

Q&A: The Future Of The World Economy

Contributed by Euromonitor International
Monday, 10 October 2011
Last Updated Monday, 10 October 2011

WorldEconomy The global economy has stalled in 2011 and many markets look increasingly shaky. Continued uncertainty over the eurozone sovereign debt crisis and weak growth in the USA has left the world economy looking increasingly precarious.

Future prospects are uncertain, but risks are firmly on the downside.

With the prognosis for the developed world looking increasingly bleak, business is facing up to a low-growth world as far as advanced economies are concerned.

Recoveries from financial crises have historically been slow and this one is no different. A double-dip recession cannot be ruled out at this time. Confidence among consumers and investors in advanced economies has weakened over recent months. Although they remain the engine of world economic growth, the threat of overheating in some emerging markets poses further risks. Much depends on the ability of global policy-makers to instigate a strong, coordinated response.

The important questions of the moment include:

- How will growth be reinvigorated?

Â Â Â

- Are there any bright spots in the gloom amongst advanced economies?

Â Â Â

- Are emerging markets still outperforming advanced economies?

Â Â Â

- How are consumers adapting to this prolonged period of tough conditions?

How will growth be reinvigorated?

The global economy has entered a dangerous phase with the recovery looking increasingly precarious. In 2008 banks were going bankrupt; in 2011 the danger lies with government debt. Economic growth in developed economies is forecast at 1.6% in 2011 and 1.9% in 2012.

In this low-growth scenario (real GDP growth for these countries stood at 3.1% in 2010) it is even more difficult for governments to pay down debt. Uncertainty over weak growth, high unemployment, policy uncertainty and sovereign debt are leading to a crisis of confidence and with it volatile financial markets.

Many developed markets need to come up with a new growth model, one which is not over-reliant on consumer spending but is balanced with healthy manufacturing and export sectors. In the short-term, as government stimulus has waned private demand has so far failed to pick up the slack in some major economies. A balance needs to be struck between bringing government debt under control sufficiently without stifling economic growth.

Are there any bright spots in the gloom amongst advanced economies?

Amongst advanced economies: In Europe, the Swedish recovery is relatively strong - Sweden could be the EU's fastest-growing economy in 2011. Both domestic demand and exports are important drivers of the initial recovery. Supported by tax cuts and steady gains in disposable income, the real value of private final consumption should rise by 3.4% in 2011.

Australia is also set to experience a strong rebound in growth in 2012 following the negative impact of the Queensland floods. New Zealand's economy has performed better than expected despite the impacts of the February 2011 earthquake. The country is predicted to grow at 2.0% in 2011 and 3.8% in 2012 in real terms. Japan is seeing a rebound in growth following 2011's return to recession following the earthquake and tsunami.

The IMF forecasts that the Japanese economy will return to growth in 2012 at 2.3% in real terms, backed by reconstruction investment. To a large extent, the pace of recovery depends on how quickly supply bottlenecks can be resolved and domestic demand strengthens.

Are emerging markets still outperforming advanced economies?

Emerging markets remain the engine of global growth due to strong domestic demand and rising disposable incomes. The gap between their performance and that of developed economies is wide. They are projected to grow by 6.4% in 2011 and 6.1% in 2012 – more than 3 times faster than developed economies.

Yet, a note of caution must be struck: the risk of overheating. Many emerging markets are displaying signs of overheating. These signs include: rising inflationary pressures fuelled by high food and energy prices, a credit boom, rising asset prices like equities and real estate, deteriorating current account balances and consistently appreciating currencies.

How are consumers adapting to this prolonged period of tough conditions?

Hard-pressed consumers, particularly the "squeezed middle" suffering from high prices and declining real incomes are continuing to search for value for money and becoming increasingly creative in their quest for thrift. Renting out personal possessions has taken off in France, with websites such as e-loue (e-hire), Donnons.org and Co-recyclage leading the way in private transactions. "Tryvertising" has reached Hungary.

At Sample Central stores in Budapest, registered club members can take home and try a certain number of products. While they do not have to return the products, they cannot use the store again until they fill in an online questionnaire about them. The system is largely funded by companies willing to pay for having their products tested in this way. More New Zealanders are now shopping online on overseas websites.

A PricewaterhouseCoopers spokesman said the internet channel is changing the way New Zealanders shop: "The attraction of lower prices, convenience and broader product ranges is swelling the ranks of consumers choosing to shop online, both locally and on international websites."

Republished with permission from Euromonitor Market Research Blog, originally posted on 8 October 2011