Posted on Fri, Sep. 15, 2006

**WORLD ECONOMY**

# IMF predicts global growth

## A cooling housing market could slow down U.S. economic growth, but growth in China could boost an overall global expansion, the IMF says.

**By Gillian Wong**

**Associated Press**

**SINGAPORE -** Despite cooling U.S. economy, IMF predicts global expansion

The U.S. economy is headed for a slowdown caused by a cooling housing market, the International Monetary Fund warned Thursday, and that could drag on global growth. But China's booming economy shows no sign of slowing down, and that prompted the IMF to raise its global growth forecast for this year and next.

The IMF revised downward its forecast for U.S. economic growth to 2.9 percent for 2007 from an estimate of 3.3 percent in April. This year, the United States is seen expanding 3.4 percent, the fund projected in its semiannual World Economic Outlook.

But as U.S. growth appears to falter, much of the rest of the world has picked up steam, it said.

**JAPAN AND EUROPE**

In addition to China, both Japan and Europe are expanding and the IMF raised its forecast for global growth to 5.1 percent this year and 4.9 percent next year -- both up a quarter point from April.

"This is really the fourth year of very strong global growth," said Raghuram Rajan, the fund's chief economist in Singapore, where the IMF and its sister institution, the World Bank, will be holding their annual meeting next week.

Still, the IMF warned that inflationary pressures, high oil prices and a possible abrupt slowdown in the U.S. economy could restrain global growth.

"This strong central forecast is surrounded by more uncertainty than usual, with risks tilted to the downside," Rajan said.

"The forecasted [U.S.] housing slowdown is well and truly here," he said. "Indeed, rising inventories of unsold houses suggest things will get worse before they get better."

Last month, the Commerce Department reported that sales of new homes dropped 4.3 percent while the inventory of unsold homes climbed to a record high.

**INTEREST RATE HIKES**

The IMF also said further U.S. interest rate hikes might be necessary as inflation remains a threat.

The Federal Reserve "faces a difficult situation of rising inflation in a slowing economy, but given the importance of keeping inflation expectations in check, some further policy tightening may still be needed," the report said. In August, the Fed decided to keep its key short-term lending rate at 5.25 percent after 17 straight hikes dating back to June 2004.

The United States could help reduce global imbalances by setting a more ambitious deficit reduction path and put the budget in a stronger position to respond to future economic downturns, the IMF said.

"Boosting national saving in the United States -- through fiscal consolidation and increased private saving -- is a key component of the multilateral strategy to reduce global imbalances," the report said.

Meanwhile, the IMF predicted that China's economy would continue to surge, rising 10 percent both this year and next, propelled by surging exports. But it expressed concerned about China's construction boom, which authorities have been trying to restrain.

The Washington-based fund also urged Beijing to raise the value of its currency, the yuan, saying that would help to cut its huge global trade gap -- on pace to surpass last year's $102 billion -- and bolster households' purchasing power.

**KEY PLAYERS**

Japan, the world's second-largest economy, will likely grow 2.7 percent this year on solid domestic demand, but should ease next year to 2.1 percent, the IMF said.

Japan should be careful to raise interest rates gradually to avoid "costly" deflation, or falling prices.

In the 12-nation zone that uses the euro, stronger corporate balance sheets have helped bring about increased investment, rising employment and a more balanced expansion, the report said. Growth would rise to 2.4 percent in 2006 before moderating to 2 percent in 2007 largely due to scheduled tax increases in Germany, the report said.

Other risks to the outlook include further increases in oil prices, the fund said.