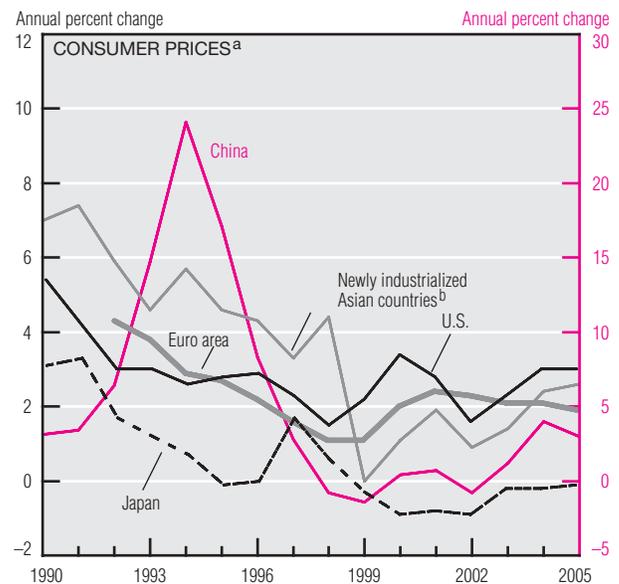
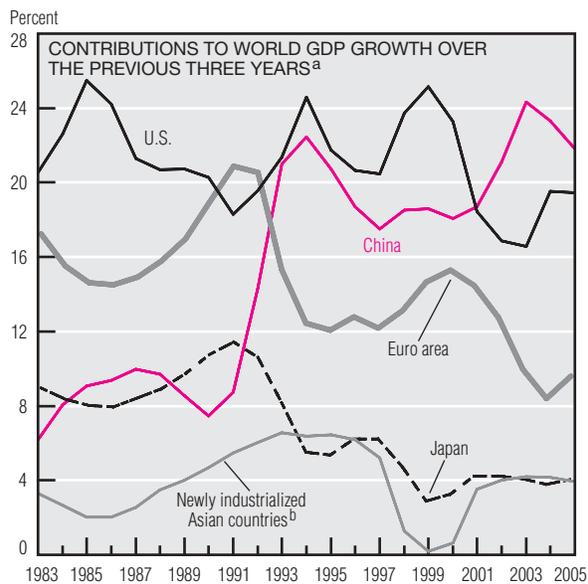
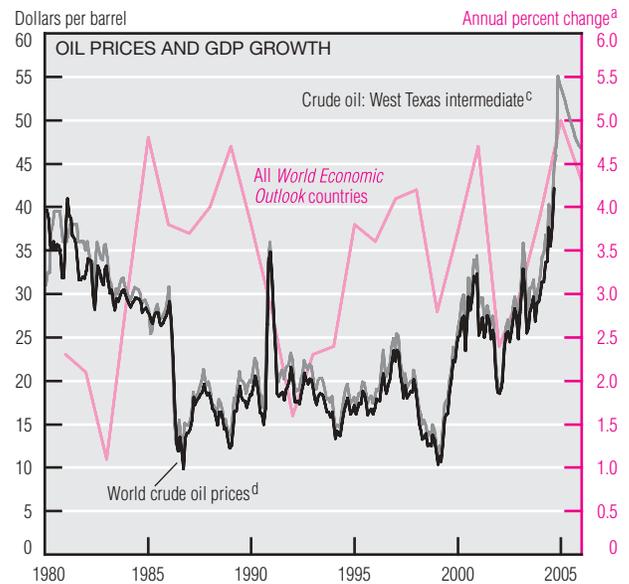
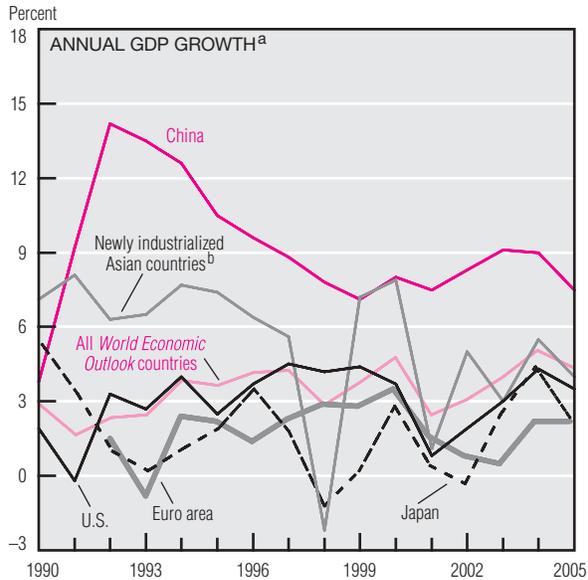


The World Economy



a. Data for 2004-05 are IMF forecasts.

b. Includes Hong Kong, Singapore, South Korea, and Taiwan.

c. Data for October 2004 and after are NYMEX sweet, crude, light-oil futures as of October 15, 2004.

d. Average of West Texas intermediate, U.K. Brent, and Dubai Fateh crude oil prices.

SOURCES: International Monetary Fund, *World Economic Outlook* and *International Financial Statistics*; New York Mercantile Exchange; and *Wall Street Journal*.

In September, the International Monetary Fund (IMF) published its second biannual *World Economic Outlook*. The *Outlook* predicts that aggregate real GDP for the 175 countries covered will grow 5.0% in 2004, the highest world growth rate in nearly three decades. It also expects that growth will moderate to 4.3% in 2005, partly because of rapidly rising oil costs. According to many standard economic models, including the IMF's, an oil price increase of \$8 per barrel reduces global GDP growth by about 0.5%. After the *Outlook* was published, spot

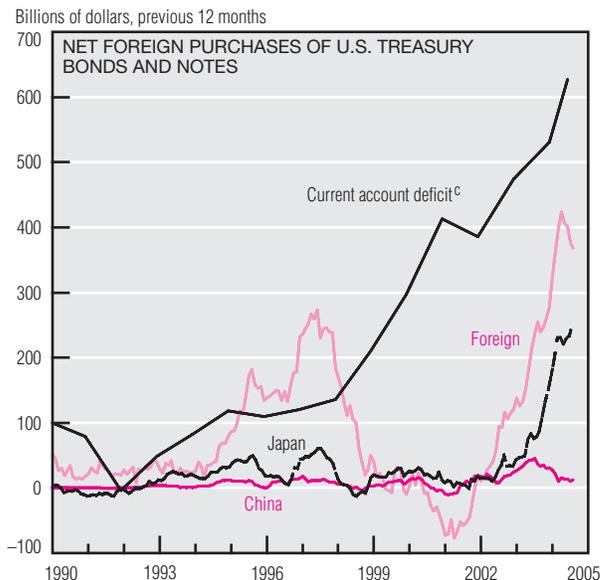
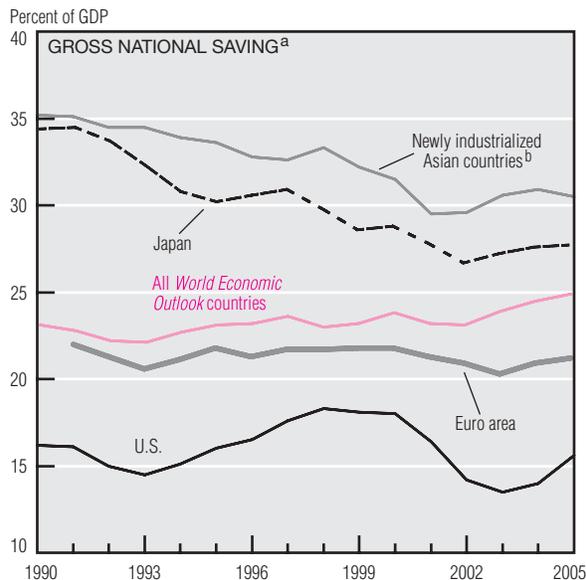
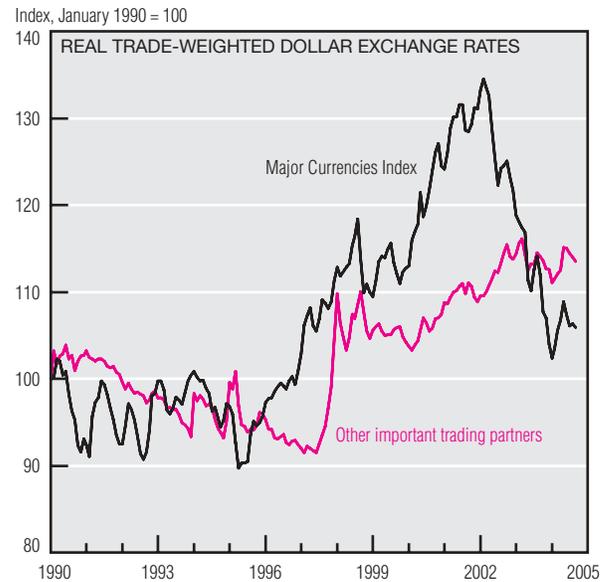
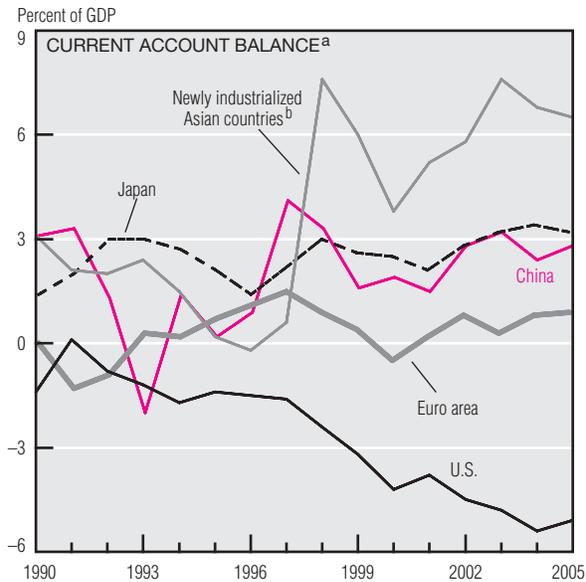
and futures oil prices rose above their September levels.

The IMF calculates world growth as a weighted average of individual countries' growth rates. A country's weight is proportional to its GDP, valued at purchasing power parity (PPP), which values "like goods" produced in different countries at a common price. According to PPP, China has been the largest contributor to world growth in recent years. When valued at PPP, China's GDP is second only to the U.S. There is some controversy about PPP-based numbers because they may differ widely from more familiar

measures valued by exchange-rate conversions. When GDP is converted to a common currency using exchange rates, Japan's economy is the world's second largest.

September's *Outlook* predicts that China's inflation rate will average 4.0% in 2004, higher than the inflation rates of other large economies. China grew 9.1% in 2003 and is expected to grow 9.0% this year, exceeding the 7% target that Premier Wen Jiabao announced in March. In its first-quarter monetary policy report, the People's Bank of China characterized its stance
(continued on next page)

The World Economy (cont.)



a. Data for 2004–05 are IMF forecasts.

b. Includes Hong Kong, Singapore, South Korea, and Taiwan.

c. Annual data through 2003. Data for 2004 are annualized from the first two quarters.

SOURCES: U.S. Department of Commerce, Bureau of Economic Analysis; U.S. Department of the Treasury; Board of Governors of the Federal Reserve System; and International Monetary Fund, *World Economic Outlook*.

for upcoming periods as “appropriately tight, aiming at avoiding a hard brake on the economy.” Some analysts are concerned that China’s attempts to curb inflation and overinvestment in some sectors of its economy will curtail its economic growth.

A second concern for some analysts is the continued increase in the U.S. current account deficit. Although the dollar fell in 2002 and 2003 before stabilizing this year, the current account deficit has not reversed its course. Analysts commonly cite the low U.S. saving rate as a major cause of

our deficit status. However, the flip side of the coin is that other countries have been willing to finance our current consumption of foreign goods by purchasing future claims to U.S. output. In recent years, these claims have largely taken the form of net foreign official purchases of U.S. Treasury securities. Japan has accounted for more than two-thirds of all foreign official and nonofficial net purchases of U.S. Treasury securities over the past 12 months.

Fiscal stimulus in the U.S. and other areas of the world is one reason cited for the recent relatively shallow and

short-lived recession. However, this stimulus also may have worsened government fiscal balances in the U.S., Europe, and Japan, among others. Continued increases in government deficits could prove problematic. For example, should Japan become less willing to purchase U.S. government securities, it could exert upward pressure on medium- and longer-term U.S. real interest rates if the fiscal deficit does not fall. And a rise in longer-term interest rates from this source would probably have a negative impact on economic growth prospects for the U.S. and the world.