Presentation on the Global Economy

Made at the Brookings Institution

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Global Outlook is Subdued with Risks Heavily Tilted to the Downside

(\textit{in percent})

Jan-08 WEO
Will Divergent Growth in Emerging Markets Continue? (in percent; yoy)

Activity is Decelerating Globally, Q4 over Q4

*(growth in percent; Q4/Q4)*

Long Term Government Bond Yields Have Fallen, but Certain Interest Rates Remain High

U.S. Interest Rates
(in percent; 10-yr Govt. Bond)

Euro area

Long-Term Interest Rates
(in percent; 10-yr Govt. Bond)

U.S.

U.K.

1/22

Jumbo mortgages

Corporate, A-AAA

Corporate, BB (rhs)

Conforming Mortgages

1/22
Liquidity Strains Have Eased, but Underlying Credit Problems Remain

**Interbank Markets**

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

**Bank CDS Spreads**

(10-years; in basis points; Median)

1/ Euro LIBOR minus Germany’s government bond rate.
Banks Are Showing Signs of Stress
*(FTSE sectoral indices; 1/1/2007=100)*
U.S. Labor Markets and Declining House Prices Point to a Much Weaker Outlook

U.S. Private Payrolls
(thousands; 3-month moving average; monthly net change; seas. adj.)

U.S. House Price Expectations 1/
(average annual change; in percent)

1/ RPX 25 MSA Composite: Forward Term Structure.
Several Advanced Economy Housing Markets Look Stretched

**House Prices**
(1997q1=100)

- U.S.
- Germany
- U.K.
- Spain
- Ireland
- France
- Italy

**Housing Valuation Ratios**
(1997-2006; percent change)

- price/disposable income
- price/rent
- U.S. price/disposable income
- U.S. price/rent

### House Prices

<table>
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<tr>
<th>Year</th>
<th>U.S.</th>
<th>Germany</th>
<th>U.K.</th>
<th>Spain</th>
<th>Ireland</th>
<th>France</th>
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</table>

### Housing Valuation Ratios

- Ireland
- U.K.
- France
- Spain
- Italy
- Germany
- U.S.
Signs of Non-Financial Corporate Stress Have Intensified Again

(5-year CDS Spreads; in basis points)

Investment Grade

Below Investment Grade
Headline Inflation in Advanced Economies Has Jumped

**Headline**
*(in percent; yoy)*

**Core**
*(in percent; yoy)*

- **U.S.**
- **Japan**
- **Euro area**
- **U.K.**

Dec-07
Inflation Expectations Remain Well-Anchored
(break-even rates; from 10-year inflation-indexed bonds)

U.S.
Euro area (5-yr)
Japan
Canada (20-yr)
U.K. (RPI)
<table>
<thead>
<tr>
<th>Country</th>
<th>Effects of Oil Price Increase</th>
<th>Effects of Oil and Food Price Increase</th>
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<td>Russia</td>
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<td>Japan</td>
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<td>China</td>
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</table>

Estimated Impact of a 10 percent Oil Price Increase on Annual Headline CPI inflation, selected countries.

Estimated Impact of a 10 percent Oil and an 10 percent Food Price Increase on Annual Headline CPI inflation, selected countries.
Capital Flows to Emerging Markets Have Not Abated
(cumulative flows; in billions of U.S. dollars)

Net Flows to Emerging Market Funds 1/

Bank Flows to Emerging Markets 2/

1/ Flows from United States and Europe.
2/ From BIS reporting banks.
Asset Prices in Emerging Markets Remain High

**House Prices**
*(2000Q1=100)*

- **China**
- **U.S.**
- **Thailand**
- **Singapore**
- **Hong Kong**

**Stock Market Indices**
*(1/1/2007=100)*

- **China**
- **Brazil**
- **Russia**
- **India**
- **U.S.**
Oil Prices Have Touched New Highs, Amid Tight Market Conditions

**Crude Oil Prices**
(Brent futures options; U.S. dollars per barrel)

- 90% confidence interval
- 70% confidence interval
- 50% confidence interval
- Nov-07 WEO baseline for Brent
- Dec-07 WEO baseline for Brent
- Spot price

**OPEC Spare Capacity**
(in percent of world oil consumption)

- Forecast

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High Oil Prices Could Slow a Narrowing of Imbalances 1/6

(Current Account; in Percent of GDP)

1/Oil Base Line assume $86.25 for 2008 and $84.25 for 2009.
Exchange Rate Adjustments Still Not Reflecting Current Account Positions

**Exchange Rates 1/**

(percent changes; 1/17/08 vs. 8/22-9/19 average)

- U.S. dollar per national currency
- REER

- Brazil
- Japan
- Euro area
- Malaysia
- Australia
- Russia
- China
- India
- Canada
- Saudi Arabia
- U.S.
- U.K.

**Current Account Balances**

(In percent of GDP; estimates for 2007)

- Brazil
- Japan
- Euro Area
- Malaysia
- Australia
- Russia
- China
- India
- Canada
- Saudi Arabia
- U.S.
- U.K.

1/ Positive numbers denote appreciation of local currency.
U.S. Dollar Share of Reserves Declining Slightly
(in percent of Global Reserves 1/)

1/ Total allocated reserves.