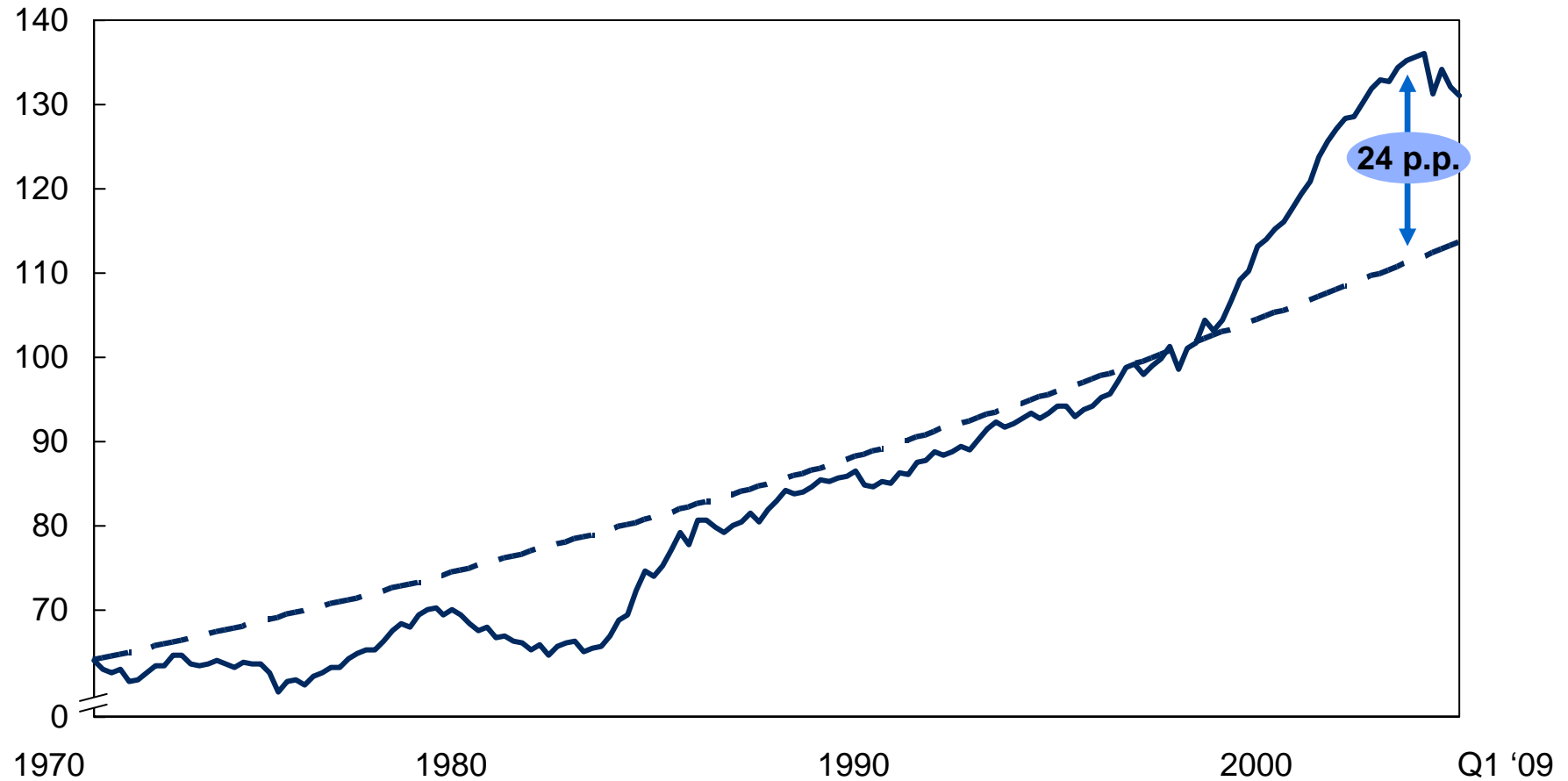


The rise in household leverage since 2000 raises concern about potential household deleveraging in the years ahead

— Historical
- - 1970–2000 trend

US Household liabilities as a share of disposable income

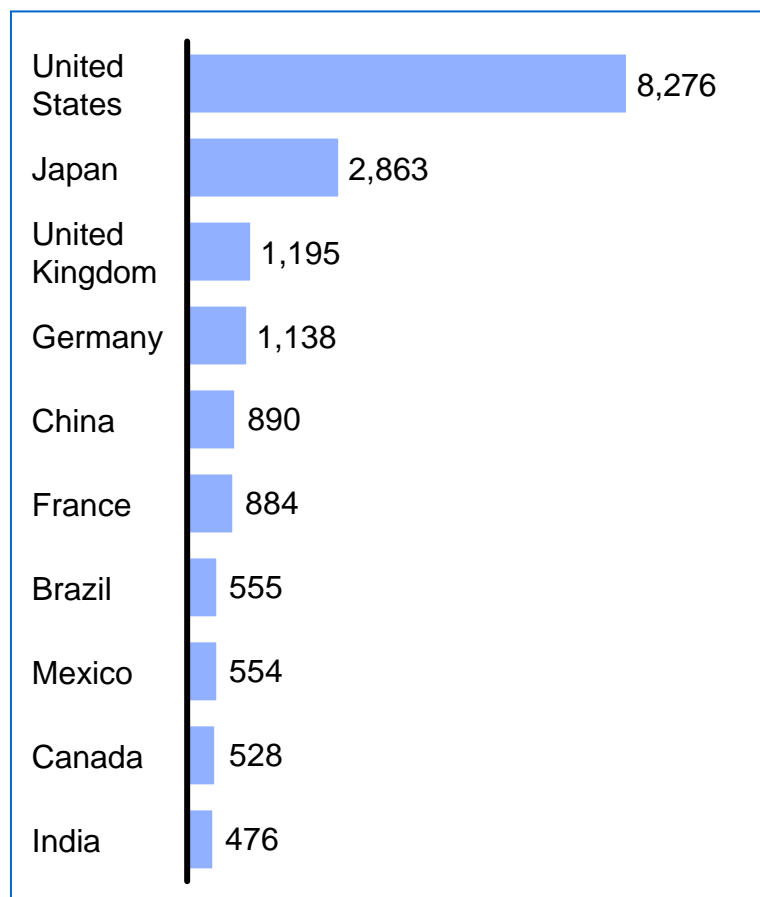
Percent



Other countries do not seem to be able to account for the lost US consumption

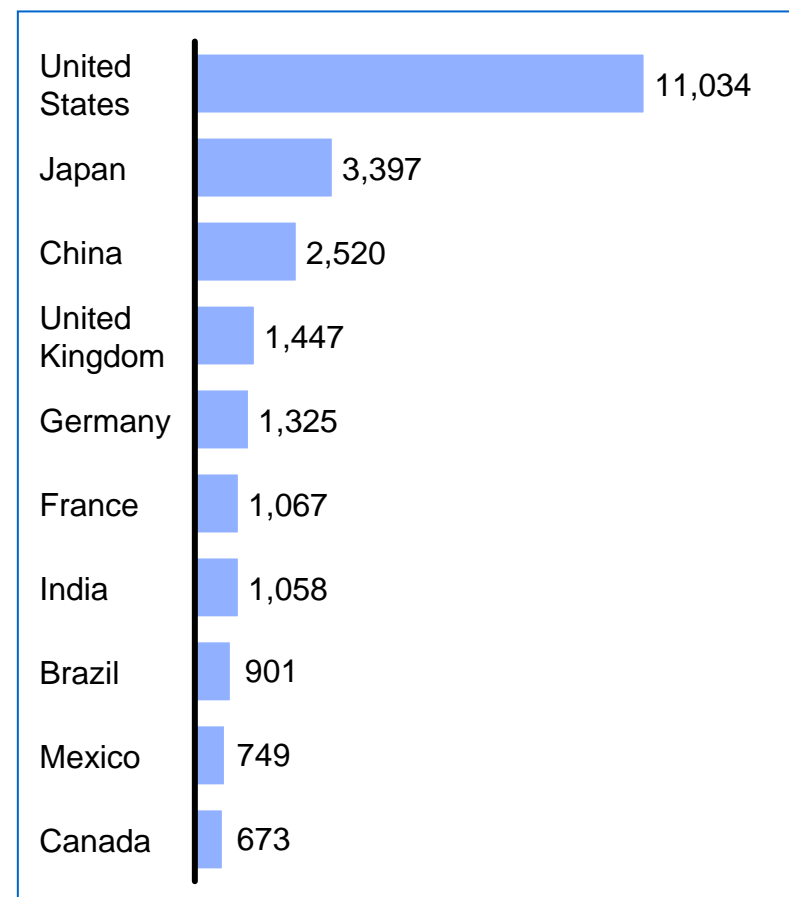
Private domestic consumption, 2007

USD billions, 2000

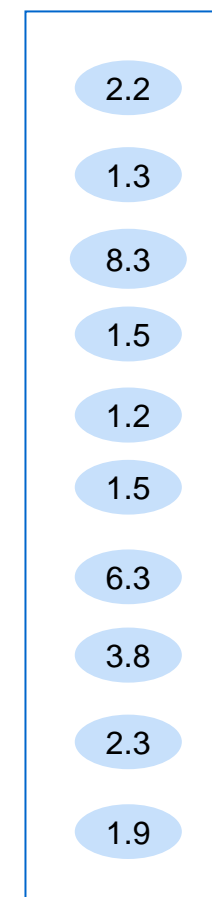


Private domestic consumption, 2020 (Forecast)

USD billions, 2000



CAGR¹
2007–2020
Percent



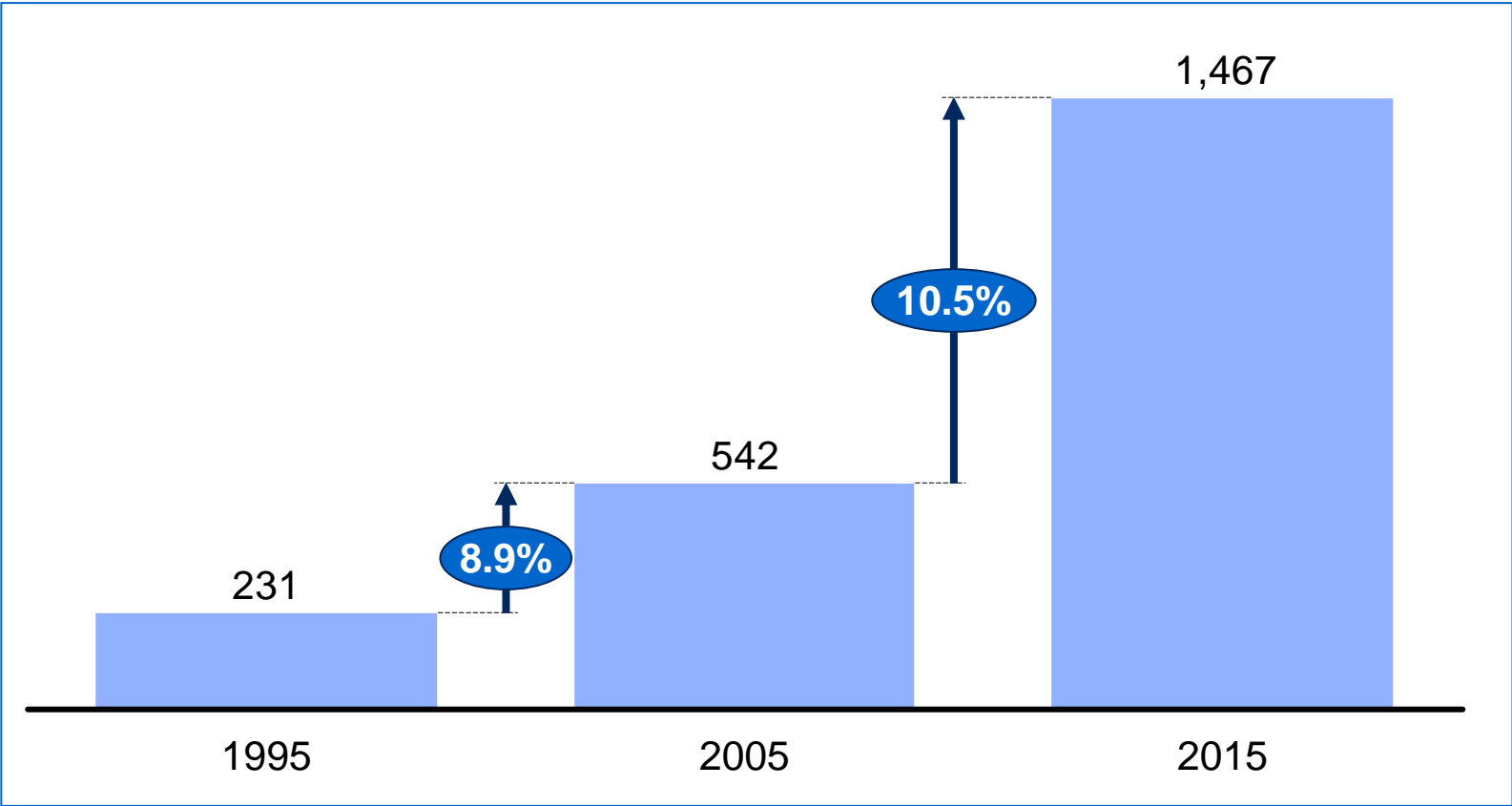
¹ Compound annual growth rate

SOURCE: Global Insight, February 2009; McKinsey Global Institute China Model, February 2009; McKinsey Global Institute analysis

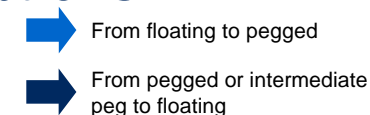
People living in households earning USD >5,000/year will increase by almost 1 billion










% CAGR

People in developing countries, living in households earning USD >5,000/year
Million people



Historically, during crises the predominant response was moving to a more flexible exchange rate regime with some notable exceptions



Country	Crisis year	Exchange rate regime	
		Before the crisis	After the crisis
Argentina 	1991	Free float	 Currency board
Argentina 	2001	Currency board	 Managed with no determined exchange rate path
Russia 	1998	Crawling peg	 Managed with no determined exchange rate path
Mexico 	1994	Crawling band	 Free float
Sweden 	1991	Horizontal band	 Free float
Turkey 	2001	Crawling peg	 Free float
Finland 	1991	Horizontal band	 Free float for the next four years
Thailand 	1997	Conventional peg	 Managed with no determined exchange rate path
Malaysia 	1998	Managed with no determined exchange rate path	 Conventional fixed peg
Indonesia 	1998	Crawling band	 Free float
Brazil 	1998	Crawling peg	 Free float
South Korea 	1998	Tightly managed floating	 Free float

Currency board did not allow for devaluation that was needed after export shock, and contributed to next crisis in 2001

Removed the peg after crisis was over. Mixed evidence on whether tightening helped to survive the crisis or not

Whatever you do, look out for tall buildings...

