Global Economic Outlook

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Output and Inflation

- The U.S., China, India, Japan and the six largest countries in Europe together make up about 60% of world output
- Europe, Canada, the U.S., Japan, Australia and smaller oil states have the World’s highest output/person
- Central Africa and Southern Asia have the lowest output/person
- China, India, and central Africa have grown most rapidly since 1996
- Europe and Japan have grown the slowest
Output and Inflation

- Asia, Africa and South America have recovered from the Great Recession
- North America, Europe and Japan have not recovered
- The U.S. and Europe are growing slowly in 2011; Japan’s economy has declined
- China, India, Central Africa and much of South America are growing in 2011
- Inflation is low in the U.S., Canada and Europe; Japan is experiencing deflation
- Inflation is higher in China, India and Brazil
- Inflation is in double-digits in Argentina, Russia, parts of Africa and the oil states

Output and Inflation

- The advanced economies have not recovered from the Great recession, are growing slowly and have low inflation
- The emerging economies have recovered from the Great Recession, are growing rapidly and have rising inflation
Real GDP Growth in the United States
Index of Consumer Sentiment

Savings Rate
(percent of disposable income)
Real House Price Index

Residential Building Permits
Unemployment Rate

CPI Inflation, All Items and Core
Real Government Purchases Growth

Real Government Consumption Expenditures & Gross Investment, 1 Decimal (GCEC1)
Source: U.S. Department of Commerce: Bureau of Economic Analysis

Deficits in CBO’s Baseline and Assuming a Continuation of Certain Policies
Federal Funds Interest Rate

U.S. Policy

“Bold political commitment to put in place a medium-term debt reduction plan is imperative to avoid a sudden collapse of market confidence that could seriously disrupt global stability. At the same time, renewal of some of the temporary stimulus measures—within the medium-term fiscal envelope—and accommodative monetary policy can partly cushion private activity.”

*International Monetary Fund, Global Economic Outlook, September 2011*
United States

- Sluggish growth, no full recovery from Great Recession
- Consumers pessimistic due to high unemployment, falling home prices, political stalemate
- Inflation increase probably due to oil price hikes
- Government fiscal policy a drag on growth in 2011
- Monetary policy limited; controversial innovation
- Fiscal stimulus in short run; tax and entitlement adjustments in long run: Can political system respond?

Shares in World GDP, 2011
Real GDP Growth in China

Inflation in China
Further exchange rate flexibility remains a key policy priority for emerging Asia. A stronger exchange rate, combined with structural reforms would raise domestic purchasing power and allow external rebalancing, while also containing inflation pressure.

*International Monetary Fund, Global Economic Outlook, September 2011*
China

• Rapid growth and rising inflation
• Policy cutbacks to slow growth
• Large export surpluses; high saving
• Currency value held low; huge accumulation of foreign currency reserves and assets
• Will China allow its currency value to rise, and take measures to increase domestic consumption?
Real GDP Growth in Japan

Inflation in Japan
Industrial Production Index in Japan

Automobile Sales in the United States
Dollars per 100 Japanese Yen (daily, 2011)

Gross Government Debt, Percent of GDP, 2011 (IMF Projections)
Japan Policy

In Japan, monetary policy should remain accommodative to eliminate the risk of deflation given a chronic output gap. . . . For Japan, although the immediate focus should be on infrastructure reconstruction, a comprehensive plan to put public debt on a sustainable footing over the medium term is essential. In this light, the proposed increase in the consumption tax to 10 percent by the middle of this decade is an important first step.

*International Monetary Fund, Global Economic Outlook, September 2011*

Japan

- Recession and deflation in 2011
- March earthquake a “supply shock” to Japan’s economy and those of many countries
- Reconstruction continues; output recovering
- Huge government debt after two decades of deficits
- Can Japan simultaneously stimulate growth, prevent deflation, and impose tax and spending adjustments to bring down debt?
Shares in World GDP, 2011

Real GDP Growth, 2007-2011, Average Annual (IMF Projections)
Inflation in Germany

Core (less food and energy)

All Items

Real GDP Growth in France

Gross Domestic Product in France (FRARGDPQDSNAQ)
Source: Organisation for Economic Co-operation and Development
Inflation in France

Consumer Price Index of All Items in France (FRACPIALLMINMEI)
Consumer Price Index: All Items Excluding Food and Energy for France (FRACPICOMINMEI)

Real GDP Growth in Great Britain

-7.5 -5.0 -2.5 0.0 2.5 5.0 7.5
100*GBRGDPNQDSMEI/GBRGDPDEFQISMEI

Shaded areas indicate US recessions.
2011 research.stlouisfed.org
Inflation in Great Britain

Core (less food and energy)

Real GDP Growth in Italy

Gross Domestic Product in Italy (ITARGDPQ05NAQ)
Source: Organisation for Economic Co-operation and Development
Real GDP Growth in Greece

Constant Price Gross Domestic Product in Greece (GRCDPRQPSMEI)
Source: Organisation for Economic Co-operation and Development

Shaded areas indicate US recessions.
2011 research.stlouisfed.org

Gross Government Debt, Percent of GDP, 2011 (IMF Projections)
Financial Stress Index (weekly)

Exchange Rates: U.S. Dollar and Chinese Yuan per Euro
Europe Policy

. . . The European Central Bank should lower its policy rate if downside risks to growth and inflation persist. Also, the ECB should maintain its unconventional support to contain market volatility at least until the implementation of the July EU summit commitments.

*International Monetary Fund, Global Economic Outlook, September 2011*
Europe

• Not recovered from Great Recession
• Growth in Germany and Scandinavia; decline in Greece, Portugal; slow growth in Great Britain, France, Italy, Spain
• Low inflation
• Germany and northern Europe are strong exporters; southern Europe are net importers
• Sovereign debt and banking crisis
• Will the stronger nations and the European Central Bank take the actions required to solve the debt crisis?

Europe Policy

The overriding policy challenge, beyond containing the crisis, is to push forward with European integration. Stronger European governance frameworks are essential to aligning fiscal policies and limiting external imbalances. More integrated and flexible labor, product, and services markets would facilitate adjustment in response to shocks.

*International Monetary Fund, Global Economic Outlook, September 2011*
Europe

• Integrated Europe
  – Continent-wide borrowing power
  – Continent-wide safety net
  – Labor mobility
• “Dis-Integrated” Europe
  – Indebted countries exchange rates fall, exports less expensive
  – Indebted countries have independent monetary policy, inflation lessens repayment burden
  – Indebted countries may not have been able to borrow so much if lenders fear exchange rate fall, inflation
• Will Europe move toward greater integration, or allow the Eurozone to shrink?

Shares in World GDP, 2011
Real GDP Growth in Brazil

Constant Price Gross Domestic Product in Brazil (BRAGDPQPSMEI)
Source: Organisation for Economic Co-operation and Development

Inflation in Brazil

Consumer Price Index: All Items for Brazil (BRACPIALLMINMEI)
Source: Organisation for Economic Co-operation and Development
Corn (Maize) Price

Soybean Meal Price
South America Policy

Efforts thus far to normalize monetary policies to a neutral stance are welcome, although in countries where inflation pressure has lessened, a temporary pause in monetary tightening could be considered until uncertainty abates. Further monetary tightening is likely warranted in a few economies where overheating risks appear more imminent (Argentina, Paraguay, Venezuela).

*International Monetary Fund, Global Economic Outlook, September 2011*

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South America

- Recovered from the Great Recession; GDP growing
- Rising inflation; double-digit inflation in some countries, including Argentina
- Some South American countries are particularly dependent on commodity exports; high commodity prices have added to growth
- Will countries with rising inflation tighten monetary policy in time to bring inflation down?
Net Exports of Oil, 2011 (Billions of Dollars, IMF Estimates)

Crude Oil Price

Spot Oil Price: West Texas Intermediate (OILPRICE)
Source: Dow Jones & Company

Shaded areas indicate US recessions.
Commodities

• Prices of most commodities peaked in April, but remain historically high
• Commodity price decline due to slowing economic growth in advanced countries
• Oil prices rose about $20/barrel after the Libyan civil war began in March
• Oil prices have now fallen back to their pre-March level
• This is partly due to weakened economy, so when Libyan oil supply resumes, oil prices may drop more

Real GDP Growth, 2010-2011 (IMF Projections)
Global Economic Outlook

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