IMF expects global economy to come to “virtual halt” in 2009

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The International Monetary Fund (IMF) said yesterday that it expects world economic growth this year to be the lowest since World War II. The Fund's latest update to its 2009 World Economic Outlook forecasts global gross domestic product (GDP) growth of just 0.5 percent—sharply lower than the 2.2 percent annual growth it expected last November.

IMF chief economist Olivier Blanchard declared: "We now expect the global economy to come to a virtual halt."

The global slump is being led by the advanced economies, almost all of which will experience major economic contractions. The US economy is expected to decline by 1.6 percent, the eurozone by 2 percent, Japan by 2.6 percent and Britain by 2.8 percent. On average, output in the advanced economies will fall by 2 percent—the first such collective contraction since the 1930s.

Economies classified as "emerging and developing" will grow by an average of 3.3 percent this year, down from 6.3 percent in 2008. Countries in Eastern Europe, Latin America and Asia are expected to experience the sharpest slowdowns. China and India remain the fastest growing, with expected 2009 growth of 6.7 and 5.1 percent respectively. In neither case, however, is the projected growth rate sufficient to generate enough jobs for the rapidly growing Chinese and Indian urban populations.

The IMF's extraordinary world forecast underscores the inability of world governments to mitigate the economic crisis.

The Fund's revised outlook takes into account the various stimulus packages enacted internationally. It warns: "Given that the current projections are predicated on strong and coordinated policy actions, any delays will likely worsen growth prospects... Downside risks continue to dominate, as the scale and scope of the current financial crisis have taken the global economy into uncharted waters. The main risk is that unless stronger financial strains and uncertainties are forcefully addressed, the pernicious feedback loop between real activity and financial markets will intensify, leading to even more toxic effects on global growth."

While advocating aggressive monetary and fiscal policies to try to stimulate global demand, the IMF warned that stimulus spending threatened to blow out governments' budget deficits. In advanced economies, these deficits are forecast to reach 7 percent of GDP this year, nearly double the 2008 level.

"The sharp increase in the issuance of public debt could prompt an adverse market reaction, unless governments clarify their strategy to ensure long-term sustainability," the IMF report stated. In other words, while stimulus packages are now required to prevent a deflationary spiral of declining economic activity, in the longer term pressure will build for austerity programs involving deep cuts to social programs to cover government debts.

The world crisis is plunging hundreds of millions of working people deeper into poverty.

The International Labor Organization (ILO) released its annual Global Employment Trends report yesterday. It forecast that as many as 51 million workers could be laid off this year, potentially pushing the global unemployment rate to 7.1 percent (up from 5.7 percent in 2007).

The ILO's report modeled the employment impact of three different world economic growth forecasts. The most optimistic projection—which forecast an additional 18 million unemployed—was based on the IMF's November forecast of 2.2 percent growth. The revised 0.5 percent growth figure, issued the same day as the ILO report, immediately voided this scenario.

The ILO's other two projections were based on complex statistical calculations. The middle scenario rested on the historical relationship between economic growth and unemployment in times of economic crisis. By this calculation, an additional 30 million people will be laid off. It seems likely, however, that this scenario underestimates the real impact. The current breakdown of the capitalist system is not equivalent to the downturns experienced in the post-war period, making problematic any attempt to correlate current increases in unemployment with those seen during the recessions of the 1970s and early 1980s.

The third scenario, projecting 51 million more unemployed, may prove the most accurate. According to this projection, unemployment in the developed economies would average 7.9 percent, while the ILO concluded that "in some of the developing economies the unemployment rate would reach unprecedented levels."

Mass unemployment is but one aspect of the growing social hardship being experienced internationally.

The ILO forecast that the number of "working poor"—or more accurately, the working destitute, given that the category's criteria is earnings of less than $2 a day—may rise to a total of 1.4 billion people, or 45 percent of the world's employed. Up to 20 percent of those now living marginally above the poverty line may fall back into extreme poverty.

"The ILO message is realistic, not alarmist," Director-General Juan Somavia said. "We are now facing a global jobs crisis. Many governments are aware and acting, but more decisive and coordinated international action is needed to avert a global social recession. Progress in poverty reduction is unraveling and middle classes worldwide are weakening. The political and security implications are daunting."

Major layoffs are continuing on a daily basis in the US. The Labor Department yesterday reported there were 21,137 mass layoff occurrences—defined as 50 or more job cuts by a single employer—in 2008, up from 15,493 the previous year. More than 2.1 million workers lost their jobs through the mass retrenchments. The Labor Department reported that the construction, mining, manufacturing, transportation services and financial services industries were especially hard hit.

The situation is getting worse, with US and international corporations this week announcing as many as 100,000 layoffs. According to a *Bloomberg* article yesterday, US companies have announced 520,000 job cuts since November 1.

Further layoff announcements include:

* Multinational coffee firm Starbucks said it will cut as many as 6,000 jobs at the store level as well as another 700 administrative positions. A total of 977 stores are now to be closed in response to plummeting sales and profits.

* Aircraft manufacturer Boeing revealed it will cut 10,000 jobs, or more than 6 percent of its workforce. Nearly half of these layoffs were previously announced; the additional layoffs were prompted by lower orders. According to UBS Investment Research, one-third of the world's airline companies are now likely to defer deliveries this year, up from 8 percent three months ago.

* Electrical products and tools manufacturer Cooper Industries announced Tuesday it was slashing more than 2,200 jobs (8 percent of its salaried workforce). This was significantly more than the 1,000 positions which analysts had predicted would go.

* Time Warner Inc.'s AOL online unit is to cut about 10 percent of its workforce, affecting 700 employees. The layoffs were driven by plunging advertising revenues. AOL's ad sales fell by 18 percent last quarter on an annualized basis.

American workers' retirement savings are being severely eroded by the economic crisis. Fidelity Investments, which covers 401(k) plans for more than 11 million workers at 17,000 companies, yesterday revealed that the average individual balance declined from $69,200 in 2007 to $50,200 last year. The 27 percent decline would have been much larger if not for the fact that most workers continued to invest additional money in the accounts, despite the protracted decline on Wall Street. US stock mutual funds fell by an average of 36 percent last year while the average foreign stock fund lost 44 percent.