UN report issues dire forecast for world economy

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The United Nations' Department of Economic and Social Affairs (DESA) updated its "World Economic Situation and Prospects" report last Thursday, forecasting world growth this year of negative 2.6 percent. World trade is expected to decline by 11.1 percent—the sharpest annual contraction since the 1930s. The latest estimates are revised sharply downward from previous UN forecasts in January of positive 1 percent growth for 2009, with even the most pessimistic scenario then anticipating negative 0.5 percent growth.

The revised figures are another indication of the unprecedented rapidity with which the slowdown in global economic activity has developed. Putting paid to recent optimistic US media reports of a potential imminent recovery, DESA's director of the development policy and analysis division Rob Vos said there were "no green shoots to be seen which could signal beginnings of a new spring in this still very wintry landscape".

The report predicts a contraction of 3.9 percent for the advanced economies in 2009. The US economy is forecast to shrink by 3.5 percent. "With unemployment rising sharply and financial de-leveraging continuing, the risk of the economy falling into a protracted deflation is still increasing," the UN warns.

Data released by the US Commerce Department on Friday added further weight to the UN forecast. First quarter 2009 US gross domestic product (GDP) declined by 5.7 percent, not as severe as the previous quarter's 6.3 percent contraction, but still worse than most economists' predictions. The Commerce Department noted that quarterly corporate profits nevertheless increased by an average of 3.4 percent. This was driven by financial sector profits, up an astonishing 94.9 percent due to the Obama administration's bailout measures; non-financial sector profits fell by 8.6 percent.

In other advanced economies, the UN forecasts that the eurozone will suffer negative 3.7 percent growth. The UN predicts that Japan will be especially hard hit, with a fall in GDP of 7.1 percent. "The severe downturn in global demand, particularly for automobiles, information technology and machinery, has led to a collapse of Japanese exports, causing sharply falling corporate profits, tightening financial conditions, rising unemployment, declining household wealth, and weakening domestic demand," it states.

The updated UN report points to some aspects of the social misery being inflicted on working people throughout the world. World income per capita is expected to decline by 3.7 percent this year. The UN also notes that initial projections had unemployment rising by 50 million internationally, "but as the situation continues to deteriorate, this number could easily double".

The UN forecasts global growth of 1.6 percent for 2010, with an "increasingly less likely" optimistic scenario of 2.3 percent and a pessimistic scenario of 0.2 percent. It cautions: "A more prolonged global recession is possible, if the vicious circle between financial destabilisation and retrenchment in the real economy cannot be sufficiently contained and farther-reaching, concerted global policy actions are not taken."

Much of the report details the impact of the economic crisis on the so-called developing countries. These are forecast to register an average GDP growth of 1.4 percent. In "East and South Asia"—which includes the decelerating but still growing Indian and Chinese economies—average growth of 3.2 percent is expected. Almost every other region is forecast to suffer contracting activity, with sub-Saharan Africa registering negative 0.1 percent growth, Western Asia negative 0.7 percent, and Latin America and the Caribbean negative 1.9 percent.

The UN anticipates "a considerable slowdown in progress towards poverty reduction and the fight against hunger," with an additional 73 to 103 million people either remaining poor or falling into poverty as a result of the economic crisis. Some 56-80 million people in East and South Asia will be affected, with half of these in India, 12-16 million people in Africa, and another 4 million in Latin America and the Caribbean.

"These projections likely underestimate the true poverty impact of the crisis as the distributional consequences of the crisis are not adequately accounted for," the report concludes. "Workers at the lower end of the job ladder, including youth and female workers, are more likely to lose their jobs or suffer income losses. Also, workers are already visibly shifting out of dynamic export-oriented sectors, and either becoming unemployed or displaced to lower productivity activities (including moving back from urban to rural areas)."

Poor communities are also expected to suffer from declining remittances as emigrants to advanced countries are affected by unemployment and lower wages.

The UN outlines the impact of the extraordinary collapse of trade and investment in the "emerging economies". Net private capital inflows to these countries fell by 50 percent last year, from approximately $1 trillion to $500 billion. This figure is expected to again be cut in half in 2009. The sharpest expression of the decline is in the bank lending component of capital investment—bank lending to emerging economies reversed from a net inflow of $400 billion in 2007 to a projected net outflow this year.

Compounding the crisis caused by the withdrawal of foreign capital is the escalating cost of credit. One key index, the Emerging Markets Bond Index, soared from 250 to 800 basis points in the space of just a few weeks late last year, stalling critical public and private infrastructure projects.

The UN also highlights the mounting balance of payments crisis affecting the poorer countries. Capital flight, declining export income due to collapsing commodity prices, and attempts to defend the value of national currencies have produced a substantial reduction in foreign exchange reserves. The report notes: "Reserve accumulation by developing countries in the past decade was seen to be 'excessive' until recently, but in many cases, is now swiftly proving to be highly insufficient for 'self-protection' given the magnitude of the external shocks caused by the present global financial and economic crisis."

More than 100 developing countries are forecast to have inadequate finances to cover private debt due, with a total "financing gap" of $200-700 billion. About 30 of these countries' reserves are now depleted below the benchmark equivalent of three months of imports—"considered to be absolutely critical for keeping production going," DESA's Rob Vos warned.

The UN report also notes that numerous middle- and low-income countries have seen large currency devaluations in recent months, some between 20 and 50 percent. This has "made external debt service obligations much more expensive in terms of local currency and are already affecting the budget positions of governments and businesses". As a result, "many developing countries face difficulties rolling over their foreign debts, with some $3 trillion of emerging economies' foreign debt maturing during 2009."

This is certain to mean a new round of government cutbacks to spending on essential social services, such as health care and education, as resources are shifted to pay off the international banks.