OECD says economic slump will deepen throughout the world

Barry Grey
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The Organization for Economic Cooperation and Development (OECD) released a report Monday forecasting a further slowdown in the world's largest economies. The Paris-based group comprises 34 countries, nearly all the major industrialized countries, but excluding China, Brazil and India.

The OECD's survey of composite leading indicators (CLIs) for September, which predicts economic trends some six months in advance, shows economic activity slowing in North America, Europe, major parts of South America and most of Asia, including China.

The OECD report is the latest in a series of economic analyses and forecasts indicating that the anemic recovery from the financial crash and recession of 2008-2009 has run its course and is giving way to a new and even deeper global economic slump.

The organization said the CLI index for its member countries—including the US, Canada, Mexico, Chile, Germany, Britain, France, Italy, Greece, Spain, the Netherlands, Turkey, Israel, Japan, South Korea, Australia and New Zealand—fell to 100.4 in September from 100.9 in August. It was the seventh straight monthly decline in the CLI for OECD states. The measure for major developing countries outside the organization also pointed to a further slowdown.

"Compared to the last month's assessment," the OECD said, "the CLIs point more strongly to slowdowns in all major economies."

The leading indicators for the US, Russia and Japan fell from August but remained above the long-term economic trend for each country, which the OECD designates as the 100 level, regardless of the actual rate of growth. These three countries, according to the report, face "slowdowns in growth towards long-term trends."

The CLIs for Canada, France, Italy, Britain, Brazil, China, India and the euro zone all fell below the 100 level. The measure for Germany plunged from 100.4 to 99.1. Of this second group, the OECD said the indicators "point to economic activity falling below long-term trend."

In a further sign of decelerating growth, the OECD reported that the rate of new business start-ups has fallen this year after rising in 2010.

Monday's report underscores the warning given by the organization last month that developed economies face two years of weak growth and continued high unemployment, and the outlook could worsen if the euro zone fails to contain its debt crisis. The OECD at the time predicted that the Group of Seven largest economies would grow by just 0.2 percent in the final three months of 2011, and the German economy would contract by 1.4 percent.

The bleak outlook was reinforced by another report released Monday showing a sharp fall in euro zone factory output in September. Eurostat, the European Union's statistical office, said industrial production in the 17 nations that share the common European currency decreased by a much larger than expected 2 percent compared with August—the biggest monthly fall since September 2009.

Production fell particularly precipitously in Italy (-4.8 percent) and Portugal (-5.8 percent). Industrial production in the euro zone remains substantially below its peak in 2008.

Also on Monday, researchers at the Federal Reserve Bank of San Francisco said that the odds of a return to actual shrinkage in economic output in the US in early 2012 now exceed 50 percent. Last year the authors of the new report estimated the chances that the US would fall into a new recession in the first six months of 2012 at one-in-two. They attributed the increased odds to the

European debt crisis and its impact on the "fragile state of the US economy."

Last week, the European Commission issued a report warning that Europe's gross domestic product was "now projected to stagnate until well into 2012." Economic Affairs Commissioner Olli Rehn told a press conference, "Growth has stalled in Europe and there is a risk of a new recession." Rehn said several European Union countries would see their economies contract.

He was echoing the earlier remarks of Mario Draghi, the new president of the European Central Bank, who predicted the euro zone would fall into a "mild recession" by the end of this year.

The EU report forecast growth across the euro zone in 2012 plummeting to 0.5 percent, a sharp downgrade from its prediction six months ago of 1.8 percent. The forecast for 2011 was also revised downward.

The US Federal Reserve downgraded its forecast for US growth at the last meeting of its policy-making committee earlier this month. It said the US economy would expand between 2.5 percent and 2.9 percent next year, a full percentage point lower than predicted last June. For all of 2011 the economy is expected to grow only 1.6 percent to 1.7 percent.

The Fed also sharply raised its forecast for unemployment in the US. It projected that the official jobless rate would be around 8.6 percent at the end of 2012. In its June forecast, the Fed said joblessness would fall to around 8 percent by the end of next year.

All of these projections underestimate the crisis and the likely depth of the next stage of the slump. The austerity policies being pursued in the US and Europe at the behest of the banks and big bondholders can only plunge the world economy deeper into depression, as tens of millions are thrown into poverty and mass consumption is driven down in order to protect the investments of the financial elite.

The new "technocratic" governments installed in Greece and Italy will set the precedent for deeper cuts in social programs, jobs and wages across Europe, North America and much of Asia. The *Wall Street Journal* reported Monday having seen a letter sent Saturday by outgoing Economy Minister Giulio Tremonti to the European Commission pledging to raise the retirement age in Italy and cut 300,000 public-sector jobs by 2014.