

Forecast	Real GDP		Headline Inflation	
	Current *	Q3 '11 – Q2 '12	Current *	Q3 '11 – Q2 '12
United States	1.5%	0.0% to 0.5%	3.8%	1.75% to 2.25%
Europe	1.6%	-1.0% to -0.5%	1.0%	1.0% to 1.5%
United Kingdom	0.7%	0.0% to 0.5%	4.5%	2.0% to 2.5%
Japan	-1.1%	1.0% to 1.5%	0.1%	-1.0% to -0.5%
China	9.5%	6.5% to 7.5%	6.2%	4.0% to 5.0%
India	7.7%	6.5% to 7.5%	9.9%	7.0% to 8.0%
Brazil/Mexico	3.2%**	2.5% to 3.0%	6.1%	4.0% to 4.5%
<b>World</b>	<b>2.7%</b>	<b>1.0% to 1.5%</b>	<b>3.1%</b>	<b>2.0% to 2.5%</b>

Source: PIMCO, Bloomberg

\* Current data for real GDP growth and inflation represent 12-month actual figures for Q3 2010 – Q2 2011.

\*\* Brazil 3.1% / Mexico 3.3% current real GDP

- PIMCO expects global growth to slow to a 1.50% real growth rate over the next year, with developed market growth flattening out and emerging market growth tracking lower to 4.5 to 5%. We believe developed market growth will continue to be challenged by consumer deleveraging and an accelerated push towards government contraction at all levels. In the U.S., this means reduced spending at federal, state, and local levels. In Europe, it means a drive towards austerity in the peripheral and, to a lesser extent, core countries. In emerging markets, policymakers' ability to counterbalance a developed world slowdown, either through monetary and fiscal stimulus or by shifting to a consumption-based model, will likely be limited.
- PIMCO's base case for growth is, however, inherently unstable, driven by policy uncertainty and the decisions of politicians. In the U.S., this summer's debt ceiling debacle eroded confidence among investors and non-investing citizens alike. In the coming months, Washington's disagreements will continue as the deficit-reduction super committee deliberations, President Obama's jobs bill and long-term deficit reduction plans are all scrutinized by Congress. All this is ahead of an election year where meaningful change will likely be difficult to achieve. While PIMCO does not expect the Fed's "Operation Twist" to have a meaningful economic impact, we do expect monetary policy in the U.S. and Europe to be the most impactful policy over our cyclical horizon, a period in which we forecast 0% real growth in the U.S.
- PIMCO expects real GDP contraction of 0.5% in Europe, driven by the region's weak fundamentals, implementation of austerity measures, and concerns about the possibility of defaults by Greece and other peripheral nations. We expect Greece and Portugal to default, restructure, and possibly even exit the Eurozone over the cyclical horizon. Ireland's future path will be dependent on global growth. With upside surprises to

global GDP, Ireland's export-oriented economy could weather the storm and avoid a default. The left tail risks, however, are centered on Italy and Spain. In our base case scenario, Italy and Spain should be ring-fenced from contagion with Germany taking the lead, supported by the U.S. and Asia. The risk scenario, however, is that political coordination fails, leading to a pronounced slowdown of Germany's economy.

- Emerging economies will likely continue to outpace developed ones over our cyclical horizon, but will experience slower growth than in recent years. EM growth will likely slow as policymakers struggle to control inflation, asset price bubbles, and the rate of credit growth. Even so, capital formation in emerging economies has progressed very rapidly; with many EM countries shifting towards a consumption-based growth model. This trend should help rebalance the global economy over the long run.
- Global inflation will likely slow to 2% as developed world inflation falls to 0.75% and emerging market inflation decelerates to 5%. PIMCO expects that weaker global growth will lead to lower energy prices and wider output gaps in developed markets. While we expect increased monetization of government debt and the subsequent appreciation of store of value commodities like gold, we do not expect these trends to materially affect inflation in the near-term.

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