Global economy has cooled...

**GDP**
(Percent change from a year ago)

**Domestic Demand**
(Percent change from a year ago)
... And leading indicators point to slower growth ahead

Manufacturing PMIs
(Values greater than 50 indicate expansion)

Consumer Confidence
(United States, 1985 = 100; Euro Area, percent balance)
Global financial system on the brink

Interbank Markets
(3-month LIBOR minus T-bill rate; in percent)

Bank CDS Spreads
(10-years; basis points)

High-Grade Corporate Spreads
(basis points)
Emerging markets increasingly affected

**Equity Markets**
(2000 = 100; national currency)

**Corporate Bond Spreads**
(basis points)
Against a Deepening Financial Crisis, Global Economy Faces Serious Downturn

(annual percent change)

1/ Two or three year average during the growth downturn.
Advanced economies now facing recession

Real GDP Growth Rates
(percent change)

United States

Euro area

Japan
Emerging and developing economies have not decoupled

Real GDP Growth Rates (percent change)
Road to Recovery — and the Potholes

- Stabilizing financial conditions
  - but deleveraging will be protected

- Turnaround in U.S. housing market
  - but risk of overshooting?

- Resilience in emerging economies
  - but still vulnerabilities in some

- Subsiding inflation
  - another commodities surprise?
Five policy actions to stabilize financial conditions

• Protection of deposits and other short-term liabilities
• Removal of troubled assets and recognition of losses
• Use of public money to recapitalize banks
• Comprehensive, coordinated response to financial crisis essential
• Emerging and developing economies should have access to emergency funding
Deleveraging will take a large toll on credit growth

**Private Sector Credit Growth**
(Borrowing as a percent of debt outstanding, quarter-on-quarter, annualized, seasonally adjusted)

United States

Euro area

Projection
US Housing – How close to the floor?

**Real House Prices**
(index, 1995 = 100)

1. **OFHEO**
2. **Case-Schiller**
3. **NAR**
4. **OFHEO trend**
5. **NAR trend**

**Inventories of New Homes**

- Thousands of new homes (left scale)
- Months of inventory (right scale)
- Inventories/Trend sales, 1970-2005 (right scale)

**Real Residential Investment**
(percent of GDP)

1970-2000 average
Emerging market inflows resilient so far...

(Bond, equity and loan issuance, billions of U.S. dollars)
Reduced external vulnerabilities—but not for all

**Emerging and Developing Economy External Indicators**

*percent of total GDP*

**Latin America External Indicators**

*percent of regional GDP*
Emerging Economies Increasing Affected, Some Risks of Sudden Stops?

**Sovereign CDS Spreads**
(index: 7/1/2007=100)

Current account deficit larger than 5% of 2007 GDP

**Equity Prices**
(index: 7/1/2007=100)

Current account surplus or small deficit

Current account deficit larger than 5% of 2007 GDP
Where will commodity prices go?

Selected Commodity Prices
(January 2002 = 100)

Selected Food Prices
(January 2006 = 100)
Oil price outlook highly uncertain

OPEC Spare Capacity
(percent of world oil consumption)

Crude Oil Prices
(Brent; from futures options; as of October 3 2008; U.S. dollars per barrel)

- 90% confidence interval
- 70% confidence interval
- 50% confidence interval
- Spot/futures price

1996-2006 average

Saudi Arabia

Other OPEC

Forecast
Still inflation concerns in some emerging economies

**Headline Inflation**
(12 month percent change)

**Core Price Inflation**
(12 month percent change)

**Fuel Price Inflation**
(12 month percent change)

**Food Price Inflation**
(12 month percent change)

- Advanced economies
- Emerging and developing economies
- Latin America

Still inflation concerns in some emerging economies.
Key Messages

• Major global downturn inevitable

• Substantial downside risks to baseline

• Comprehensive, coordinated response to financial crisis essential to avoid the worst

• Emerging and developing economies should be ready for tough times ahead
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