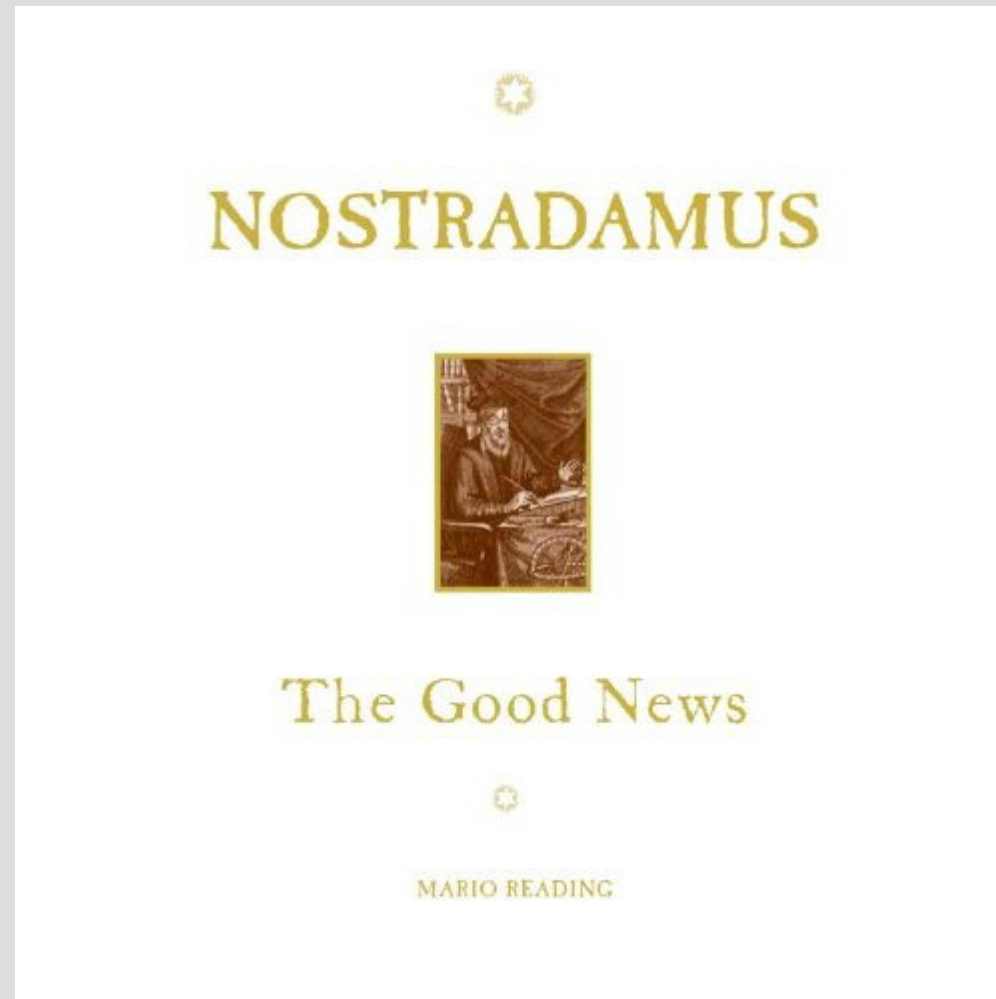


Will the Global Economy Turn Down?



July 21, 2008

As an omen . . .

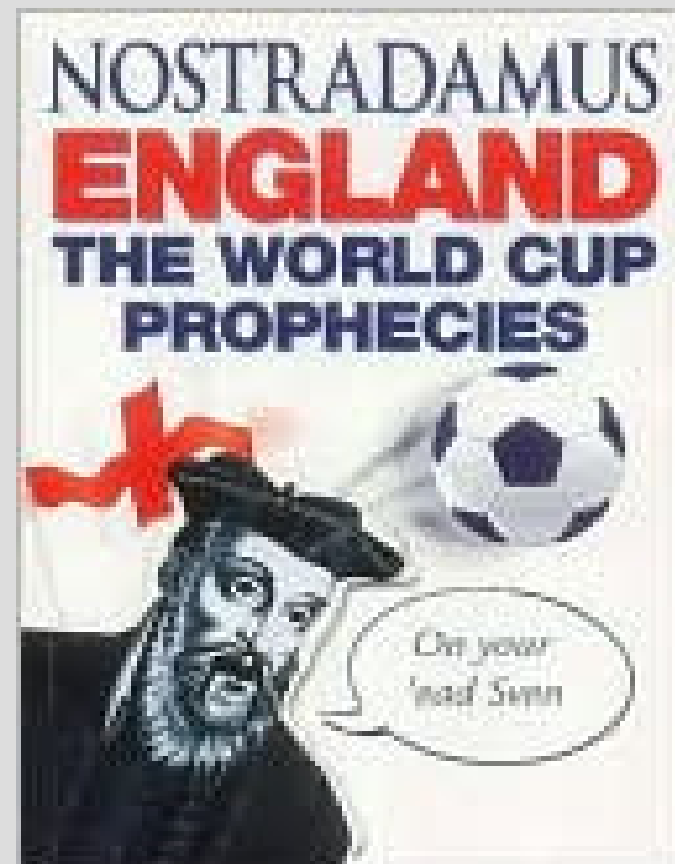
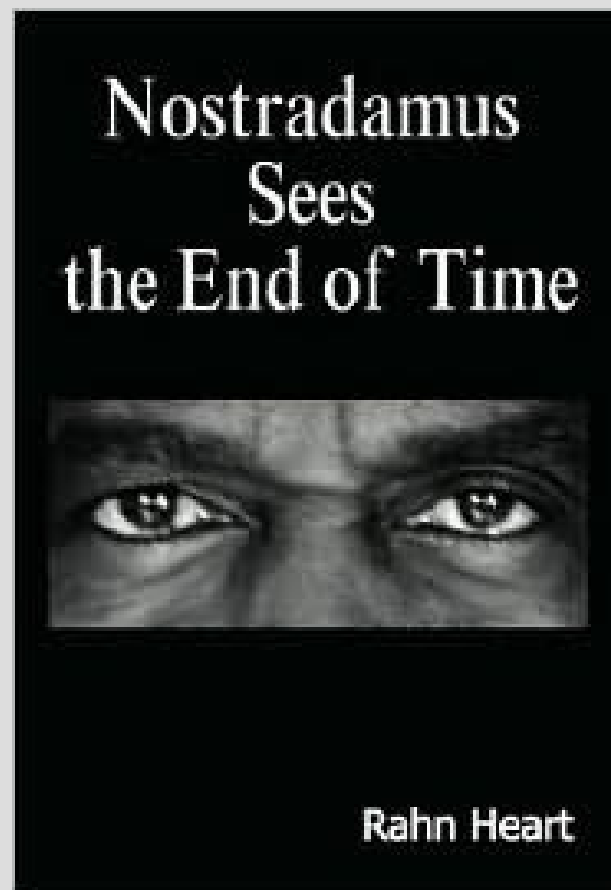


But then . . .



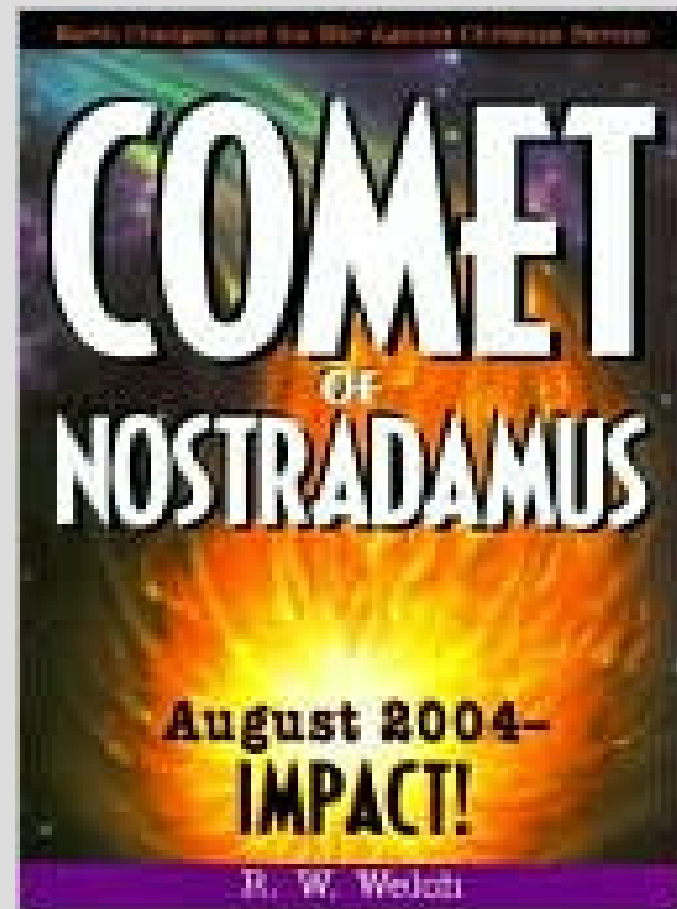
. . . what
kind of omen?

The same evidence admits different interpretations.



In any event . . .

. . . predictions mostly fail.

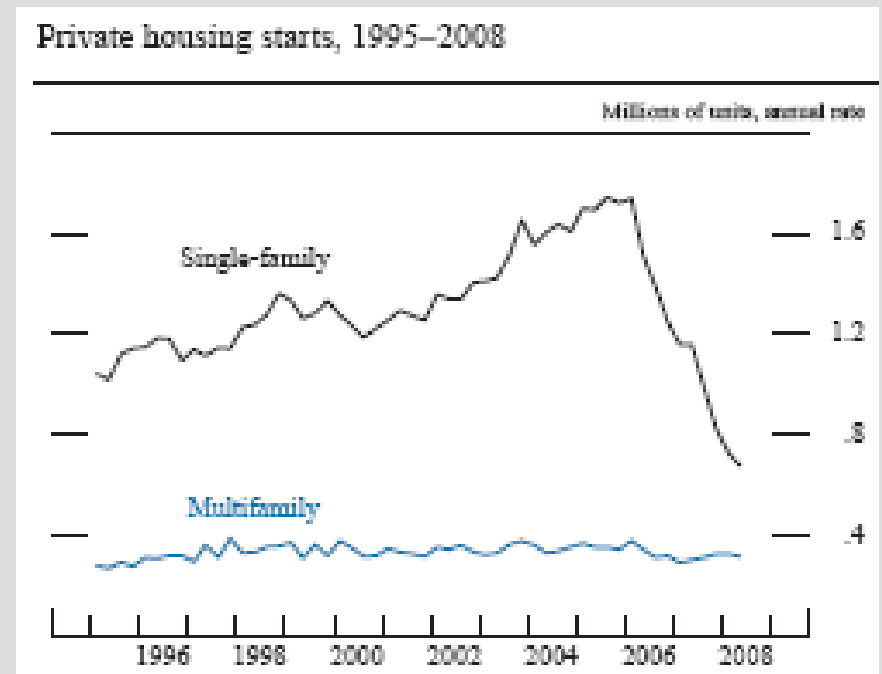


This afternoon

- Introduction
 - Vincent Reinhart
- What happens during recessions, crunches, and busts?
 - Stijn Claessens, M. Ayhan Kose, and Marco Terrones (35 minutes)
- Discussion of the risks of recession
 - Desmond Lachman (15 minutes)
 - Angel Ubide (15 minutes)
- Questions to the panel
- Questions from the audience

The U.S. economy is being pulled down by three forces in the ongoing housing contraction.

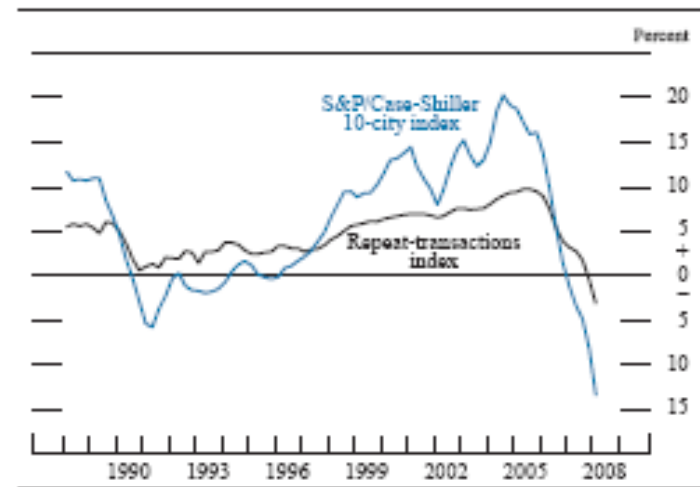
- First, the excess stock of housing has to be worked down.



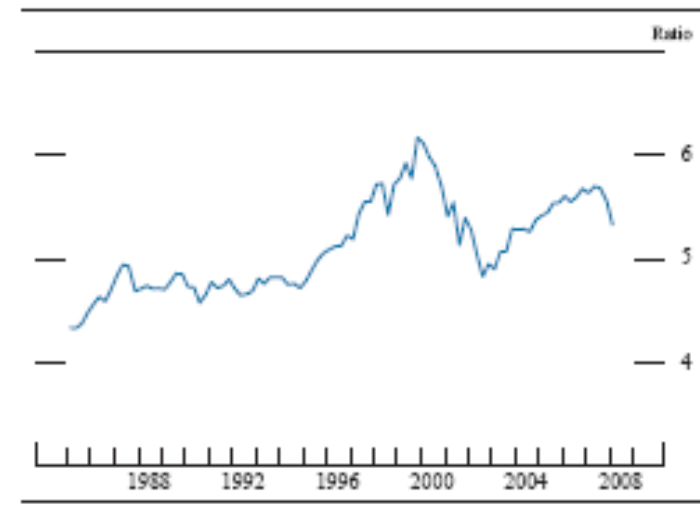
In the ongoing housing correction . . .

- Second, households have to come to grips with the destruction of their wealth.

Change in prices of existing single-family houses, 1988–2008

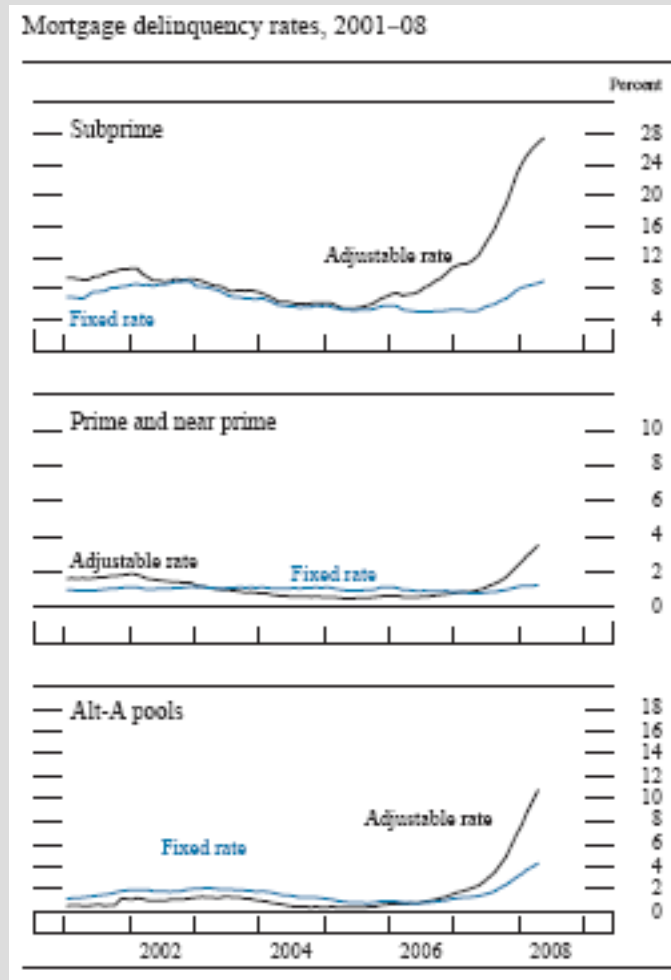


Wealth-to-income ratio, 1985–2008



In the ongoing housing correction . . .

- Third, financial firms have to come to grips with mortgage-related losses.

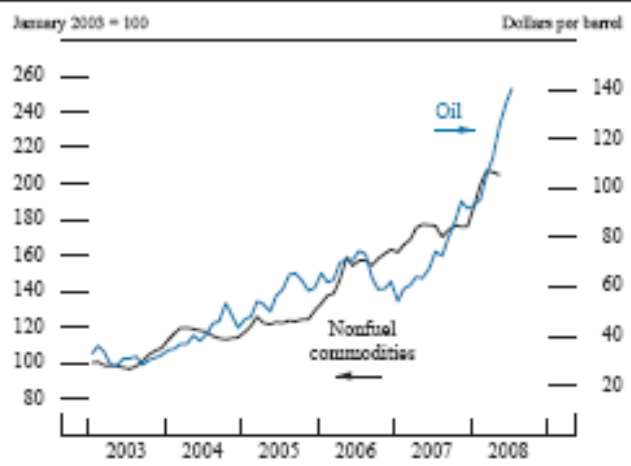


Net percentage of domestic banks tightening standards and increasing spreads on commercial and industrial loans to large and medium-sized borrowers, 1992-2008

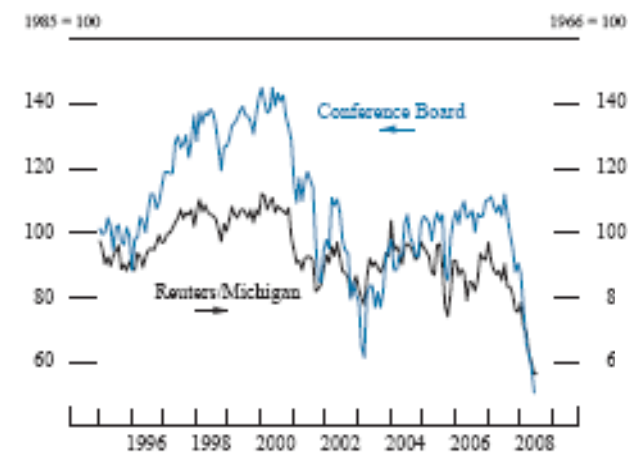


In addition, the run-up in the prices of oil and other commodities is hitting household spending, and employment is weakening.

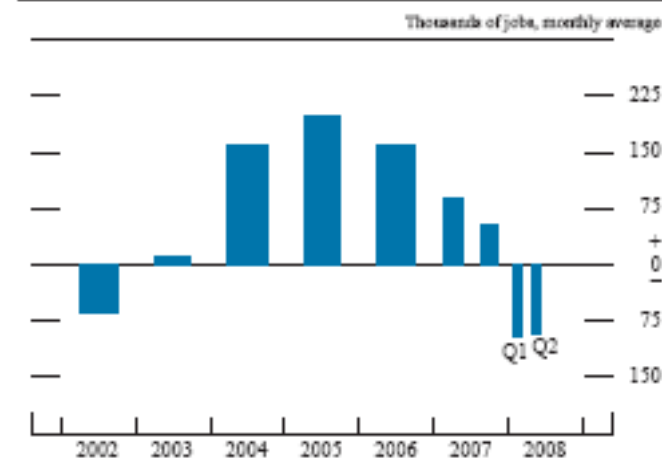
Prices of oil and nonfuel commodities, 2003-08



Consumer sentiment, 1995-2008

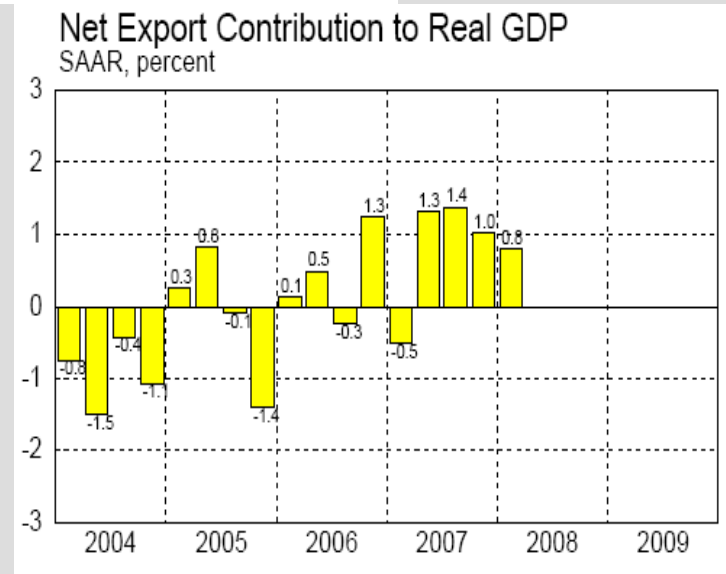
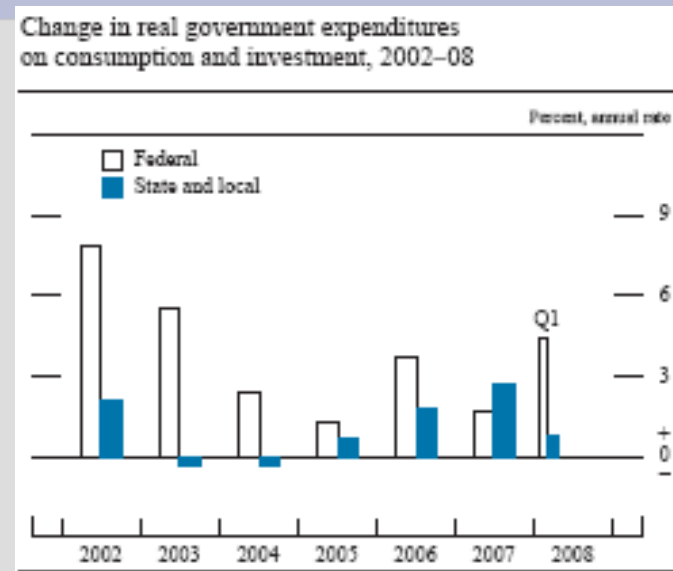


Net change in private payroll employment, 2002-08



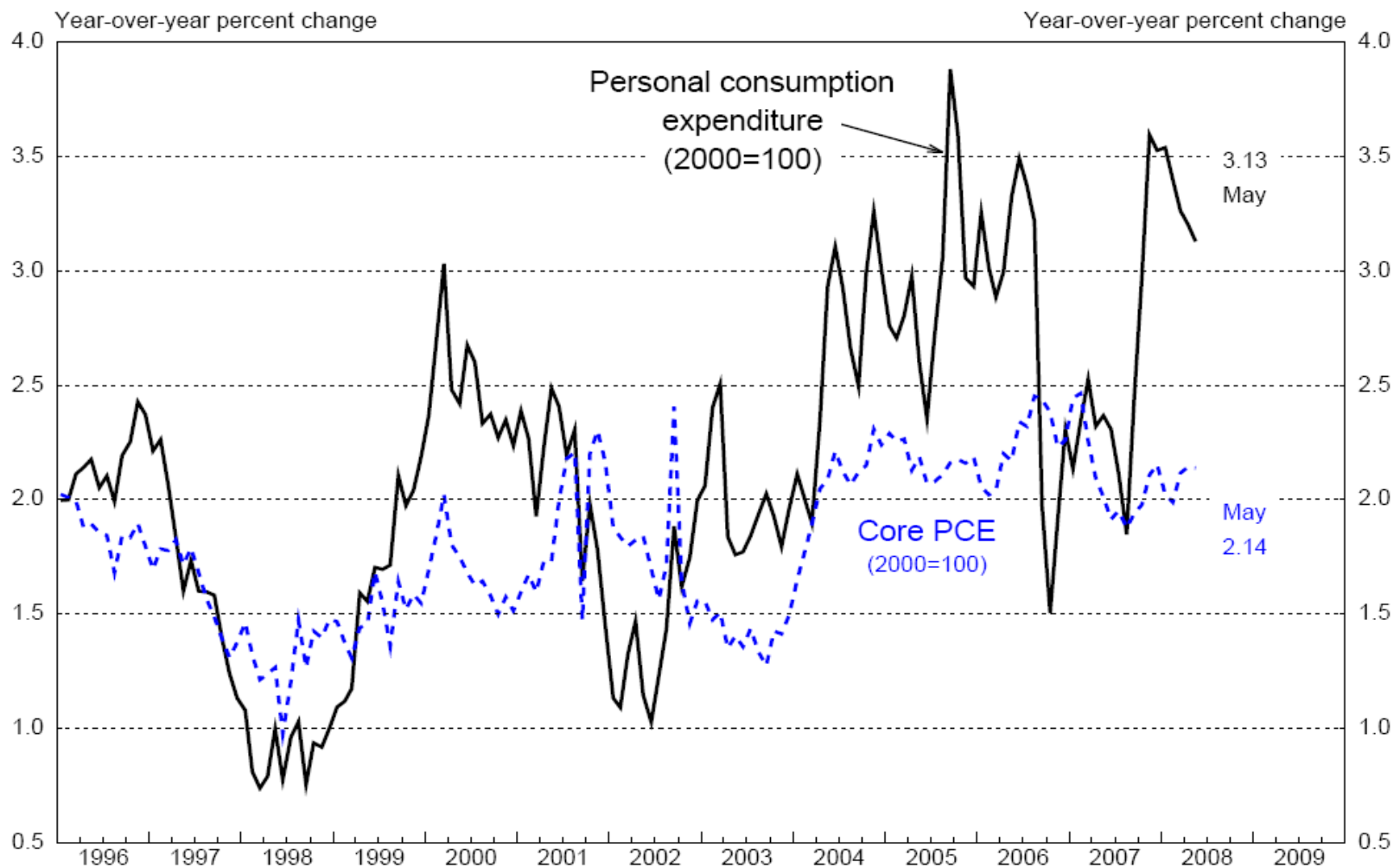
The U.S. economy currently enjoys two advantages.

- Fiscal stimulus is supporting spending.
- The depreciation of the dollar is encouraging net exports.



But the Federal Reserve will have to be mindful of inflation.

PCE AND CORE PCE CHAIN PRICE INDEXES
Seasonally Adjusted



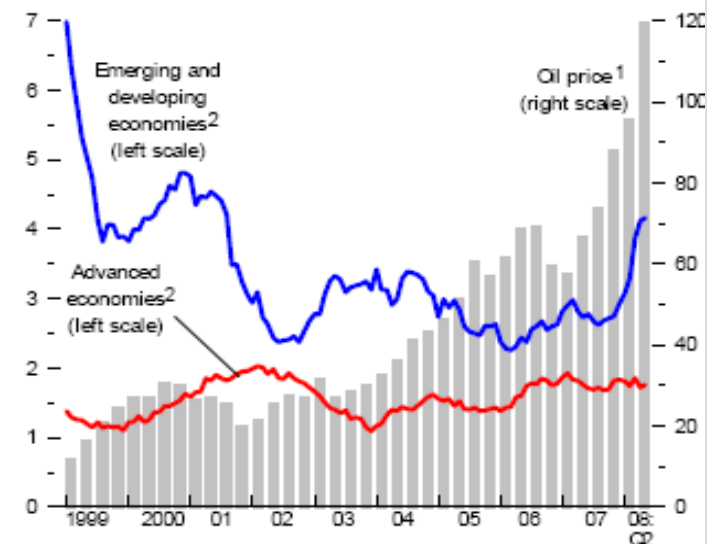
For the global outlook . . .

- A source of U.S. resilience (the exchange rate) is a drag abroad.
- Our trading partners are also hit by rising commodity prices and inflation concerns.

U.S. dollar nominal exchange rate, broad index, 2001-08



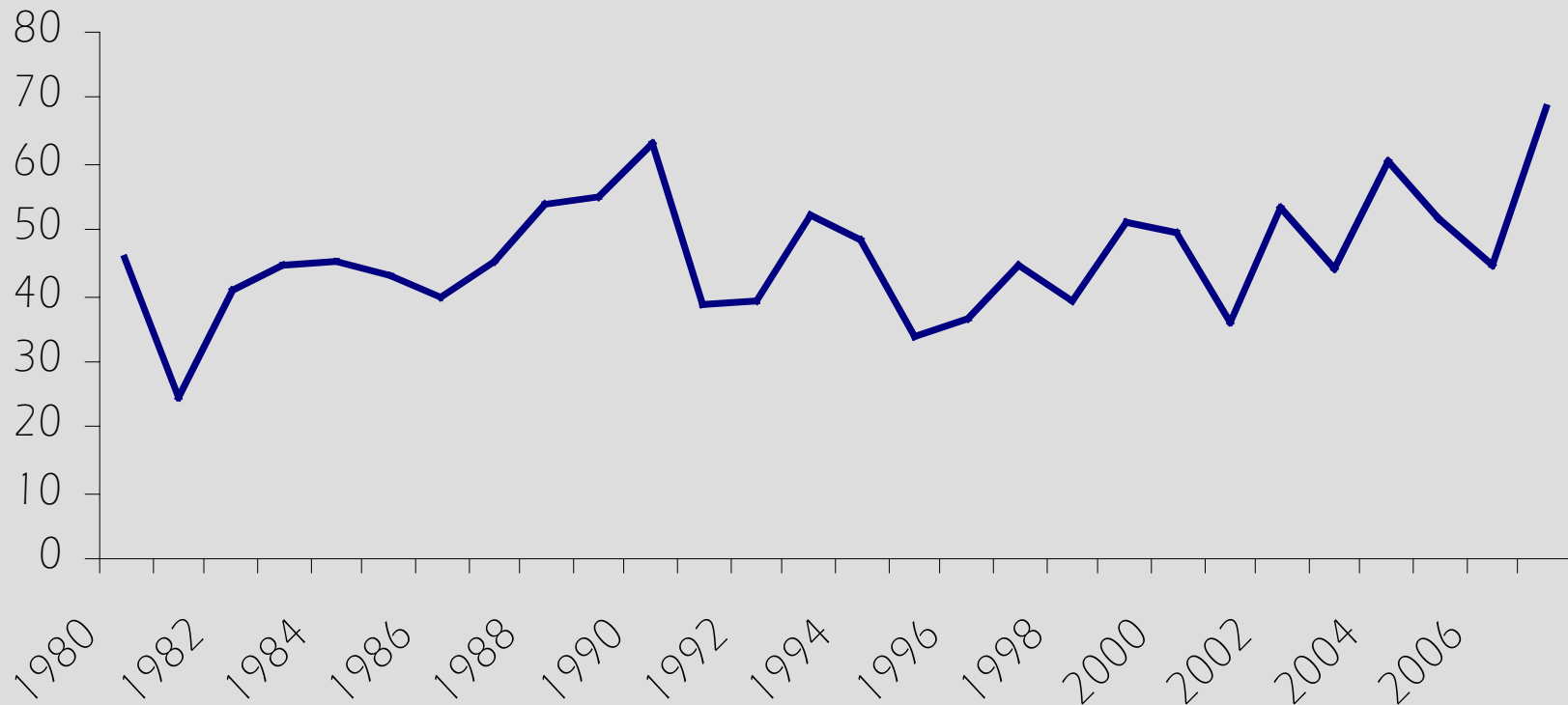
Core Inflation and Oil Price
(Percent and U.S. dollars a barrel)



Inflation concerns are shared more broadly.

Inflation momentum

Share of countries with period-end greater than annual inflation



Source: IMF, World Economic Outlook (April 2008)

The global economy . . .

- Flies on three engines
 - The United States
 - Which is absorbing a huge housing correction
 - Europe
 - Which has its currency appreciating but is experiencing inflation pressures
 - Asia-Pacific
 - Which continues to be importing accommodative monetary policy from the United States and has internal tensions
- And is probably flying closer to the ground

Flying closer to the ground raises risks.

World Economic Outlook Update Projections

(Percent change unless otherwise noted)

	Year over Year						Q4 over Q4		
	2006	2007	Projections		Difference from April 2008 WEO Projections		Estimates 2007	Projections	
			2008	2009	2008	2009		2008	2009
World output¹	5.1	5.0	4.1	3.9	0.4	0.1	4.8	3.0	4.3
Advanced economies	3.0	2.7	1.7	1.4	0.4	0.1	2.6	1.0	2.3
United States	2.9	2.2	1.3	0.8	0.8	0.2	2.5	0.3	1.9
Euro area	2.8	2.6	1.7	1.2	0.3	–	2.1	1.3	1.7
Developing Asia	9.9	10.0	8.4	8.4	0.2	–
China	11.6	11.9	9.7	9.8	0.4	0.3	11.3	8.8	11.1
India	9.8	9.3	8.0	8.0	0.1	–	8.9	7.6	7.7

As a disclaimer . . .

The views expressed are those of the individual and are not necessarily shared by anyone else in their organization.

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1. What set of observations would convince you that . . .

- the U.S. economy IS in recession?
- the U.S. economy IS NOT in recession?

2. What do we look for

- To determine the extent of global spillovers?

3. What should policy makers be doing . . .

- Individually?
- Collectively?

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