

# The Global Economic Outlook

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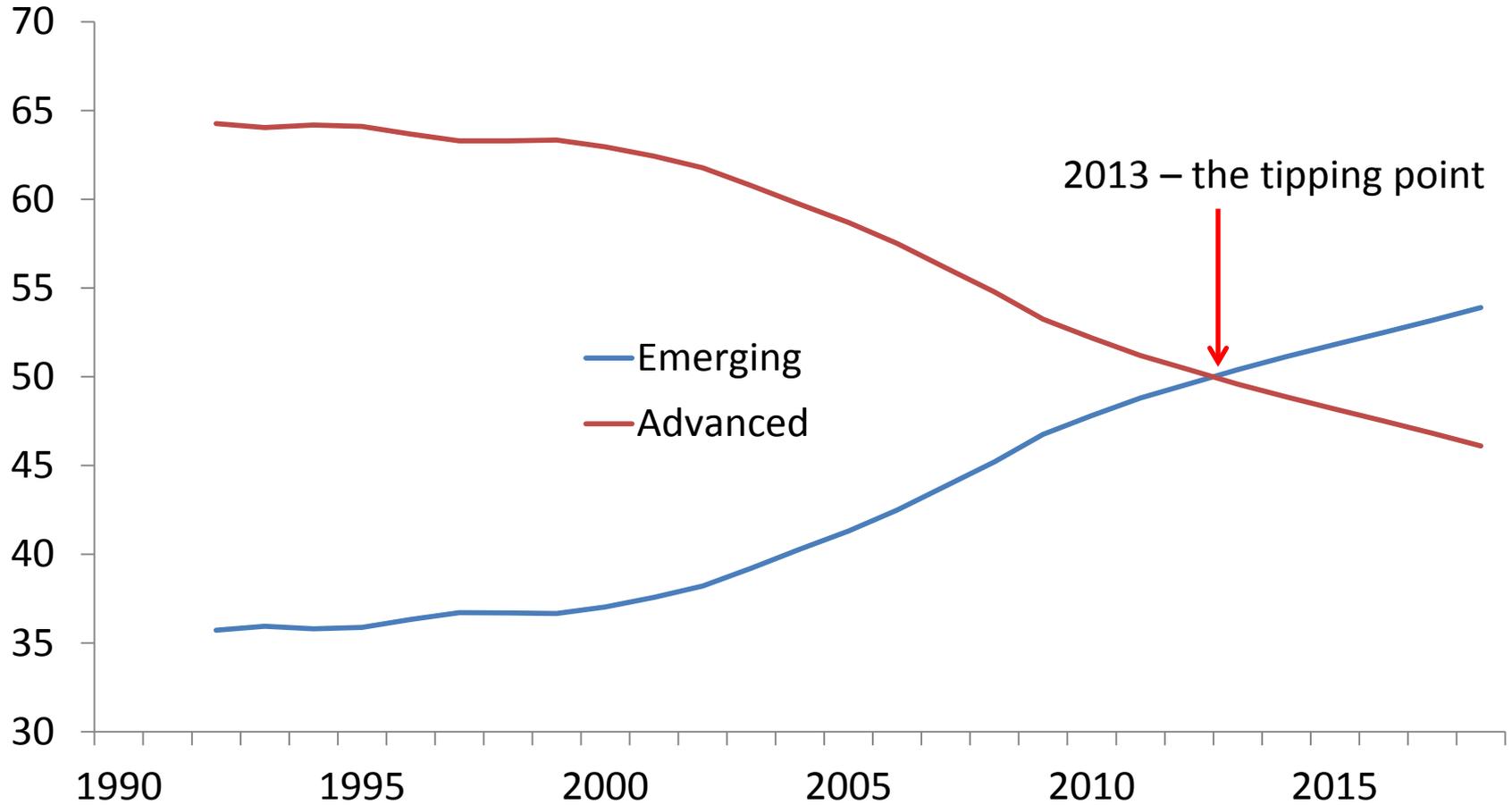
Presentation to symposium on  
"The Role of Southern New Mexico in the Economy"  
NMSU, Las Cruces October 18, 2013

# Overview

- Outlook for the global economy
- International trade
- Inflation
- Monetary policy
- Things to watch for in 2013:
  - Another flare up in Europe
  - Policy changes in Japan
  - Extent of malinvestment in China

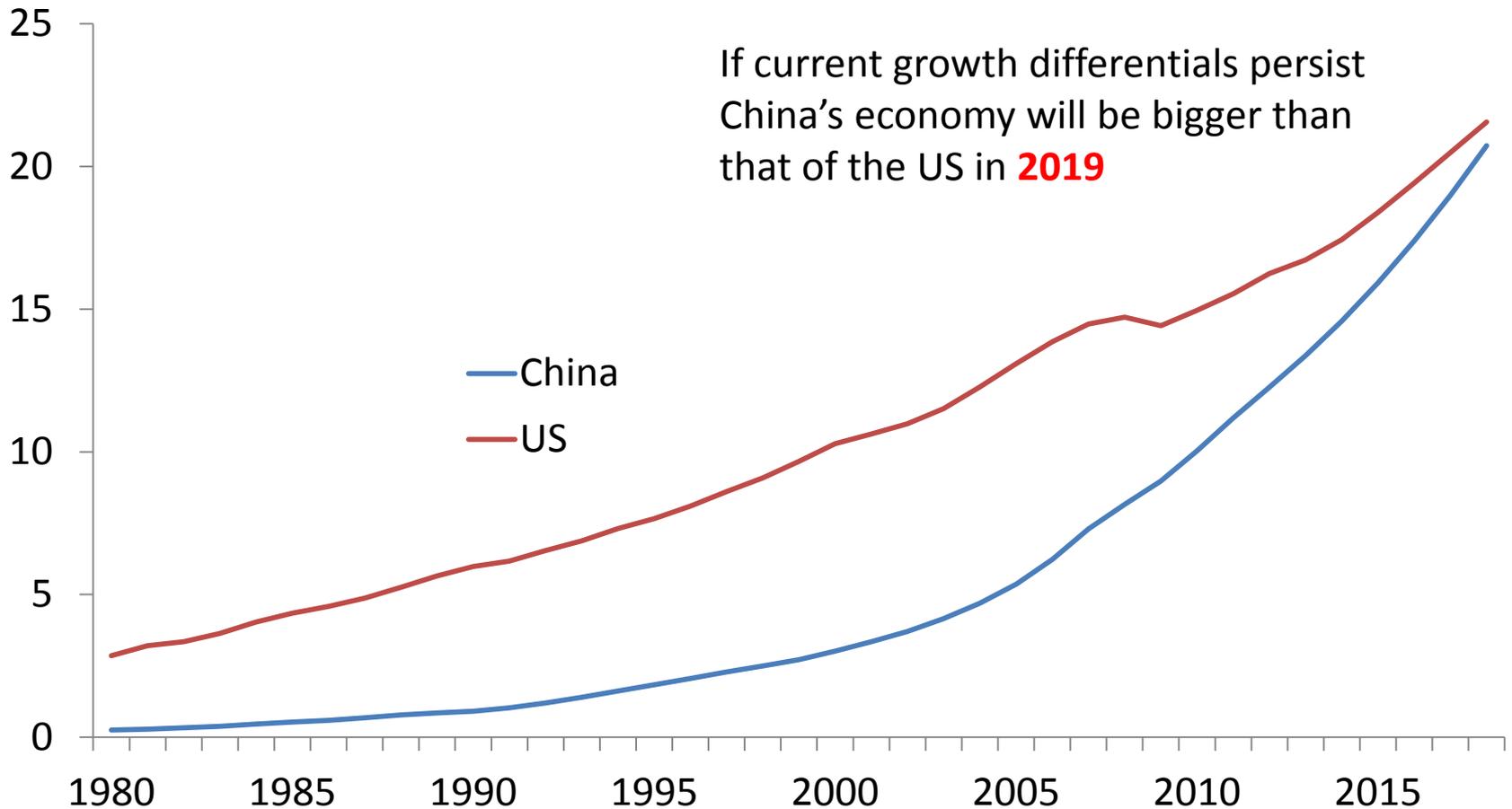
# The changing location of global economic activity

(Share of world total (percent))



# The US and China

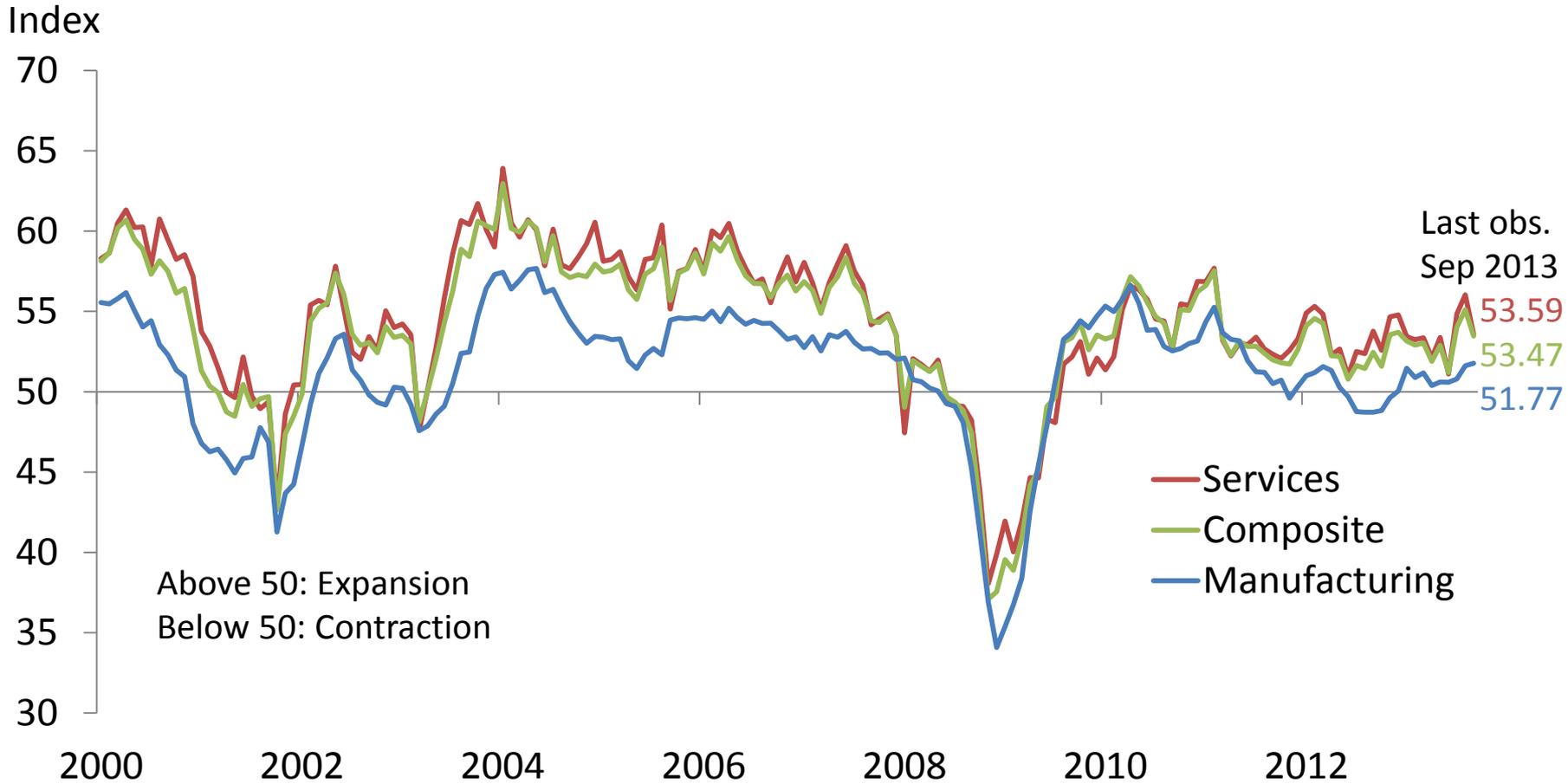
(Trillions of dollars)



# The global economy at the turn of the year

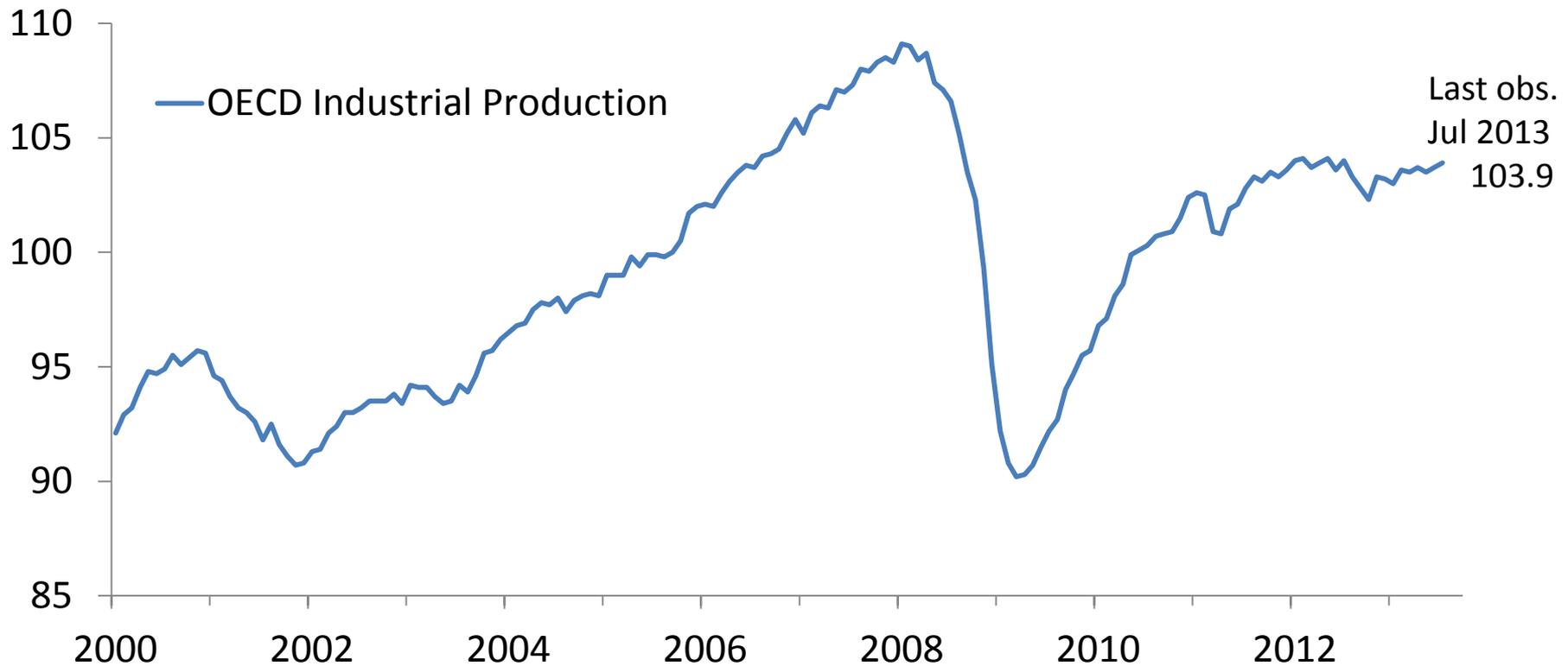
- Sluggish recovery in US
  - QE3
- Sovereign debt crisis in Europe
  - Incremental steps towards a stronger union
  - End of euro area recession
- Ongoing weakness in UK
- Growth slowdown in China
  - Fallout from Europe; overinvestment
- Major policy change in Japan

# Global Purchasing Managers Indexes



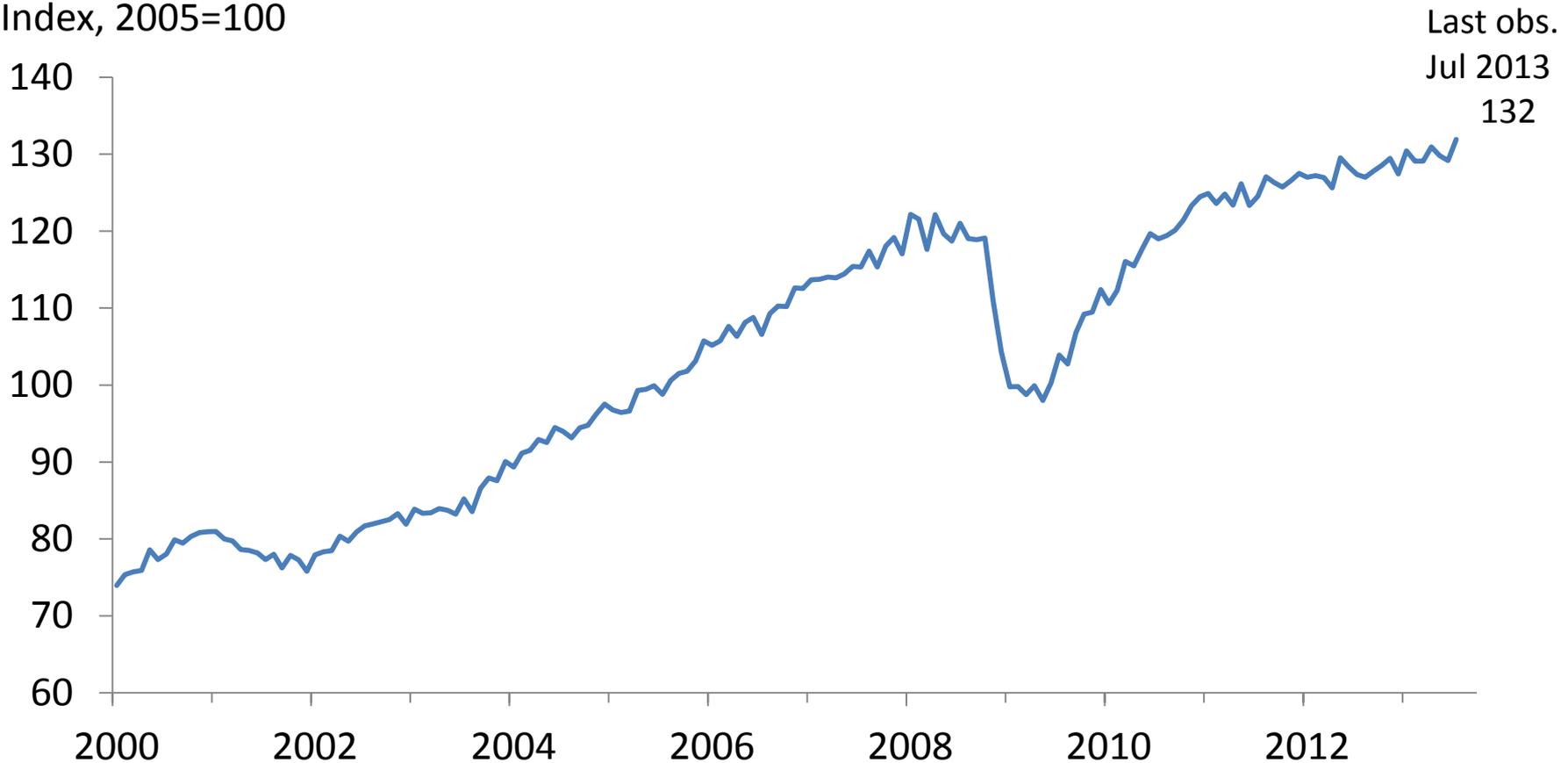
# Industrial activity in OECD still not back to pre-crisis levels

Index, 2005=100



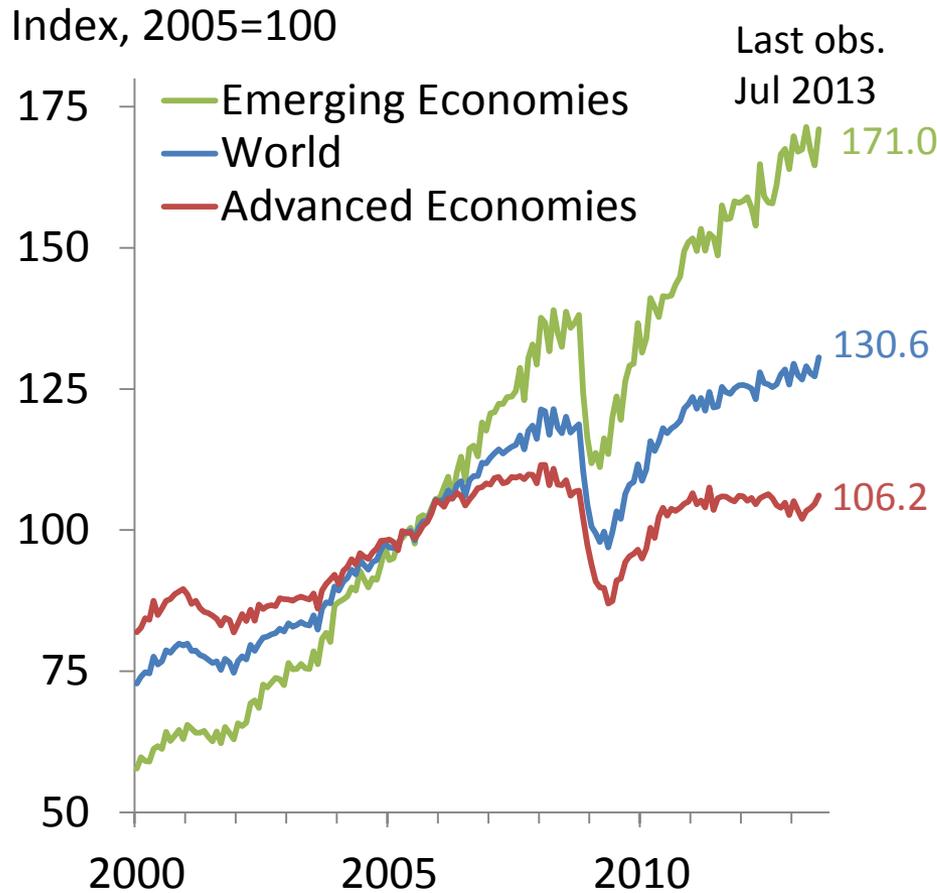
# Global trade has recovered, but softened of late

Index, 2005=100

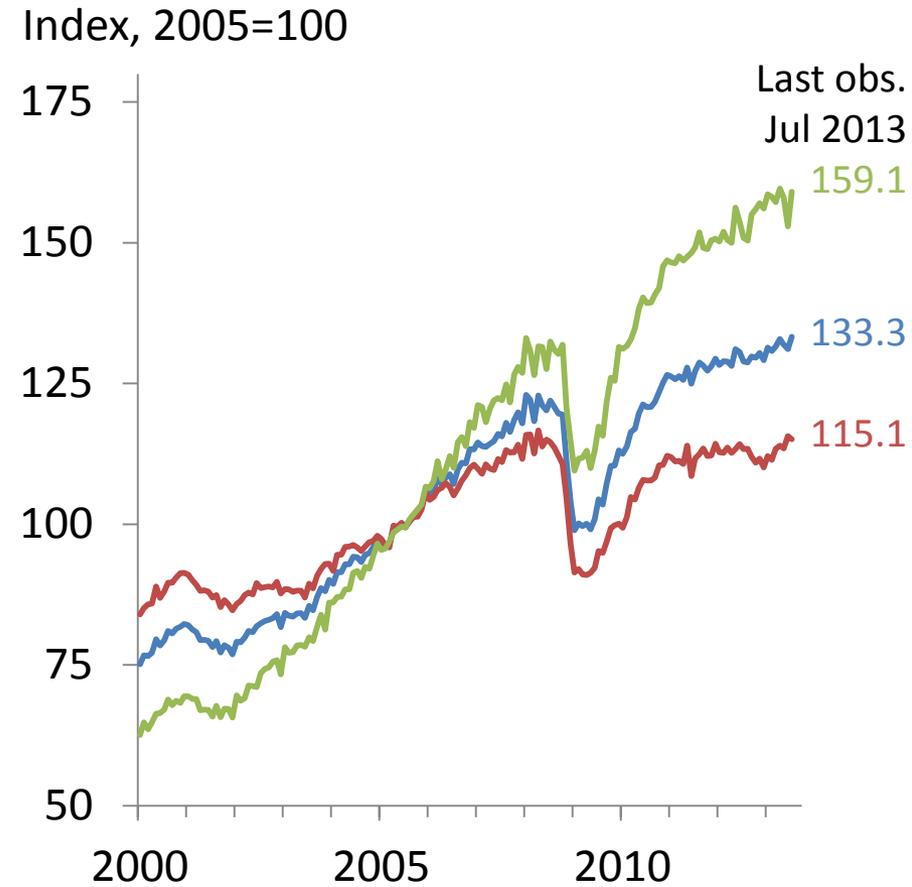


# The AE/EE dichotomy

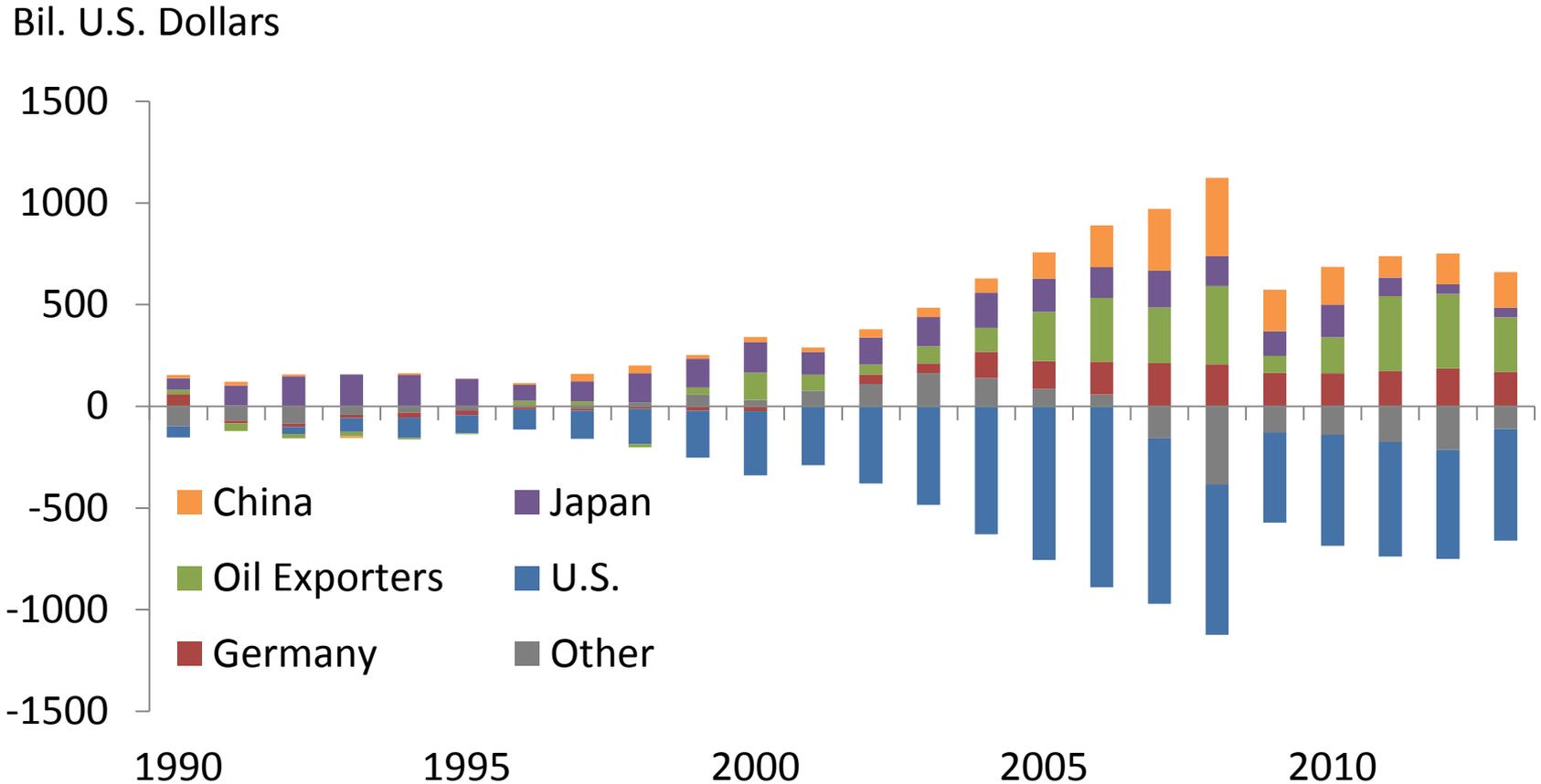
## Imports



## Exports



# Rebalancing of global financial flows

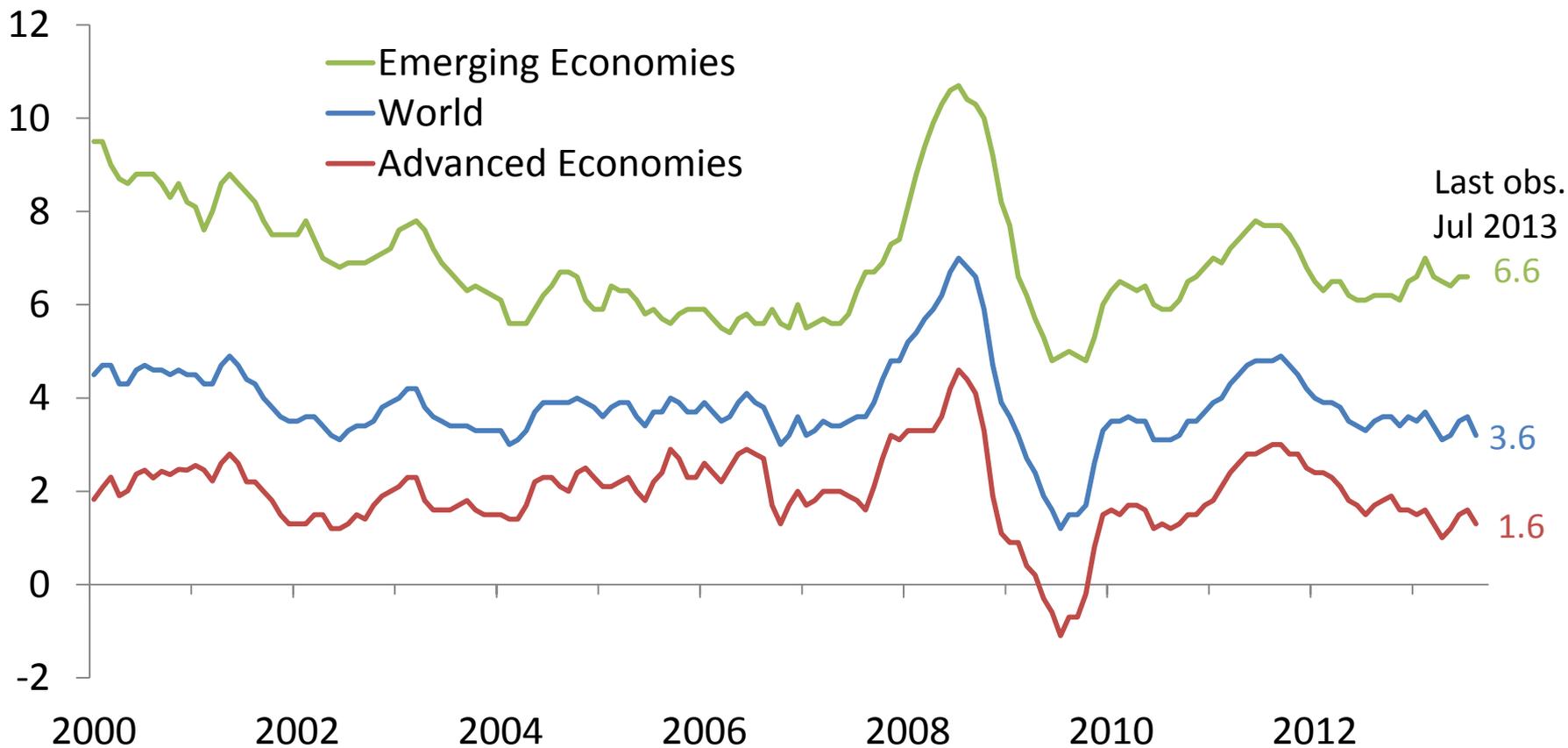


Note: 2012 and 2013 data based on national estimates and IMF projections.

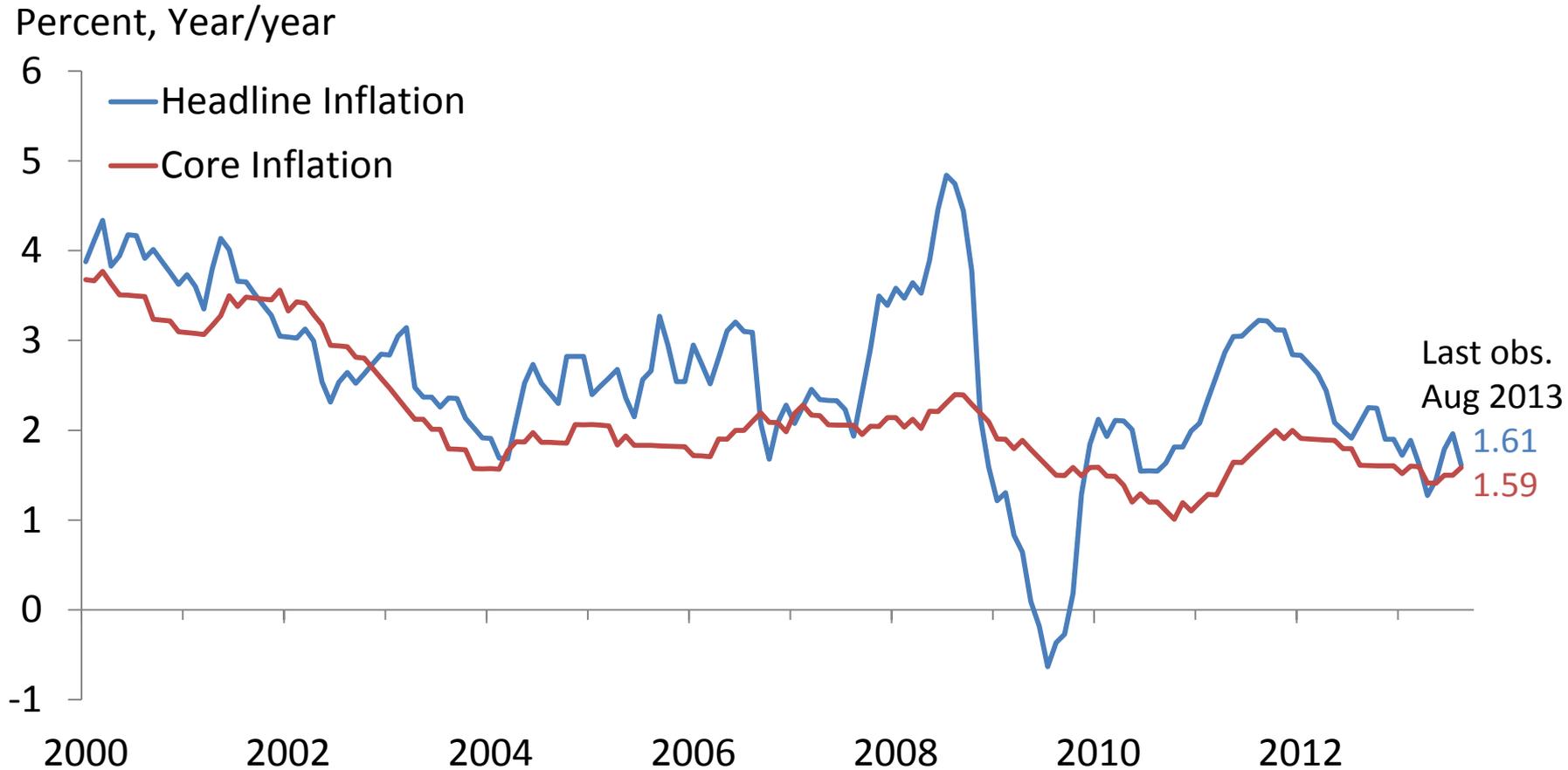
# Global inflation in check

## Headline CPI

Percent, Year/year



# Inflation in OECD economies likewise muted

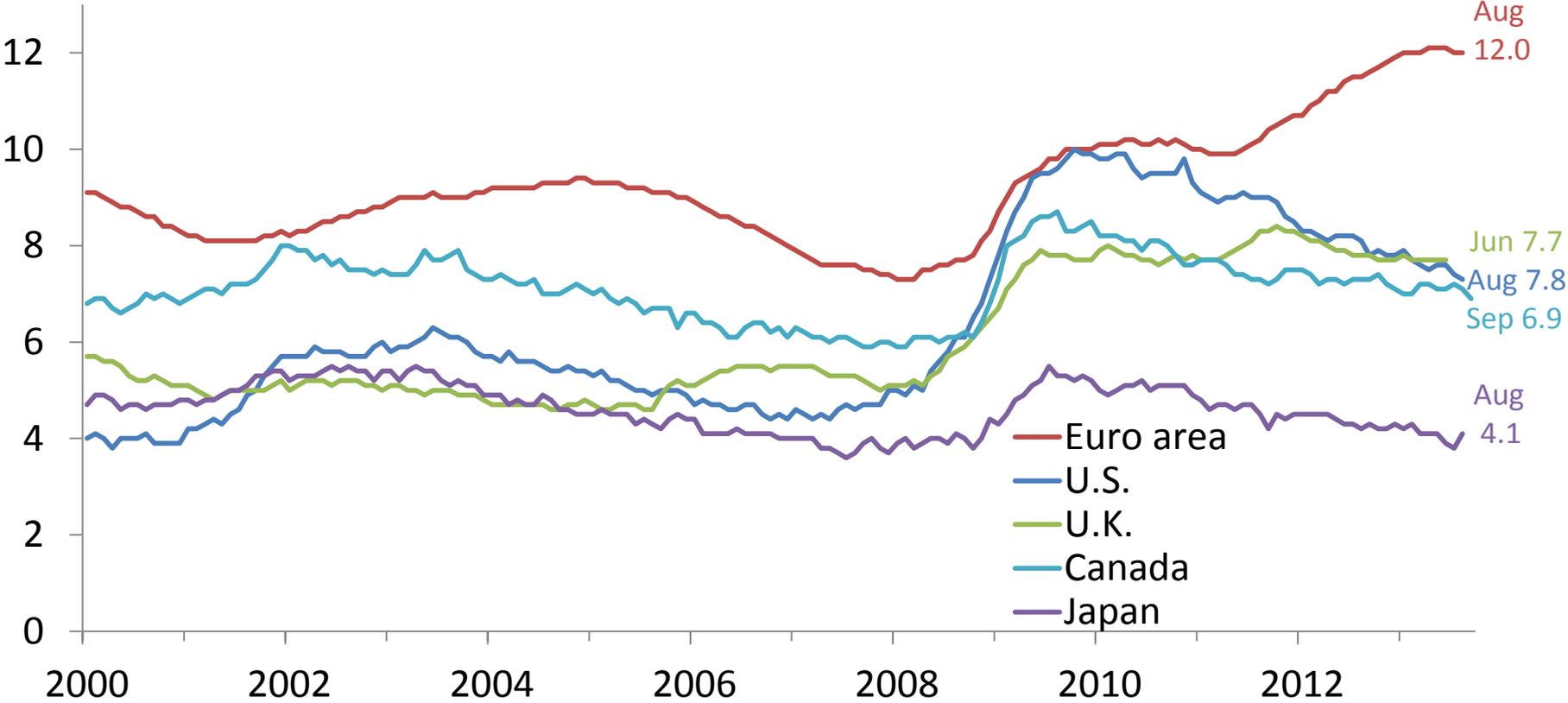


# ...helped by abundant slack

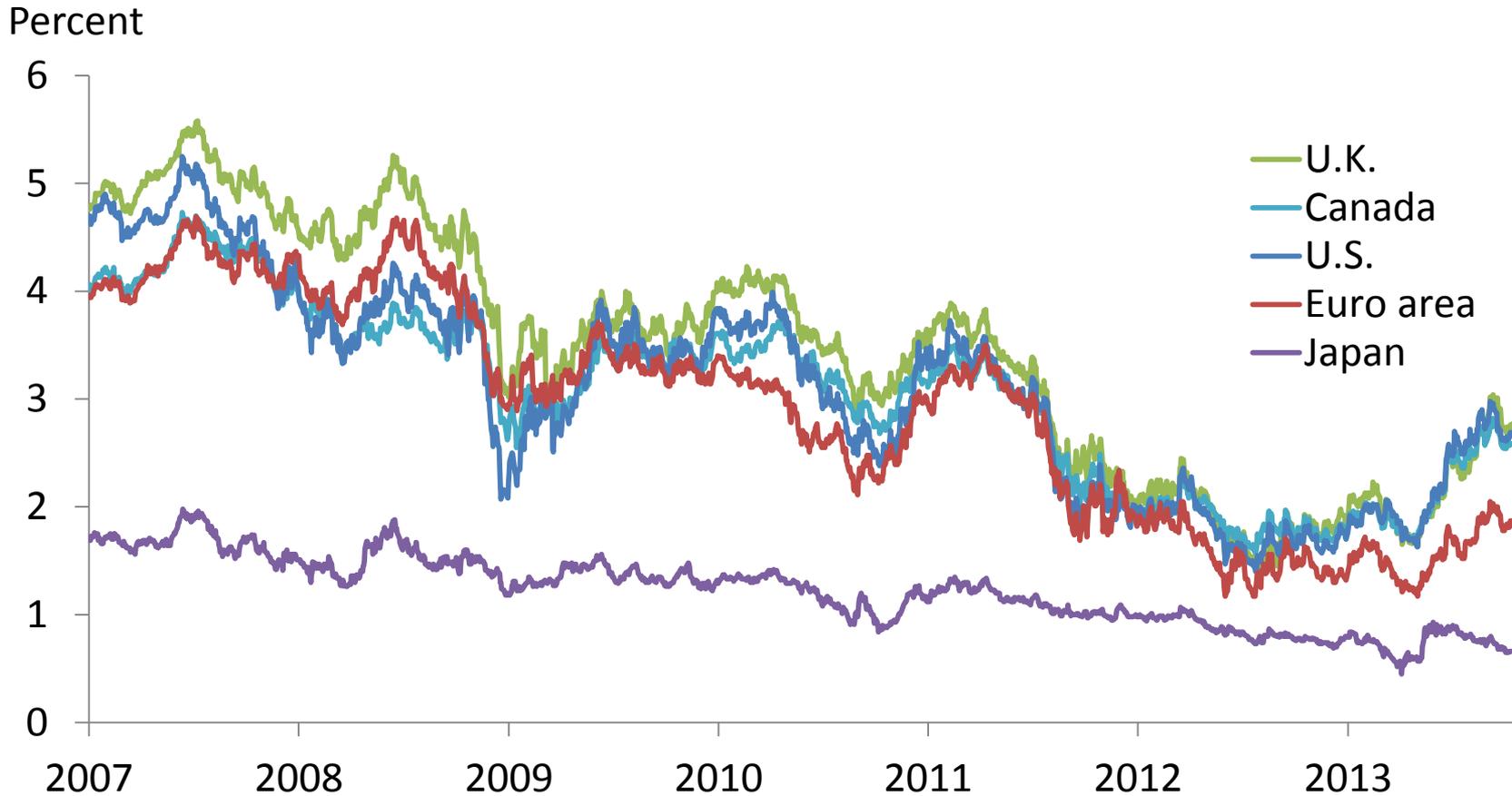


# Unemployment in euro area diverging from other advanced economies

Percent

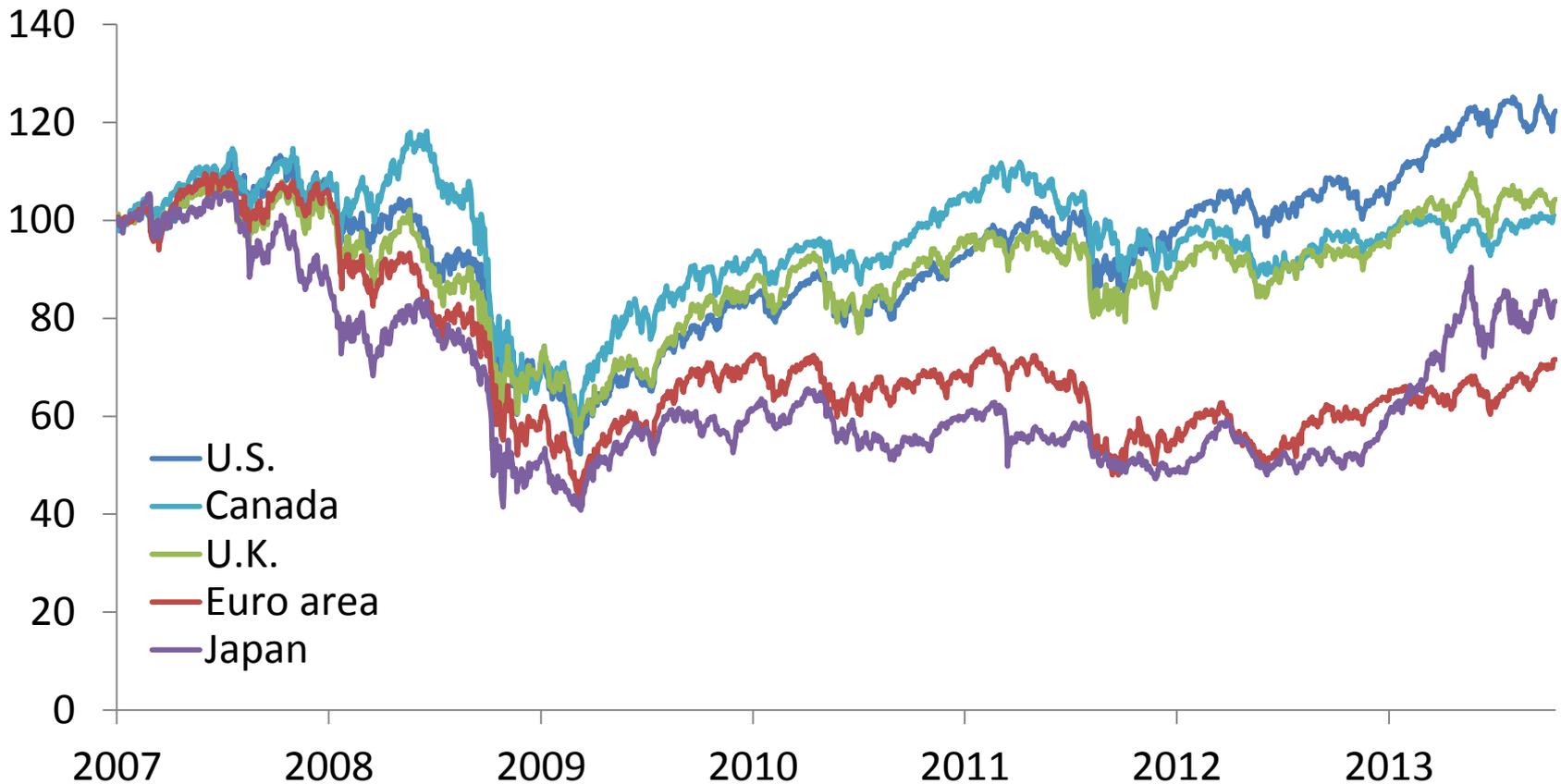


# Government borrowing costs at historic lows

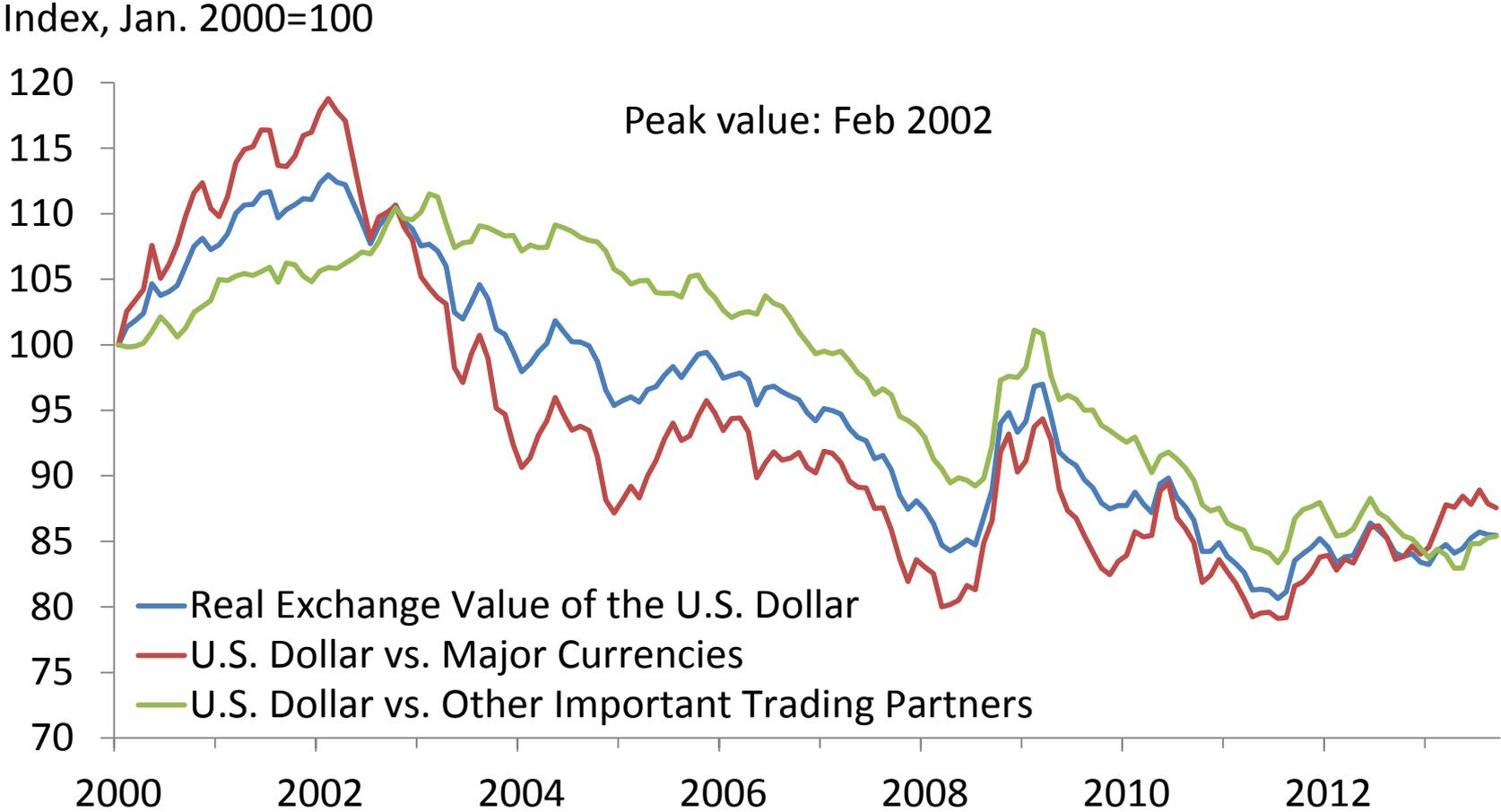


# Equity values in euro area and Japan still languishing

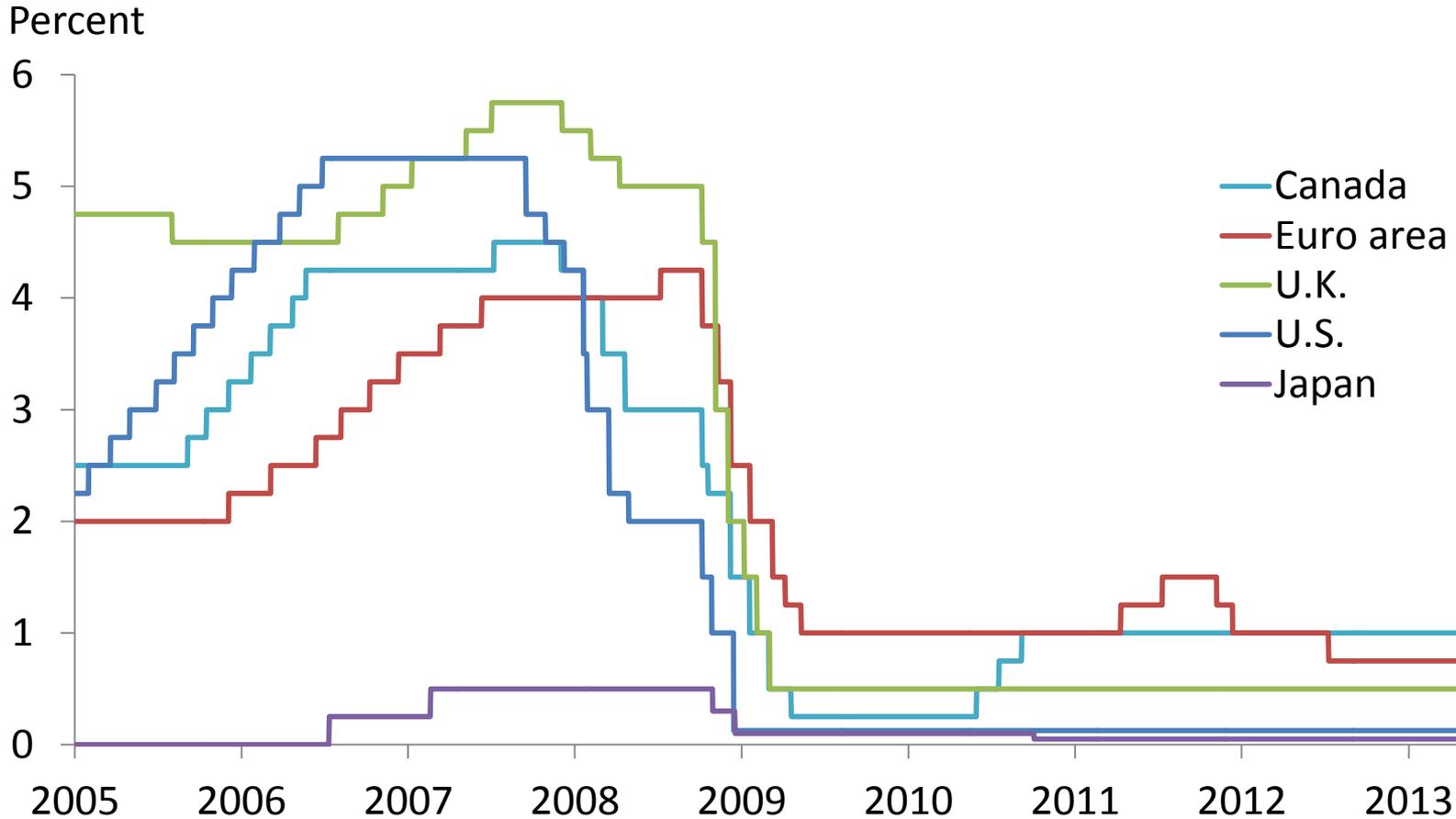
Index, Jan. 2007=100



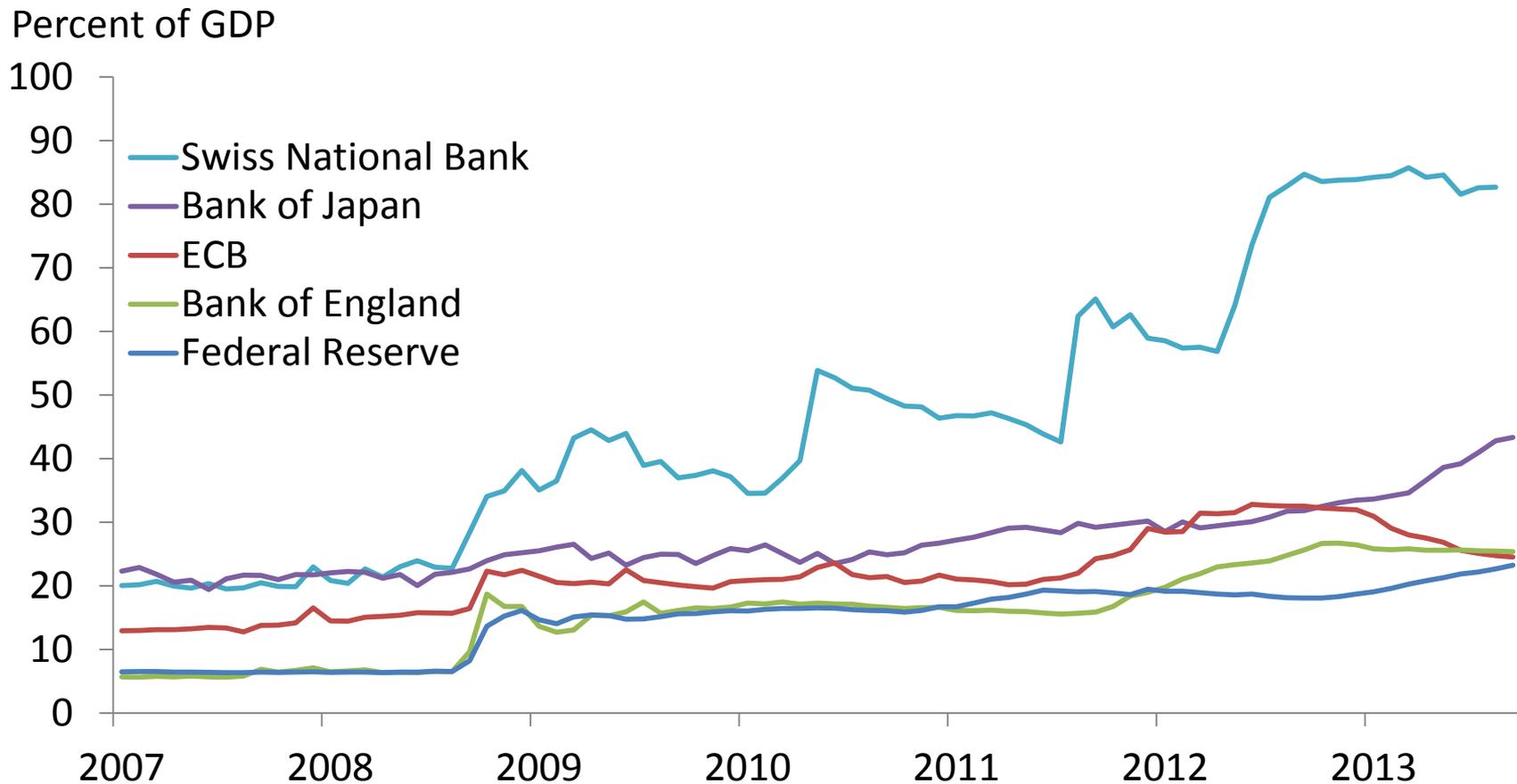
# Real value of U.S. dollar stable



# Central bank policy rates also at historic lows

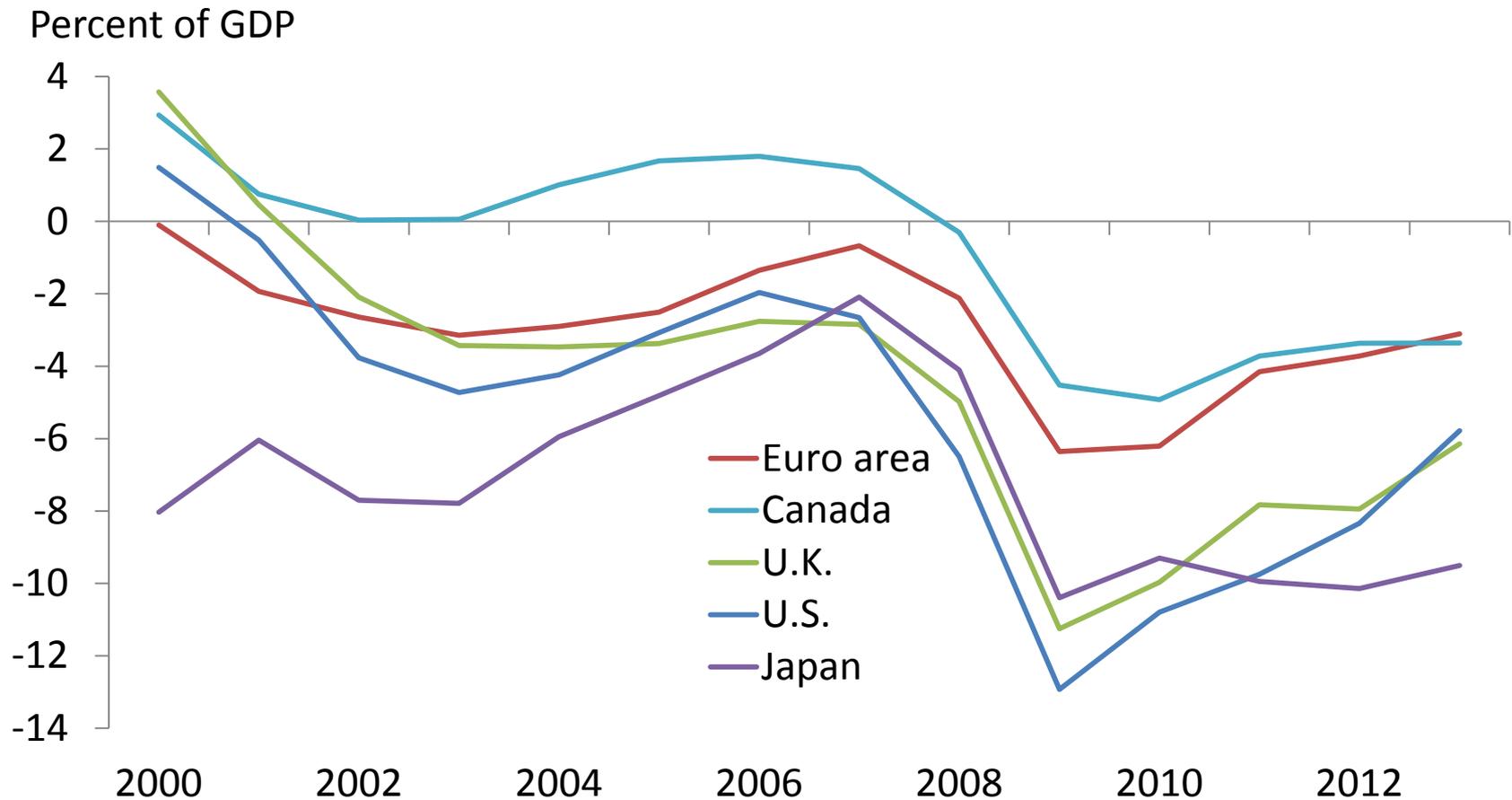


# Central bank balance sheets have grown



Note: June 2013 OECD GDP forecasts used for Q3 data.

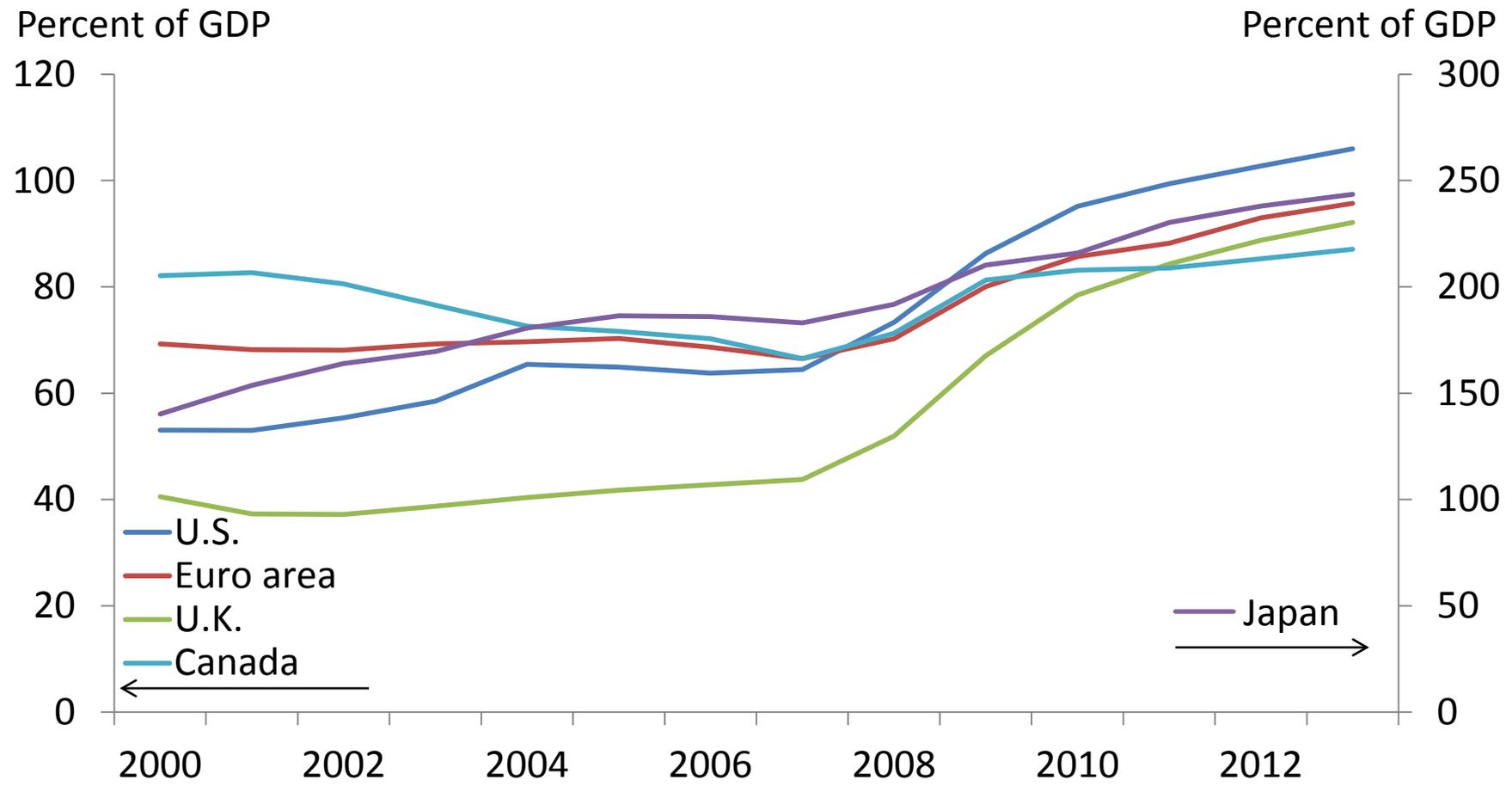
# General government net lending/borrowing remains high



Note: 2012 and 2013 data based on national estimates and IMF projections.

# No stabilization of debt burdens

(General government gross debt as percentage of GDP)



Note: 2012 and 2013 data based on national estimates and IMF projections.

# The global recovery will gain momentum only slowly

OECD forecasts for OECD area, unless noted otherwise

	Average						2012	2013	2014
	2000-2009	2010	2011	2012	2013	2014		Q4/Q4	
	<i>Percent</i>								
<b>Real GDP growth</b>	1.8	3.0	1.9	1.4	1.2	2.3	0.8	1.8	2.5
U.S.	1.7	2.4	1.8	2.2	1.9	2.8	1.7	2.1	3.2
China	10.3	10.4	9.3	7.8	7.8	8.4	7.8	7.9	8.3
Euro area	1.4	1.9	1.5	-0.5	-0.6	2.8	-0.5	0.6	1.6
Japan	0.6	4.7	-0.6	2.0	1.6	1.4	0.5	3.0	0.5
<b>Output gap</b>	0.8	-2.3	-2.0	-2.3	-2.9	-2.4			
<b>Unemployment rate</b>	6.5	8.3	7.9	8.0	8.1	8.0	8.0	8.1	7.8
<b>Inflation</b>	2.5	1.9	2.6	2.1	1.5	1.9	1.8	1.4	2.0
<b>Fiscal balance</b>	-2.8	-7.7	-6.4	-5.7	-4.3	-3.8			
<b>World real trade growth</b>	4.9	12.7	6.1	2.7	3.6	5.8	2.5	4.9	6.3
<b>World real GDP growth</b>	3.3	5.0	3.7	3.0	3.1	4.0	2.8	3.4	4.3

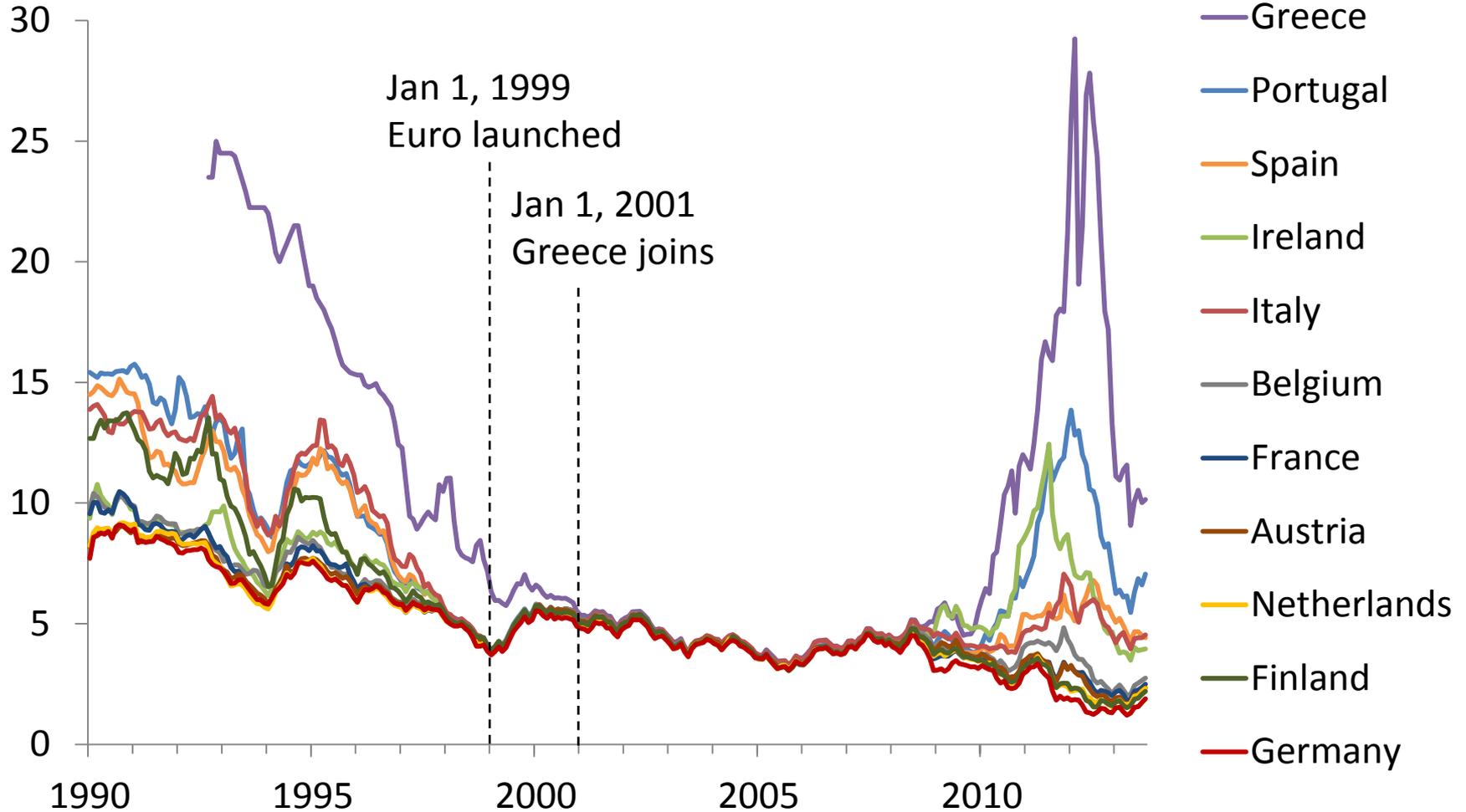
# Things to watch for in 2013

- Europe
  - Resurgence of crisis; GREXIT, BRIXIT, FIXIT.....
- Japan
  - Public debt; Higher inflation target; central bank independence?
- China
  - Malinvestment
- Policy developments
  - End of inflation targeting?
  - Return of “currency wars” tensions?

# From disunion to union to disunion

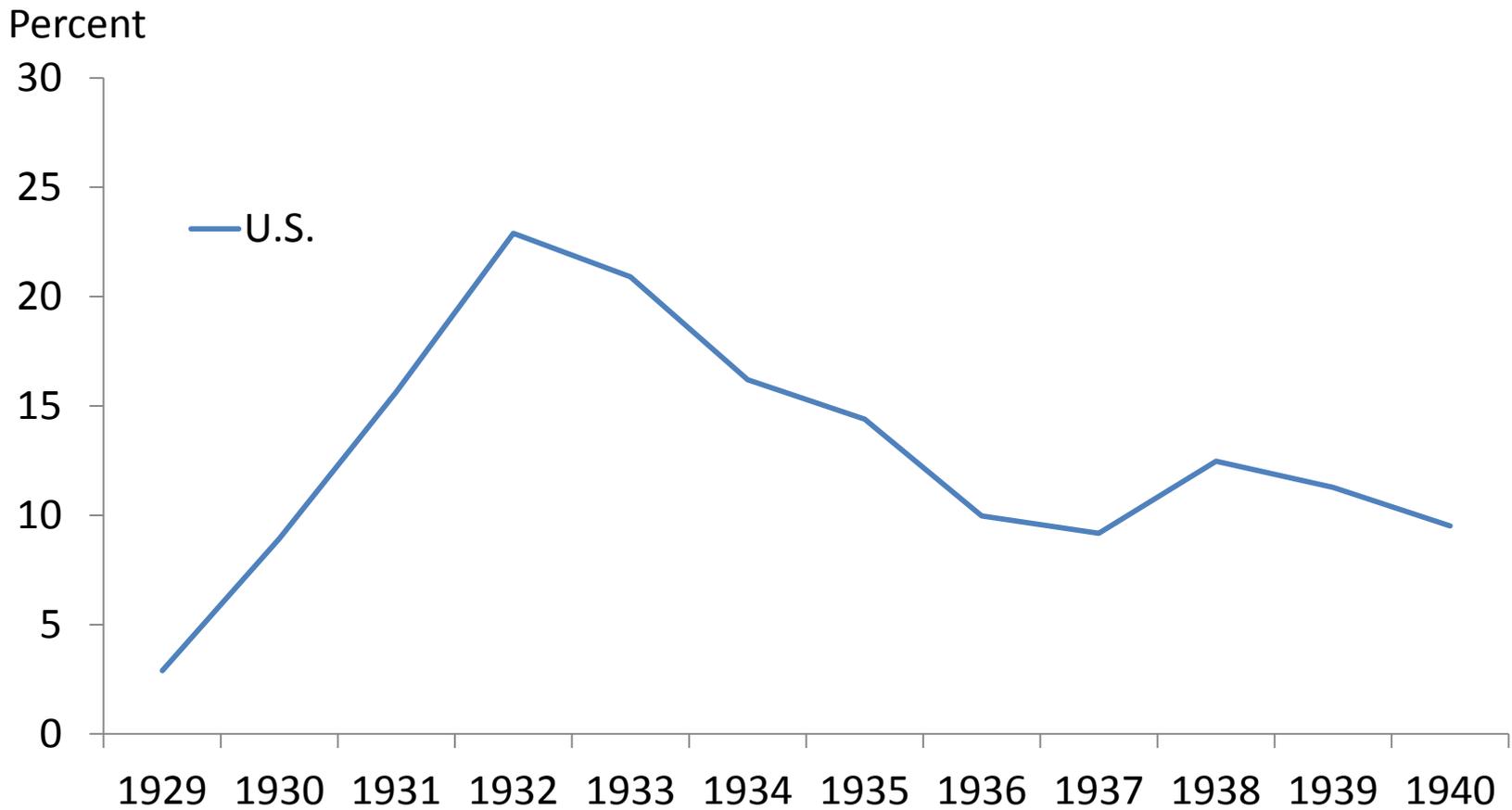
(10-year government interest rates)

Percent



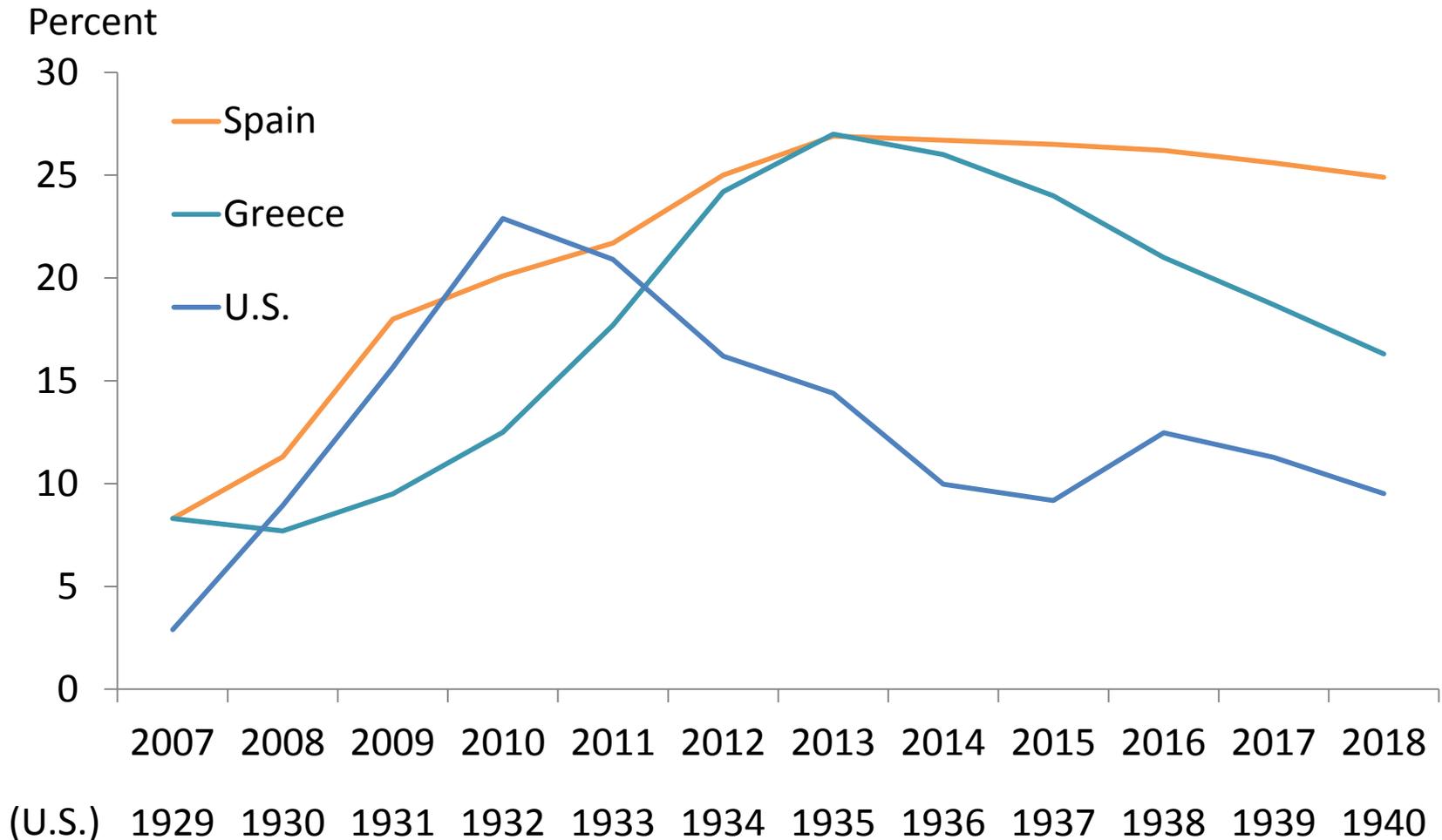
# Great Depressions

## Unemployment Rate



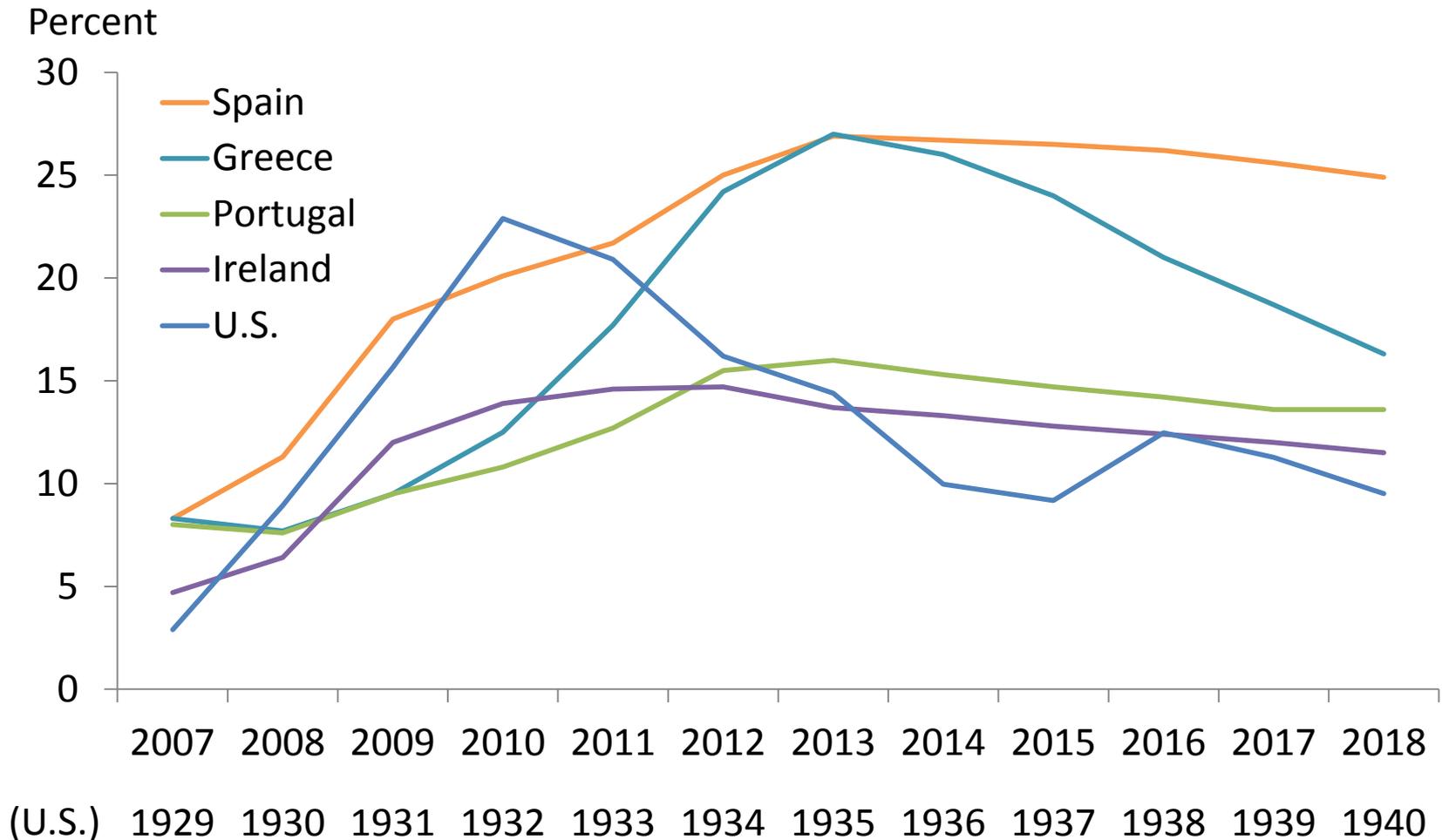
# Great Depressions

## Unemployment Rate



# Great Depressions

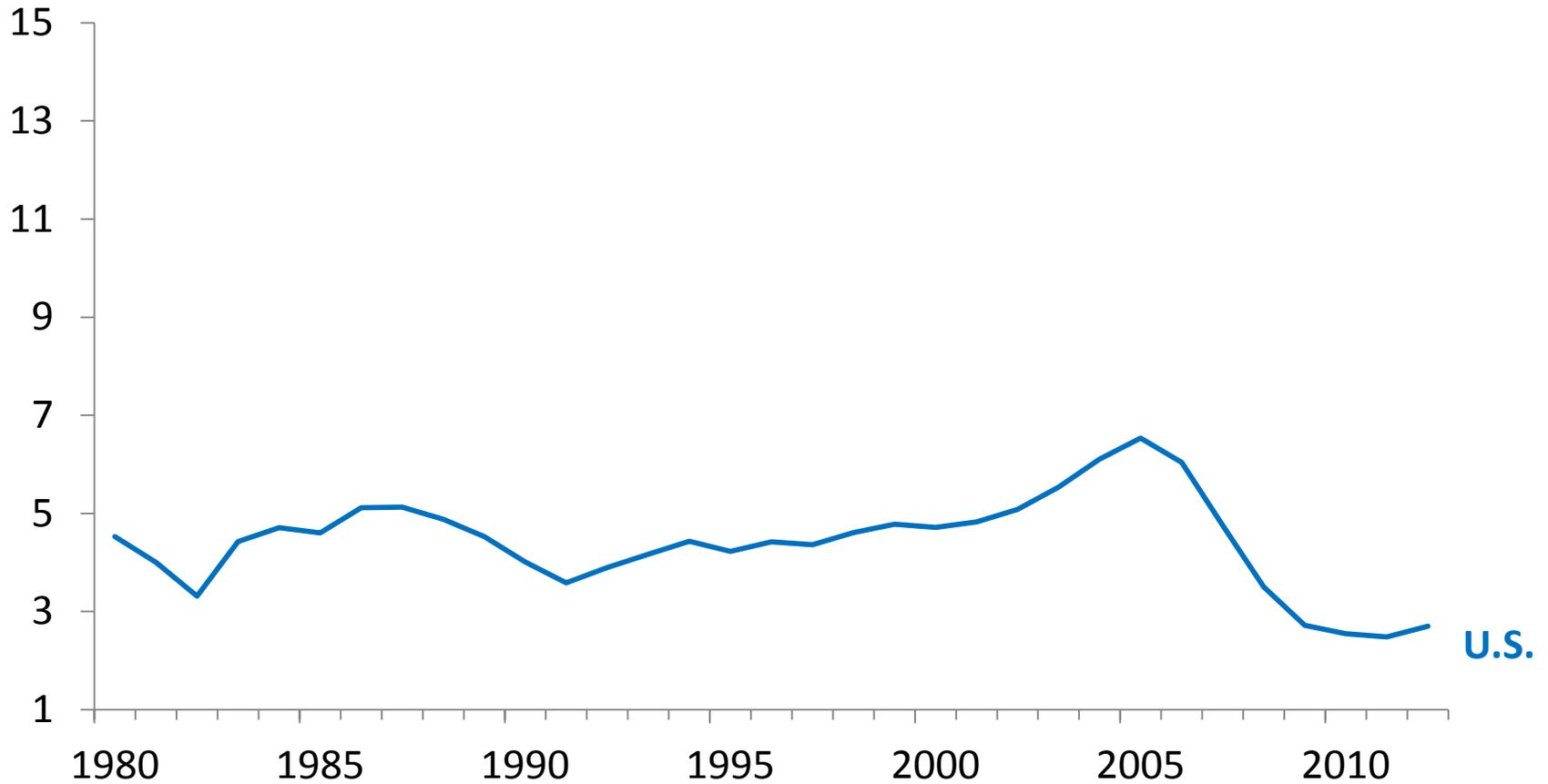
## Unemployment Rate



# Housing booms and busts

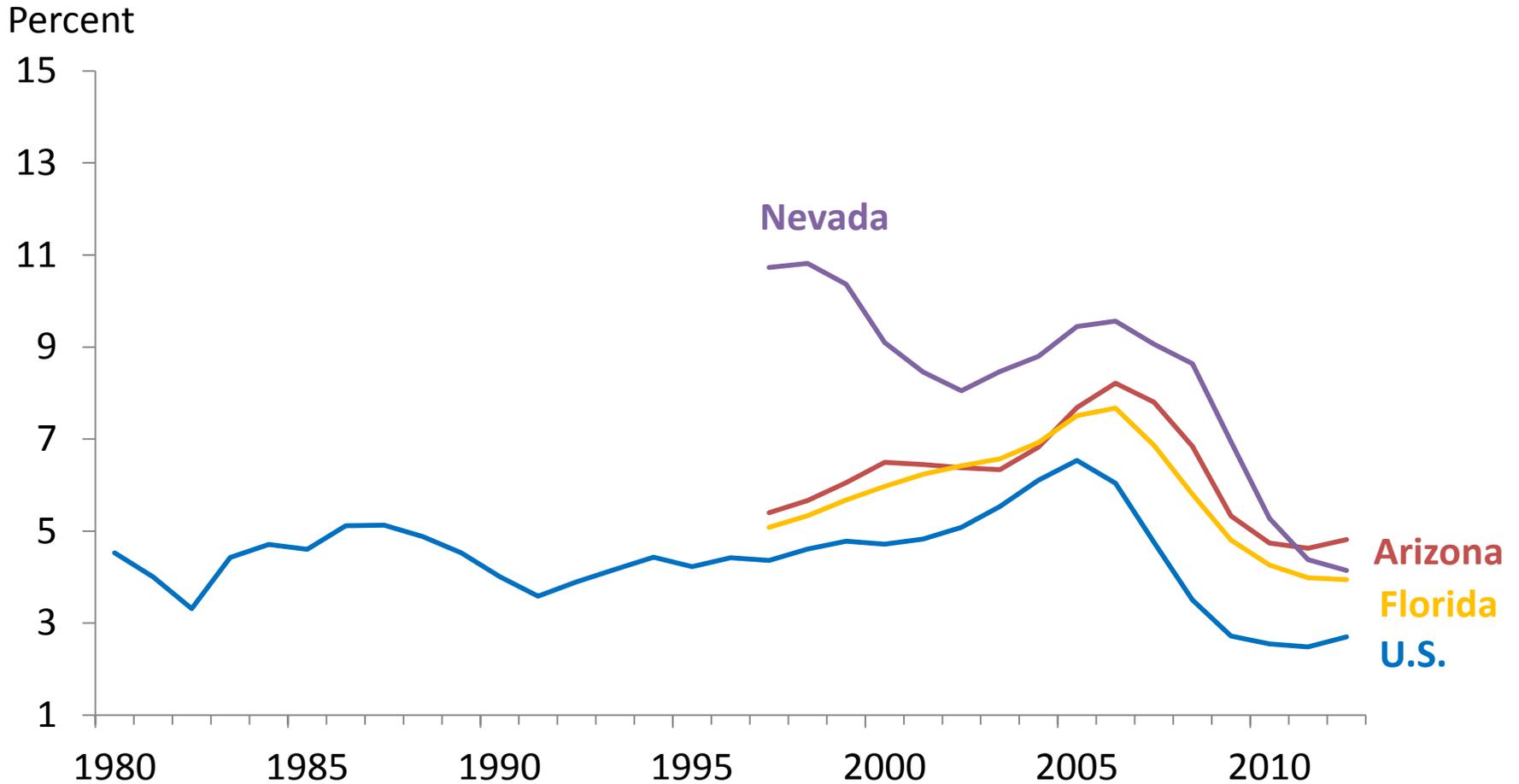
Residential investment as a share of GDP

Percent



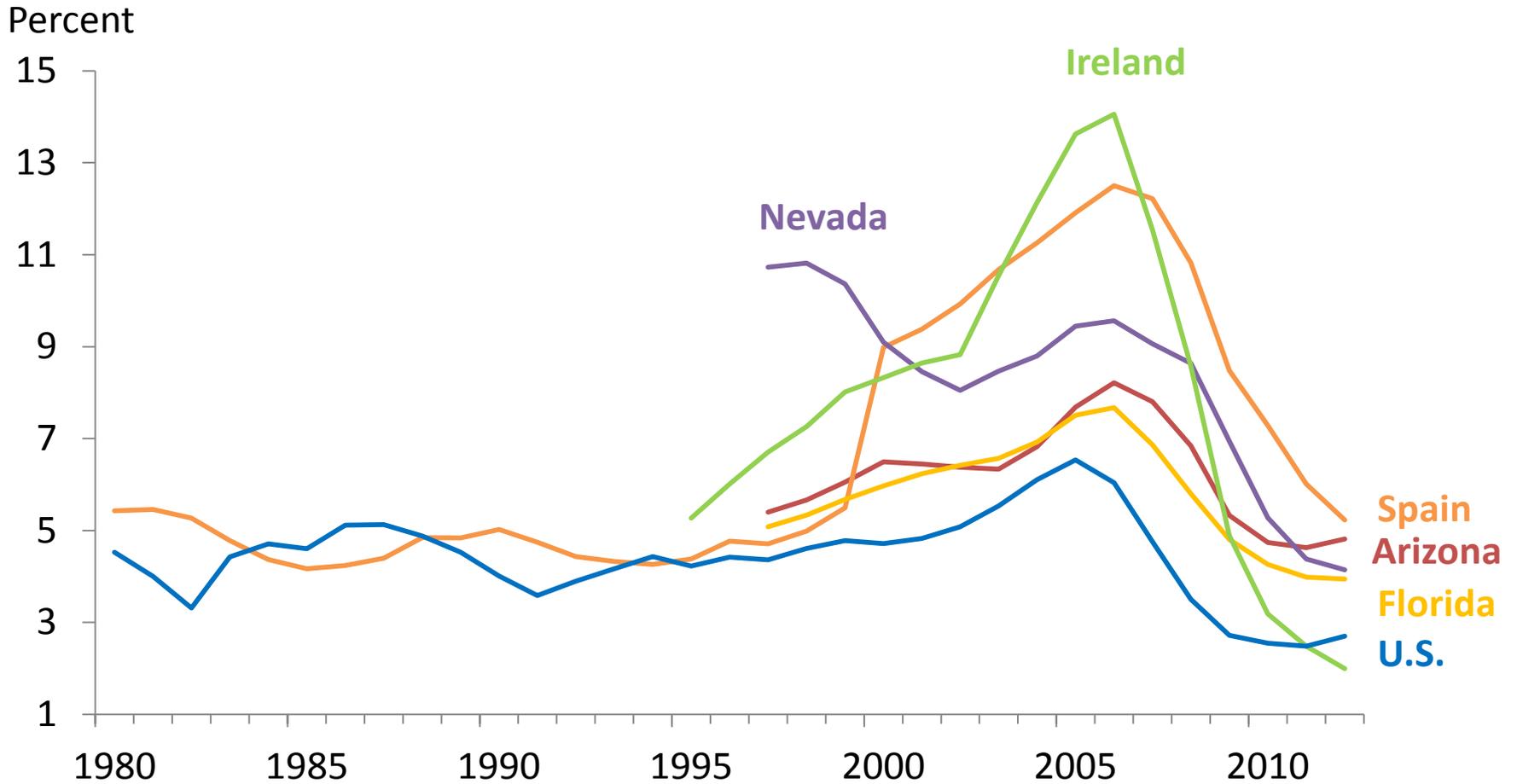
# Housing booms and busts

Residential investment as a share of GDP



# Housing booms and busts

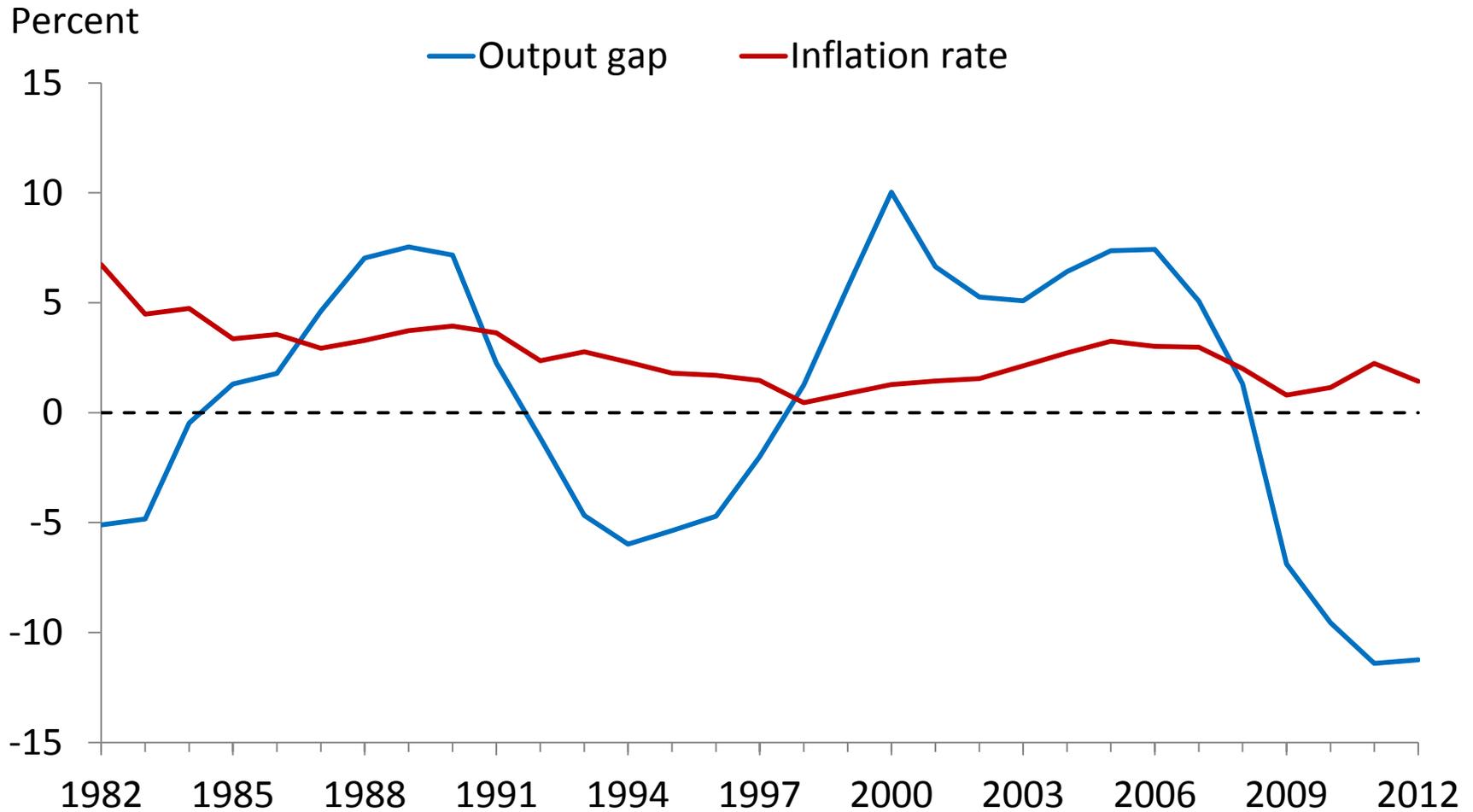
Residential investment as a share of GDP



“The laws of economics grind slowly,  
but they grind exceedingly fine”

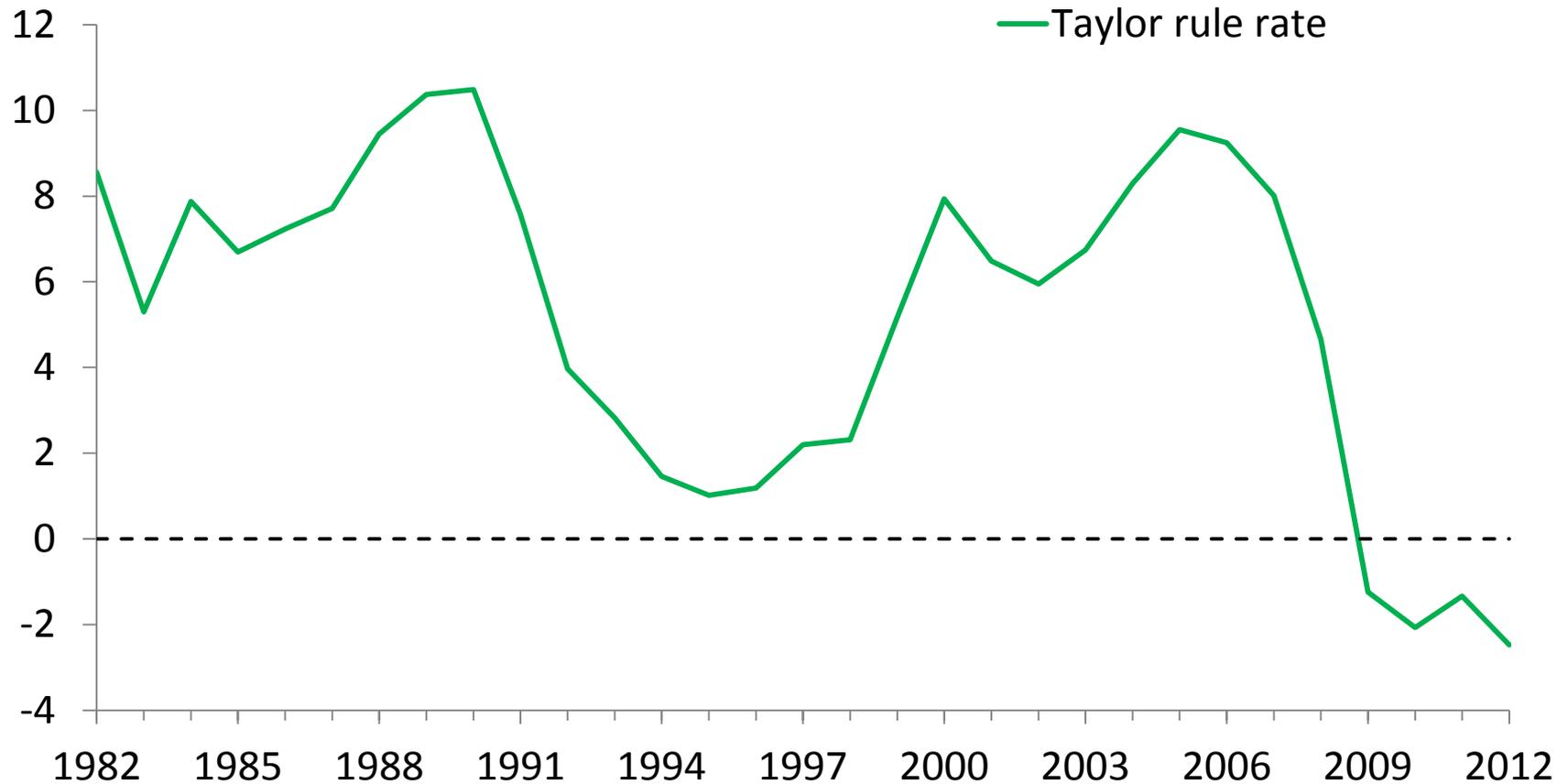
- Euro area does not satisfy the criteria of an “optimum currency area”
- Implication: living with a “one-size-fits-all” monetary policy will create strains
- Illustrate with comparison to US monetary union
- How would individual US states conduct monetary policy if they were free to do so?
- Taylor Rule as guide

# California: output gap & inflation

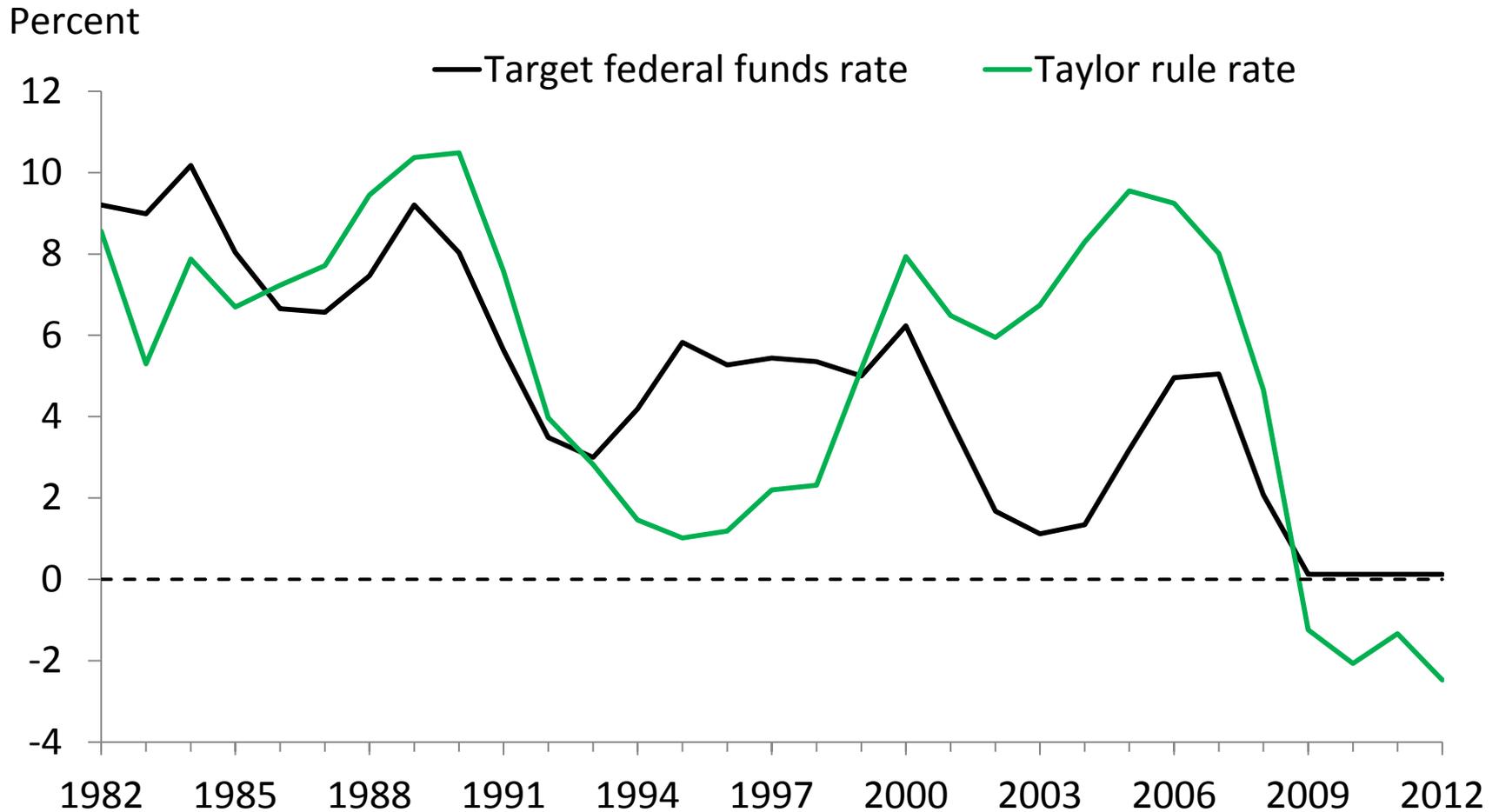


# California: Implied Taylor rule rate

Percent

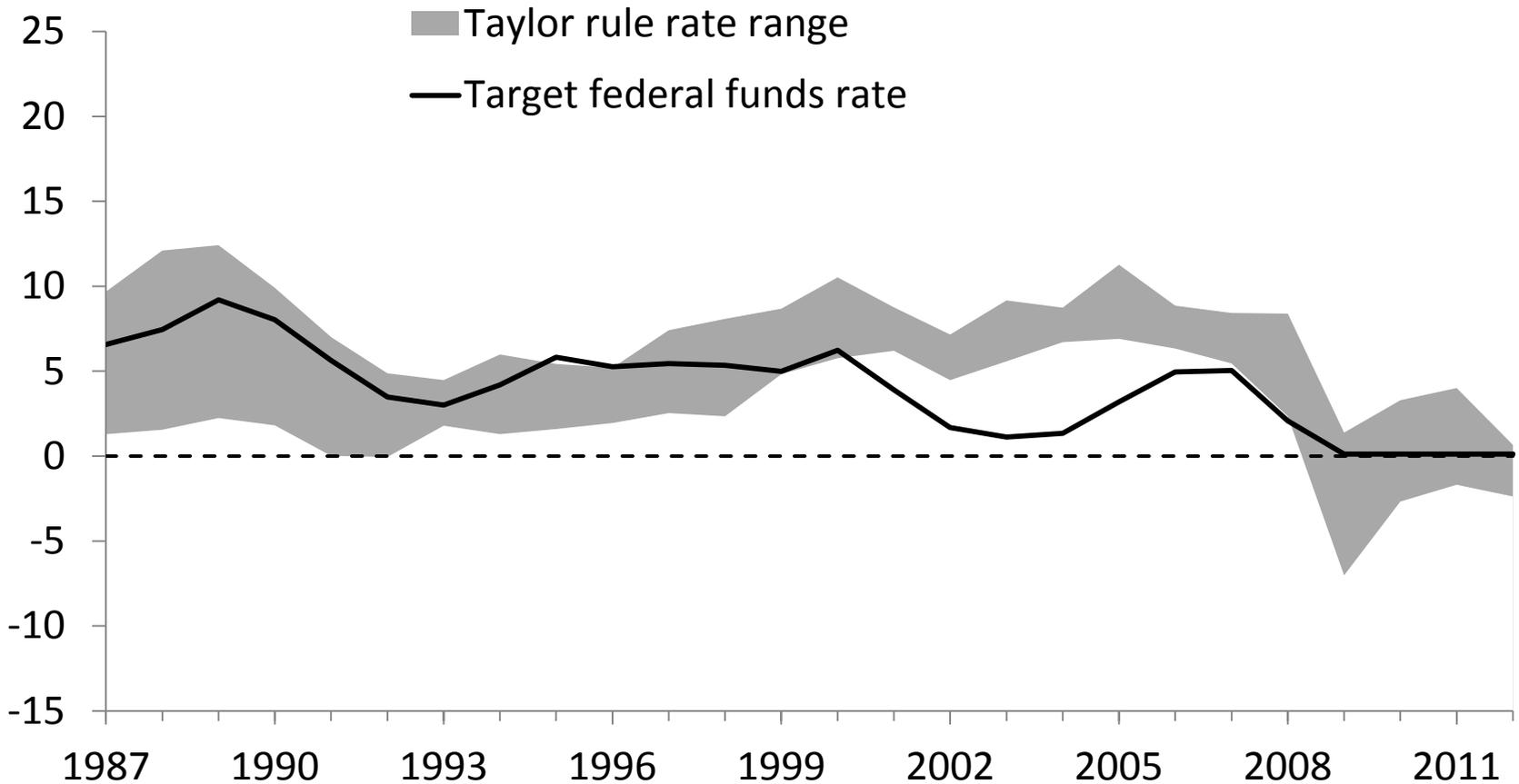


# California: Fed funds rate & Taylor rates



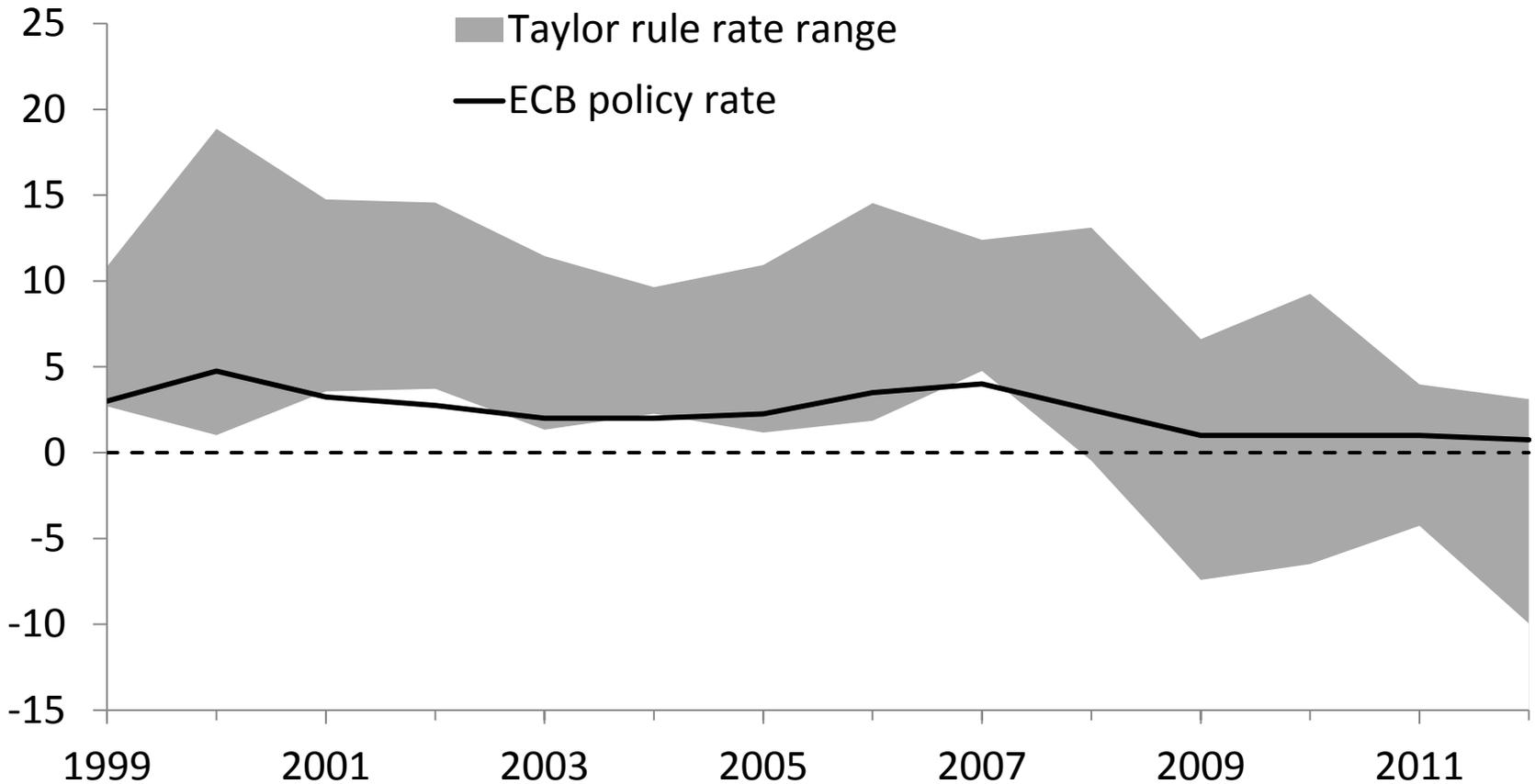
# U.S. BEA regions Taylor rule rate range

Percentage points



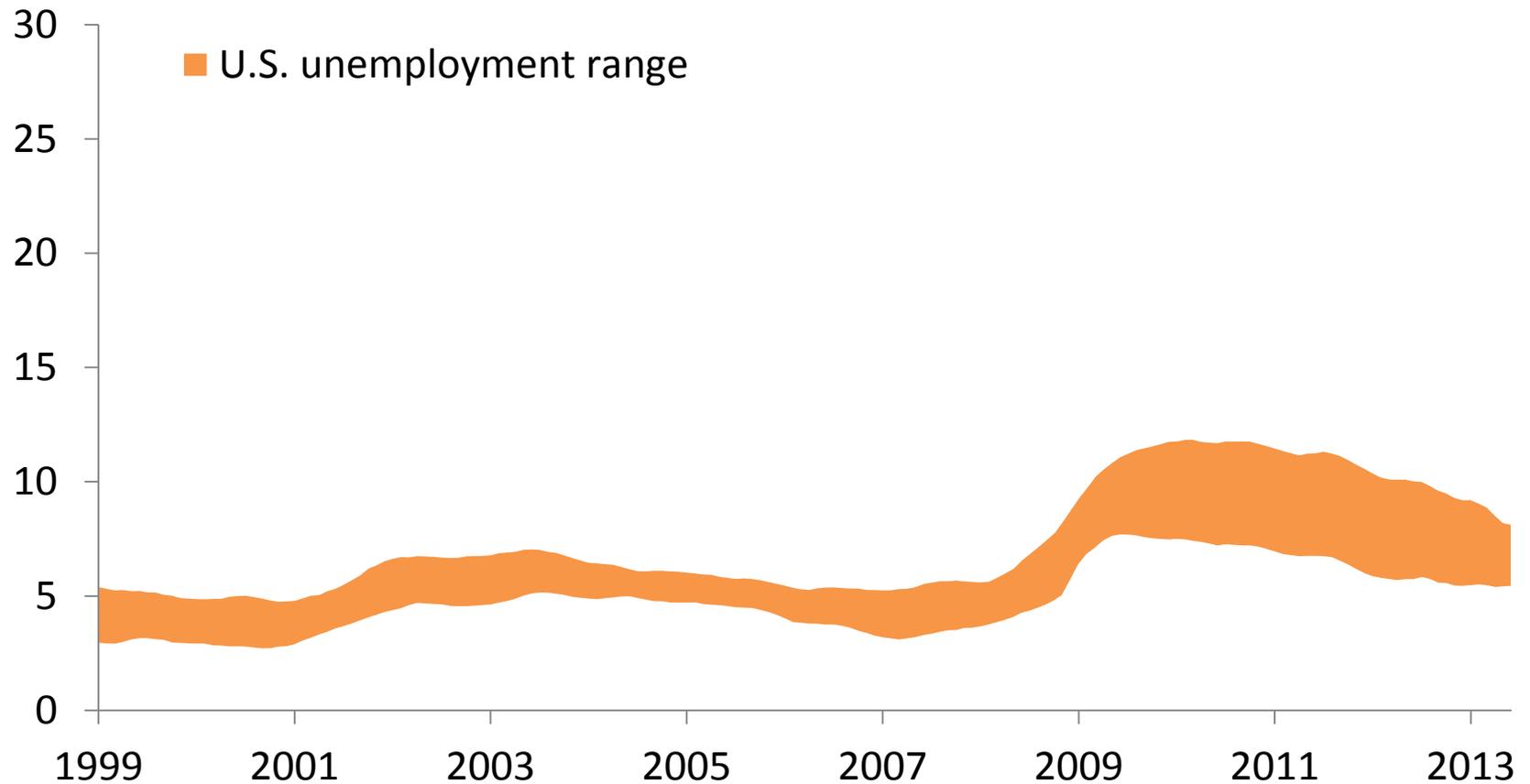
# Euro area Taylor rule rate range

Percentage points



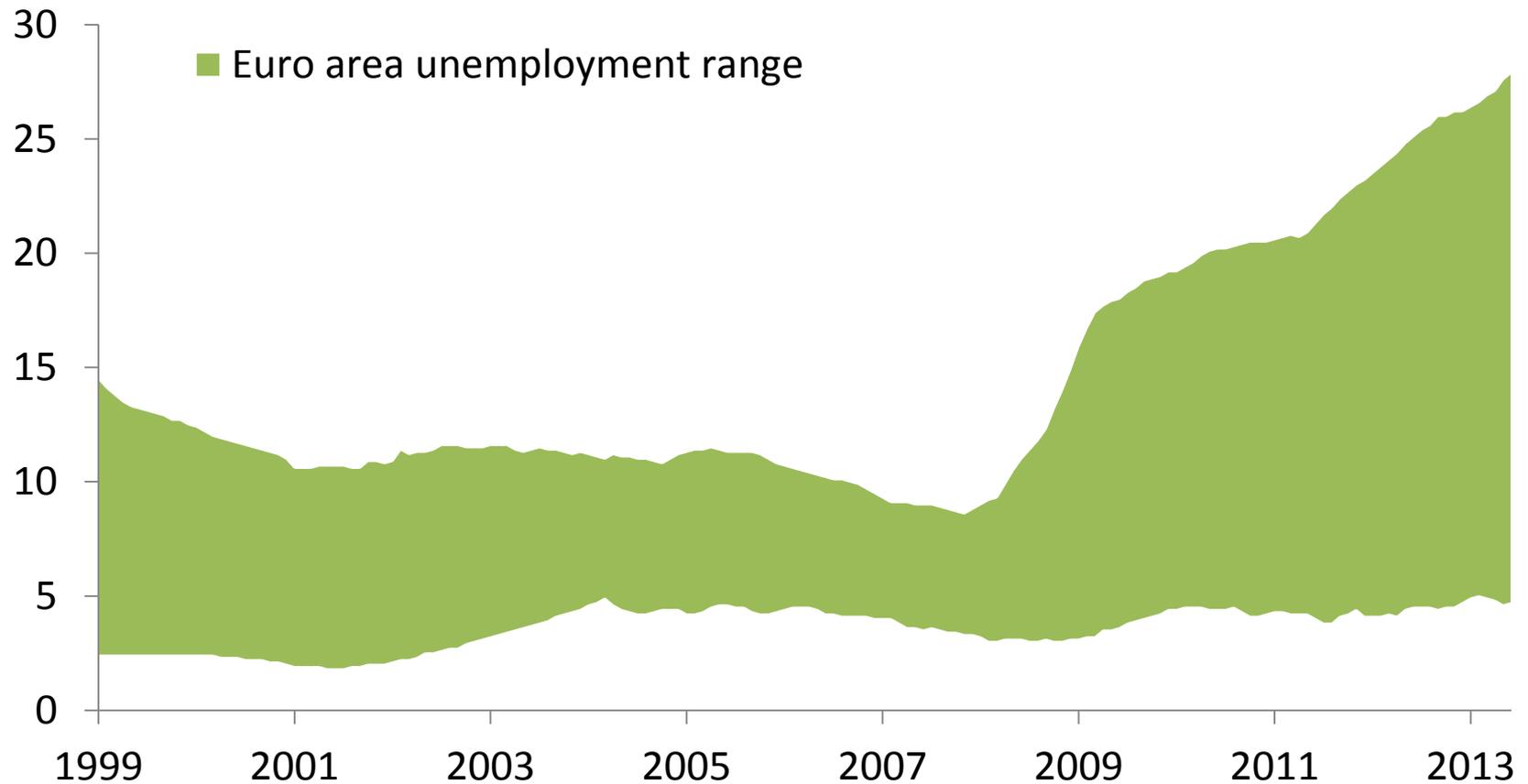
# Variation in unemployment rates

Percentage points



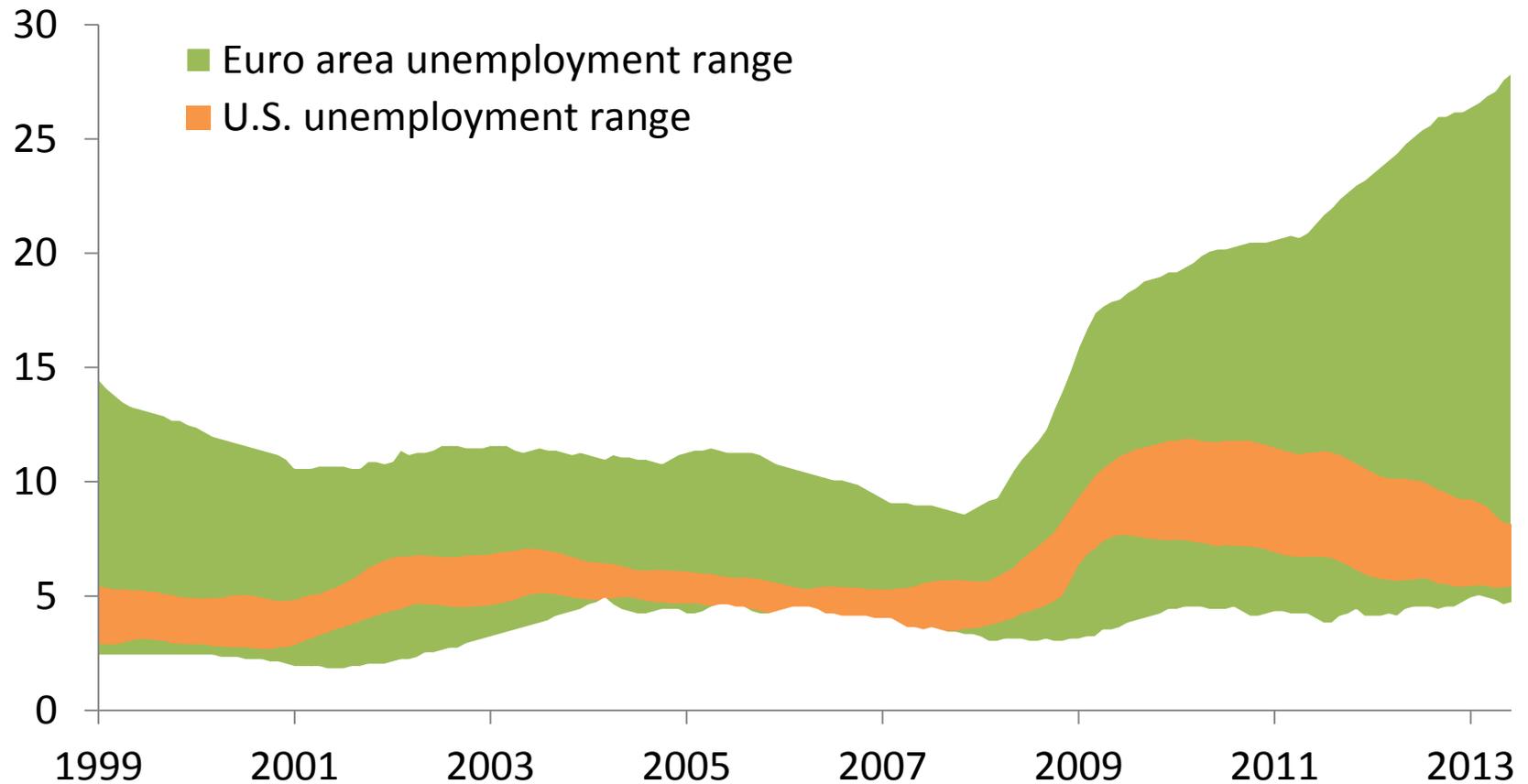
# Variation in unemployment rates

Percentage points



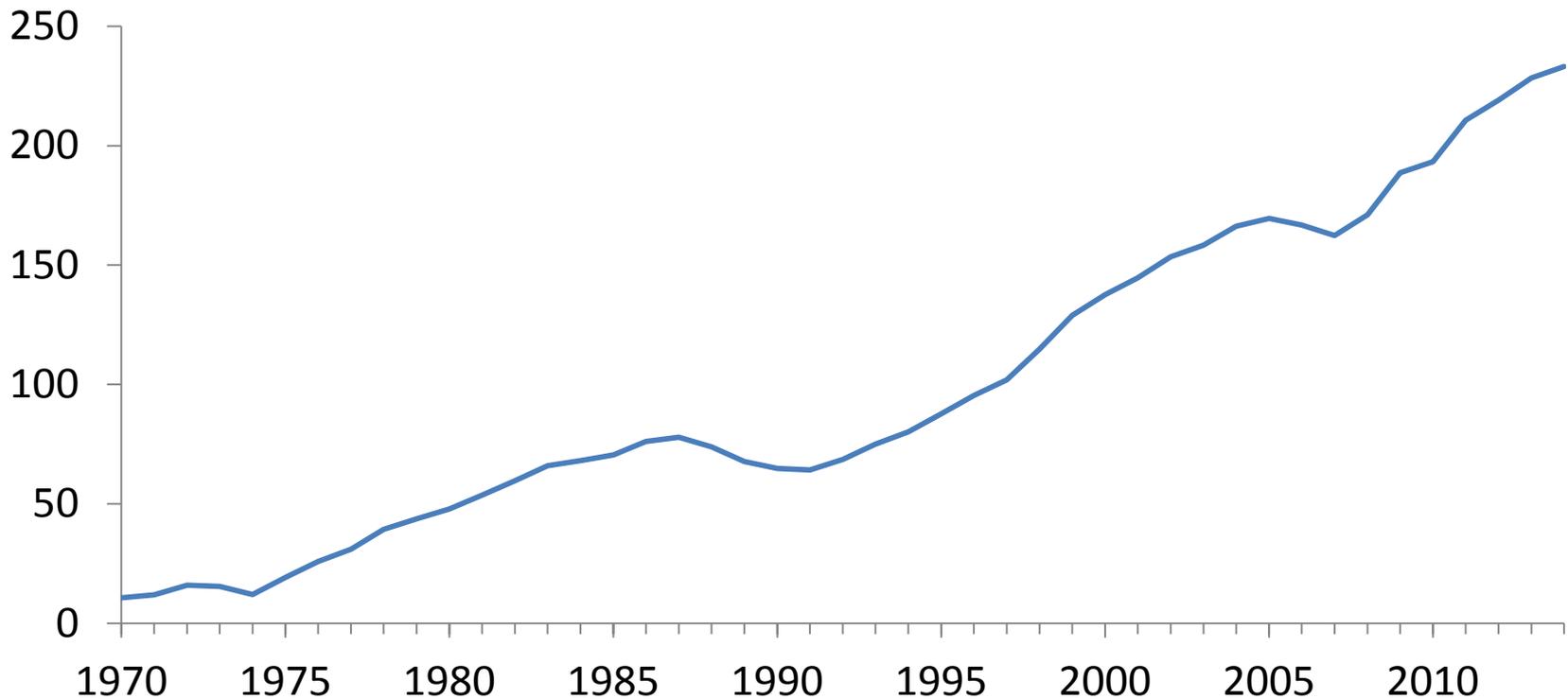
# Variation in unemployment rates

Percentage points

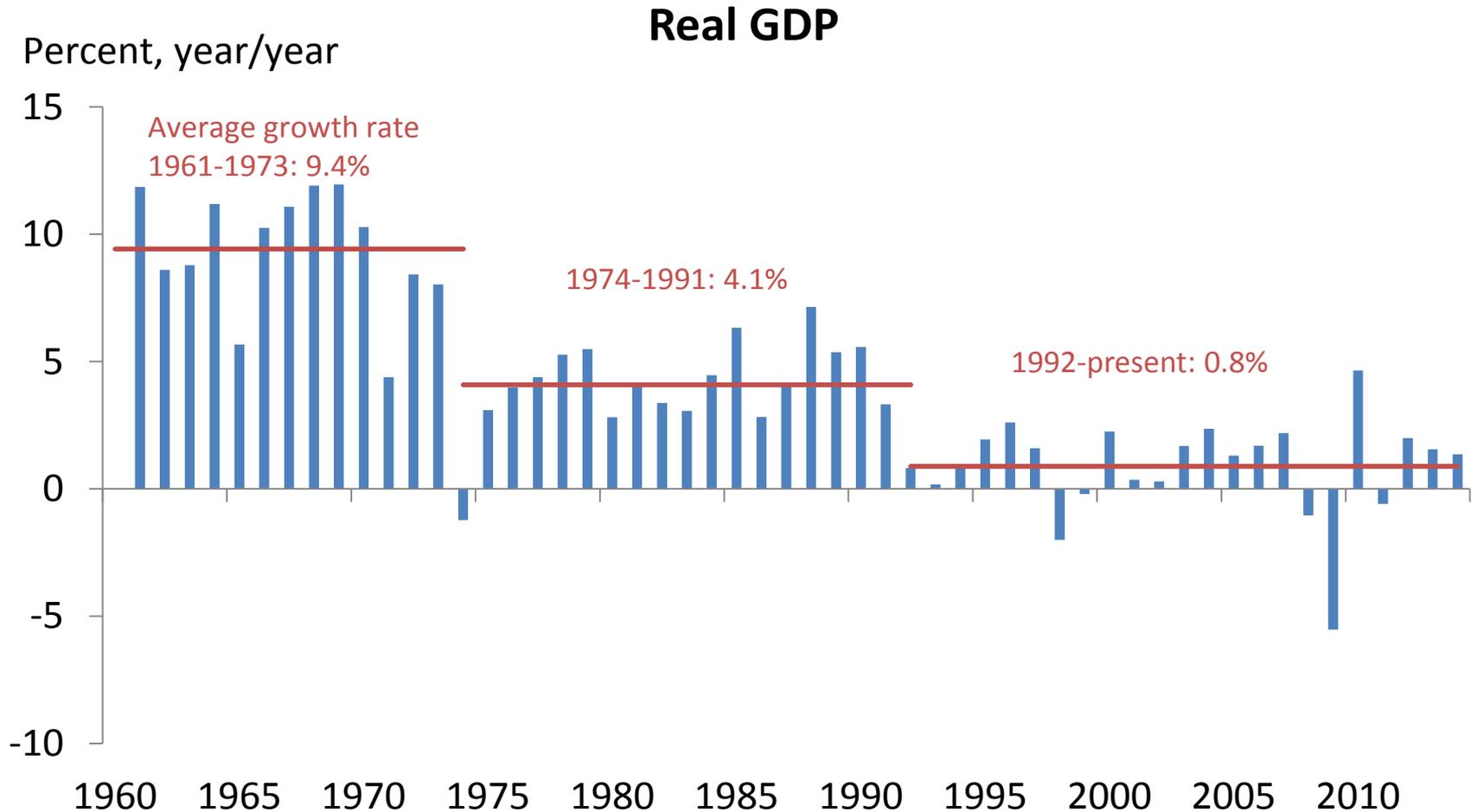


# Japan's ever growing public debt

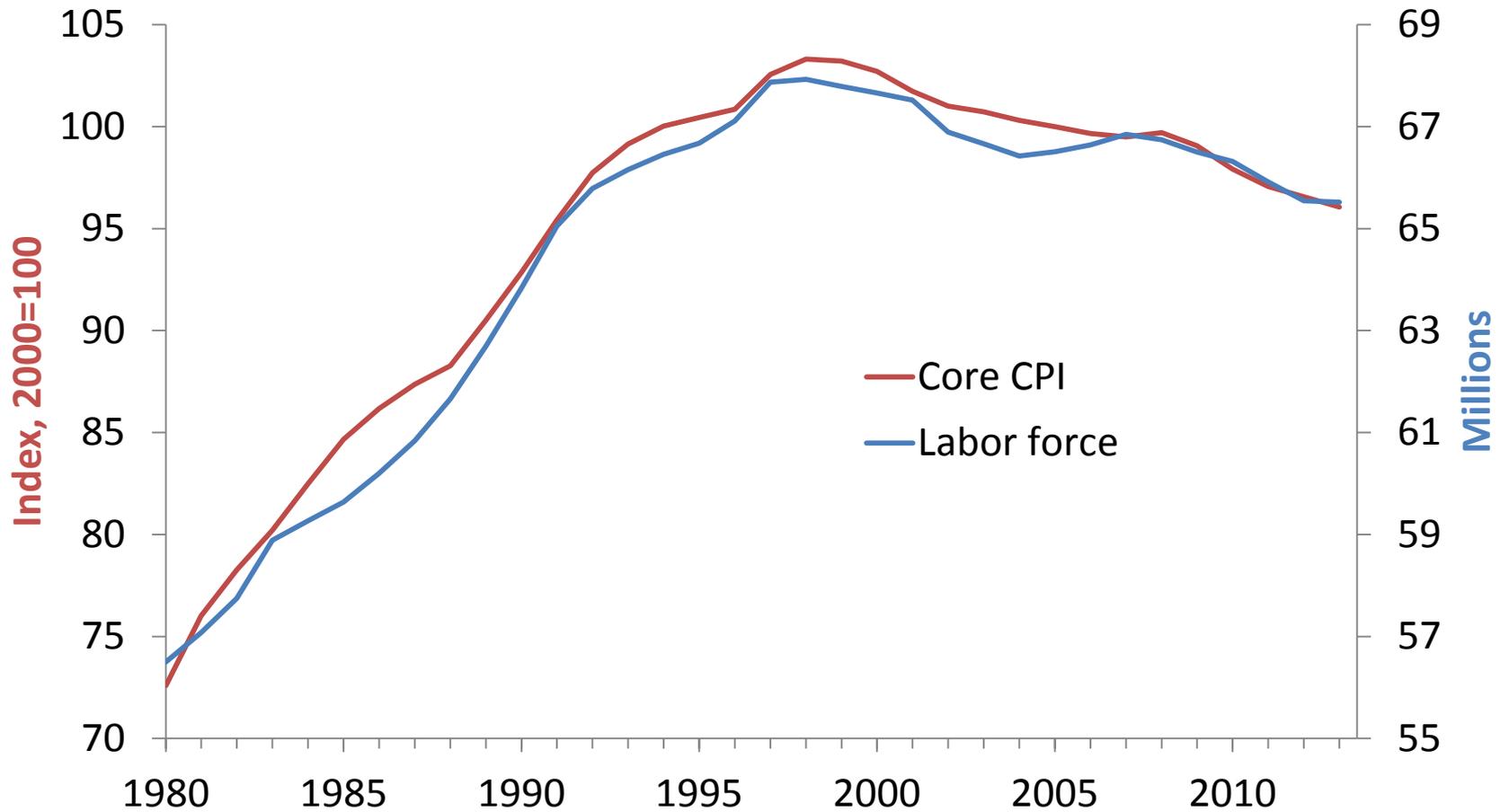
**General government gross financial liabilities as a percentage of GDP**



# ..against a background of continued stagnation



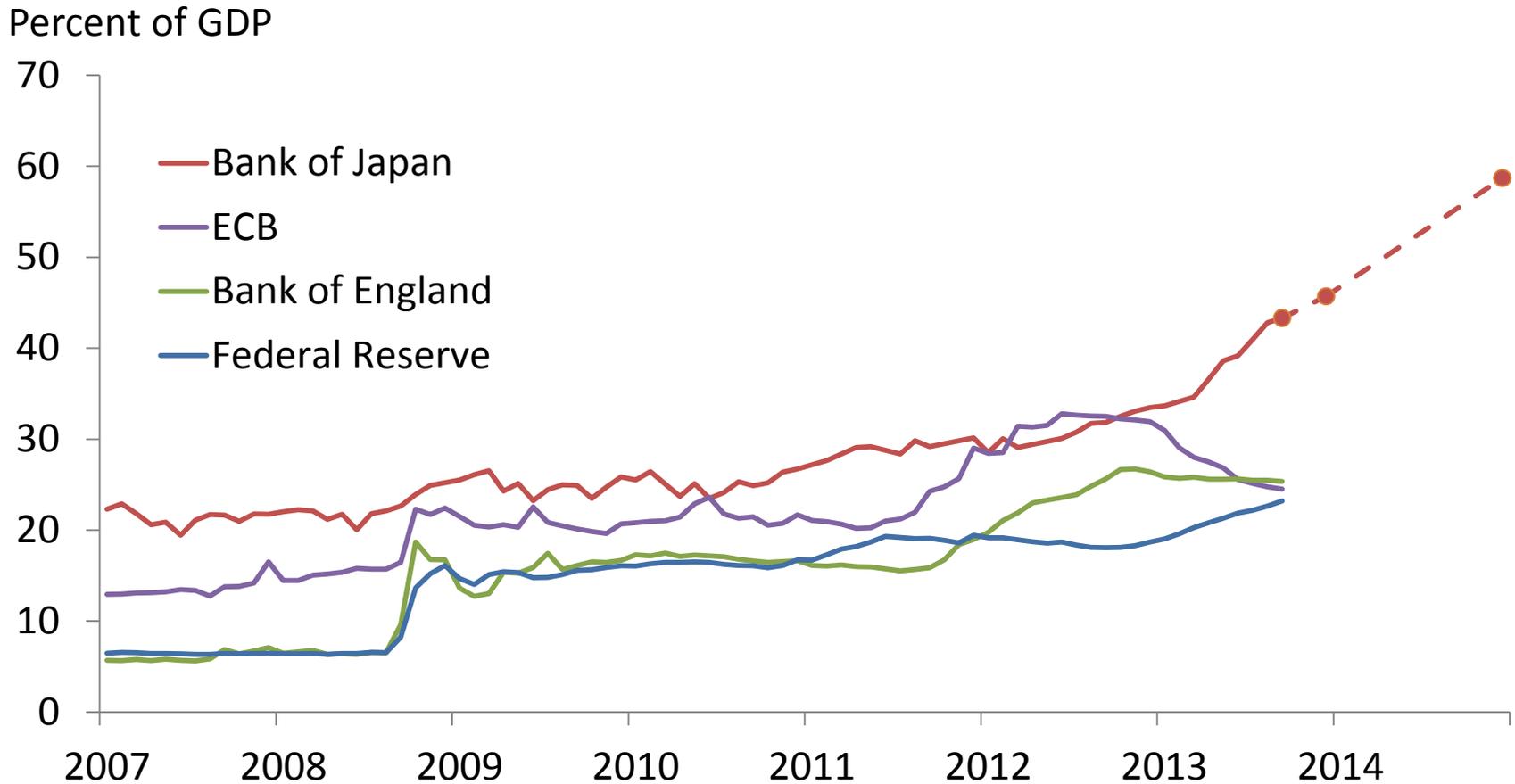
# Fewer workers, lower prices



# April 4, 2013

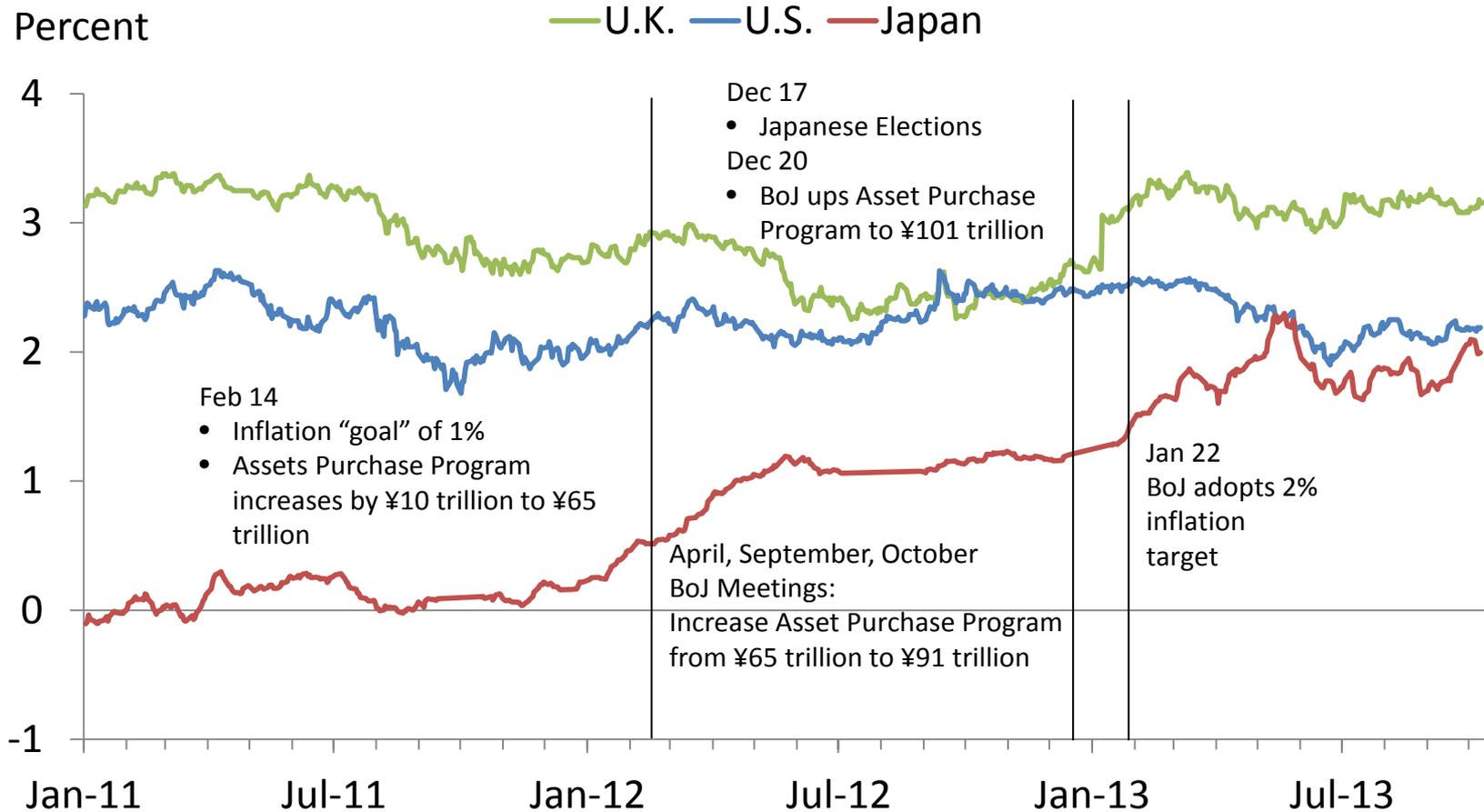
- Adoption of “quantitative and qualitative monetary easing” by Bank of Japan
- 2 percent inflation target to be attained in about two years
- Monetary base to double by end 2014
  - Main operating target for money market operations changed from the uncollateralized call rate to the monetary base
- No mention of exchange rate

# A tsunami of ¥...



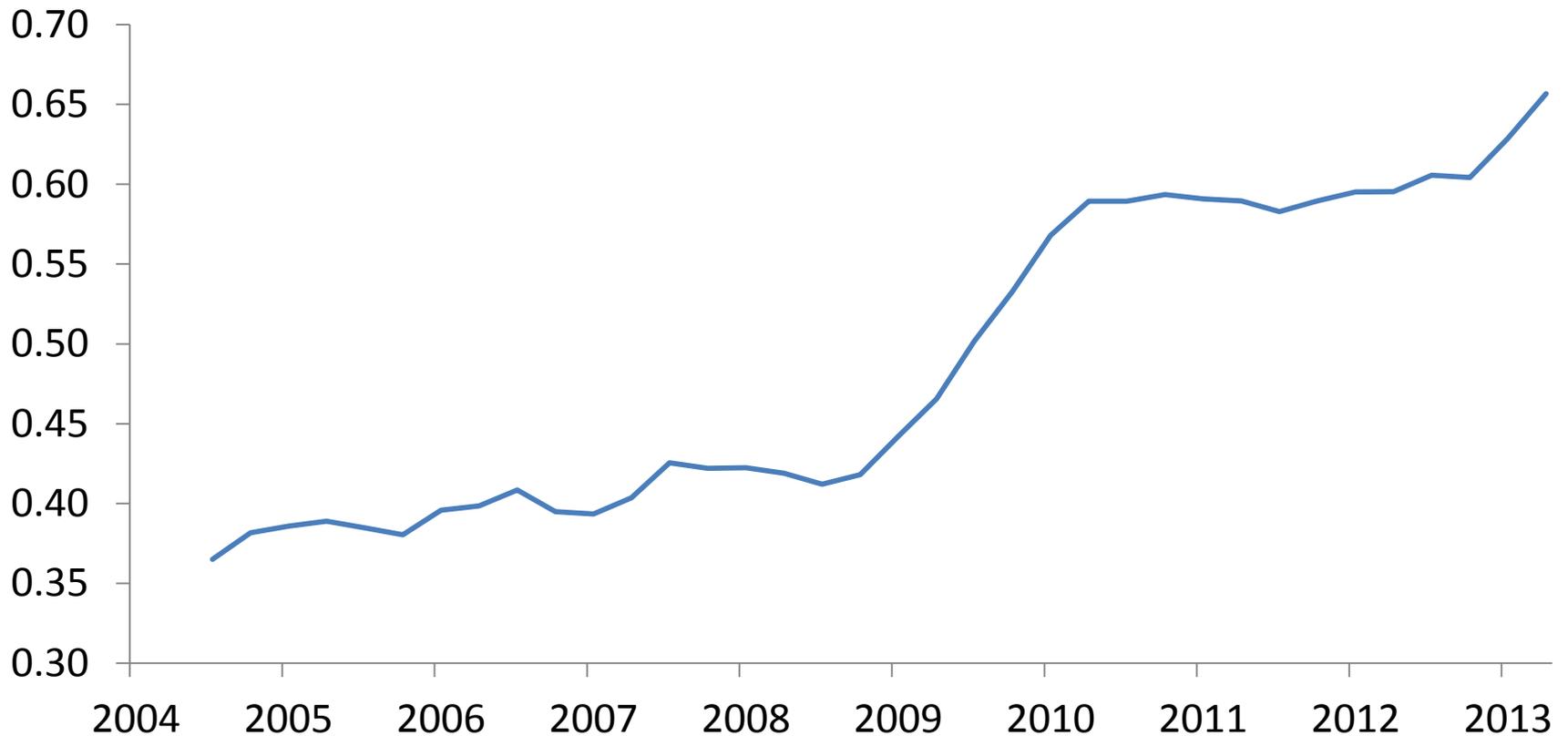
Note: June 2013 OECD GDP forecasts used for 2013 & 2014.

# Breakeven inflation rate



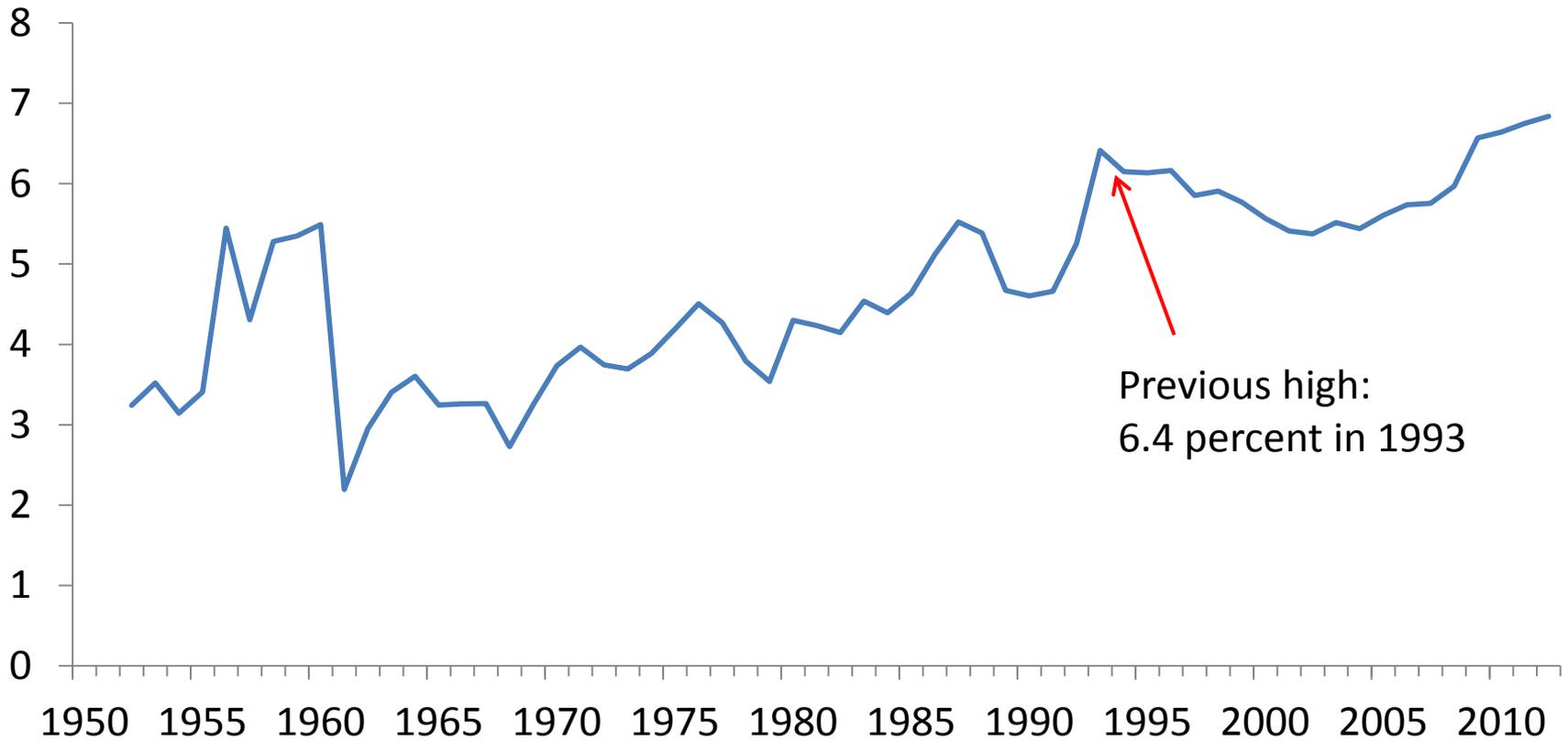
# Housing in China: A bubble?

**Mortgage lending relative to GDP**



# Construction activity at historic high

## Construction as a percent of GDP



# Conclusions

- Global economy will continue to grow in 2013
  - US expected to be one of the better performers
- “2013 will be a difficult year”
  - Real risks remain in Europe
- Monetary policymakers will venture further into unexplored territory to support global economic activity
  - “Inflation targeting” as a paradigm for monetary policy may become less popular

