IMF cuts world growth forecast

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The International Monetary Fund (IMF) last week downgraded its world growth forecast for 2013 and 2014, while newly released data revealed that the economies of Germany, Britain and Spain contracted in the fourth quarter of 2012.

In its World Economic Outlook update, the IMF said it expects global growth to be 0.1 percent lower in both 2012 and 2013 as compared to its previous estimates published in October. The report noted that the economy of the euro area contracted by 0.4 percent in 2012, having grown by 1.4 percent the previous year.

These statistics point to a persistent and deepening slump in Europe's real economy, even as financial conditions have temporarily improved and stock values have soared as a result of unprecedented cash infusions by the US Federal Reserve and the European Central bank.

The IMF report noted that “global financial conditions improved further in the fourth quarter of 2012” but warned that “a broad set of indicators for global industrial production and trade suggests that global growth did not strengthen further.”

The IMF report added, “Activity in the euro area periphery was even softer than expected, with some signs of stronger spillovers of that weakness to the euro area core.” It predicted that the 17-nation euro area will contract this year by 0.2 percent.

Adding to the IMF's gloomy prognosis, Germany's Federal Statistics Office announced earlier this month that the German economy shrank at a 0.5 percent rate in the last quarter of the 2012. For the year, the German economy grew only 0.7 percent compared to 3.0 percent in 2011. The German Central bank predicted that the country's economy would grow at a rate of only 0.4 percent in 2013.

Germany is the world's fourth-largest economy and produces a quarter of the euro zone's economic output. Up until last year, Germany was considered the bright spot in the European economy, having avoided prolonged recession, while the “periphery” economies of Spain, Italy, Greece and Portugal were experiencing sharp downturns.

The “periphery” economies of the euro zone, too, are faring much worse. The Bank of Spain said last week that the Spanish economy contracted by 0.6 percent in the fourth quarter of 2012 and had shrunk by 1.7 percent from the year before. In the previous quarter, the Spanish economy contracted by 0.3 percent.

The Spanish Central Bank took note of the economic impact of the austerity policies implemented by the government, saying that the “budget consolidation effort has had a net contracting effect on activity throughout the year, especially in the last few months.” It added that this year's even more dramatic austerity plans “will require an additional, very ambitious fiscal effort by the central and regional governments.”

The Spanish government aimed to shrink its budget deficit to 6.3 percent of gross domestic product (GDP) in 2012, down from 9 percent in 2011. This year it plans to cut the deficit even further, to 4.5 percent of GDP, through a combination of tax increases and social spending cuts.

Spain's unemployment rate rose to 26 percent in the fourth quarter of 2012, the highest level since the mid-1970s. The Spanish National Statistics Institute said that there were 5.97 million people unemployed in the country at the end of last year.

Although Europe is at the center of the deepening slump, Asian economies are also being impacted by the global downturn. South Korea's central bank said that the country’s economy grew by only 1.5 per cent in the year prior to the fourth quarter of 2012, half the growth rate the bank had predicted.

The British office of National Statistics said Friday that the UK economy contracted 0.3 percent in the fourth quarter. It reported that the British economy remained totally flat over the past year.

Economists have warned that the UK economy faces a “triple-dip” recession. Since the start of the economic crisis, Britain's economy has contracted 3.3 percent. In the face of mounting popular hostility to his austerity program, Chancellor George Osborne said that the negative data would not compel him to “run away” from his plans to slash spending.

British companies issued more profit warnings last year than at any time since 2008, according to a report issued Sunday by Ernst & Young, the professional services firm. Profit warnings were up by 30 percent in 2012, with the highest rise coming from industrial companies facing a sharp fall-off in demand. Such warnings, a result of sluggish economic growth, often presage mass layoffs.

There has been no shortage of such layoffs worldwide. Last week, Dish Network in the US announced plans to close 300 Blockbuster video rental stores it bought in 2011, eliminating 3,000 workers. Commerzbank, one of the largest banks in Germany, said it plans to cut 6,000 jobs, more than 10 percent of its total workforce, by 2016.