

The global economy continues to grow strongly

The strong global expansion is continuing, and projections for global growth in both 2007 and 2008 have been revised up to 5.2 percent from 4.9 percent at the time of the April 2007

World Economic Outlook. Risks to this favorable outlook remain modestly tilted to the downside.

The global economy continued to expand at a brisk pace in the first half of 2007. Although growth in the United States slowed in the first quarter, recent indicators suggest that the economy regained momentum in the second quarter. Activity in most other countries continued to expand strongly. In the euro area and Japan, growth has remained above trend with some welcome signs that domestic demand is taking a more central role in the expansions. Emerging market countries have continued to expand robustly, led by rapid growth in China, India, and Russia.

Inflation remains generally well contained despite strong global growth, although some emerging market and developing countries have faced rising inflation pressures, especially from energy and food prices. Oil prices have risen back toward record highs against the backdrop of limited spare production capacity, while food prices have been boosted by supply shortages and increased use of biofuels.

Against this background, global growth is now projected at 5.2 percent in 2007 and 2008—0.3 percentage point higher for both years than projected at the time of the April 2007 *World Economic Outlook* (Table 1). The major upward revisions have been for emerging market and developing countries, with growth projections substantially marked up for China, India, and Russia. Among the advanced economies, growth in the United States is now expected at 2 percent this year—0.2 percentage point lower than projected in the April 2007 *World Economic Outlook*—although activity should regain momentum through the year and return to potential by mid-2008. Growth

projections for the euro area, particularly Germany, and Japan have also been raised.

The overall balance of risks to the global growth outlook remains tilted modestly to the downside, as it was at the time of the April 2007 *World Economic Outlook*. Nevertheless, there have been some changes in the IMF staff's assessment of individual risk factors. With sustained strong growth, supply constraints are tightening and inflation risks have edged up since the April 2007 *World Economic Outlook*, increasing the likelihood that central banks will need to further tighten monetary policy. The risk of an oil price spike remains a concern. As discussed in the accompanying *Financial Market Update*, financial market risks have also increased as credit quality has deteriorated in some sectors and market volatility has increased.

A number of other risks, however, look more balanced. In particular, while the correction in the housing sector is continuing, overall downside risks related to U.S. domestic demand have diminished somewhat. Upside risks to growth in the euro area and emerging market countries discussed in the April 2007 *World Economic Outlook* have partially materialized and have been built into the baseline projections. Further, some progress has been made toward reducing risks of a disorderly unwinding of global imbalances, although protectionist pressures are a continuing concern.

This is the first in a series of *World Economic Outlook Updates*, which will be posted between the full Spring and Fall WEO reports. For all inquiries related to the content of this *Update*, please e-mail weo@imf.org.

Table 1. Overview of the *World Economic Outlook* Projections
(Annual percent change unless otherwise noted)

	2005	2006	Current Projections		Difference from April 2007 Projections	
			2007	2008	2007	2008
World output	4.9	5.5	5.2	5.2	0.3	0.3
Advanced economies	2.6	3.1	2.6	2.8	0.1	0.1
United States	3.2	3.3	2.0	2.8	-0.2	—
Euro area	1.5	2.8	2.6	2.5	0.3	0.2
Germany	0.9	2.8	2.6	2.4	0.8	0.5
France	1.7	2.0	2.2	2.3	0.2	-0.1
Italy	0.1	1.9	1.8	1.7	—	—
Spain	3.5	3.9	3.8	3.4	0.2	—
Japan	1.9	2.2	2.6	2.0	0.3	0.1
United Kingdom	1.8	2.8	2.9	2.7	—	—
Canada	3.1	2.8	2.5	2.8	0.1	-0.1
Other advanced economies	3.9	4.3	4.2	4.1	0.4	0.3
Newly industrialized Asian economies	4.7	5.3	4.8	4.8	0.2	0.2
Other emerging market and developing countries	7.5	8.1	8.0	7.6	0.5	0.5
Africa	5.6	5.5	6.4	6.2	0.2	0.4
Sub-Saharan	6.0	5.5	6.9	6.4	0.1	0.3
Central and eastern Europe	5.6	6.3	5.7	5.4	0.2	0.1
Commonwealth of Independent States	6.6	7.7	7.6	7.1	0.6	0.7
Russia	6.4	6.7	7.0	6.8	0.6	0.9
Excluding Russia	6.9	9.7	8.8	7.8	0.5	0.3
Developing Asia	9.2	9.7	9.6	9.1	0.8	0.7
China	10.4	11.1	11.2	10.5	1.2	1.0
India	9.0	9.7	9.0	8.4	0.6	0.6
ASEAN-4	5.1	5.4	5.4	5.7	-0.1	-0.1
Middle East	5.3	5.7	5.4	5.5	-0.1	—
Western Hemisphere	4.6	5.5	5.0	4.4	0.1	0.2
Brazil	2.9	3.7	4.4	4.2	—	—
Mexico	2.8	4.8	3.1	3.5	-0.3	—
<i>Memorandum</i>						
European Union	2.0	3.2	3.1	2.8	0.3	0.1
World growth based on market exchange rates	3.4	3.9	3.6	3.7	0.2	0.2
World trade volume (goods and services)	7.5	9.4	7.1	7.4	0.1	—
Imports						
Advanced economies	6.1	7.6	4.6	6.0	-0.1	0.3
Other emerging market and developing countries	12.2	15.0	12.8	11.1	0.3	-1.1
Exports						
Advanced economies	5.8	8.5	5.5	6.2	—	0.4
Other emerging market and developing countries	11.2	11.1	10.7	9.2	0.3	-0.7
Commodity prices (U.S. dollars)						
Oil ¹	41.3	20.5	-0.8	7.8	4.7	1.2
Nonfuel (average based on world commodity export weights)	10.3	28.4	14.5	-7.8	10.3	1.0
Consumer prices						
Advanced economies	2.3	2.3	2.0	2.1	0.2	—
Other emerging market and developing countries	5.4	5.3	5.7	5.0	0.3	0.1
London interbank offered rate (percent)²						
On U.S. dollar deposits	3.8	5.3	5.4	5.3	0.1	0.2
On euro deposits	2.2	3.1	3.8	3.7	—	—
On Japanese yen deposits	0.1	0.4	0.8	1.2	-0.1	—

Note: Real effective exchange rates are assumed to remain constant at the levels prevailing during May 18–June 15, 2007. See the Statistical Appendix of the April 2007 *World Economic Outlook* for details on groups and methodologies. Shaded areas indicate IMF staff projections.

¹Simple average of spot prices of U.K. Brent, Dubai, and West Texas Intermediate crude oil. The average price of oil in U.S. dollars a barrel was \$64.27 in 2006; the assumed price is \$63.75 in 2007 and \$68.75 in 2008.

²Six-month rate for the United States and Japan. Three-month rate for the euro area.