REGISTER NOW: INSIDE DAVOS

Join senior WSJ journalists as they discuss the main challenges and priorities for 2019 on the final day of the World Economic Forum in Davos. Register here, and send your questions on Davos to subscribercall@wsj.com.

For multinationals that steer global trade, that's going to mean slower growth, too. World trade volumes, after growing 5.4% in 2017 and 3.8% in 2018, are expected to grow 3.6% in 2019 and

slow further in 2020.

“The optimism that was in the air in 2018 has given way to a more pervasive sense of gloom,” says Eswar Prasad, a senior fellow at the Brookings Institution. “This of course is driven by the two major economies, the U.S. and China.”

Of course, this is just a rough draft for chapter three. Much depends on key decisions by different players in the drama. Primary among them are U.S. President Donald Trump and Chinese President Xi Jinping.

Trade deal ahead?

The U.S. and China are locked in talks to resolve U.S. complaints that China competes unfairly on the trade front. Mr. Trump wants Mr. Xi to open Chinese markets to more U.S. imports, stop subsidizing state-owned enterprises and better protect U.S. intellectual property. China has been resistant, but slowing growth is putting pressure on Mr. Xi to compromise. Mr. Trump, who watches the stock market closely and sees it as an indicator of his own performance, knows a deal could lift investors' spirits.

In other words, both sides have strong incentives to finish a deal. But they also face big barriers. Mr. Trump has staked his economic agenda on winning major economic reforms in China.

A list of demands includes 142 separate action items, by China's estimate. But Mr. Xi has little interest in ceding the state's primary role in running the world's second-largest economy, or in scaling back his broader ambitions to transform China into an independent, high-tech economic power.

Time is short. If no deal is reached by March 2, U.S. 10% tariffs on \$200 billion of Chinese goods rise to 25%.

Mr. Prasad sees an uneasy truce coming from the talks: a deal that keeps existing tariffs in place without escalating them. He figures that ought to be enough to calm markets.

Trouble at home

Mr. Trump and Mr. Xi also face domestic economic challenges.

The U.S. government remains closed over a feud between Mr. Trump and Democrats over building a wall at the U.S. border with Mexico. The White House estimates the shutdown drains a 10th of a percentage point from growth for every week it continues.

That will eventually get resolved, but other fiscal challenges loom, including the expiration in September of a U.S. budget deal that has added \$300 billion to federal spending over two years. If the agreement is allowed to expire with nothing to replace it, fiscal policy will become more restrictive going into an election year.

Ironically, Mr. Trump does have the Federal Reserve on his side. The President has been highly critical of Fed Chairman Jerome Powell for raising short-term interest rates. But with markets wobbling, Mr. Powell has signaled he's going to be patient about raising rates again. That has already taken pressure off stocks and could help interest-rate-sensitive sectors of the economy including housing and autos in the months ahead.

Meanwhile, with growth slowing in China, Mr. Xi has an incentive to act to stimulate the economy. That could turn China into the tax cutter in 2019. But Mr. Xi faces constraints taking stimulative steps. Many local governments are already stretched for revenue after years of spending on debt-driven projects. Lower interest rates and pumped up lending by state banks could worsen the strains on already stretched property markets and indebted state-owned enterprises. A currency devaluation could threaten large capital outflows and the ire of Mr. Trump.

None of this spells an end to the global expansion. The U.S. economy, for one, has a healthy consumer sector to carry growth. With unemployment near 50-year lows, wages rising, and taxes and oil prices on a downswing, U.S. household incomes are growing at a solid pace, and that should support continued spending for an engine of world growth. It is notable that even amid the latest gloom, U.S. jobless claims have remained stable.

It just doesn't have the same ingredients as the synchronized upturn that made investors so exuberant a couple of years ago.

WORLD ECONOMIC FORUM IN DAVOS

*Mr. Hilsenrath is a Wall Street
Journal news editor in Washington.
Email jon.hilsenrath@wsj.com.*

- Industry Hopes for Detente in U.S.-China Trade Spat [January 25, 2019](#)
- Facing Backlash, Silicon Valley Says It Can Change [January 25, 2019](#)
- Brazil's Justice Minister Vows to Combat Corruption [January 24, 2019](#)
- China's Vice President Decries Technological Hegemony [January 23, 2019](#)

Copyright © 2019 Dow Jones & Company, Inc. All Rights Reserved

This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers visit <https://www.djreprints.com>.