

cpb

Global economy & US slowdown

Brussels
18 Oct 06

The Global economy, with focus on the US slowdown

Wim Suyker

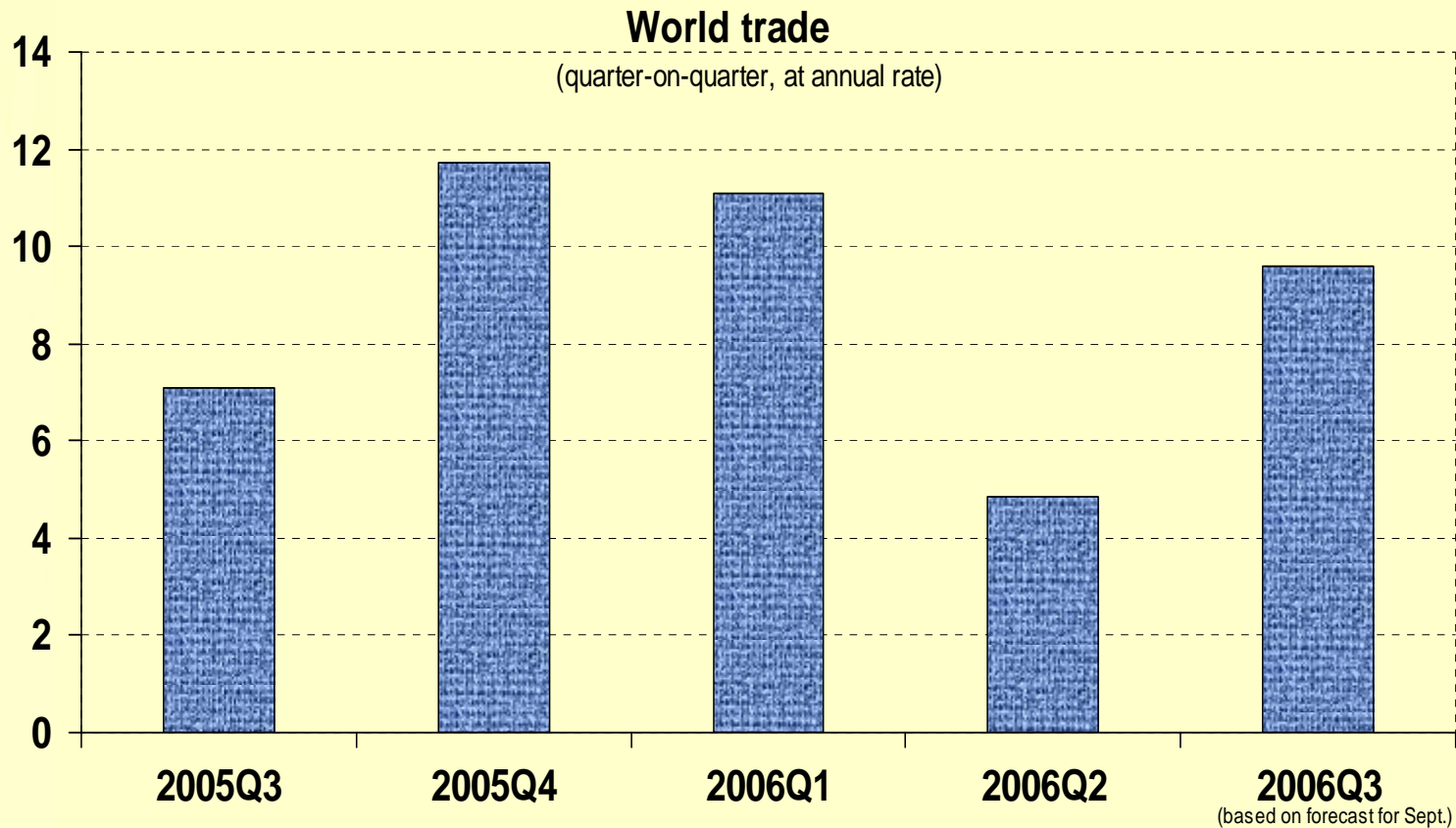
CPB , Programme leader International Economics
Euroframe-EFN, Member of the Forecasting Board

Meeting of the Expert's Group "Economic Forecasts"

Content

1. Global Economy: Assessment current situation ("a prerequisite for any serious forecasting exercise is getting an accurate assessment of the current economic situation").
2. Impact on euro area of US housing market slowdown/collapse.
3. US slowdown: how far to go?
4. Current account imbalances: Important or not?

Assessment current global situation



Source: CPB World Trade Monitor, October 18, www.cpb.nl

- Solid growth in 2006 Q3, after temporary dip in Q2

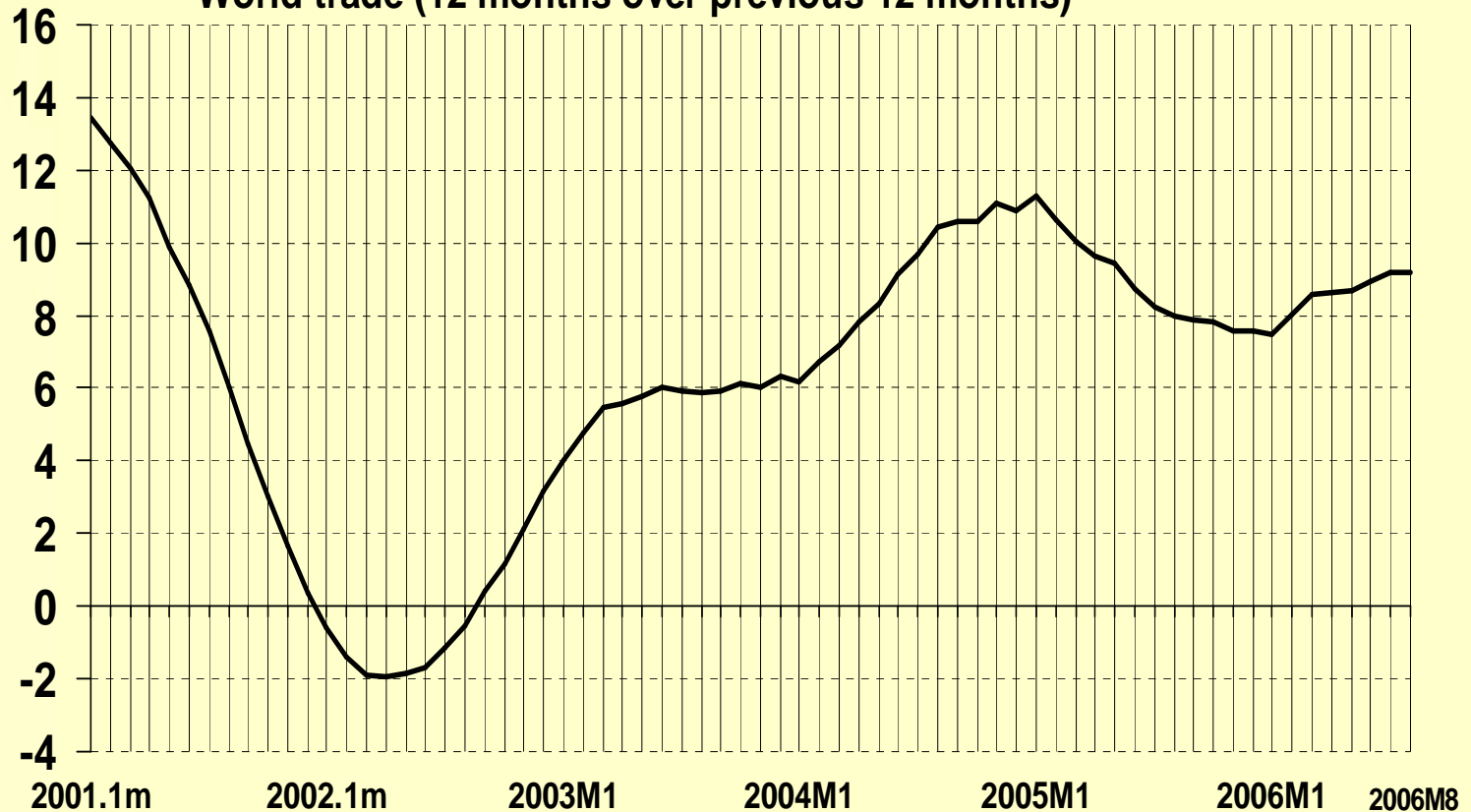
cpb

Global economy & US slowdown

Brussels
18 Oct 06

Assessment current global situation (2; with volatility of quarters in mind)

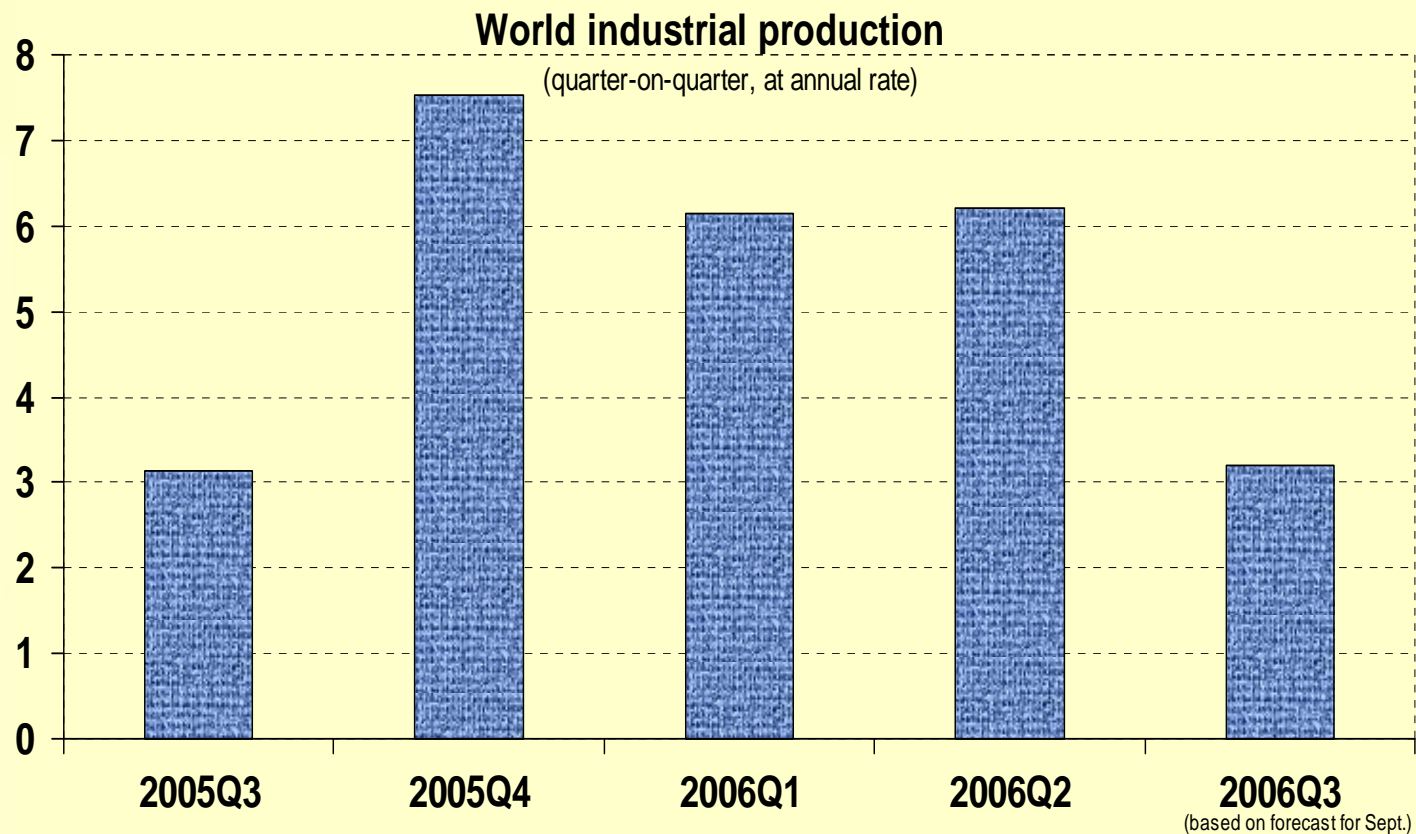
World trade (12 months over previous 12 months)



Source: CPB World Trade Monitor, October 18, www.cpb.nl

■ Still mild acceleration at the moment

Assessment current global situation (3; check)



Source: CPB calculation based on national data

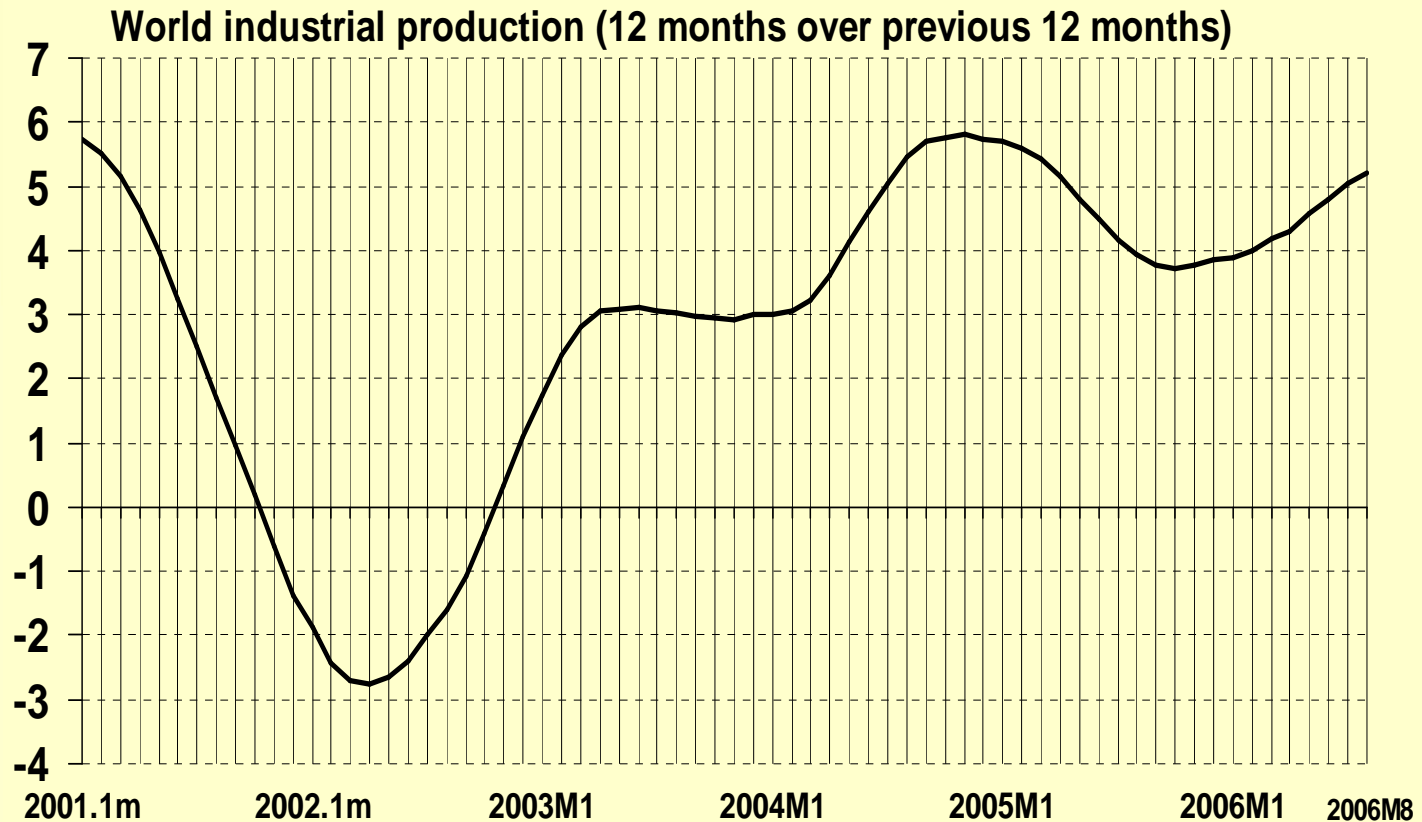
- Clear deceleration of growth in 2006 Q3

cpb

Global economy & US slowdown

Brussels
18 Oct 06

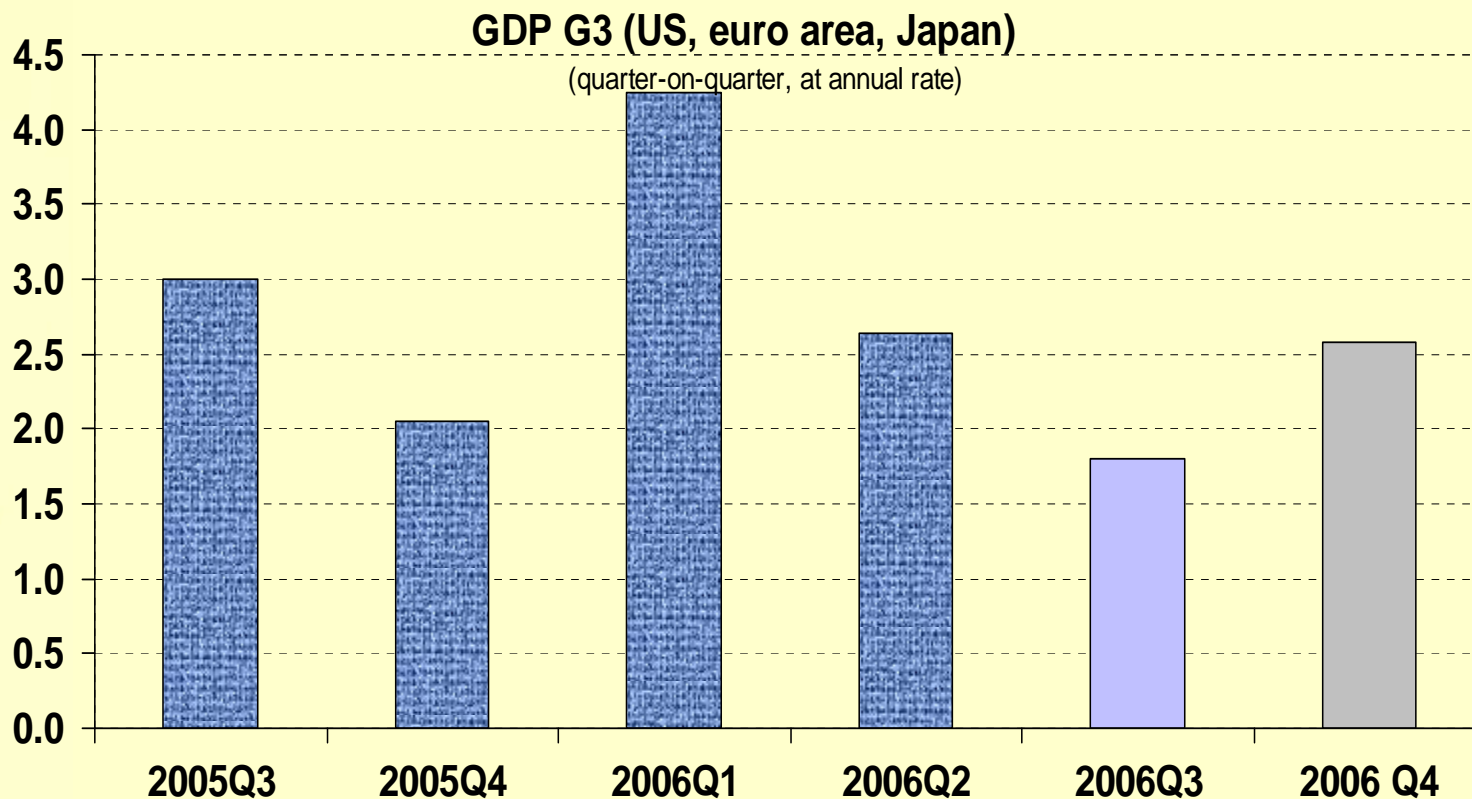
Assessment current global situation (4; check)



Source: CPB calculation based on national data

- Still acceleration at the moment

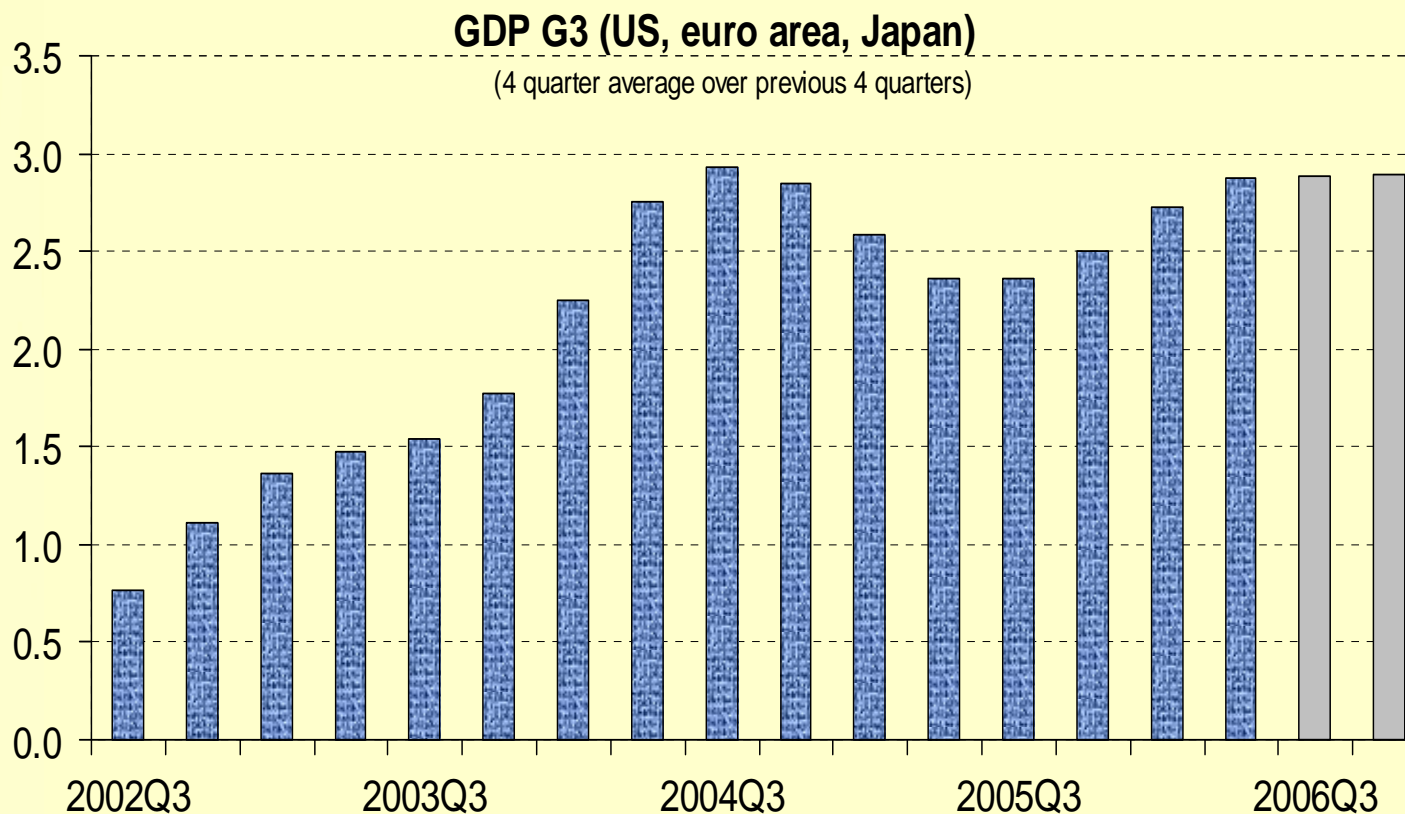
Assessment current global situation (5, check)



Source: CPB calculation based on national data; 2006Q3&Q4 based on Morgan Stanley (US;16Oct); EC (euro area; 11Oct), Konan Un/Link (Japan,2 Oct)

■ Temporary deceleration in 2006 Q3?

Assessment current global situation (6; check)



Source: CPB calculation based on national data; 2006Q3&Q4 based on Morgan Stanley (US;16Oct); EC (euro area; 11Oct), Konan Un/Link (Japan,2 Oct)

■ Stabilisation at healthy pace

Assessment current global situation

Conclusion:

- Solid world trade growth at the moment
- No deceleration in world trade growth (yet).
- But some (temporary?) deceleration in global industrial production ...
- ... and (temporary?) deceleration in GDP G3 in Q3.

2. Impact on euro area of US housing market slowdown/collapse

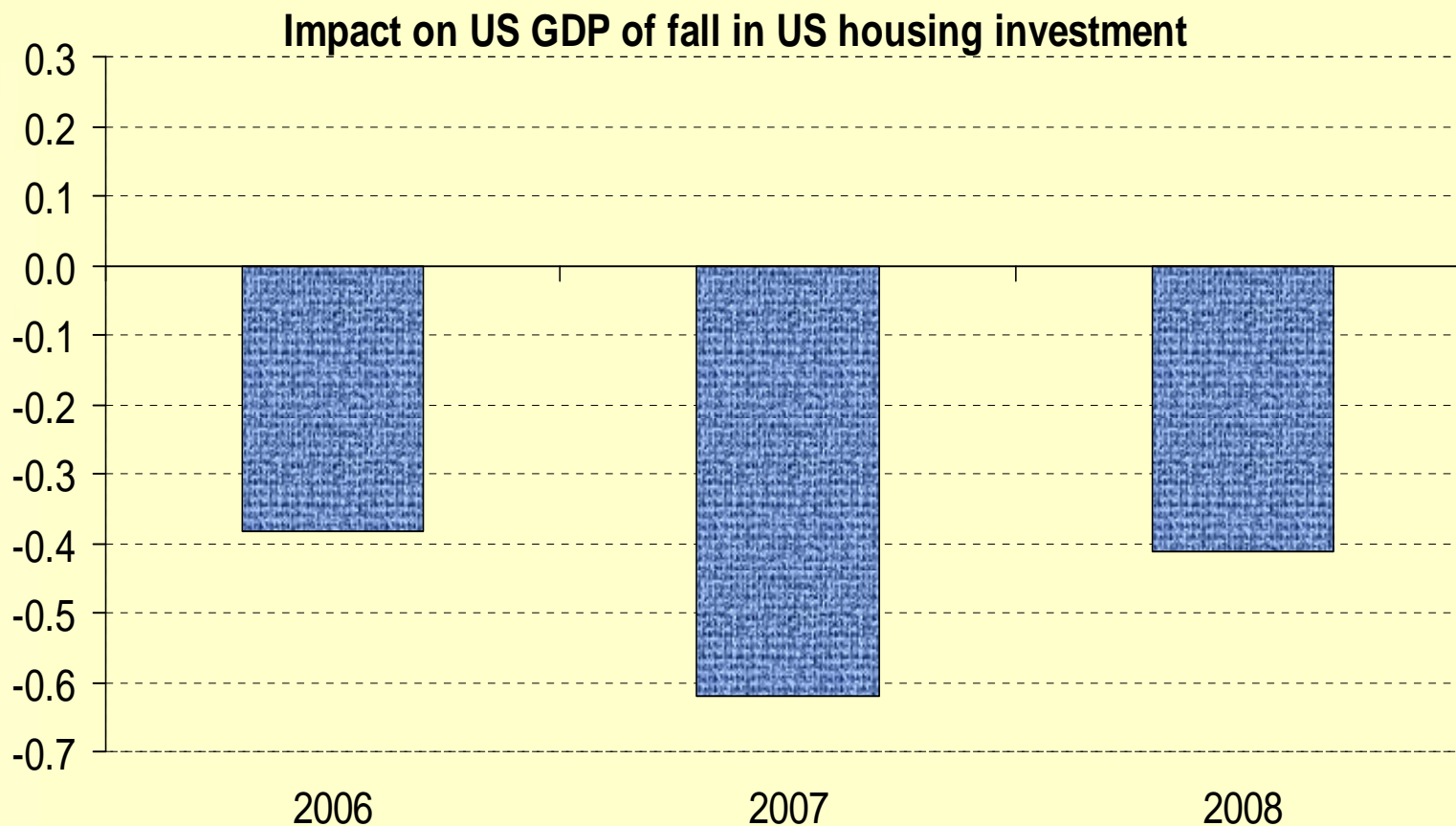
- Most indicators show a substantial slowdown on the US housing market.
- Lot of discussion on the impact on euro area and rest of the world...
- ... but not much quantification.
- Autumn report of EUROFRAME-EFN contains simulations on this topic. Based on NiGEM model and Priamo model.
- Impact of a 20% drop in US house price + reduction housing investment / GDP to 1990s average

cpb

Global economy & US slowdown

Brussels
18 Oct 06

20% drop US house price + drop housing investment/GDP to 1990s average



% difference from baseline

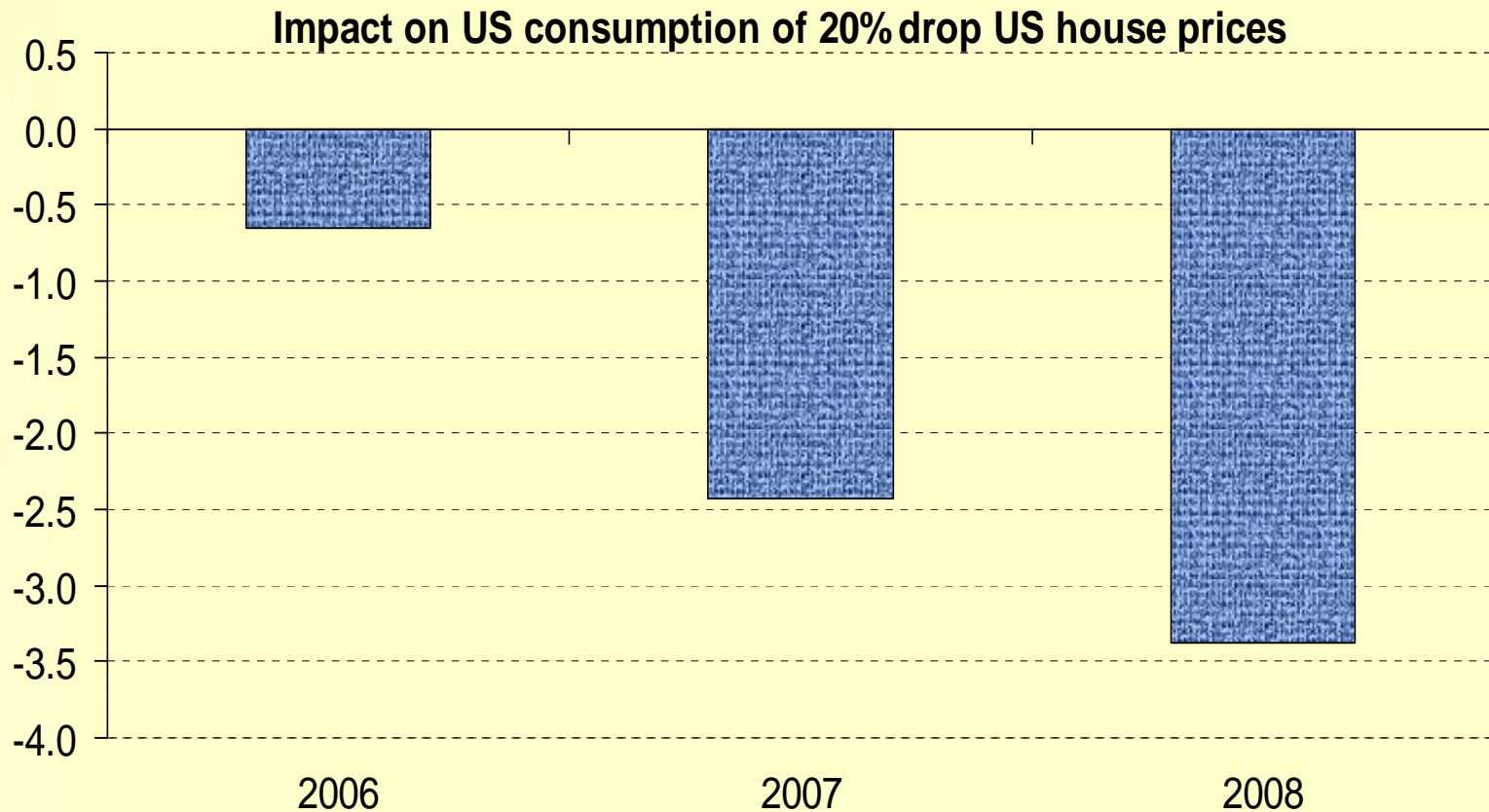
Source: EUROFRAME-EFN Autumn report 2006

cpb

Global economy & US slowdown

Brussels
18 Oct 06

20% drop US house price + drop housing investment/GDP to 1990s average



% difference from baseline

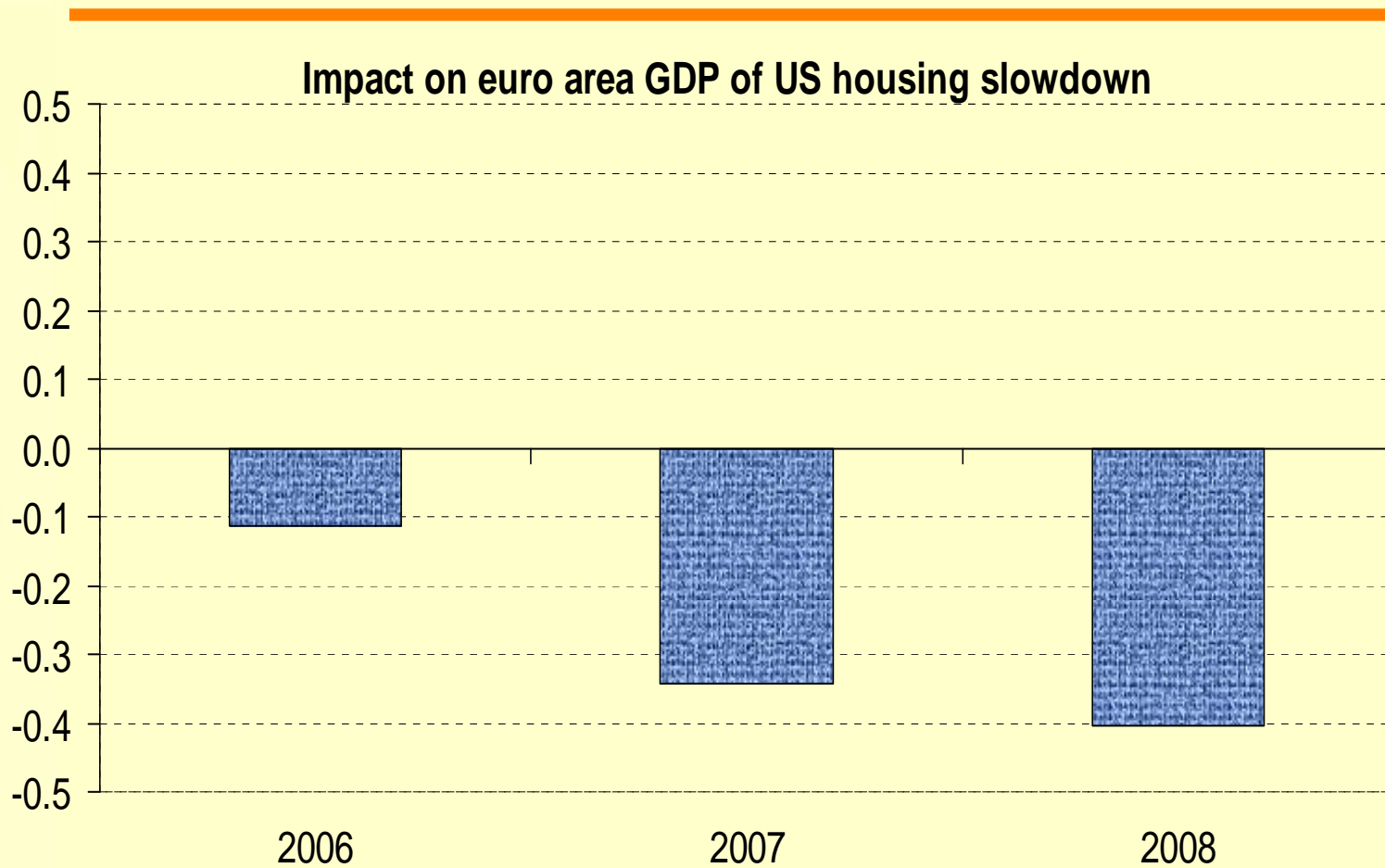
Source: EUROFRAME-EFN Autumn report 2006

cpb

Global economy & US slowdown

Brussels
18 Oct 06

20% drop US house price + drop housing investment/GDP to 1990s average



% difference from baseline

Source: EUROFRAME-EFN Autumn report 2006

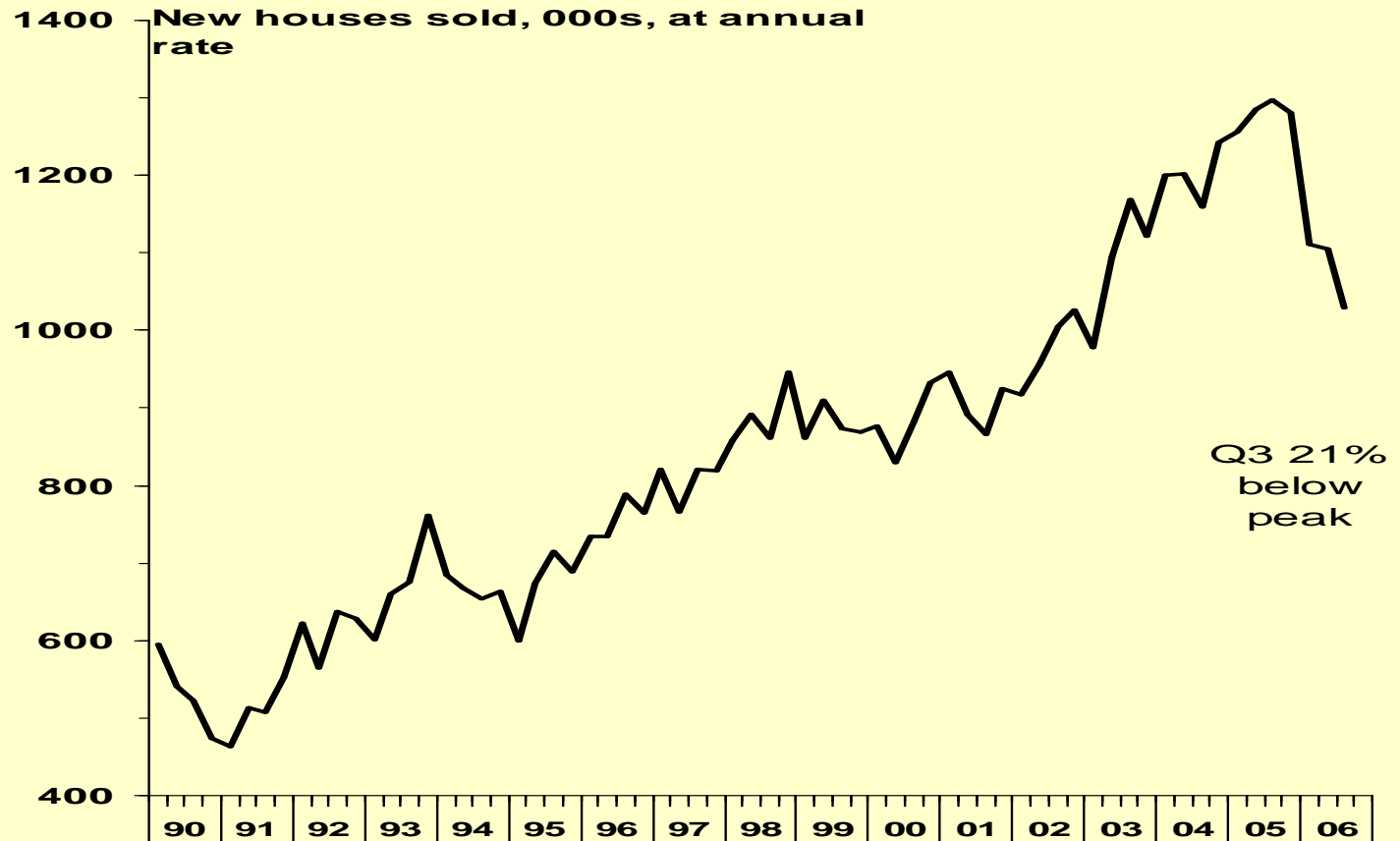
20% drop US house price + drop housing investment/GDP to 1990s average

	2006	2007	2008
US GDP	-0.6	-1.7	-1.9
Euro area GDP	-0.1	-0.3	-0.4
US long real interest rate	-1.1	-1.2	-1.3
US current account (%GDP)	0.1	0.7	0.9

% from baseline

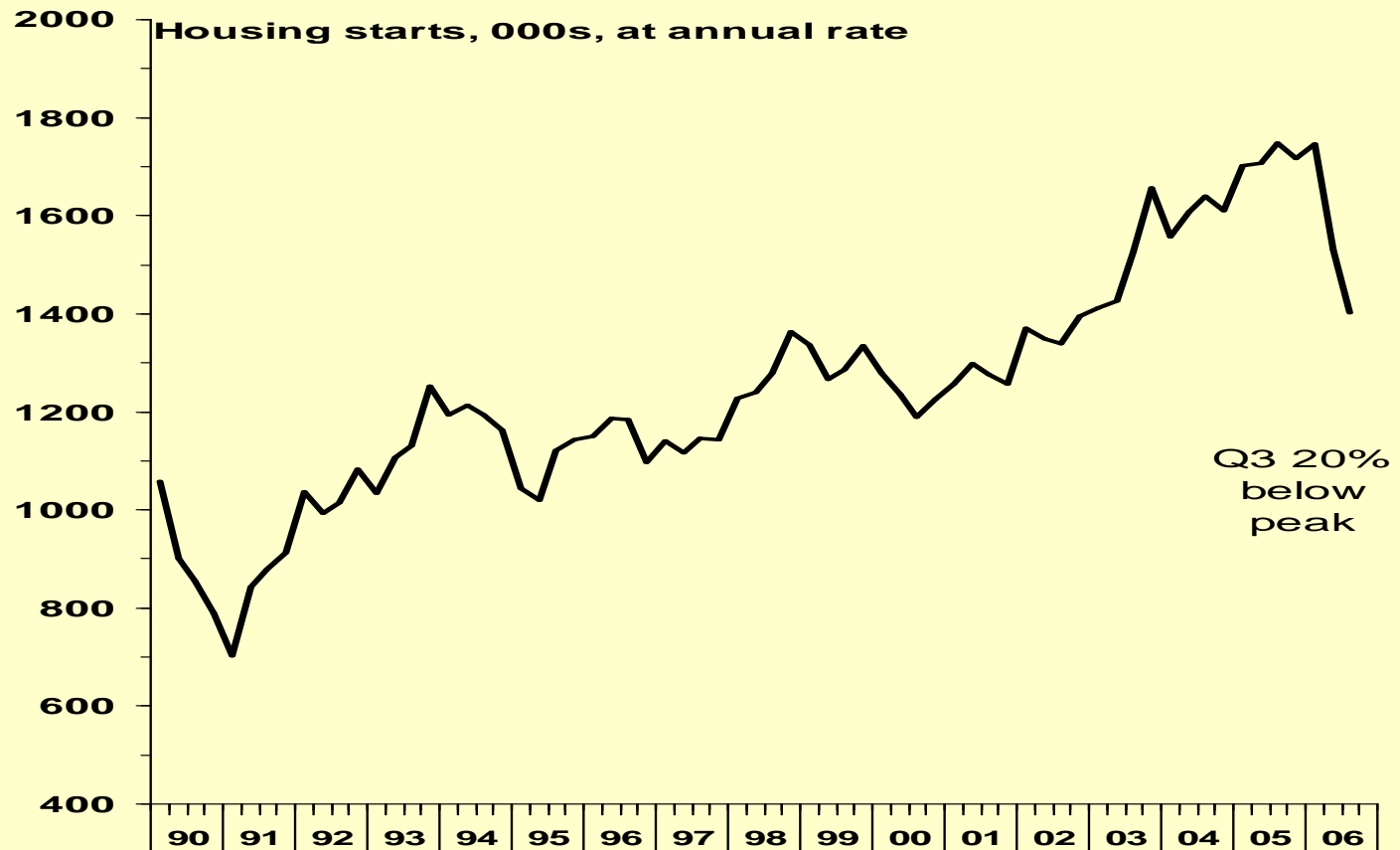
- Conclusion: Impact on euro area is clearly negative but manageable.

3. US slowdown: how far to go?



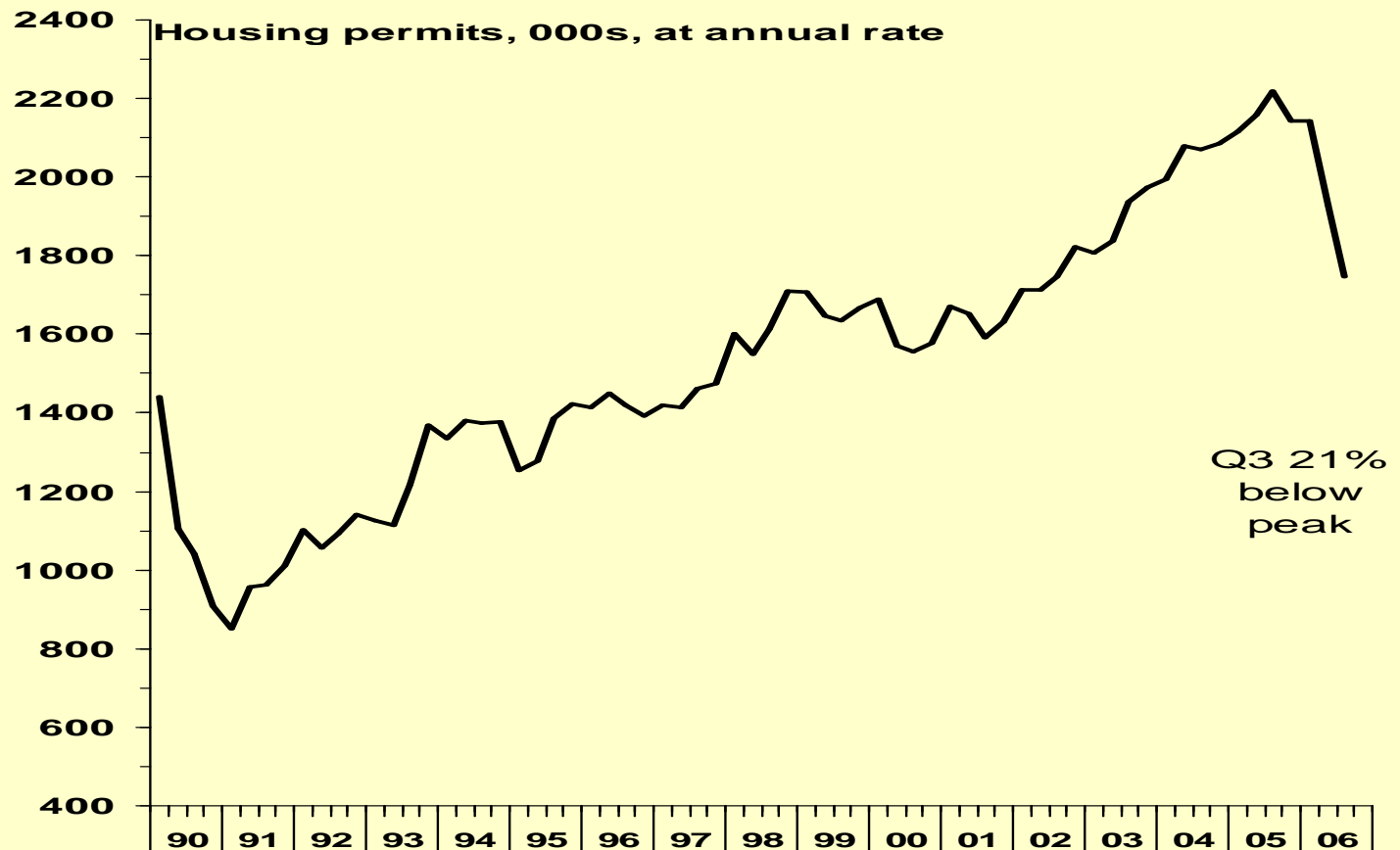
- Most indicators show a substantial slowdown on the housing market.

3. US slowdown: how far to go?



- Most indicators show a substantial slowdown on the housing market.

3. US slowdown: how far to go?



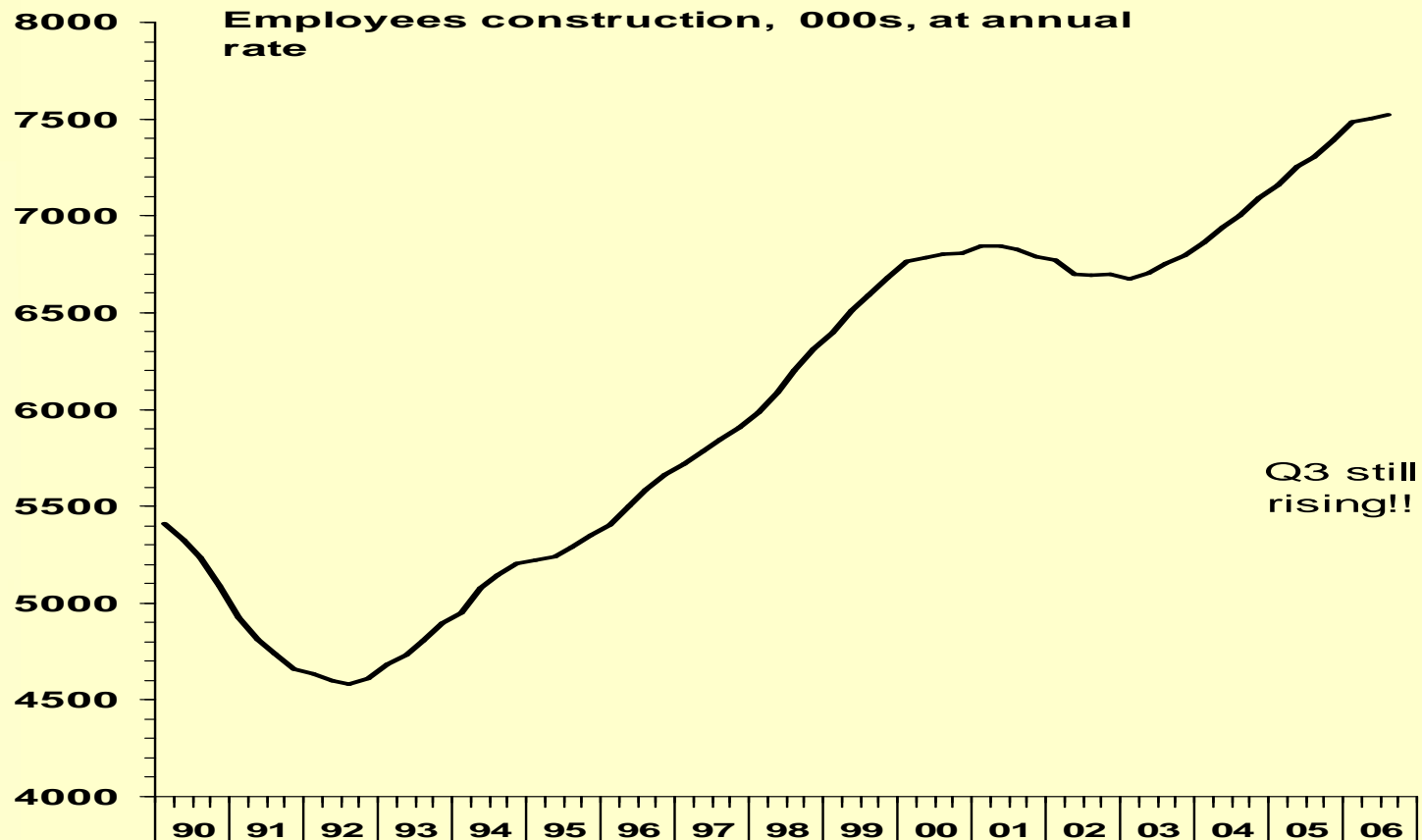
- Most indicators show a substantial slowdown on the housing market.

cpb

Global economy & US slowdown

Brussels
18 Oct 06

3. US slowdown: how far to go?



■ But not all!!

3. US slowdown: how far to go?

Conclusion:

- Transmission of the housing slowdown is till now limited on the supply side (offset by pick-up non-residential construction) and on the consumer side (offset by recent oil price drop)
- **If long-term interest rates stay at current benign levels, growth somewhat below potential is most likely for the United States in 2007.**
- Soft landing? Yes, in the context of output gap and inflation pressure. Not at all, in the context of current account imbalances.

4. Current account imbalances: Important or not?

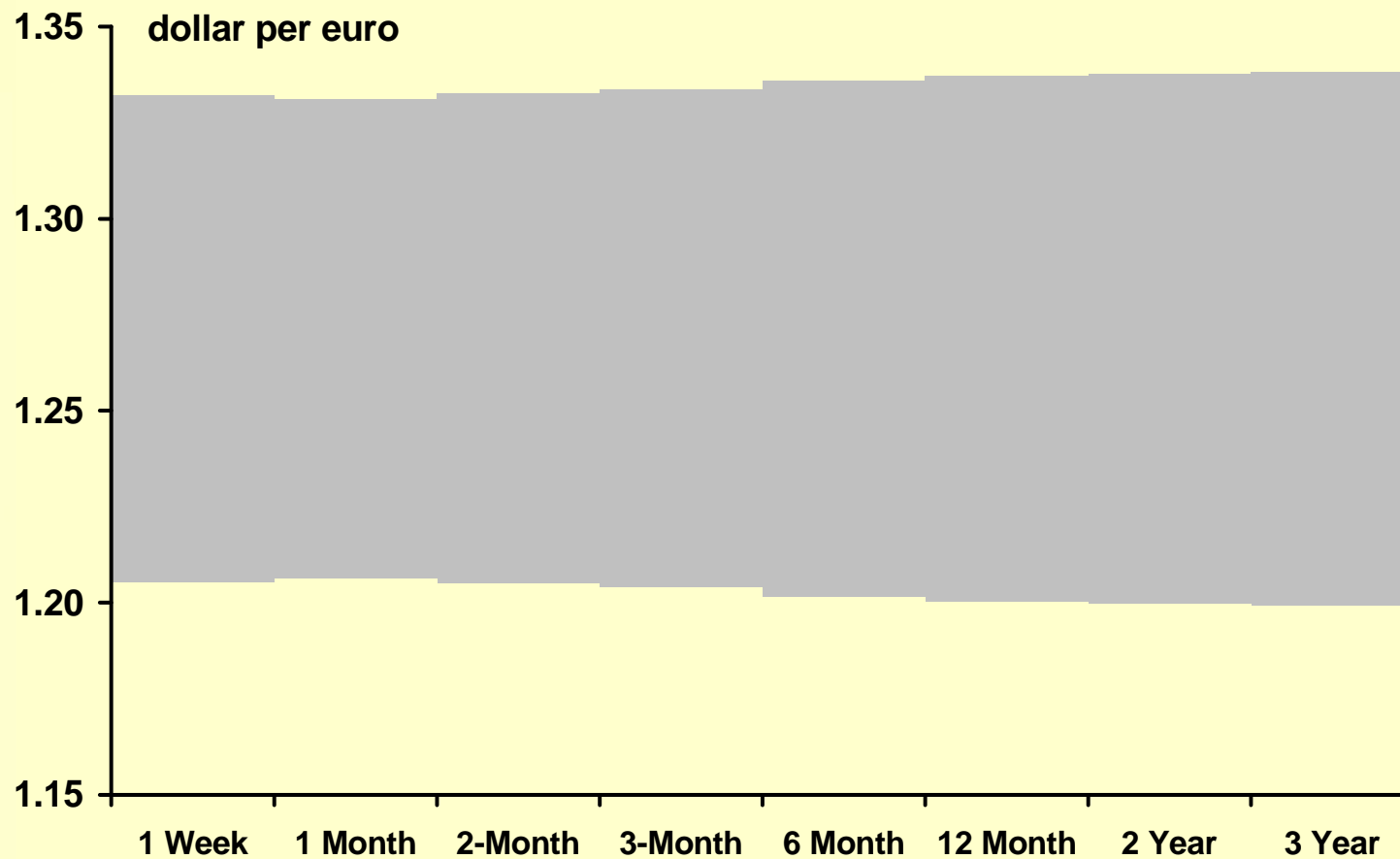
- Financial markets not worried.
- So, should we economists be worried?
- Or should we stop mentioning it as a major risk to the short-term outlook?

cpb

Global economy & US slowdown

Brussels
18 Oct 06

95% confidence interval euro, 29 September 2006, FRB of New York



4. Current account imbalances: Important or not?

- Financial markets not worried (see previous page).
- So, should we economists be worried? Or should we stop mentioning it as a major risk to the short-term outlook?
- **YES, we should remain worried.**
- Current US current account deficit is unsustainable.
- Dollar depreciation (and unfortunately euro appreciation) will be part of the adjustment process.
- With negative effects on euro area GDP.

cpb

Global economy & US slowdown

Brussels
18 Oct 06

谢谢你

Thank You.

Assessment current global situation (4; check)



Source: CPB calculation based on national data

■ Almost no deceleration of growth in 2006 Q3