



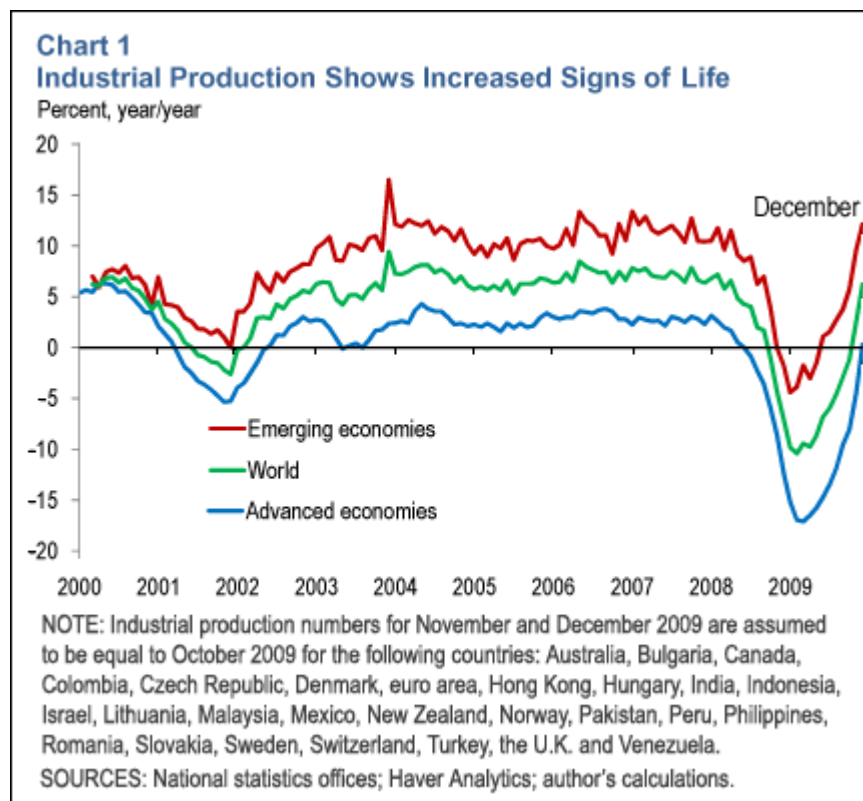
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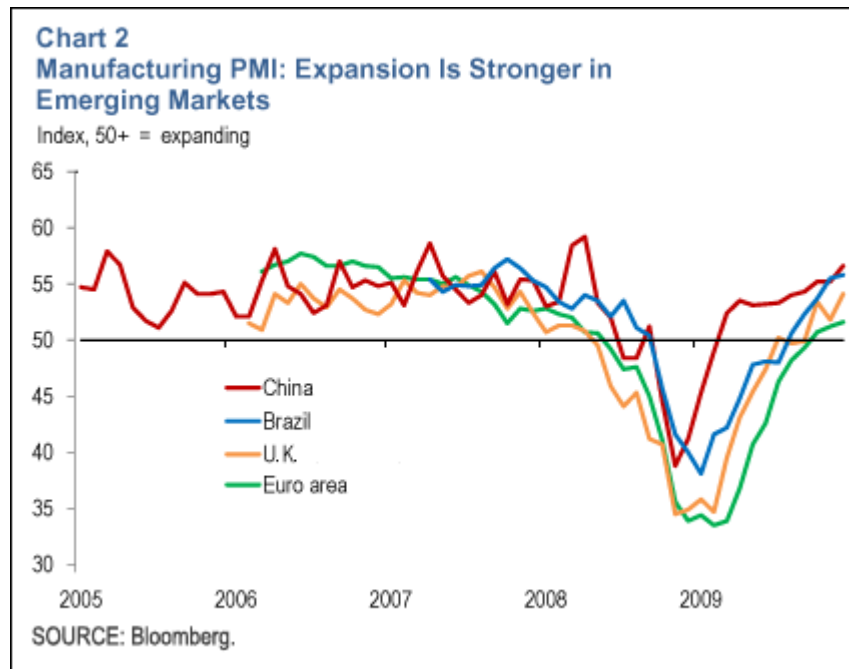
Global Growth Shows Signs of Improvement

Signs of a global recovery continue to appear around the world, particularly in the U.S. and emerging markets. Increases in output and international trade have allowed growth prospects for major economies to be revised up. However, rising commodity prices and stimulative monetary policies have caused inflationary pressures to build in emerging markets. Although monetary policy in most advanced economies remains accommodative, the run-up of public debt could stymie economic growth.

Recovery Under Way

Industrial production continues to improve around the world, with emerging economies leading the way (*Chart 1*).¹ The year-over-year growth rate of industrial production for emerging economies rose from -4.4 percent in January 2009 to 12.2 percent in December 2009. The robust global recovery is also evident in the Purchasing Managers Index of manufacturing, which was experiencing growth by the third quarter in 2009 (*Chart 2*). The index has returned to its preglobal crisis level in both Brazil and China but remains relatively weak in the euro area.





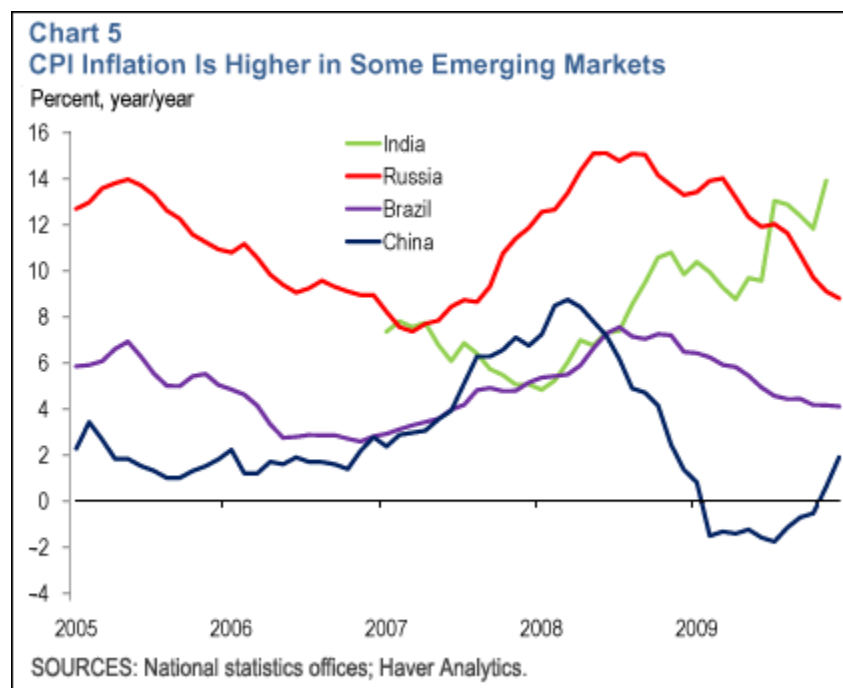
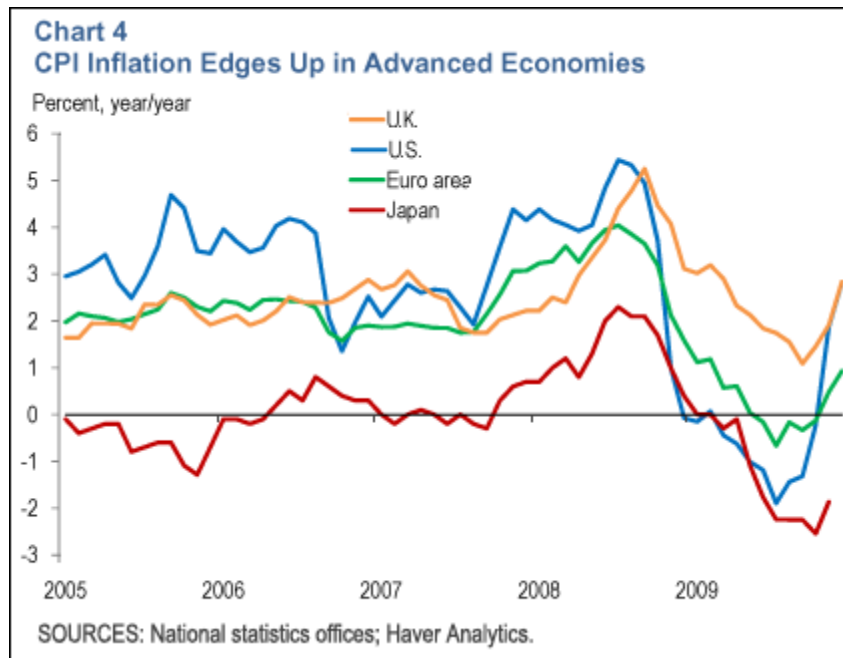
Positive Outlook

Consensus Economics' latest report, "Consensus Forecast—G-7 Countries and Western Europe," shows encouraging signs of economic recovery in the major economies. The U.S. is expected to grow at a 2.9 percent rate in 2010, which is close to the average growth rate before the global financial crisis. In addition, growth rates in other regions are expected to rebound to long-run levels by the end of the year. Further evidence of a return of confidence in global economic growth is the increase in trade in both advanced and emerging economies in 2009 (*Chart 3*).



Inflation Readings

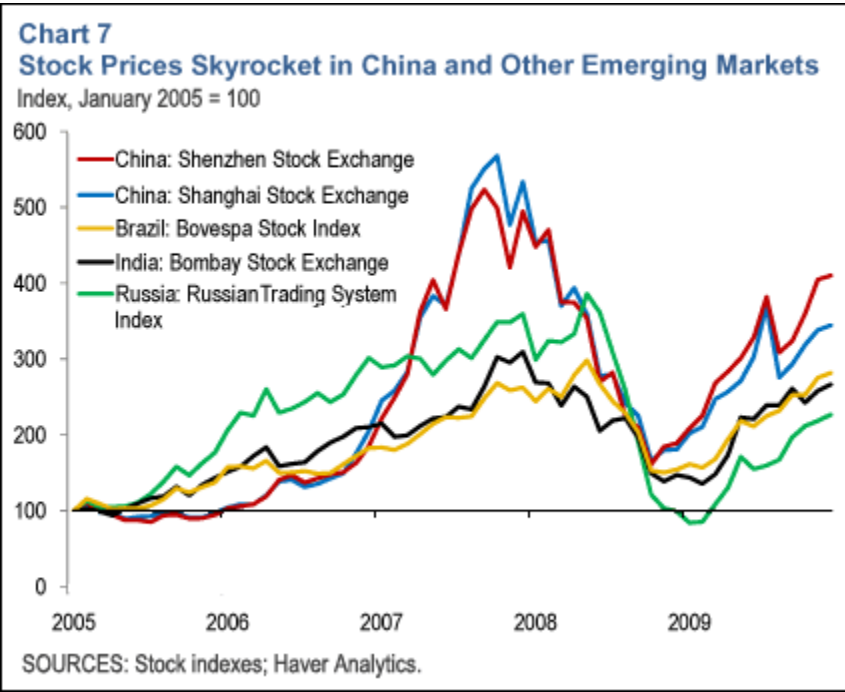
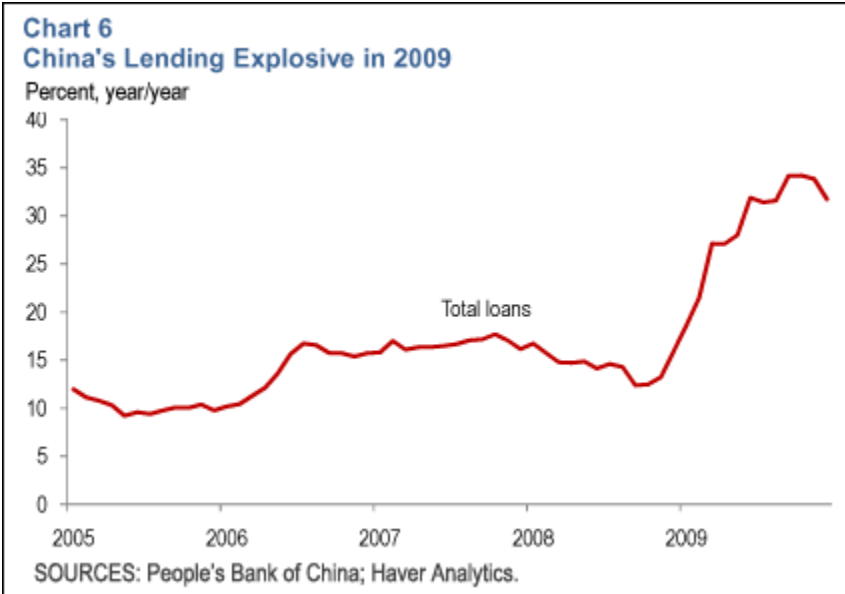
Inflation remains relatively low in large advanced economies and higher in emerging markets (*Charts 4 and 5*). Year-over-year Consumer Price Index (CPI) inflation in the U.S. and China rose to 2.8 percent and 1.9 percent, respectively, in December 2009 after hovering in negative territory for most of the year. The inflation rate in the euro area followed suit, while that of Brazil changed only modestly and the U.K. ended the year at 2.8 percent. Russia's and India's inflation rates remain relatively high. For the most part, core inflation remains subdued; the recent increase in CPI inflation can thus be attributed to rising food and energy prices.



These data, along with other major indicators of inflationary pressures such as capacity utilization and the output gap, suggest that inflationary pressures are unlikely to arise in the near term. This low inflationary pressure allows central banks the freedom to conduct monetary policy to further support an economic recovery.

China's Impact on the World

China's response to the global financial crisis in 2009 involved aggressive monetary and fiscal policies. These expansionary policies helped the Chinese economy rebound strongly in 2009, which may have given rise to record loan growth in China in the first quarter of 2009 (*Chart 6*). They may have also inflated asset bubbles with fast rising real estate prices and stock prices (*Chart 7*). Although there is weak evidence of inflationary pressures in advanced economies, higher global commodity prices and a rapidly expanding money supply have contributed to an increase in inflation expectations in China. Because neighboring economies such as Japan, South Korea, Singapore and Taiwan were boosted by China's strong imports, the risk of inflation affects not only the Chinese economy but also that of the world.



Monetary and Fiscal Policies

Monetary policies in most advanced economies remain accommodative. Because there is no clear evidence that private demand is self-sustaining and economic recovery in the euro area and other advanced economies remains fragile, stimulative policies remain in place. For example, the Bank of England and the European Central Bank held policy rates steady at their last policy meetings. Government debt has been soaring and has, on average, increased 75 percent in Iceland, Ireland, the U.K., Spain and the U.S. during 2007–09. This buildup could impose downside risks for the economic growth rate in these countries and shake confidence in the governments' ability to shoulder the debt burden without creating inflation.

—Hector Mendoza

About the Author

Mendoza is a research analyst in the Research Department at the Federal Reserve Bank of Dallas.

Note

1. Advanced economies include: Australia, Canada, Czech Republic, Denmark, euro area (Austria, Belgium, Cyprus, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Malta, Portugal, Slovakia, Slovenia and Spain), Hong Kong, Israel, Japan, Korea, New Zealand, Norway, Singapore, Sweden, Switzerland, Taiwan, the U.K. and the U.S. Emerging economies include: Argentina, Brazil, Bulgaria, Chile, China, Colombia, Estonia, Hungary, India, Indonesia, Latvia, Lithuania, Malaysia, Mexico, Pakistan, Peru, Philippines, Poland, Romania, Russia, South Africa, Thailand, Turkey and Venezuela.

The Federal Reserve Bank of Dallas International Economic Update can be found online at www.dallasfed.org/institute/update/