

# Global Economic Outlook

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## Overview

**Global Economy** – The global decoupling story has gained more credence over the last few weeks on increasing evidence that strong capital spending on infrastructure is driving global growth.

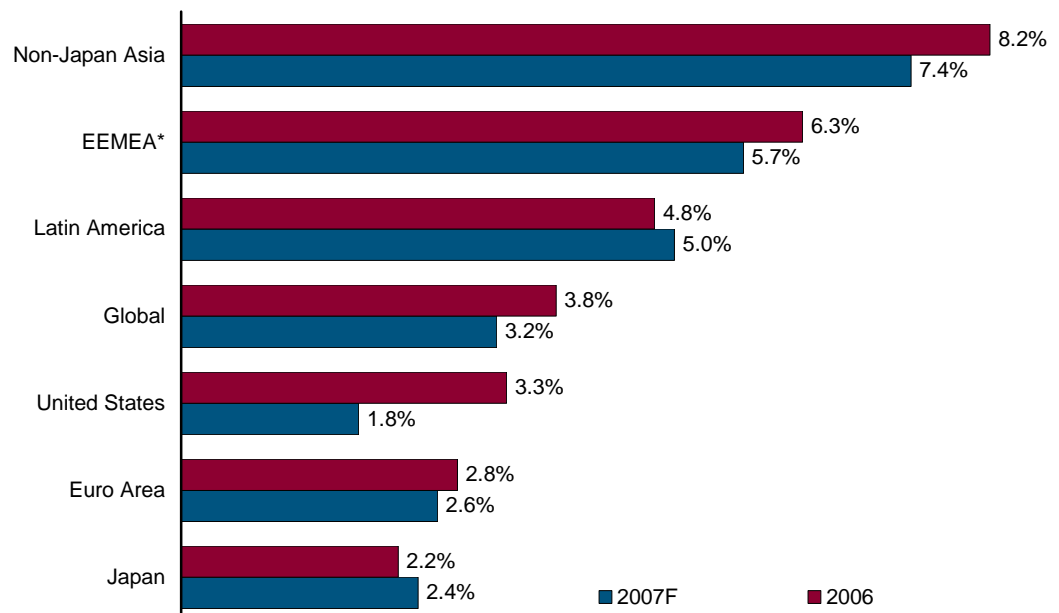
**United States** – US consumers are powering ahead but lower home-equity withdrawal is poised to slow spending in the months ahead.

**Japan** – We have raised our 2007 growth forecast to 2.4%. Although we’ve reduced our inflation forecast, we still expect the BoJ to raise rates in the fourth quarter.

**China** – Firm first-quarter GDP growth will prompt more tightening in 2007.

**Europe** – The data have surprised on the upside, raising the possibility that rates might rise higher than previously expected.

## World Economic Growth



\*Eastern Europe, Middle East and Africa  
 Source: AllianceBernstein

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## Global Outlook

The global decoupling story has gained more credence over the last few weeks

The view that global growth isn't dependent on the US anymore has been gaining credence over the last few weeks. Collectively, many parts of the globe appear to be shrugging off, at least for now, the sharp slowdown in the US, which grew a mere 1.3% in the first quarter, its slowest advance in four years. Indeed, following China's blockbuster 11% gain in the first quarter, GDP reports from other parts of the world including Europe, Australia and New Zealand, along with other parts of Asia, show continued strong growth.

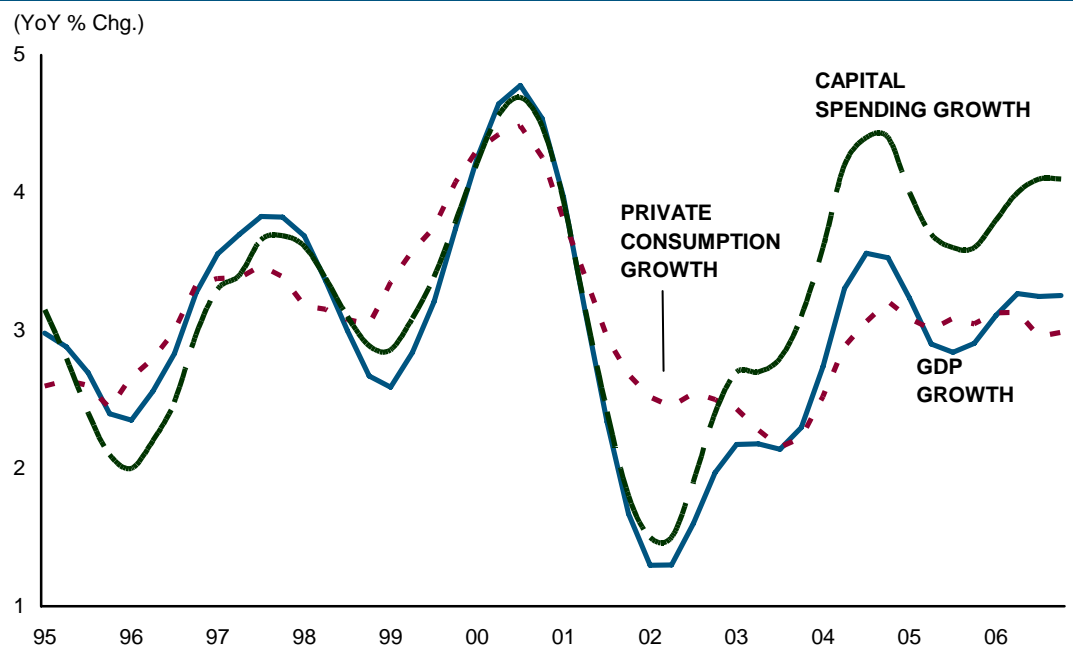
Perhaps the reason this decoupling from US growth has been able to take place with much less disruption than what might otherwise be expected is that the latest global growth cycle was not as US-centric as many made it out to be. That's not to say that the US consumer spending cycle has not played a key role in the global growth cycle; it clearly has, and the strong export growth seen in many parts of the world and corresponding rise in the US trade deficit are evidence of its effect.

The current cycle is more dependent on capital spending than prior cycles were

However, the current cycle in the aggregate seems to be less dependent on consumption growth than the 1990s cycle was. In fact, the prior cycle displayed a proportional rise in consumer spending and capital spending, whereas the current cycle appears to be more driven by capital spending. Since 2002, global capital spending has outpaced consumption growth by a full percentage (**Display**) and odds are that it will continue to do so.

Not only has the makeup of the current cycle been misdiagnosed, so too has the composition of the global capital spending cycle. It had been thought that much of the global spending cycle was tied to increased capacity for consumer goods output. But as it

### Display: It's a Capital-Spending-Driven Global Growth Cycle Trends in Global GDP, Consumption and Investment



12-month moving average

Source: Haver Analytics, Bloomberg and AllianceBernstein

## Infrastructure spending is driving the global economy

turns out, a relatively high share of it is tied to infrastructure spending, which suggests it may have more staying power. According to our analysis, roughly 30% of the investment boom in China is tied to infrastructure spending—i.e., airports, ports, transportation systems and other types of commercial and service related building. In Russia, about half of the investment boom is tied to increased spending on its transportation and oil and gas infrastructure. Infrastructure spending in India and the Middle East is said to be very large as well, and rapidly growing.

The growing backlog of capital goods orders at US multinationals tends to support the notion that the global capital spending boom is broad-based. To be sure, GE backlogs stand at a record \$120 billion, up sharply in recent years, after the company pushed sales of products to help with oil and gas drilling and building power plants. Boeing, which has the biggest backlog (\$262 billion) of all US companies, continues to see strong overseas demand as foreign carriers modernize and expand their fleets.

All of this indicates that the global growth cycle has enough breadth and momentum to overcome a slowdown in the US and still expand at a relatively fast pace. Our global growth forecast of 3.1% (4.2% measured on a purchasing-power parity basis) indicates that there is still sufficient strength in the growth cycle to require additional monetary tightening in Europe, China, Japan, and possibly Canada.

With the US Federal Reserve at worst on hold and at best forced to cut rates later this year, the relative mix of faster growth and higher interest rates outside the US spells trouble for the US dollar. Though it recently hit an all-time low against major currencies, we expect the dollar to slide further over the course of the year.

## US Outlook

### US consumers are powering ahead

While real GDP growth slowed to 1.3% in the first quarter, the weakest advance in four years, consumer spending continued to power ahead. Indeed, real consumer spending remained relatively strong, rising 3.8% annualized, following the 4.2% gain in the fourth quarter. This would seem to be at odds with our view that consumers would start to cut back as they withdrew less and less equity from their homes.

### But lower home-equity withdrawal is poised to slow spending

But we believe that lower home-equity withdrawal *is* having the expected impact—not in real dollar terms but in slower nominal spending relative to underlying earnings growth. The best way to see this is by looking at the relationship between the growth in nominal retail sales on the one hand and the rise in wage and salary income on the other.

There has been a very close relationship between the two over the past 40 years, with average annual gains that are almost identical (7.04% for wage and salaries versus 7.06% for retail sales). This suggests that people generally base the amount of dollars they spend on what they earn.

But in recent years, consumers have been able to spend far more than they earned by tapping into the growing equity in their homes. Home-equity withdrawal amounted to hundreds of billions in supplemental cash flow, providing the same incremental lift to spending as consumer borrowing had in past cycles. To be fair, studies show that consumers spent only 15% to 20% of this, with the bulk of it used to pay off other debt or reinvested in housing.

Nonetheless, consumers clearly spent more than they earned. Growth in nominal retail sales exceeded the increase in wage and salary income by roughly 1.5% for four consecutive years (**Display**). There were periods in the past when retail sales rose faster than earned-income growth, but never for so long. The only possible explanation for this long stretch of outperformance is that the extra sales growth was financed with the equity people extracted from their homes.

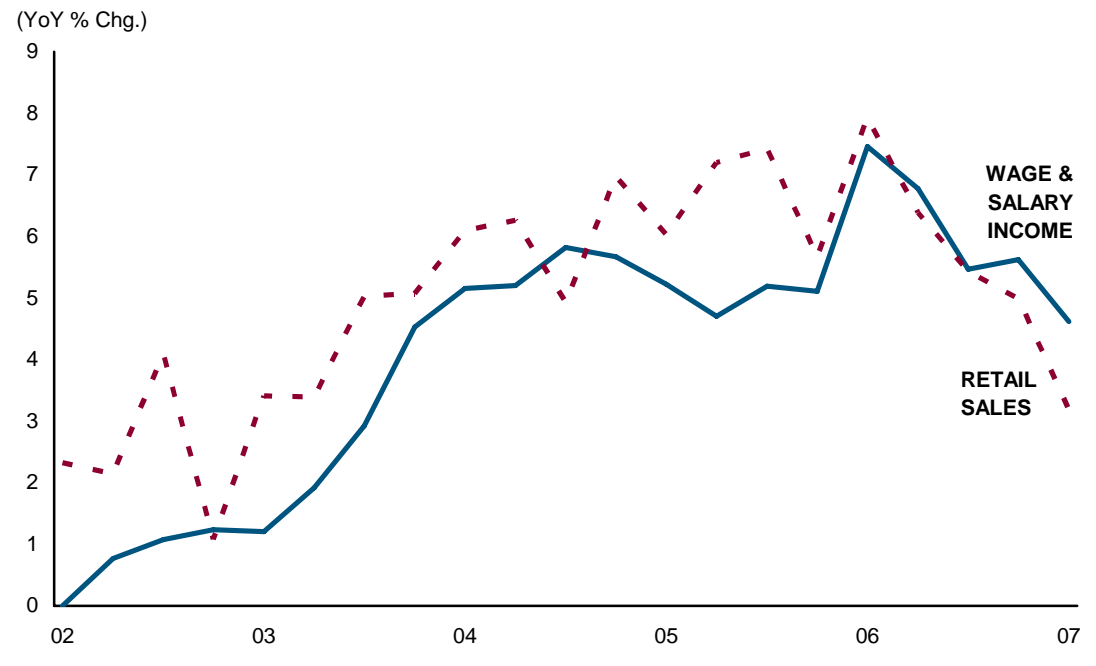
But this relationship is now starting to change again, if only at the margin. Nominal retail sales growth, measured on a year-on-year basis, trailed underlying income growth in both the fourth quarter of 2006 and the first quarter of 2007. The loss of liquidity and cash flow from the housing slowdown no doubt played a role, and the impact of less liquidity and cash flow will likely grow as consumers tend to adjust their spending gradually.

Reports of slower nominal spending offer additional evidence that this reversal is influencing the trend in nominal sales growth. This week, for example, both General Motors, the largest US auto manufacturer, and Target, a major retailer, reported April sales running below plan.

If there is another shoe to drop, it will come when hiring and wage growth moderate in response to the decelerating economy, further slowing nominal income growth. Employment and wage numbers for the first quarter were encouraging, extending the modest growth trend of 2006, but we are seeing some softness in tax receipts and hiring as the second quarter begins, evidenced by the recent uptick in jobless claims.

We will be monitoring all of these factors closely in the weeks ahead. But for now we see no reason to change our 2007 forecast of a 2.0% gain (fourth-quarter 2007 over fourth-quarter 2006) in real consumer spending—despite the solid gain in the first quarter of 2007.

**Display: Sales Trends Reflect Decline in HEW**  
 Without HEW, Sales Fall Below Income



Source: Bureau of Economic Analysis, Census Bureau, Haver Analytics and AllianceBernstein

## Europe Outlook

Upside surprises have dominated

Euro-area data continue to surprise on the upside. Germany's Ifo business-climate indicator rose from 107.7 in March to 108.6 in April, close to the record high of 108.7 set last December. Nor is the good news confined to Germany. Survey data improved across the board in April, with French and Italian business confidence jumping to their highest levels since early 2001. Hence, while temporary factors are likely to dampen actual growth in the first quarter, less-volatile survey data suggest that the underlying situation remains strong and that growth is still running well above trend.

Non-US demand for euro-area exports is strong

This robust performance is all the more impressive given the twin threats posed by a weaker US economy and rising euro. There are a number of reasons for this. First, in spite of the slowdown in the US, demand from other countries is very strong. This is evident in recent trade data. While growth in euro-area exports to the US has slowed to a crawl, exports to China and eastern Europe (including Russia) are rising by over 20% per annum. To put this in perspective, eastern Europe now accounts for 24% of euro-area exports compared with 14% for the US.

Domestic demand also on a firmer footing

But the resilience of the euro-area economy is not just about external demand. After several years of virtual stagnation, the euro area finally appears to be enjoying a normal cyclical upswing. With confidence high and profits buoyant, investment has already recovered strongly. Meanwhile, the outlook for consumption has improved markedly. This is true even in Germany, where strong job creation and faster wage growth mean consumer prospects are brighter than for several years.

Higher rates have not had much impact yet

It is also worth noting that the monetary-tightening cycle is less advanced in the euro area than it is, for example, in the US. Euro-area interest rates started to rise in December 2005, 18 months after they started rising in the US. And, since then, the cumulative increase in rates has been just 175 basis points; much less than the 425-basis-point tightening seen in the US. Given the slow monetary transmission mechanism in most euro-area countries, it is hardly surprising that monetary policy has so far had little impact.

Will the economy cool quickly enough to prevent rates rising above 4.0%

When combined with a higher euro, the overall tightening in monetary conditions has been more significant than implied by interest rates alone. Looking ahead, we continue to expect this tightening to cool the economy. However, the evidence of the last few months is that the maturing of the business cycle and strength of the global capital goods cycle could continue to underpin near-term growth. If so, there is a risk that the European Central Bank could push rates beyond the 4.0% peak currently priced into markets.

The pressure on UK rates is also upwards

UK data have also been strong. Survey data remain buoyant, retail spending has recovered from a weak January and real GDP managed a solid 0.7% gain in the first quarter, despite a negative performance from manufacturing. However, the big news of the last month was the March CPI which, at 3.1%, was outside the Bank of England's implicit target range for the first time. Helpful base effects mean inflation is likely to fall sharply in coming months. However, with growth strong and the Bank worried about inflation expectations, a further rise in base rates looks all but inevitable. As with the euro area, there is a risk that the next rise won't be last.

## Japan Outlook

An upgrade to our 2007 GDP forecast

Based on a flurry of economic data, Japan's first quarter is shaping up to be a solid one. Gross domestic product (GDP) likely grew at an annualized rate of nearly 3% in the first quarter, following a staggering 5.5% expansion in the previous quarter. The expansion could well extend through the end of the year and beyond. We are hence upgrading our growth forecast for this year from 2% to 2.4%, which is a tad better than 2.2% in 2006 and well above the country's potential growth rate of 1.5%.

Exports to Europe and Asia are strong

Due mainly to a US economic slowdown, Japan's export growth has been moderating, though not materially, as exports to Europe and the rest of Asia are re-accelerating. Thanks to non-US exports, industrial production is likely to resume an upward path in the current quarter despite the first quarter's setback, which was the first retreat in one and a half years.

Consumption picking up notably

Offsetting the negative impact of slower US-bound exports, non-manufacturer performance has picked up noticeably. The tertiary-industry activity index rose solidly in both January and February, overshadowing a pullback in industrial production and sending the all-industry activity index even higher than the fourth-quarter level.

On the domestic front, personal consumption, which accounts for 55% of GDP, has been rising conspicuously. The Cabinet Office's consumption composite index rose 1.3% and 1.0% in January and February, respectively, suggesting a significant advance in the first quarter as a whole after a meager gain of 0.6% in the fourth quarter and a 0.6% decline in the third.

2007 CPI forecast slashed, but monetary policy scenario unchanged

Notwithstanding the brighter economic picture, we are slashing our inflation forecast. We now expect the consumer price index (CPI) to rise only 0.1% overall this year, instead of 0.3%, because of a larger-than-anticipated impact from oil price swings, which retreated significantly from last summer's peaks. To be sure, core CPI (excluding fresh foods) fell 0.3% year on year in March, compared with February's 0.1% decline. Nonetheless, our basic view is unchanged: consumer price inflation will pick up noticeably in the fourth quarter and beyond, after remaining near zero until the end of the third quarter. We thus expect the central bank to raise interest rates in the fourth quarter.

Indeed, crude oil prices are gradually moving higher again, and retail gas prices are also showing signs of a significant upturn. Moreover, consumer demand is clearly recovering, suggesting that consumer industries may regain some pricing power in the near future. The Cabinet Office estimates that the output gap rose to the highest level since 1992 in the fourth quarter, and is likely to show a further gain in the first quarter. At a business-to-business level, upward price pressure remains substantial: the corporate service price index rose by a nine-year high of 0.6% year on year in March. Furthermore, excluding oil factors, wholesale price inflation has barely fallen from 17-year highs.

CPI should rise late in 2007 and beyond

All in all, in our view, as the underlying trend in the CPI remains upward, Japan should eventually see clearer evidence that deflation has ended. The central bank agrees: the bank's latest semi-annual outlook report released on April 27, revealed that the median CPI inflation forecast by the nine board members was 0.1% in fiscal 2007 and 0.5% in fiscal 2008.

## Australia Outlook

Inflation surprises on the downside again

Just as they did in late January, quarterly inflation numbers surprised markets to the downside, and resulted in a big jolt to market expectations of a rate rise. Headline CPI printed at 0.1% in the first quarter after a -0.1% reading in the fourth, meaning that the price level is essentially unchanged over the past six months. In year-on-year terms, headline inflation is 2.4%, just below the mid-point of the central bank's 2-3% target band. More importantly, both of the bank's preferred measures of core inflation—the weighted median and trimmed mean CPI—printed at 0.5%. On this basis, core inflation is running at just a 2% annualized pace over the last six months, significantly lower than the 3.3% pace in mid-2006, and not too far from the levels reached in the deflation-fear episode of the late 1990s.

Growth looks to be accelerating...

As we highlighted last month, this is occurring in an environment where economic activity seems to have accelerated. Given tight capacity, a sharp acceleration in growth is clearly not what monetary policymakers would like to see; yet, on the basis of the partial indicators we have for the quarter to date, we estimate that first-quarter non-farm GDP increased by around 5% (seasonally adjusted annual rate). This would propel the year-on-year growth rate to above the 4% mark, and represent the strongest pace since early 2003. And yet, core inflation is decelerating rather than accelerating.

...but RBA is likely on hold until after the federal election

We think that part of the reason for this “conundrum” is technical in nature—i.e., to do with the way the statistical measures of core inflation are calculated, rather than representing a “true” deceleration. That said, it's very difficult to argue that inflation is taking off, which was one of the central bank's concerns last year. Not surprisingly, then, there has been a big adjustment in market pricing of monetary policy. A month ago, a hike before mid-year was fully priced. Now, market pricing implies a probability close to zero. With the year-on-year inflation rate to fall further in the current quarter (headline CPI will likely have an “1-handle”) and with the looming federal election, it seems that monetary policy will be on hold until very late this year, at the earliest.

## Canada Outlook

Economic growth should be close to potential

We think Canadian growth should follow the central bank's forecasted path or be slightly better, and end the year around 2.5% or close to capacity. Growth above this path could trigger rate hikes as inflation remains higher than bank forecasts. We expect the currency to strengthen.

...as oil sands boom and good job growth will curb downside risks from US slowdown

Job growth is still surprisingly robust and we expect it to continue to be so. Manufacturing jobs have seemingly bottomed while the oil sands boom still provides a structural boost. As a result, we see little downside for the consumer.

Business surveys have been surprisingly positive over the past few weeks, and exports could surprise on the upside as a growth contributor, not only because of the oil situation but also because of Canada's incremental shift away from the US market.

Inflation could become a major issue

Inflation has become a bit problematic. The most recent numbers have moved the path of prices outside of the bank's framework. Most notable is food price inflation and raw materials prices, both of which suggest there should be no near-term cure for the problem. If a spike in energy prices were to appear it would be tough for the bank to ignore. For now, we still see the bank on hold but the balance of risk is toward more tightening rather than loosening.

## Emerging Markets Outlook

**Summary:** We think that the JPMorgan EMBI Global spread will stay in its current range, between about 150-180. *This forecast is derived from a bottom-up analysis of analyst spread forecasts for each country.*

Technicals remain favorable. Inflows continue, and dollar reserves are piling up generally as countries continue to battle currency appreciation. Supply-demand on dollar debt is quite positive.

**Latin America:** We think a simple way of breaking down the large economies in the region is to differentiate between the “savers” and the “spenders.” Savers are benefiting from the global liquidity boom and subsequently, economic growth and fundamentals remain sound. Spenders are squandering the boom, and while growth in the most recent past has looked quite impressive, risks are rising of a growth downturn that could become sharp in these countries.

**Brazil** remains the best positioned of the saver countries. Growth should accelerate this year to around 4%, while inflation seems well contained and expectations suggest it will finish the year around 70 basis points below the target. Capital inflows remain quite strong, and dollar reserves are surging. Trade surplus estimates have been raised on higher commodity prices.

**Argentina** has moved into the spender camp. Growth will slow from above 8% for three consecutive years to less than 7%, in our view. That means revenue growth will cool, and the primary fiscal surplus could dip below 3% this year as a result. Inflation clearly is understated in official statistics, and most observers agree it is most likely to be around 14%. The trade surplus is still substantial but declining slowly.

**Mexico** is a special case as it is still closely linked to the US, and we see growth slowing there to 3%. Fiscal stimulus will also decline as oil production falls and excess revenues disappear. Nonetheless, the reform story is still positive. We view last week’s interest rate hike as a policy mistake in this context, and think the bank will likely do a U-turn before the year is out. Inflation remains slightly above target, but both the central bank and the market believe it will decline as the year goes on.

**Venezuela** is king of the spenders. We expect reserves to decline substantially as oil production stagnates and exports decline, while product shortages curb growth as spending remains very high.

In **Ecuador**, oil savings are beginning to be spent and we think fundamentals will deteriorate as the year goes along, raising the odds that the threatened debt default will materialize in a few months.

**Colombia** continues to enjoy good growth by contrast, and we expect that to continue despite tighter monetary policy.

**Non-Japan Asia:** First-quarter real GDP growth came in at 11.1% year-on-year in **China**, higher the consensus forecast of 10.3% as well as the fourth-quarter pace of 10.4%. The outcome is more or less in line with our projection of 11.3% and we expect growth will moderate to 10.1% in the second quarter and to slightly below 10% during the second half of the year, as economic tightening intensifies. Our full-year 2007 forecast is still 10% (vs. 10.7% in 2006). We expect both lending and deposit rates will be hiked by 27 basis

Countries taking best advantage of the global liquidity boom will continue growing soundly

Brazil growth will be offset by a slowdown in Argentina and Mexico

Andean countries could test the market’s risk tolerance as the year wears on

Firm first-quarter growth will prompt more tightening in China

points soon with another 27 basis-point increase in the third quarter, although we don't exclude the possibility that Beijing raises rates by the whole 54 basis points at once in the near future. We continue to expect another 100-150 basis-point increase in bank's reserve requirements in the coming year, and also anticipate the RMB/US\$ will appreciate 6.5% to around 7.20 over the next twelve months.

Absence of a sharp externally led slowdown suggests Korean monetary policy rate will remain unchanged this year

As expected, the **Korean** central bank retained its 4.5% target for the overnight call rate. Following the monetary policy committee meeting, Governor Lee stressed these key trends: 1) inflation has stabilized; 2) home prices have clearly slowed; 3) domestic demand strength has been firmer than expected, contrary to their concerns; and 4) the outlook for external demand remains unclear.

We now believe the central bank will hold its policy rate unchanged for the rest of this year. In our view, it will take a marked externally led slowdown to convince the bank to ease policy, as only that could diminish hope of an investment and consumption recovery. Korean local-currency bond yields have revived noticeably lately, in tandem with US yields, as domestic factors have become quite neutral to the local bond market. We expect real GDP growth to slow to 4% in 2007 from 5% last year, and inflation to ease to 1.8% from 2.2%. Given our assumption of no rate cut in 2007, we have revised up our six-month target for the five-year government bond yield to 4.85% (from 4.7% previously).

Fiscal consolidation and reviving foreign direct investment will drive Philippine asset prices

Although the **Philippines'** budget deficit was about 7% above the official target in the first quarter, the shortfall was still 23% lower than the same period of last year. Our take is that the budget is still on track for a deficit of around PHP60-65 billion in 2007 (about 1% of GDP). The key is that fiscal consolidation has already produced a primary surplus of 4% of GDP in 2006 and is set to be maintained at around similar levels in 2007-08. Also, the public debt-to-GDP ratio has declined to 64% last year from a peak of 78.5% in 2004 and is expected to continue to fall steadily in the coming years. We think the big story in the Philippines is the reduced fiscal deficit and resultant 'crowding in' effect on private investment. Already, foreign direct investment inflows have increased to US\$2.34 billion in 2006, from US\$1.8 billion in 2005 and a mere US\$0.7 billion in 2004. This should have long-term positive implications for potential economic growth, which will be the driver of asset prices in the country.

EEMEA growth outlook remains solid

**Emerging Europe, Middle East and Africa:** The 2007 growth outlook remains solid, though the overall rate of growth is expected to slow slightly compared with 2006. High frequency indicators and trade data suggest first-quarter growth has been very strong throughout most of the region. The drivers of growth continue to look well balanced, supported by strong foreign demand for exports, particularly from Europe, and robust domestic consumption and investment. A modest projected slowing largely reflects moderation in Hungary, Turkey and South Africa. Despite the positive outlook, only a handful of countries are poised to tighten monetary policy going forward because of low or rapidly declining inflation.

Russia's growth outlook improves with oil prices

The outlook for **Russia** has improved further with the rise in energy prices and strong capital inflows. The government recently estimated that first-quarter growth was 7.9% year-over-year, which would represent the fifth consecutive quarter of accelerating growth. The government also revised up its 2007 growth forecast to 6.5% from 6.2% given higher-than-expected oil prices and strong domestic investment and consumption.

Hungary's economy continues to slow

Available first-quarter data in **Hungary** suggest that growth continues to slow as a result of the fiscal consolidation program introduced last year. Economic drivers have been rotating

toward external demand as domestic activity slows and European import demand continues apace. A decline in the fiscal and current account balances boded well for the country's creditworthiness as the external financing requirement shrinks. The central bank is poised to begin easing over the next several months, but remains concerned that the temporary rise in inflation will lead to second-round effects on prices.

### Polish growth exceeds potential

Recent indicators in **Poland** point to a continuation of above-potential growth. The finance ministry estimated that first-quarter growth was 7% year-over-year, which would be above our 6.6% forecast and consensus. At the same time, 2006 GDP was revised up to 6.1% from 5.8%—well above the consensus in September 2006 of 4.9%—with the greatest improvement coming from private consumption. The central bank raised rates in April for the first time in three years, and going forward we expect further modest tightening as inflationary pressures continue to build.

### South Africa evolving toward monetary policy tightening

**South Africa** has evolved toward a slightly different macro path thanks to external influences and internal developments. Accordingly, we have modified our forecasts. The weakening US dollar is causing the rand to strengthen and we now think the currency will settle at a more appreciated level, at ZAR7.25 per US dollar rather than ZAR7.5. On the domestic side, the economy is showing signs of strength and inflation is climbing toward the upper limit of the target range, causing the central bank to rethink policy. We no longer predict a rate cut in the last quarter of 2007, but still expect policymakers to keep their rate on hold during the next two quarters. The momentum has shifted and although the bank would like to keep rates on hold, the risk that it finds it necessary to increase rates one more time has risen. A rate increase would further strengthen the currency.

### Turkey's improved prospects

**Turkey's** political climate has heated up now that the Constitutional Court has invalidated the presidential voting that took place last week. Now, it appears that parliamentary elections will occur shortly and precede presidential elections. Notwithstanding the political turmoil, however, several credit positive events are converging that will improve macroeconomic performance. On the economic side, inflation has peaked and will begin declining rapidly from this point forward. The central bank has maintained very high interest rates for 10 months and this has had a noticeable impact on aggregate demand. Starting with April data, favorable base effects will work in their favor and annual inflation will begin to decline. This will bring interest rates lower. The currency has strengthened in part because of dollar weakness and we now expect that once the political course is clearer, the currency will strengthen. The current account deficit and recent fiscal weakening present risks. However, these have been offset by much higher than anticipated foreign direct investment inflows.

	Real Growth <sup>1</sup>			Inflation <sup>1</sup>			Official Rates <sup>2</sup>			Long Rates <sup>2</sup>		
	2005	2006	2007F	2005	2006	2007F	2005	2006	2007F	2005	2006	2007F
<b>Global</b>	3.2%	3.8%	3.2%	2.9%	2.9%	2.3%	4.08%	4.77%	4.86%	4.08%	4.35%	4.491%
Global (PPP)	4.3%	4.8%	4.2%									
<b>United States</b>	3.2%	3.3%	1.8%	3.4%	3.2%	2.1%	4.25%	5.25%	4.75%	4.39%	4.71%	4.70%
<b>Canada</b>	2.8%	2.7%	2.5%	2.6%	2.2%	2.0%	3.00%	4.25%	4.25%	4.30%	3.95%	4.00%
<b>Euro Area</b>	1.5%	2.8%	2.6%	2.2%	2.2%	1.8%	2.25%	3.50%	4.25%	3.30%	3.95%	4.25%
<b>United Kingdom</b>	1.9%	2.8%	2.9%	2.1%	2.3%	2.2%	4.50%	5.00%	5.75%	4.10%	4.74%	5.10%
<b>Japan</b>	1.9%	2.2%	2.4%	-0.3%	0.3%	0.1%	0.00%	0.25%	0.75%	1.47%	1.69%	1.95%
<b>Australia</b>	2.8%	2.7%	3.6%	2.7%	3.5%	1.8%	5.50%	6.25%	6.25%	5.20%	5.88%	5.90%
<b>Non-Japan Asia</b>	7.8%	8.2%	7.4%	3.1%	3.2%	3.3%	--	--	--	--	--	--
China <sup>3</sup>	10.4%	10.7%	10.0%	1.9%	1.5%	3.0%	5.58%	6.12%	6.66%	2.80%	3.06%	4.00%
Hong Kong <sup>4</sup>	7.5%	6.8%	5.5%	1.1%	2.0%	3.0%	5.75%	6.75%	6.50%	4.18%	3.73%	4.00%
India <sup>5</sup>	8.7%	9.1%	9.0%	4.3%	6.3%	7.0%	5.25%	6.00%	6.25%	7.11%	7.61%	8.15%
Indonesia <sup>6</sup>	5.7%	5.5%	5.0%	10.5%	13.1%	6.0%	12.75%	9.75%	8.50%	12.23%	9.88%	8.70%
Korea <sup>7</sup>	4.2%	5.0%	4.0%	2.8%	2.2%	1.8%	3.75%	4.50%	4.50%	5.41%	5.00%	4.85%
Thailand <sup>8</sup>	4.5%	5.0%	3.5%	4.5%	4.6%	2.0%	3.85%	4.89%	3.25%	5.20%	5.09%	3.30%
<b>Latin America</b>	4.0%	4.8%	5.0%	6.0%	6.0%	5.0%	--	--	--	--	--	--
Argentina <sup>9</sup>	9.0%	8.5%	6.5%	11.0%	10.5%	9.5%	--	--	--	4.00%	2.20%	2.00%
Brazil <sup>10</sup>	2.3%	2.9%	4.0%	5.6%	3.2%	3.8%	17.75%	13.25%	11.25%	4.50%	1.80%	1.50%
Mexico	3.0%	4.8%	3.0%	3.5%	4.0%	3.6%	8.50%	7.00%	7.00%	8.00%	7.20%	7.00%
<b>Others</b>	5.3%	5.7%	5.2%	6.7%	5.8%	6.1%	--	--	--	--	--	--
Sweden	2.9%	4.7%	3.9%	0.8%	1.2%	1.5%	1.75%	3.00%	4.00%	3.31%	3.79%	4.25%
Norway	4.7%	4.6%	4.0%	1.0%	0.8%	1.5%	2.25%	3.50%	4.75%	3.64%	4.33%	4.75%
Poland	3.5%	6.1%	6.1%	2.1%	1.0%	2.3%	4.50%	4.00%	4.75%	5.10%	5.22%	5.45%
Russia	6.4%	6.7%	6.2%	12.7%	9.7%	10.0%	12.00%	11.00%	10.00%	6.56%	6.46%	6.40%
South Africa	5.1%	5.0%	4.8%	4.1%	4.6%	4.6%	7.00%	9.00%	9.00%	7.47%	7.75%	7.75%
Turkey <sup>11</sup>	7.4%	6.2%	4.8%	8.2%	9.6%	8.8%	13.50%	17.50%	16.50%	14.70%	18.50%	16.00%

## NOTES:

1) Growth and inflation forecasts are reported on a calendar year/calendar year basis. For Norway and Sweden, inflation is underlying.

2) Official and long rates are end-of-year forecasts. Long rates are 10-year yields unless otherwise indicated.

3) China: Official rates are 1-year benchmark lending rates and 10-year government bond yield

4) Hong Kong: Base rate and 10-year exchange funds yield

5) India: Reverse repo rate and 10-year government bond yield

6) Indonesia: Intervention rate and 5-year government bond yield

7) Korea: Overnight call rate and 5-year government bond yield

8) Thailand: 1-day repo rate and 5-year bond yield

9) Argentina: Boden 12 spread

10) Brazil -37 Spread

11) Turkey: Long term rates are 3-year rates

Source: AllianceBernstein