

Fed Forum



Outlook for the Global Economy

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In collaboration with the World Trade Center Buffalo Niagara

Largely Supportive Global Environment

- Growth slowing outside U.S., but global recovery expected to remain on track
 - Inflationary pressures building in some countries--central banks reluctant to ease
 - U.S. slowdown and rate cuts have led to weaker dollar, stabilizing current account deficit
 - Key question: Can foreign economies shake off U.S. slowdown, global credit crunch?
-

Foreign growth expected to slow, but not drastically

Growth Forecast, Major Foreign Economies (percent y/y)

| | 2007 | 2008F | 2009F |
|----------------|------|-------|-------|
| Euro Zone | 2.6 | 1.7 | 2.0 |
| Japan | 1.9 | 1.3 | 1.9 |
| United Kingdom | 3.0 | 1.9 | 2.2 |
| Canada | 2.6 | 1.9 | 2.6 |
| China | 11.3 | 9.8 | 9.4 |
| NIEs | 5.5 | 4.7 | 5.0 |
| Brazil | 4.6 | 4.6 | 4.3 |
| Mexico | 3.0 | 2.8 | 3.6 |
| Memo: U.S. | 2.2 | 1.5 | 2.3 |

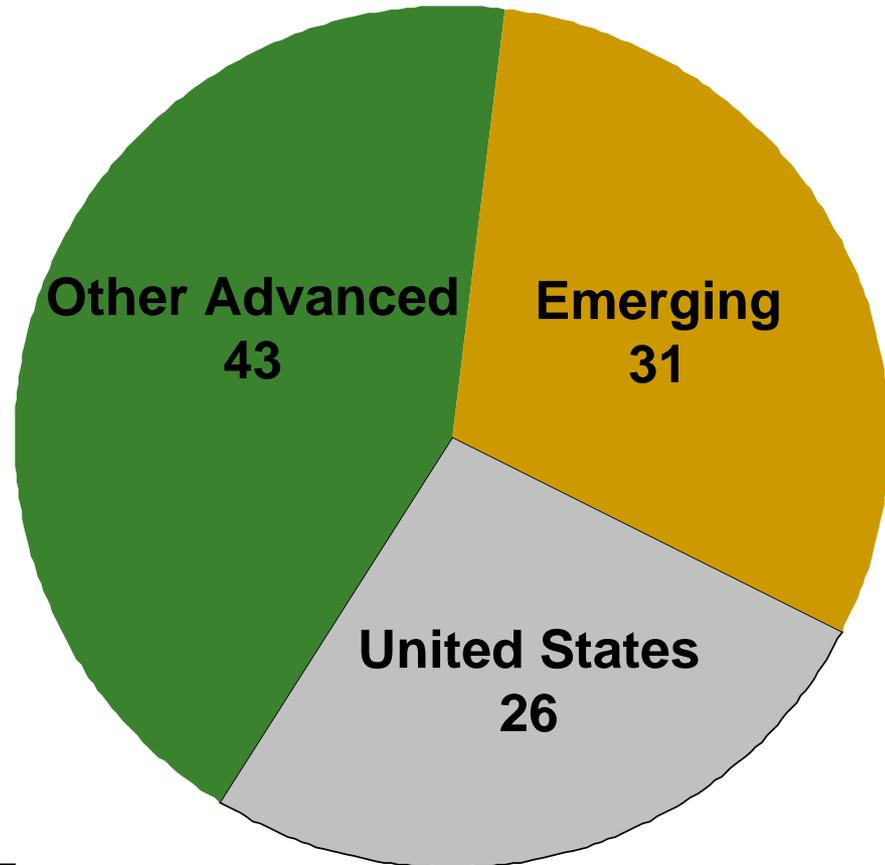
Sources: National sources for 2007, Blue Chip economics for 2008 and 2009.

EMs now about one-third of global GDP

Percentage Distribution*

Global GDP (\$U.S. trn.)

| | |
|----------------|--------|
| Global Total | \$53.6 |
| United States | 13.9 |
| Other Advanced | 23.2 |
| Emerging | 16.5 |



Note: Figures are estimates for 2007

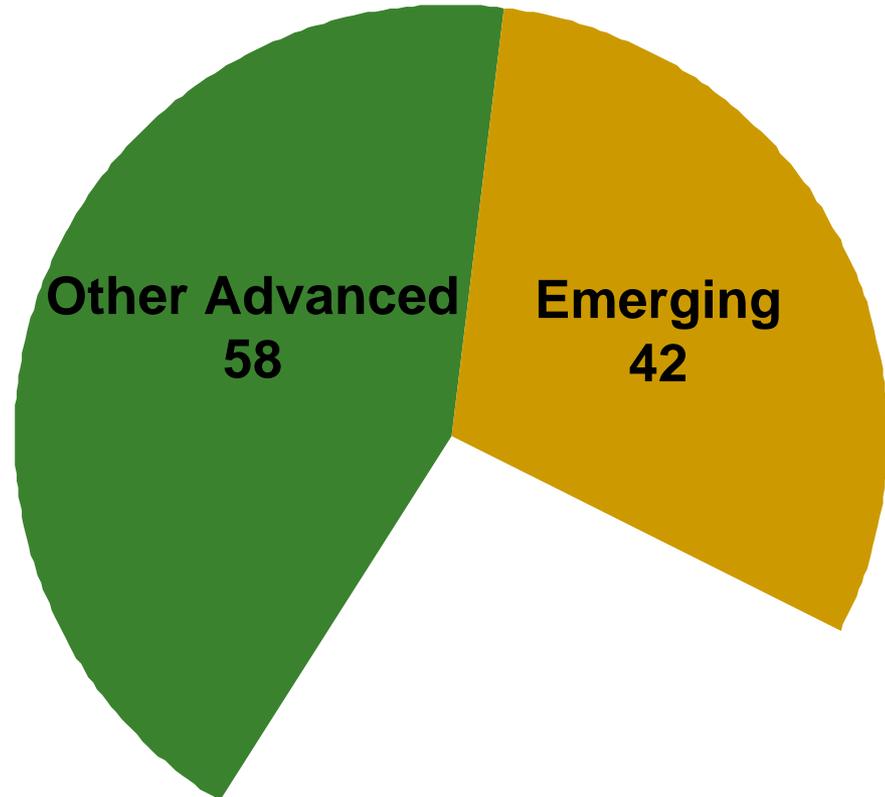
* At current exchange rates

... and more than 40 percent of non-U.S. GDP

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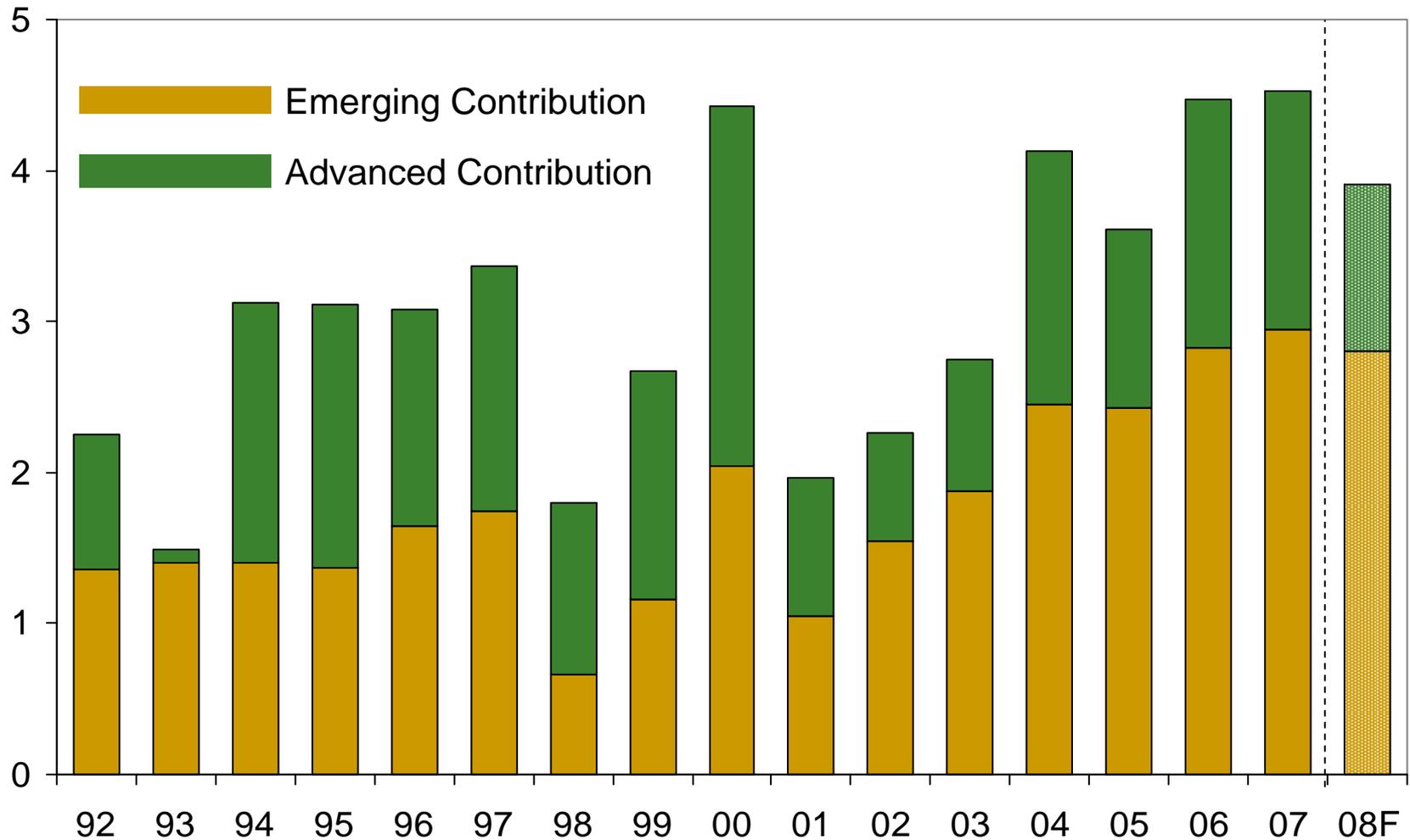


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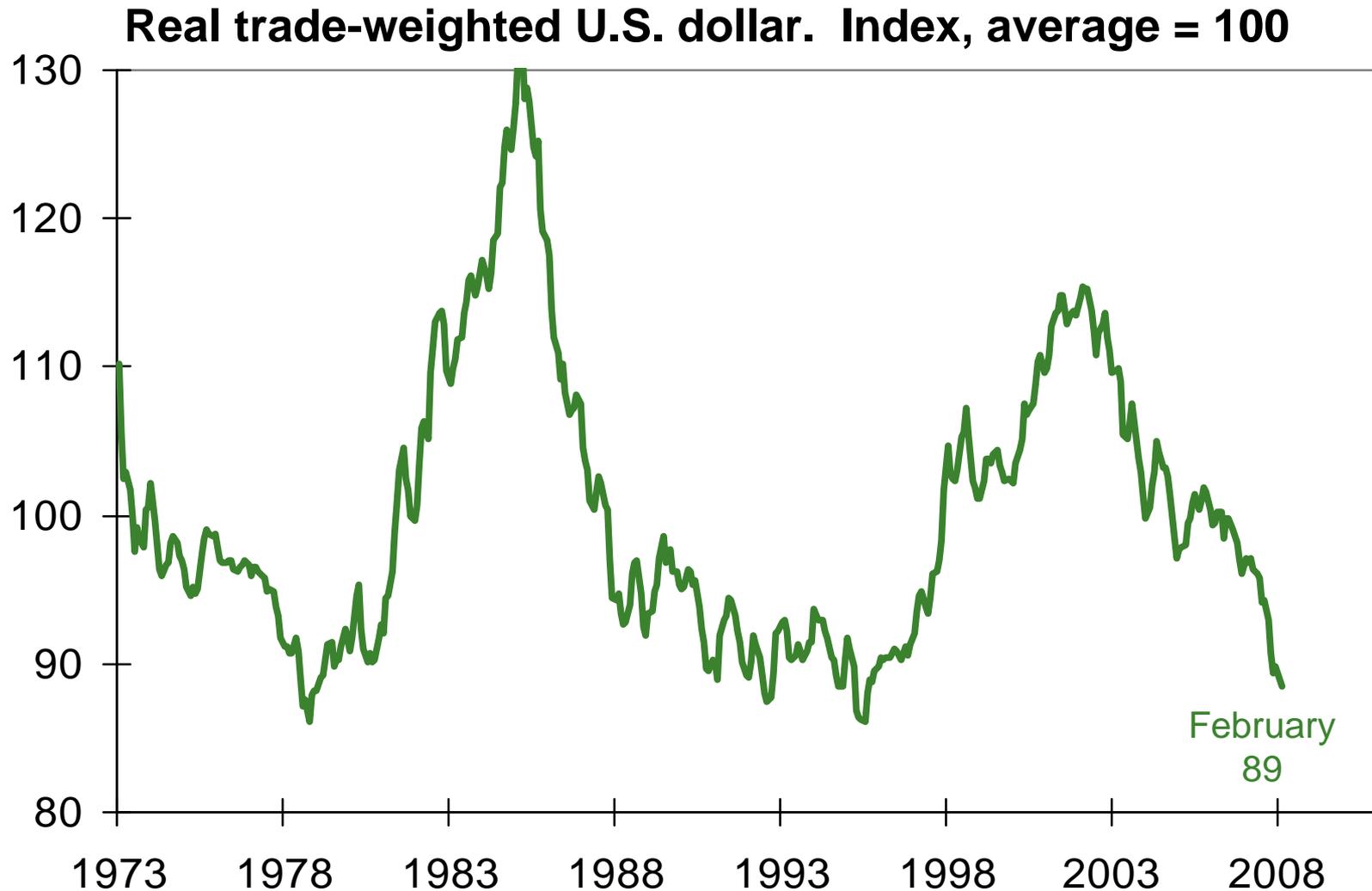
EMs contributing two-thirds of foreign growth

Foreign real GDP: percent growth and contributions

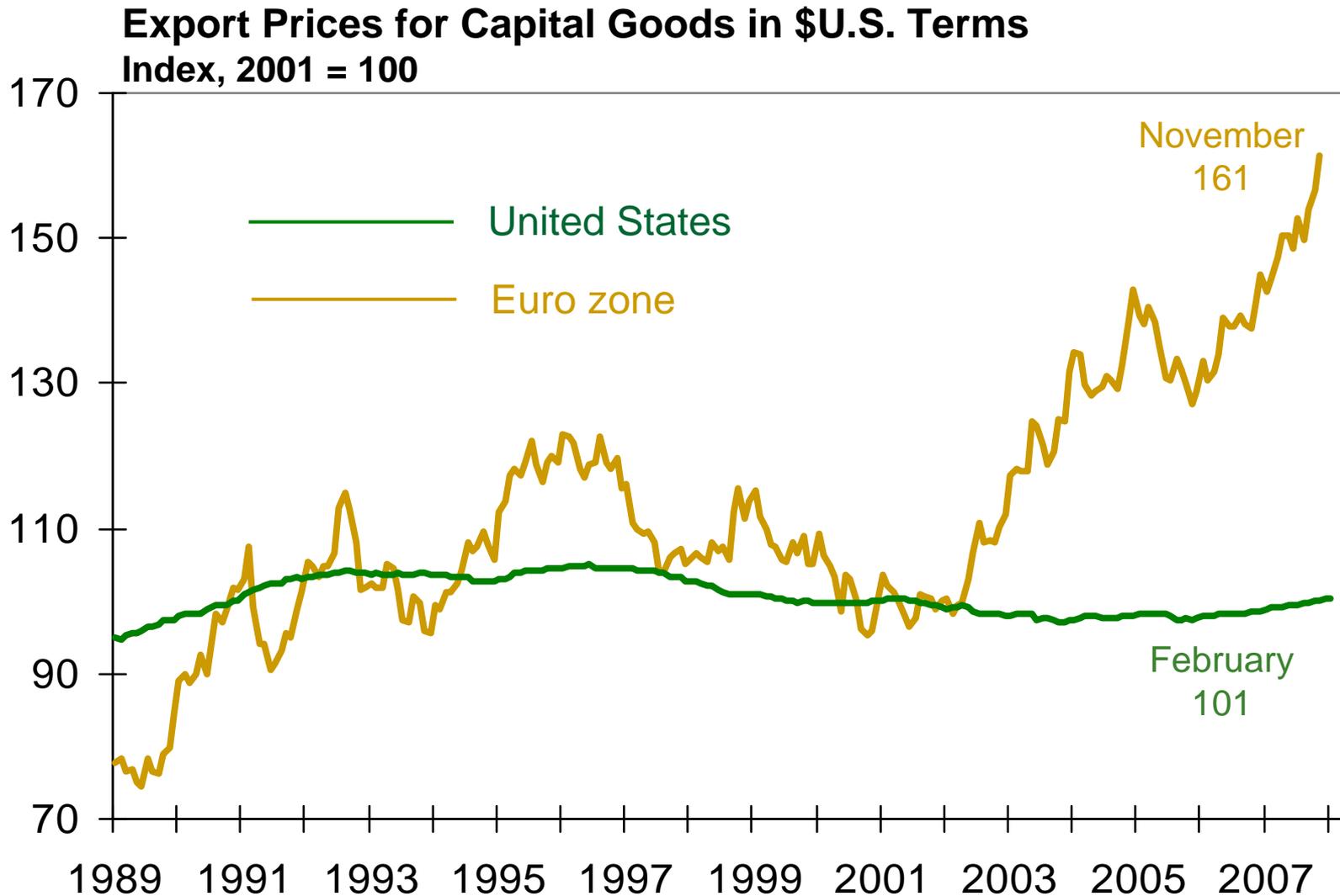


Sources: FRBNY and IMF forecasts using dollar GDP weights.

Dollar near bottom of historical range



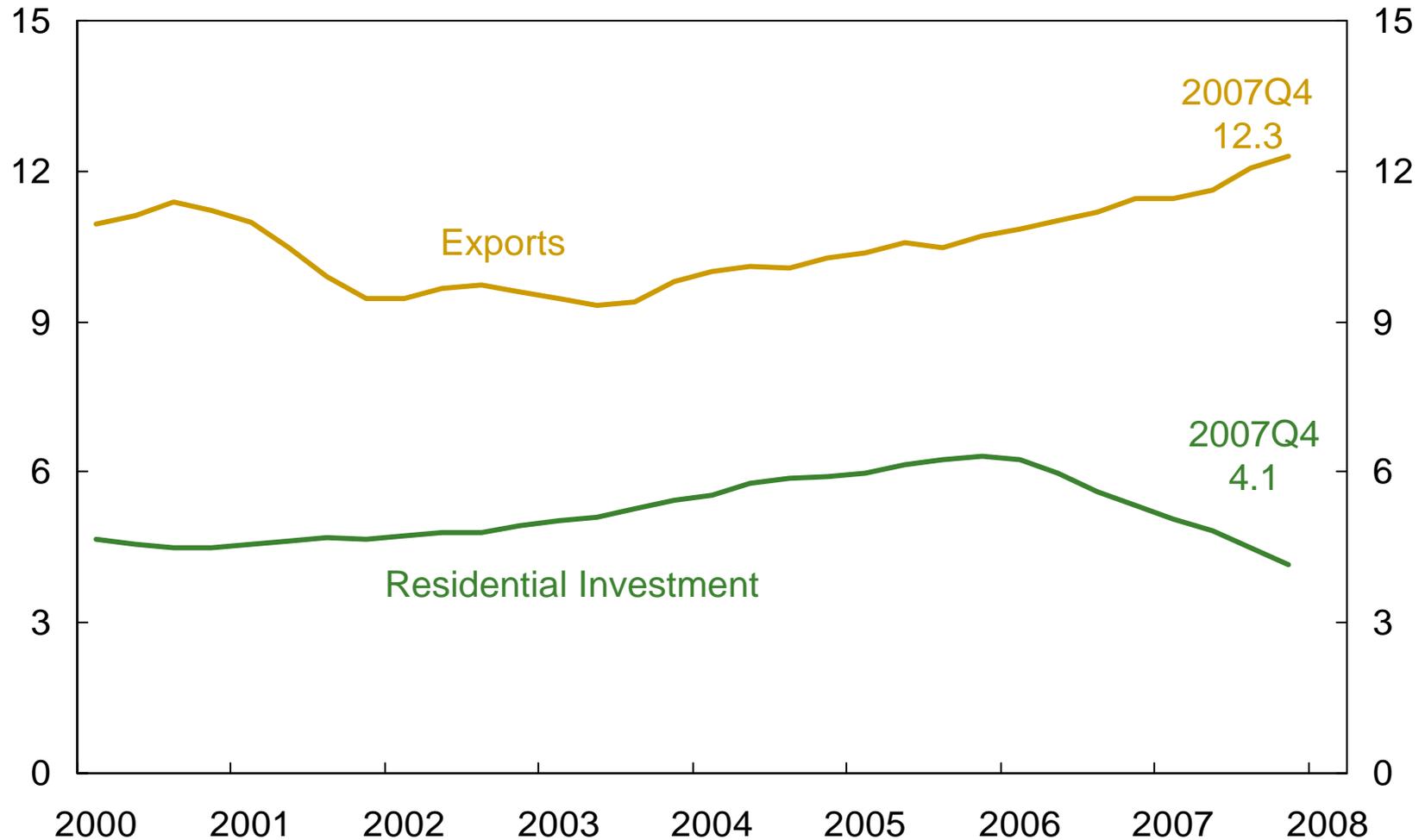
\$U.S. weakness = big gain in U.S. competitiveness



Exports Supporting Growth

Percent of GDP

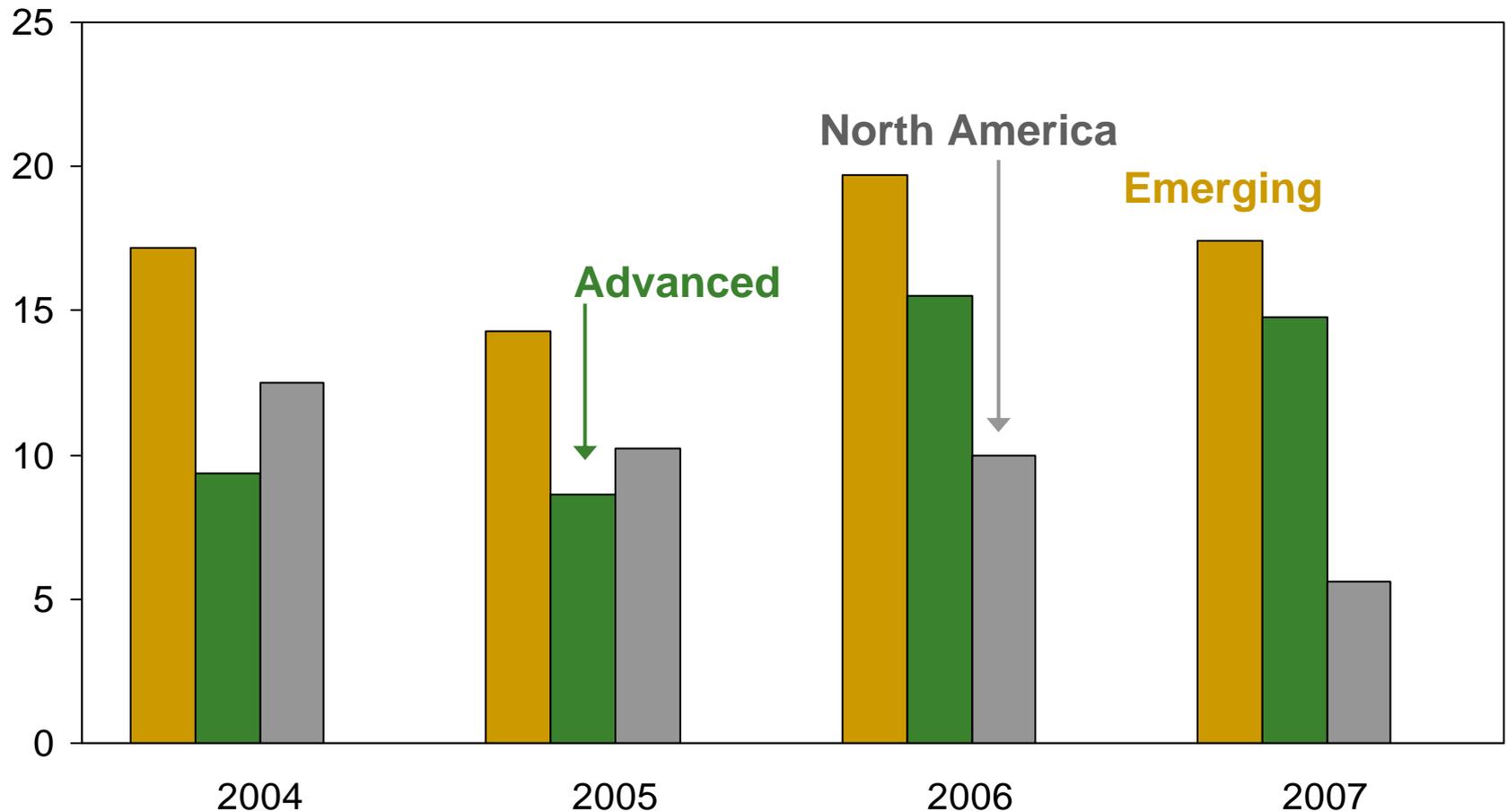
Percent of GDP



Source: Bureau of Economic Analysis

U.S. export growth strongest to EMs

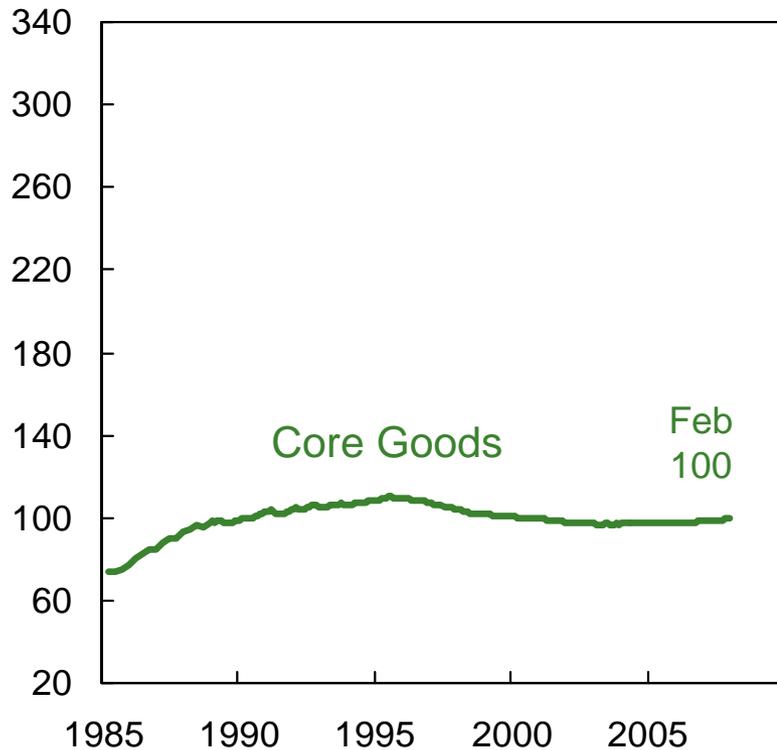
Percent change from year ago



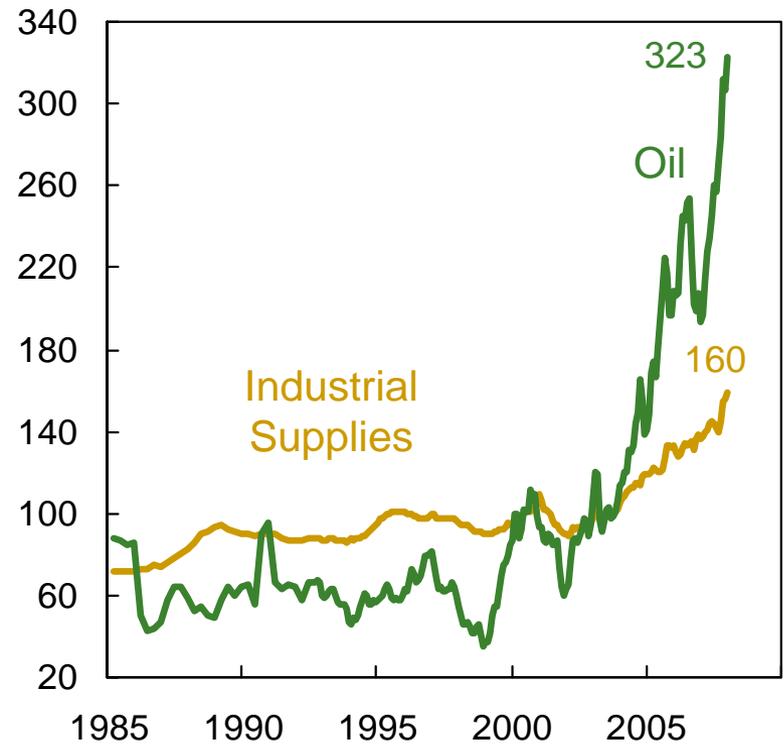
Source: U.S. Department of Commerce, Bureau of Economic Analysis

U.S. core import prices still close to flat

Index, 2000=100



Index, 2000=100

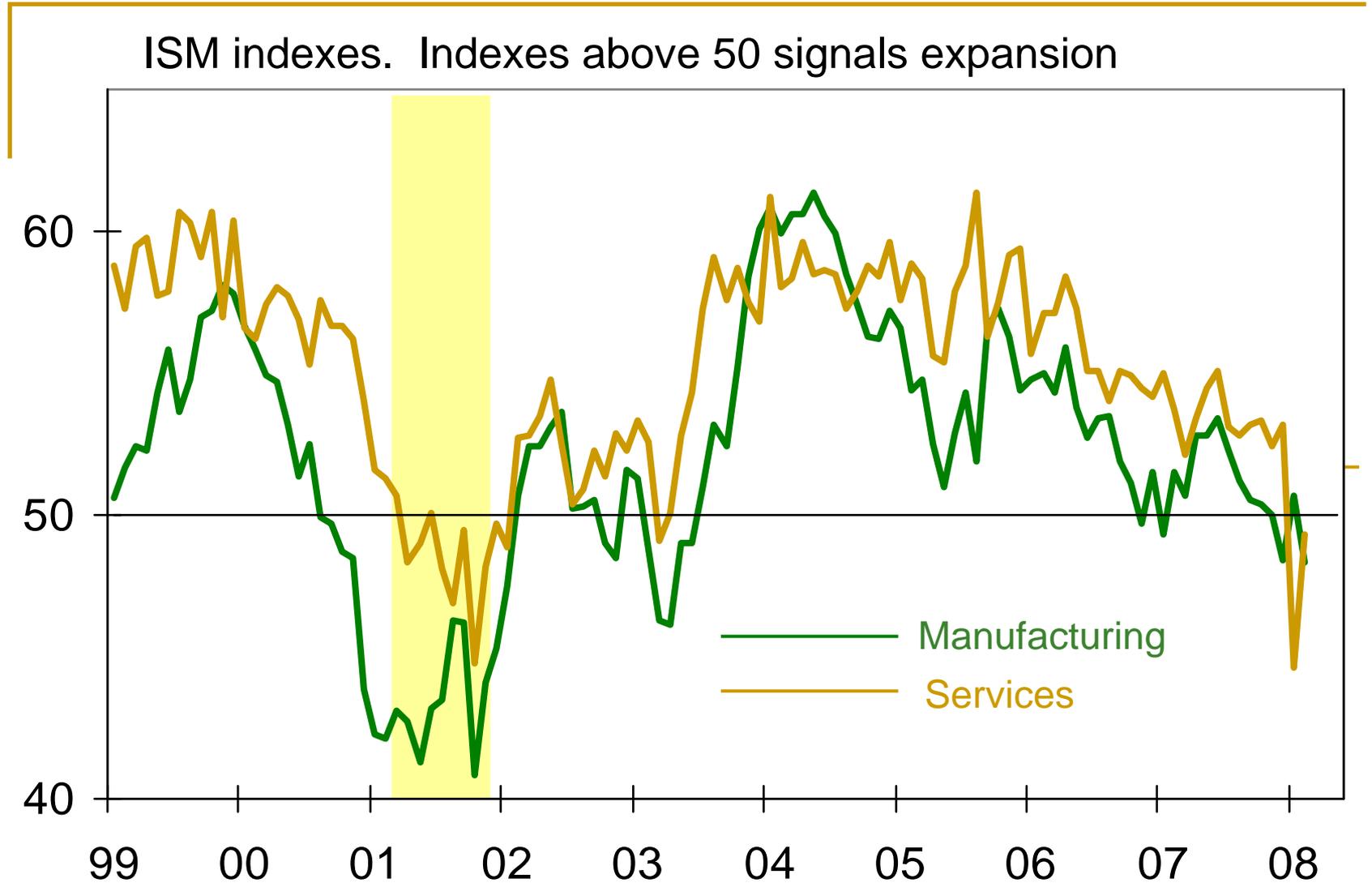


Core goods includes capital goods, autos, and consumer goods

Three Key Questions

- Can foreign economies shake off U.S. slowdown, global credit market tightening?
 - Could China see a hard landing?
 - Stalls adjustment of global imbalances
 - Might foreign investors shift away from dollar assets?
 - Weaker dollar, higher interest rates
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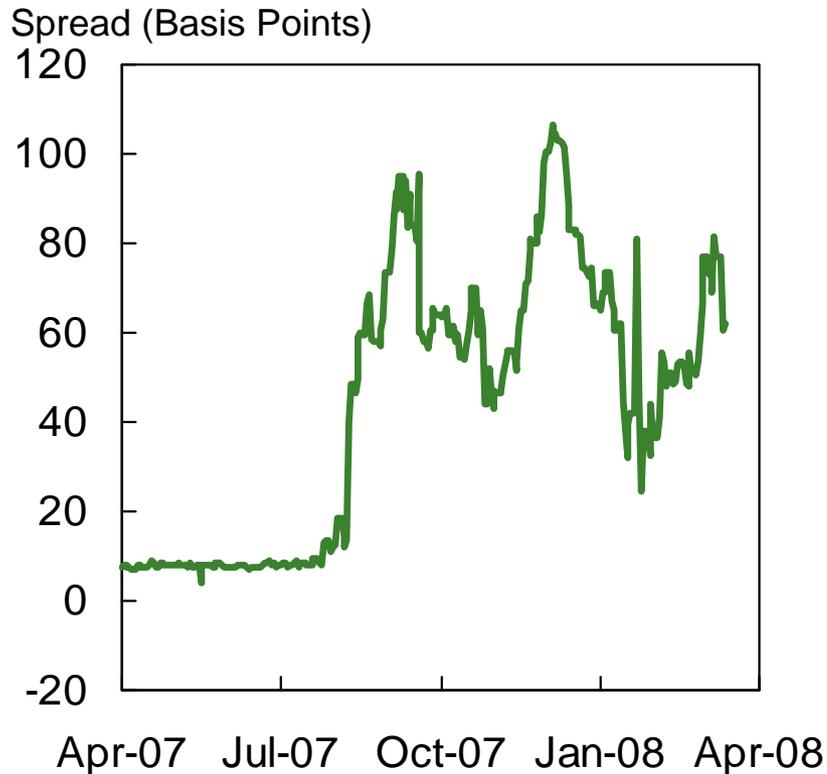
New U.S. recession may be underway



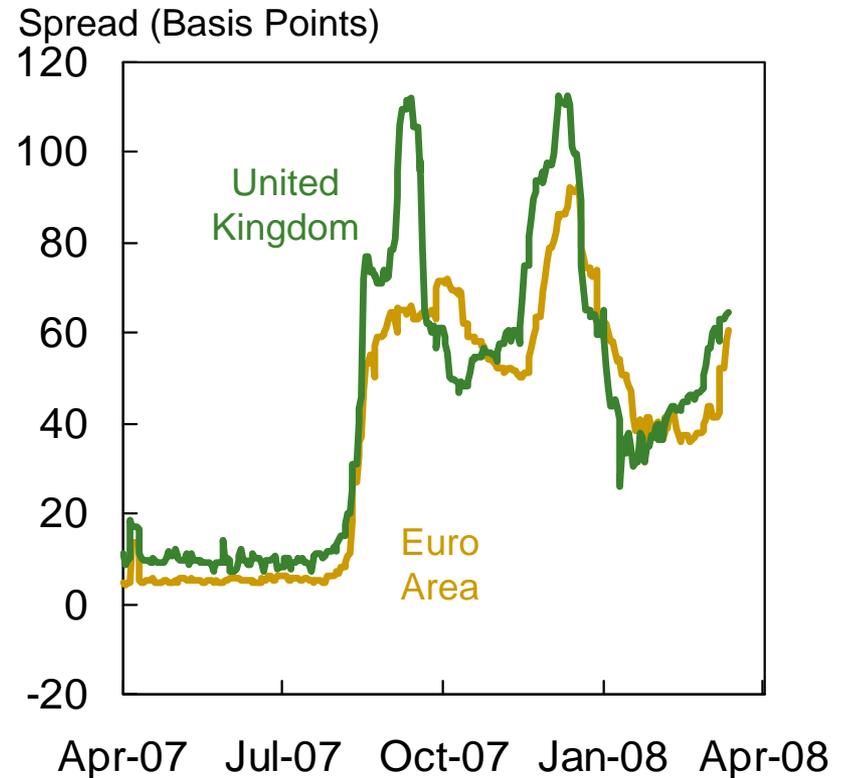
Global stress in the inter-bank market

Spread of LIBOR Rate over expected average overnight rates (3 Month)

United States

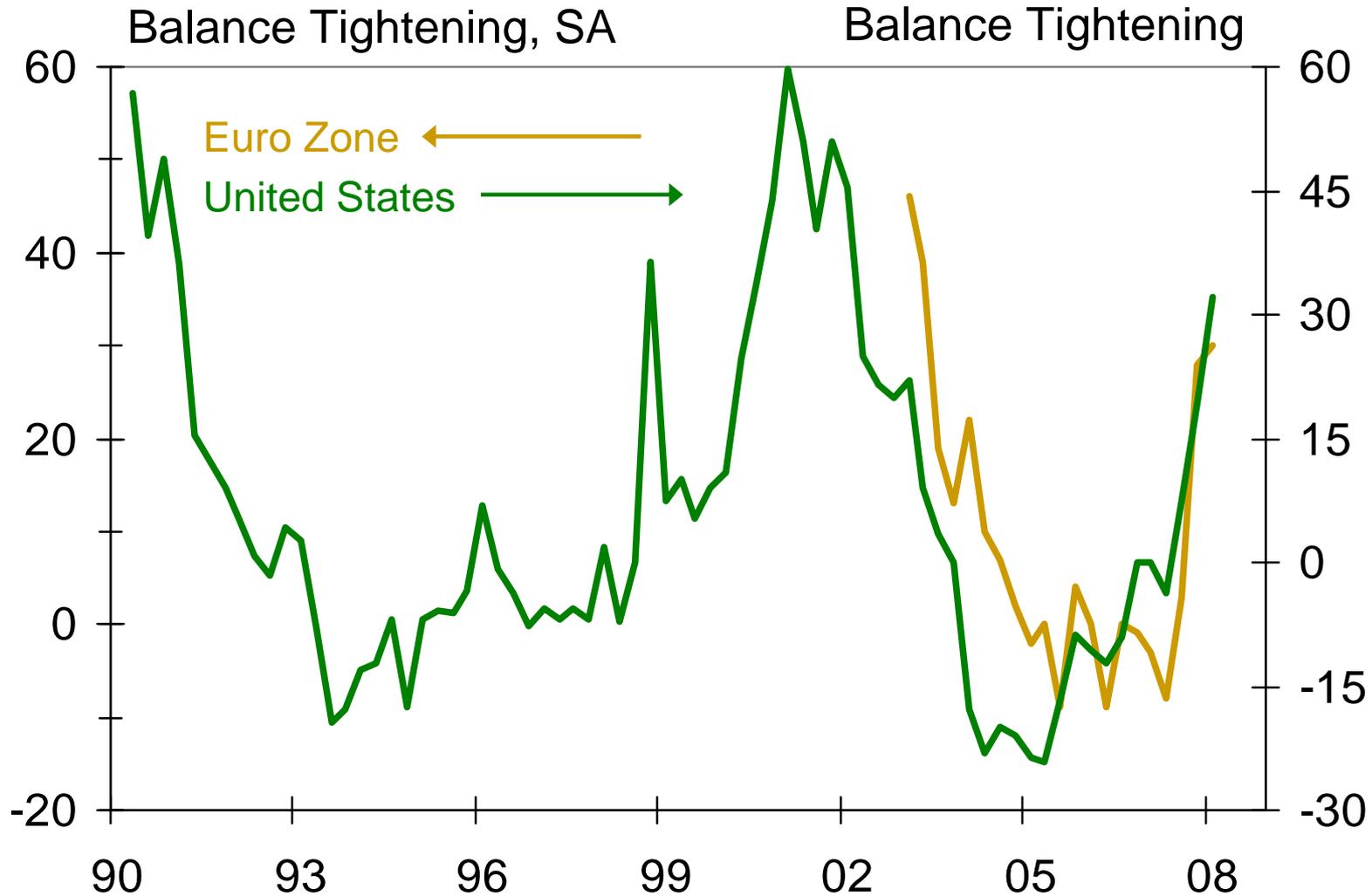


Euro Area and UK

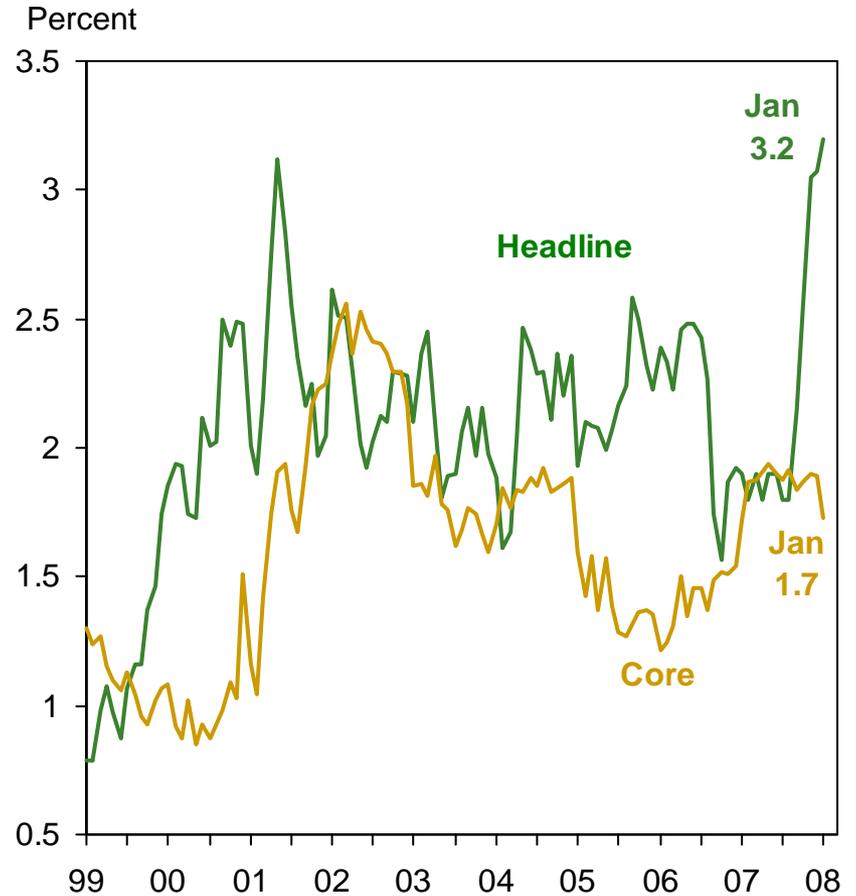
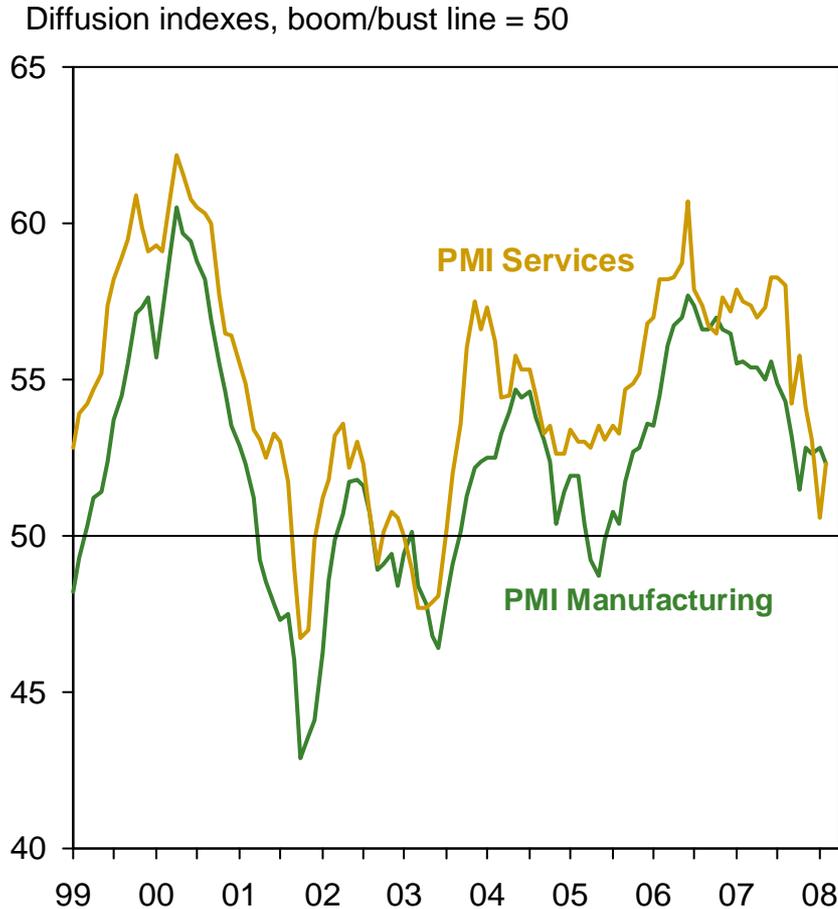


Source: Bloomberg

Banks tightening business lending standards

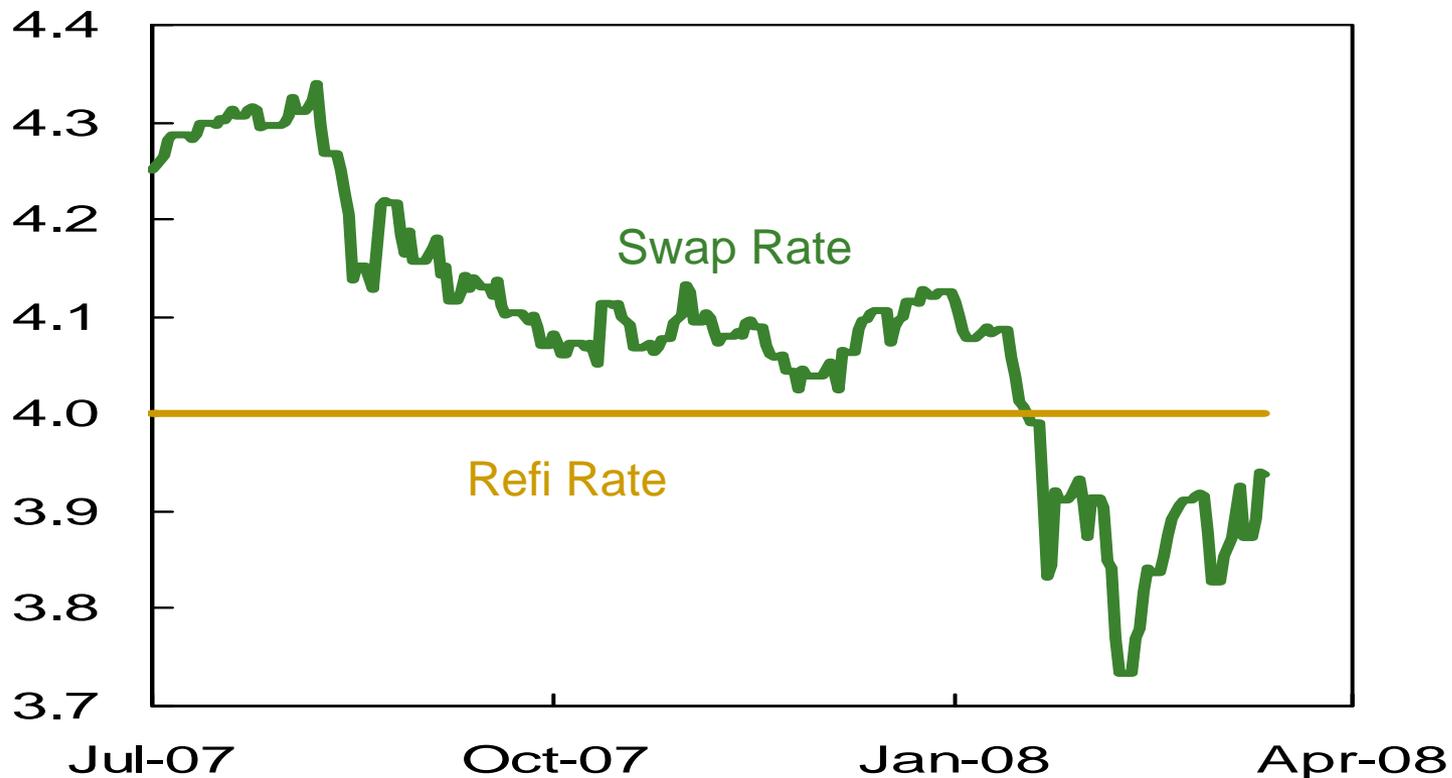


Euro Zone: Slowing growth, rising inflation



EMU monetary policy on hold for now

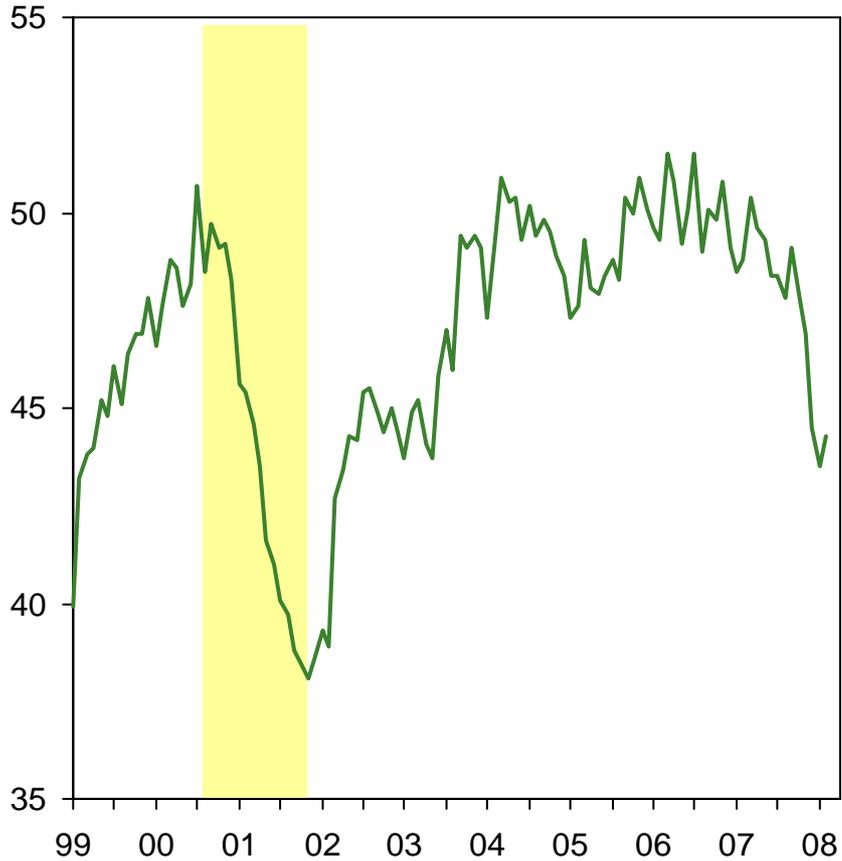
Expected Average Overnight Rate Over the Next Six Months (Swap Rate)



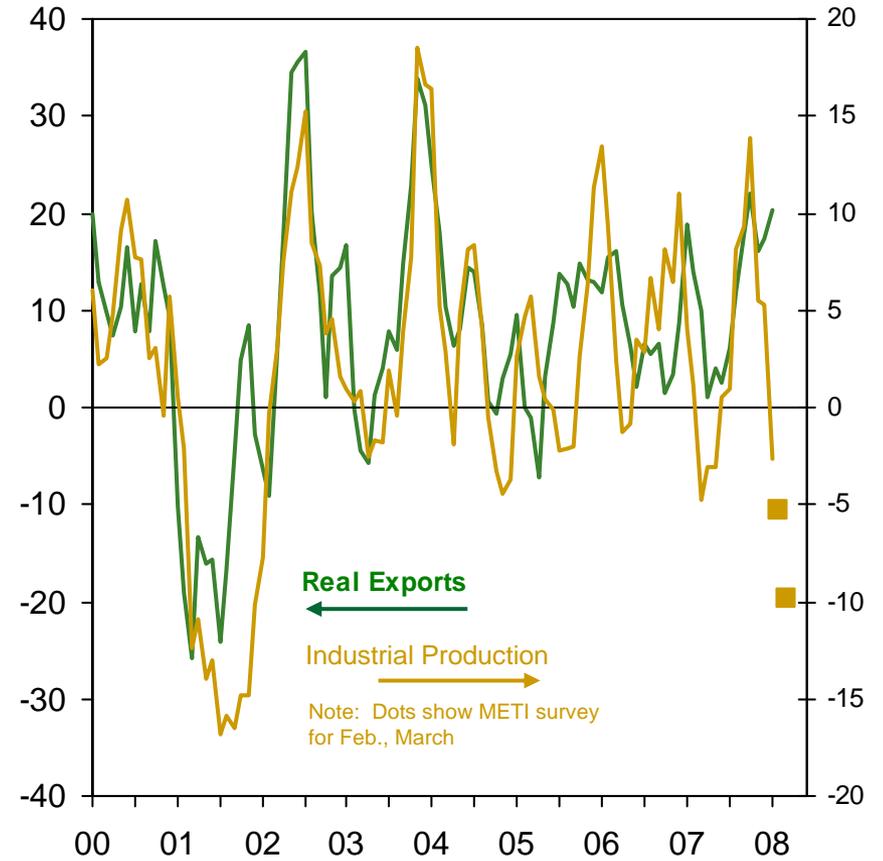
Source: Bloomberg

Japan: Falling confidence, mixed data—slowdown ahead?

Diffusion Index: Source: Shoko Chukin Bank

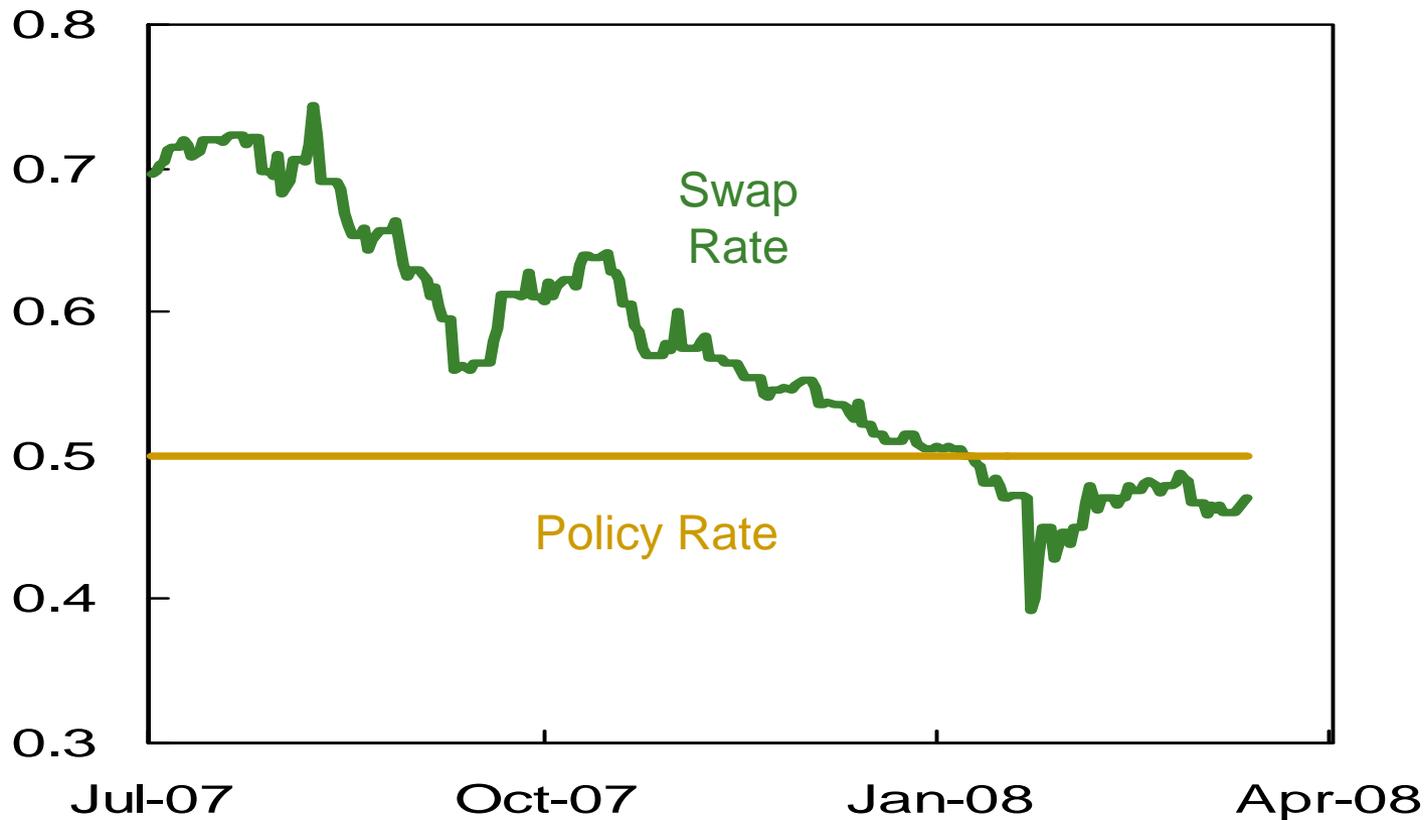


Percent change, SAAR



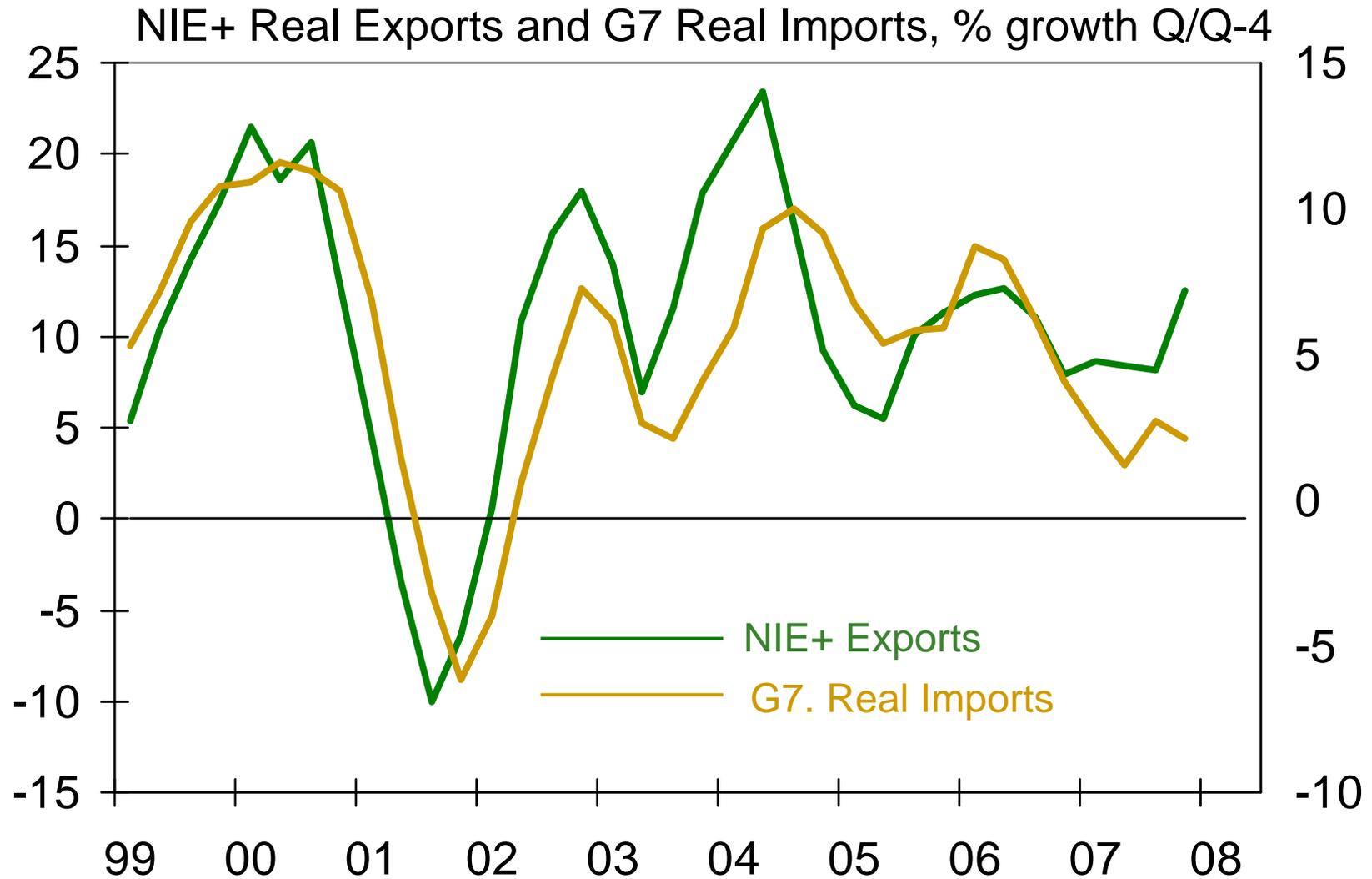
Japanese monetary policy also on hold

Expected Average Overnight Rate Over the Next Six Months (Swap Rate)



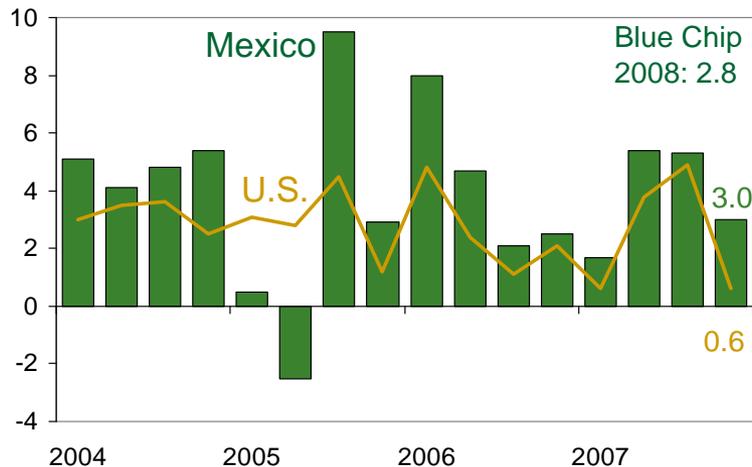
Source: Bloomberg

EM Asia export growth tied to advanced cycle

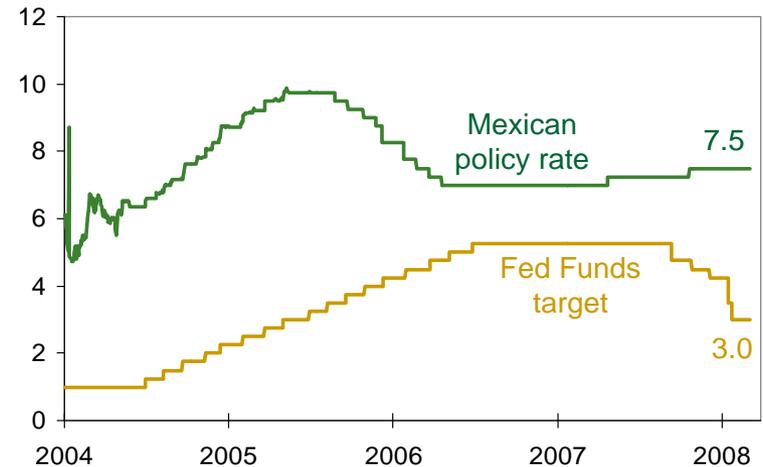


Mexico: Outlook tied to U.S. growth, oil prices

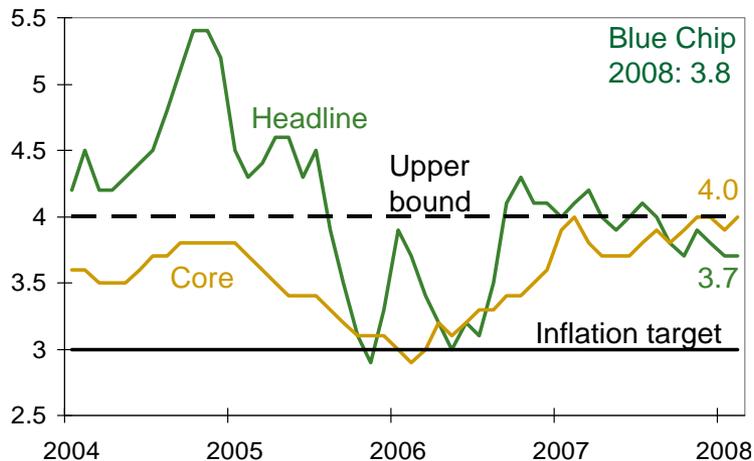
Real GDP Growth, SA



Monetary Policy Rate, percent

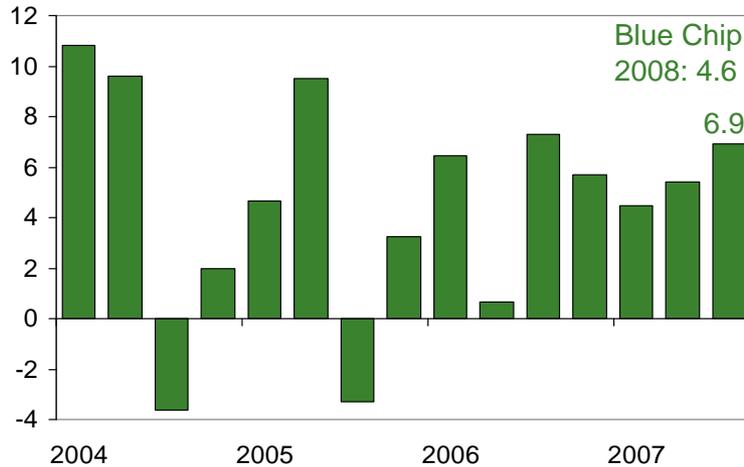


Consumer Prices, percent change (y/y)

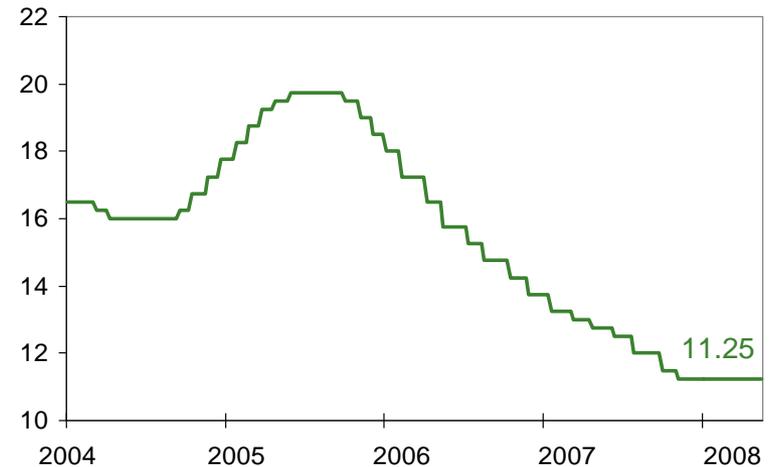


Brazil: Outlook tied to commodity prices

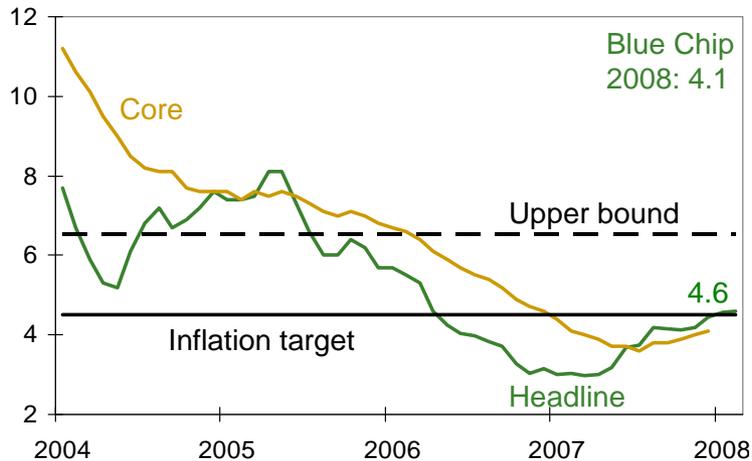
Real GDP Growth, SA



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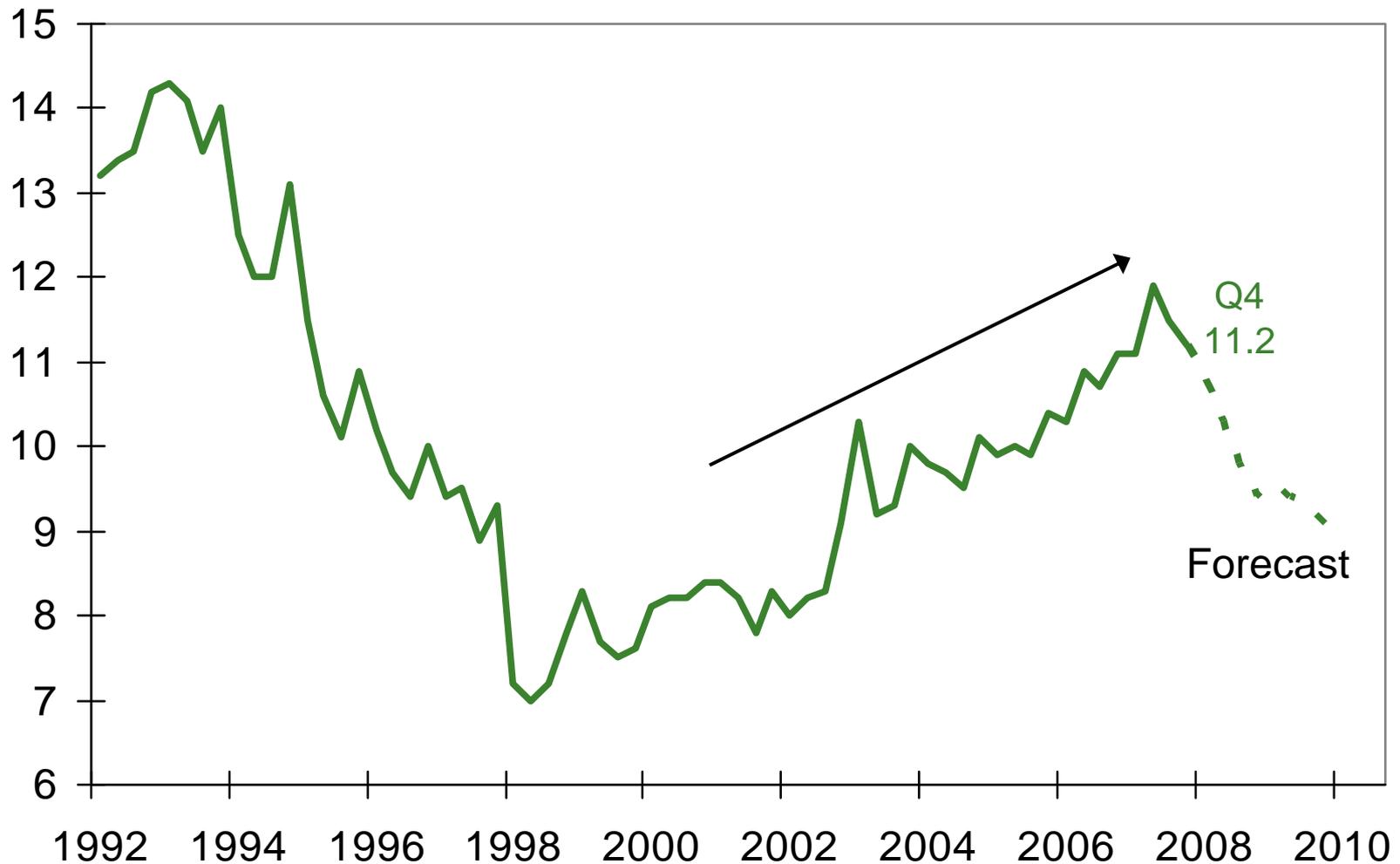


Consumer Prices, percent change (y/y)



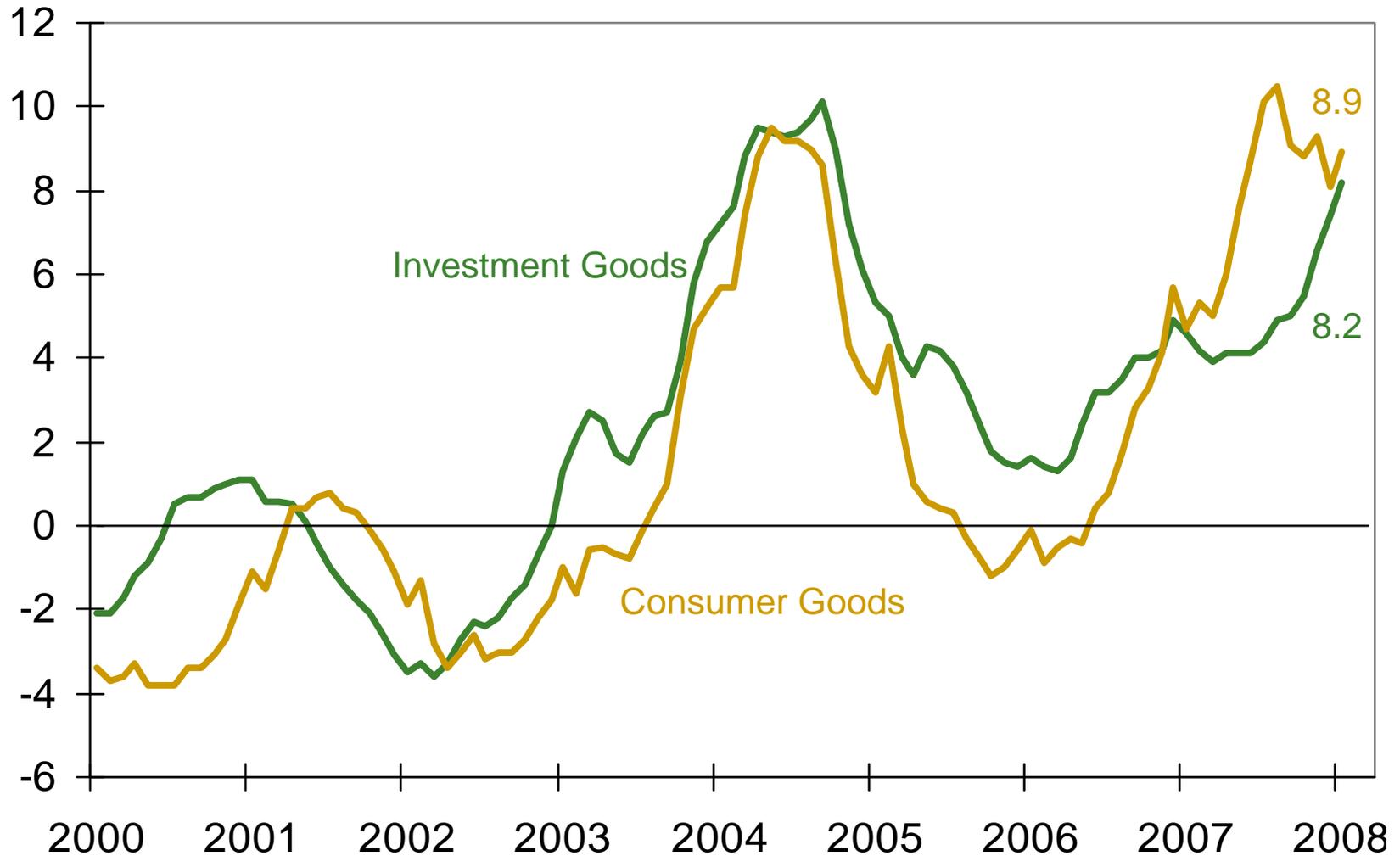
Chinese growth: beginning to moderate?

GDP growth, percent change from year-ago quarter

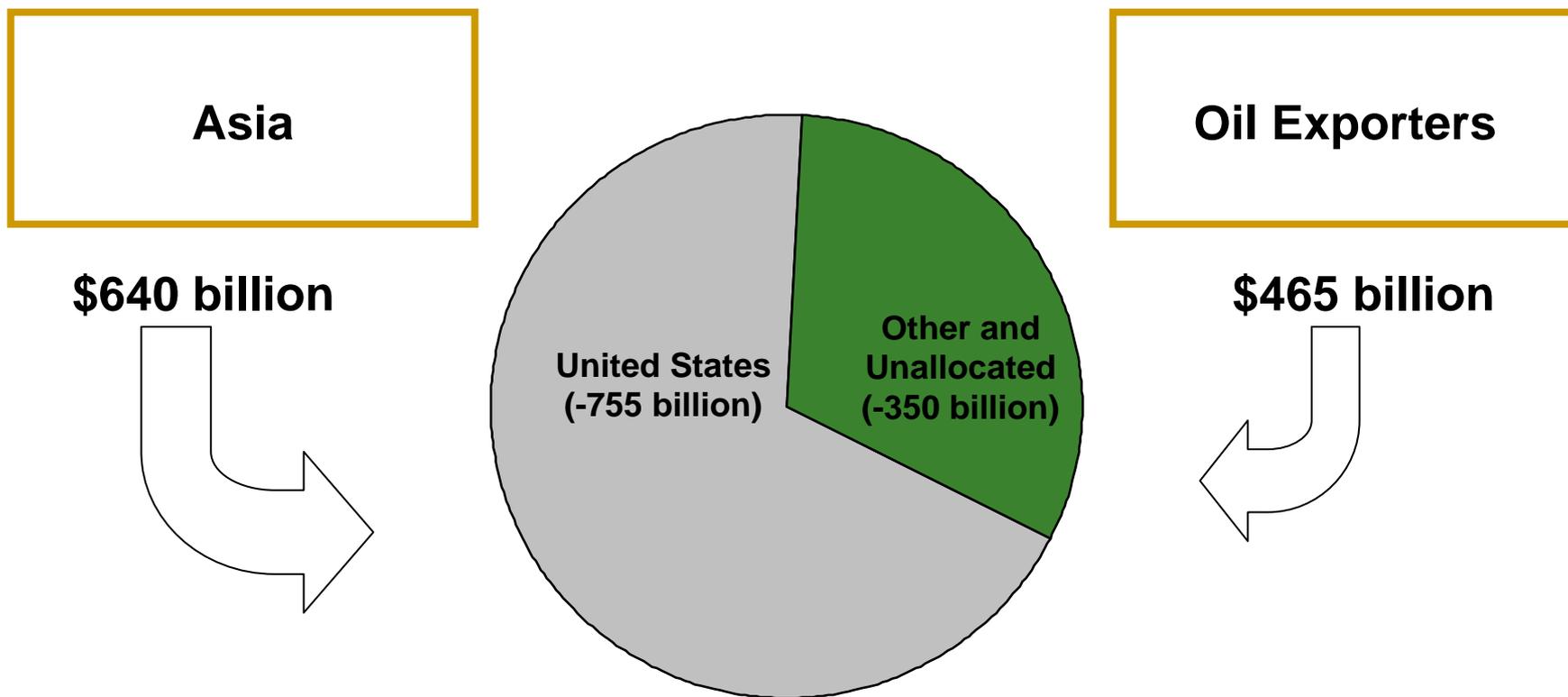


Inflationary pressure building in China?

Corporate goods prices, percent change (y/y)



U.S. current account deficit absorbs bulk of foreign current account surpluses



Figures are data or estimates for 2007

Official investors direct bulk of global surpluses

Reserves and Other Official Investments

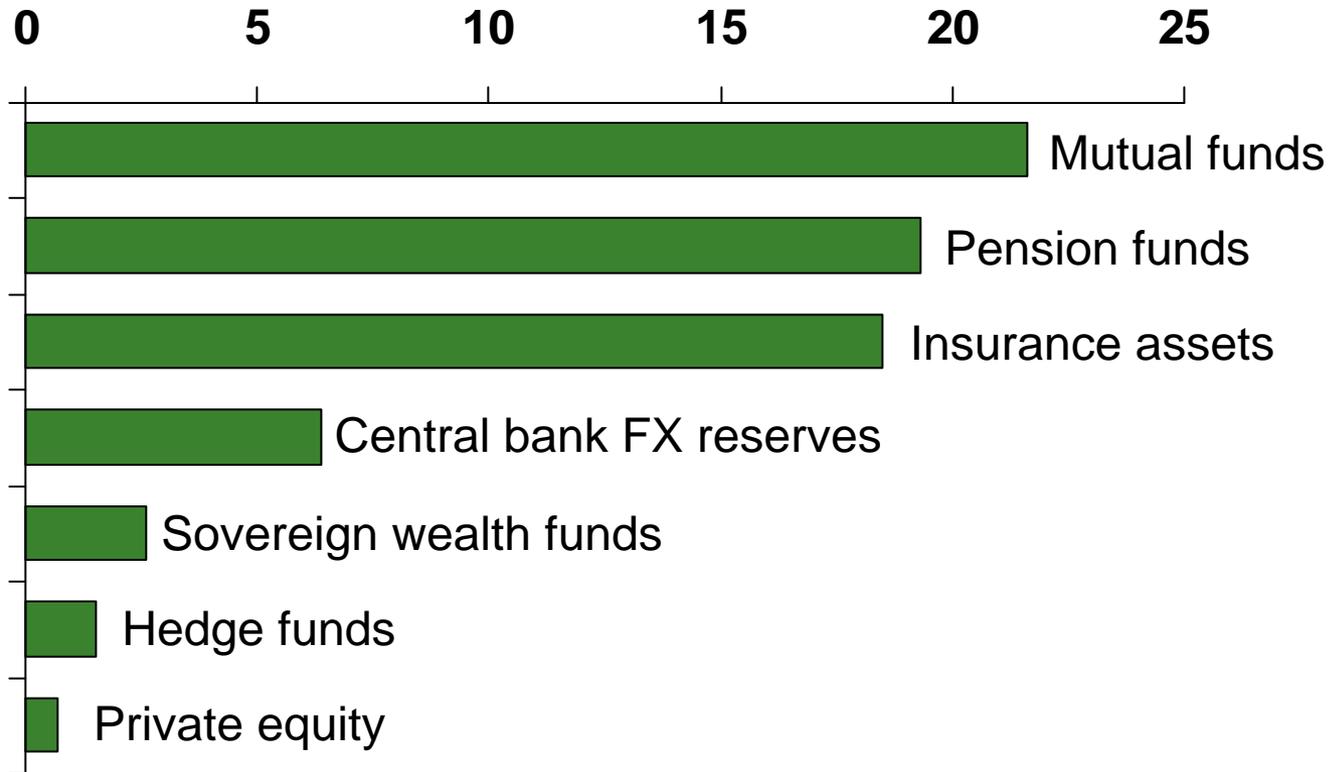
(\$U.S. billions)

| | 2005 | 2006 | 2007E |
|------------------------------|------|------|-------|
| EM Oil Exporters | 329 | 429 | 430 |
| China | 215 | 260 | 420 |
| Other Emerging Asia | 87 | 103 | 185 |
| Other Emerging | 103 | 116 | 190 |
| Total | 734 | 908 | 1,225 |
| Memo: | | | |
| U.S. Current Account Deficit | 755 | 811 | 756 |

Sources: October 2007 IMF *WEO*, staff and market estimates

Major Global Investment Pools, by Type

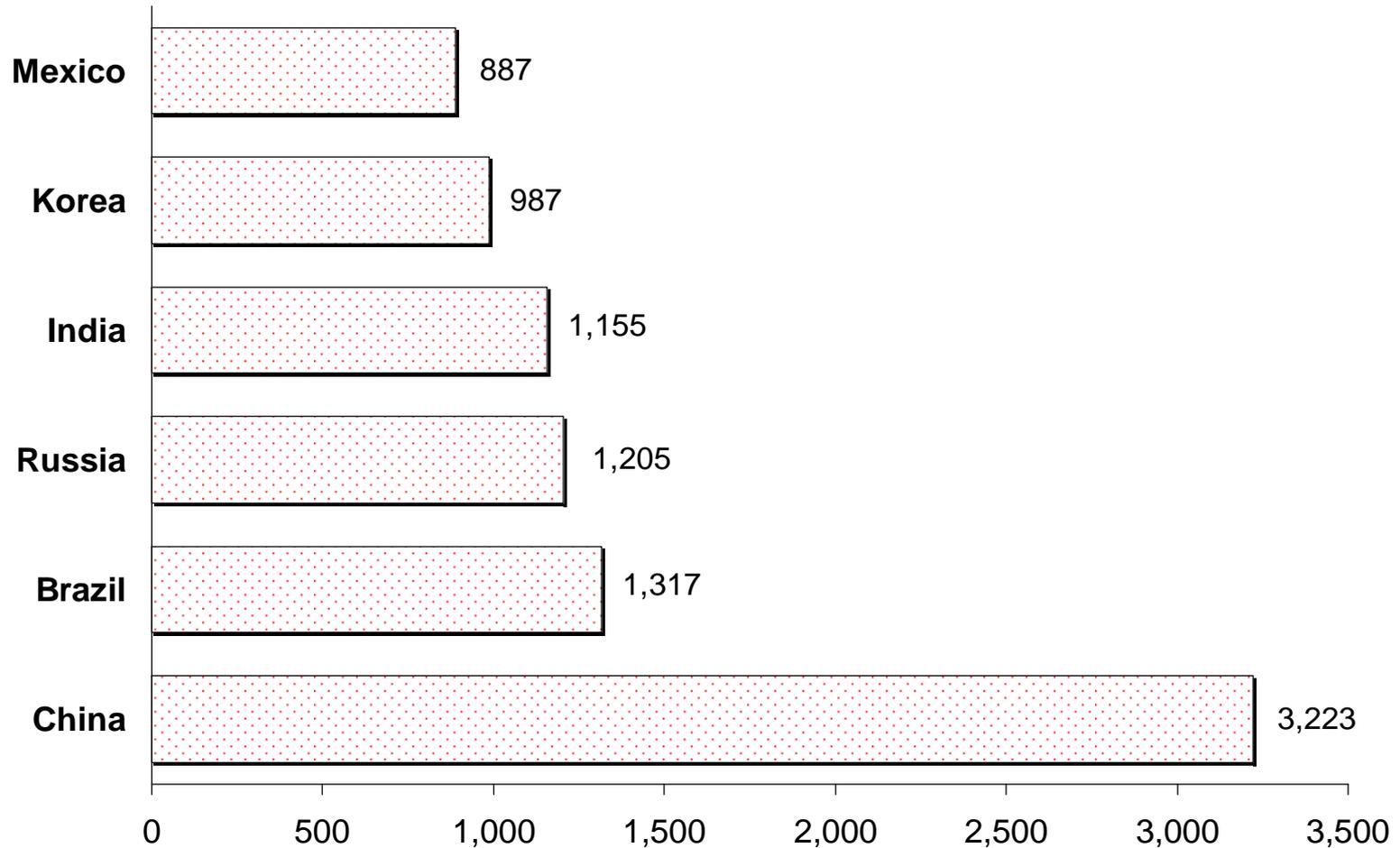
\$U.S. trillions



Source: McKinsey Global Institute, market estimates. Figures refer variously to end-2006 and end-2007.

Reference Slides

There are four trillion dollar EM economies



Note: Figures are for 2007

Dollar near bottom of historical range

