Global Economic Outlook

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With voices of concern rising about the worldwide inflation in recent months, the FRB is about to raise the baseline interest rate ¼% once again since they had already raised it shortly before to 5%. Along with this movement, the European and Japanese central banks are also showing all the signs of raising interest rates. Amid these signs, however, there remains a question whether there has actually been any significant overheating in the US economy, let alone Europe and Japan?

Take Japan for example. Japan struggled with persistent recession even dubbed "the Japan disease" it tried to fight through heavily government-financed public projects throughout the 90s that turned out to be ineffective due to the low-level of private investment despite the zero-interest rate. However, it started to recover in the early 2000s and even achieved 5.5% annual growth reaching $4.5 trillion economy[2] in the 4th quarter of 2005, which gives a legitimate reason for concerns about inflation. However, any interest rate hike doesn't seem likely on the near-term horizon under the complex domestic political agenda facing the Koizumi cabinet's political life.

The European Union is expected to grow about 2.1% with almost $9 trillion economy in 2006. Considering the expected inflation of 2.3%, however, the actual growth will be –0.2% during the same period, which has already caused the yield on 2-year EU central bank note to inch up by 3%, which in turn set in motion the chain reaction in the baseline interest rate. On the other hand, the actual rise in interest rate won't be as high to strike a fear, as the difficulty to reach a consensus among the member countries due to the disparity in growth rates between them is probably the most well noted characteristics of the EU.

It is indeed true that, coupled with the fact that these 3 major blocs are awash with money supply thanks to generous monetary policies maintained over the last 5~6 years, even the oil price is adding a spur to the worldwide concern for inflation. All the more disconcerting is the possible inflation in the US, where unlike the self-serving credit-claims by the Bush administration, the 2.5%~3.5% annual growth over the past few years actually has been minimal at best if one looks the real growth which is barely about 1% ahead of the inflation with the lions share of the pie going only to the top 1% income bracket of the entire population. This means that the growth was only in figures and indexes in the US with hardly any trickle-down effect. In reality, it has only fed into the chronic loop of budget and trade deficits, the frail economic structure riddled with holes

[1] All analyses, discussions and forecasts are based on the economic conditions as of the 2nd quarter of 2006.
[2] The US GDP during the same period was $13 trillion.

of fleeting job securities, and eventually into a possible stagflation looming on the horizon, coupled with oil price and bubble in housing market.

Whatever may be the true cause of the rise in price level, the global interest rate hike seems only like a matter of time, especially as Mr. Bernanke, the newly inaugurated head of the FRB, who would certainly not want to deck the hall of his early years in office with the shame of inflation, would have no other choice but to consider raising the interest rates.