

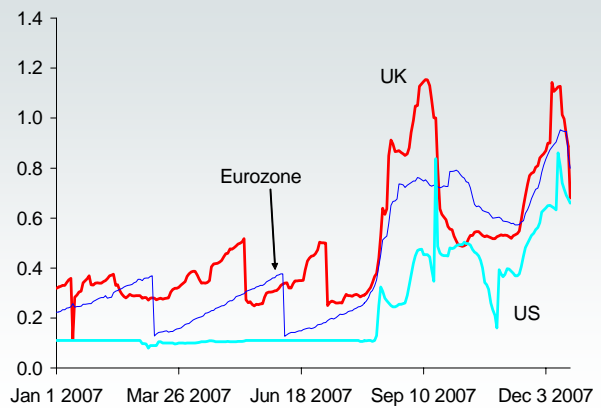


Overview: US – no recession, thanks to the Fed

- Considerable uncertainty surrounds the global economic outlook for 2008. In the financial sphere, there have been some encouraging signs – in particular the significant drop in the spread between interbank and policy rates in the major economies.
- But this may merely reflect successful central bank liquidity operations, rather than improved confidence. Surveys point to tightening credit standards, junk bond spreads continue to widen, and the threat remains of increased write-offs at banks.
- November US consumption was surprisingly strong, but house prices, the ISMs, and employment data were more downbeat. We now expect the Fed to cut rates by a further 75bp this year – with a possible 50bp cut later this month. As a result, we continue to believe the US will avoid recession.
- In the Eurozone, the main risk to growth is the strong euro, but with exports holding up well we see only a modest slowdown. Growth around trend plus inflation above target means the ECB is unlikely to cut rates.
- Weaker housing and consumption still point to further policy easing in the UK, although the BoE kept rates on hold in January.
- Japan begins 2008 with consumption and construction looking soft, offsetting the more robust manufacturing sector. With yen strength a threat to exports, we have pushed back our expectations of BoJ tightening to the second half of the year.
- There are few signs of a significant slowdown in the emergers; indeed in several concerns about inflation are more prominent. Notably, China has allowed a faster pace of yuan appreciation in recent weeks.
- Meanwhile, significant revisions to PPP conversion factors for major emerging economies means we estimate growth (at PPP) of 4.3% for 2008 and 4.2% for 2009 versus 4.9% and 4.6% previously.

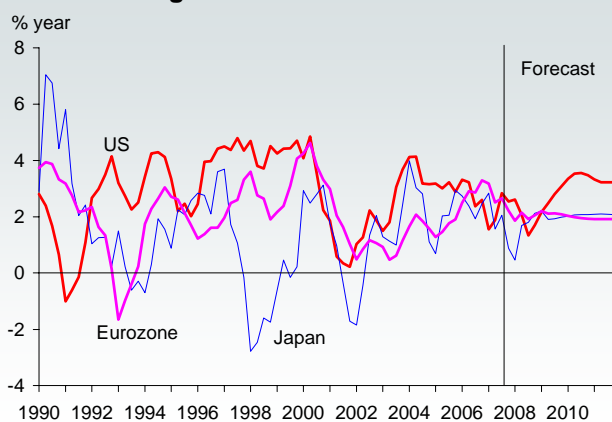
Interbank spreads over official rates

3M LIBOR over policy rate, %



Source : Oxford Economics/Haver Analytics

World: GDP growth



Source: Oxford Economics



Summary of International Forecasts						
	2006	2007	2008	2009	2010	2011
Real GDP						
North America						
United States	2.9	2.2	1.8	2.7	3.5	3.3
Canada	2.8	2.6	2.3	2.9	2.6	2.6
Europe						
Eurozone	2.9	2.7	2.0	2.1	2.0	1.9
Germany	3.1	2.6	1.9	2.0	1.5	1.4
France	2.2	1.9	1.9	2.2	2.1	2.0
Italy	1.9	1.8	1.4	1.3	1.3	1.3
UK	2.9	3.1	1.9	2.7	3.0	2.7
EU27	3.1	3.0	2.1	2.4	2.3	2.2
Asia						
Japan	2.4	1.8	1.5	2.0	2.1	2.1
Emerging Asia	7.9	9.2	8.3	7.3	7.1	7.3
China	11.1	11.5	11.4	9.2	8.7	9.3
India	9.6	9.1	7.8	7.7	7.6	7.6
World	4.0	3.8	3.4	3.6	3.7	3.7
World 2000 PPPs	4.8	4.7	4.3	4.2	4.3	4.3
World trade	8.6	5.8	6.8	7.1	7.5	7.2
Inflation (CPI)						
North America						
United States	3.2	2.8	3.1	2.6	2.3	2.2
Canada	2.0	2.2	2.3	2.4	2.3	2.4
Europe						
Eurozone	2.2	2.1	2.5	2.1	2.1	2.0
Germany	1.7	2.1	2.4	1.9	1.9	1.9
France	1.7	1.5	2.3	1.9	1.8	1.8
Italy	2.1	1.8	2.2	2.1	2.1	2.1
UK	2.3	2.3	2.1	1.9	2.0	2.0
EU27	2.3	2.3	2.7	2.3	2.2	2.2
Asia						
Japan	0.2	0.0	0.6	0.7	0.6	0.6
Emerging Asia	4.0	4.8	4.4	3.2	3.1	3.2
China	1.5	4.8	3.4	1.6	1.8	2.3
India	6.0	6.5	5.3	5.5	5.1	4.9
World	2.9	2.7	3.0	2.5	2.3	2.2
Exchange Rates						
US\$ Effective	82.5	77.9	73.4	76.4	77.9	79.2
\$/€	1.26	1.37	1.45	1.33	1.27	1.24
¥/\$	116.4	117.7	109.6	108.2	104.1	101.8
Commodity Prices						
Brent Oil (\$/bl)	65.4	72.7	86.8	76.5	69.6	65.8

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