

Special Report: Global Economic Growth Forecast Lowest In 60 Years

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In January 2009 the IMF released an update to its World Economic Outlook, significantly downgrading growth forecasts for 2009 amidst deteriorating global economic conditions.

Global real GDP growth is set to be 0.5% in 2009 from November 2008 estimates of 2.2%, while advanced economies will see the first economic contraction since World War II.

Developing economies will continue to grow in 2009 at 3.3% but businesses and consumers can expect a very difficult period ahead with job cuts, bankruptcies and low confidence

Key points

In a January 2009 update to its World Economic Outlook, the IMF forecast that real global GDP growth will be 0.5% in 2009 when measured in purchasing power parity, which takes into account variations between currencies. This has been consistently revised downwards;

Advanced economies are set to bear the brunt of the downturn with real GDP to shrink by -2.0% in 2009. This would represent the first contraction since World War II and indicates the severity of the recession in Western Europe, the USA and industrialised Asia. In Western Europe, the UK is expected to be amongst the worst-affected countries, with Ireland and Spain also badly hit;

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Prospects for developing economies are better, though deteriorating. The latest forecasts estimate growth of 3.3% in 2009, from 5.1% estimated in November 2008. China and India, two key emerging countries, are still expected to grow at respective rates of 6.7% and 5.1% but commodity-dependent countries are at risk: growth in Russia in 2009, for example, has been downgraded from 3.5% to -0.7% between the November and January forecasts;

The outlook for consumers and businesses worldwide for 2009 is grim, with the prospect of significant job cuts, corporate bankruptcies and social unrest. So far, government responses have been arguably ineffective;

The situation may even worsen as the year progress, given that the IMF has repeatedly had to alter its growth forecasts. Nonetheless, the latest release predicts that world GDP growth will recover to 3.0% in 2010. Risks remain to the downside.

Major downturn in advanced economies

As in previous forecasts, countries with developed economies are set to experience the sharpest downturns:

The world's largest economy, the USA, is expected to shrink by -1.6% in 2009. Significant job losses, weak company performance and a continued slump in the housing market has pushed this figure down from the -0.7% growth estimated in November 2008;

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Newly-industrialised Asian countries, such as South Korea, are predicted to see the deepest recession of all advanced economies, with GDP in this region set to contract by -3.9% in 2009. This is partly due to heavy reliance on exports, for which global demand has plummeted;

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Amongst the worst-affected countries in Western Europe is the UK due to high levels of consumer, corporate and government debt, as well as a disproportionately high dependence on the crisis-ridden financial services sector. GDP is forecast to contract by -2.8% in 2009 from -1.3% predicted in November 2008. Ireland and Spain are believed to be amongst the worst affected in the eurozone, with the European Commission forecasting a recession of -5.0% in Ireland in 2009;

Japan's economy has been significantly downgraded in the latest forecasts and is expected to shrink by -2.6% in 2009 against -0.2% forecast in November 2008. This is partly due to very weak corporate performance by Japanese multinationals, for instance in the car and electronics industries, which were reliant on exports. These firms are shedding large numbers of jobs;

In general, advanced economies are likely to experience the most significant job cuts as they were the most directly affected by a strong boom-bust cycle, especially in terms of credit availability and housing markets, with multinationals already shedding tens of thousands of jobs. Large numbers of bankruptcies are likely.

Developing economies better placed but not immune

Growth forecasts for developing countries in 2009 are more positive but still at risk:

GDP growth in developing economies is expected to be 3.3% in 2009, lower than the 5.1% forecast in November 2008. A previous theory that emerging markets were to a large extent “decoupled” from the financial crisis in developed markets has been proven inaccurate;

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China and India “two of the largest developing markets” will continue to grow but less strongly than previously thought. Exports have been negatively affected due to slow global demand, causing job losses and company closures. In December 2008, Chinese exports fell 2.8% by value in year-on-year terms, according to national statistics, representing a significant slowdown on previous growth rates;

Commodity-based economies, such as oil-producers in the Middle East or mineral exporters in Africa, will be amongst the worst-affected thanks to shrinking global demand for these products. Those countries with a heavy reliance on commodity exports will be particularly exposed: forecasts for Russia, for instance, have been downgraded from 3.5% in November 2008 to -0.7% in January 2009. This is largely due to the price of oil, which has fallen from a high of US\$147 per barrel in July 2008 to around US\$40 per barrel in February 2009;

In the Middle East, 2009 growth has been downgraded from 5.4% to 3.9%, making it one of the more resilient regions. However, oil-dependent economies such as Saudi Arabia or Kuwait are more at risk and as of January 2009 were expected by some trade sources to enter recession. Large government reserves built up since 2003 should help to maintain domestic investment from the public sector;

Forecasts for the CIS and Eastern Europe have also worsened, with growth in the CIS now forecast to be -0.4% against 3.2% predicted in November 2008. In Eastern Europe the forecast is -0.4% against 2.5% previously. The downgrades are partly a result of falling commodity prices, on which countries such as Kazakhstan or Ukraine are dependent, and slumping demand from Western Europe;

Despite higher economic growth figures for developing countries, large numbers of consumers in these markets live close to the poverty line and will be increasingly at risk from disease or malnutrition. Moreover, their governments will be less well-equipped to provide financial assistance than those in developed markets, and advanced economies will be less well-positioned in 2009 to deliver aid.

Principal global impacts

The latest forecasts suggest that the ongoing effects of the downturn will sharpen further:

Unemployment continues to rise. In the USA, for instance, the number of continuing unemployment claims was 4.8 million as of January 2009, the highest since records began in 1967. Uncertainty is severely damaging consumer confidence and spending around the world;

Global trade and investment levels are shrinking. According to the IMF, global trade volumes will contract by -2.8% in 2009, whereas in November 2008 they had been expected to grow by 2.0%. This is affecting export-based or transportation companies, while foreign investment is likely to plummet in 2009 as companies focus on domestic survival;

On the positive side, price inflation is falling sharply as demand for goods and services slow. In 2009 it is expected to be 0.3% in advanced economies, against 3.5% in 2008. This is theoretically easing the situation for consumers but may encourage them to hold back on spending as prices are perceived to be falling. There is also the risk of deflation (negative price growth) whose effects include further discouragement of spending and relatively higher costs of repaying debt, given that repayments remain fixed but real wages may fall;

Governments and bodies such as the IMF are under increasing pressure to take measures to offset the downturn. The USA, for instance, passed through a proposal for an estimated US\$800 billion stimulus package in January 2009, while many developed countries are continuing to announce aid or bailout packages;

Financial strains on governments are growing due to lower tax revenues from companies and employment, higher payouts for unemployment benefits and ongoing financial aid. State spending is set to soar and the UK government, for instance, projects a budget deficit of at least US\$142 billion in 2009;

The likelihood of social and political unrest is rising both in developed and developing markets, as the public begins to assign blame for economic woes. For instance, strikes broke out in the UK in January 2009 over foreign labour issues, while political protests in China are growing in strength.

Prospects

Given the series of downgrades to previous IMF estimates, global economic prospects may well worsen more than these latest forecasts expect. All forecasts remain with risks to the downside as the true extent of the recession and impact on real economies become clear.

Predictions beyond the short-term are extremely difficult to make: although the new IMF figures project a recovery to 3.0% global GDP growth in 2010, this is regarded as a best-case scenario. Many analysts do not expect a recovery until 2011.

The scale of the economic downturn is likely to have major global repercussions until mid-2010, including changes of government, shifts in economic policy – for instance towards greater protectionism – and social unrest in countries fuelled by high unemployment and popular dissatisfaction.

Consumers are likely to remain conservative, exhibiting much higher savings ratios than in the previous five years, while businesses around the world will hold back on expansion plans and concentrate on short-term survival.

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