OECD predicts global economic slowdown

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The economies of the G-7 group of industrialized countries will grow much more slowly than previously forecast over the remainder of 2010, according to a report released Thursday by the Organization for Economic Cooperation and Development (OECD).

G-7 growth in gross domestic product (GDP), a measure of the total market value of all goods and services produced in a nation, is expected to decline to 1.4 percent in third quarter and fall to 1 percent in the final quarter. This would continue a downward trend in the combined economies of the US, Japan, Germany, Great Britain, France, Italy and Canada, which collectively fell from 3.2 percent growth in the first quarter to 2.5 percent in the second.

The new estimate for growth marks a sharp downward revision from predictions made just three months ago for the G-7, which collectively accounts for over half of global economic output.

In May, the OECD estimated that the US, the world's largest economy, would see growth of 2.8 percent and 2.7 percent for the third and fourth quarters, respectively. The new report now estimates US growth over the same period at 2 percent and 1 percent.

Many economists believe that the US economy must grow at an annualized rate of over 3 percent to meaningfully reverse the catastrophic job losses of the past three years. A growth rate of below 2 percent will very likely signify a renewed growth in unemployment, which stands officially at 9.6 percent of the workforce. (See: "As US "recovery" collapses, White House rules out social relief")

The sharpest reduction in growth rates is apt to take place in Germany, Europe's leading economy, which is predicted to fall from 9.0 percent growth in the second quarter to just 0.7 percent in the third and 1.1 percent in the fourth. "In the case of Germany, what drives the slowdown comes from the construction sector, but also a contraction in manufacturing orders", said Pier Carlo Padoan, the OECD's chief economist. "Strong manufacturing, export-driven growth in Germany may be slowing down".

Japan, the world's second largest economy until it was surpassed this year by China, will maintain its two-decades long stagnation, the OECD predicts, mustering growth of just 0.7 percent and 0.6 percent in the final two quarters of 2010.

France and Italy, the second and third largest economies of the Eurozone, are expected to fall to near zero or even negative growth. It is anticipated that growth in France will fall from 0.7 percent in the third quarter to 0.3 percent in the fourth, while the Italian economy will actually shrink by 0.3 percent in the third quarter before returning to growth of 0.1 percent in the final quarter.

The British and Canadian economies are expected to outdo their counterparts, with both averaging growth of just over 2 percent in the final six months of the year. These growth rates nonetheless represent sharp declines from the growth of over 4.9 percent the UK registered in the second quarter and Canada's export-driven 5.8 percent growth in the first.

Summing up the uniformly negative data, the OECD nevertheless sought to leave some room for ambiguity. "It is not yet clear whether the loss of momentum in the recovery is temporary…or whether it signals greater underlying weaknesses in private spending at a time when policy support is being removed", the report stated.

It concluded with a warning: "If the slowdown reflects longer-lasting forces bearing down on activity, additional monetary stimulus might be warranted in the form of quantitative easing and commitment to close-to-zero policy interest rates for a long period. Where public finances permit, planned fiscal consolidation could be delayed".

The policies of the world's governments are moving in precisely the opposite direction. Having collectively bailed out the global finance industry to the tune of tens of trillions of dollars, in every major industrialized country "fiscal consolidation" is being levied on the working class in the form of cuts to all forms of social spending and a coordinated drive against wages.

The OECD report was followed by a statement from the Organization of Petroleum Exporting Countries (OPEC) anticipating limited growth in the demand for oil. OPEC expects that oil demand will actually fall in Western Europe over the final six months of the year.

"The present economic condition in most developed countries is discouraging", OPEC declared.

"The fact that some OECD countries can no longer afford stimulus plans is likely to pressure their economies in the second half of this year, leading to weaker oil demand compared to the first half".

Although the OECD report focused on the G-7, it found that the levelling off of the "bounce back" of manufacturing output in the G-7 is mirrored by similar developments in the major developing "BRIC" economies of Brazil, Russia, India, and China.

The report also found that the volume of world trade has contracted in recent months after its recovery from the nadir reached at the end of 2008, that housing values in the majority of the 33 OECD countries have once again begun to stagnate or erode, and that in both the US and the Eurozone unemployment rates have plateaued at about 10 percent.

Significantly, the report documents that aggregate business investment in the US, the Eurozone and Japan has not recovered from the collapse of 2008, but corporate profits in the three areas have risen sharply since the middle of 2009. In other words, corporations all over the world are reaping enormous profits, but the money is not making its way back toward an expansion of production and jobs. For example, the US Federal Reserve reports that American banks are now sitting on cash reserves of over $1 trillion.

The slowdown in US economic growth predicted by the OECD was corroborated on Wednesday by the release of the Federal Reserve Board's "Beige Book" reports from its twelve regional bank districts, which reported mainly negative economic prospects.

According to summaries of the reports, in the New York region the economy "showed signs of decelerating". In Cleveland, "factories reported that production was either mainly stable or down". In the Richmond, Virginia, region, "Signs of slowing or contracting economic activity became more prevalent", and in the Atlanta bank district, "Economic activity slowed".

The bank regions reported uniformly negative trends in the housing market, and most reported stagnant or negative developments in manufacturing and retail sales.

The US Labor Department report Thursday that the number of first-time unemployment benefit seekers in the US fell by 27,000 to 451,000 from the previous week was greeted as evidence that the economy might not be entering negative growth. The more statistically reliable four-week moving average fell less, by 9,250 to 477,750.

However, economists believe that for the weekly jobless claims statistic to indicate job growth, it would have to fall below 400,000. The average for the entire year is 454,000 new jobless benefit claims per week.