Université de Lausanne
École des HEC

Macro Internationale, automne-hiver 2003-2004

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Exercice 3 (4 pages) Date de remise : 26 janvier 2004.

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3 Théorie et réalité

Vous trouverez ci-joint un texte publié dans le *Financial Times* au début de janvier 2004. L'article traite des implications internationales de la situation macro-économique américaine. L'exercice consiste à analyser ce texte à la lumière des éléments que nous avons vus en classe. Pour ce faire, utilisez tous les instruments d'analyse que nous avons introduits au cours des derniers mois (graphiques, équations, théorie économique . . .). Préparez un essai **de 3 à 5 pages maximum**.

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Lex: Turning on a dollar
Published: January 1 2004 19:42 | Last Updated: January 1 2004 19:42

The US economy keeps the world turning. Given the inability of other large economies to generate growth in domestic demand, it is reassuring that the US enters 2004 with a considerable head of steam. Strong growth in the second half of 2003 has provided the platform for above-trend growth. Sadly, there is little sign of self-sustaining growth in the eurozone or Japan, both of which rely on external demand.

The US grew by about 3.1 per cent in 2003 and consensus growth forecasts point to 4.4 per cent this year. That compares with 2.7 per cent for Japan last year and 2.1 per cent predicted for 2004, and the eurozone's mere 0.5 per cent, forecast to rise to 1.8 per cent. The UK, meanwhile, remains an island of stability: consumer and government spending underpin estimates of 2 per cent growth in 2003 increasing to 2.7 per cent in 2004.

Global dependence on the US growth engine means that a slowdown in the US is the most significant threat to the improving outlook. Currency appreciation remains a risk to both Japan and the eurozone, though the Japanese authorities have so far prevented a sharp rise in the yen and European business confidence has improved in spite of the stronger euro. The unbalanced pattern of global growth poses questions for policymakers and investors that will take years to resolve.

The US economy

The Federal Reserve's low interest rates have helped to support consumer spending and risk-taking among investors. Tax cuts and government spending have played a supporting role. The deterioration in the US public finances will put pressure on long-term interest rates. For now, as Kenneth Rogoff, former chief economist of the IMF, has put it, the US has enjoyed the best recovery that money can buy. Payback will be in years to come.

Rising business spending and an improving labour market came just in time. Consumer spending is slowing, the housing market is cooling and household balance sheets are weak. The boost to consumer spending from mortgage refinancing will wear off this year; tax cuts will continue to support consumer and business spending, but on a reduced scale. Productivity growth remains impressive but, as December's drop in consumer confidence shows, a weak labour market is a hurdle to be overcome.

There are encouraging signs that the US expansion has moved into a self-sustaining phase. Corporate balance sheets have been repaired, costs have been cut and profits have rebounded. Higher stock prices and a cheaper dollar help. Strong momentum at the start of the year provides the foundations for an uptick in corporate spending - and for employment and income growth to follow. But if consumer spending falls sharply, or if there are further external shocks, the scope for conventional monetary stimulus and further fiscal loosening is limited. For this reason, and as students of Japan's lost decade, Fed policymakers will be in no hurry to raise interest rates.

The futures markets are again pricing in 75 basis points of tightening. Fed policymakers suggest that investors may again be expecting too much. Inflation remains very low: the core consumer price index fell to 1.1 per cent in November, its lowest level for 38 years. The FOMC, at its December meeting, dropped its warning that unwanted disinflation remains its predominant concern. But it said that "with inflation quite low and resource use slack, the committee believes that policy accommodation can be maintained for a considerable period". Policymakers would like inflation to be higher. Goldman Sachs economists estimate that the output gap is running at 2 per cent of GDP, and the unemployment rate is closer to 6 per cent than 5 per cent.

Above trend growth, alone, will not trigger a policy reaction. The Fed has created its exit strategy: rate increases will be linked to rising inflation and a tightening of economic slack. It would be perfectly consistent with the Fed's new policy framework to remain on hold throughout 2004. This may spell value at the short end of the curve. The outlook for longer-dated Treasuries is not very attractive, but the fact that the market is pricing in early Fed rate increases should limit the scope for near-term capital losses.

Global Imbalances

Unbalanced global growth has resulted in a US current account deficit of 5 per cent of GDP - and rising. The US needs to attract $1.5bn of foreign capital per day to fill the gap. Low US interest rates and a modest outlook for equities mean a further decline in the dollar looks inevitable. The greenback has declined by more than 10 per cent, on a trade-weighted basis, over the past two years. Foreign intervention has prevented a sharper fall.

As private investors have lost their appetite for US assets, Asian central banks have taken up the strain. Last year, the Japanese authorities spent an amount equivalent to the GDP of Hong Kong in intervening to prevent the yen from rising against the dollar - and they have boosted the amounts available for intervention in 2004. The dollar has declined by 30 per cent against the euro. The eurozone cannot continue to bear the burden of adjustment alone. The G7 has emphasised the need for greater exchange rate flexibility to promote smooth and widespread adjustments in the financial system. China has raised the possibility of some revaluation of the renminbi. If that happens, other Asian economies would be expected to allow their currencies to drift higher.

Continued orderly depreciation will help reduce US import demand and increase exports. A dollar collapse, forcing up risk premiums on US assets, and damaging growth at home and abroad, remains a threat to the global outlook. The correction of global imbalances promises to be smoother if other countries outside the US are able to stimulate domestic demand. Japan has made some progress. A good case can be made that the European Central Bank has kept interest rates too high in the face of economic stagnation and a rising euro. The US economy keeps the world turning. It would be nice if other countries could at least lean in the right direction.

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