Economies around the world are growing more slowly

By PAUL WISEMAN

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From the United States to Europe and even to booming China, the global economy is showing signs of strain.

Most major economies are expected to keep growing. But evidence is mounting that many around the world are struggling to expand as fast as they did last year.

In China, interest-rate hikes designed to reduce inflation are slowing growth. European governments are struggling with debts and squeezing budgets. Britain's economy scarcely grew at the start of the year.

High unemployment, depressed real estate and still-high oil prices are slowing the U.S. economy, which grew at a scant 1.8 percent annual rate from January through March. Even Europe's strongest economy, Germany, faces a slowdown. And after its earthquake and nuclear crisis, Japan has sunk back into a recession.

Overall, the world economy will likely grow just 3.5 percent this year, down from 4.1 percent in 2010, according to the research firm IHS Global Insight. IHS has cut that forecast from 3.8 percent.

As leaders of the Group of Eight rich democracies meet in Paris, slowing global growth is on an agenda already packed with concerns about instability in the Middle East, Greece's debt crisis and who will be the next head of the International Monetary Fund. It isn't a priority item at the meeting, though.

"The eurozone is a big mess, and the Europeans don't want to talk about it," said Simon Johnson, a former chief economist of the IMF.

The most serious such problems exist in Greece, Spain, Portugal and Ireland, which are overwhelmed with debts run up during the financial crisis and the recession that followed.

Financial markets have been signaling concerns about a worldwide slowdown. The Dow Jones industrial average has shed 450 points, or 3.5 percent, this month. Stocks have slid 3 percent or more this month in Japan, Britain and Hong Kong.

IHS chief economist Nariman Behravesh said "three headwinds are hitting the global economy at the same time":

-- High commodities prices. Despite a recent dip, oil prices are still up 50 percent over the past year. Those prices have squeezed household budgets in the United States and other rich countries and held back consumer spending. Rising food prices are hurting the middle class and the poor around the world.

-- Government budget cuts. Many European countries had to slash spending after the financial crisis swelled their budget deficits. Britain last year cut spending and raised taxes, choking the economy. Britain's economy eked out just 0.5 percent growth in the January-March quarter after shrinking from October through December last year.

-- Japan's earthquake and nuclear crisis. After factory production was disrupted, the Japanese economy shrunk at a 3.7 percent annual pace in the first quarter. It will likely contract an additional 3.7 percent in the April-June quarter, according to the Organization for Economic Cooperation and Development.

"The highest degree of uncertainty lies in the effects of the disaster on Japan's economy," Bank of Japan Gov. Masaaki Shirakawa said in a speech this week in Tokyo.
Economists do expect Japan's economy to rebound in the second half of the year. Reopened factories and reconstruction projects in the quake zone should create jobs.

The U.S. economy is also expected to accelerate in the next several months. More hiring will likely encourage consumers to spend more. Companies are expected to dip into profits to expand. And banks, having shed bad loans from financial crisis, will likely lend more to businesses and consumers.

Still, economists are increasingly worried about China. Four interest rate hikes since October have yet to do much to cool China's inflation, which is running above 5 percent. Goldman Sachs this week cut its forecast for Chinese growth to 9.4 percent from 10 percent this year and to 9.2 percent from 9.5 percent in 2012.

By raising rates and taking other steps to tighten bank lending, Beijing wants to slow growth to 7 percent this year to stem inflation. Some worry that Beijing's controls, combined with power shortages in some manufacturing areas, are steering China toward an economic disaster. Still, most analysts expect a controlled slowing of growth.

Other booming countries, such as Brazil and Turkey, are also trying to slow growth to control rising inflation.

U.S. exporters had been counting on robust purchases in the developing world to offset lackluster growth at home. Those expectations might need to be scaled back.

"A hard landing for the emerging markets could significantly set back the world economic recovery," said Eswar Prasad, professor of trade policy at Cornell University. "They have been the key drivers of global growth in the aftermath of the financial crisis."

Michael Mussa, senior fellow at the Peterson Institute for International Economics, worried that rising rates will slow global growth well into 2012.

"If there's a worry, it's what might happen next year," Mussa said.

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