

Global growth forecast revised down

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Reports from major international economic agencies are now appearing on the potential impact of the downturn in the US on the world economy. They point to lower economic growth with the possibility of serious problems unless financial authorities take appropriate action.

Released on Tuesday, a United Nations-based study integrating research from more than 60 countries predicted that world growth will fall from about 4 percent last year to 2.4 percent this year.

The report said that countries most affected would be those which have the closest connections with the US economy, including Mexico, Canada, and East Asian countries. While the report predicted a rebound in world growth to 3 percent next year, this forecast was dependent on a number of factors, in particular the situation in the United States.

“The biggest risk for the global economic outlook would be a deeper and longer downturn in the United States, and a larger spillover to the rest of the world,” the report said.

Nobel economics laureate Lawrence Klein, who heads the panel that prepared the report, blamed interest rate rises by the US Federal Reserve Board for the downturn in the US economy. “What they did had to be done ... (but) it looks as though they overdid it,” he said.

Another member of the panel, Professor Peter Pauly of the University of Toronto, said the challenge was now for governments and financial authorities to take “decisive action to turn this from what might be a fairly prolonged reduction in the world economy into a short-lived experience.” This would require “decisive monetary policy action both in the United States and Europe” and probably “quite fundamental structural change in Japan.”

The expert panel is looking for further US interest rate cuts in May and possibly beyond and for the

European Central Bank to quickly lower interest rates.

The World Bank has also lowered its growth rate predictions for the world economy. Last November it forecast 3.4 percent growth. This week it dropped its forecast to 2.2 percent. The downward revision for the US was even sharper—from 3.2 percent to just 1.2 percent.

This is below the 2.4 percent growth forecast of the Congressional Budget Office and the average 1.9 percent prediction by Wall Street economists. World Bank research department representative Hans Timmer said the difference was due to the fact that the bank's projection is more up-to-date, indicating the others will soon revise their estimates downwards.

Like the UN study, the World Bank predicted that world growth would rebound in 2002 but warned that the risks to the forecast were “substantial”.

Speaking at a news conference, World Bank chief economist Nicholas Stern said while he was hopeful the downturn would be short-lived, it was always difficult to pick a turning point in economic trends. “We can't say with any great confidence when that turnaround will occur,” he said.

The Organisation for Economic Co-operation and Development has issued a forecast for the 12-nation euro-zone cutting its growth prediction from the 3.1 percent estimate of last November to 2.7 percent.

While international economic bodies are making their predictions, the first indications of the impact of the downturn in the US are starting to come in.

Preliminary figures for the first three months of the year showed that the Singapore economy, which is heavily dependent on exports to the American market, has slowed quite rapidly.

Gross domestic product for the March quarter fell to an annualised rate of 4.1 percent, lower than official predictions. This contrasted with an annualised rate of growth of 11 percent in the December quarter,

prompting the government to drop its growth estimate from 5-7 percent for the year to 3.5-5.5 percent.

The main factor in the decline is the slide in demand for electronics products, which account for about half of Singapore's manufacturing industry. Similar tendencies are also at work in Taiwan, South Korea, and the Philippines, all of which are heavily dependent on the US economy.

The news from the communications and electronics industry points to a further slide over the next months.

This week Motorola, the world's second-largest mobile phone maker, reported a first quarter operating loss of \$206 million, its first in 15 years, compared to a profit of \$481 million a year ago.

In a news release the company said the weakening in orders extended across its operations and it believed this was "part of a major global pattern affecting many technology companies."

The semiconductor industry is also facing turbulent times, with predictions that it could be headed for its biggest downturn ever. According to a report on the industry by Lehman Brothers semi-conductor analyst Dan Niles, industry revenues could fall between 18 and 20 percent this year, making the downturn worse than that of 1996 and outstripping the 17 percent fall in revenues in 1985.



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