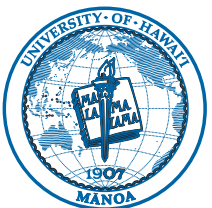


UHERO Global Economic Forecast:
Crisis Contagion Spreads Global Recession

November 14, 2008



**University of
Hawai'i
Economic
Research
Organization**

UHERO Global Economic Forecast

Copyright © 2008 University of Hawai‘i Economic Research Organization.
All rights reserved.

2424 Maile Way, Room 540
Honolulu, Hawai‘i 96822
(808) 956-7605
uhero@hawaii.edu

Byron Gangnes Ph.D., Director, Hawai‘i Economy Project (808) 956-7285
Carl S. Bonham Ph.D., Executive Director (808) 956-7605
Kimberly Burnett, Ph.D., Economist
Andrew Kato, M.A., Data Analyst

Research assistance by Sean D’Evelyn and Heber Moulton

EXECUTIVE SUMMARY

The unfolding financial crisis will cause the deepest slowdown of global growth in many years. In 2009, the rich world will be in recession, and developing economies will suffer a sharp reduction in growth rates. The anticipated depth and duration of recession in the U.S. and Japan will present additional challenges for Hawai'i's ailing visitor industry and the overall local economy.

- After expanding at a 3.7% rate in 2007, growth in real gross world product, the broadest measure of global economic activity, will slow to 2.5% this year and just 1.1% in 2009. Depending on the persistence of the current financial market turmoil, even weaker conditions are possible.
- The U.S. economy contracted at a 0.3% annual rate in the third quarter. We expect pronounced negative growth through the second quarter of 2009, with a very attenuated recovery thereafter. For 2008 as a whole, GDP is expected to grow by 1.4%, and to fall by 0.8% in 2009. Quarterly annualized growth in the 3% range will resume by early 2010. Job losses, which have already been substantial, will continue into 2009, and the unemployment rate will peak at 8.5% at the end of next year.
- Japan's economy has been slowing since the middle of 2007. After expanding at a 3.2% rate in the first quarter, real GDP dropped at a 3% annual rate in the second quarter of this year. On an annual basis, we expect 2008 GDP growth to come in at just 0.3%, and in 2009 the economy will contract by 0.5%.
- European Union economies as a group expanded by 2.8% in 2007, and are expected to show just 1.2% growth for this year, slowing to zero growth in 2009. All major European economies are now in recession, with the most severe downturn occurring in the United Kingdom.
- The Eastern European "new member" countries of the EU expanded by about 5% this year and will continue growing in 2009, albeit at a slower pace. Eastern Europe has not escaped the adverse effects of the global financial crisis. Russia is expected to slow from 7.3% growth this year to 5% growth in 2009.
- Among developing regions, Africa's growth has held up well this year, expanding at an estimated 5%, down only marginally from 2007. Growth of 4.6% is anticipated in 2009. Commodity prices, which have been a boon for some countries this year, will become a negative factor.
- Latin American economies will slow markedly. Mexico is expected to decelerate from 2% growth this year to 1% in 2009. Brazil is estimated to have grown by more than 5% this year, but will expand at a slower 3% rate in 2009. Oil has fueled Venezuela's boom in recent years, but cheaper oil will slow growth to 2% in 2009.
- The financial crisis and weaker export demand in rich countries are being felt throughout Asia. South and East Asian economies will generally slow to the 3–4% range in 2009. China is expected to slow from more than 11% growth in 2007 to under 10% this year and 8% in 2009. India's annual growth is estimated at 7.5% this year and will fall below 7% next year. The Western Asia region will decelerate from 5% to just over 3% growth in 2009.
- Hawai'i's economy has been buffeted by weakening conditions in the U.S. this year. While lower oil prices are welcome news, the deep U.S. and global downturns will weigh heavily on the tourism industry in 2009.

Growth Rates of Real Gross Domestic Product

	2004	2005	2006	2007	2008	2009
World	4.0	3.4	3.9	3.7	2.5	1.1
US	3.6	2.9	2.8	2.0	1.4	-0.8
Japan	2.7	1.9	2.4	2.0	0.3	-0.5
EU	2.5	1.9	3.1	2.8	1.2	-0.1
Economies in Transition	7.6	6.5	7.8	8.3	7.1	5.0
South, East Asia	7.7	8.0	8.1	8.5	7.3	5.8
China	10.1	10.2	11.1	11.4	9.8	8.0
West Asia	8.1	6.5	5.9	4.7	5.0	3.2
Latin America	5.9	4.5	5.4	5.5	4.4	2.5
Africa	5.9	5.7	5.7	5.9	5.0	4.6

Source: UHERO. Forecasts other than U.S. and Japan based in part on United Nations LINK Global Economic Outlook, preliminary, October 21, 2008. Figures for 2008–2009 are forecasts. Gross World Product is calculated at market exchange rates.

Subscribe to the UHERO *EIS*

UHERO's Economic Information Service provides complete analysis and detailed industry-level forecasts for up to five years. The *EIS* is a research program of the University of Hawai'i at Mānoa and depends on financial support from report subscribers and program sponsors. The complete versions of this and other *EIS* reports are also available for individual purchase. For more information, visit our *EIS* information page at http://www.uhero.hawaii.edu/eis/eisdetails_sub.html.

UHERO EIS Executive Sponsors

UHERO thanks the following Executive Sponsors of the Economic Information Service:

American Savings Bank

Central Pacific Bank

County of Kaua‘i Office of Economic Development

Dowling Company, Inc.

Hawaii Electric Light Company, Ltd.

Hawaiian Electric Company, Inc.

Kaiser Permanente Hawaii

Kamehameha Schools

Matson Navigation Company

Maui Electric Company, Ltd.

UHERO’s Economic Information Service is a community-sponsored research program of the University of Hawaii at Mānoa. The EIS provides the Hawaii community with information on economic, demographic, and business trends in the State and the Asia-Pacific region. Summaries and analyses are disseminated through forecast reports, public fora, and regular forecast updates. UHERO develops and maintains high-frequency industry level statistical models of Hawaii, its four counties and key external economies to support rigorous forecasting exercises.

All sponsors receive the full schedule of UHERO reports, as well as other benefits that vary with the level of financial commitment.

For sponsorship information, browse to <http://www.uhero.hawaii.edu>.

Upcoming UHERO Forecast Reports

4th Quarter: Next Hawai‘i Quarterly Forecast Update.

1st Quarter: Annual Hawai‘i Economic Forecast. Our full annual report on the outlook for the Hawai‘i economy.

1st Quarter: Hawai‘i Construction Forecast. Review of construction industry conditions and multi-year forecasts.