

# The Global Economy: Out of Sync

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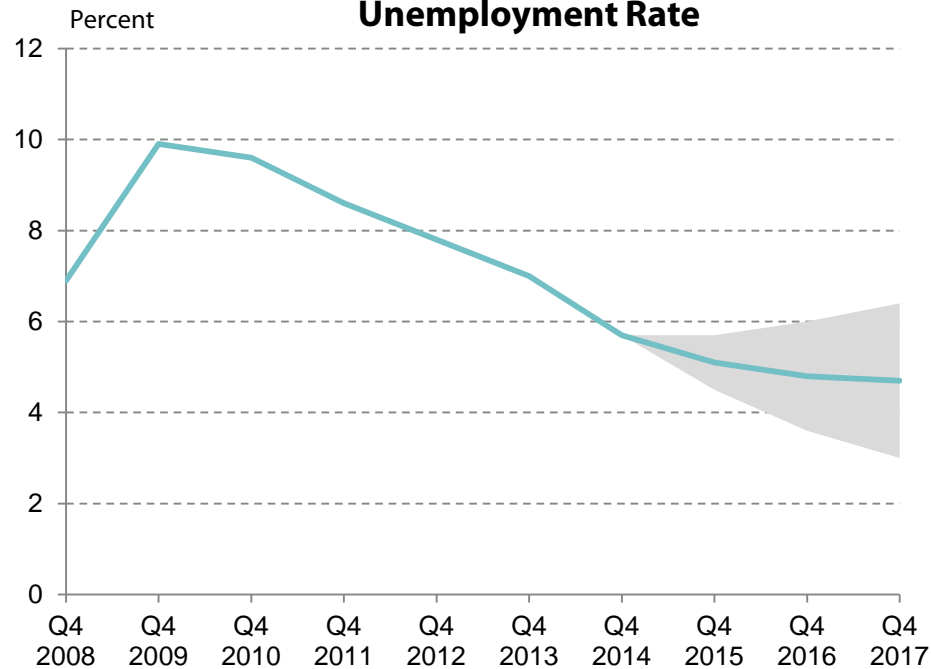
April 7, 2015

# The Global Outlook

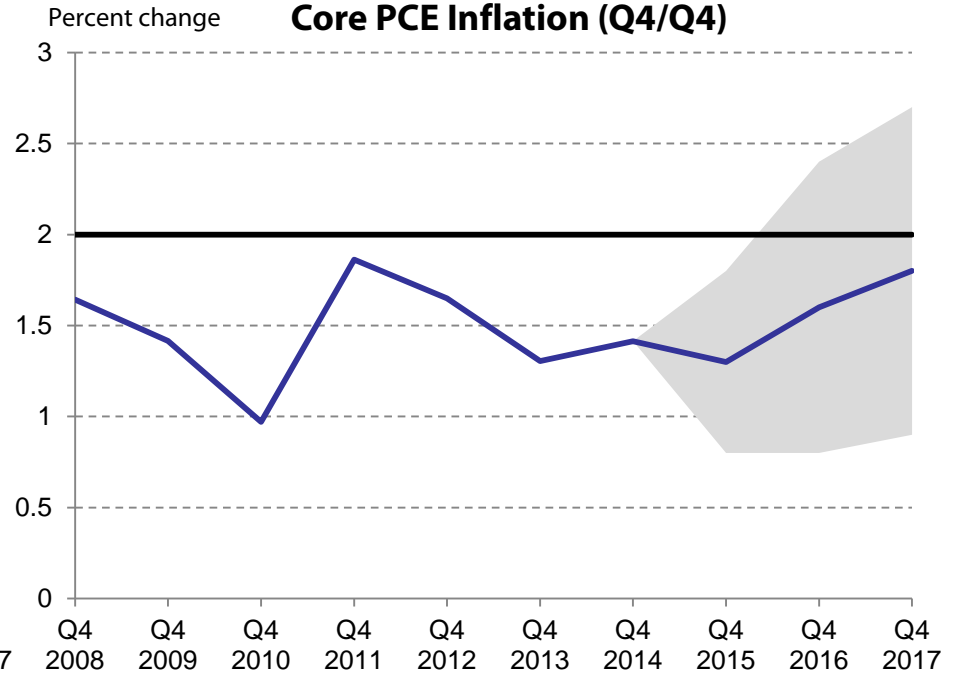
Real GDP Growth (Y/Y)	2014	2015	2016
<b>Global Output Growth (PPP weights)</b>	<b>3.3</b>	<b>3.3</b>	<b>3.7</b>
<b>Euro Area:</b> Room for a little optimism.	0.9	1.7	1.9
<b>Japan:</b> Lower yen, lower oil prices create a modest tailwind for a weak economy.	-0.1	0.9	1.8
<b>UK:</b> Solid growth continues.	2.8	2.8	2.6
<b>China:</b> Growth slows gradually, but weaker property markets and construction are downside risks.	7.4	6.9	6.7
<b>India:</b> The pace picks up.	6.4	7.3	7.6

# In the United States: Above Trend Growth, Below Target Inflation

**Unemployment Rate**



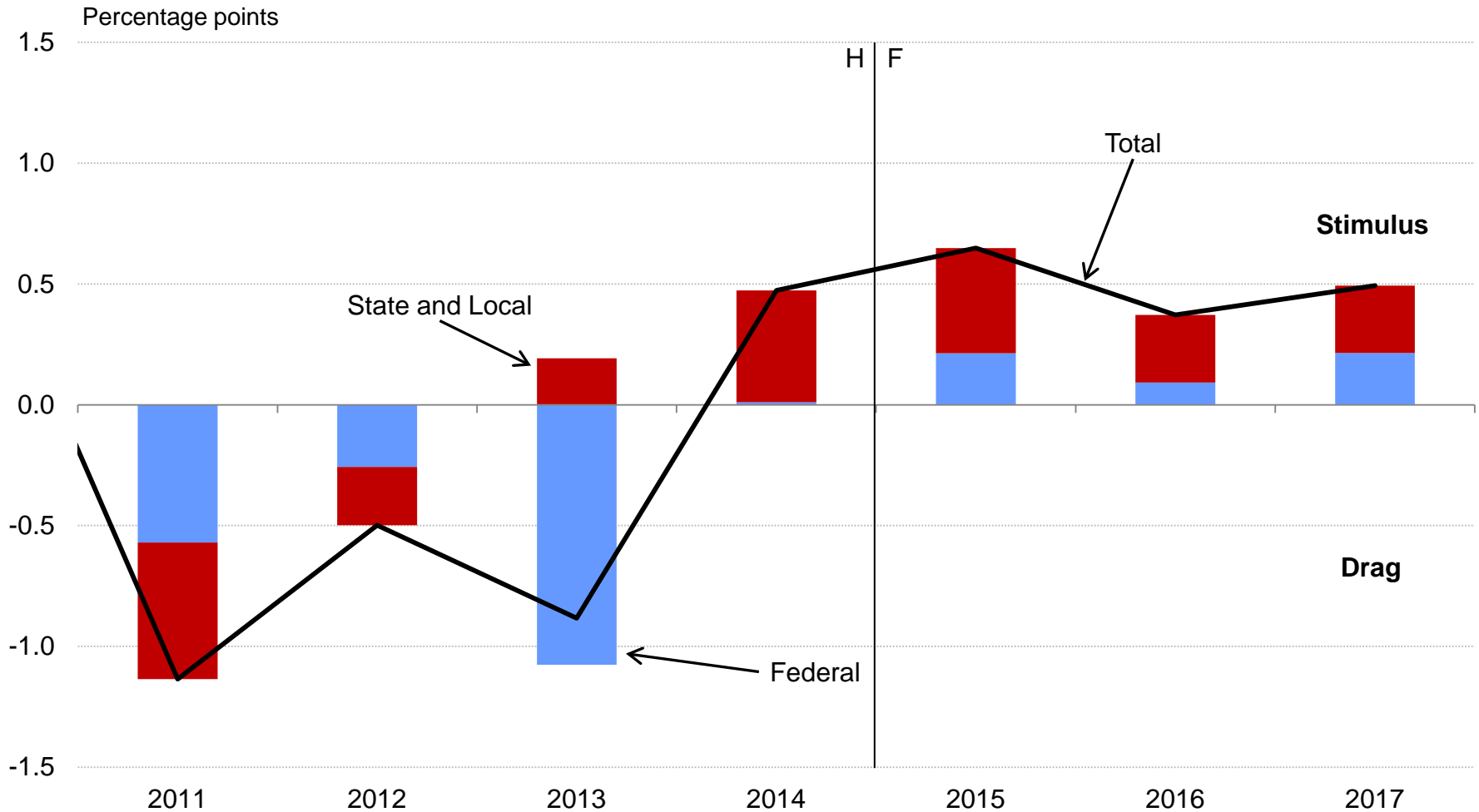
**Core PCE Inflation (Q4/Q4)**



**Forecast**

	2014	2015	2016	2017
Real GDP Growth (Q4/Q4)	2.4	2.7	2.4	2.3
Unemployment (Q4)	5.7	5.1	4.8	4.7
PCE Price Inflation (Q4/Q4)	1.1	1.0	1.8	1.9
Core PCE Price Inflation (Q4/Q4)	1.4	1.3	1.6	1.8

# The End of Self-Inflicted Wounds? A Turn in Fiscal Policy



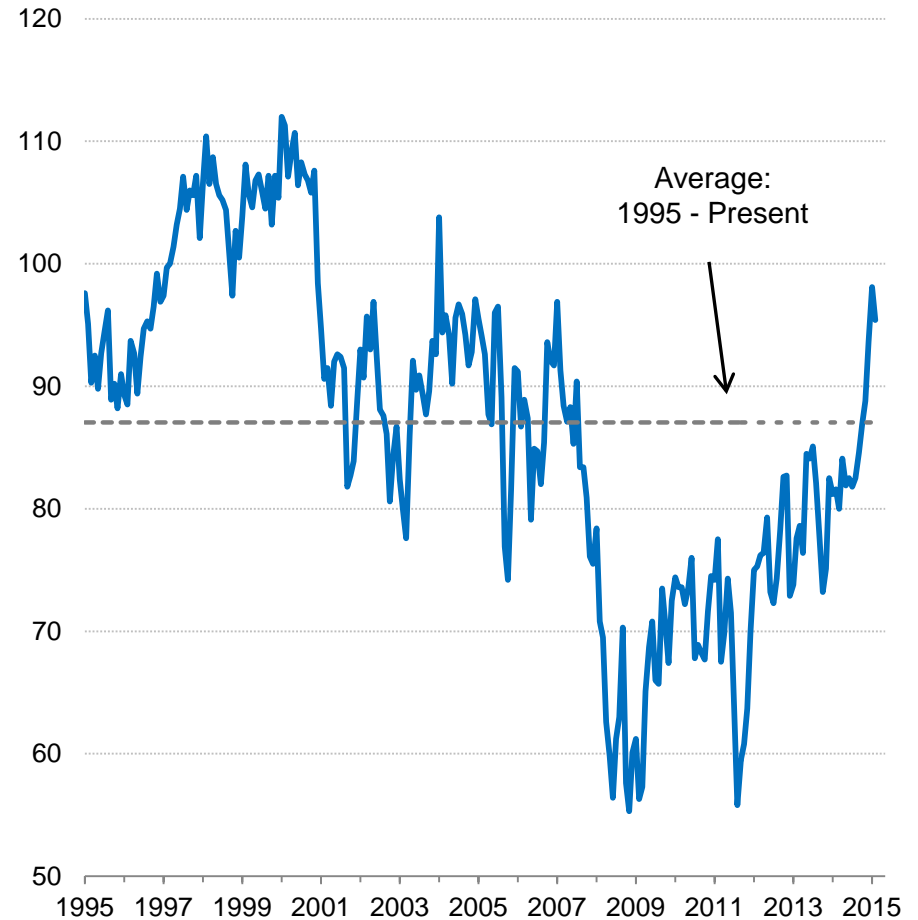
Source: Macroeconomic Advisers.

# Consumers Will Provide a Boost

Household Net Worth to Disposable Income

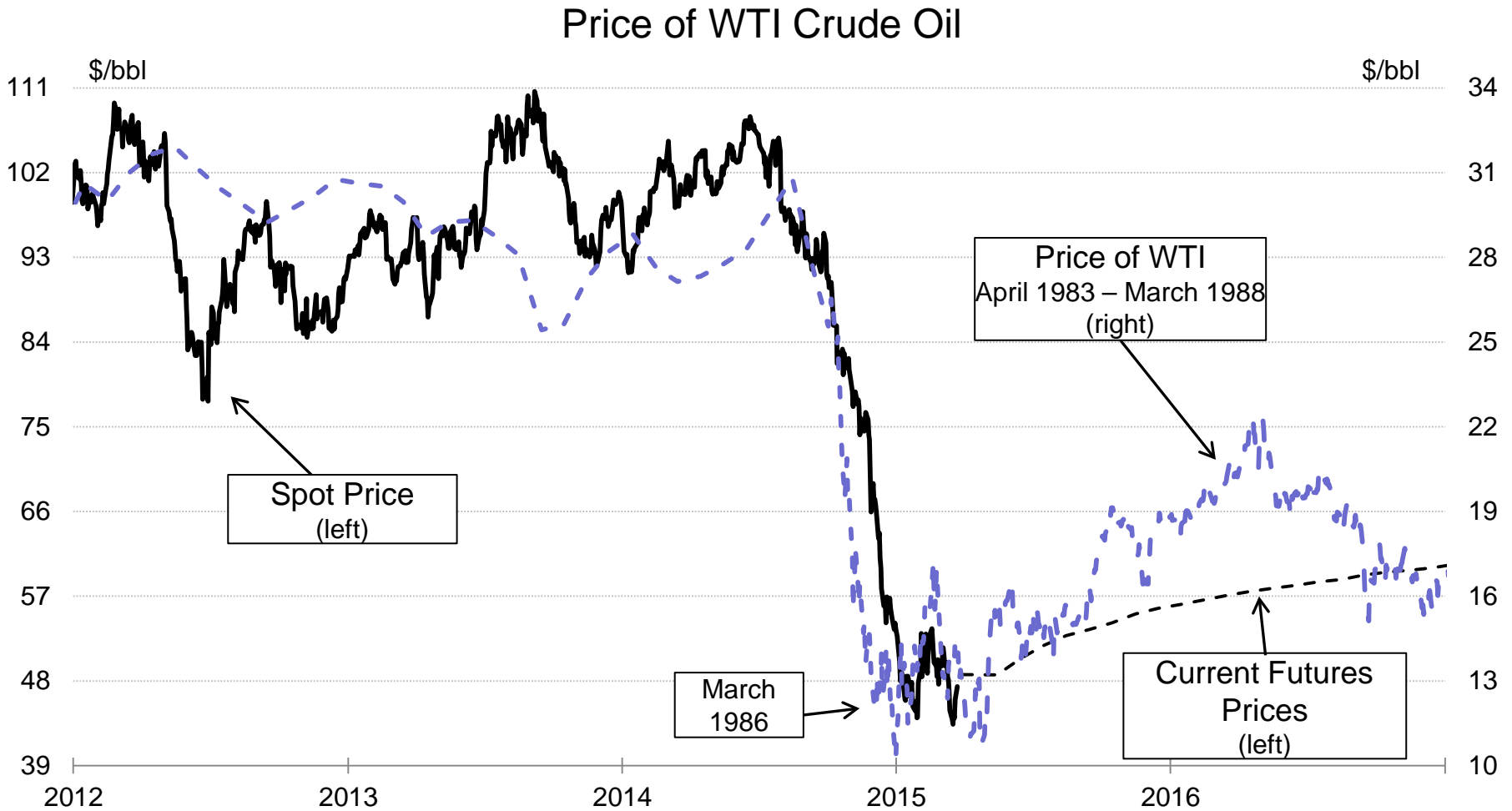


University of Michigan Consumer Sentiment



Source: Macroeconomic Advisers.

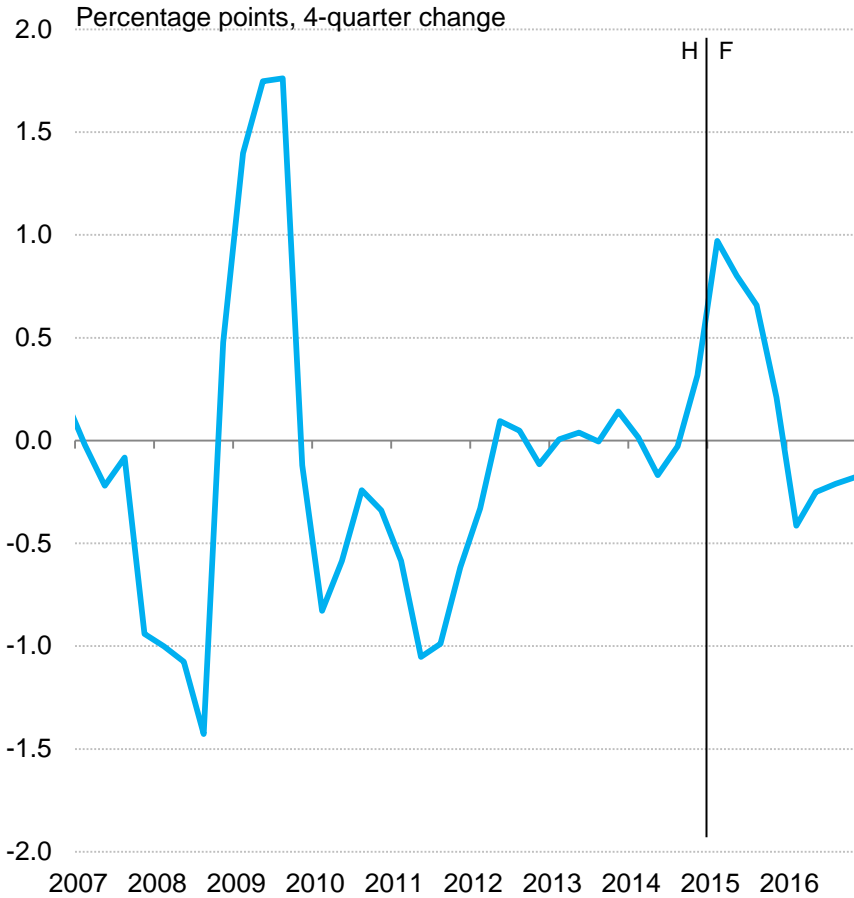
# Oil Prices Plunge We Have Seen This Before



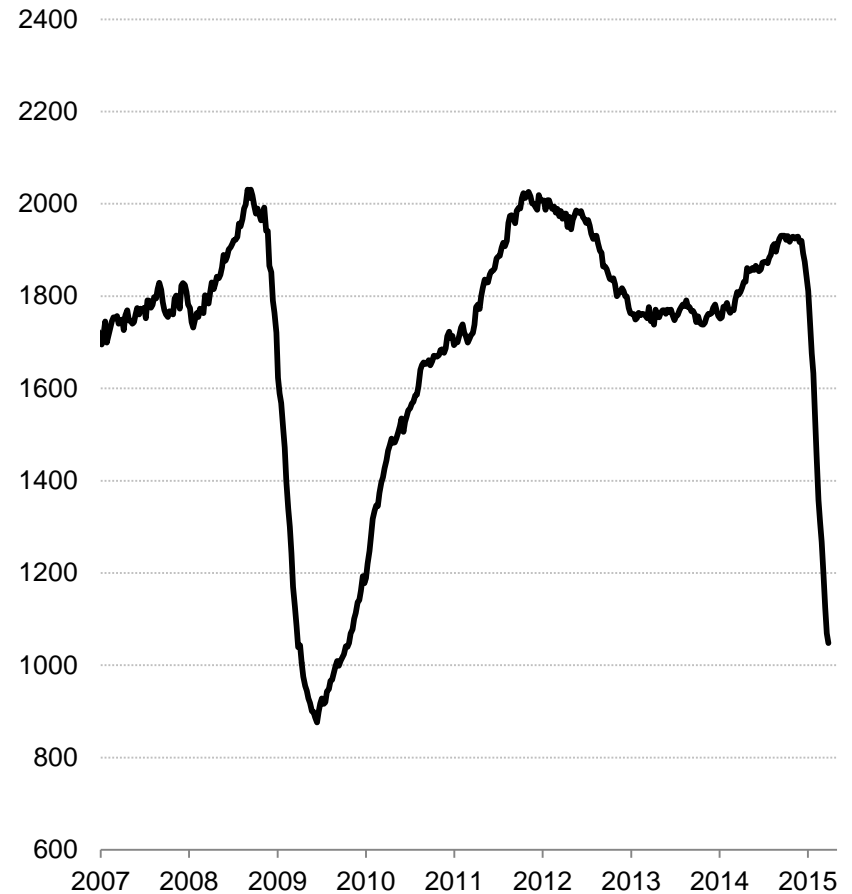
Sources: MPI/Macroeconomic Advisers, EIA, Dow Jones, Bloomberg.

# Sharply Lower Oil Prices: Pluses and Minuses

Contribution of Energy Price Changes  
to Growth of Real Disposable Personal Income



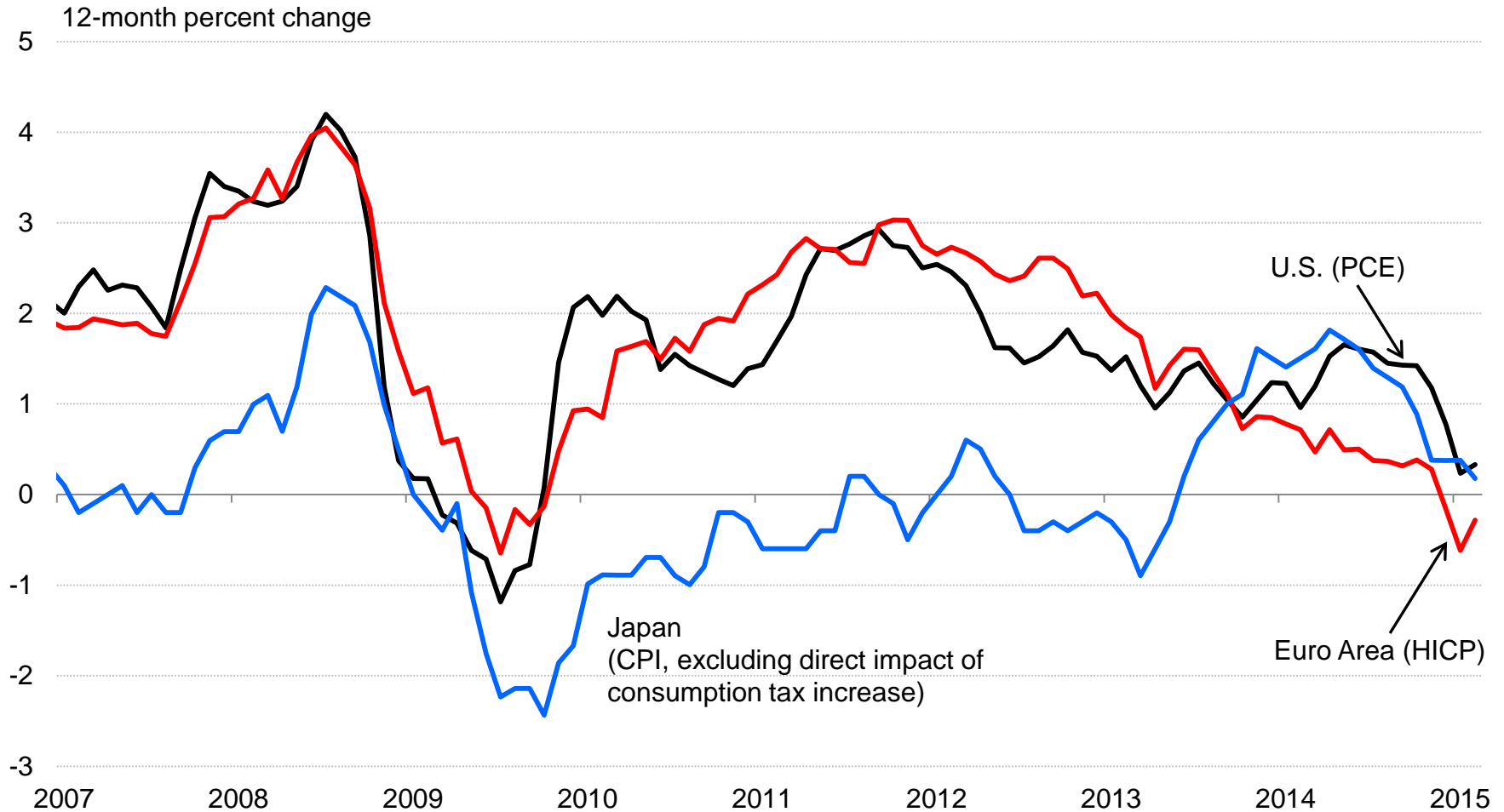
U.S. Oil and Gas Rig Count



Source: Macroeconomic Advisers, BEA, Bloomberg, Baker Hughes.

# Inflation: What Inflation?

## Consumer Price Inflation

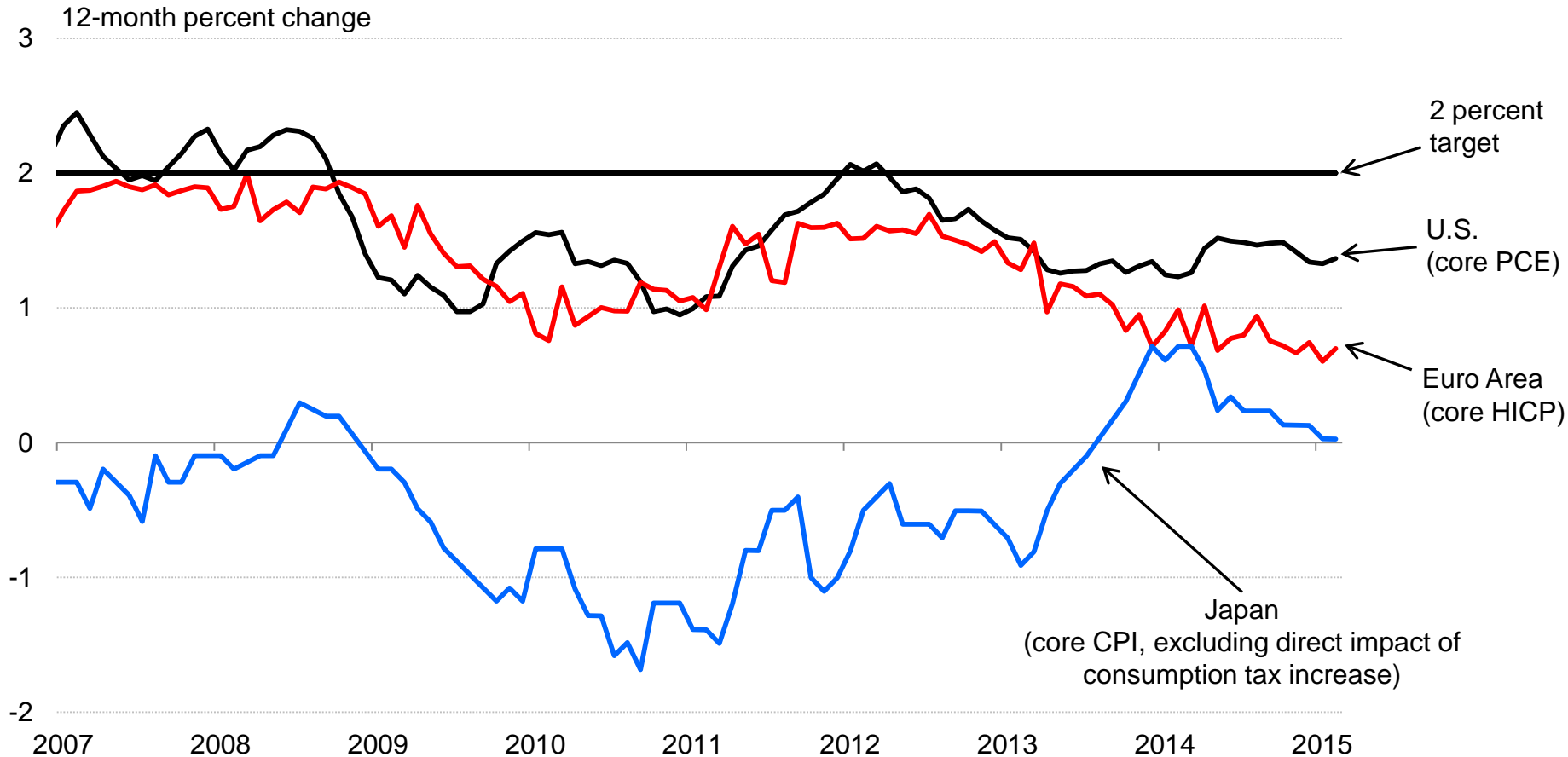


Sources: MPI/Macroeconomic Advisers, Bloomberg.



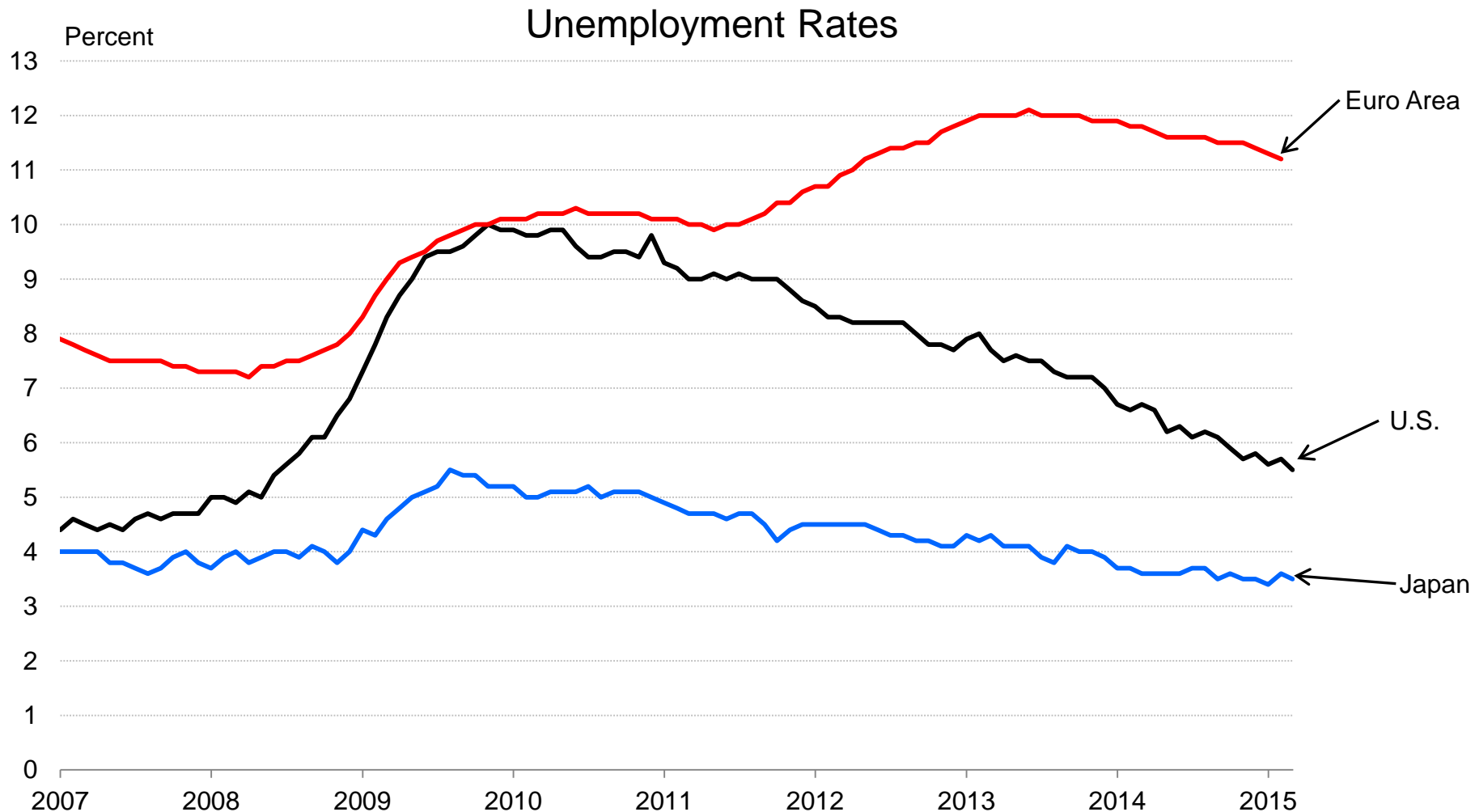
# Central Banks Have Work to Do: But the Fed Less So

## Core Consumer Price Inflation



Sources: MPI/Macroeconomic Advisers, Bloomberg.

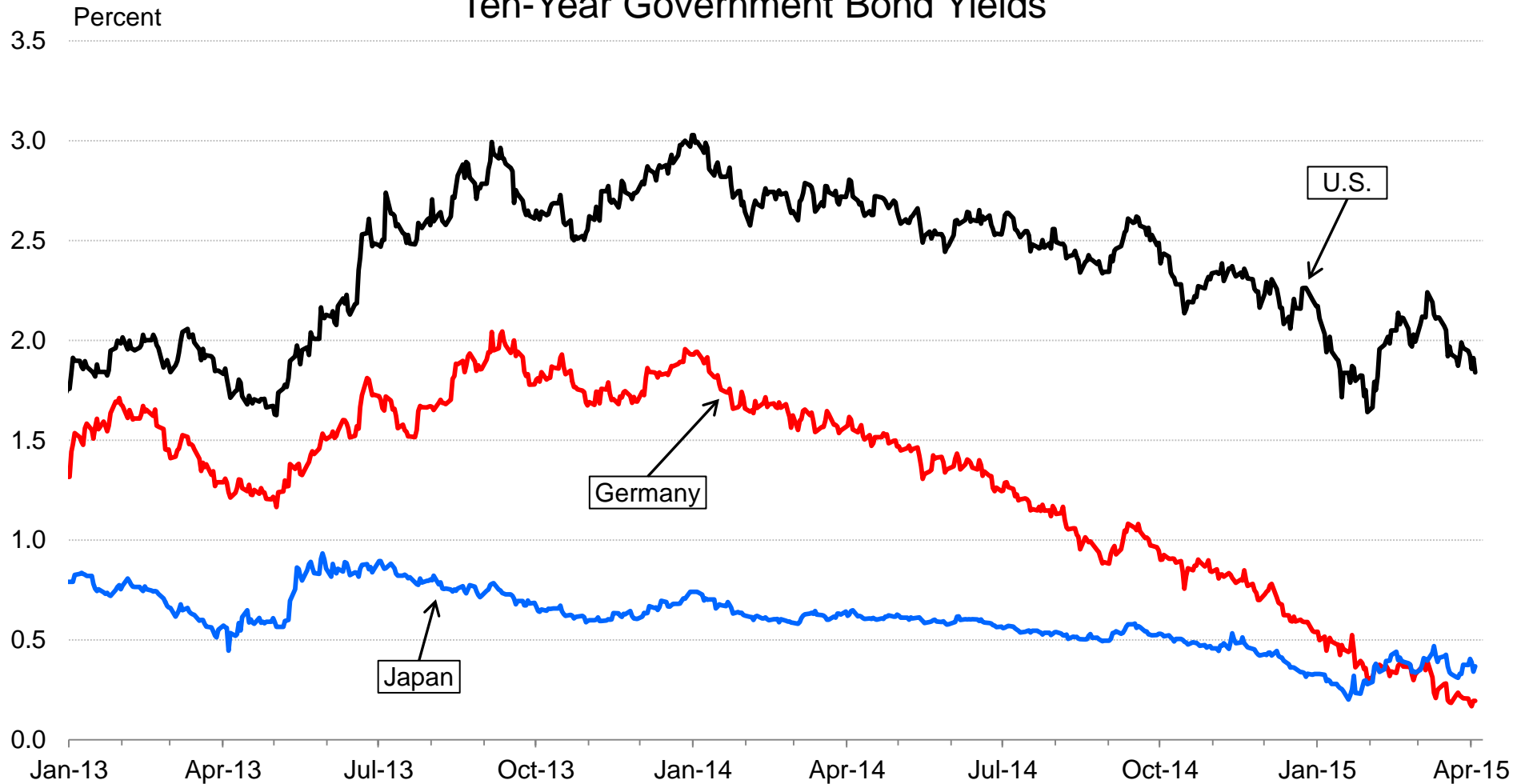
# Slack Has Been Eroding More Rapidly in the U.S.



Sources: MPI/Macroeconomic Advisers, Bloomberg.

# Long-Term Interest Rates: Down Substantially

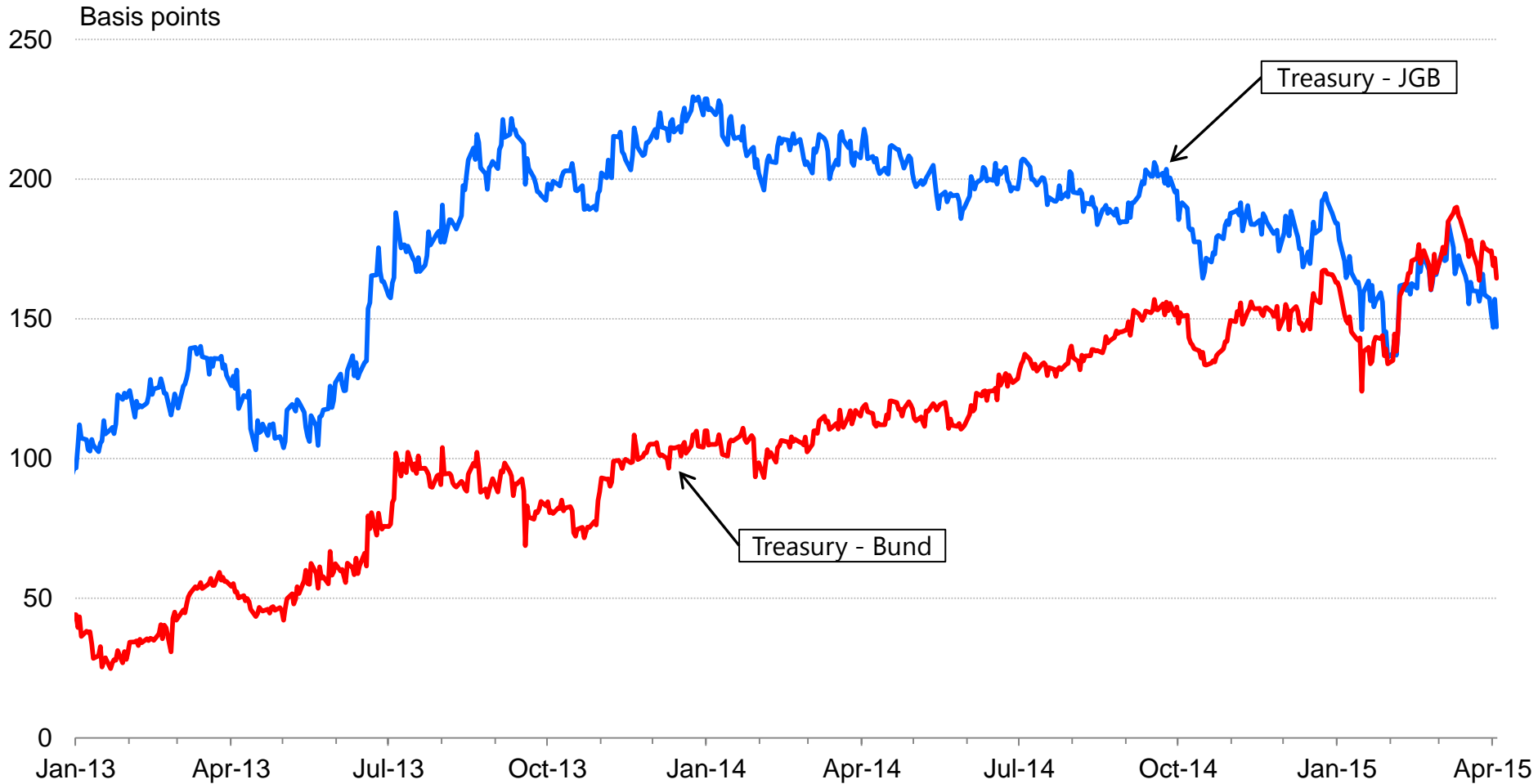
## Ten-Year Government Bond Yields



Sources: MPI/Macroeconomic Advisers, Bloomberg.

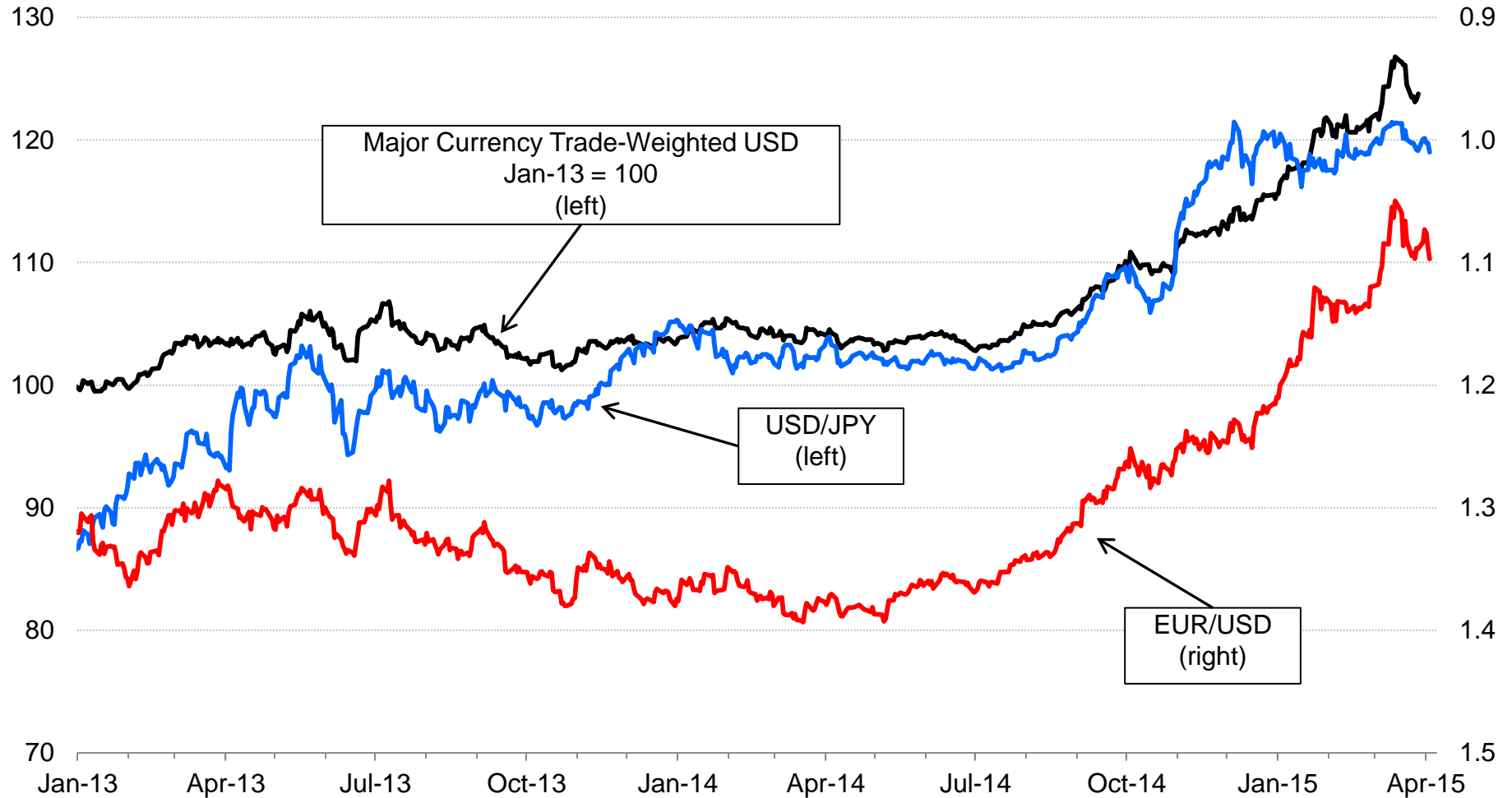
# Long-Term Interest Rate Differentials Have Widened

## Ten-Year Government Bond Yields



Sources: MPI/Macroeconomic Advisers, Bloomberg.

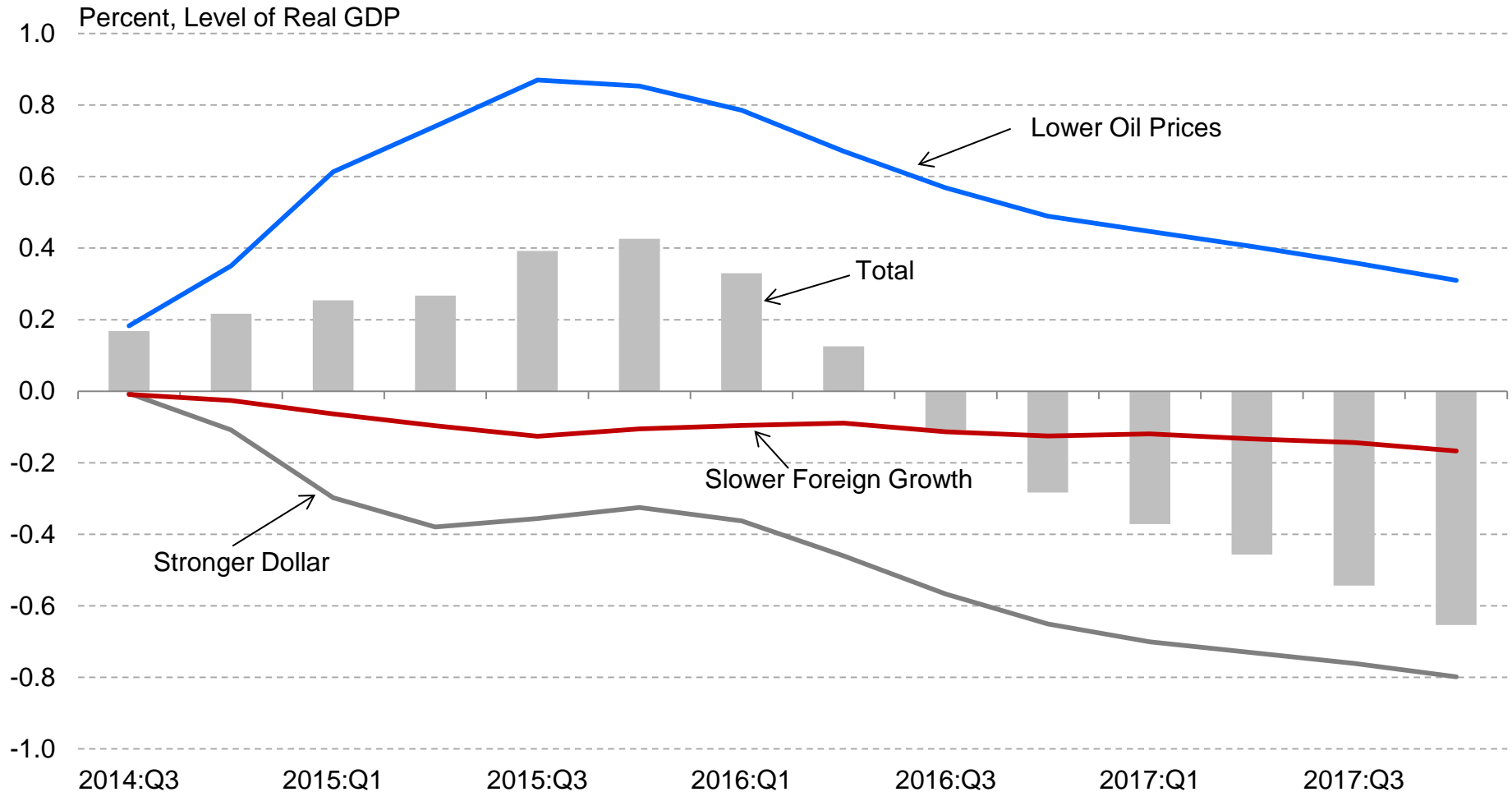
# Global Divergence: Showing Through to Exchange Rates



Sources: MPI/Macroeconomic Advisers, Bloomberg.

# Assessing the Crosscurrents

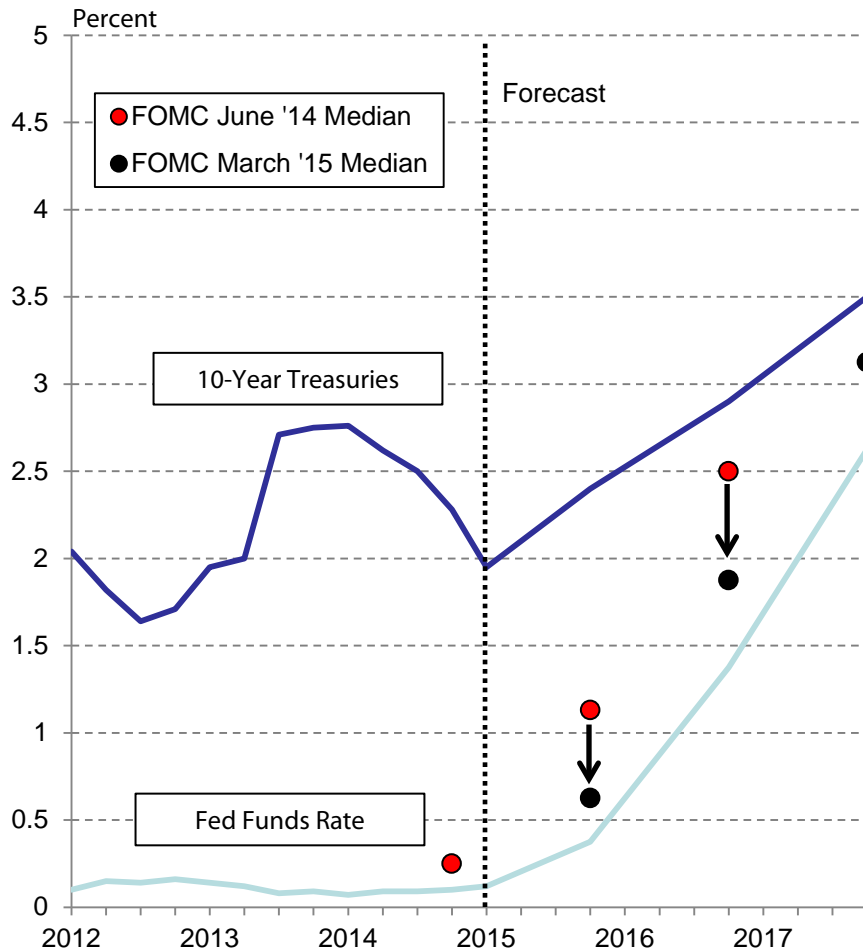
## Effect of Changes Since June 2014 Forecast



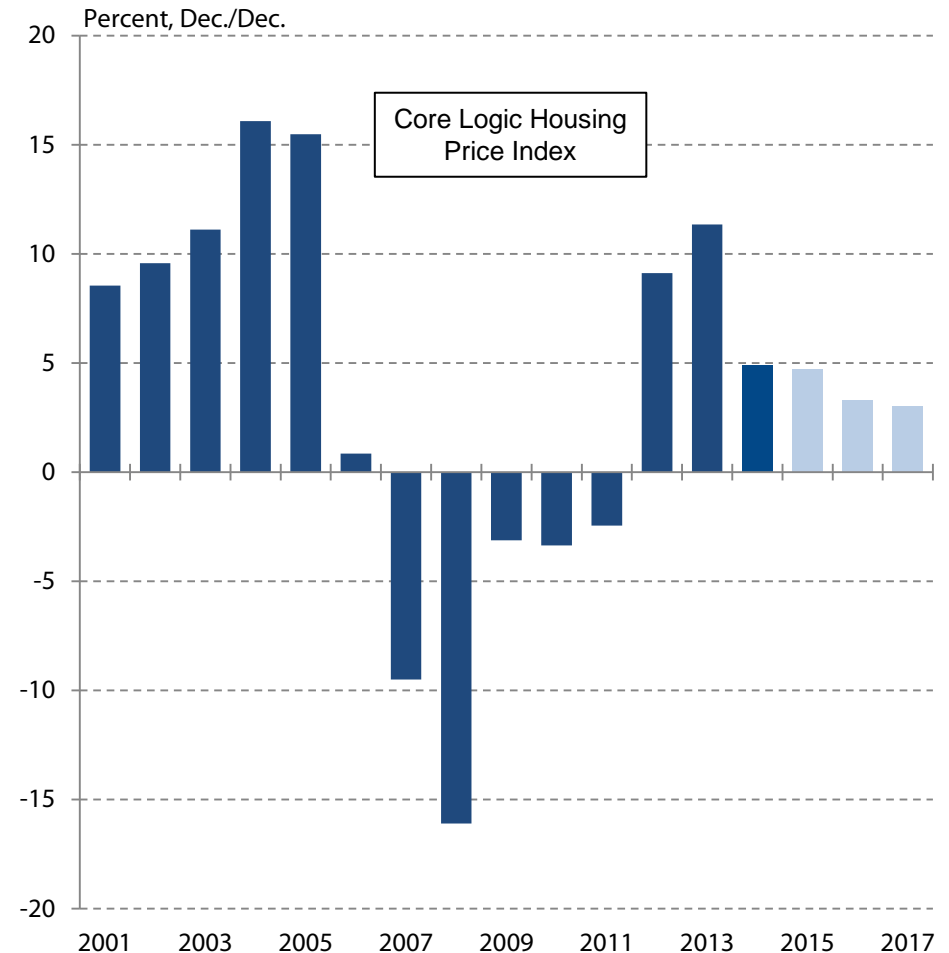
Sources: MPI/Macroeconomic Advisers.

# Monetary Policy Will Begin to Tighten—Gradually

## Monetary Policy Begins to Tighten in 2015



## House Prices

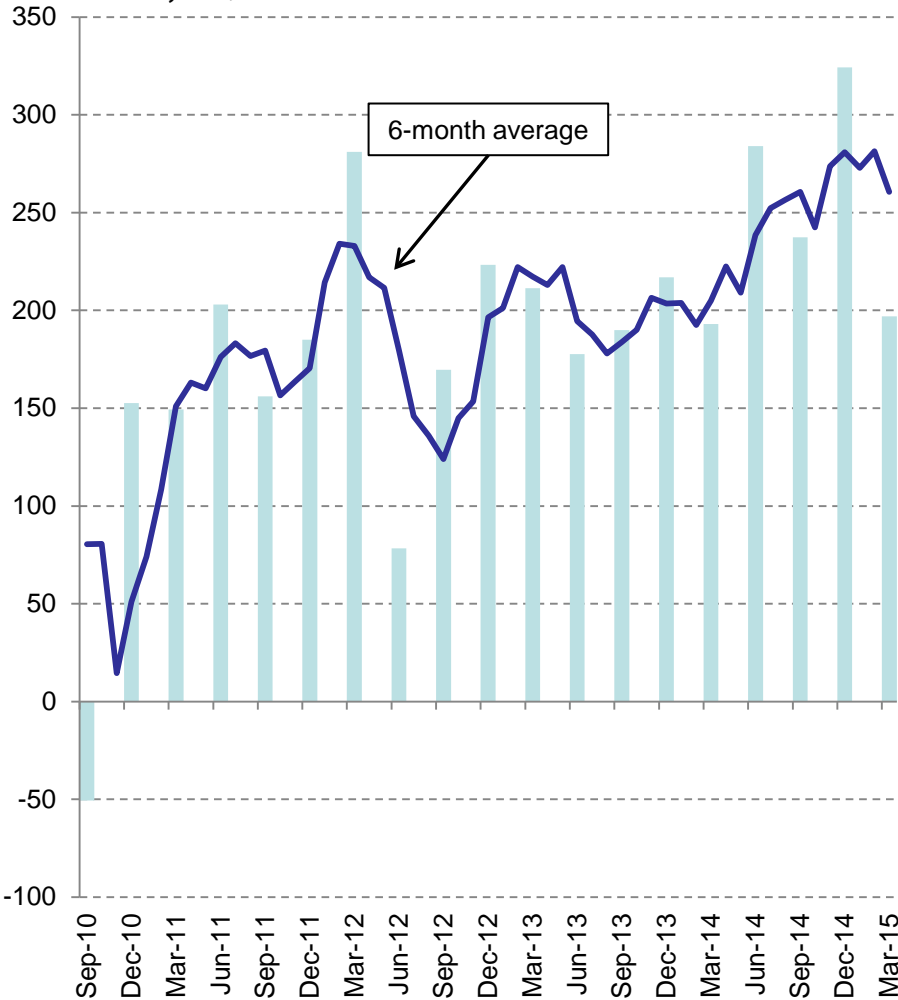


Sources: US Federal Reserve Bank, Core Logic, Author's Forecasts

# The Labor Market Repairs

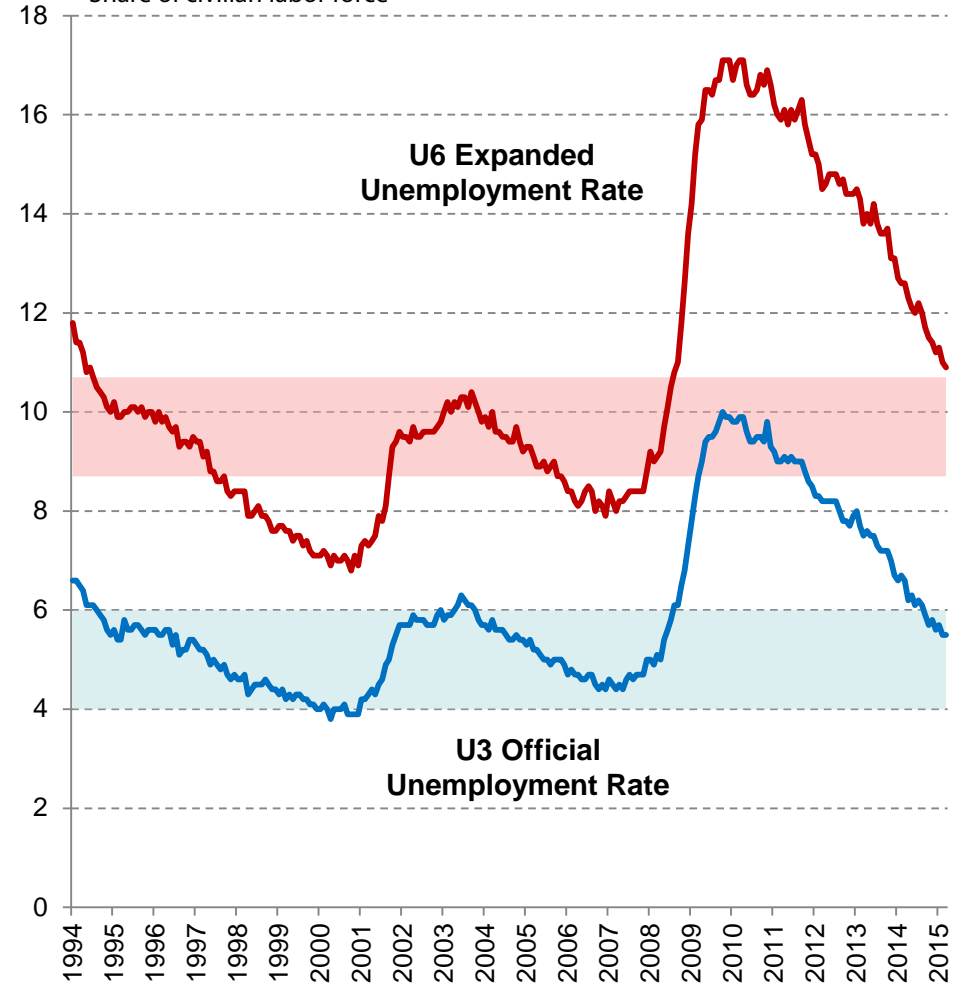
## Change in Nonfarm Payrolls

Monthly rate, thousands



## Official and Expanded Unemployment Rates

Share of civilian labor force

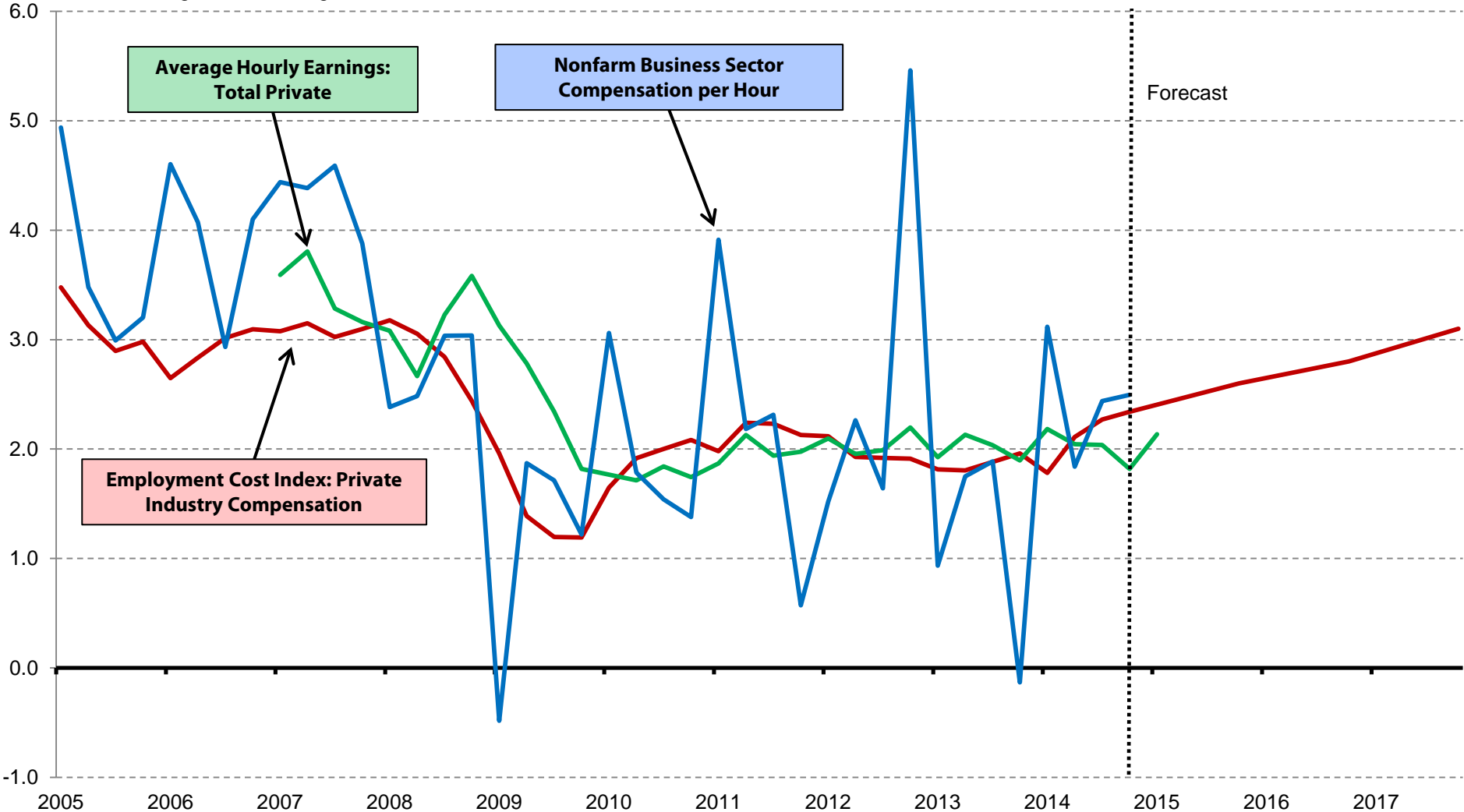


Sources: U.S. Department of Labor, Bureau of Labor Statistics. U6 rate includes: Total unemployed, plus all marginally attached workers, plus total employed part time for economic reasons.



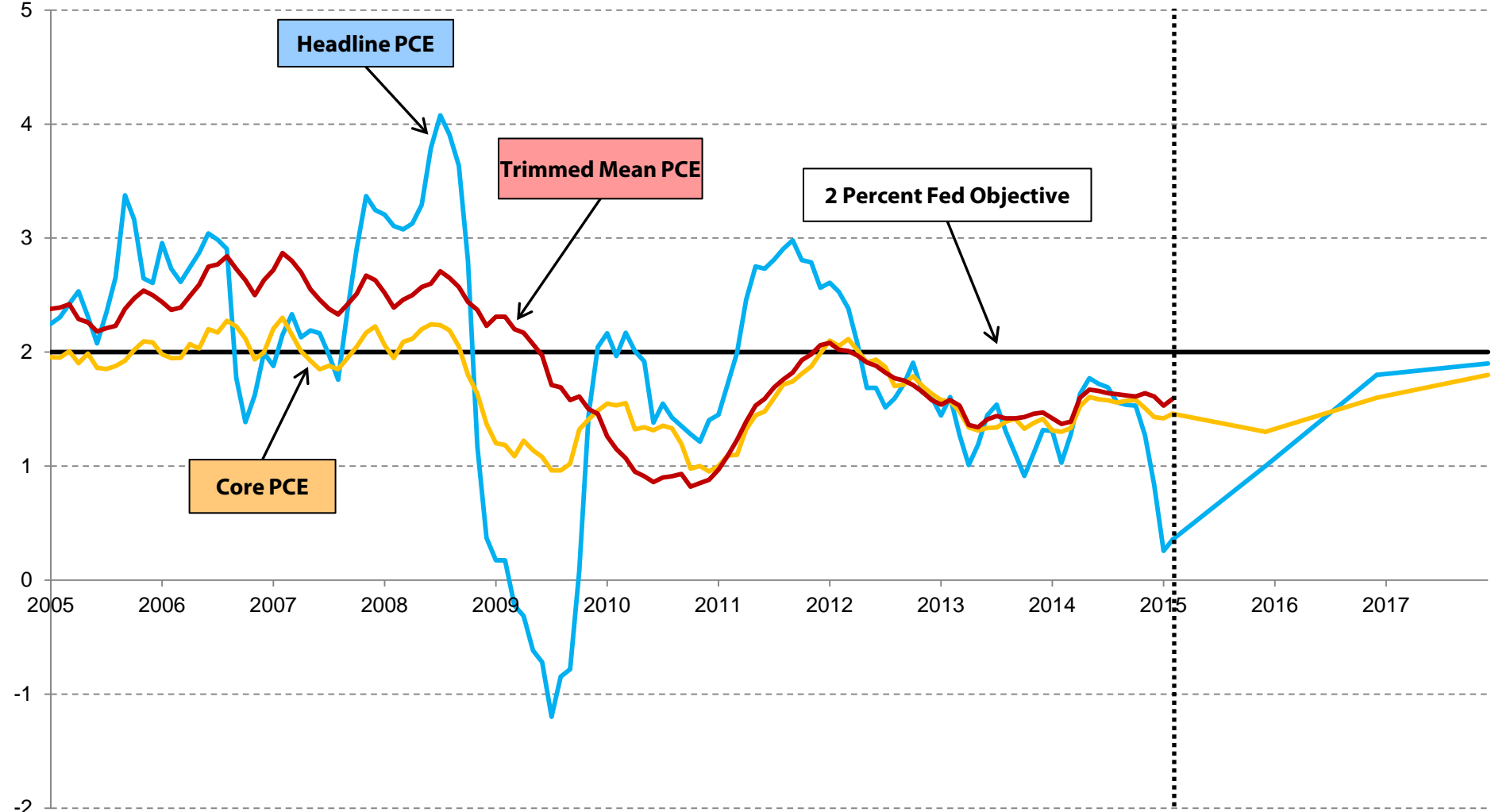
# Labor Compensation Remains Subdued

Percent Change from Year Ago



# Price Inflation Will Remain Below Target

12-month percent change



Sources: BEA and Federal Reserve Bank of Dallas, Author's Forecast

## A Few Final Observations

- The global economy will benefit from the more aggressive actions of the ECB and BOJ.
- The likely persistent divergence in the monetary policy stances of the ECB and BOJ relative to the Fed will create some challenges.
- The United States will benefit so long as the Fed responds by allowing a shallower upward trajectory of interest rates.
- Persistently low inflation, and the accompanying implications for nominal interest rates, remains a key vulnerability for the major advanced economies and, by extension, for the global economy.