

SOFT - LANDING OR HARD CRASH ?

While the world economy is making a slow recovery, the prospect for the U.S. economy is a central issue of the soundness of the global market. A U.S. report that the growth rate of its GDP reached 1.1% can be regarded as a sign of economic slowdown. From a forecasting point of view, a quarter of negative growth rate for the GDP and an interest rate cut are not implausible. But many economists are puzzled by the results of various economic indicators in August. The National Association of Purchasing Managers

Index of business conditions dropped to 46.9% from 50.5% in July. Yet, the unemployment rate dropped by 0.1% to 5.6% compared with July's figure and the expenditure on construction rose by 2.0% which was the highest in 2 years. Is the U.S. economy in the middle of inventory adjustment? Even if it is, the U.S. economy will not likely achieve the potential annual GDP growth rate of 2.5~2.7%. The strong dollar and the poor conditions of the Japanese economy will obstruct U.S. economic recovery.

World
Economic
Outlook

Strong Dollar may Tackle the U.S. Economy

The dollar strongly surged in late August. The surge was initiated by the sudden coordinated intervention of central banks, i.e., the Federal Reserve, the Bank of Japan, and the Bundesbank, and was also boosted by the news that Japan's trade surplus decreased by 23% in July compared to the same period last year.

We forecast that the dollar will remain strong, in the range of 95~100 yen by this year's end. A number of factors confirm this prospect. First, the perception that the dollar is now in equilibrium is

growing in the foreign exchange market. Second, the U.S. would not welcome a strong dollar because of the adverse effects of a bullish dollar on the trade balance. Third, the interest rate differentials between the U.S. and other major countries may further be widened. It was reported that the U.S. trade deficit in June was 11.3 billion dollars, and it is expected to reach record-high 180 billion dollars for this year. The strong dollar and a poor performance by the U.S. economy will worsen the trade balance.

Japan at the Dawn of Economic Recovery

If the recent bankruptcies of the Japanese credit unions have a domino effect on the Japanese financial market, the results will be disastrous for Japan and also for the world financial market as a whole. The need for a policy response is well recognized but the Japanese government has a tendency to act slowly. It is well recognized that even the record-low interest rates can not stimulate the Japanese economy. Nor Japanese consumers spond to various fiscal actions.

The Japanese consumers are seeking more concrete spending packages from the government sometime in the fourth quarter. However, the weakening yen is an important factor for a more positive outlook for the Japanese economy. The Nikkei Index rose sharply in response to the government's expansionary fiscal policy, and the weak yen may be a sign of Japanese economic recovery. **VIP**

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