OECD paints bleak picture of global economy

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On the eve of the G20 summit in London, the Organisation for Economic Cooperation and Development (OECD) has issued a grim forecast for the global economy, undercutting the more optimistic predictions being made by governments around the world.

The OECD interim report forecasts an overall contraction of 2.75 percent in the world economy in 2009—significantly higher than the IMF's recent prediction of a decline of 0.5 to 1 percent and the World Bank's latest forecast of negative 1.7 percent. For the 30 OECD industrialised countries, the contraction is even larger—4.3 percent for 2009.

"OECD economy is in the midst of the deepest and most widespread recession for more than 50 years," the report states. "Output has declined in almost all OECD countries in the past six months and with non-OECD countries slowing sharply, world growth has turned negative."

Like other forecasters, the OECD is predicting a recovery in 2010, based on the assumption that the recession will follow the usual pattern. But the report warns that the uncertainty of its own projections is "unusually wide" and the "risks remain tilted to the downside". In particular, the authors point to the danger of a continuing downward spiral as the weak real economy undermines financial institutions, which in turn cut lending, resulting in a further weakening of economic activity.

All the major economies are being drawn into the abyss. The OECD predicts that the US economy will contract by 4 percent in 2009—far worse than the 1.2 percent decline on which the Obama administration is basing its budget plans. The report forecasts a further increase in US unemployment to 10.5 percent by the end of next year—up from 8.1 percent in February.

The Eurozone as a whole is expected to shrink by 4.1 percent in 2009, with the largest economy—Germany—among the worst affected. The report predicts a contraction of 5.3 percent in Germany—double the official forecast of negative 2.25 percent—and a jobless rate of almost 12 percent by the end of 2010.

The forecasts for Britain, France and Italy are all grim—negative 3.7 percent, 3.3 percent and 4.3 percent respectively. Highlighting the underlying political tensions, Italian Prime Minister Silvio Berlusconi reacted to the news by blaming the OECD for fuelling "a gripping climate of fear" and demanding it "shut up!" He complained: "First they did not see this coming, now they give new forecasts every other day."

The OECD predicts a massive 13.2 percent drop in global trade for 2009—higher than last week's World Trade Organisation forecast of negative 9 percent. The report notes: "Over the last quarter of 2008 and the first quarter of 2009, world trade has fallen at an average annualised rate of more than 20 percent, a rate of decline not previously experienced over the last four decades. Across all regions, the downturn has affected industrial production unusually hard given its greater integration in world trade."

Like Germany, Japan is heavily dependent on exports and has been badly hit by falling global demand. The OECD forecast for the Japanese economy for 2009 is a contraction of 6.6 percent, with unemployment rising above 5.5 percent. All the official Japanese statistics confirm a deep economic downturn. Government data released on Monday showed a 9.4 percent drop in industrial output in February, following a record 10.2 percent fall in January.

The OECD predictions for China and India are for a further economic slowdown—to growth rates of 6.3 percent and 4.3 percent respectively, about half the 2007 figures. An Asian Development Bank (ADB) report released yesterday confirmed that the export-dependent economies of developing Asia (that is, excluding Japan) would continue to slow to growth of 3.6 percent, down from 6.6 percent last year and 10.4 percent in 2007. South Korea, Hong Kong, Taiwan, Malaysia, Singapore and Thailand are all predicted to be in recession in 2009.

Speaking at a "social summit" in Rome on Monday, OECD secretary general Angel Gurria warned of a "fully blown social crisis with scarring effects on vulnerable workers and low income households" unless governments took "quick and decisive action" to boost social programs. He predicted that unemployment could grow by 25 million in OECD countries to reach 10 percent in 2010—the largest and most rapid rise in joblessness in the post-war period.

There was no shortage of hot air at this Rome gathering of labour ministers. OECD trade union adviser John Evans bewailed the fact that the G20 was dominated by finance ministers and "we don't have a voice". He warned of a "very dangerous situation" arising from massive job losses and declared that this "appalling situation" had to be made central to the London G20 summit.

Italian Prime Minister Berlusconi told the media, "the state cannot ignore the welfare of workers," promising that "we will leave no one behind". He pledged that Italy would press at the G20 summit for "a social pact capable of transforming pessimism into optimism, distrust into confidence and fear into hope".

Like the World Bank's call for the G20 to pay attention to the globe's poorest countries, these empty promises about helping the unemployed will quickly evaporate as government leaders sit down on Thursday to haggle over what joint measures can been agreed upon, if any.

Already there are deep divisions between the US and Europe. The US, backed by Britain, insists that European governments must boost stimulus spending—a proposal that has been flatly turned down by Germany in particular. European leaders, on the other hand, are calling for more stringent international financial regulation, which has been rejected by Washington.

Yesterday Japanese Prime Minster Taro Aso chimed into the debate. In comments to the *Financial Times*, he dismissed German Chancellor Angela Merkel's warnings about the risks of excessive public spending on stimulus packages. Citing Japan's experience of a decade of economic stagnation in the 1990s, he said: "We know what is necessary, whilst countries like the US and European countries may be facing this sort of situation for the first time."

With the deeply divided G20 meeting shaping up as a failure, French President Nicolas Sarkozy hinted that he would walk out if no "concrete" results were achieved. Presidential advisors told the media that Sarkozy had told a recent cabinet meeting: "If things don't advance in London, there will be an empty chair. I'll get up and leave."

While Sarkozy's posturing should be taken with a large grain of salt, his comments underscore real fears among G20 leaders of the economic, social and political consequences of a summit that fails to produce anything other than empty platitudes. At the same time, none of the major powers is prepared to make any concessions to its rivals that will impinge on its own economic interests, making any agreement of substance all but impossible.