Economic growth in the United States has slowed substantially since the days of rapid expansion during the mid to late 1990s. According to preliminary estimates, growth in real gross domestic product (GDP) turned negative in the third quarter of 2001 and is projected to return slowly to its previous pace during 2002. Observers of the U.S. economy sometimes argue that deteriorating economic performance abroad is a risk in the current downturn. If the economic downturn were limited to the U.S., continued demand for U.S. exports abroad might be expected to help stabilize American income and employment. But, unfortunately, the world’s three largest economies appear to be slumping simultaneously. Is this a problem inhibiting U.S. economic recovery?

The Figure shows growth rates of real GDP in the U.S., Japan, and Europe from the first quarter of 1996 through the fourth quarter of 2001. (Europe is defined as the unified GDP of the countries in the Euro zone as of 1999.) To reduce clutter, the data are smoothed by taking a five-quarter centered moving average of annualized percentage growth rates. For observations near the end of the period and into 2002 that are not yet available, forecasts from the Blue Chip Economic Indicators were used for the U.S., and forecasts from the OECD Economic Outlook were used for Europe and Japan.

Of the big three, the U.S. has been the best performer during most of the period, with average rates of growth exceeding 4 percent during much of the late 1990s. However, average growth rates have fallen sharply since the second half of 2000. Japan has been the worst-performing economy according to these data, with growth generally slow and often negative. The worst outcomes for Japan occurred during the Asian currency crisis in 1997 and 1998. After recovering during 1999 and 2000, Japan has again moved into recession. Europe has been a less volatile performer. But, since average rates of growth peaked in late 1999 and early 2000, European growth has slowed as well. Thus, the world’s three largest economies are slumping together for the first time in recent memory.

The synchronized nature of this downturn may be less grave than some contend, however. It is true that U.S. firms will be able to sell fewer goods and services to foreign buyers if foreign economies are slumping, but the U.S. is still a relatively closed economy. Even after the dramatic expansion of trade associated with “globalization” in the 1990s, the U.S. export-to-GDP ratio was about 12 percent as of 2000. Thus, the cross-border trade effects are small relative to domestic economic activity. For this reason, the fact that the big three economies are slumping together is less of a concern.