

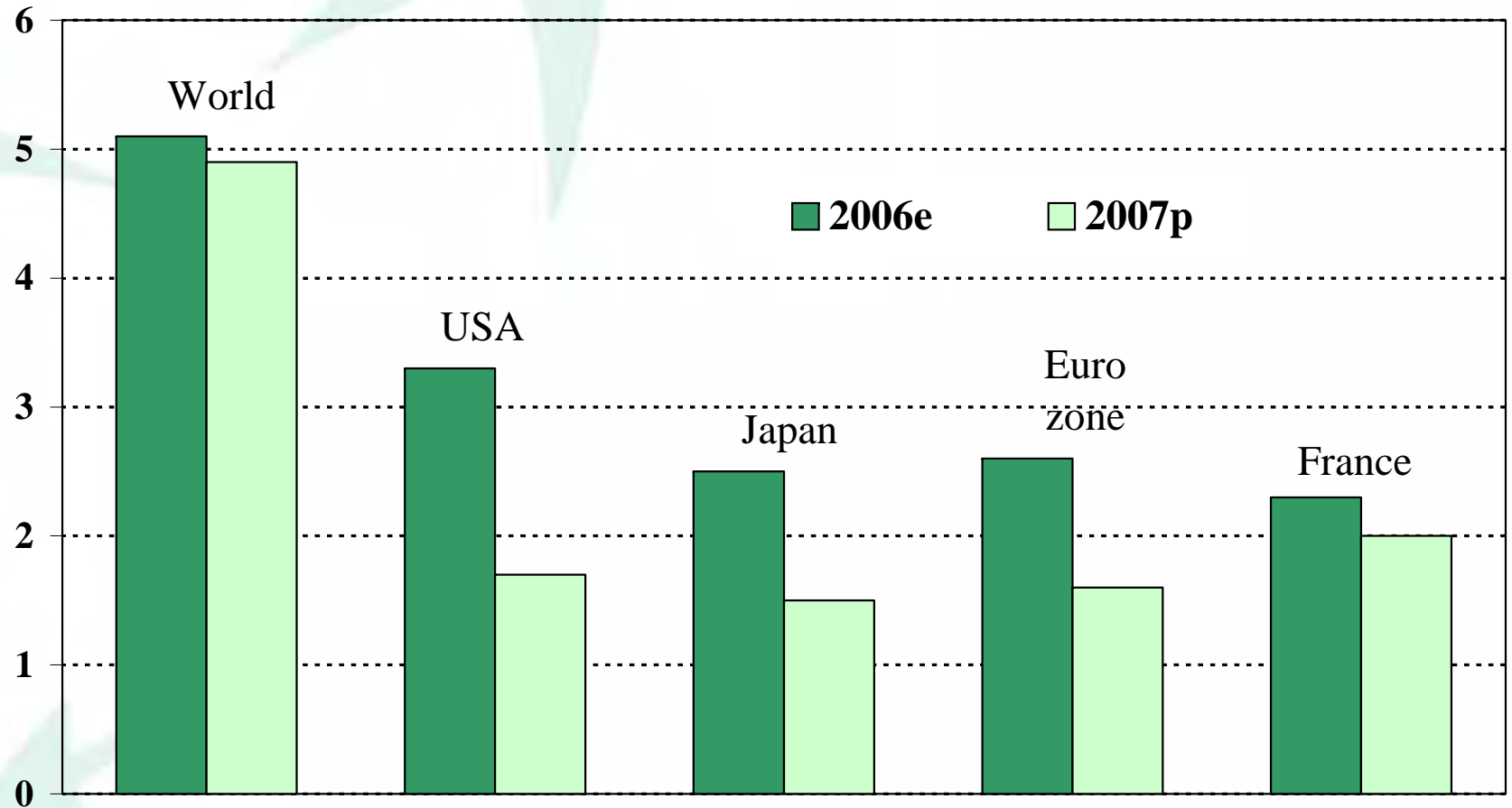
*THE WORLD ECONOMIC OUTLOOK IN 2007:  
soft landing or hard landing ?*

*Conferences BNP PARIBAS,  
Tuesday 24th October, 2006*

# I - INTRODUCTION

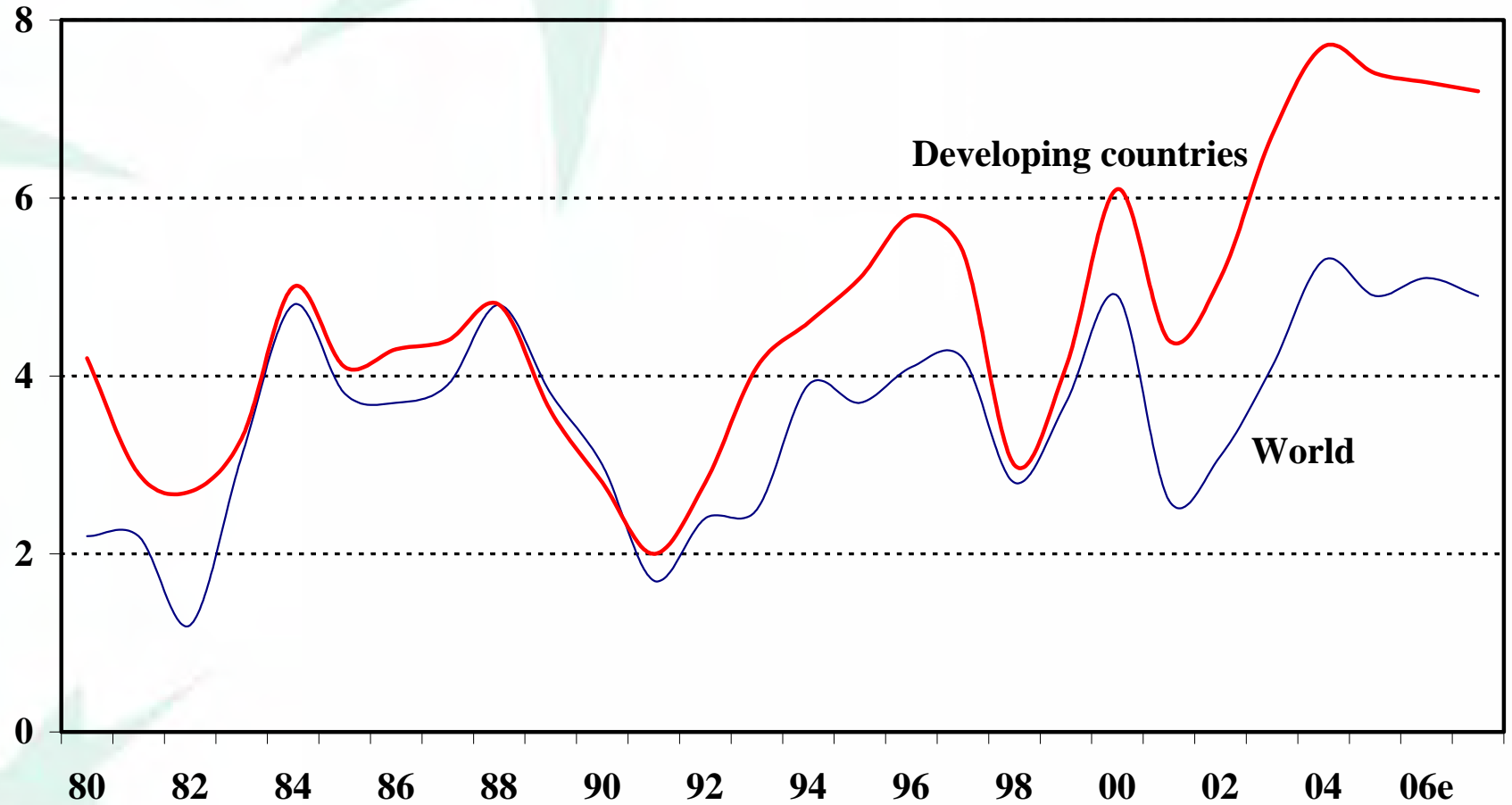
charts 1 to 7

### Real GDP growth, %



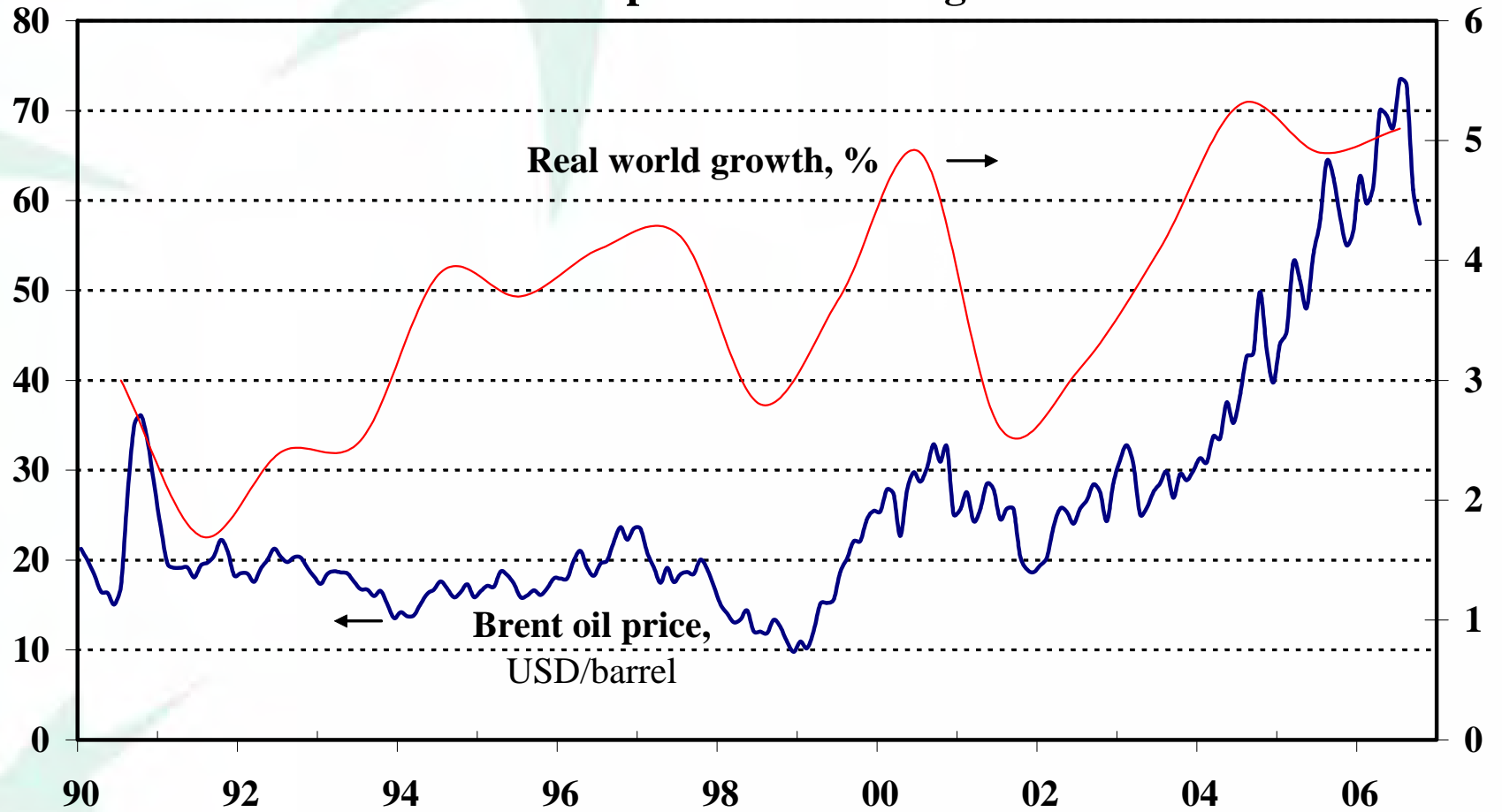
*sources: IMF, BNPParibas*

### Real GDP annual growth, %



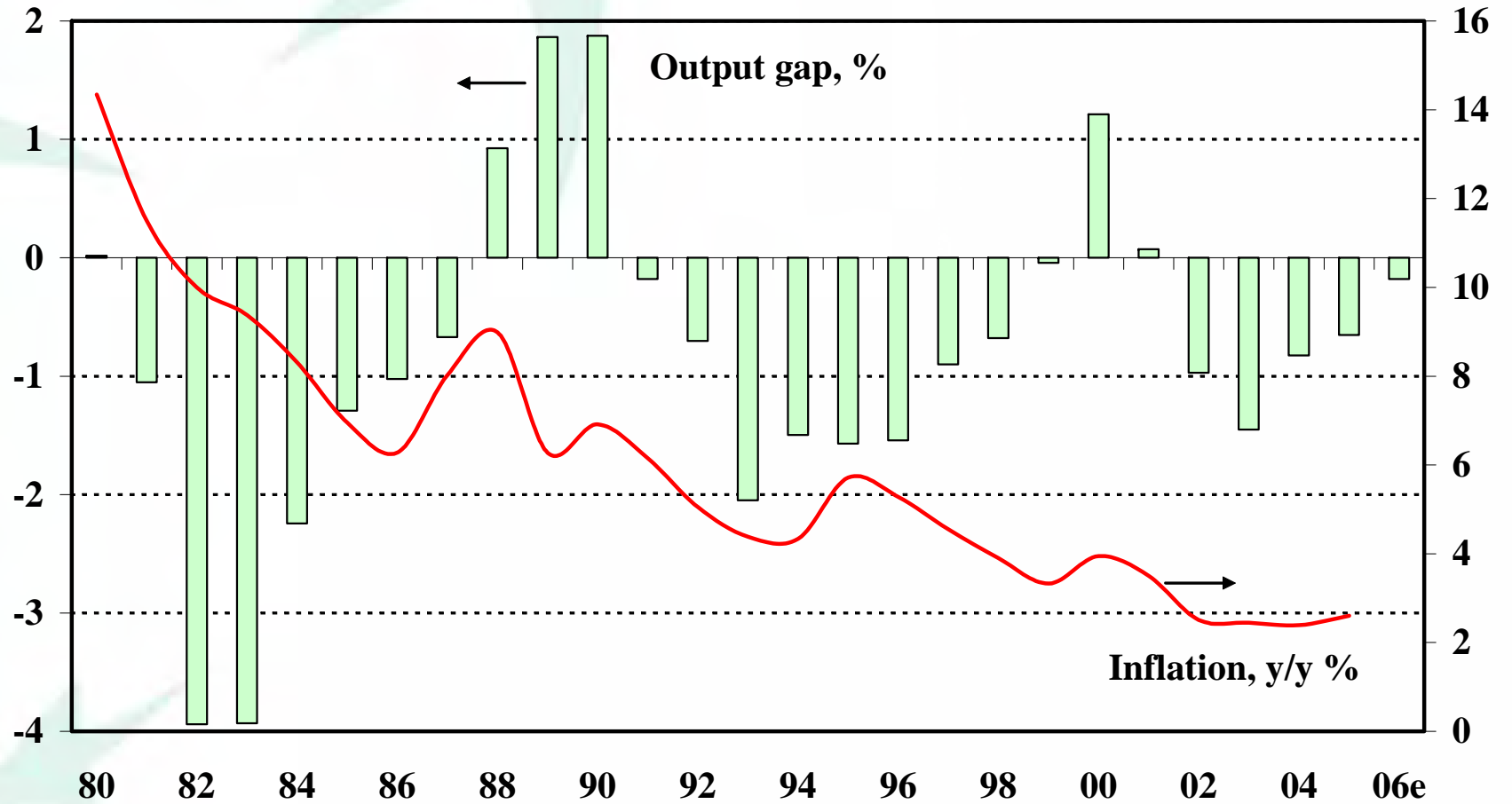
source: IMF (WEO, September 2006)

### Brent oil price and world growth



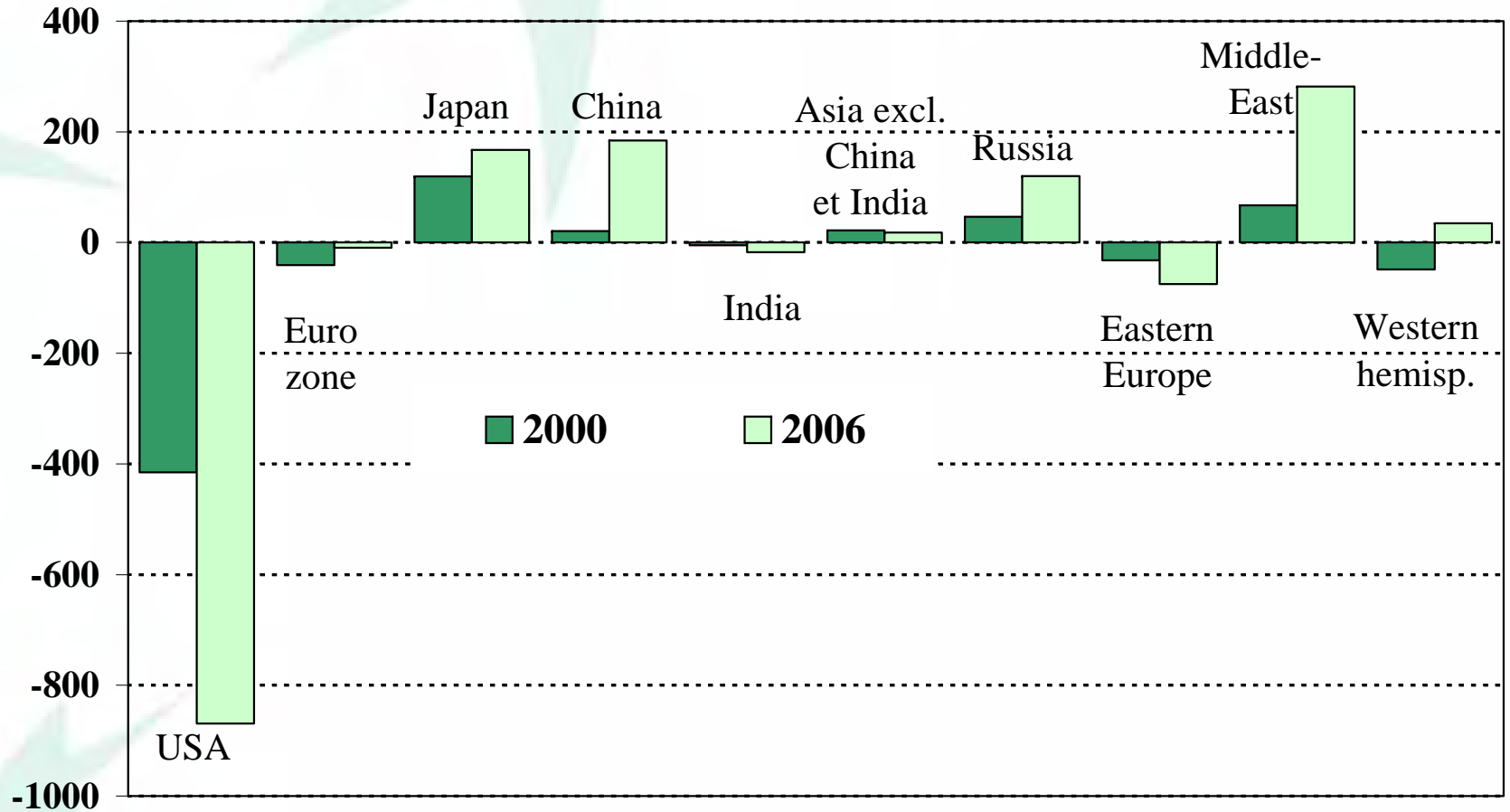
source: IMF

**Total OECD: output gap & inflation**



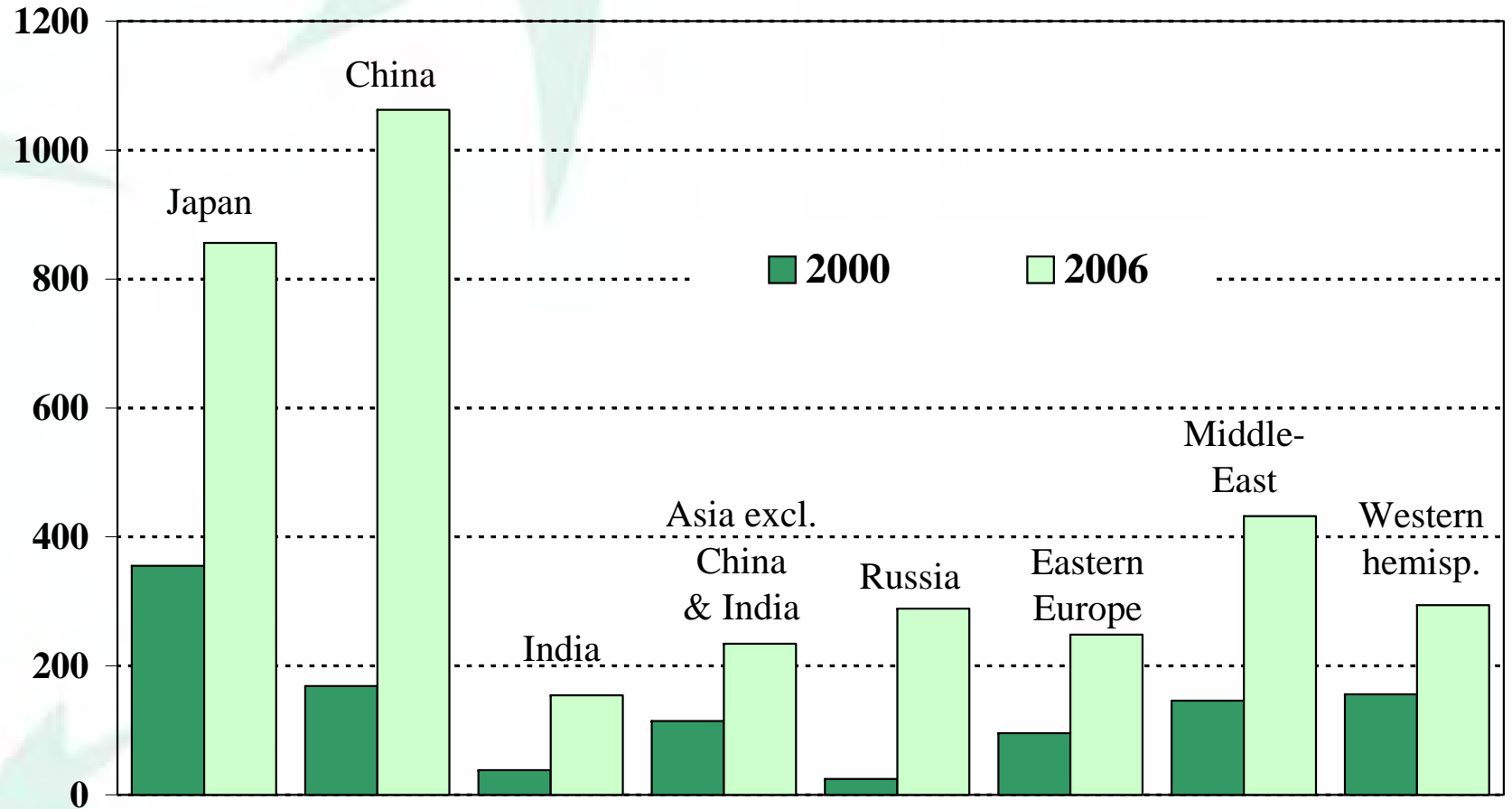
source: OECD

### Current-account balance, billions \$



source: IMF (WEO, September 2006)

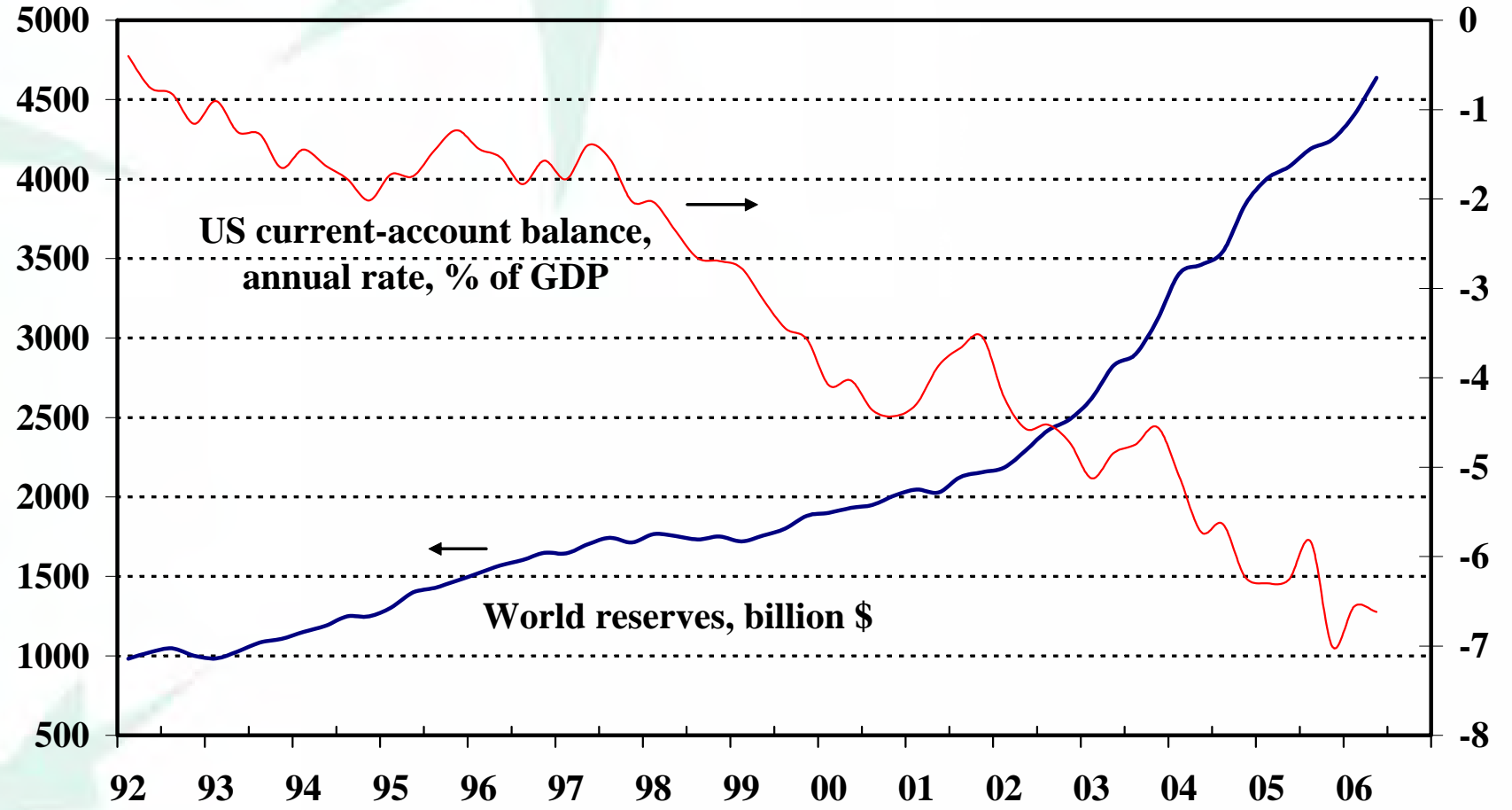
### Foreign exchange reserves, billions \$



source: IMF (WEO, September 2006)



### World reserves & US current-account balance



sources: BEA, IMF

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## II - UNITED STATES

charts 8 to 27

## **STRONG SLOWDOWN IN ECONOMIC ACTIVITY**

- **Consequences of the retrenchment in the residential sector.**
- **Job creations weaken.**
- **The room of manoeuvre for the fiscal policy is limited .**

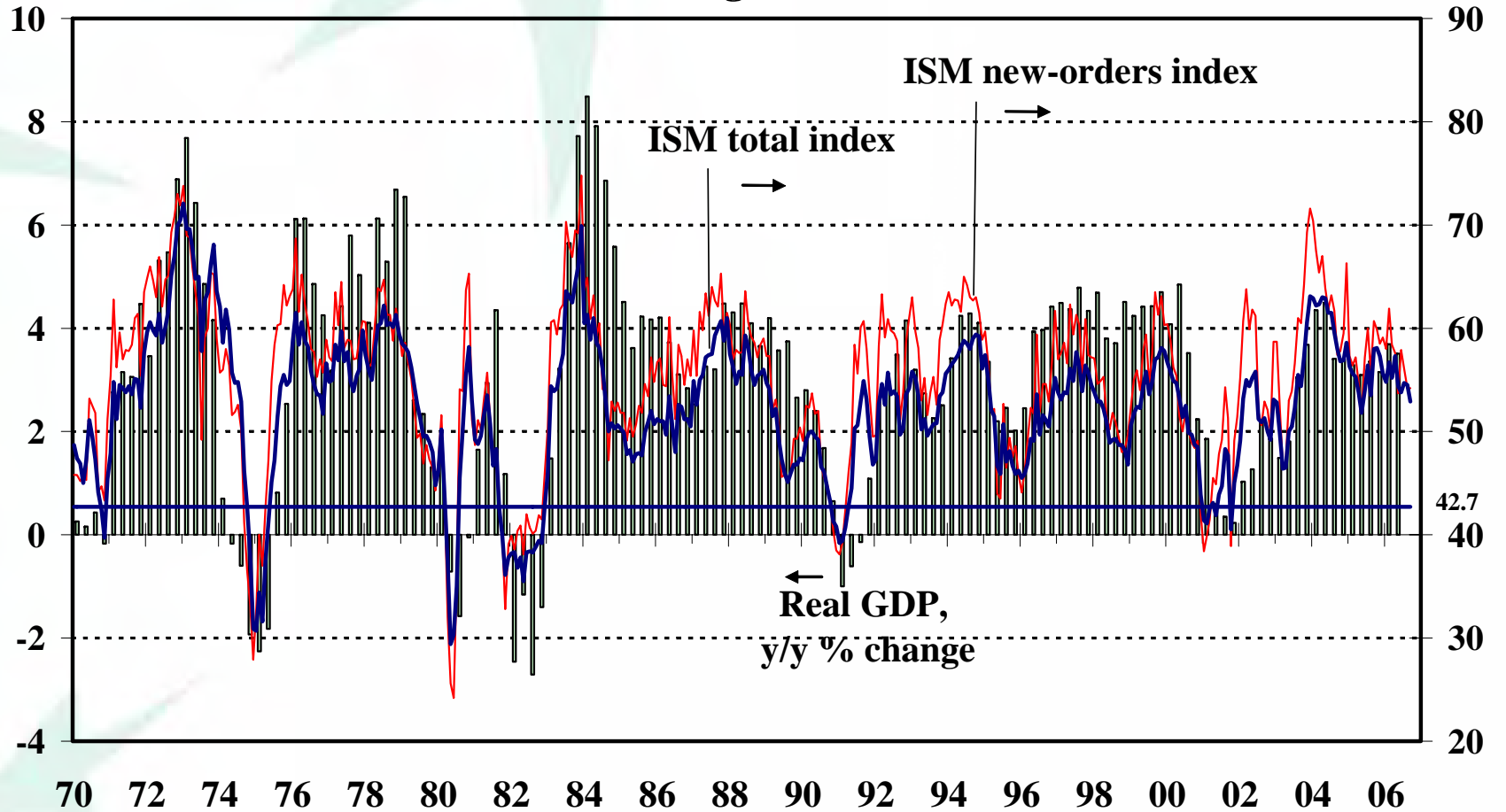
## **LOW PROBABILITY OF RECESSION**

- **The financial situation of the corporate sector is healthy** (profits, equity valuation).
- **Resilience in world growth.**
- **Very reactive monetary policy.**

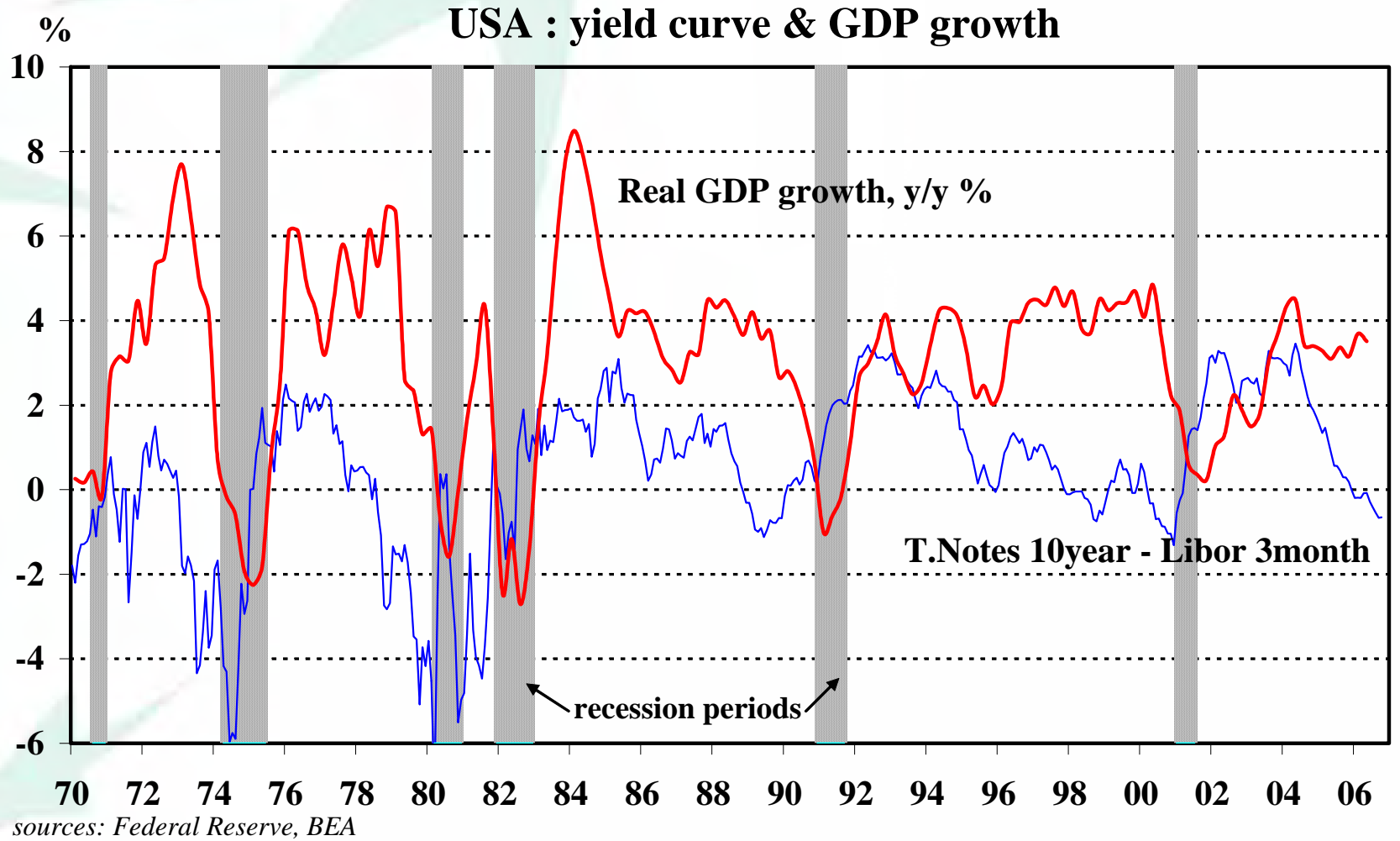
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## **EXTERNAL IMBALANCES LIKELY TO LAST.**

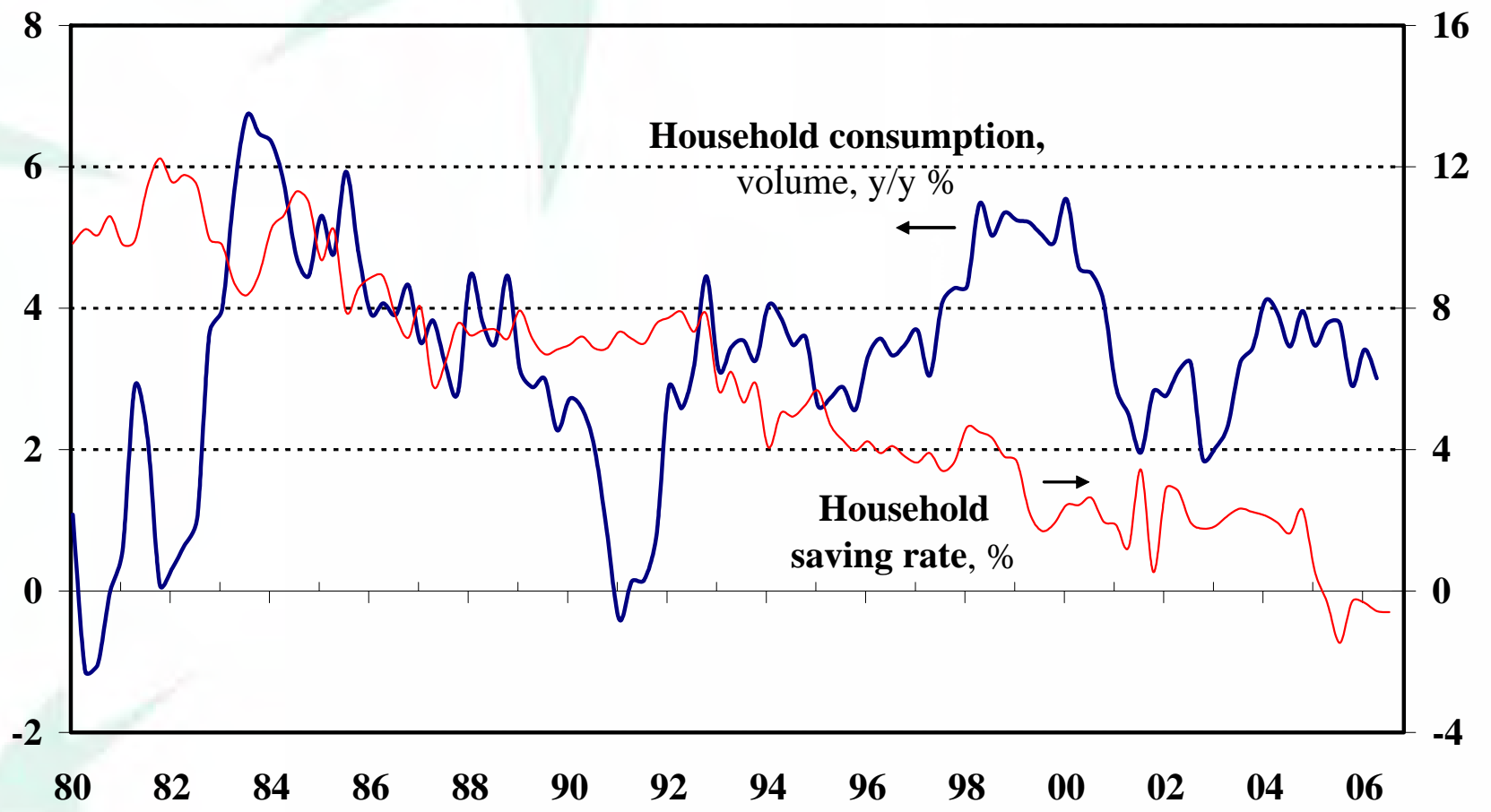
### USA : economic growth and ISM index



sources: ISM, BEA



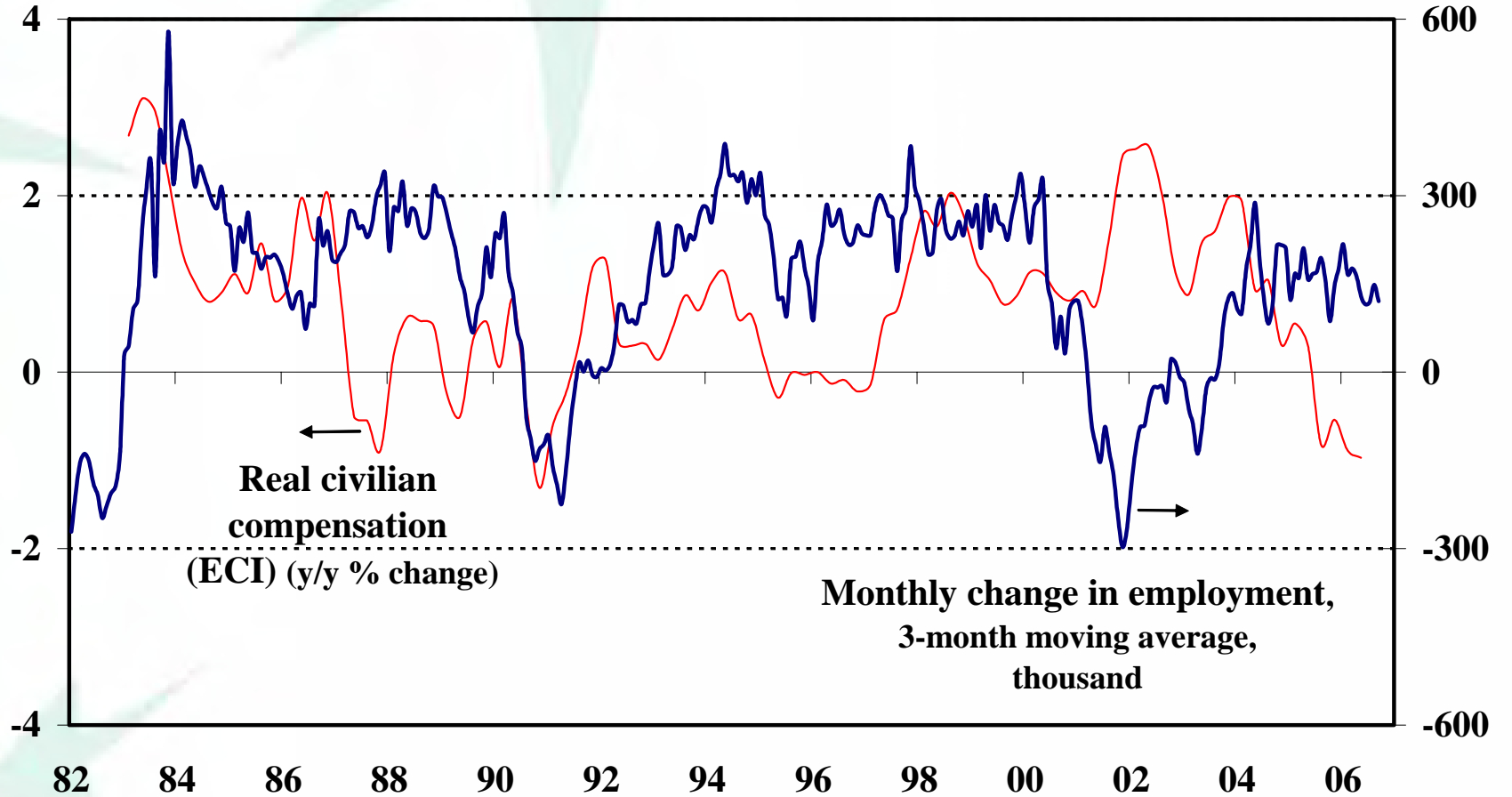
### USA: household consumption and saving



sources: BEA, Federal Reserve

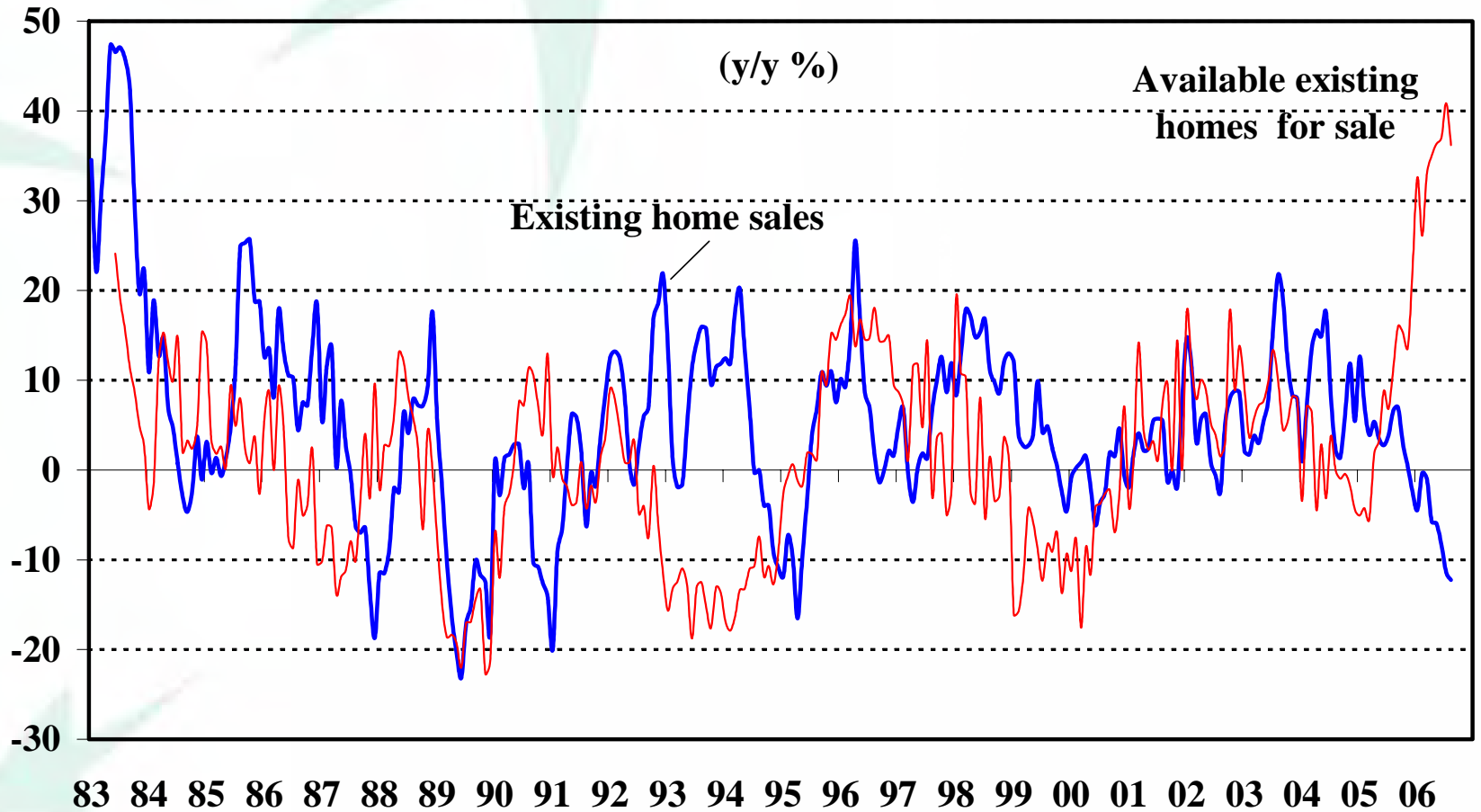


### United States : compensation and employment



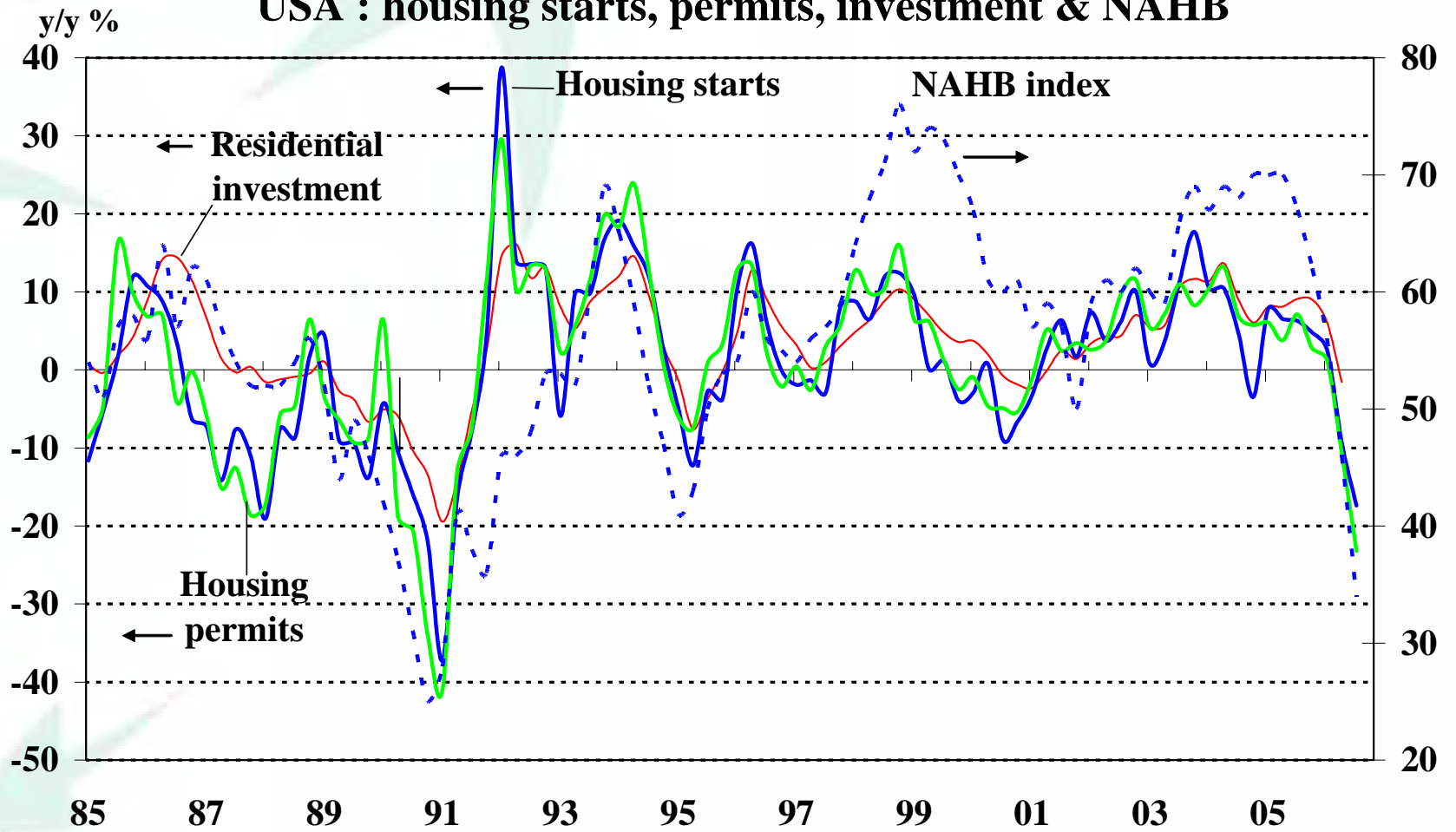
source: BLS

### United States: home sales & homes for sale



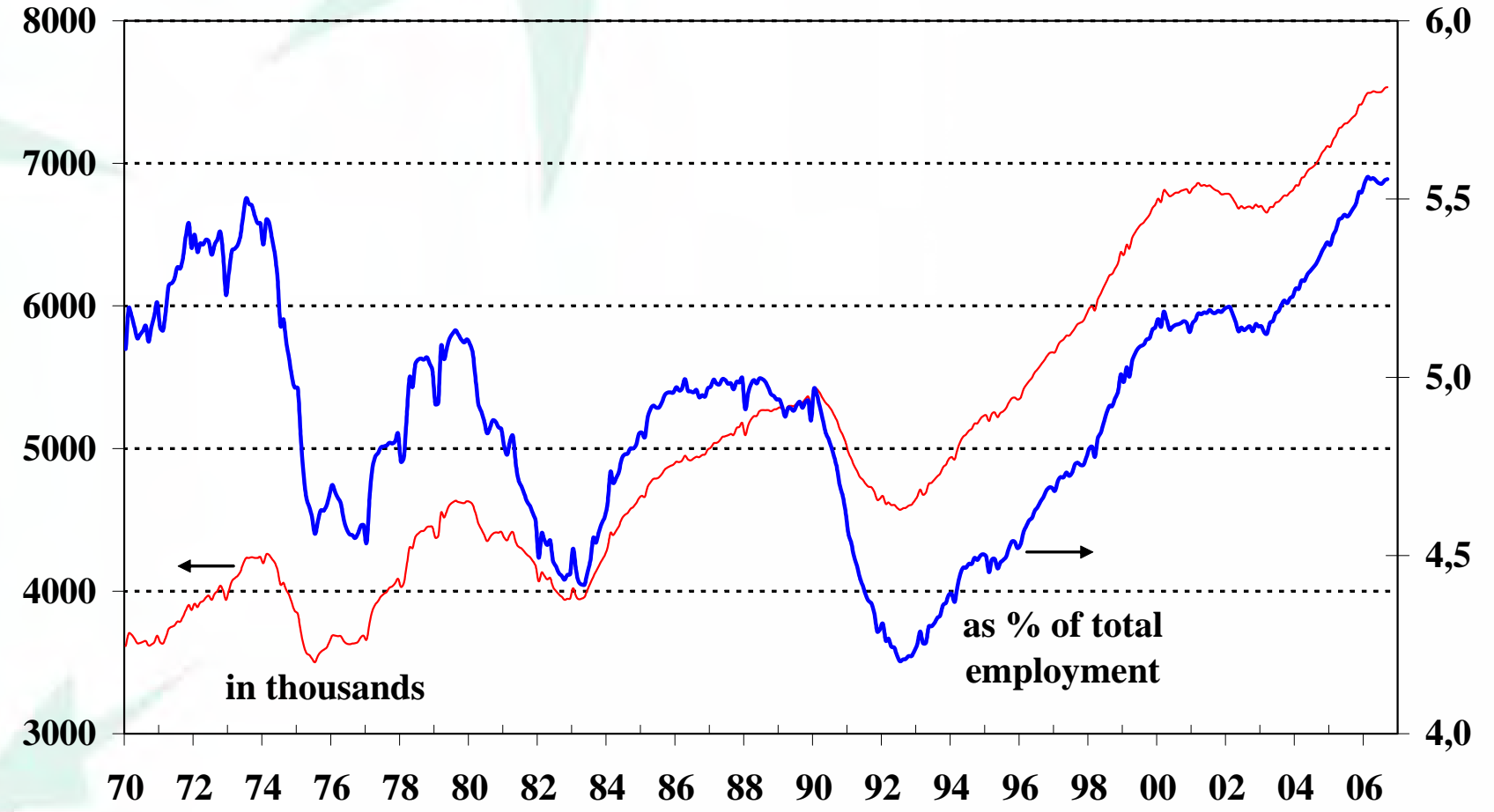
source: Bureau of Census

### USA : housing starts, permits, investment & NAHB



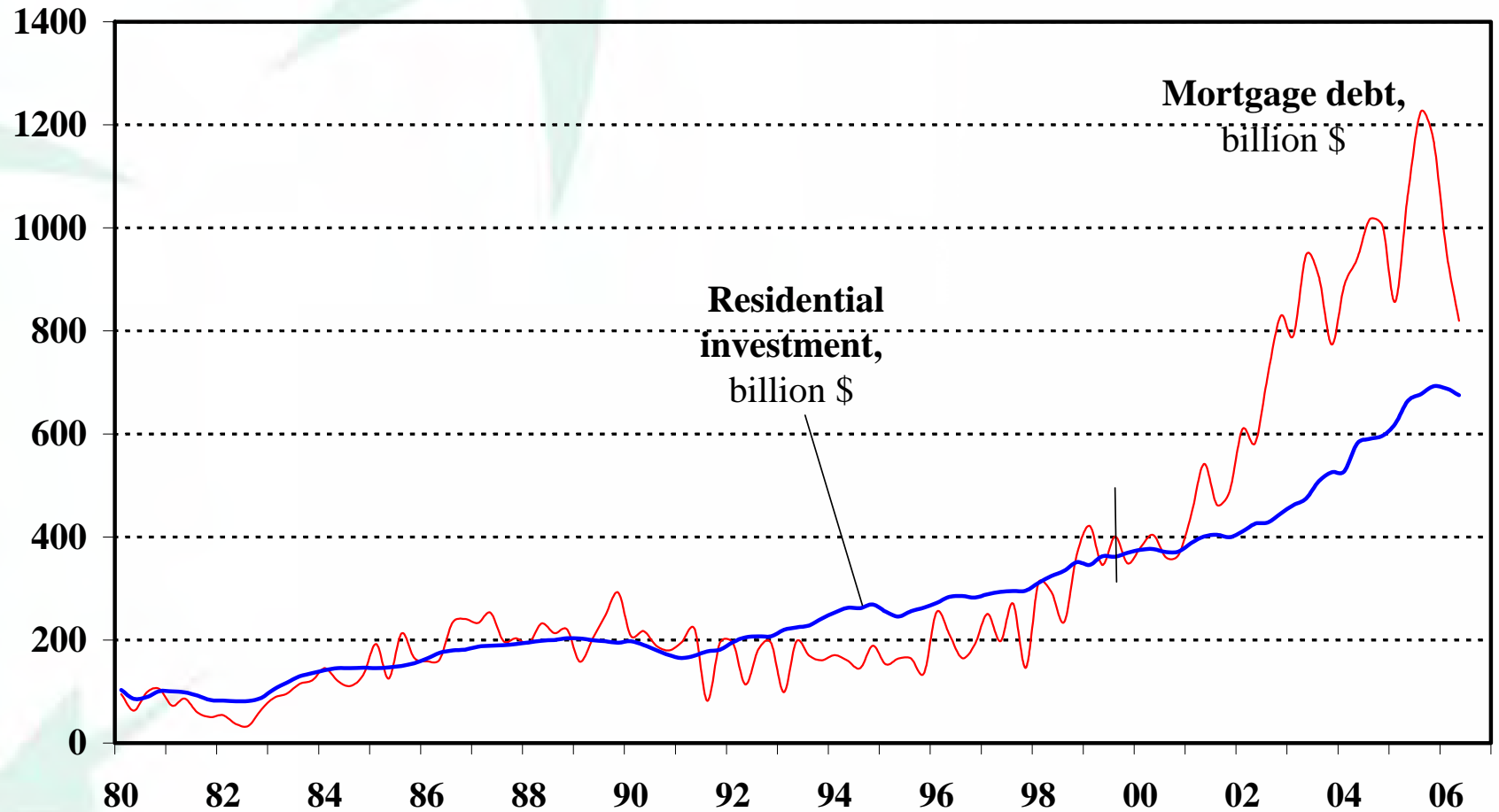
source: BEA, Bureau of Census, NAHB

### USA : employment in the construction sector



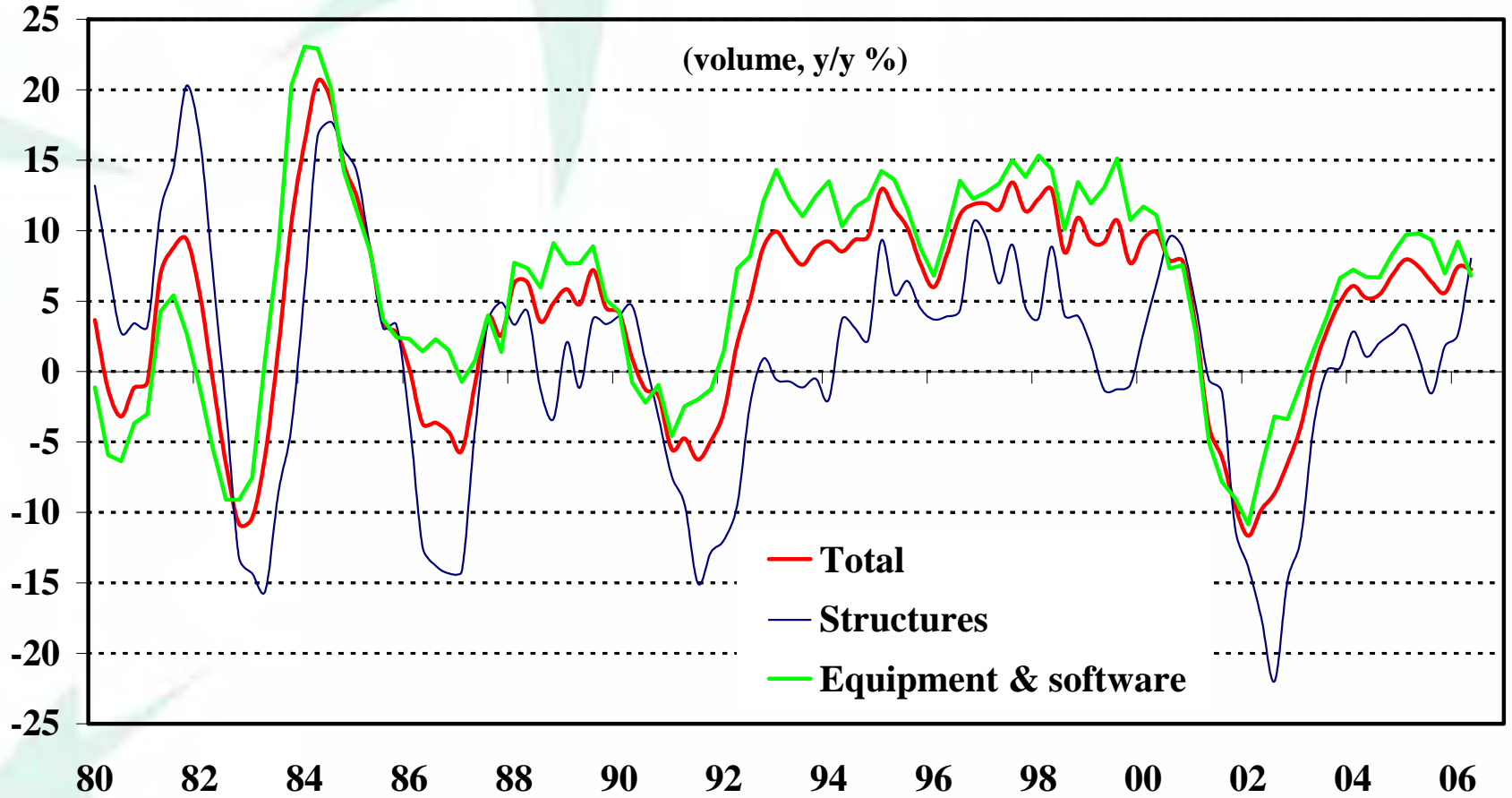
source: BLS

### USA: flows of household debt and investment



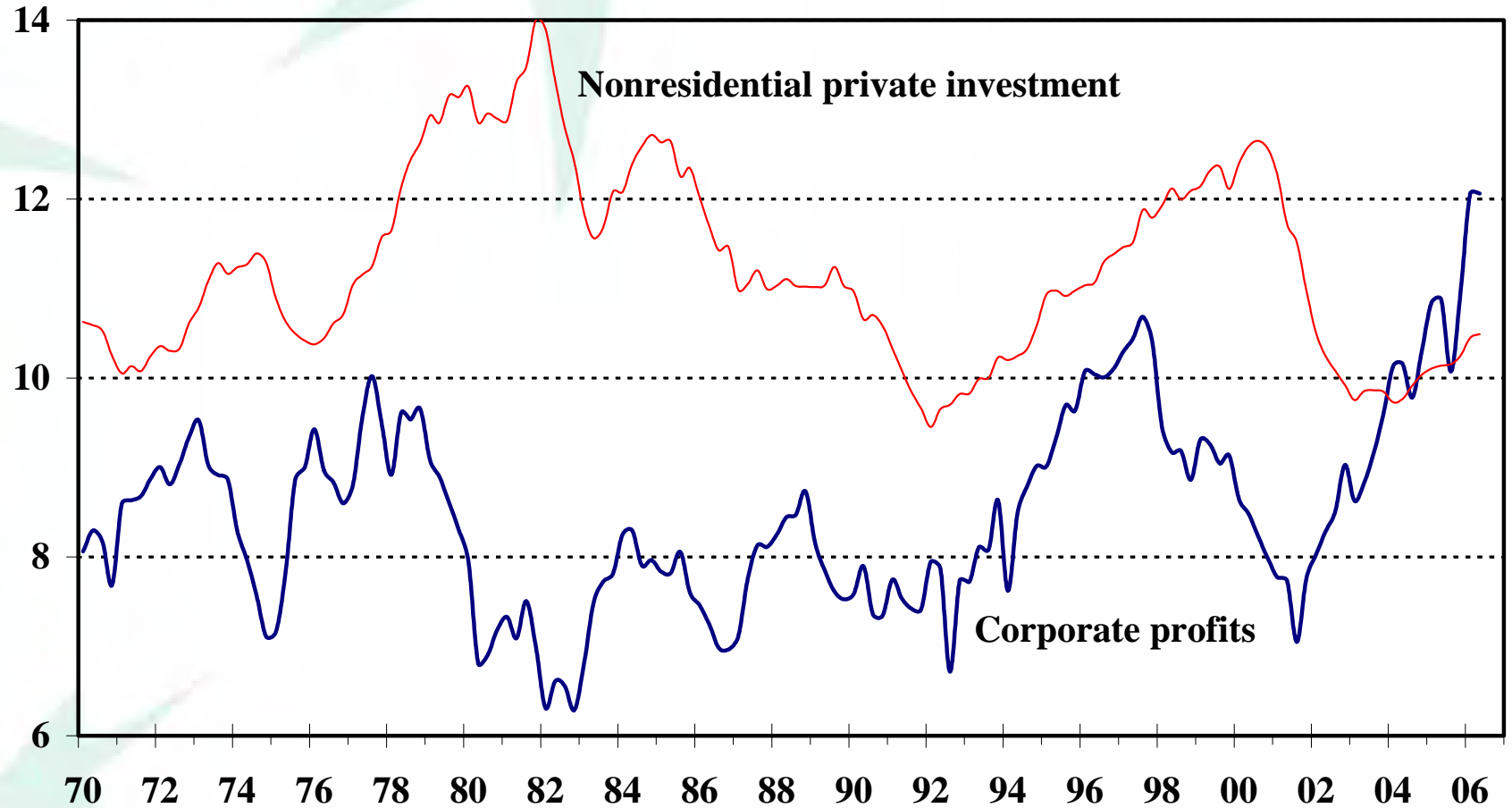
source: Flow of Funds (Federal Reserve)

### USA: breakdown of the nonresidential private fixed investment



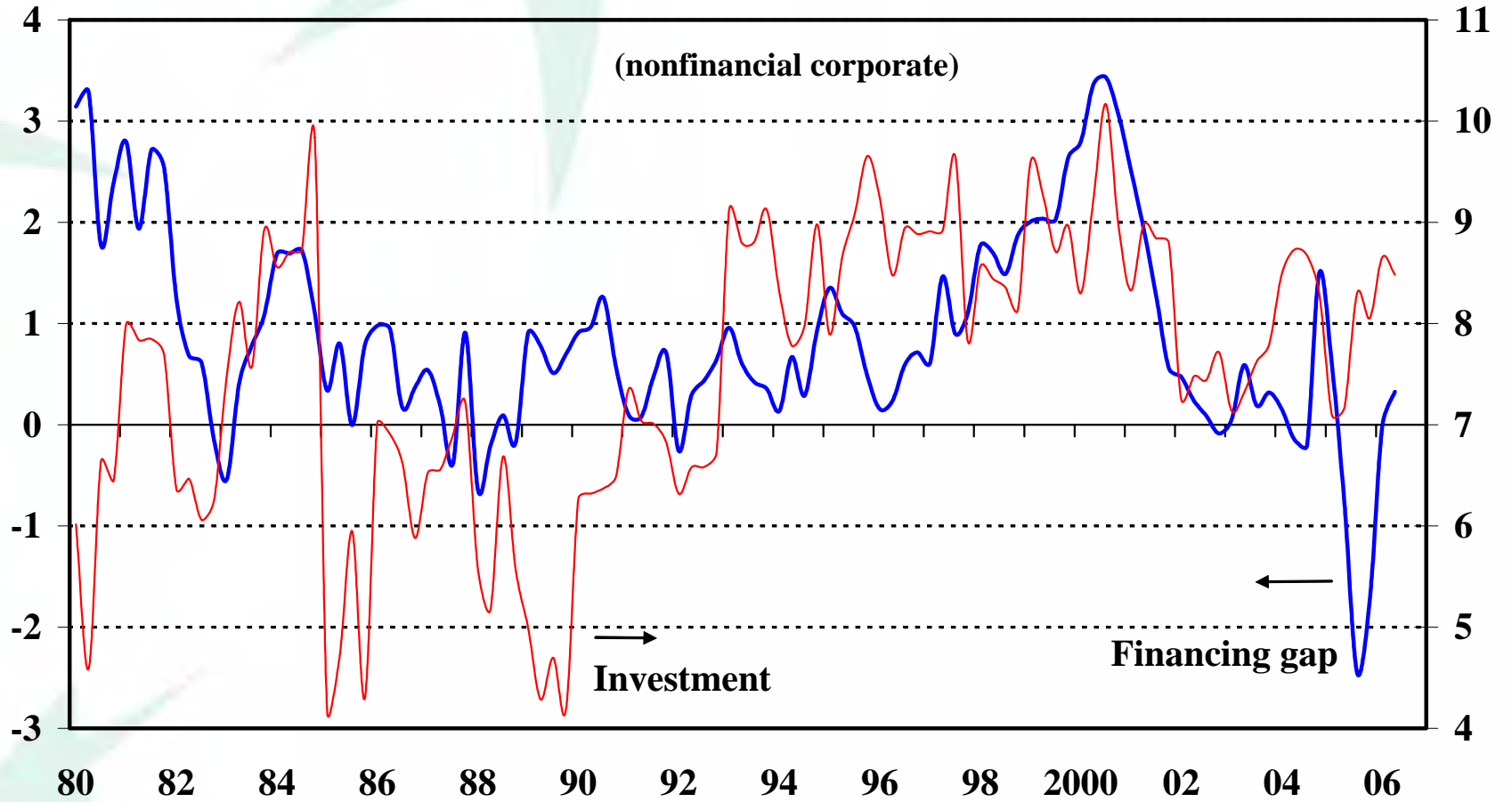
source: BEA

### USA: corporate profits & investment as % of GDP



source: BEA

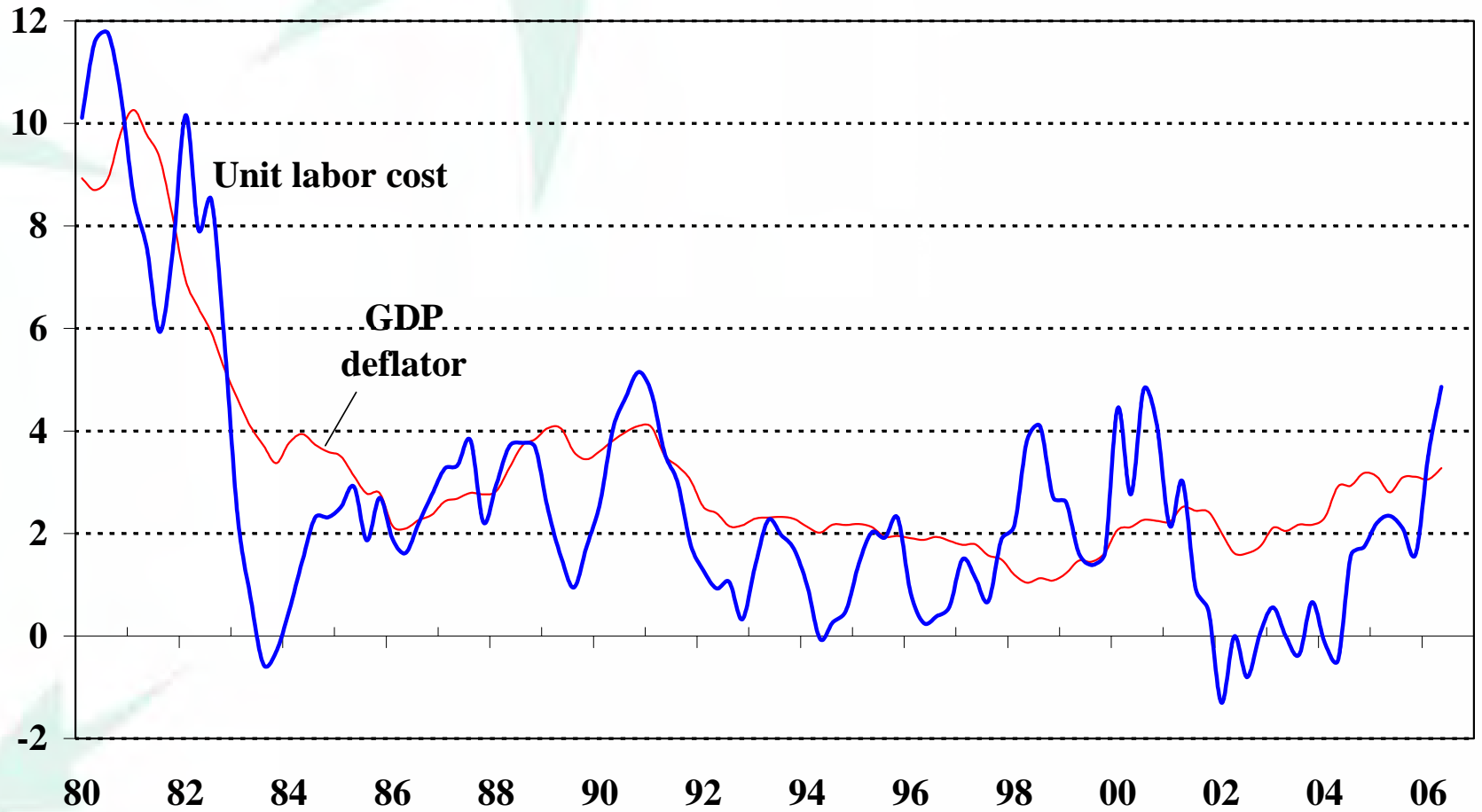
### USA: corporate financing gap and investment as % of GDP



sources: BEA, Federal Reserve

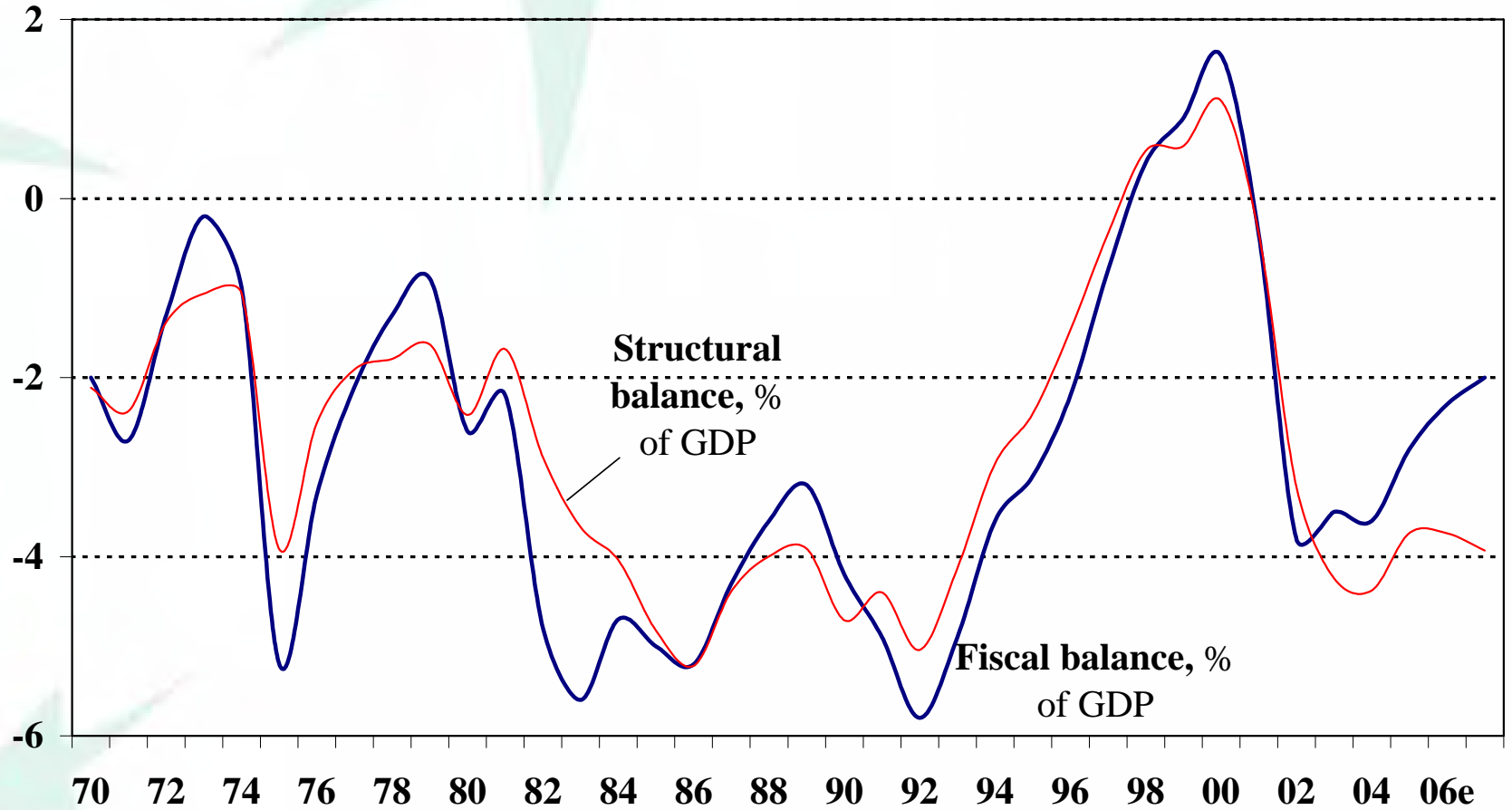


### USA : unit labour cost & GDP deflator, y/y %



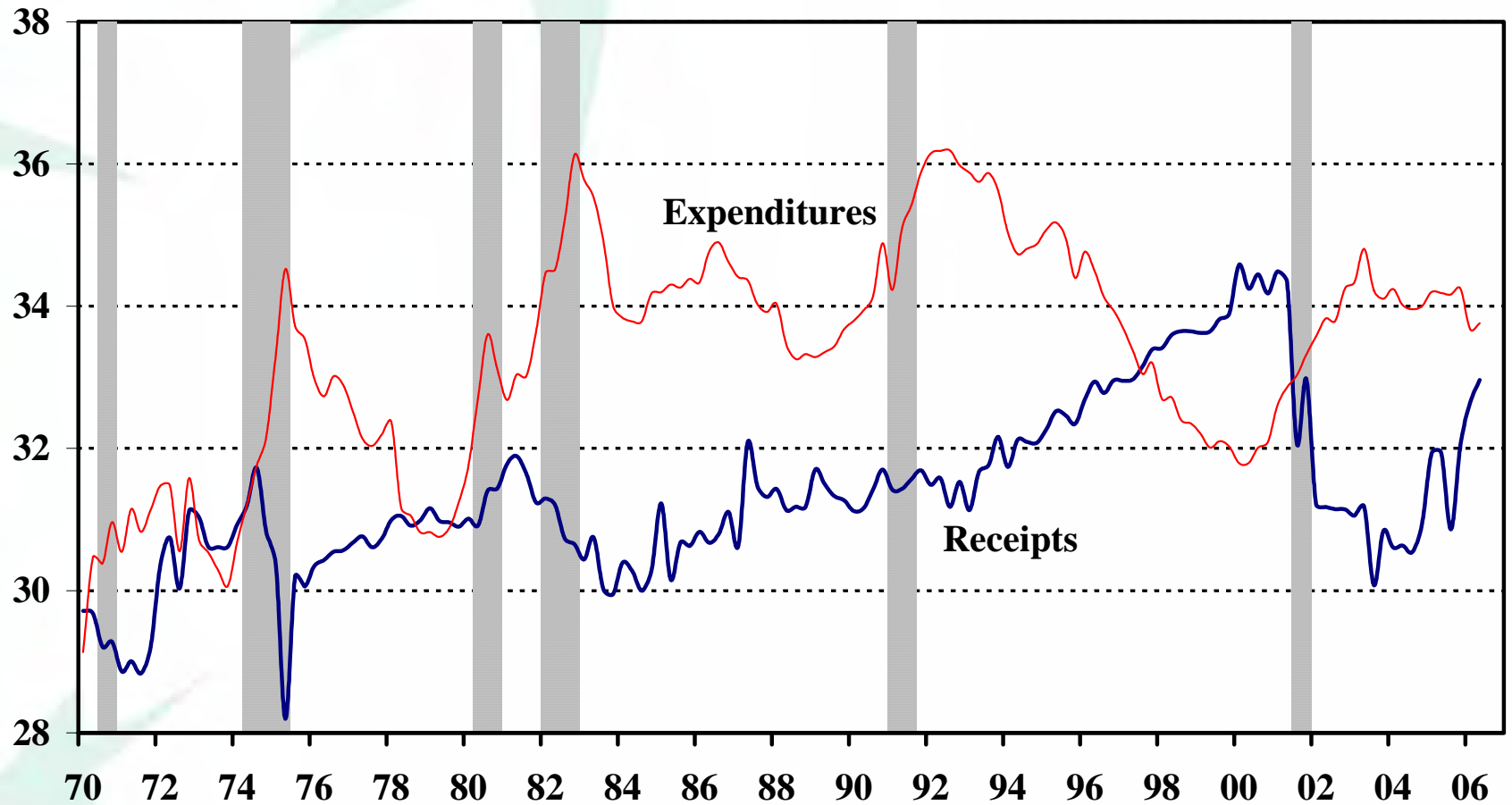
sources: BEA, BLS

### USA: budget balance

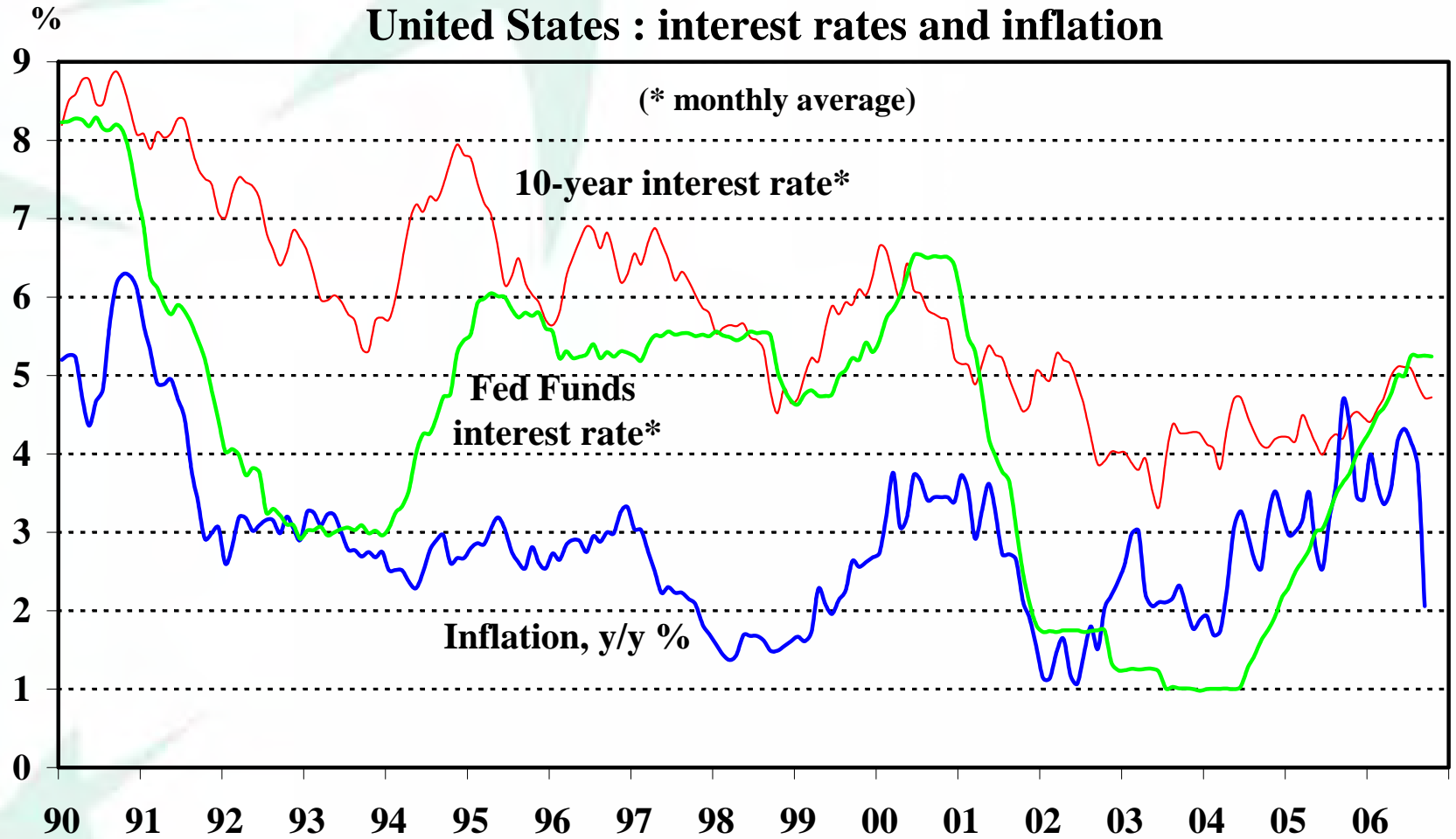


*sources: OECD, BNP Paribas*

### USA : public receipts and expenditures as % of GDP

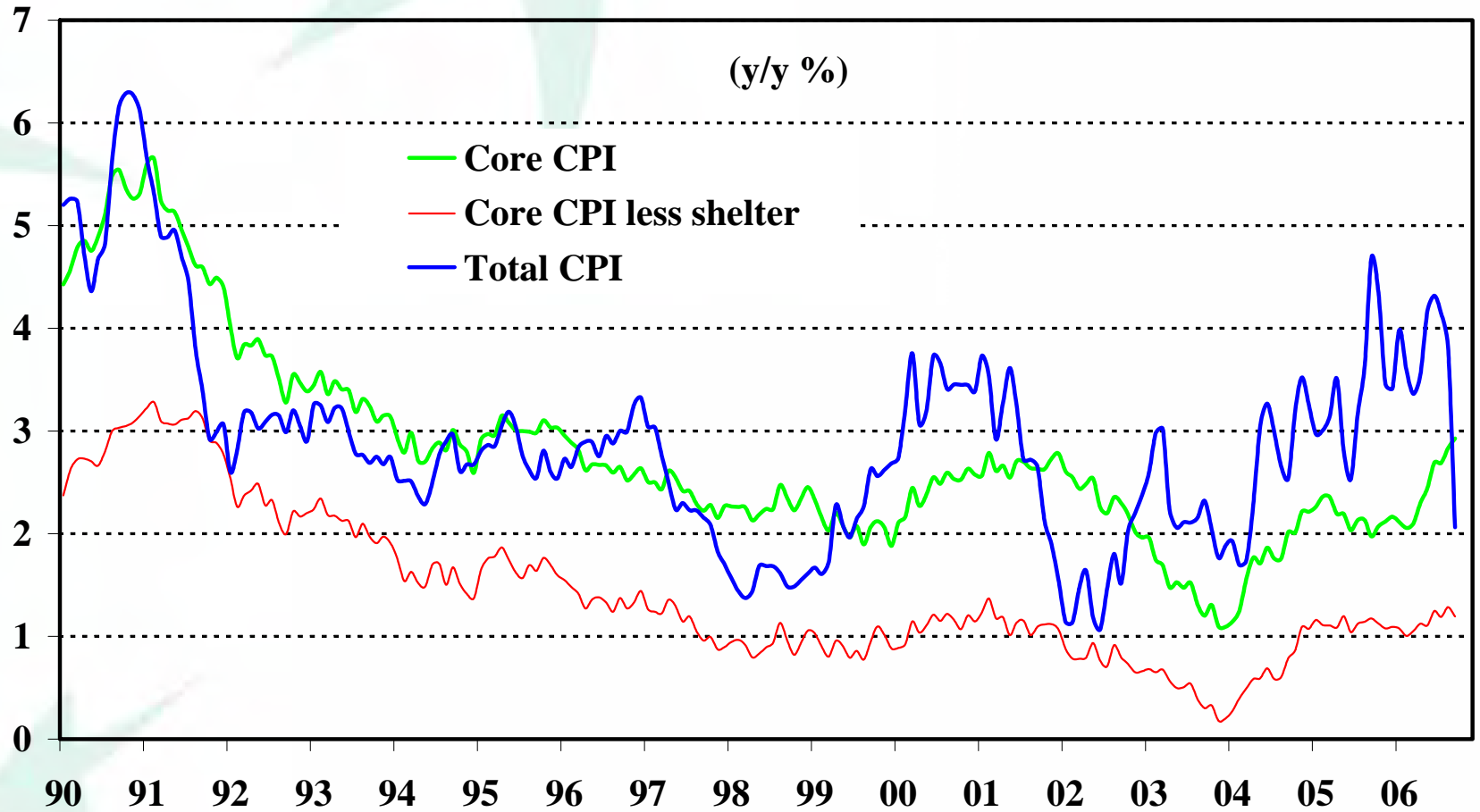


source: BEA



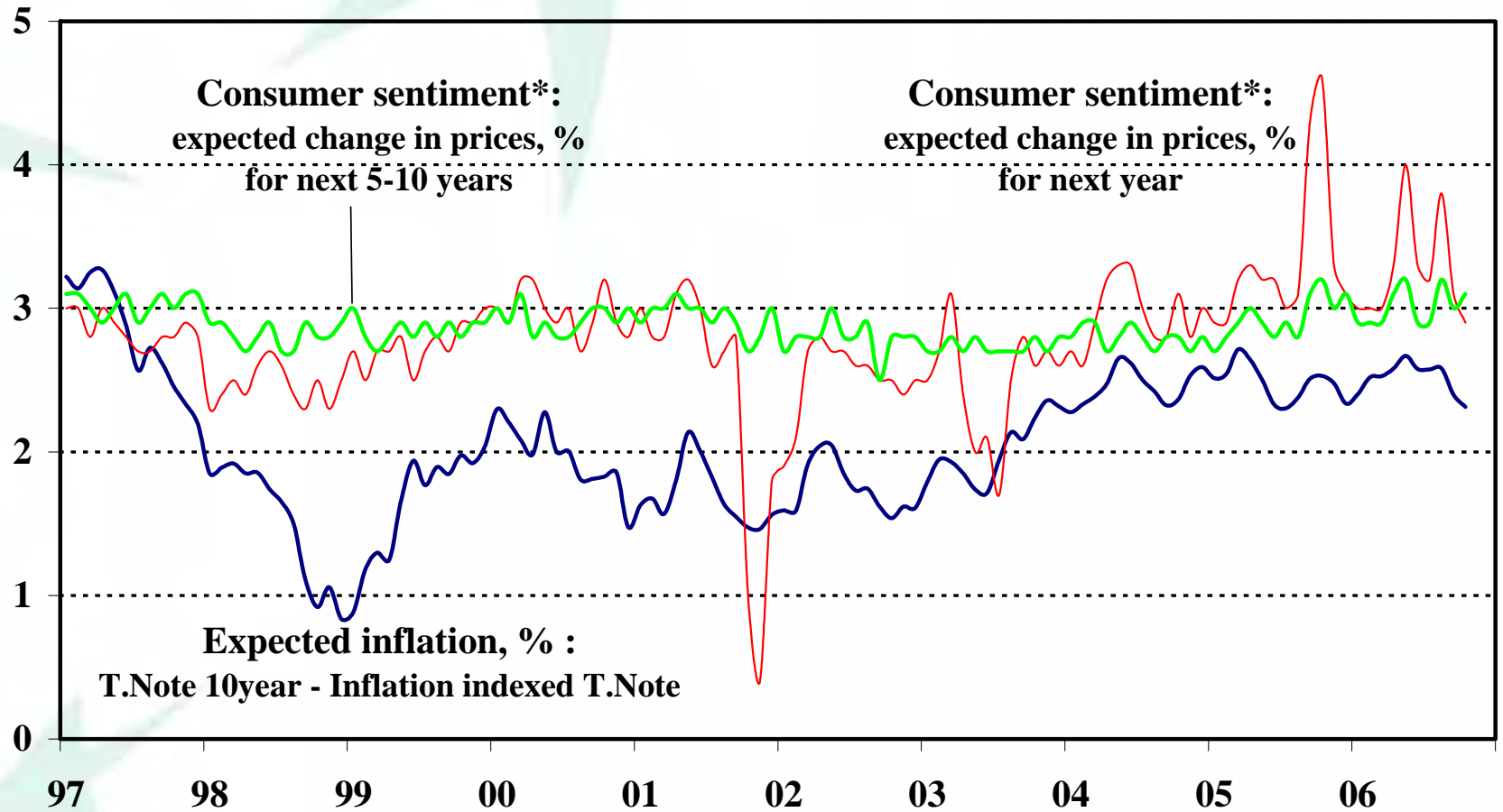
source: Federal Reserve

### United States: core CPI



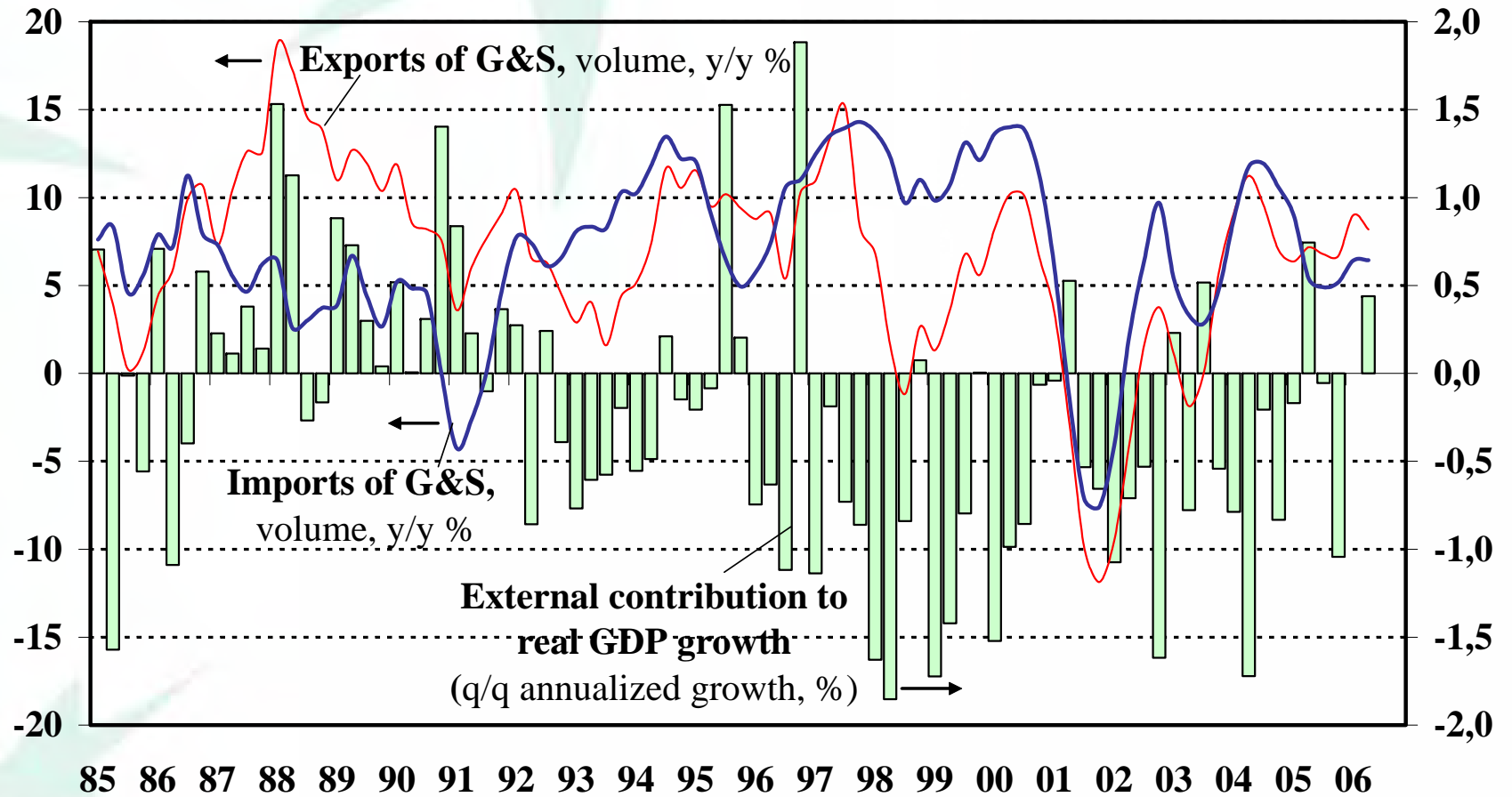
*sources: BEA, BNPParibas*

### USA: price expectations



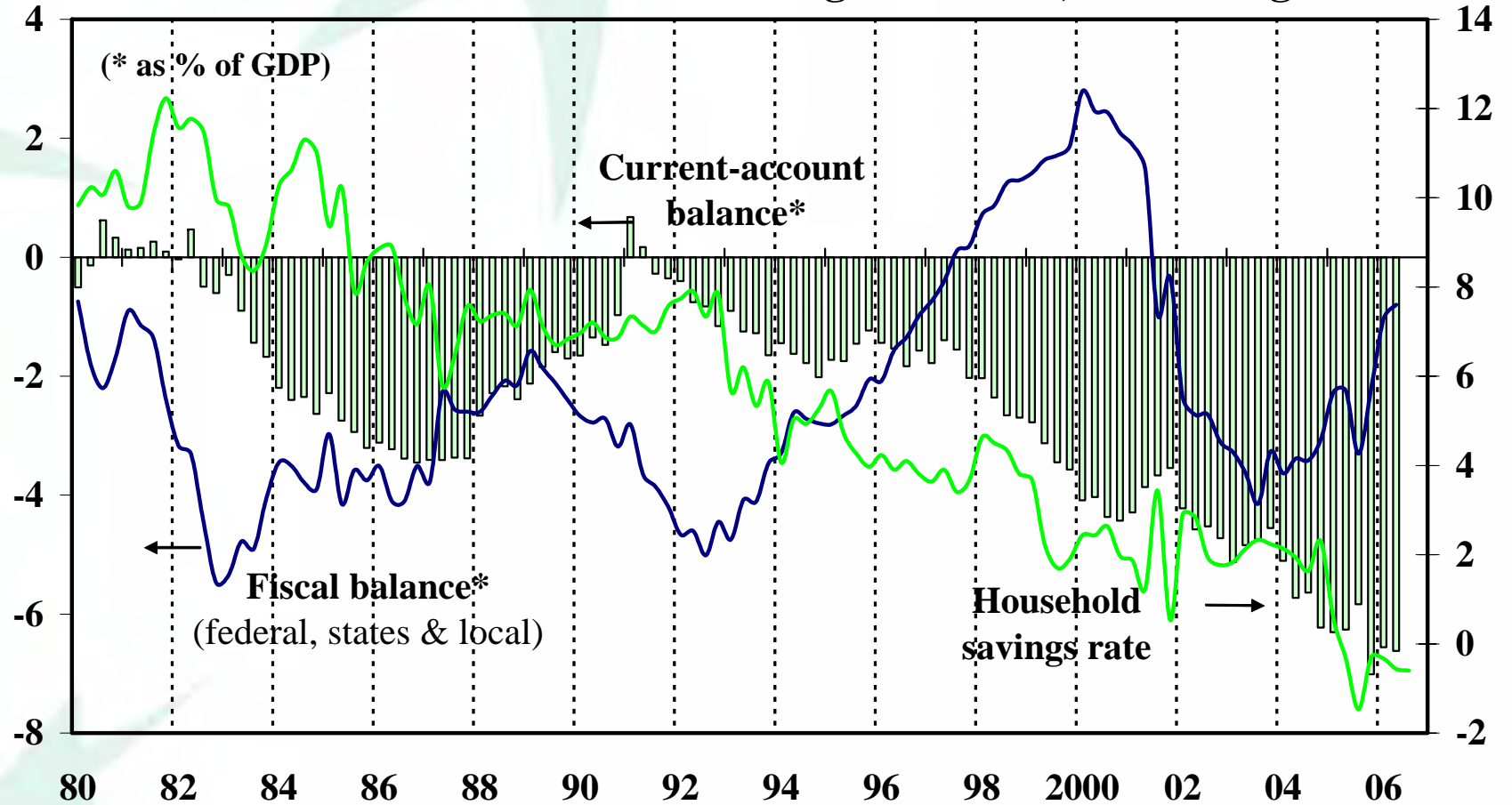
sources: \* University of Michigan, Federal Reserve

### USA: exports & imports growth, & external contribution



source: BEA

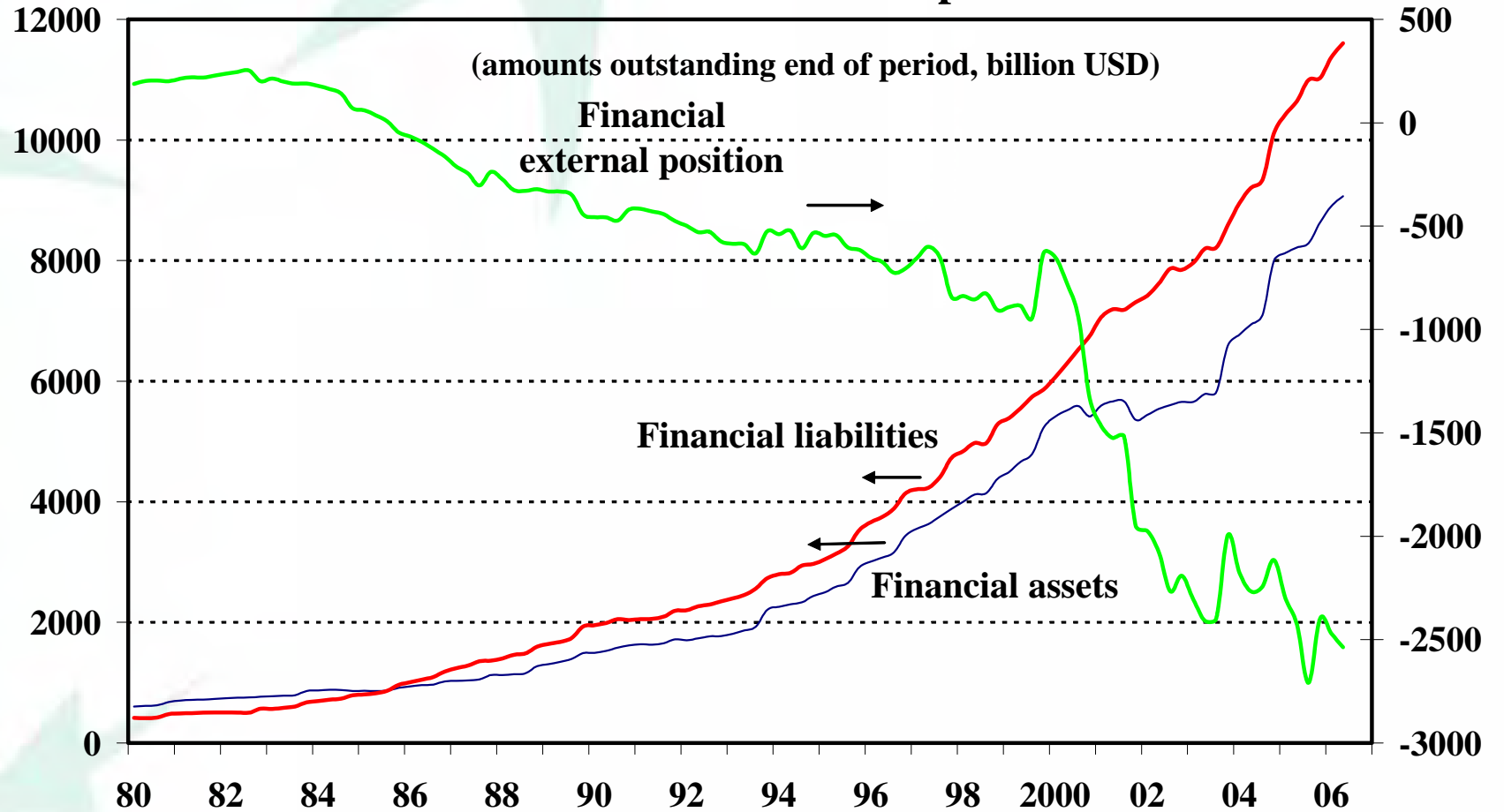
### USA: current-account and budget balances, and savings



sources: BEA, Federal Reserve



### United States : external position



source: Federal Reserve (FoF)

## III - EUROZONE

charts 28 to 44

## ECONOMIC ACTIVITY

- **Growth above potential in 2006.**
- **Financial conditions support investments.**
- **Household consumption :**
  - Job creations are back
  - Low increase in real wages
  - VAT hike in Germany : weakening demand in 2007
- **External demand :**
  - Resilient as of today
  - Stronger euro is a risk
- **No room of maneuver for fiscal policy**
- **Monetary policy : normalization still in the pipe line.**

## STRUCTURAL ISSUES

- **Challenges :**

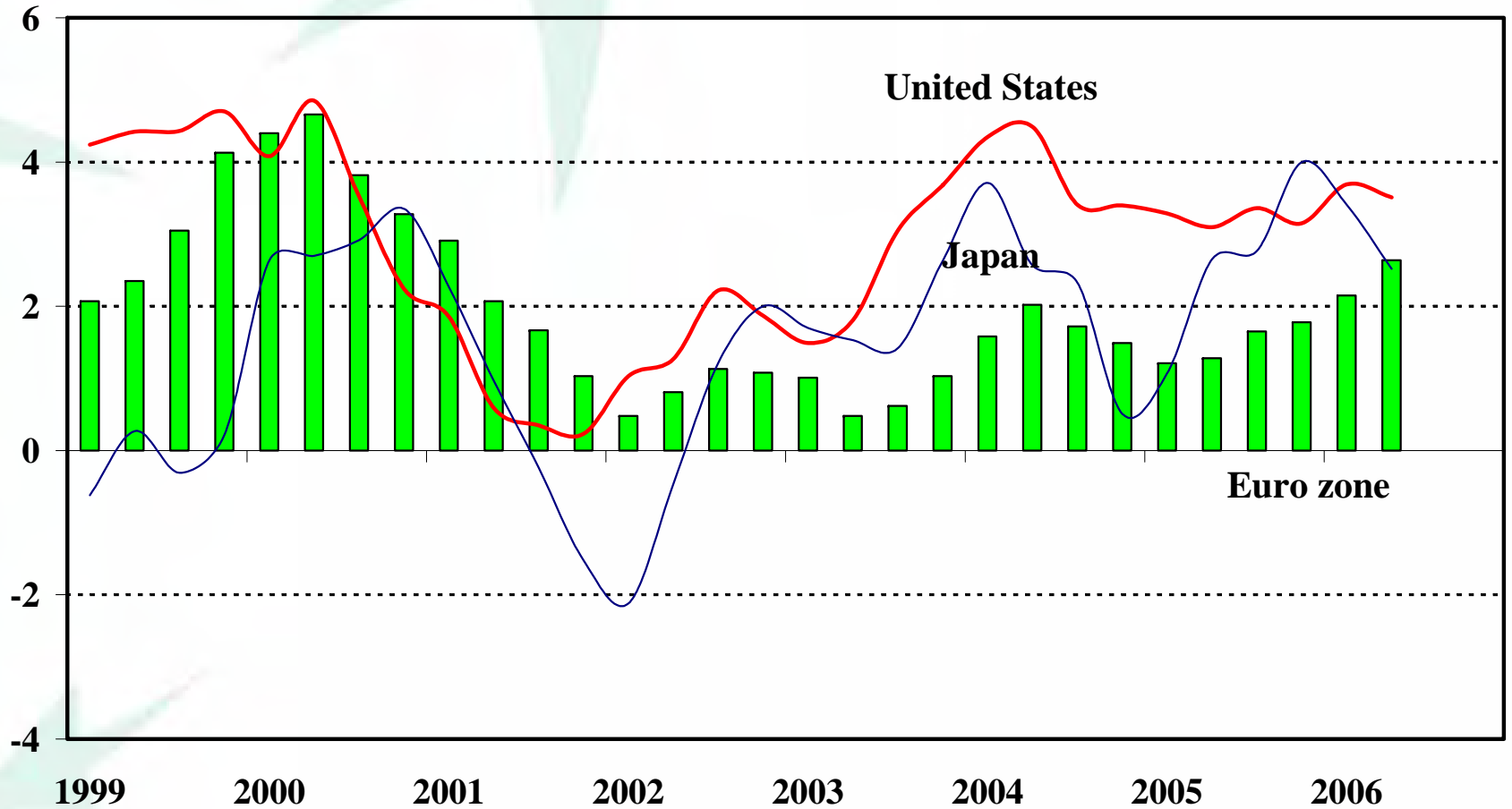
- low potential growth
- the cost of aging

- **A lot remains to be done :**

- fiscal consolidation
- goods market reform (privatization, competition, barriers to entry etc...)
- labor market reform (disincentives to work, disincentives to create jobs have to be addressed...)

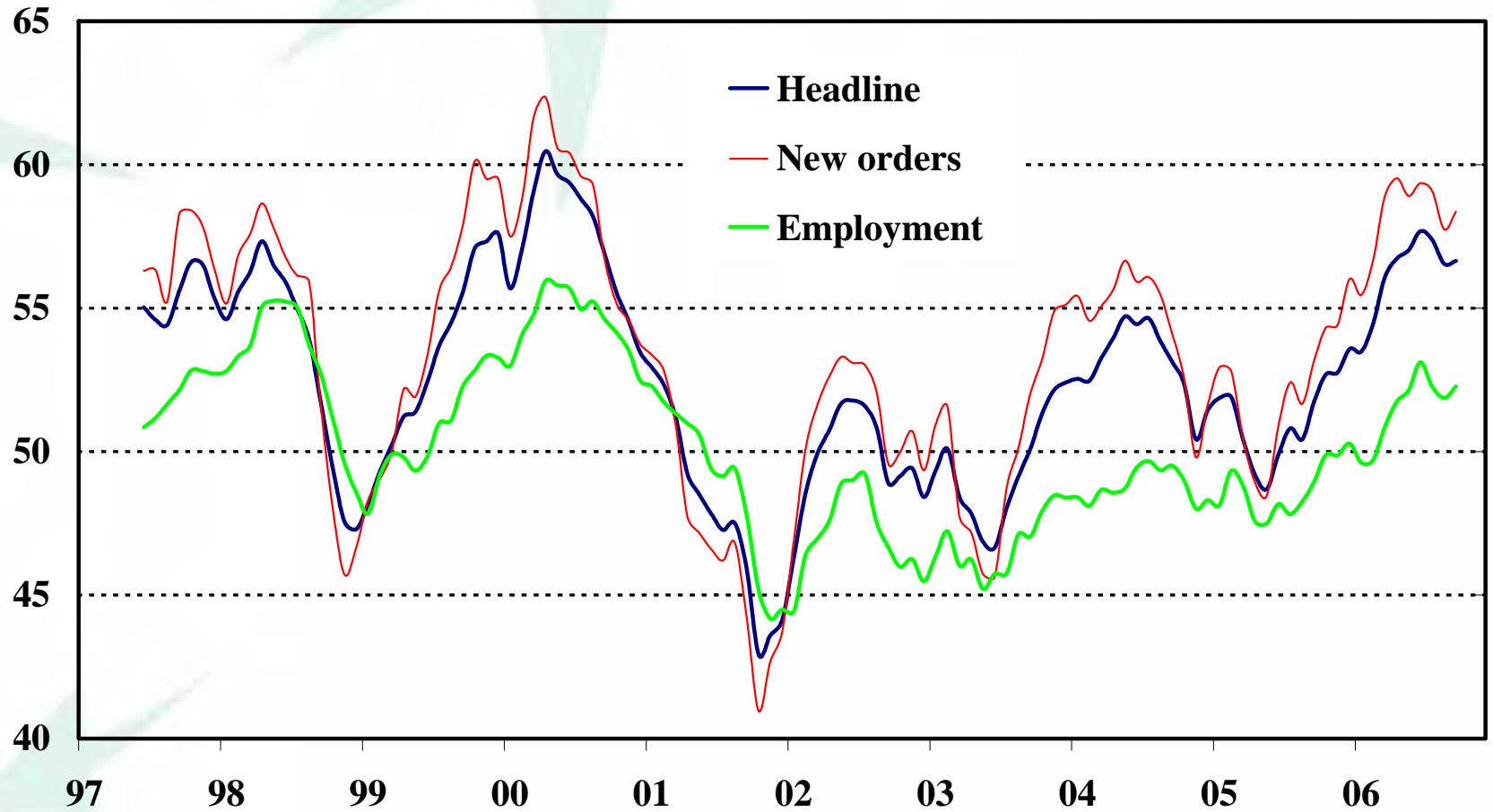
- **The political impediments**

### Real GDP, y/y % change



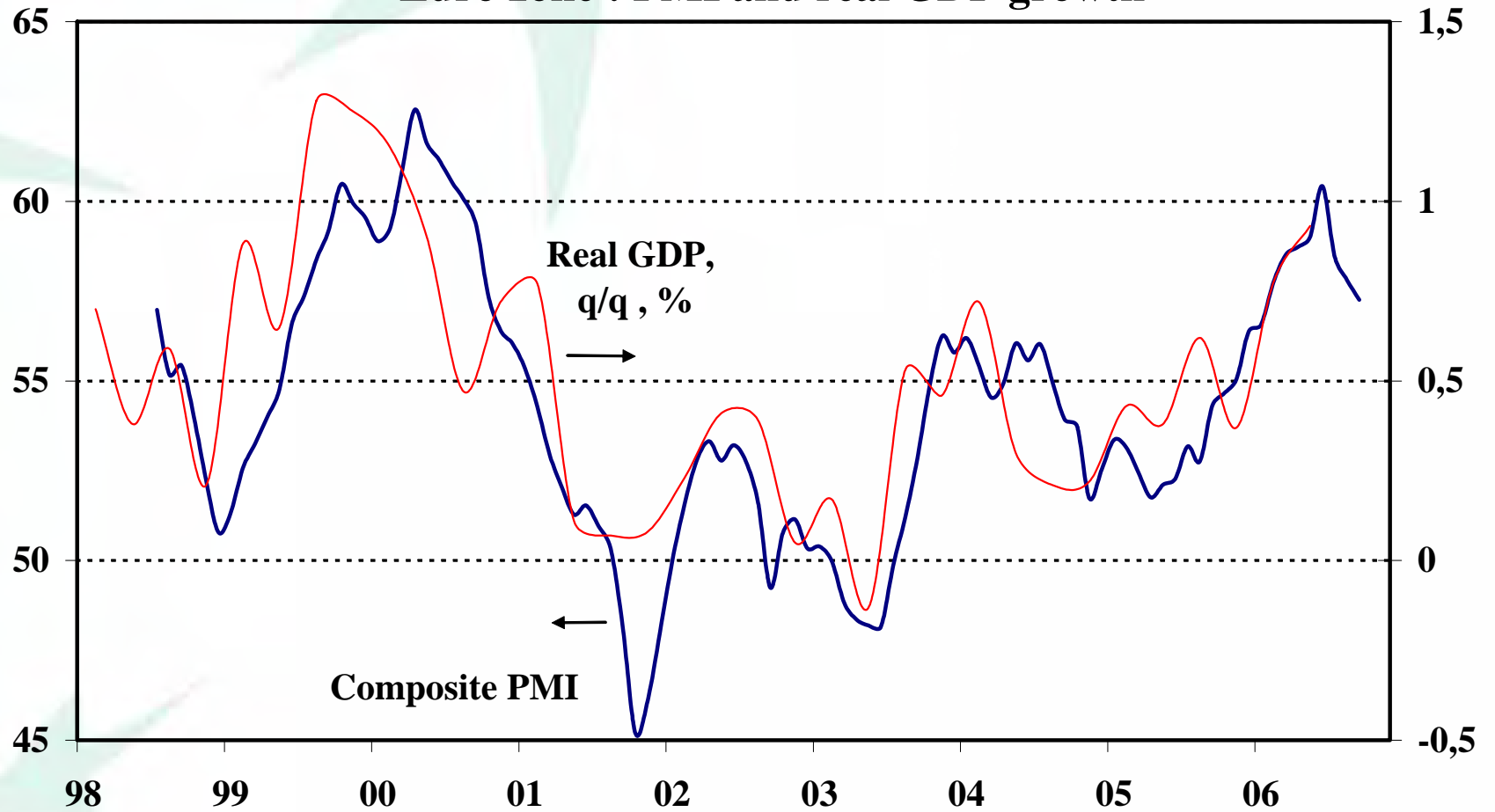
sources: BEA, Cabinet Office of Japan, Eurostat

### Euro zone: PMI manufacturing



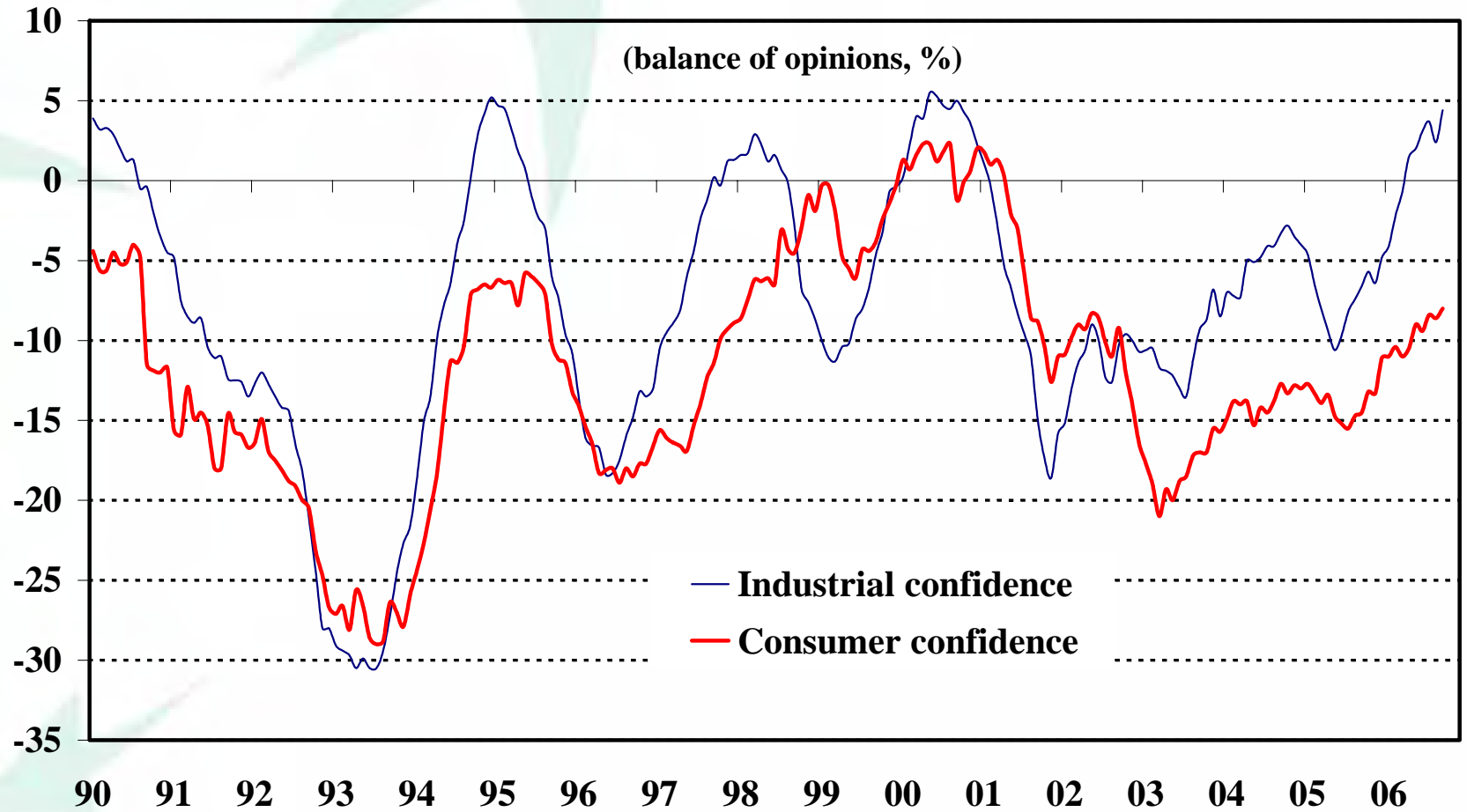
source: NTC

### Euro zone : PMI and real GDP growth



*sources: Reuters, Eurostat*

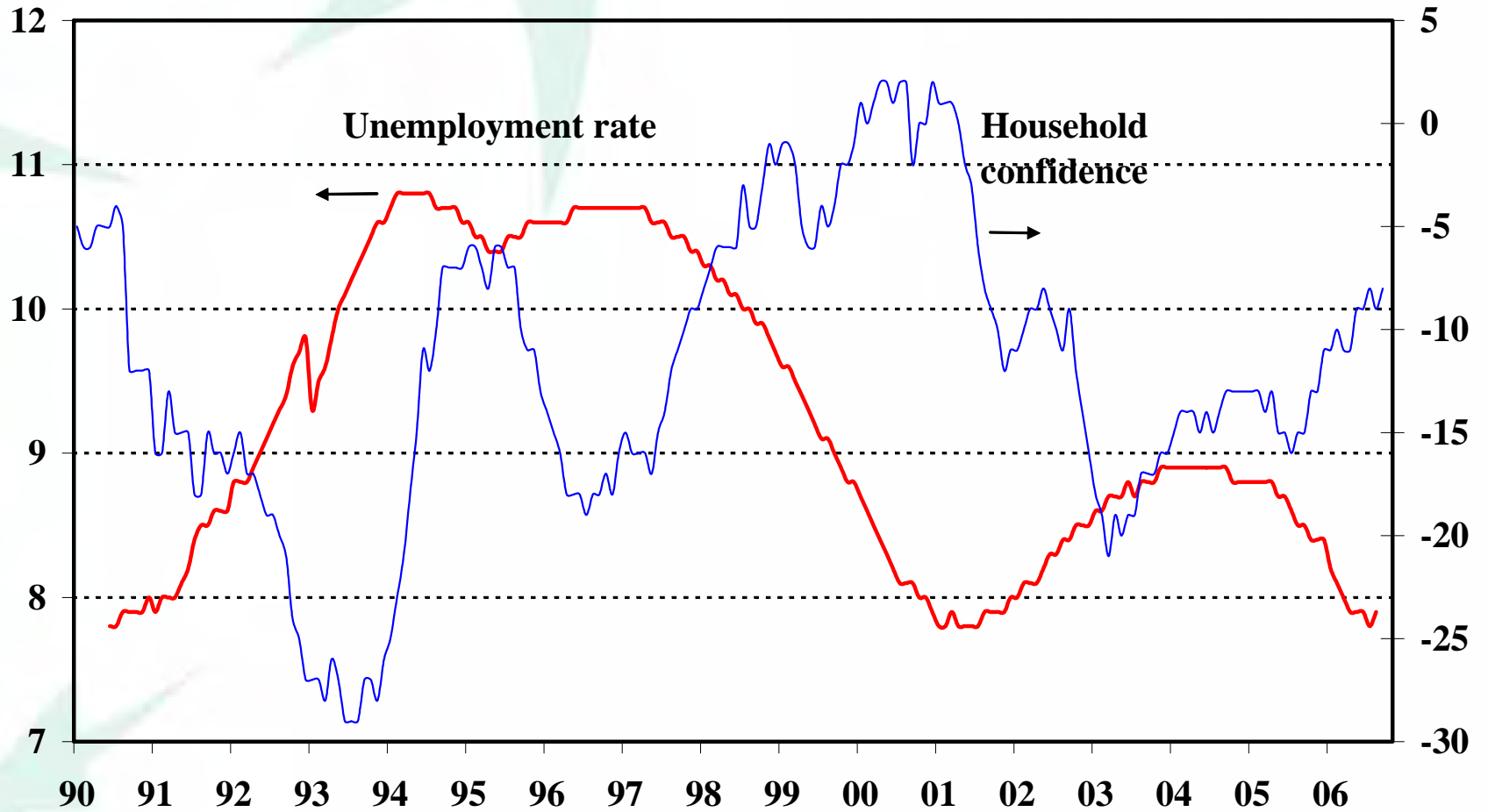
### Euro zone : confidence indices



source: European Commission

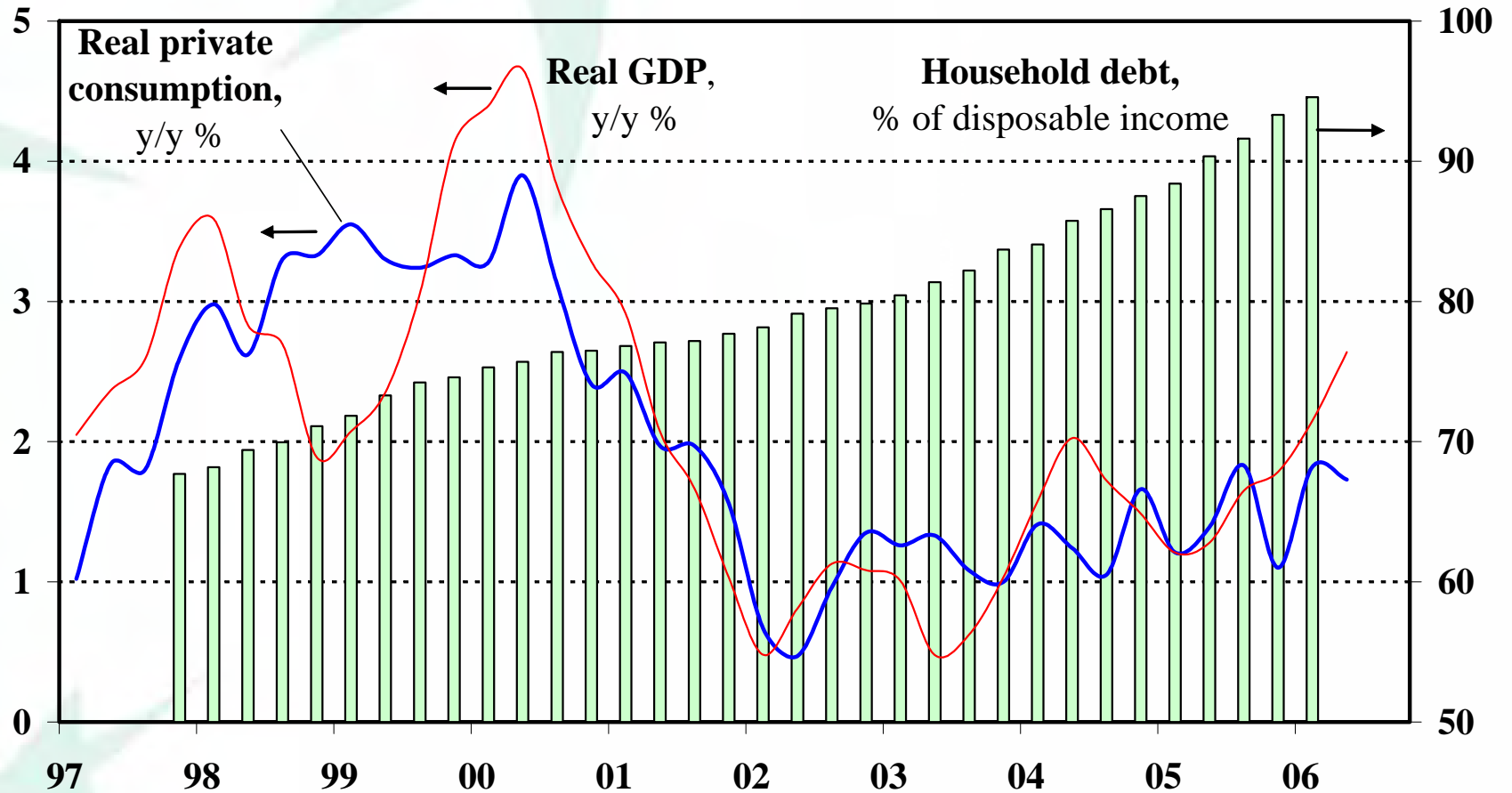


### Euro zone: household confidence and unemployment rate



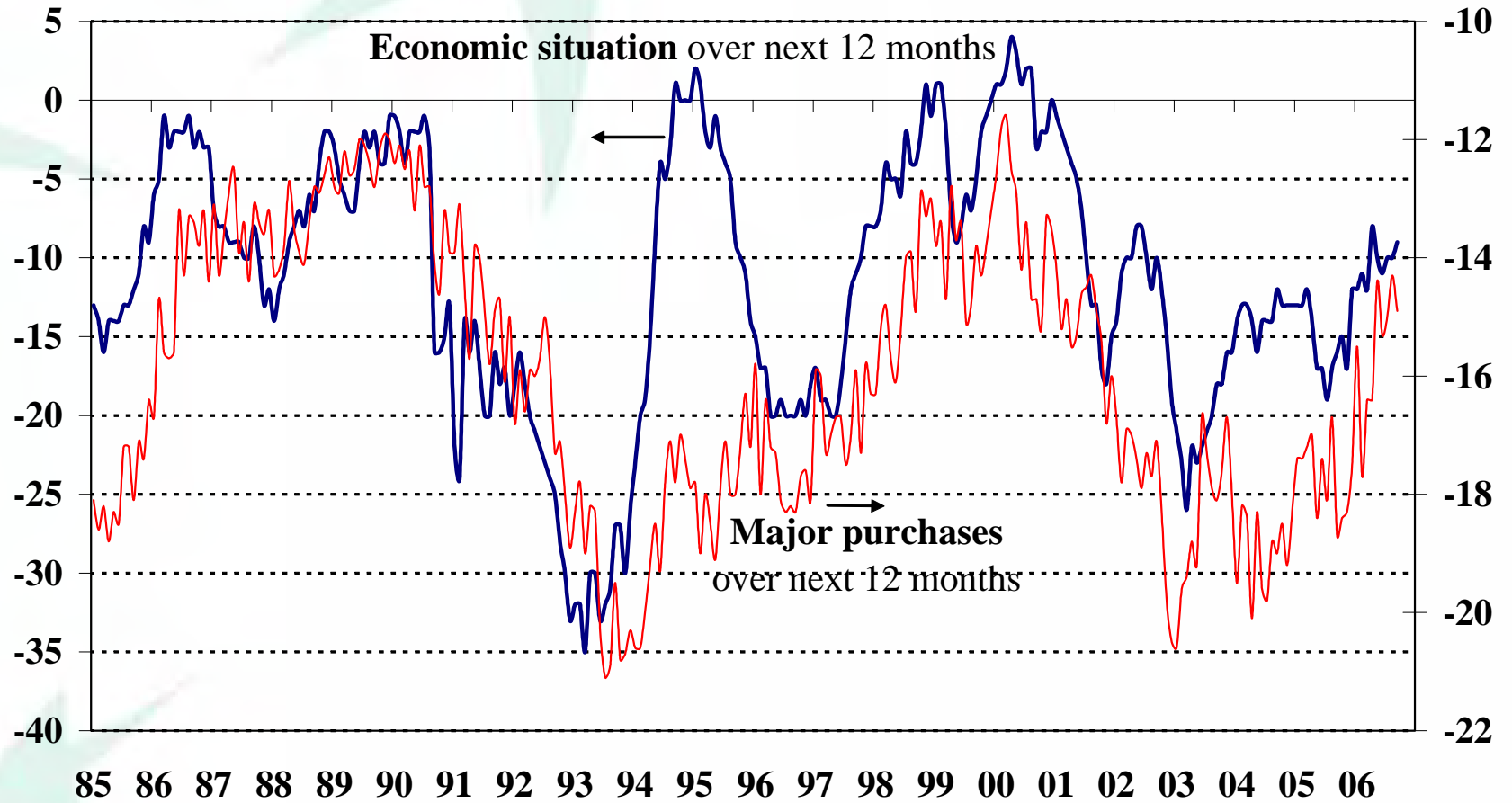
sources: Eurostat, European Commission

### Euro zone: private consumption, GDP & household debt



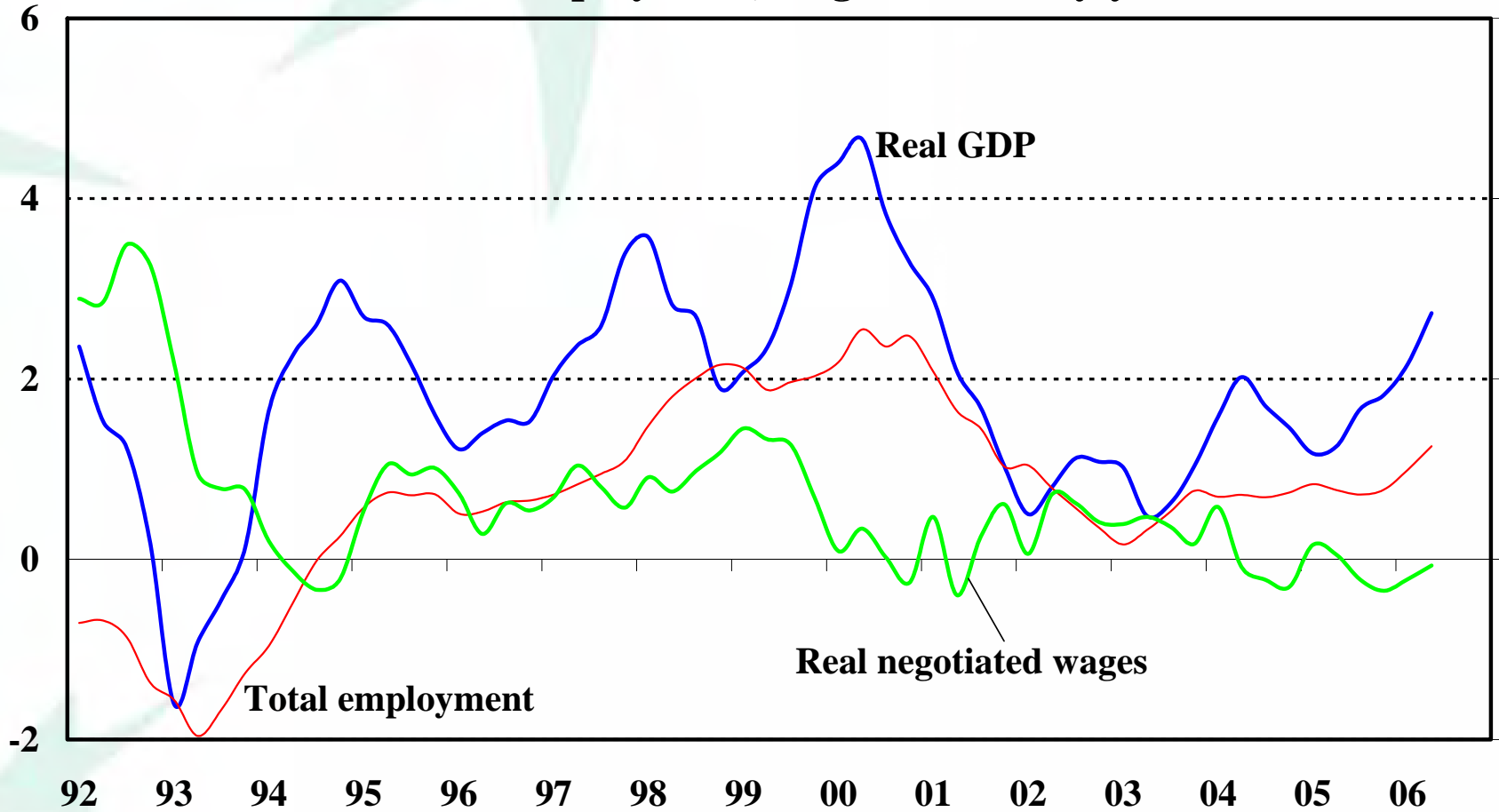
*sources: Eurostat, ECB*

### Euro zone, consumer surveys : economic situation & purchases



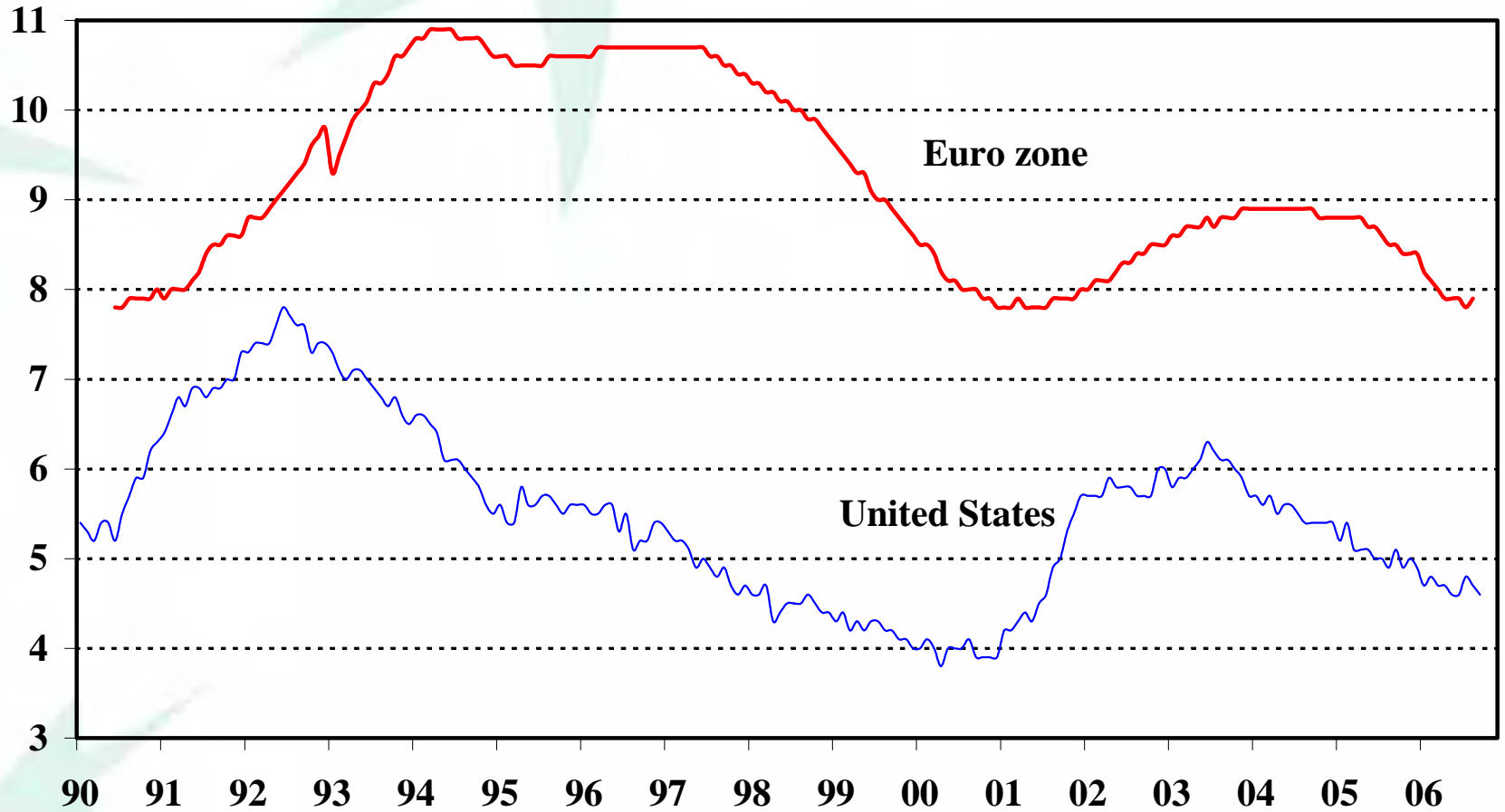
source: European Commission

### Euro zone: employment, wages & GDP (y/y %)



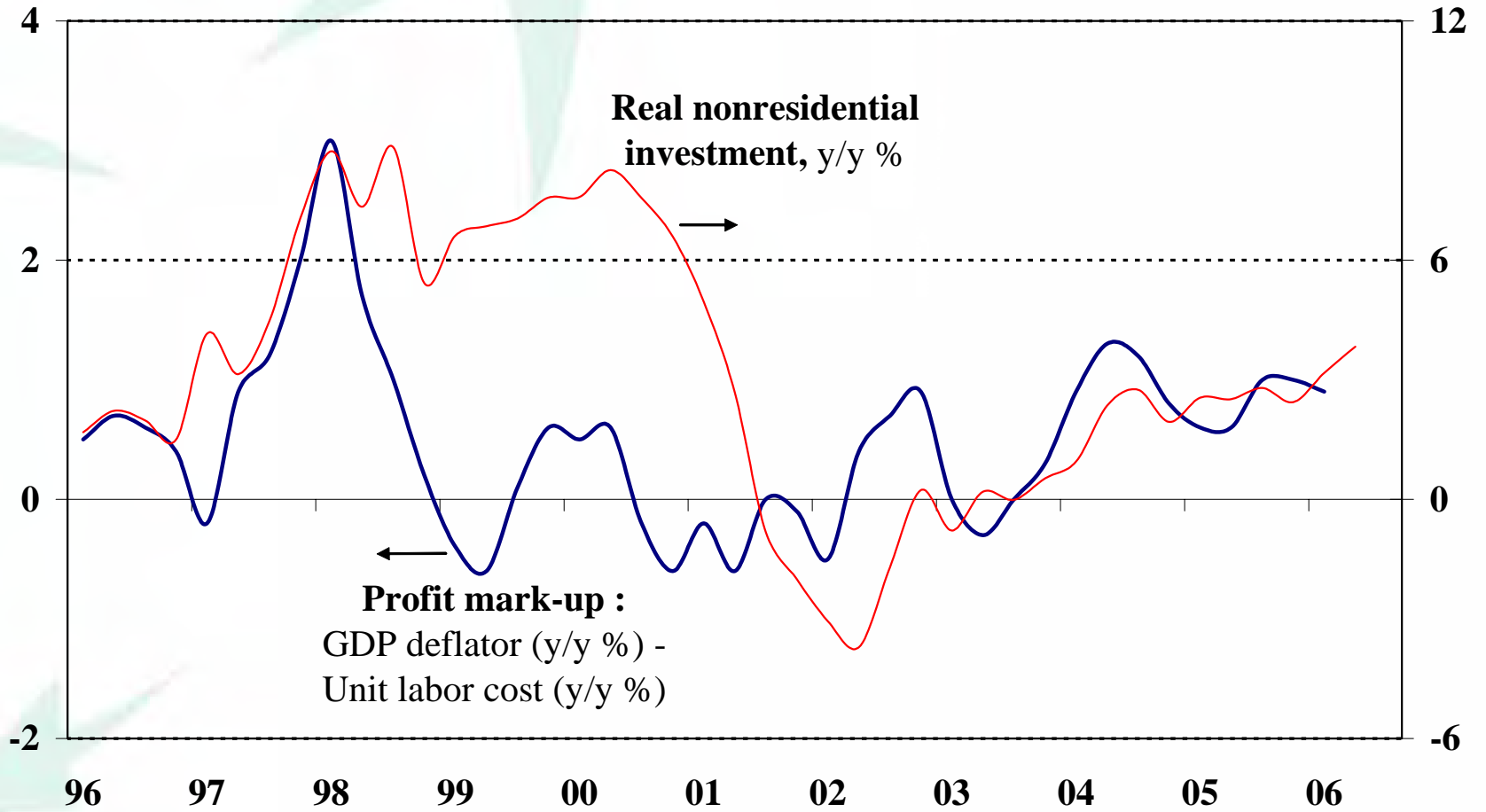
sources: Eurostat, ECB

### Unemployment rate, %



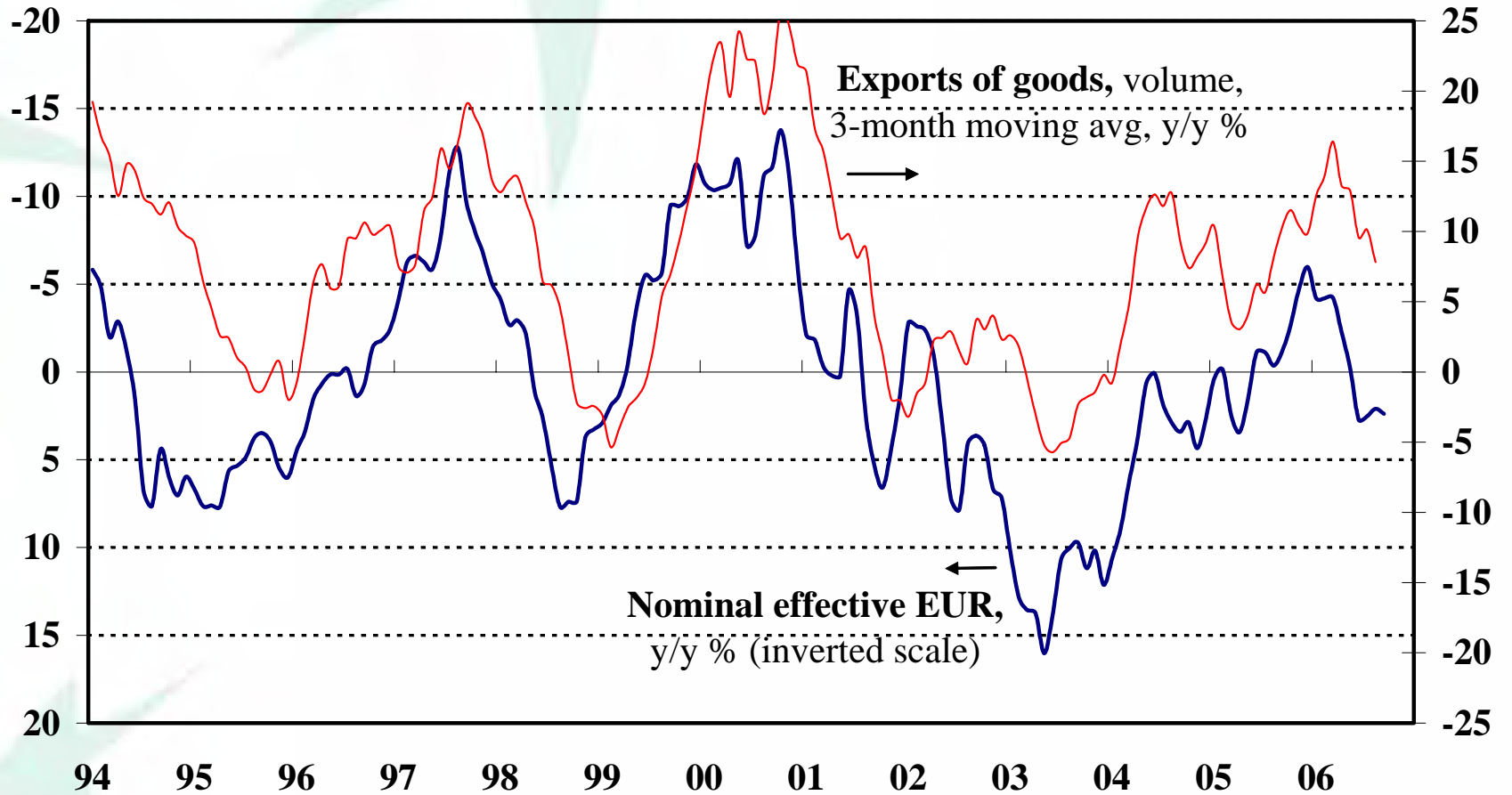
sources: Eurostat, BLS

### Euro zone : nonresidential investment growth and profit mark-up, %



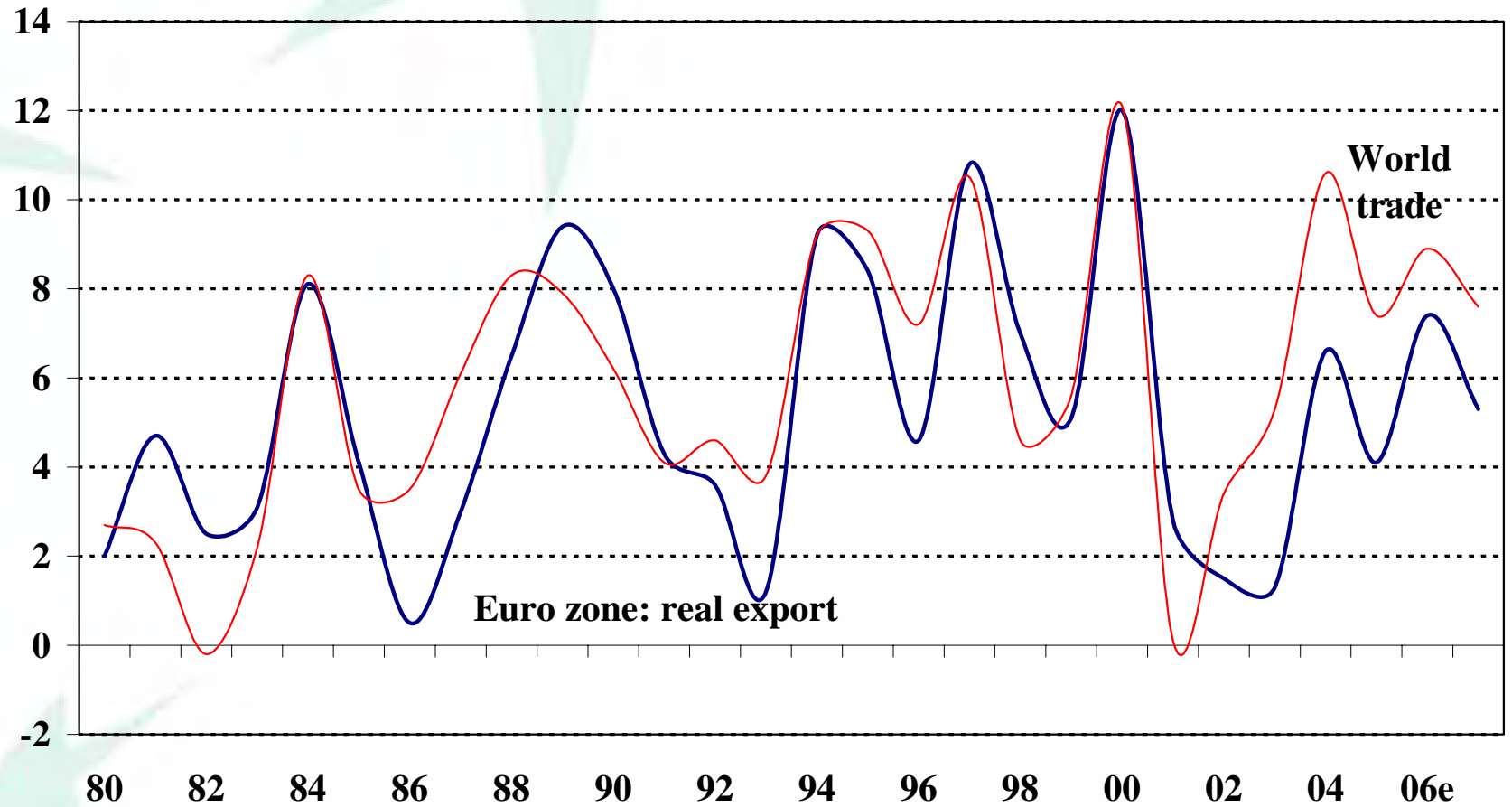
*sources: Eurostat, ECB, OECD*

### Euro zone: trade weighted EUR and exports



source: ECB, Eurostat

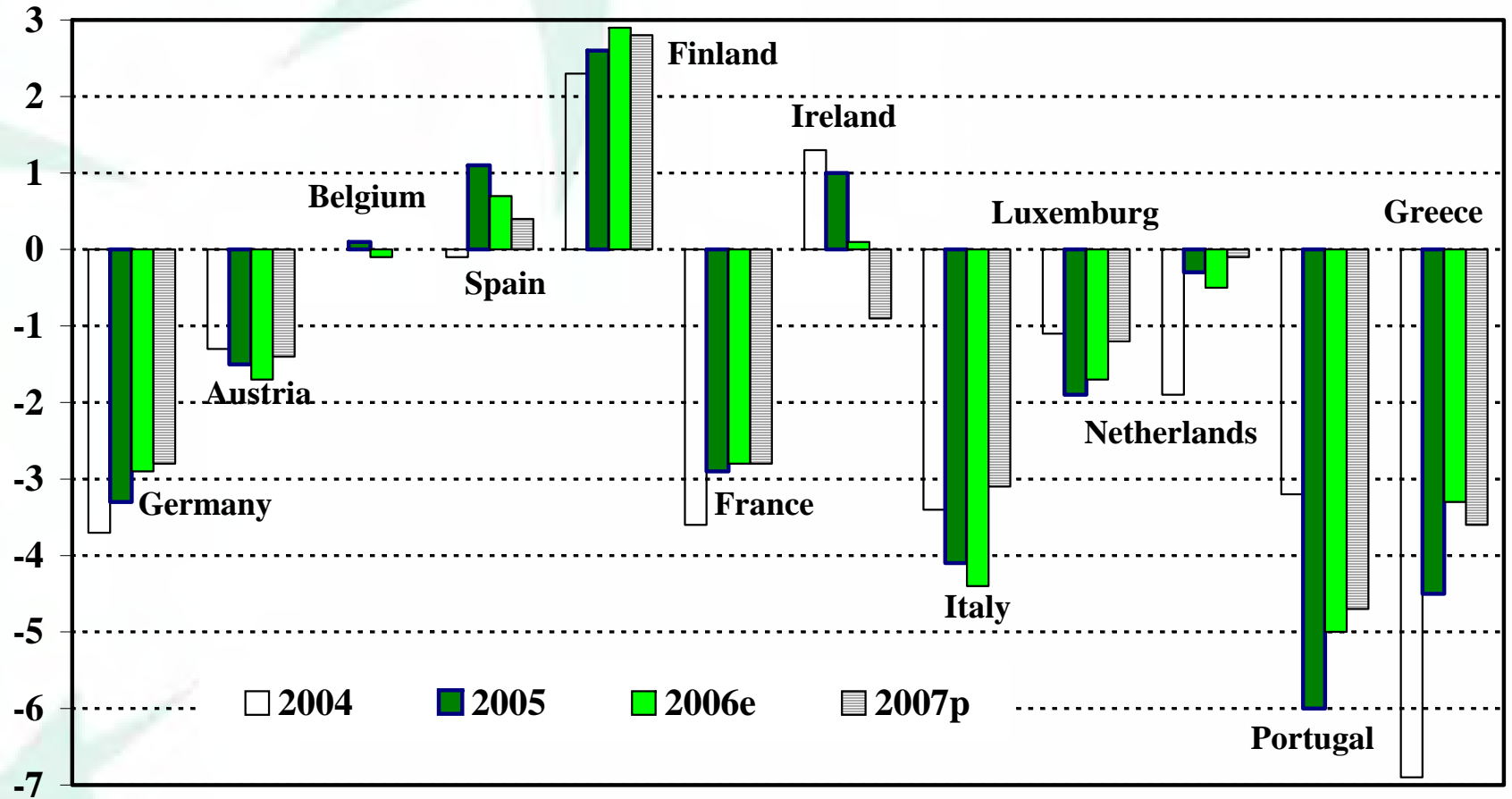
### World trade of goods & services: real annual growth, %



source: IMF (World Economic Outlook, September 2006)

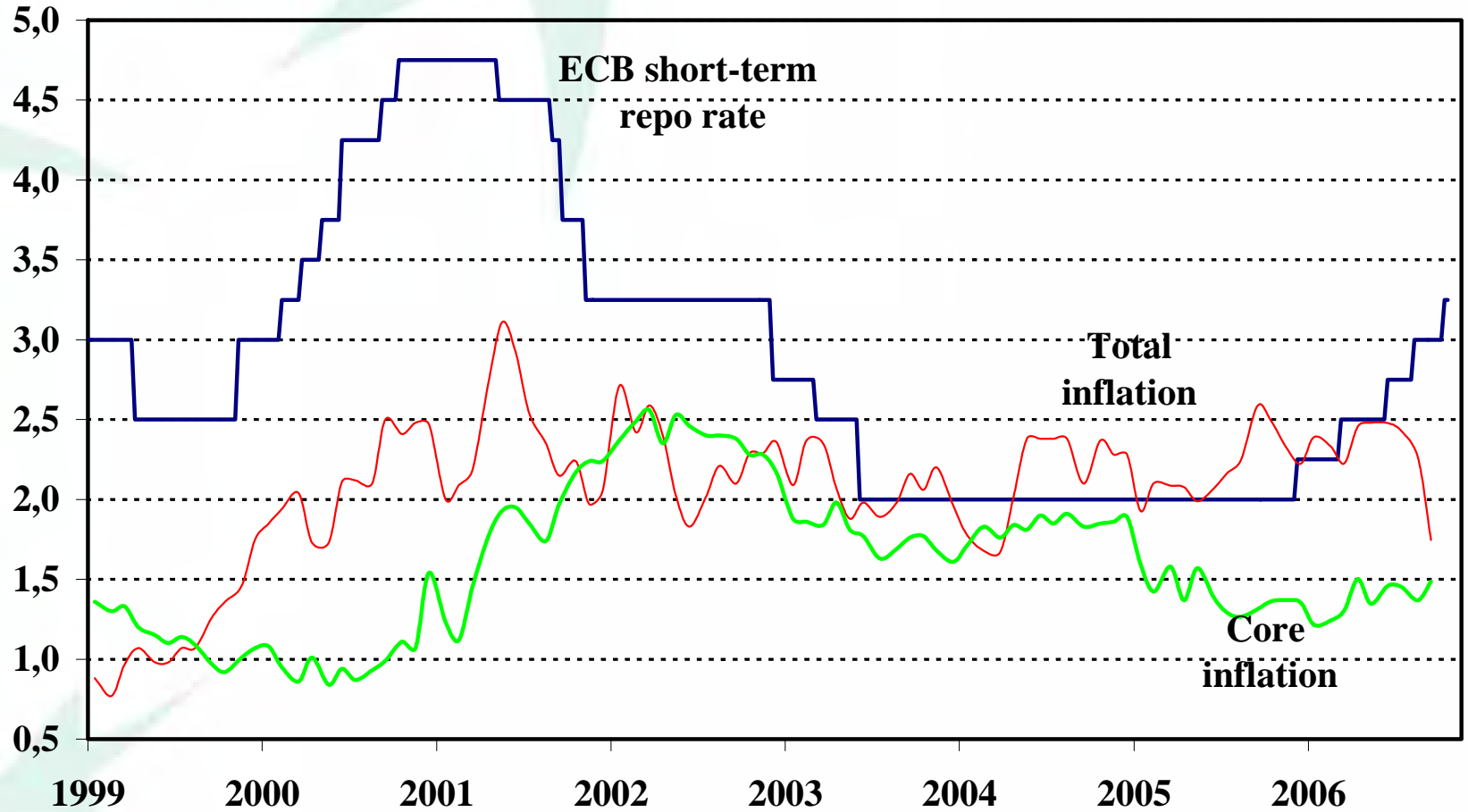


Fiscal balance as % of GDP / country



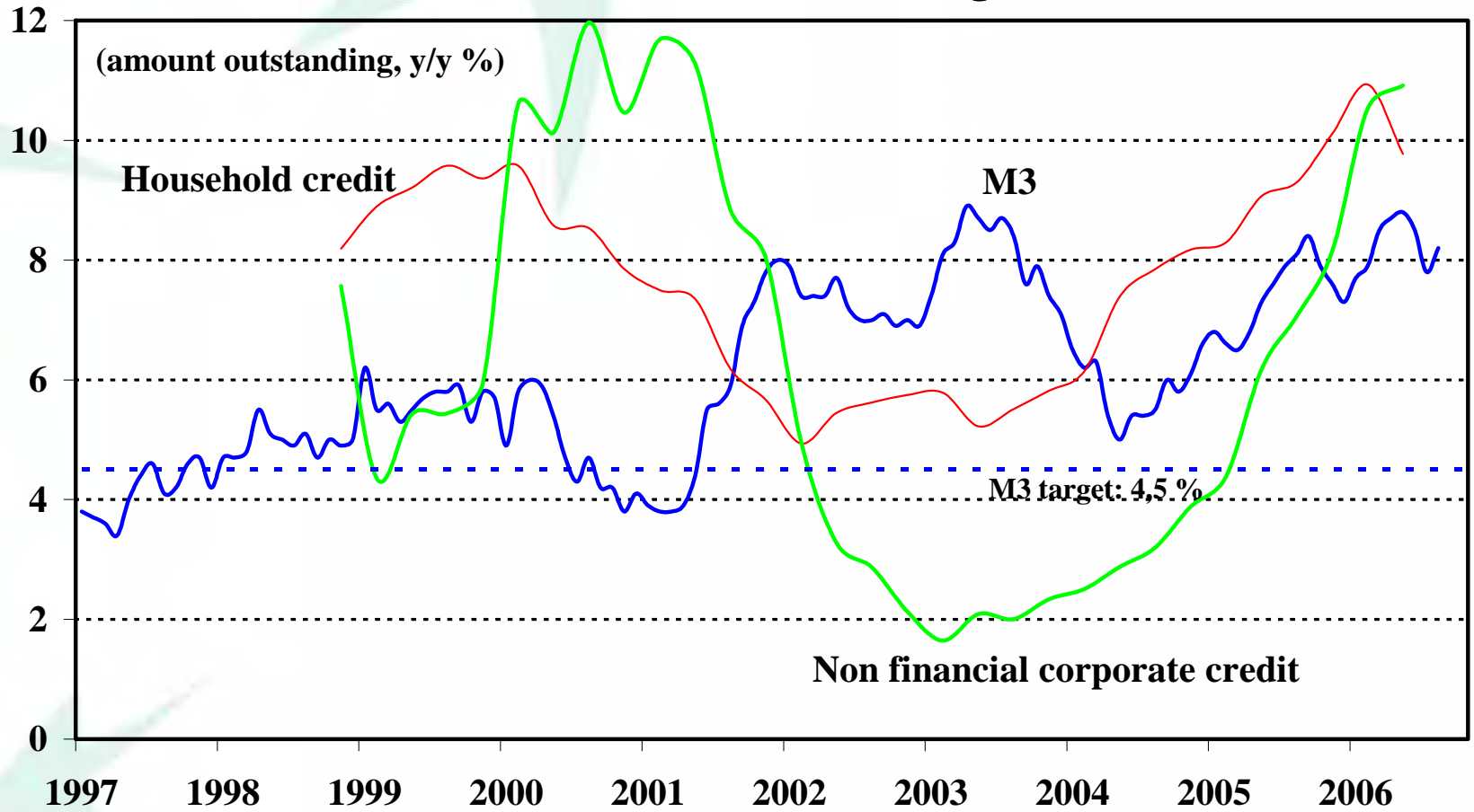
sources: OECD, BNPParibas

### Euro zone: ECB repo rate and inflation



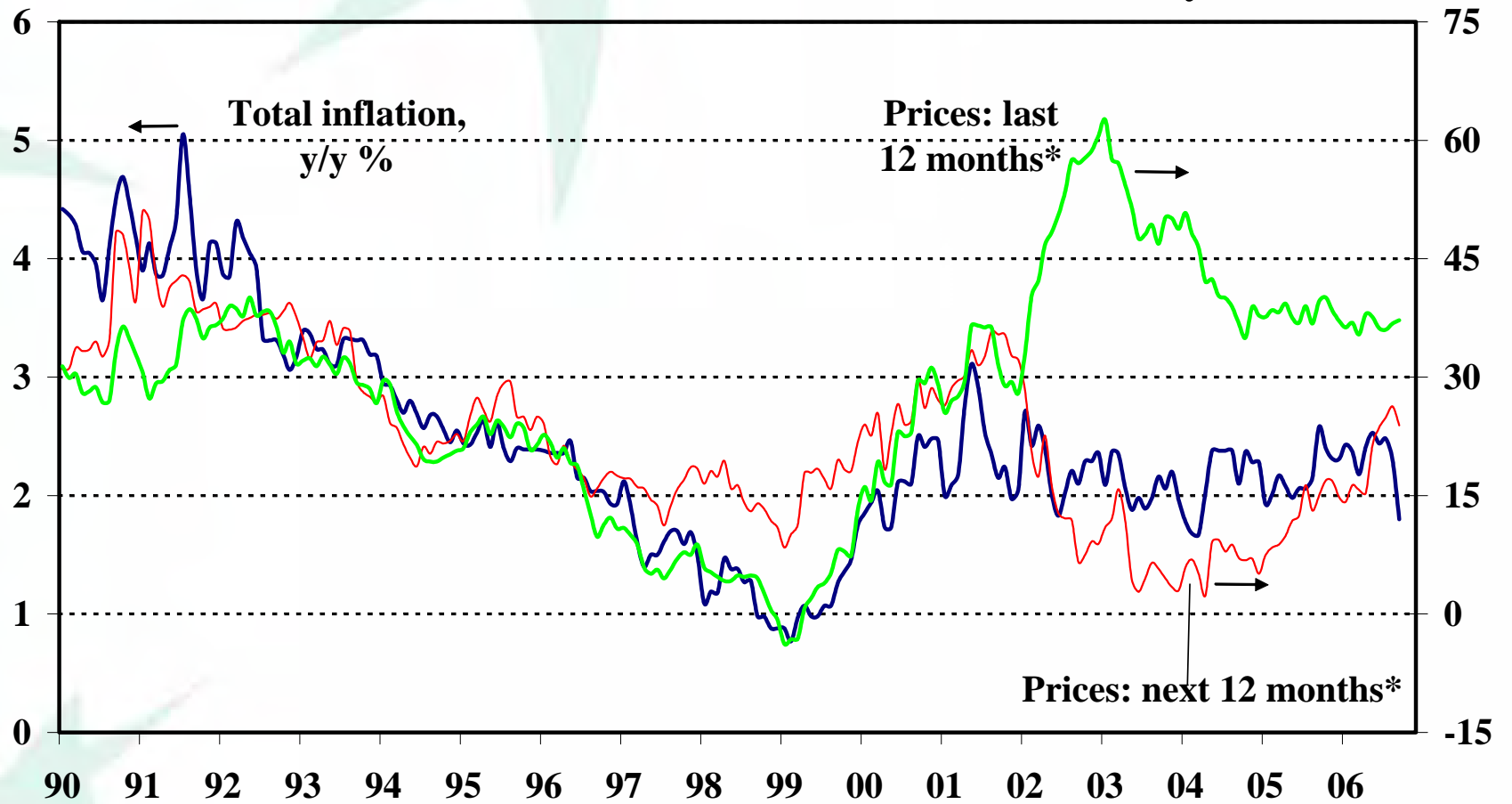
sources: Eurostat, ECB

### Euro zone: M3 and credit growth



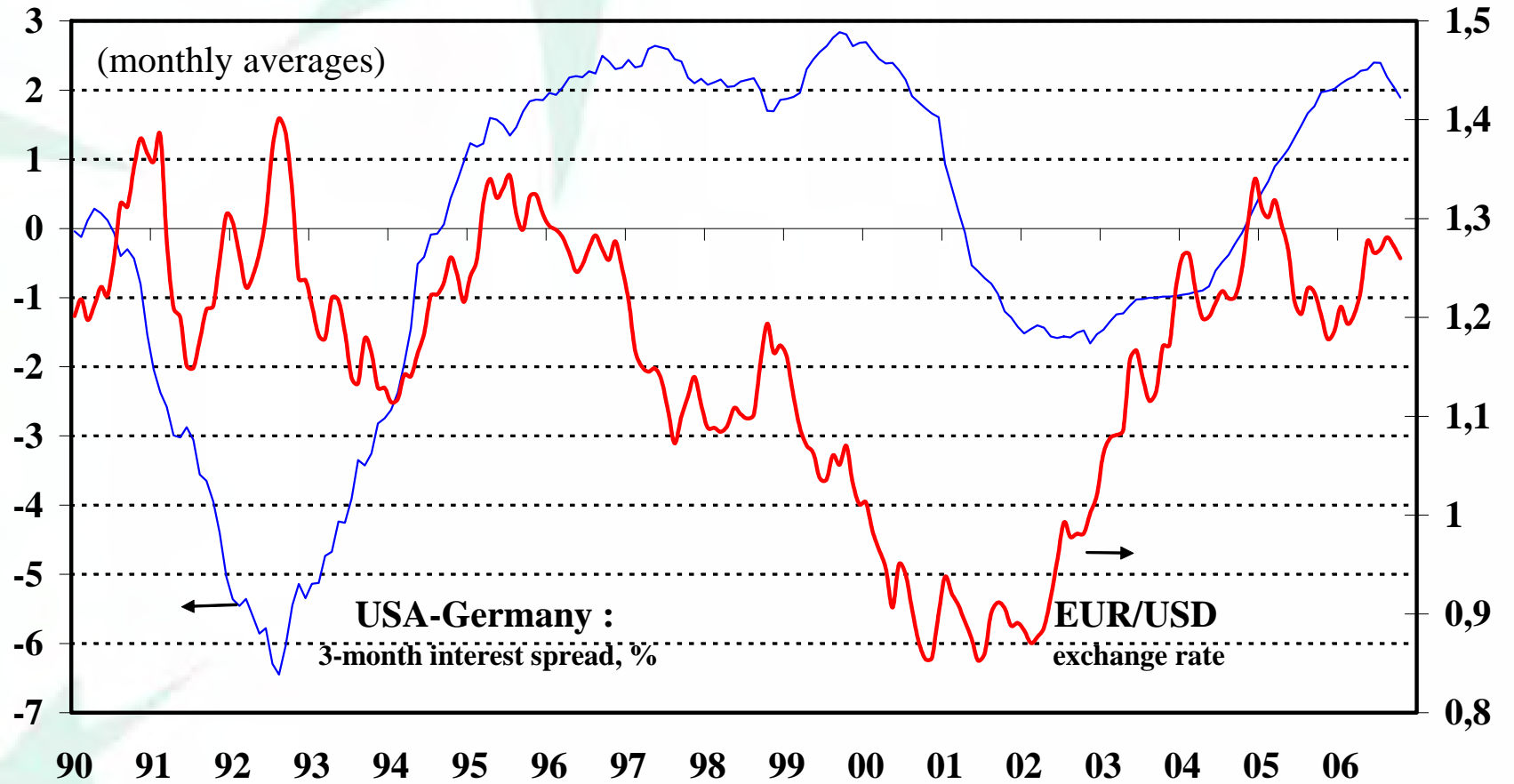
source : ECB

### Euro zone : inflation & consumer surveys



sources: Eurostat, \* European Commission (Consumer surveys)

### USA/Euro zone: interest rate & exchange rate



sources: Bundesbank, Federal Reserve, Reuters

# IV - JAPAN

charts 45 to 57

## ONGOING ECONOMIC RECOVERY TO SOFTEN

- **GDP growth close to 2.5% in 2006, has headed to potential.**
- **Private capital expenditure and household consumption have backed the domestic recovery up until recently.**
- **The current industrial cycle has already peaked last quarter.**
- **Both business and investment of large exporting firms are likely to soften.**

## WHAT CHANGES IN MONETARY POLICY?

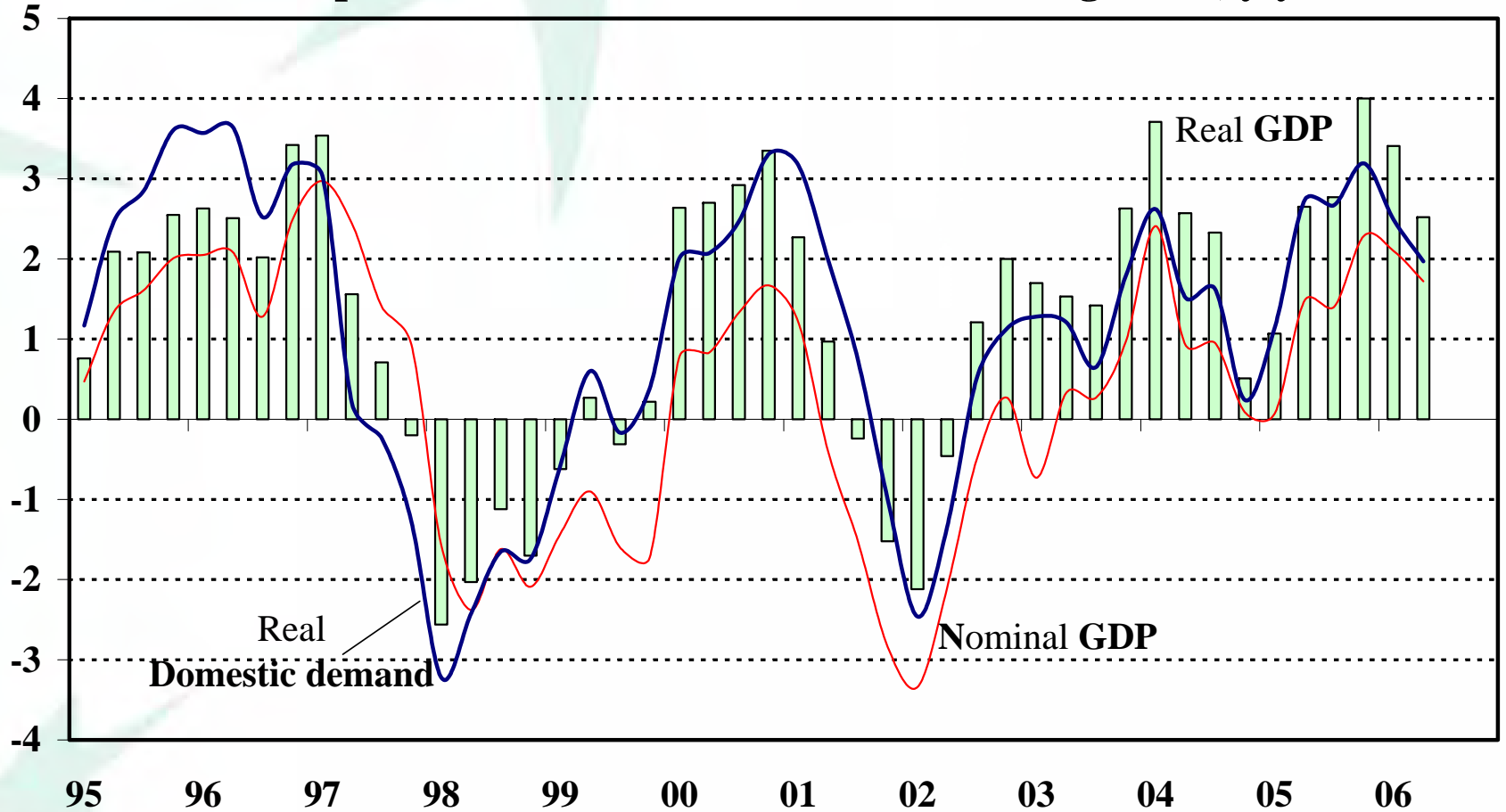
- **The rebasing of the consumer price index has deferred the end of deflation.**
- **A very moderate increase in prices is expected to show up .**
- **Following a first rate hike last July, Bank of Japan should adopt a prolonged monetary *status quo*.**
- **The yen should gradually strengthen versus the dollar.**



## **ACHIEVING FISCAL SUSTAINABILITY CAN NOT BE AVOIDED**

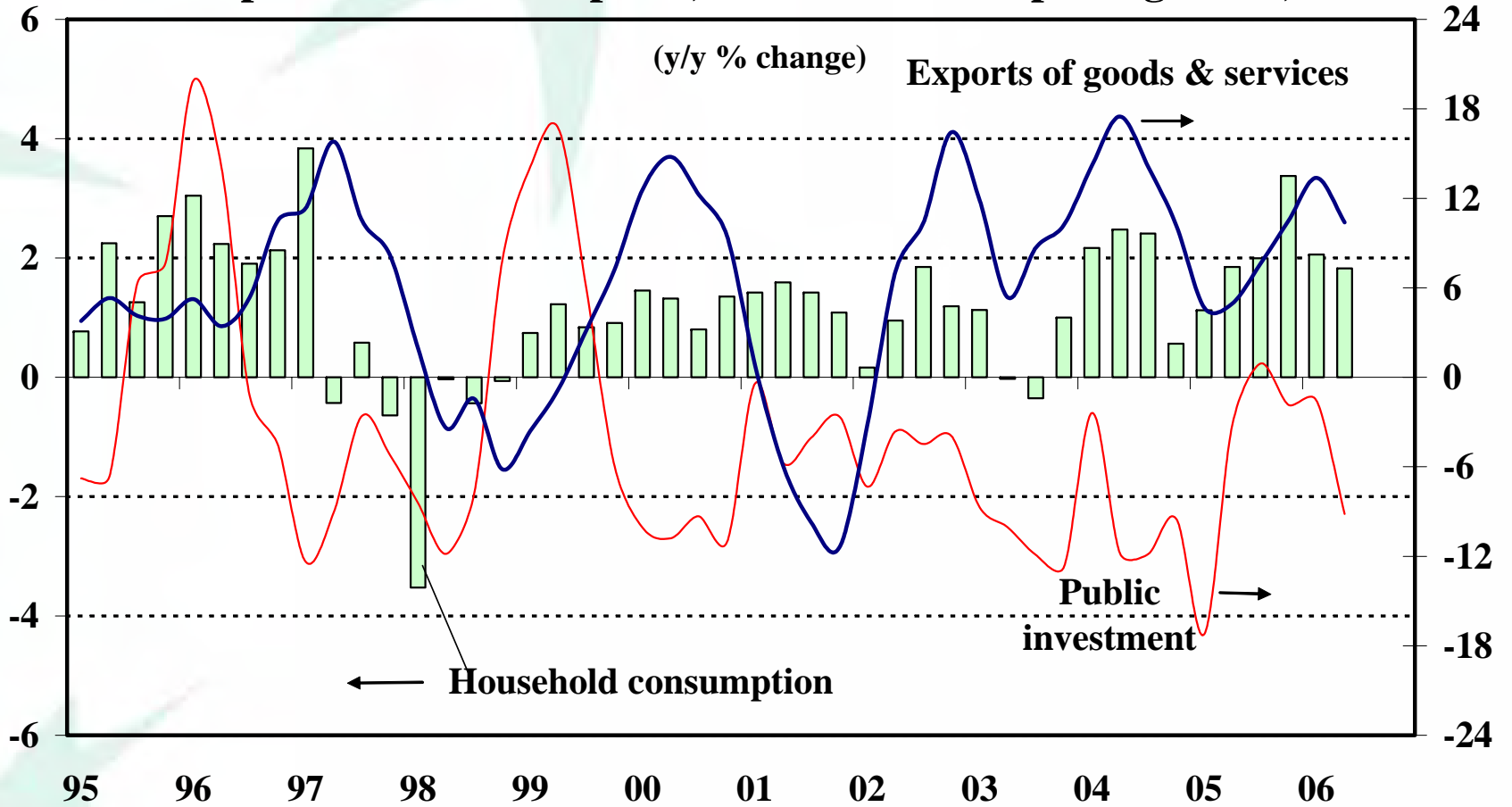
- **The public deficit represented around 5% of GDP and the public debt more than 170% last year.**
- **Primary fiscal deficit is about 4%; a stabilization of the debt ratio requires 1.5% of primary surplus**
- **A complete reshuffle of Japan's tax system as well as a continuation of structural reforms are key to raise Japan growth potential and help the country cope with the challenge of its ageing population. Nonetheless no significant improvement is expected before next summer elections (1997 experience is in every mind...).**

**Japan : real GDP and domestic demand growth, y/y %**



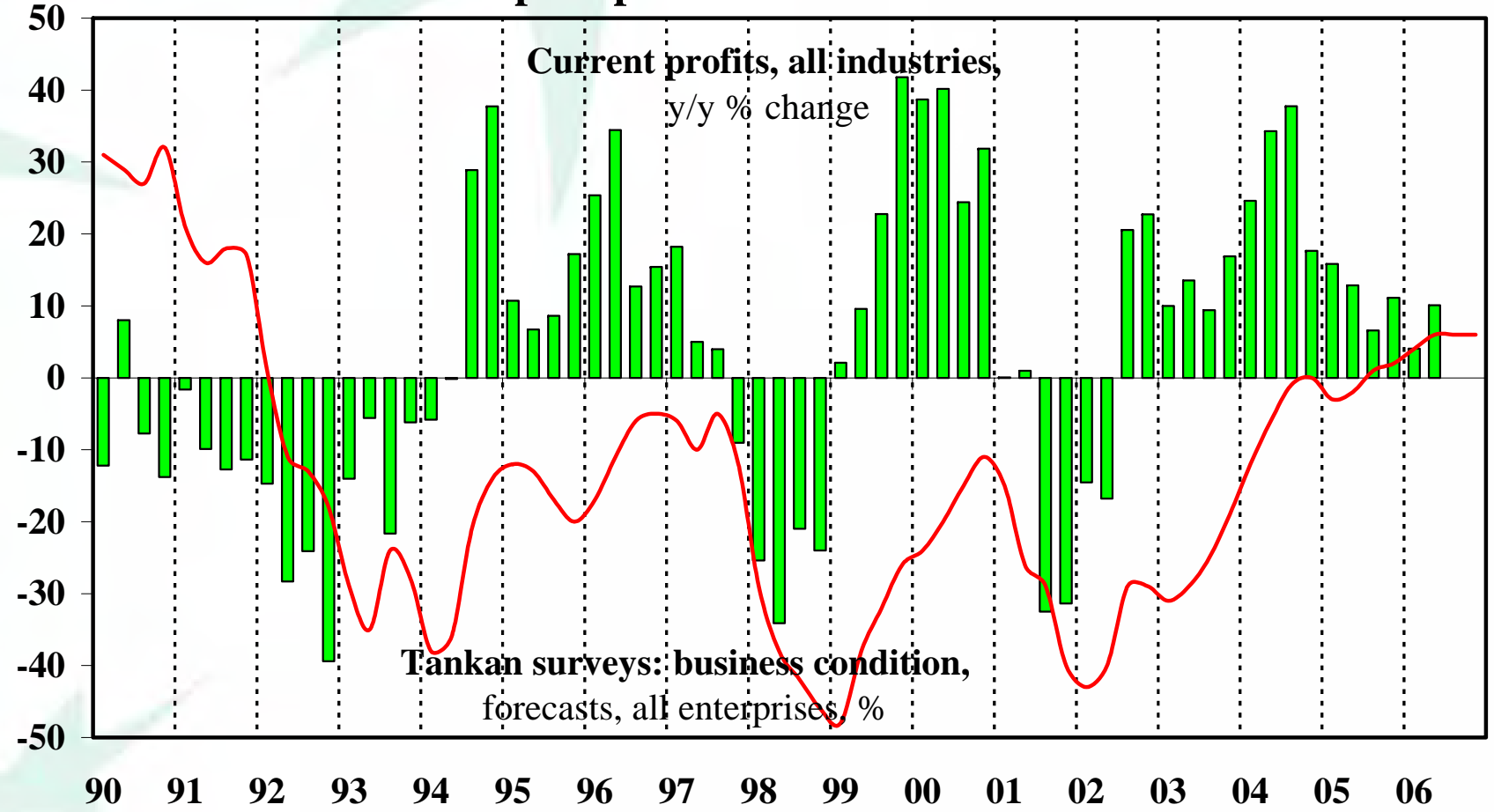
source: Cabinet Office

### Japan : real consumption, investment & exports growth, %



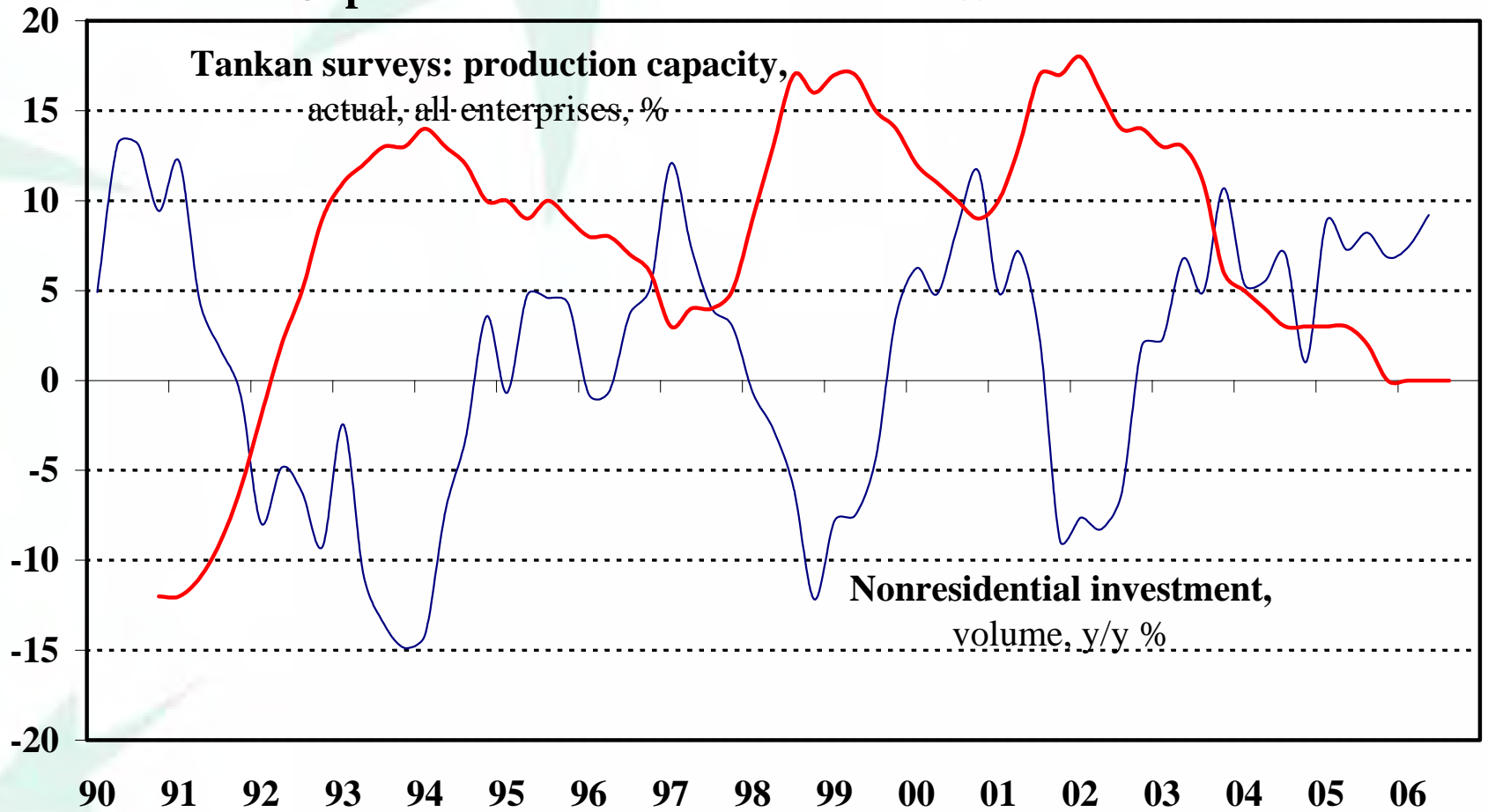
source: Cabinet Office

### Japan: profits and business climate



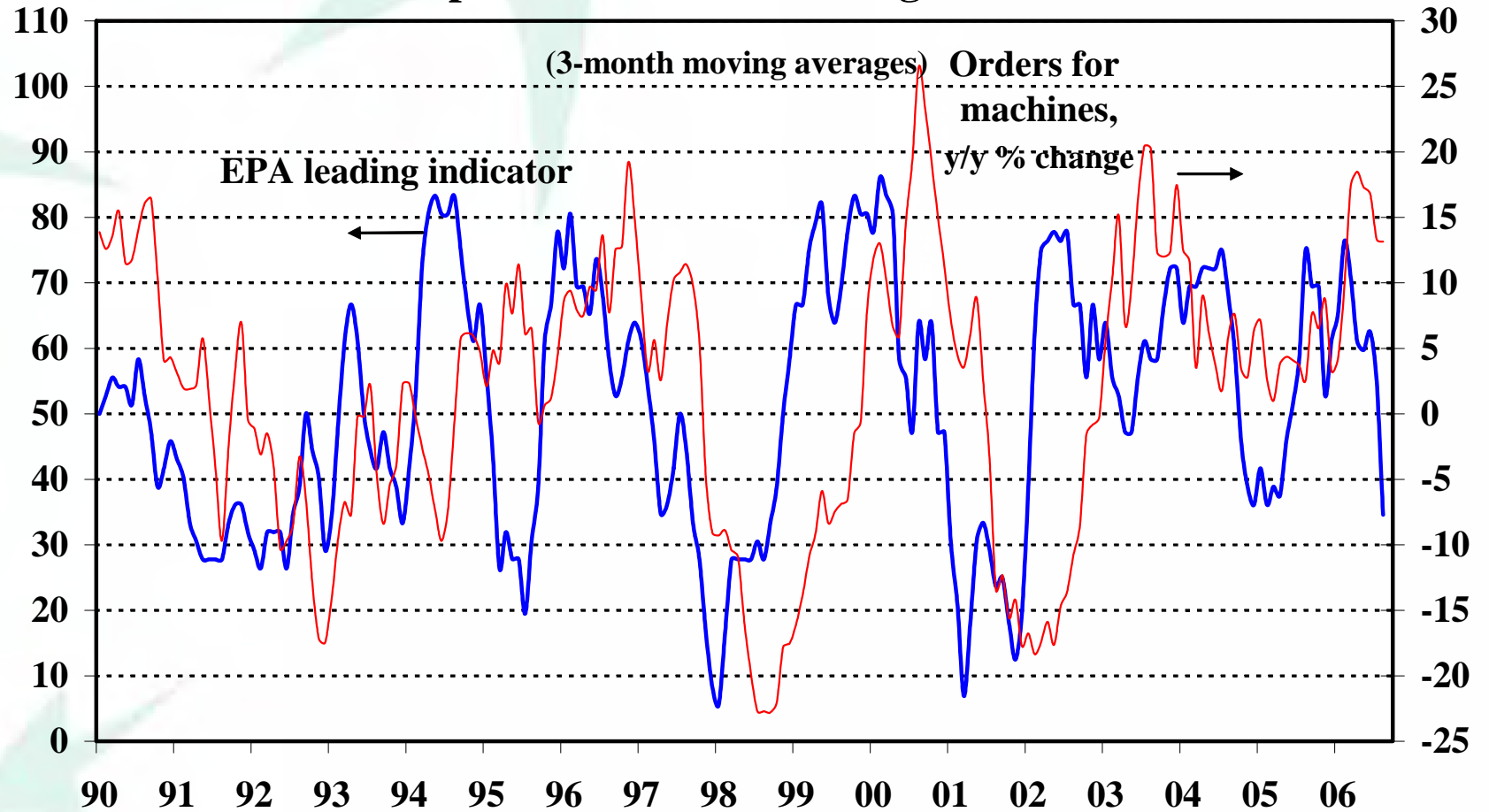
sources: MoF, Tankan (Bank of Japan)

### Japan: nonresidential investment & business climate



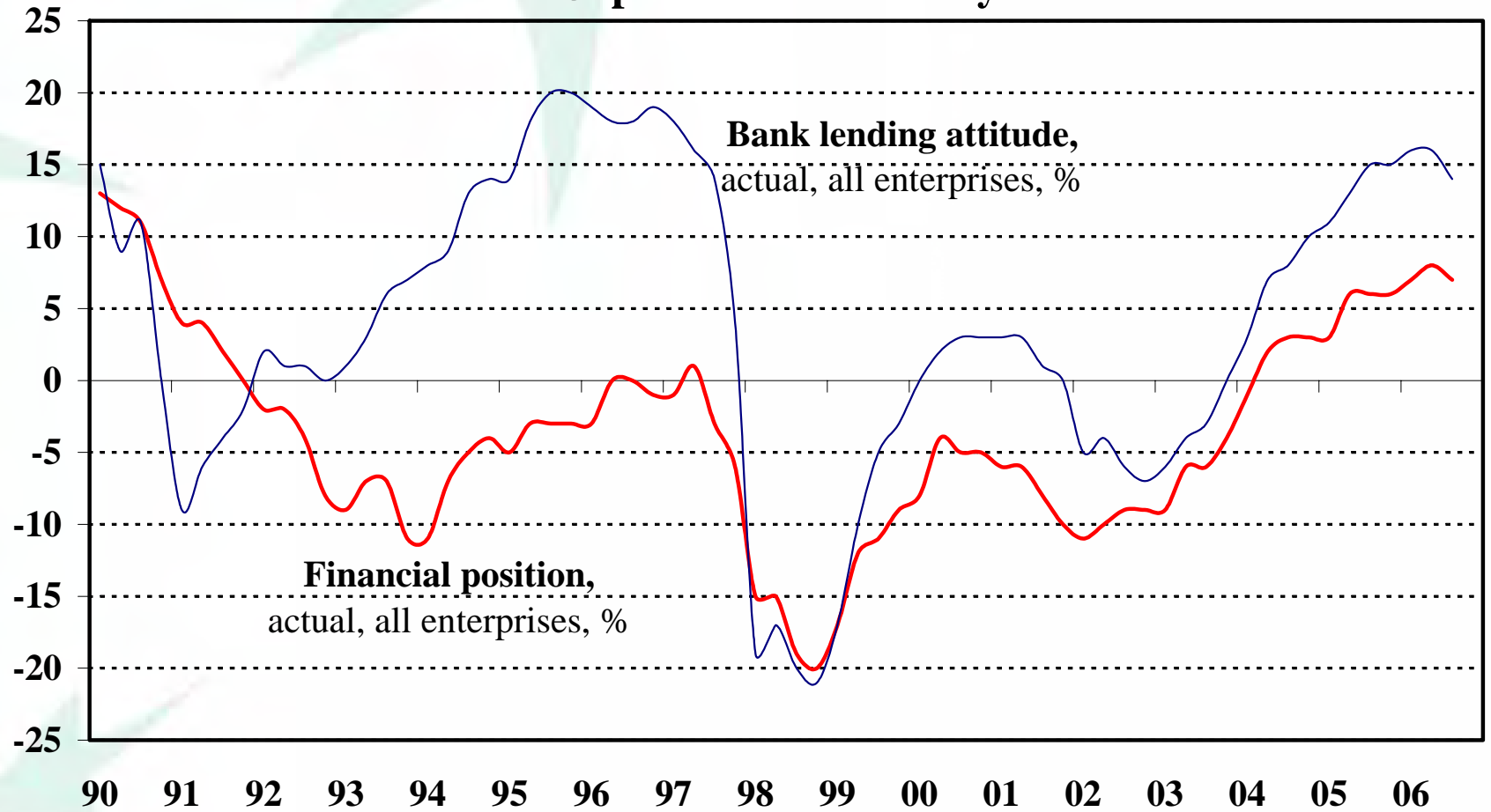
sources: Cabinet Office, Tankan (Bank of Japan)

### Japan : orders and leading indicator



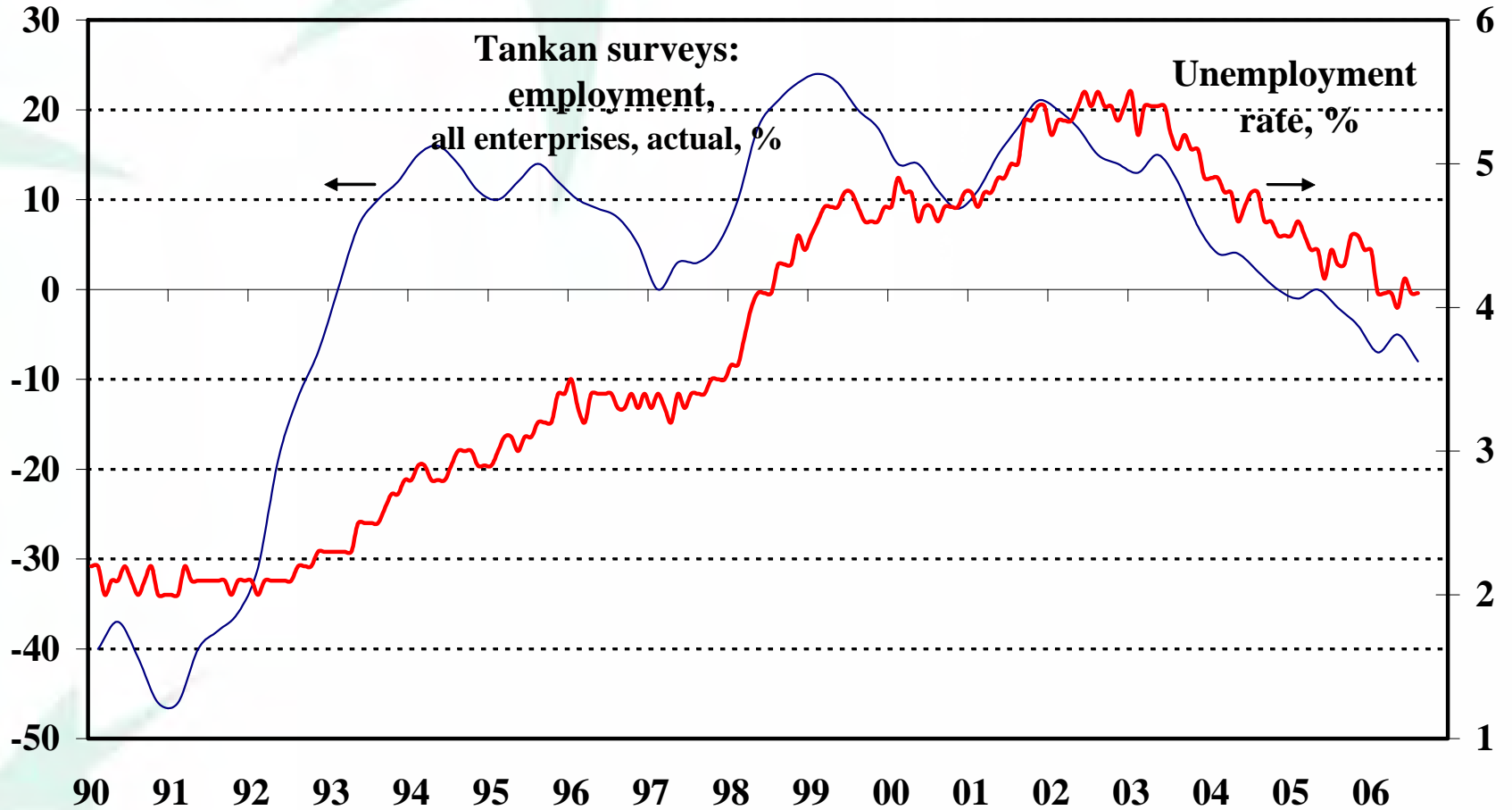
source: Cabinet Office

### Japan: Tankan surveys



source: Tankan (Bank of Japan)

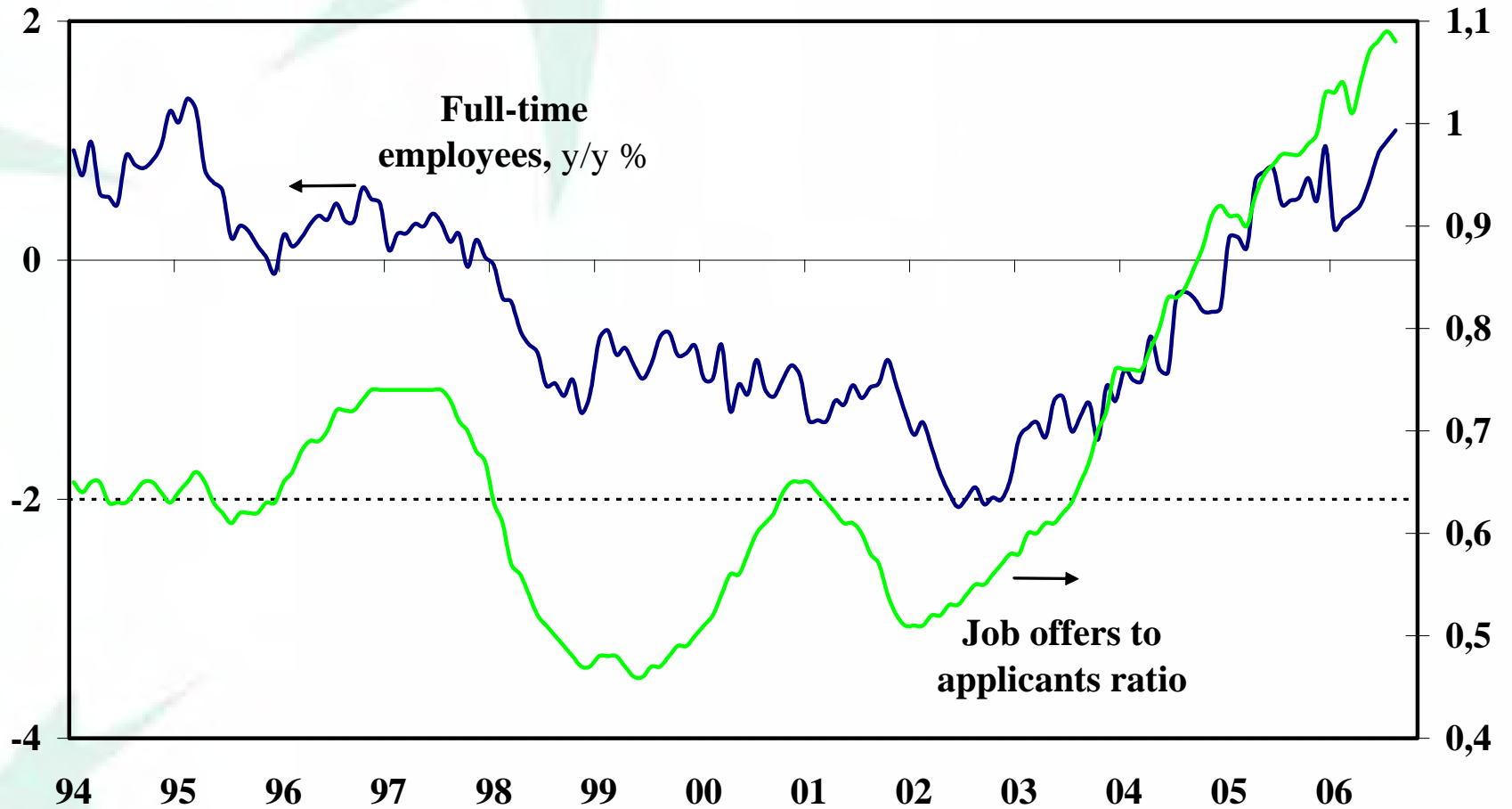
### Japan: unemployment & Tankan surveys



sources: Ministry of Labour, Tankan

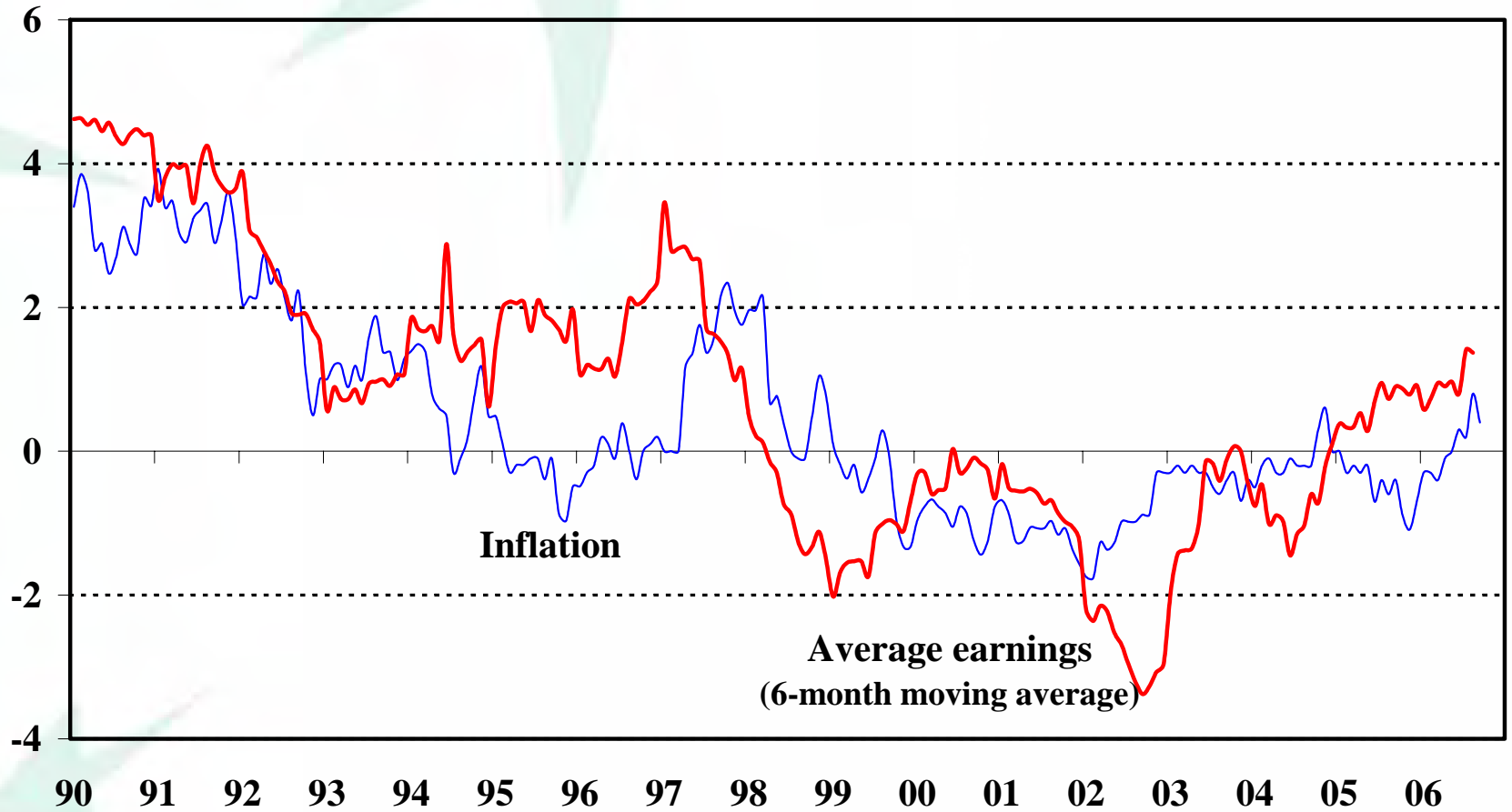


Japan : employment growth and job offers to applicants ratio



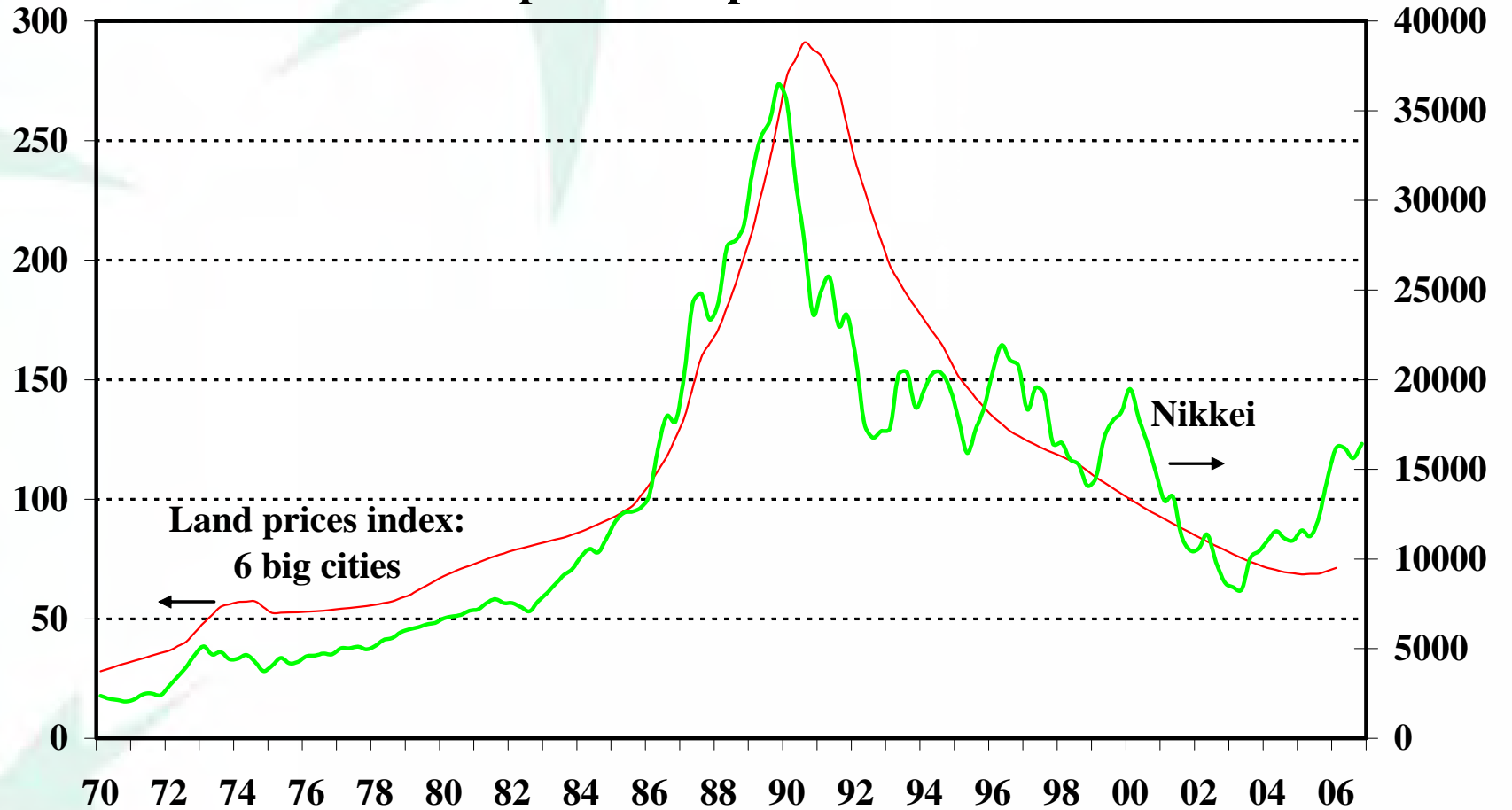
source: Ministry of Labour

### Japan : wages & inflation, y/y %



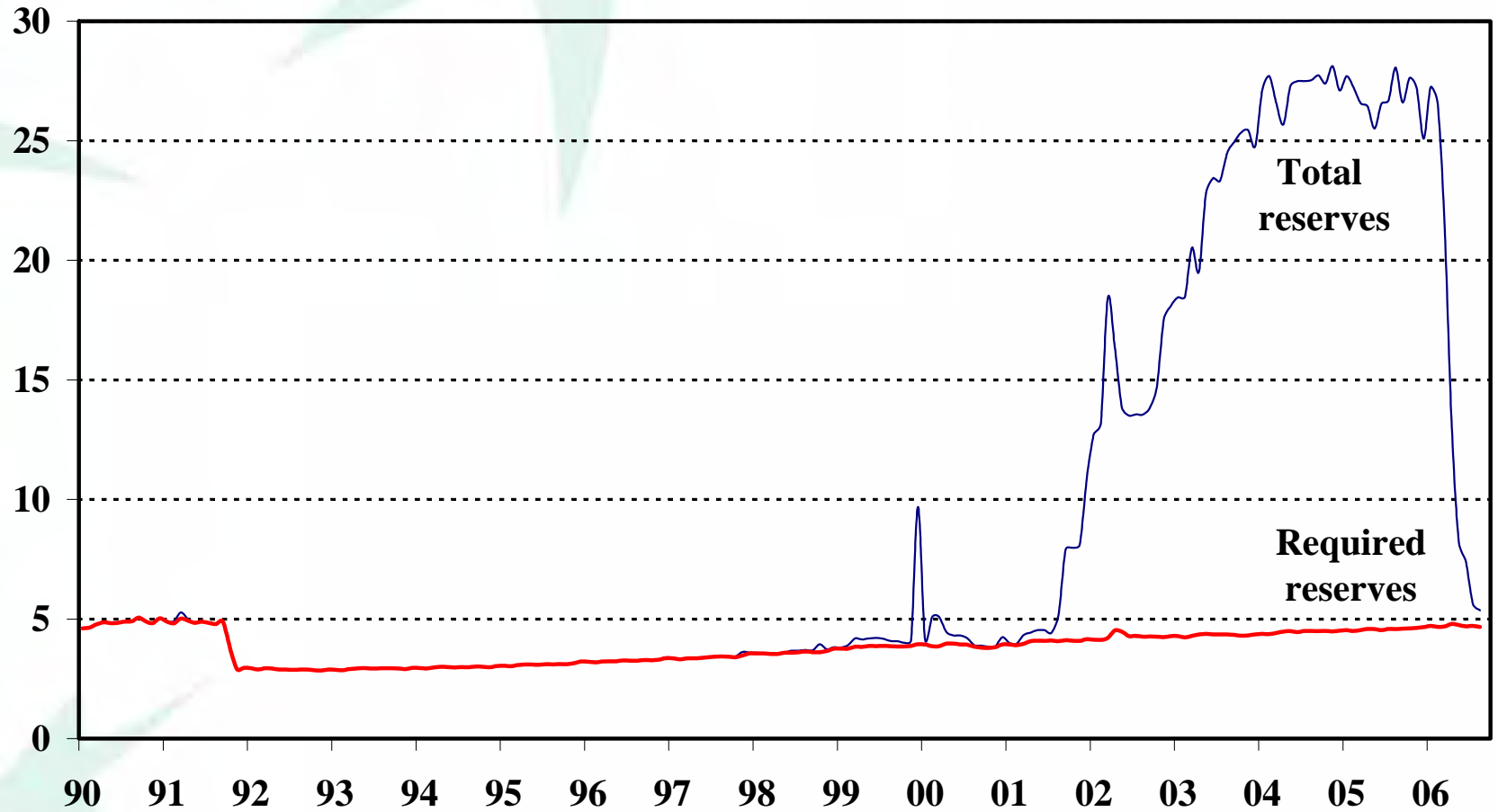
*sources: Ministry of Labour, Ministry of Public Management*

### Japan : land prices and Nikkei

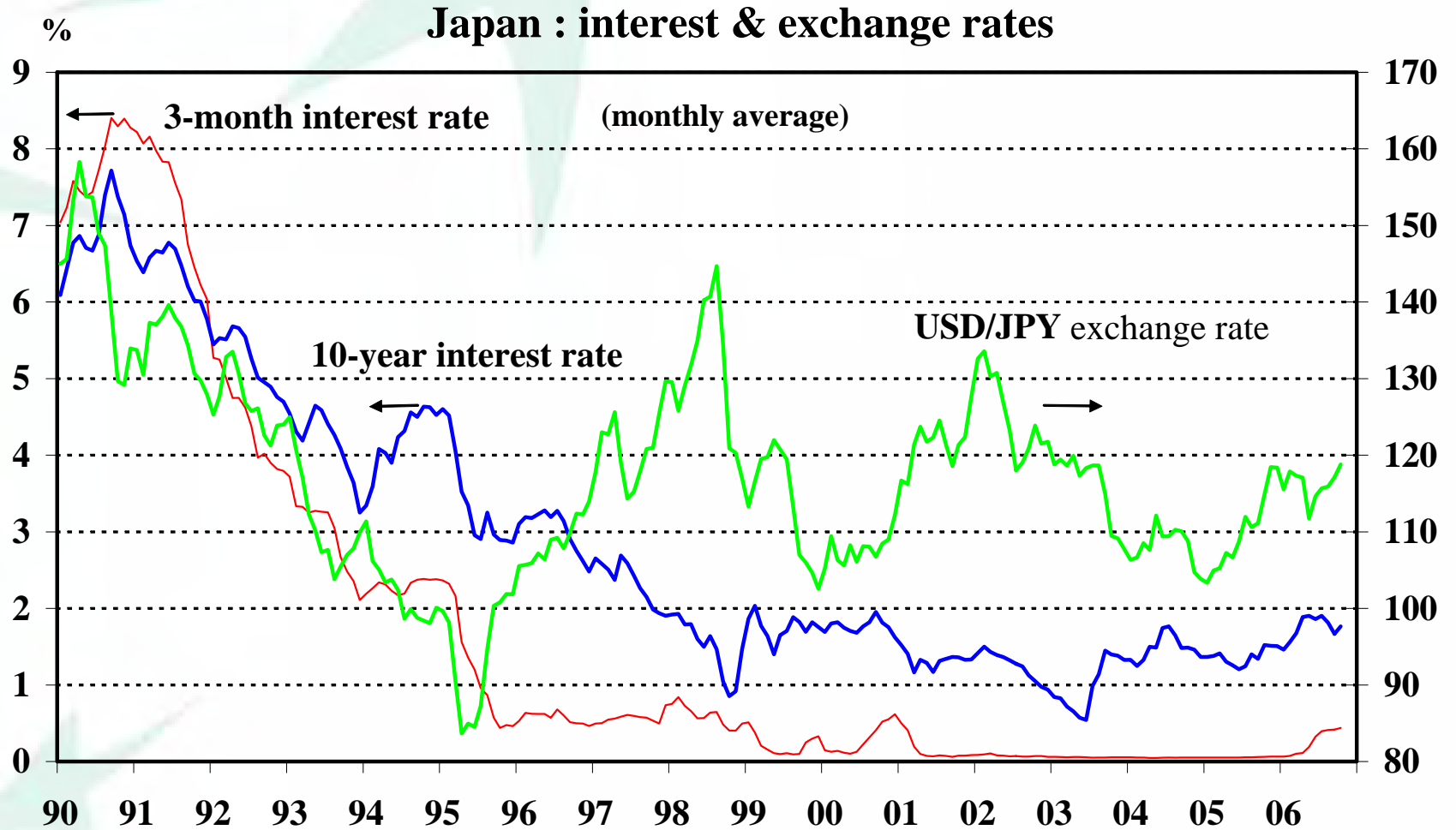


sources: Japan Real Estate Institute, Tokyo Stock Exchange

### Japan: bank reserves, trillion JPY

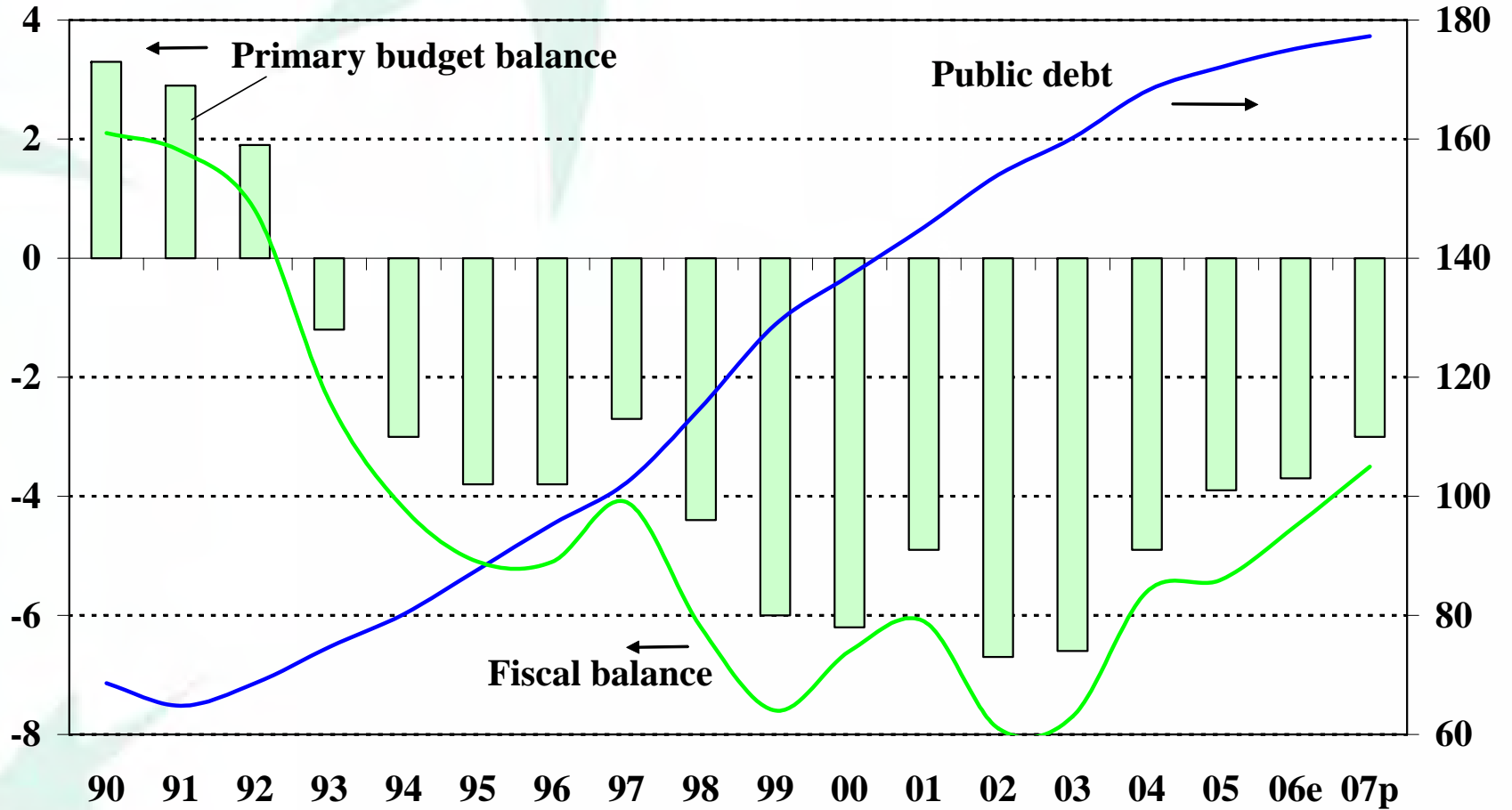


source: BoJ



*sources: BoJ, Reuters*

### Japan : fiscal balance and public debt as % of GDP



sources: OECD, BNP Paribas

# V - CHINA / INDIA

charts 58 to 64

**IN A MEDIUM TERM PERSPECTIVE, THE GROWTH POTENTIAL REMAINS VERY STRONG.**

**IN THE LONG TERM, THE DEMOGRAPHIC EVOLUTION WILL BE ADVERSE.**

- **Strong economic growth, above 10%**
- **Inflation is subdued**
- **Low impact of the change from the dollar peg to a currencies basket**
- **External financial position : 1st in the world for forex reserves**



## WHAT RISKS ?

- **External trade tensions and pressures to reevaluate the yuan**
- **Recent acceleration in credit growth to be monitored**
- **Increasing social tensions**
- **Impact of high commodities price on corporate margins and increasing vulnerability to an economic downturn especially for sectors experiencing excess supply.**

**MEDIUM TERM OUTLOOK VERY FAVOURABLE.  
ECONOMIC GROWTH CAN KEEP IN A 8 % PATH.**

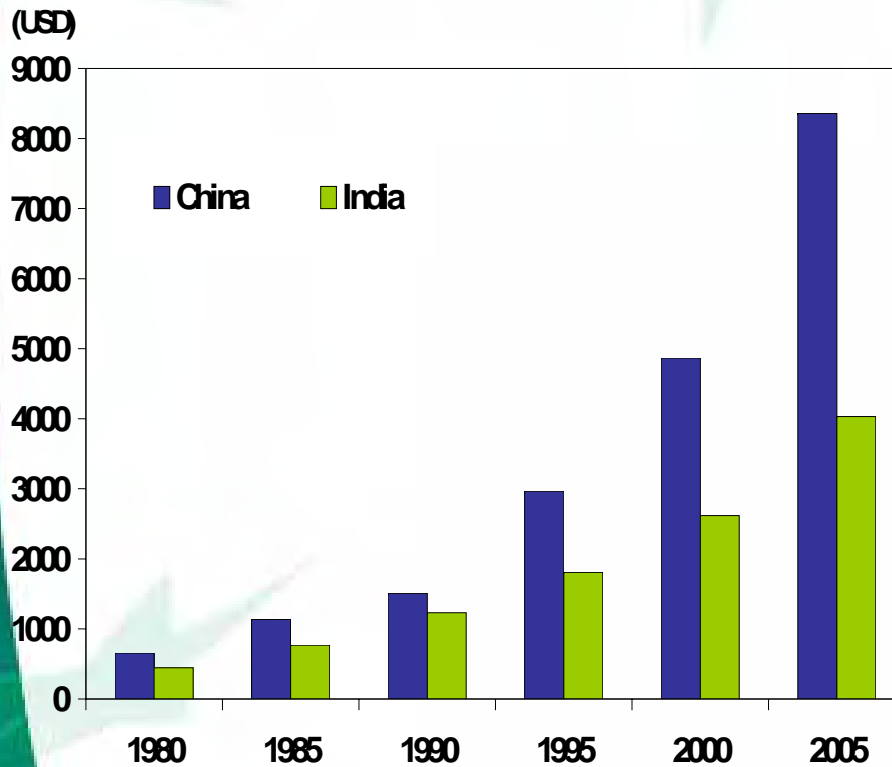
- **Global demand is strong and broadly based**
- **Inflation is subdued**
- **Comfortable external liquidity and solvency position (large stock of foreign exchange reserves, low external debt / GDP)**
- **India is still relatively insulated from global financial market fluctuations**

## **SOME WEAKNESSES :**

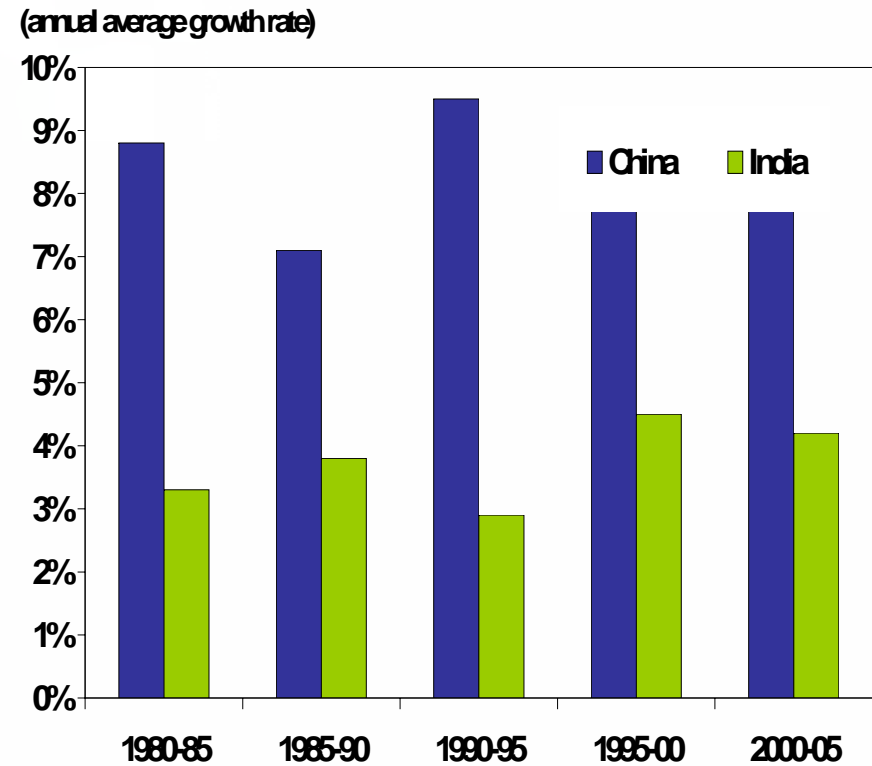
- **Persistently strong credit growth**
- **Public finances: fiscal deficit**
- **The current account deficit is mainly financed by equity & corporate bonds purchases**
- **Adverse impact of coalition politics on the reform momentum (shelved privatization process, debate on SEZs)**

# Real GDP per capita

in USD

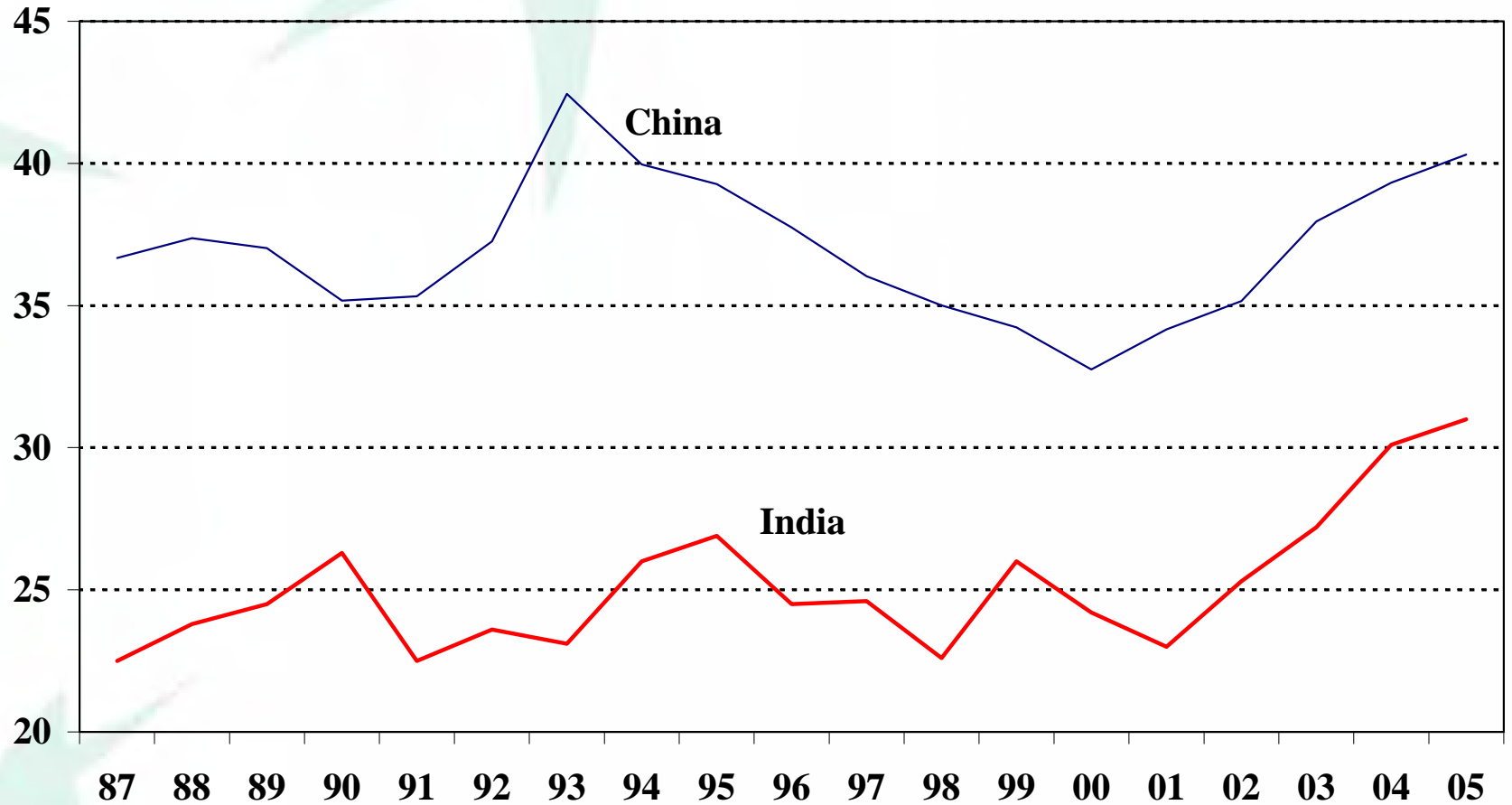


annual average growth rate



Source: Institute of International Finance

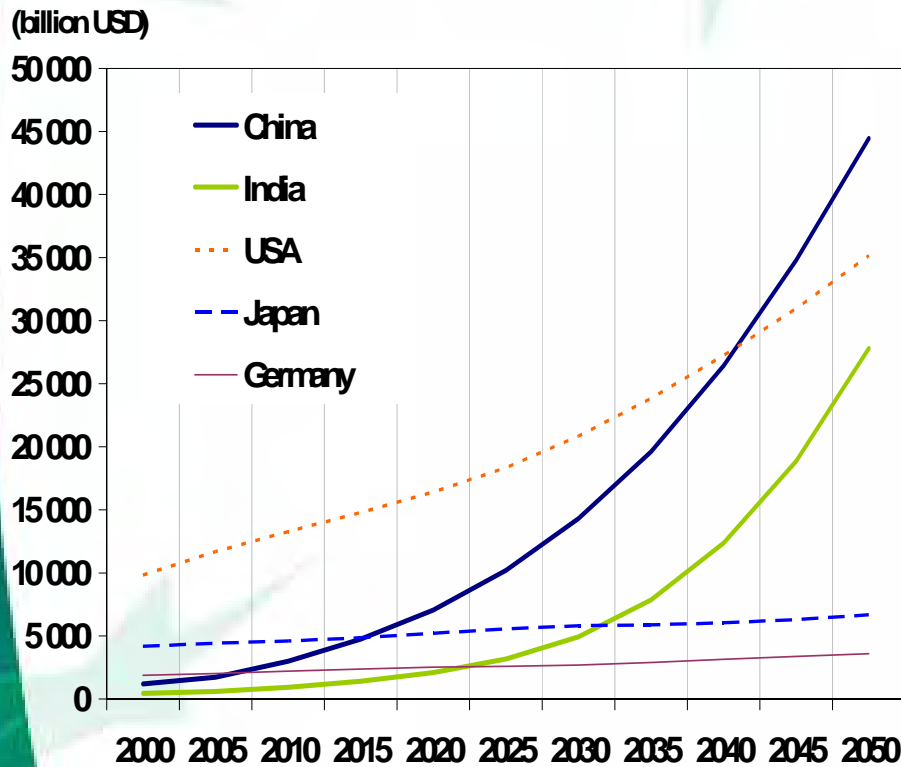
### Gross domestic investment as % of GDP



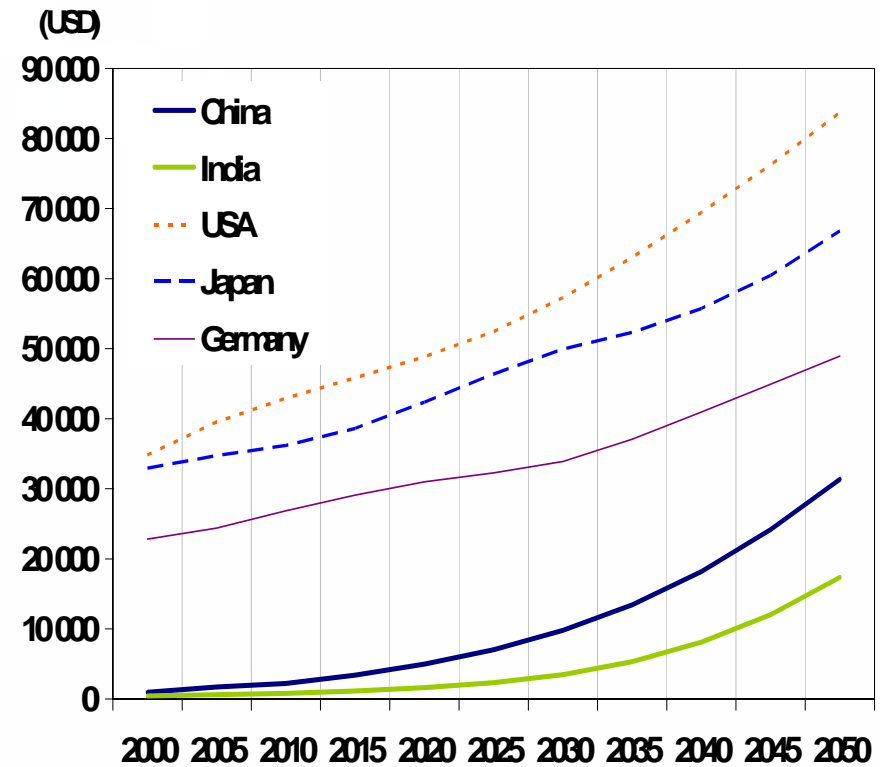
source: IIF

# Nominal GDP

in USD



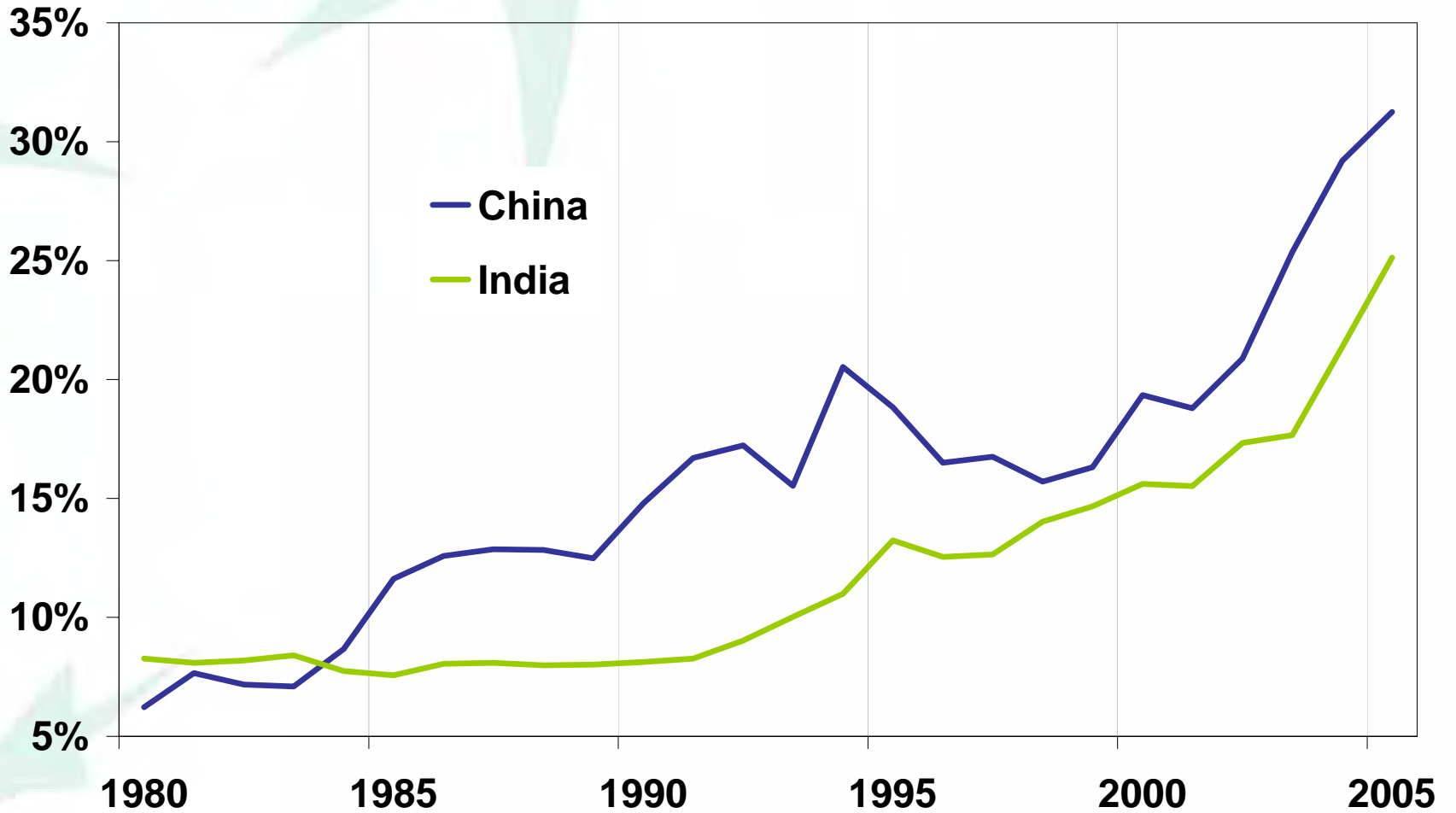
per head in USD



Source: Goldman Sachs

# Openness rate\*

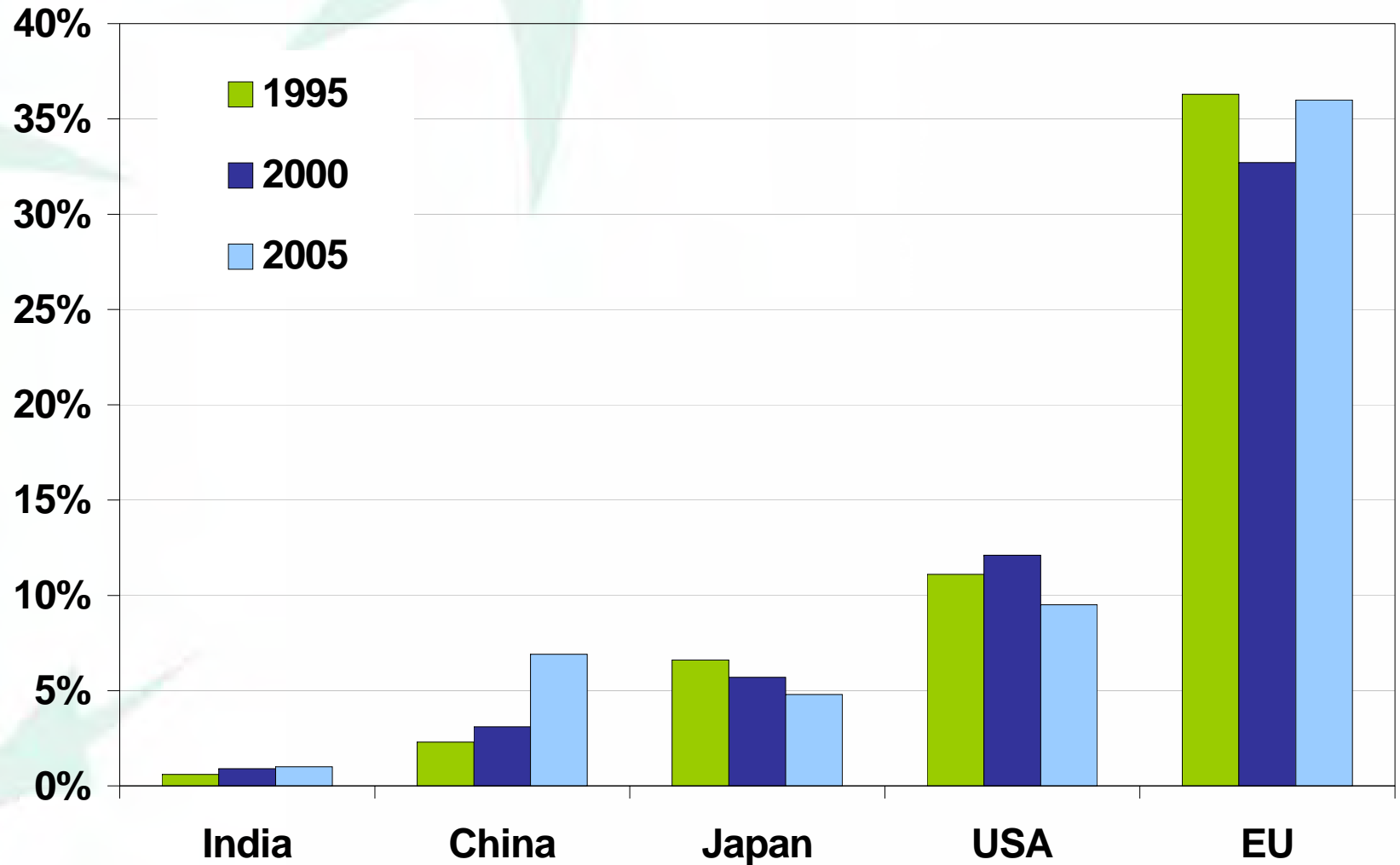
(% of GDP)



\*  $\text{exports} + \text{imports of G\&S} / 2 \times \text{GDP (volume)}$

Source: national accounts

## World market shares (country's exports / world's exports)

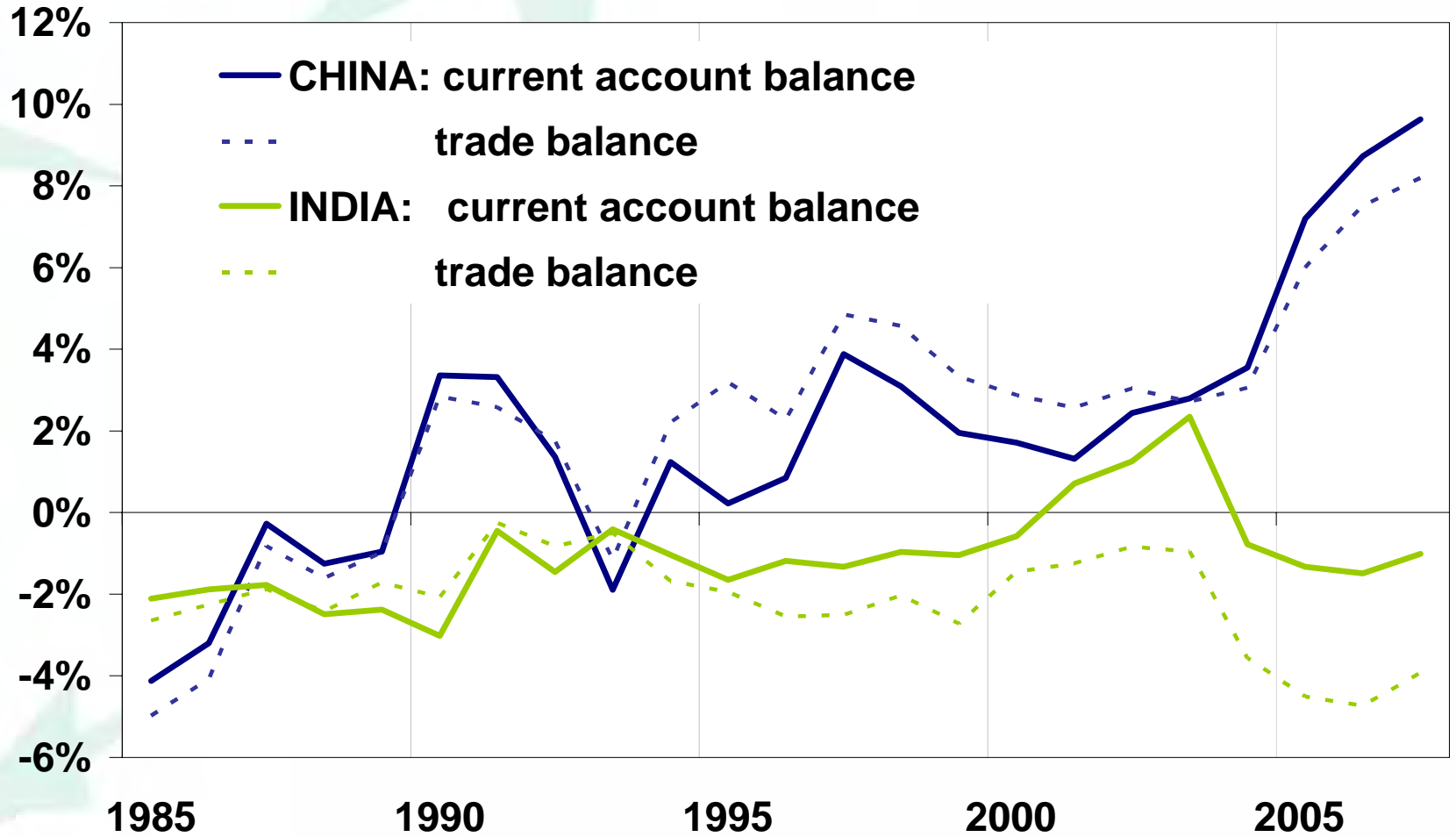


Source: IMF



## Trade & current-account balances

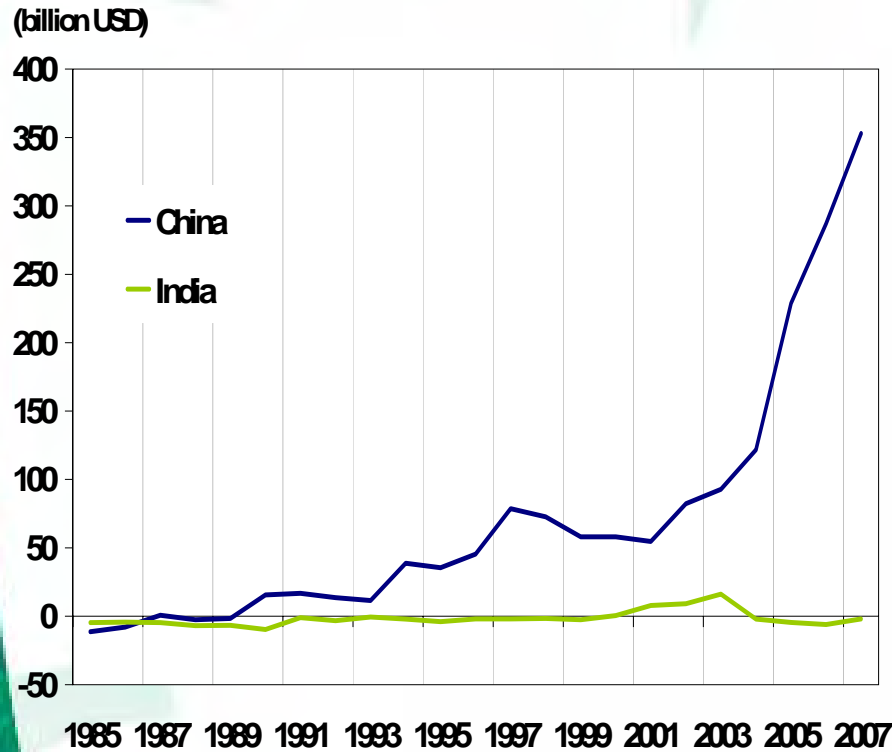
(% of GDP)



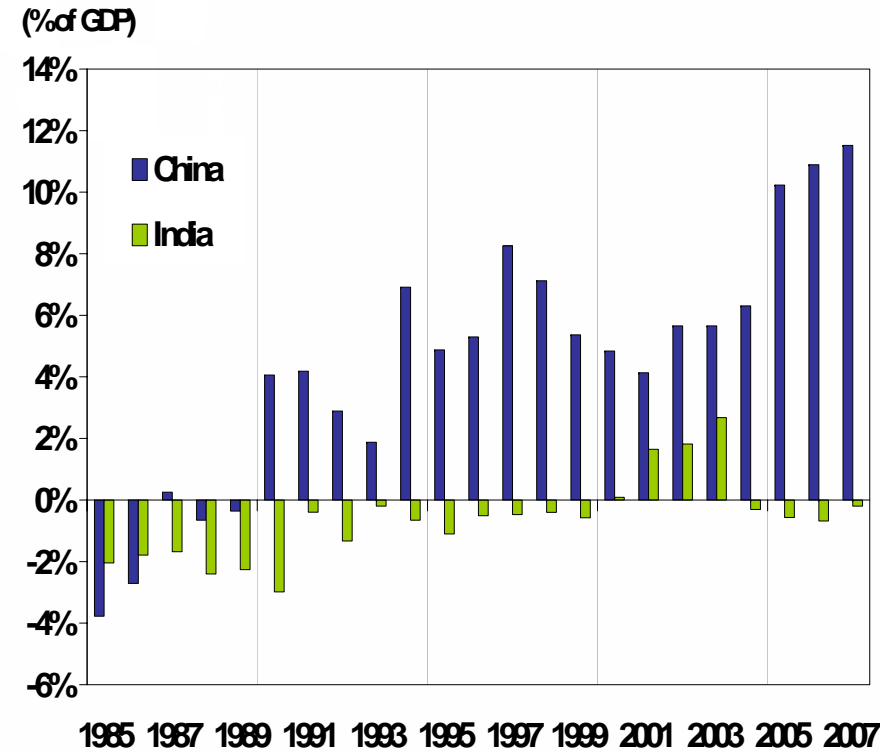
Source: CEIC

# Current-account balance + net foreign direct investments flows

billion USD



% of GDP



## List of charts

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