IMF cuts growth forecast amid warnings of rising global unemployment

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The International Monetary Fund has downgraded its forecast for global economic growth in 2015, slicing 0.3 percentage points off its estimate last October. At the same time the International Labour Organisation has warned that unemployment will continue to rise over the next five years.

In an indication of the deepening global downturn, the IMF's revision was the largest since January 2012 when it cut its forecast for that year to 3.3 percent from 4 percent because of signs of a European recession. The latest downgrade followed a similar revision by the World Bank in its report on global trends issued earlier this month.

The IMF said that while the fall in oil prices would provide a "shot in the arm," at least for oil-importing countries, this would be "more than offset by negative factors, including investment weakness as adjustment to diminished expectations about medium-term growth continues in many advanced and emerging market economies."

IMF chief economist Olivier Blanchard said the world economy was facing strong and complex cross currents. While major economies were benefiting from the lower oil prices, many parts of the world were being impacted by lower long-run prospects, resulting in a "strong undertow."

The IMF revised upwards its forecast for US growth from 3.1 percent to 3.6 percent on the back of an expected boost from cheaper oil. But this was not enough to counter downward revisions for other key areas of the global economy.

Despite the uplift provided by lower oil prices, it revised the forecast for the euro area down from 1.3 percent to 1.2 percent because of "weaker investment prospects" which weighed on the growth outlook.

The fall in oil prices is a two-edged sword, however, and will result in significant contractions in oil exporting countries.

The biggest impact is being felt in Russia which has lost its position as the world's eighth largest economy. A report by the European Bank for Reconstruction and Development issued this week said the Russian economy would shrink by close to 5 percent this year, with average growth for Eastern Europe and the countries of the former Soviet Union falling into negative territory for the first time since 2009.

The IMF cut back its forecast for China, predicting that it would grow by 6.8 percent in 2015 down from 7.1 percent last October. Figures issued by the Chinese government yesterday showed that growth had fallen in 2014 to 7.4 percent, its lowest level for 24 years, after recording a 7.7 percent increase in 2013.

Despite predicting a "gradual rebound" for Japan, after the economy slid into recession in the third quarter, the IMF cut its forecast from 0.8 percent to 0.6 percent. In what amounted to an admission that so-called "Abenomics" had failed, Blanchard said "one of the major disappointments of 2014" was the too low growth in Japan, with both private domestic and foreign demand failing to meet expectations.

The IMF also forecast lower growth for Latin America and the Caribbean countries.

The update also pointed to turbulence in financial markets. Risks related to shifts in markets and bouts of volatility were still elevated. "Potential triggers could be surprises in activity in major economies or surprises in the path of monetary policy normalisation in the United States in the context of uneven global expansion."

An example of such a surprise was provided by the decision of the Swiss National Bank last week to abolish the ceiling on the value of the franc, resulting in the loss of hundreds of millions of dollars by banks and currency traders.

The Swiss move points to possible future sources of turbulence. The US Federal Reserve is expected to move towards tightening interest rates this year and there is a fear that this could spark a flood of capital out of emerging markets where dollar-denominated loans have increased in recent years. The effect of rising US interest rates and an increase in the value of the dollar is to increase the real debt burden of loans taken out by corporations.

The risk of a reversal in capital flows had been elevated in oil exporting countries where "external and internal balance sheet vulnerabilities have increased," the IMF said.

Another indication of the worsening state of the global economy was provided in the World Employment and Social Outlook report of the International Labour Organisation also issued yesterday. It said unemployment would continue to rise in coming years "as the world economy has entered a new period combining slower growth, widening inequalities and turbulence."

It forecast that by 2019 more than 212 million people would be out of work, up from the current level of 201 million. The fact that unemployment will continue to rise, even a decade after the global financial crisis of 2008, indicates that it was not a cyclical downturn but signified a fundamental shift in the world economy. ILO managing director-general Guy Ryder said that more than 61 million jobs had been lost since 2008.

Young workers aged between 15 and 24 have been hit particularly hard with global youth unemployment now standing at almost 13 percent in 2014 with further rises expected in coming years.

The report said growing and persistent inequality and uncertain investment prospects made it difficult to rebound from the crisis. However these trends would continue, with income inequality expected to increase.

"If low wages lead people to consume less, and investment remains subdued, this obviously has a negative impact on growth," Ryder said.

While the present trends were worrying, "we can improve the overall economic picture if we tackle underlying weaknesses, in particular the continued lack of aggregate demand, stagnation in the euro zone, uncertain prospects for productive investment, especially among small enterprises, and mounting inequality," he said.

However, nothing faintly resembling a policy to deal with these mounting economic and social ills is even remotely in prospect.

Rather all major governments are imposing austerity and spending cuts, further worsening the social position of the working class, combined with restructuring aimed at cutting jobs, lowering wages and worsening working conditions.

The central global economic policy is not directed at increasing aggregate demand in the real economy but focuses on quantitative easing—the supply of ultra-cheap money to the financial system in order to fund speculation, thereby boosting income and wealth of the upper echelons of the financial elite, and leading to ever-widening social inequality.