IMF report: World economy to shrink 1 percent this year

Andre Damon 20 March 2009

The International Monetary Fund published a chilling set of statistics Thursday, cutting its estimate for world economic growth this year and revealing that the world economy contracted at the sharpest rate on postwar record in the last part of 2008. The IMF expects the world economy to contract by up to 1 percent in 2009, following a 5 percent annualized contraction of the world economy last quarter.

The report, entitled *Global Economic Policies and Prospects*, was prepared ahead of the G-20 meeting held last weekend in London. It describes the world economy in tortuous convulsion, with collapsing trade, wild currency fluctuations, drying capital flows, and the near-inability of many governments to secure financing for daily operations.

Echoing the statements made by the World Bank this month, the IMF report notes that "global activity is expected to contract in 2009 for the first time in 60 years," predicting a contraction between 0.5 and 1.0 percent this year.

In January, the IMF slashed its predictions for global growth to 0.05 percent. The three months that have since elapsed have shaved 1 to 1.5 percentage points from the IMF's estimate. In fact, since the crisis began, all estimates of global growth have been far too high, and have had to be consistently revised downward to keep up with sharply deteriorating economic conditions.

The report puts the global breakdown in world trade at the forefront, with exporting nations being hardest hit by the downturn. Germany and Japan, the largest and fourth-largest exporters respectively, have been even worse affected than the US, whose economy contracted by 6.1 percent in the fourth quarter.

The IMF expects Japan, whose economy contracted at a 13 percent annual rate in the fourth quarter, to be among the worst affected this year, estimating its economy to contract by 5.8 percent in 2009. The euro area is expected to suffer a 3.2 percent contraction, and the US economy is expected to contract by 2.6 percent.

The G-7 leading economies are expected to see the sharpest contractions of the entire postwar period. This is on top of the report's estimate that the GDPs of the advanced economies contracted by 7 percent in the fourth quarter.

"The mutually reinforcing negative feedback loop between the stalling real economy and the still corrosive financial sector has intensified, and prospects for recovery before mid-2010 are receding," the report noted. It added: "Notwithstanding a significant downward revision to the forecast, downside risks continue to dominate." In other words, the chances of an early recovery are slight, while the odds of a new Great Depression are significant.

The number of people in the US who continued to receive unemployment benefits hit a new record last week, according to a report issued Thursday by the labor department. The figure rose by 185,000 to 5.47 million. Not compensating for population growth, this was the highest figure since such record-keeping began in 1967.

New unemployment claims hit 658,000 in the first

week of March, up from 375,000 a year prior. New unemployment claims were down by 12,000 last week, most likely representing statistical noise.

The monthly average jobless claims also rose this week to their highest level since 1982. This figure jumped to 654,750, from a previous four-week average of 651,000. Economists are now broadly predicting that the rate will reach 700,000 this month, and may reach 1 million in the coming period. "There is no sign of even a temporary easing in the downward pressure on employment," wrote Ian Sheperdson of High Frequency Economics.

In February, 651,000 jobs were lost, marking the fourth consecutive month that more than 600,000 jobs were cut. In absolute terms, the last time this happened was during the end of the Great Depression.

At 8.1 percent, the overall unemployment rate is currently the highest since December 1983. The official unemployment rate includes only people who are actively looking for work. If part-time and "discouraged" workers are added, the unemployment rate is 14.8 percent, up more than 6 percentage points from a year ago.

The official US unemployment statistics have come under fire from a number of sources. For instance, the Center for Economic Policy Research, an economics think tank, claims that the benchmark unemployment rate would be significantly higher if it were measured by 1982 methods.

"On an apples-to-apples basis the unemployment rate today goes from about 8.1 percent to about 9.5 percent, which is just 0.2 percentage point lower than the 9.7 percent average for 1982," said John Schmitt, a senior economist at the organization.

John Williams of ShadowStats.com, goes even further, claiming that, if the accounting methods used to observe the Great Depression's 25 percent jobless rate were used today, the current unemployment rate would be closer to 19.1 percent, closely approaching the level of the 1930s.



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