Outlook for the Global Economy

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In collaboration with the World Trade Center Buffalo Niagara
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 )

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2008F</th>
<th>2009F</th>
</tr>
</thead>
<tbody>
<tr>
<td>Euro Zone</td>
<td>2.6</td>
<td>1.7</td>
<td>2.0</td>
</tr>
<tr>
<td>Japan</td>
<td>1.9</td>
<td>1.3</td>
<td>1.9</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>3.0</td>
<td>1.9</td>
<td>2.2</td>
</tr>
<tr>
<td>Canada</td>
<td>2.6</td>
<td>1.9</td>
<td>2.6</td>
</tr>
<tr>
<td>China</td>
<td>11.3</td>
<td>9.8</td>
<td>9.4</td>
</tr>
<tr>
<td>NIEs</td>
<td>5.5</td>
<td>4.7</td>
<td>5.0</td>
</tr>
<tr>
<td>Brazil</td>
<td>4.6</td>
<td>4.6</td>
<td>4.3</td>
</tr>
<tr>
<td>Mexico</td>
<td>3.0</td>
<td>2.8</td>
<td>3.6</td>
</tr>
<tr>
<td>Memo: U.S.</td>
<td>2.2</td>
<td>1.5</td>
<td>2.3</td>
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</tbody>
</table>

EMs now about one-third of global GDP

Global GDP ($U.S. trn.)

Global Total: $53.6
  United States: 13.9
  Other Advanced: 23.2
  Emerging: 16.5

Percentage Distribution:

- Other Advanced: 43%
- Emerging: 31%
- United States: 26%

Note: Figures are estimates for 2007
* At current exchange rates
... and more than 40 percent of non-U.S. GDP

### Global GDP ($U.S. trn.)
- Global Total: $53.6
- United States: 13.8
- Other Advanced: 23.2
- Emerging: 16.5

### Percentage Distribution*
- Other Advanced: 58%
- Emerging: 42%

* Figures are estimates for 2007*

* At current exchange rates
EMs contributing two-thirds of foreign growth

Foreign real GDP: percent growth and contributions

Emerging Contribution
Advanced Contribution

Sources: FRBNY and IMF forecasts using dollar GDP weights.
Dollar near bottom of historical range

Real trade-weighted U.S. dollar. Index, average = 100

February 89
$U.S. weakness = big gain in U.S. competitiveness

Export Prices for Capital Goods in $U.S. Terms
Index, 2001 = 100

- United States
- Euro zone

November 161
February 101
Exports Supporting Growth

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

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
New U.S. recession may be underway

ISM indexes. Indexes above 50 signals expansion
Global stress in the inter-bank market

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

United States

Spread (Basis Points)

Apr-07 Jul-07 Oct-07 Jan-08 Apr-08

Euro Area and UK

Spread (Basis Points)

Apr-07 Jul-07 Oct-07 Jan-08 Apr-08

Source: Bloomberg
Banks tightening business lending standards

![Graph showing balance tightening for Euro Zone and United States from 1990 to 2008.](image)
Euro Zone: Slowing growth, rising inflation

Diffusion indexes, boom/bust line = 50

PMI Manufacturing

PMI Services

Percent

Core

Headline

Jan 3.2

Jan 1.7

99 00 01 02 03 04 05 06 07 08
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

Note: Dots show METI survey for Feb., March
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**

- **Blue Chip 2008:** 4.6

**Consumer Prices, percent change (y/y)**

- **Headline 2008:** 4.6
- **Core 2008:** 4.1

**Monetary Policy Rate, percent**

- **2008:** 11.25
Chinese growth: beginning to moderate?

GDP growth, percent change from year-ago quarter

Forecast

Q4 11.2

Inflationary pressure building in China?

Corporate goods prices, percent change (y/y)

- Investment Goods
- Consumer Goods

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

<table>
<thead>
<tr>
<th>Reserves and Other Official Investments</th>
<th>2005</th>
<th>2006</th>
<th>2007E</th>
</tr>
</thead>
<tbody>
<tr>
<td>EM Oil Exporters</td>
<td>329</td>
<td>429</td>
<td>430</td>
</tr>
<tr>
<td>China</td>
<td>215</td>
<td>260</td>
<td>420</td>
</tr>
<tr>
<td>Other Emerging Asia</td>
<td>87</td>
<td>103</td>
<td>185</td>
</tr>
<tr>
<td>Other Emerging</td>
<td>103</td>
<td>116</td>
<td>190</td>
</tr>
<tr>
<td>Total</td>
<td>734</td>
<td>908</td>
<td>1,225</td>
</tr>
</tbody>
</table>

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

Reference Slides
There are four trillion dollar EM economies

Note: Figures are for 2007
Dollar near bottom of historical range

Real trade-weighted U.S. dollar. Index, average = 100

vs. advanced economy currencies

vs. EM currencies

Feb. 85
Feb. 95