Figure 1.10. Measures of the Output Gap and Capacity Pressures

After a period of above-trend growth, global activity is now slowing well below potential. In the advanced economies, output gaps are expected to widen to the range of 1–2 percent of GDP in 2009. In the emerging economies, output would remain somewhat above cyclically-neutral levels, although capacity pressures would ease some. The methodology used to estimate potential GDP growth and output gaps is explained in Box 1.3.

Sources: OECD, Economic Outlook; and IMF staff estimates.

1Estimates of the nonaccelerating inflation rate of unemployment (NAIRU) come from the OECD. Estimates of the output gap, in percent of potential GDP, are based on IMF staff calculations. Capacity utilization measured as deviations from 1980–2007 averages for the United States (percent of total capacity) and Japan (operation rate index for manufacturing sector), and deviations during 1985–2007 for the euro area (percent of industry capacity).

2GDP growth rates of actual (solid line) versus potential (dashed line) for advanced economies. For emerging economies, a Hodrick-Prescott filter is applied for potential GDP.