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Global Malaise Spurs U.S. Growth Worries

Concerns are mounting over whether the U.S. economy and markets can remain upright while much of the world teeters

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Concerns are mounting over whether the U.S. economy and financial markets can remain upright while so much of the world teeters.

Falling oil prices and worries about China's economy have walloped stock markets, leading to a volatile start to the year. Economists, corporate leaders and Washington policy makers still say the American economy will continue to expand, but weakness abroad is heightening their worries about the pace of U.S. growth.

Market volatility has heightened the stakes for Federal Reserve officials, who are expected to keep interest rates unchanged at a meeting later this month. It has also complicated the Fed's view that a steadily improving economy and rising inflation will allow it to gradually raise rates several times this year.

Forecasters in The Wall Street Journal's latest survey of economists said there is a 17% chance the U.S. will enter a recession in 2016, the highest percentage in three years. And 80% said they see downside risks to the economy.

"To lose the U.S. expansion, there has to be some transfer mechanism of global angst to the domestic U.S. economy," said Ellen Zentner, chief U.S. economist at Morgan Stanley. Falling stocks and deteriorating credit markets could do the trick, she said.

Many investors have alternately feared the U.S. would succumb to global weakness or latched onto signs it would muddle through. The Dow Jones Industrial Average on Thursday notched its biggest one-day gain of the new year, rising 228 points, or 1.4%, to 16379, after tumbling since the start of 2016. Crude oil prices climbed above $31 a barrel on Thursday after falling below $30 earlier in the week.

With the economy at risk of weakening and oil's decline holding down prices, the Fed's forecasts may prove too optimistic.

"When such volatility develops, I think it's helpful to look at the real economy of the United States" separately from the performance of financial markets, Atlanta Fed President Dennis Lockhart said this week. "If the volatility continues for several weeks, I may have to revise my view" about the economy's path.

Mr. Lockhart and other Fed officials have been advancing the same basic message lately: More interest-rate increases are likely to come slowly this year, but only if the economy meets expectations.

While some stock traders have blamed the Fed's rate increase last month for the rocky market, many executives point to broader worries about the health of the world economy for investor anxiety.

"I find it hard to believe that a quarter-point rate hike has created all this enormous uncertainty," said Timothy Adams, head of the Institute of International Finance, a trade group representing financial institutions. "I just think it's a whole host of uncertainties with respect to what the future looks like, both in the U.S. and other places."

In a call with investors Thursday announcing record profits last year, J.P. Morgan Chase & Co. Chief Executive James Dimon said that while lending is stronger than ever across many loan types, headwinds loom. "Obviously it's going to get a little bit worse," he said.

He noted fears over the strength of China's economy and the impact of falling commodity prices, and said he hoped this "is not the beginning of something really bad." He added: "We're not forecasting a recession."

One reason economists aren't even more worried: The U.S. relies less on trade than many of the world's largest nations. While exports from the U.S. have expanded over recent decades, they account for only about 13% of gross domestic product, less than any other large economy except Brazil. If the rest of the world falters, a relatively small share of U.S. production will be exporting into the weakness.

The Journal surveyed 76 financial, business and academic economists Jan. 8-Jan. 12, though not every respondent answered every question. The survey found that 57% believe the U.S. is at least "somewhat exposed" to the risk of reduced trade from the decline under way in emerging markets, while 79% said the U.S. is exposed through its financial markets.

Still, the U.S. has more than 100 million people working in service industries—primarily transacting with other U.S. businesses and individuals—in fields such as health care, education, professional services, retail, transportation and leisure and hospitality. These industries aren't as easily knocked off course by Gloom Hangs Over China's Economy Amid Market Turmoil or a recession in Brazil.

"To bring down an $18 trillion economy requires a disturbance of major magnitude, and I see no such impediment to growth this year," said **Bernard Baumohl of the Economic Outlook Group,** a forecasting and analysis firm.

Some industries are sure to be hit harder than others if the global economy slows. Durable-goods makers—which include many exporters—have lost 40,000 workers since their recent peak. And miners and loggers cut 131,000 jobs since their peak, primarily driven by the collapse in commodity prices.

This is "a depression in mining and recession in manufacturing," said Allen Sinai of Decision Economics.

But overall, the U.S. economy added an average of 220,000 jobs a month over the past year. Education, health and professional and business services added more than 1.2 million jobs in 2015. Retail trade, construction and leisure and hospitality industries added about 950,000 jobs.

Economists think this momentum will allow the U.S. expansion to survive, though more slowly.

They forecast payroll growth falling from about 202,000 in the first three months of 2016 to 180,000 in the last three months. They expect the economy will grow 2.5% in the coming year and the unemployment rate will fall further to 4.7% by year's end.

They are less optimistic about emerging economies: 53% of economists surveyed think these markets will weaken, while only 18% think they will strengthen.

China's economy has been slowing for years as its government has attempted to boost domestic consumption and reduce dependence on government-led infrastructure projects. But analysts have little faith in China's economic data, leaving them uncertain about the extent of the slowdown.

With China buying up fewer resources, global commodity prices have plunged. That has throttled the economies of oil producers such as Russia and Saudi Arabia. Foreign investments that had until recently flooded into countries such as Brazil and Mexico have reversed course, sending their currencies into sharp decline against the dollar. Whether this instability will carom around the world and smash into the U.S. is unpredictable.

"Little is known about how much emerging-market risk U.S. investors hold," said Daniel Bachman, senior U.S. economist at Deloitte Services LP.

The U.S. has muddled through international turmoil in the past—and sometimes even benefited from its haven status—but doing so again is far from guaranteed.

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