

UHERO Global Economic Forecast:

Faltering American Economy Will Cause Global Slowing

by

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November 30, 2007

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EXECUTIVE SUMMARY

The world economy began to slow in 2007, after peaking at nearly 4% growth in real gross world product in 2006. Slowing has been centered in the developed world, particularly in North America, where contraction in U.S. residential investment and fallout from the sub-prime mortgage collapse is taking a substantial toll. So far this weakness has not spread significantly to other countries. Prospects are for further global slowing in 2008. Now the question is how soft or hard the landing will be. While no sharp downswing is yet in evidence, the configuration of risks appears heavily weighted toward the negative.

- Real gross world product, the broadest measure of world economic activity, will finish 2007 3.7% higher than 2006, slightly weaker than 2006. Global growth will slow to 3.5% in 2008.
- The U.S. appears headed for a “slow patch” with risks of recession the highest in some time. We expect continued growth for the U.S. economy, but with considerable weakness over the next two quarters. For this year as a whole, we expect U.S. real GDP to expand by 2.1%, down from 2.9% in 2006. Growth will average 2.2% in 2008 with strengthening as the year progresses.
- Japan’s economy has weakened considerably since the first half of the year. Residential investment has turned sharply negative over the past three quarters, as Japan has joined in what has become a global housing slump. Last year’s encouraging signs that deflation might be ending have not been borne out in 2007. Overall, we expect a continuation of growth for the Japanese economy, but at unspectacular rates. Real GDP growth should be just under 2% this year, down slightly from last year’s 2.2% pace. Growth of 1.7% is expected in 2008.
- The European region has had a very solid year. Euro-area GDP growth should average about 2.6% this year, the best performance since 2000. Unlike the Fed, the European Central Bank has been raising interest rates this year, acting to restrain growth. At present, the outlook is for marginally weaker European growth in 2008. The EU will slow to 2.5% growth and the Euro zone to 2.3%. This is a stronger growth forecast than for the U.S.
- While growth in the U.S., Japan and Europe slows, the performance of developing Asian economies continues apace. At 11.4%, China is again the growth leader. Some slowing to just over 10% growth is expected in 2008 as the government moves to tighten monetary and fiscal conditions in an effort to prevent overheating. India is having a slightly weaker year than 2006, with annual growth estimated at 8.5%.
- For the global economy, the question is whether Asian strength can offset American weakness. While the region is becoming a more important growth pole, the U.S. still remains (for now) the world’s largest national market. Export-dependent Asian countries and the world economy will be adversely affected if the U.S. falls into recession.

Growth Rates of Real Gross Domestic Product

	2003	2004	2005	2006	2007	2008
World	2.7	4.0	3.4	3.9	3.7	3.5
US	2.5	3.6	3.1	2.9	2.1	2.2
Japan	1.4	2.7	1.9	2.2	1.9	1.7
EU	1.3	2.4	1.7	3.0	2.9	2.5
South, East Asia	6.8	7.8	7.5	8.1	8.0	7.5
China	10.0	10.1	10.4	11.1	11.4	10.1
Latin America	2.2	6.2	4.7	5.7	5.2	4.8
Africa	4.6	4.8	5.2	5.7	5.8	6.2

Source: UHERO for U.S. and Japan, and United Nations Project LINK Global Economic Outlook, November, 2007. Figures for 2007–2008 are forecasts. Forecasts and analysis for major countries and regions are available to sponsors and subscribers.

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