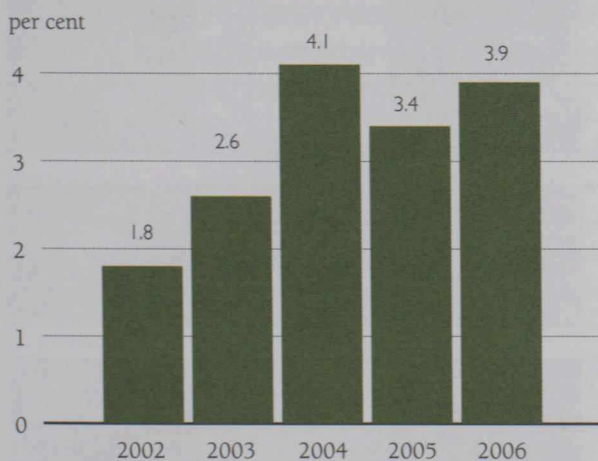


Global Economic Performance

Despite oil prices which peaked at US\$75 a barrel in the first half of the year, the global economy accelerated in 2006, growing by 3.9 per cent, compared with an increase of 3.4 per cent in 2005. While this strong global performance reflects, in part, the robust expansion in developing economies led by China and India, it was remarkably broad-based among developed and developing economies (see Table 1-1). Most of the growth in global output was concentrated in the first half of the year. World industrial production grew 6.7 per cent in the first half of 2006, compared with 4.3 per cent in 2005. Among developing countries, rates of growth of industrial production eased in the second and third quarters, but this was partially offset by stronger growth in Japan and among high-income countries in Europe.¹

FIGURE 1-1
World Real GDP Growth, 2002-2006



Source: Global Insight

The United States

Real GDP increased 3.3 per cent in 2006, compared with an increase of 3.2 per cent in 2005. The slight acceleration in real GDP growth primarily reflected an upturn in inventory investment and an acceleration in exports, investment in non-residential structures, and state and local government spending. The accumulation in private inventories contributed 0.2 percentage points to real GDP growth; in contrast, declining inventory investment in 2005 subtracted 0.3 percentage points from real GDP growth. Exports accelerated in 2006, increasing 8.9 per cent, following an increase of 6.8 per cent in 2005. Exports outpaced imports for the second consecutive year, adding 0.9 percentage points to real GDP growth after contributing 0.7 percentage points in 2005. Investment in non-residential structures accelerated sharply, increasing 9.0 per cent after a dismal 1.1 per cent increase in 2005. This resulted in a contribution of 0.3 percentage points to real GDP growth. Residential fixed investment turned down in 2006, decreasing 4.2 per cent after increasing 8.6 per cent in 2005. The downturn, due primarily to a decrease in single-family structures, subtracted 0.3 percentage points from real GDP growth in 2006, compared to an addition of 0.5 percentage points in 2005. Last year, the U.S. current account deficit reached 6.5 per cent of GDP compared to 6.3 per cent in 2005.

Early data for 2007 is mixed. Many indicators, including housing starts, new factory orders for durable goods and retail sales, showed continued weakness. On a more positive note, the unemployment rate fell to a near five-year low of 4.5 per cent

¹ World Bank (2007). Global Economic Prospects: Managing the Next Wave of Globalization.