World Economic Situation and Prospects 2012

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Press Release

UN: Risks for another global downturn have heightened

Persistent high unemployment, the euro area debt crisis and premature fiscal austerity have already slowed global growth and factor into the possibility of a new recession, report warns.

New York, 1 December 2011: The UN has significantly downgraded its forecast from six months ago and predicts now that, at best, the global economy will ‘muddle through’ with the growth of world gross product (WGP) reaching 2.6 per cent in the baseline outlook for 2012 and 3.2 per cent for 2013, down from 4.0 per cent in 2010. This forecast is conditioned, however, on containment of the eurozone debt crisis and a halt to further moves toward stringent fiscal austerity in the developed countries.

UN economists project that 2012 will be a make-or-break year in terms of proceeding with slow economic recovery or falling back into recession.

“Failure of policymakers, especially those in Europe and the United States, to address the jobs crisis and prevent sovereign debt distress and financial sector fragility from escalating, poses the most acute risk for the global economy in the outlook for 2012-2013,” says *World Economic Situation and Prospects 2012* (WESP), launched today in New York. “The developed economies are on the brink of a downward spiral enacted by four weaknesses that mutually reinforce each other: sovereign debt distress, fragile banking sectors, weak aggregate demand (associated with high unemployment and fiscal austerity measures) and policy paralysis caused by political gridlock and institutional deficiencies. All of these weaknesses are already present, but a further worsening of one of them could set off a vicious circle leading to severe financial turmoil and an economic downturn.”

Slower growth in developed countries is also affecting developing countries

Developing countries and economies in transition are expected to continue to stoke the engine of the world economy, growing on average by 5.4 per cent in 2012 and 5.8 per cent in 2013 in the baseline outlook. This is well below the pace of 7.1 per cent achieved in 2010, when output growth among the larger emerging economies in Asia and Latin America, such as Brazil, China and India, had been particularly robust. And even as economic ties among developing countries strengthen, they remain vulnerable to economic conditions in the developed economies. From the second quarter of 2011, economic growth in most developing countries and economies in transition started to slow notably.

WESP says that persistent high unemployment in the United States at a rate of more than 9 per cent and low wage growth are further holding back aggregate demand and, together with the prospect of prolonged depressed housing prices, this has heightened risks of a new wave of home foreclosures, especially in the United States.

Growth in the euro zone has slowed considerably since the beginning of 2011 and the collapse in confidence displayed by a wide variety of leading indicators and measures of economic sentiment suggest a further slowing ahead, perhaps to stagnation by the end of 2011 and into early 2012. Even with an optimistic assumption that the debt crisis can be contained within a few countries, growth is expected to be only marginally positive in the euro area for 2012, with the largest regional economies like Germany and France dangerously close to a renewed downturn and the debt-ridden economies in the periphery either in protracted recession or very close.

Japan was in another recession in the first half of 2011, caused largely, but not exclusively, by the disasters of the March earthquake. While post-quake reconstruction is expected to lift GDP growth in Japan to above potential at about 2 per cent in the coming two years, risks remain on the downside.

Among the major developing countries, growth in China and India is expected to remain robust, however. GDP growth in China slowed from 10.3 per cent in 2010 to 9.3 per cent in 2011 and is projected to further slow to below 9 per cent in 2012-2013. India's economy is expected to expand by between 7.7 and 7.9 per cent in 2012-2013, down from 8.5 per cent in 2010.

Brazil and Mexico are expected to suffer more visible economic slowdown. Output growth in Brazil was already halved to 3.7 per cent in 2011, after its strong recovery by 7.5 per cent in 2010, and is expected to cool further to 2.7 per cent growth in 2012. Growth of the Mexican economy slowed to 3.8 per cent in 2011 (down from 5.5 per cent in 2010), decelerating further to 2.5 per cent in 2012 in the baseline scenario.

Growth of world output, 2005-2013

Annual percentage change	2005-2008[a]	2009	2010[b]	2011[c]	2012[c]	2013[c]
World	3.3	-2.4	4.0	2.8	2.6	3.2
Developed economies	1.9	-4.0	2.7	1.3	1.3	1.9
United States of America	1.8	-3.5	3.0	1.7	1.5	2.0
Japan	1.3	-6.3	4.0	-0.5	2.0	2.0
European Union	2.2	-4.3	2.0	1.6	0.7	1.7
Economies in transition	7.1	-6.6	4.1	4.1	3.9	4.1
Developing economies	6.9	2.4	7.5	6.0	5.6	5.9
By level of development						
High-income countries	2.1	-3.7	3.0	1.6	1.5	2.0
Upper middle income countries	7.5	1.2	7.3	6.1	5.5	6.0
Lower middle income countries	7.0	4.3	6.8	5.9	6.4	6.6
Low-income countries	6.2	4.8	6.1	5.7	6.0	5.9
Least developed countries	7.8	5.2	5.6	4.9	6.0	5.7
Memorandum items:						
World trade[e]	6.8	-9.9	12.8	6.6	4.4	5.7
World output growth with PPP-based weights	4.4	-0.9	4.9	3.7	3.6	4.1

Source: UN/DESA.

a Average percentage change.

b Actual or most recent estimates.

c Forecasts, based in part on Project LINK and baseline projections of UN/DESA World Economic Forecasting Model.

d See United Nations, *World economic situation and prospects as of mid-2011* (E/2011/113).

e Includes goods and services.

Source: UN/DESA and Project LINK.

Note: See box I.1 for assumptions underlying the baseline forecasts, section on "Risks and uncertainties" for assumptions for the pessimistic scenario and box I.4 for the optimistic scenario.

a Estimates.

b United Nations forecasts.

Low-income countries have experienced only a mild slowdown. In per capita terms, income growth slowed from 3.8 per cent in 2010 to 3.5 per cent in 2011 and, despite the global downturn, the poorer countries may see average income growth at or slightly above this rate in 2012 and 2013. The same holds for average growth among the United Nations category of least developed countries (LDCs).

A 64 million jobs deficit

The rate of unemployment averaged 8.3 per cent in developed countries in 2011, still well above the pre-crisis level of 5.8 per cent registered recorded in 2007. Almost one third of the unemployed in developed countries had been without a job for more than one year, which affected about 15 million workers. Prolonged unemployment tends to have long-lasting detrimental impacts on both the affected workers and the economy at large, as skills of unemployed workers deteriorate commensurate with the duration of their unemployment, leading to lower earnings for affected individuals and lower productivity growth in the economy.

In developing countries, the employment recovery has been much stronger than in developed economies. For instance, unemployment rates are back to pre-crisis levels or below in most Asian developing countries and in Latin America employment has recovered in most countries. However, developing countries continue to face major challenges owing to the high shares of workers that are underemployed, poorly paid, have vulnerable job conditions and lack access to any form of social security. At the same time, open unemployment rates remain high, at well over 10 per cent in urban areas, with the situation being particularly acute in a number of African and Western Asian countries.

The UN estimates that there was an employment deficit of 64 million jobs worldwide in 2011. This is the amount of jobs that would need to be created additionally in order to restore pre-crisis employment levels and absorb the new labour entrants. The WESP estimates that if economic growth stays as anaemic as in developed countries as projected in the baseline forecast, employment rates will not return to pre-crisis levels until far beyond 2015.

Fiscal austerity is part of the problem

The harsh fiscal austerity measures implemented in developed countries and elsewhere in response to relatively high levels of fiscal deficit and public debt are further weakening growth and employment prospects, making fiscal adjustment and repairing financial sector balance sheets more challenging. The sovereign debt crises in a number of European countries worsened in the second half of 2011 and further weakened the balance sheets of banks sitting on these assets. Even bold steps by the Governments of the euro zone countries to reach an orderly sovereign debt workout for Greece were met with continued financial market turbulence and heightened concerns of debt default in some of the larger economies in the euro zone; Italy in particular.

The possibility of failure of the bipartisan "supercommittee" of the United States Congress to reach agreement on medium-term budget cuts was already contemplated in the baseline assumptions of the UN forecast. Downside risks have heightened, however, in particular what could happen with regard to two stimulus measures expiring on 1 January 2012, namely, the 2 per cent payroll tax cut and emergency unemployment benefits. If not extended, GDP growth in the United States would slow further in 2012 by another 0.6 percentage points.

The European Union and the United States form the two largest economies in the world and they are deeply intertwined. Their problems could easily feed into each other and spread into another global recession. Developing countries, which had rebounded strongly from the global recession of 2009, would be hit through trade and financial channels.

More vigorous, concerted policy responses needed

Existing national policies and the Cannes Action Plan of the G20 do not add up to a scenario of stronger employment growth and do not sufficiently address the downside risks.

The UN report calls on developed country governments not to embark prematurely on fiscal austerity policies given the still fragile state of the recovery and prevailing high levels of unemployment. Even with high levels of public indebtedness, many countries still enjoy very low borrowing costs and have fiscal space left for additional fiscal stimulus. The new stimulus would need to be accompanied by stepped-up financial sector regulatory reforms, increased resources for financial safety nets -- especially in Europe -- and measures to prevent a second-round mortgage crises in countries with heightened risk of home foreclosures.

The UN further recommends more forceful international coordination of additional stimulus measures across countries and refocused policies to stimulate more direct job creation and investment in infrastructure, energy efficiency and sustainable energy supply, and food security, paving the way for unwinding indebtedness and enacting needed structural reforms over the medium run.

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http://www.un.org/en/development/desa/policy/wesp/index.shtml

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