Embargo
January 2010; 15:00 GMT

World Economic Situation and Prospects 2010

United Nations
New York, 2010

Acknowledgements

The present report is a joint product of the United Nations Department of Economic and Social Affairs (UN/DESA), the United Nations Conference on Trade and Development (UNCTAD) and the five United Nations regional commissions: the Economic Commission for Africa (ECA), the Economic Commission for Europe (ECE), the Economic Commission for Latin America and the Caribbean (ECLAC), the Economic and Social Commission for Asia and the Pacific (ESCAP) and the Economic and Social Commission for Western Asia (ESCWA).

For the preparation of the global outlook, inputs were received from the national centres of Project LINK and the participants at the annual LINK meeting held in Bangkok from 26 to 28 October 2009. The cooperation and support received through Project LINK are gratefully acknowledged.

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Executive Summary

The global economic outlook

The global economy is on the mend …

The world economy is on the mend. After a sharp, broad and synchronized global downturn in late 2008 and early 2009, an increasing number of countries have registered positive quarterly growth of gross domestic product (GDP), along with a notable recovery in international trade and global industrial production. World equity markets have also rebounded and risk premiums on borrowing have fallen.

… but recovery is fragile

The recovery is uneven and conditions for sustained growth remain fragile. Credit conditions are still tight in major developed economies, where many major financial institutions need to continue the process of deleveraging and cleansing their balance-sheets. The rebound in domestic demand remains tentative at best in many economies and is far from self-sustaining. Much of the rebound in the real economy is due to the strong fiscal stimulus provided by Governments in a large number of developed and developing countries and to the restocking of inventories by industries worldwide. Consumption and investment demand remain weak, however, as unemployment and underemployment rates continue to rise and output gaps remain wide in most countries.

In the outlook, global economic recovery is expected to remain sluggish, employment prospects will remain bleak and inflation will stay low.

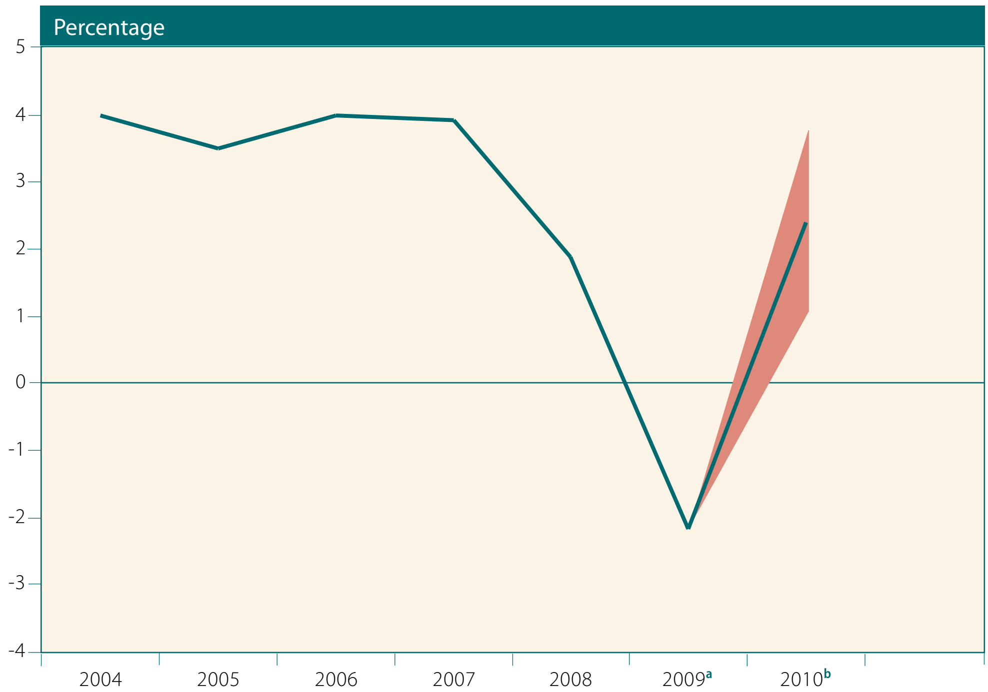
Global growth will be below potential …

World gross product (WGP) is estimated to fall by 2.2 per cent for 2009, the first actual contraction since the Second World War. Premised on a continued supportive policy stance worldwide, a mild growth of 2.4 per cent is forecast in the baseline scenario for 2010. According to this scenario, the level of world economic activity will be 7 per cent below where it might have been had pre-crisis growth continued.

… with little impetus from developed economies

In developed economies, consumer and investment demand remains subdued as a result of a continued rise in unemployment rates, efforts by households to restore their financial balances following the wealth losses incurred during the crisis, and the reluctance of firms to invest while capacity utilization rates are low and credit supplies remain tight. Furthermore, the impetus from the stimulus measures and the turn in the inventory cycle are expected to diminish over time. The major developed economies are not expected to provide a strong impulse to global growth in the near term, growing at a moderate 1.3 per cent on average in 2010 (a nonetheless visible rebound from the decline of 3.5 per cent in 2009).

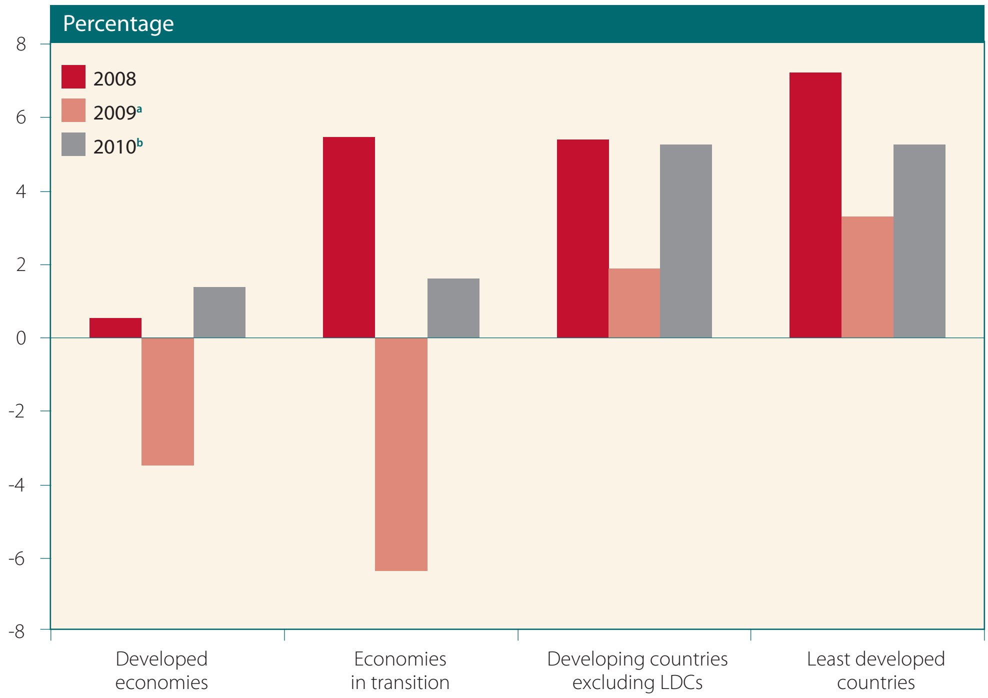
World economic gowth, 2004–2010



Indicates the confidence interval at two standard deviations from historical forecast errors.

Source: UN/DESA.
a Partly estimated.
b United Nations forecast.

Economic growth by region, 2008-2010



Source: UN/DESA.
a Partly estimated.
b United Nations forecast.

The recovery is uneven among developing countries and the economies in transition

Output growth in the developing countries, in contrast, is expected to recover at a faster pace but, at a projected 5.3 per cent in 2010, will remain well below the pre-crisis pace of more than 7 per cent per annum. Some developing economies have rebounded sooner than others. Fiscal stimulus and resumption of trade in manufactures pulled up economies in Asia in particular. Economies in transition are expected to see a turnaround from the steep decline (of 6.5 per cent) in 2009, but growth in the outlook for 2010 will be very weak, at 1.6 per cent.

Growth in most developing countries and economies in transition remains highly dependent upon movements in international trade, commodity prices and capital flows. These conditions have improved as part of the global recovery, but a further rebound will be strongly contingent upon the strength of the recovery in the developed countries. In the outlook, conditions for international trade and finance will remain challenging. This will affect the low-income countries in particular. While country-specific conditions differ markedly, the global crisis has undermined investments and, hence, the growth potential of their economies. Many of the least developed countries (LDCs) are expected to see a much slower economic performance in the years ahead compared with the robust growth they witnessed in the years before the crisis.

The outlook for employment, poverty and inflation

Unemployment rates are still on the rise

The number of unemployed is rising in most economies. Among developed economies, the number of unemployed has more than doubled in the United States of America since the beginning of the recession in December 2007. The unemployment rates in the euro area and Japan have also increased notably. The actual situation is even worse as it does not include unemployment data for discouraged workers who are unemployed but not currently looking for work because they believe no jobs are available for them. Unemployment rates in transition economies and developing countries have also moved higher, in particular in the Commonwealth of Independent States (CIS) and Central and South-eastern Europe.

Developing countries are seeing increases in vulnerable employment and working poverty

In developing countries, while most job losses are in export sectors, a greater concern lies with the stark increase in vulnerable employment and working poverty. In East and South Asia, vulnerable employment affects about 70 per cent of the workforce and available data suggest that this share has increased significantly as a consequence of the crisis. Similarly, in sub-Saharan Africa, an important share of the region's labour force is engaged in subsistence agriculture and other low-productivity economic activities without any form of social protection. In the developing world at large, the share of working poor is estimated to have increased to 64 per cent in 2009, up from 59 per cent in 2007.

Social gaps in employment opportunities are widening

The impact of the financial crisis on labour conditions is expected to aggravate social gaps in employment opportunities, in particular for women, who are more often involved in temporary employment and jobs in export-oriented manufacturing industries in developing countries. Worldwide, unemployment among youth (those 16-24 years of age) is expected to increase from a rate of 12.2 per cent in 2008 to about 14 per cent in 2009 on average. The rate of youth unemployment in the European Union (EU) increased by 4 percentage points in the past year, reaching 19.7 per cent, and in the United States it went up by 5 percentage points, reaching 18 per cent in 2009. In developed and developing countries alike, an increasing number of new college graduates continue to face enormous difficulties in finding employment.

Labour markets will remain weak in 2010

Labour markets will remain weak in the outlook. The experience of previous recessions shows that employment recovery typically lags output growth by a significant margin, and this margin has been growing over time. The recovery from the present crisis has only just begun and large output gaps remain characteristic of the situation in most major economies. This will slow new hiring until output growth has become more robust.

The employment situation in developing countries is also expected to remain difficult in the outlook. In particular, jobs that were shed in export-oriented manufacturing sectors are expected to come back only very slowly. Workers who have shifted to informal sector jobs during the crisis in developing countries are expected to remain there for quite a long time. On top of vulnerable employment, social protection coverage is relatively limited in most developing countries, and working poverty levels will therefore increase. This will be difficult to reverse, as observed in previous crises.

The adverse impacts on poverty and human development could be long-lasting

Between 47 and 84 million more people are estimated to remain poor or to have fallen into extreme poverty in developing countries than would have been the case had the crisis not occurred. Major setbacks in the progress towards the achievement of the other Millennium Development Goals (MDGs) are also to be expected, especially for the vulnerable populations in low-income countries. Despite the signs of economic recovery, many people are still facing declines in household incomes, rising unemployment and pressure on social services because of dwindling Government revenue. Where these adverse impacts cannot be countered because of weak social safety nets and lack of fiscal space to protect social spending and promote job creation, there are high risks of long-lasting setbacks in human development.

Inflationary pressures are expected to remain low

The majority of countries have experienced significantly lower inflation rates (disinflation) in 2009, while a growing number of economies, mainly developed countries and a few emerging economies in Asia, actually experienced deflation as general price indices fell. The continued increase in unemployment rates and large output gaps suggest inflation is likely to remain low in the outlook despite continued expansionary monetary policies, as aggregate demand should be expected to fall short of output capacity for some time to come. With only a moderate recovery in global demand, further increases in the prices of primary commodities are expected to be limited, while high unemployment rates and continued efforts by the business sector to curb costs will keep wage pressures down. Inflationary pressures as a consequence of the ballooning government deficits and the ample liquidity injected during the crisis, if they emerge, will be more of an issue in the medium run, after the recovery has become more solid, and should not be of immediate concern.

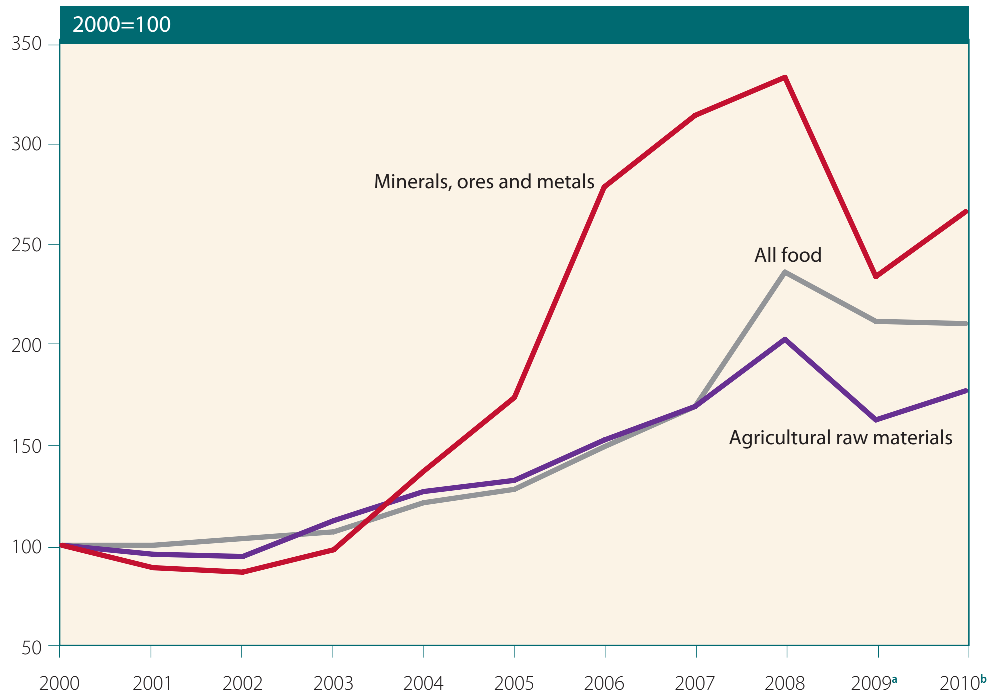
Trade and financing conditions of developing countries

Trade volumes have rebounded after a free fall in early 2009

The financial crisis caused a free fall in world trade volumes from the end of 2008 up to the second quarter of 2009, triggered especially by collapsing import demand in developed countries. Trade flows fell at annualized rates of between 30 and 50 per cent during that period, with Asian exporters being hit hardest. World trade rebounded somewhat thereafter, but for the year 2009 volume fell by almost 13 per cent. The severe decline in global aggregate demand was compounded by a considerable strain in global financial markets, resulting primarily in increased borrowing costs and a shortage of trade credits. Trade in services exhibited the same pattern as merchandise trade, with maritime transport and tourism being particularly hard hit.

A mild growth of 5 per cent in world trade volume is forecast for 2010 given the moderate recovery of global output.

Commodity price trends and projections



Source: UN/DESA, based on UNCTAD Commodity Price Statistics database.

a Partly estimated.

b United Nations projections.

Prices of commodities continue to be extremely volatile

The financial crisis also caused a collapse in the prices of oil and non-oil primary commodities. By early 2009, oil prices plummeted by as much as 70 per cent from their peak levels of mid-2008 before rebounding to about $80 per barrel in November 2009 (which is still about 45 per cent below the high). During the same period, prices of metals declined even more sharply, to about one third of their peak levels. Prices of agricultural products, including basic grains, also declined significantly. The downward trend came to a halt in the first quarter of 2009 and rebounded thereafter. By mid-2009, real agricultural commodity prices were still high compared with the low levels sustained during much of the 1980s and 1990s. World food prices equally declined, then rebounded along with other primary commodities. With the measurable rebound in the prices of most primary commodities since March 2009, the room for further increase is limited in the outlook for 2010. The slack in supply of these commodities is not expected to close in the foreseeable future, and only a mild recovery in demand is likely. However, the close linkage between the prices of primary commodities and the financial markets, including the exchange rates of the United States dollar, will likely make these prices highly volatile.

Many developing countries experienced large swings in their terms of trade

Many developing countries have suffered strong swings in their terms of trade. Net exporters of oil and minerals, in particular, felt very strong adverse export price shocks on top of the falloff in global demand as part of the recession, but some ground has been regained recently. Net importers of food and energy saw their import bills fall during the crisis, but, in general, the related terms-of-trade gain was more than offset by the steep drop in the demand for their exports at the height of the global recession. The more recent reversal in their terms of trade will slow their recovery. More generally, however, high terms-of-trade volatility makes macroeconomic management more challenging and enhances economic insecurity, all of which tends to be detrimental for long-term growth prospects.

Trade protectionism increased during the crisis

In response to the current global crisis, many Governments have been tempted by sentiments of protectionism. Many fiscal and financial packages contain elements—such as direct State support to industries, bailouts, other subsidies and "buy/lend/invest/hire local" conditions—that favour spending on domestic goods and services. Several of these support measures may infringe upon fair trade practices, distort competitive conditions and influence decisions on the location of investment and production with implications for many years to come. Many developing countries that lack the capacity to engage such support measures may suffer undue losses in competitiveness as a consequence.