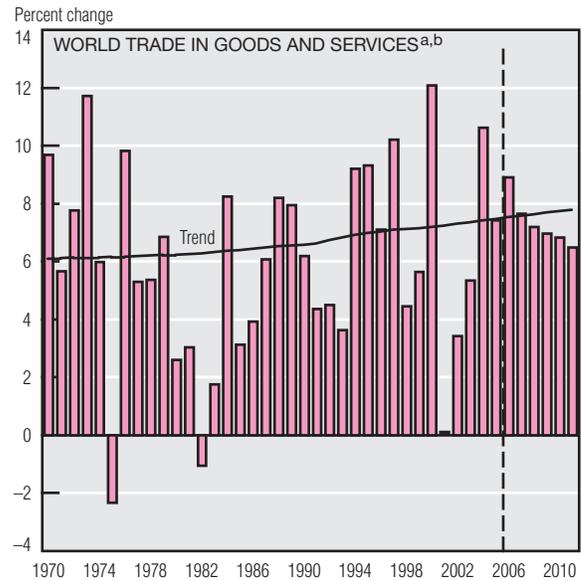
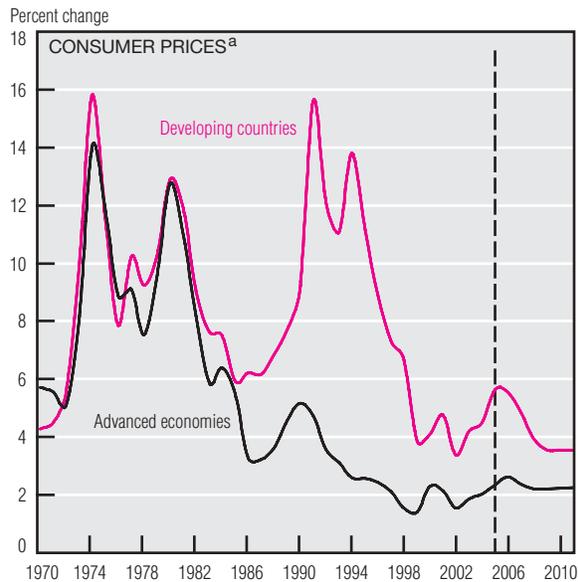
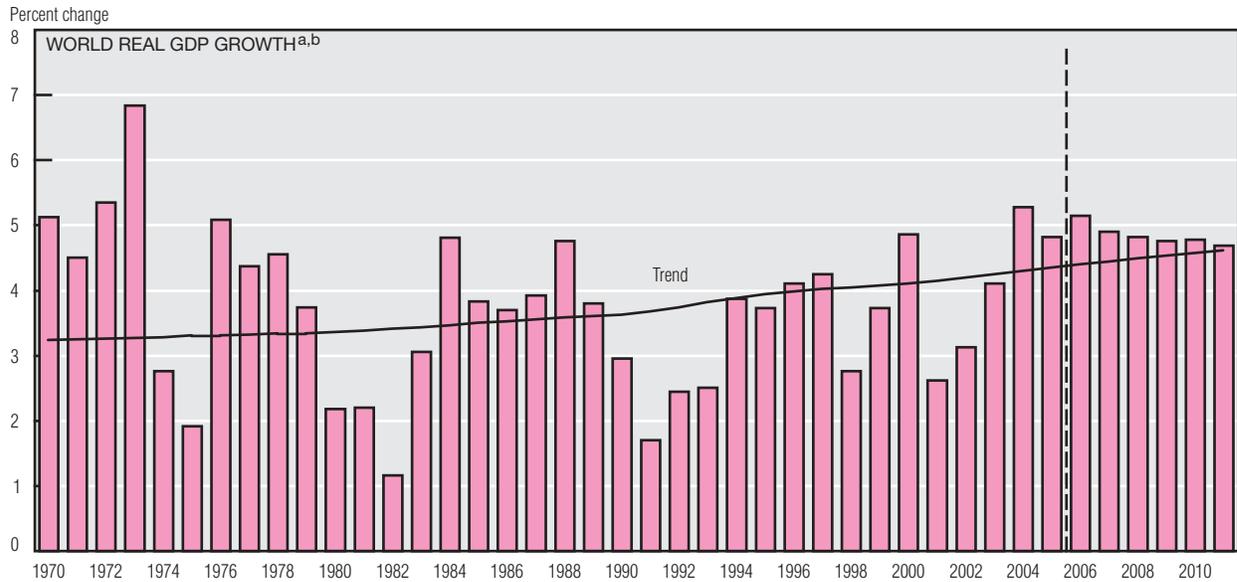


# International Growth and Inflation



a. The area beyond the dotted line represents IMF estimates.

b. Average growth rates for individual countries are aggregated using PPP weights; over time, the aggregates shift in favor of faster-growing countries, which gives the trend line an upward slope. IMF calculations.

SOURCE: International Monetary Fund, "Global Prospects and Policy Issues," *World Economic Outlook* (September 2006), chapter 1.

This is the fourth consecutive year of strong output growth in the current global expansion. Output increased rapidly in the first half of 2006, leading the International Monetary Fund's most recent *World Economic Outlook* to project a 5.1% increase in real GDP. The IMF's analysis shows that thus far the expansion has been broad based; the U.S. economy posted strong first-quarter growth, the euro area expansion has begun to accelerate, and Japan has continued

to experience positive economic growth. On the emerging-market side, China has maintained its strong growth, while developing Europe and the rest of Asia have continued to expand. Even Latin America and Africa have posted strong growth numbers.

All this output growth has increased inflationary pressures as output gaps narrowed around the globe. Many advanced economies already are experiencing uncomfortably high levels of inflation that ultimately

could inhibit future growth. At the same time, inflationary pressures are mounting in developing countries, partly because of a period of rapid growth and partly because of large exchange rate depreciations.

Despite ever-growing trade imbalances, global trade has continued to expand at a pace well above trend. Nonetheless, protectionist pressures are beginning to increase, and the IMF is predicting that growth in trade will fall below trend in the coming years.