



UHERO

THE ECONOMIC RESEARCH ORGANIZATION
AT THE UNIVERSITY OF HAWAII

UHERO FORECAST PROJECT
GLOBAL ECONOMIC FORECAST:
PUBLIC SUMMARY

WORLD RECOVERY FALTERS

DECEMBER 3, 2010





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UHERO GLOBAL ECONOMIC FORECAST

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EXECUTIVE SUMMARY

Global economic recovery is proceeding, but in an uneven fashion. The developing Asian countries that were the first to show signs of life last year continue to expand at a healthy pace, driven by rebounding trade but also by strong domestic demand. Growth in the developed world remains decidedly subpar and insufficient to bring about a timely reduction in unemployment. With the pace of U.S. growth weakening in recent months and fiscal stimulus winding down, prospects are for slower growth in much of the world in 2011. True to form, recovery from the recent financial crisis is shaping up to be a long slog.

- The world economy contracted in 2009 for the first time since the 1930s. This year, growth has staged a moderate rebound, but will ease off somewhat in 2011. Overall, the global recovery has been anemic by historical standards.
- In the U.S., consumer spending has been improving slowly, but a restrained business outlook and conservative bank lending are holding back investment. There has been a slowing in overall activity in recent months, which will hold 2011 growth below this year's level. The Fed has rolled out additional expansionary monetary policy measures, which will provide support over the coming year as the impetus from fiscal programs wanes.
- Japan had seen a fairly steady recovery, with rebounding exports and industrial production. However, an abrupt downturn in business expectations for the remainder of the year will put a serious damper on investment. The surging yen is also choking off an incipient export rebound. Weakening conditions in Japan and a strengthening yen have renewed deflationary concerns. Growth in 2011 will be significantly lower than in the current year.
- European recovery has been challenged by the debt crisis that erupted in the spring of this year. Higher borrowing costs and fear of market attacks are now forcing a significant fiscal tightening in Europe, which promises to retard growth in coming years. The best performer has been Germany, which has benefited from a strong rebound in exports. Overall, prospects are for roughly the same rate of European growth in 2011 as in 2010, with modest strengthening thereafter.
- The East Asian region has seen the globe's strongest growth in 2010, providing important support for the overall world economy. Trade volumes have bounced back strongly, and domestic private demand has been robust. South Asia has also performed well, with India seeing strong growth driven by robust fixed investment and consumer spending.
- China has been the focus of Asian growth, but the country will slow in 2011, following government measures to reign in credit growth. China's rebounding demand for imports has led to strong export-led recoveries in the many East Asian economies. Currency appreciation and slower growth in the U.S. and

Europe will hold East Asian growth to somewhat lower levels in 2011.

- The growth picture in other parts of the developing world is mixed. In Latin America, growth has been strong in large parts of South America but weaker in Mexico, Central America and the Caribbean, with their heavier dependence on the relatively weak U.S. economy. Countries of the former Soviet Block suffered a very severe recession and are struggling to get back on their feet. Africa as a region has fared well this year, propelled by commodity price recovery and strong demand from emerging markets.
- The global recovery enters its third year in 2011, but macro policy and financial market conditions continue to be the central challenge. The emerging pattern of fiscal consolidation will increasingly act as a brake on expansion. Persistent monetary expansion by the U.S. is contributing to dollar weakness and foreign currency strength, threatening nascent recoveries in Europe, Asia and Latin America. What we need are further gains in consumer spending and especially a revival of investment, so that private demand can take over from public support

Growth Rates of Real Gross Domestic Product

	2007	2008	2009	2010	2011	2012
World	4.0	1.6	-2.0	3.7	3.2	3.7
US	1.9	0.0	-2.6	2.7	2.3	3.1
Japan	2.4	-1.2	-5.2	3.5	1.5	2.7
EU	3.0	0.5	-4.2	1.6	1.7	2.1
Economies in Transition	8.6	5.1	-6.7	3.8	4.0	5.0
South, East Asia	9.9	6.1	4.9	8.3	7.1	7.1
China	14.2	9.6	9.1	9.8	8.9	8.7
West Asia	5.1	4.4	-1.0	5.5	4.7	4.4
Latin America	5.6	4.0	-2.1	5.3	4.0	4.1
Africa	6.0	5.0	2.3	4.7	5.1	5.1

Source: UHERO. Forecasts other than U.S. and Japan based in part on United Nations LINK Global Economic Outlook, preliminary, October 22, 2010. Figures for 2010 - 2012 are forecasts. Gross World Product is calculated at market exchange rates.

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