In September, the International Monetary Fund (IMF) published its second biannual World Economic Outlook, which predicted that world GDP would grow 4.3% in 2005 as well as 2006. Although the forecast for 2006 was revised downward 0.1 percent point (pp) from the April issue, the forecast for 2005 was unchanged. The September Outlook estimates that 2005 GDP growth in the U.S. will be reduced only 0.1 pp, as the result of Hurricane Katrina, but also lowered its 2006 forecast by 0.3 pp because of higher inflation, rising interest rates, and falling consumer confidence. The euro area continues to disappoint; its already lackluster GDP growth was revised downward in the September Outlook. The Chinese economic expansion continues unabated, with robust growth predicted through 2005 and 2006.

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%. Since April, world oil prices have increased more than $13, and the price of West Texas intermediate crude oil has risen more than $12. However, GDP growth forecasts for 2005 and 2006 have held relatively steady. Many effects of rapidly rising energy costs remain to be seen, but slower global GDP growth does not seem certain. April’s Outlook forecasted a 23.2% rise in oil prices in 2005, and September’s nearly doubled this figure to 43.6%. Moreover, although April’s Outlook predicted that oil prices would finally begin to taper off in 2006, September’s was less optimistic, with the price of oil expected to rise an additional 13.9% next year. The September issue revised inflation expectations upward for all categories.

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surveyed and more than doubled nonfuel price expectations for 2005. However, it predicted an easing of consumer price increases for the U.S. and the euro area in 2006. It projected that China’s inflation rate would reach 3.8%, although analysts remain concerned that attempts to curb inflation will inhibit China’s economic growth.

September’s Outlook also predicted that the U.S. current account deficit will continue to grow in 2005 and 2006 and, although the current account balances of the industrialized Asian economies will taper off slightly in 2006, they will continue to operate well within the surplus range. Some analysts suggest that the swing in Asia’s saving–investment gap has resulted in excessive global saving—which has led directly to the large current account imbalance in the U.S.—whereas others argue that the sharp drop in U.S. national saving is mainly the result of monetary and fiscal policy decisions within the country.

Despite the widely held view that there is a global savings glut, the world may in fact be investing too little. Investment has fallen off sharply since the crises in Latin America and the emerging Asian nations that marked the past decade. Responses to the investment slowdown have ranged from accommodative policies (expansionary budgets and low interest rates) within the industrialized countries to a belated tightening of lax policies within the emerging markets. Only recently has investment begun to recover, albeit cautiously, with a slight increase in world investment predicted for 2005 and 2006.