World Bank cuts forecast for 2009 growth

By Tom Eley
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A new World Bank report, *Prospects for the Global Economy*, refutes recent claims of an incipient economic recovery. The report predicts that the world economy will shrink by 2.9 percent in 2009, a significant downward revision from an estimate the bank made in March, when it anticipated a 1.7 percent decline. It also revised downward its growth estimate for 2010, to 2 percent from 2.3 percent, predicting "a much more subdued recovery than during a normal recession."

The World Bank said US gross domestic product (GDP) will end the year 3 percent smaller, Japan's will fall by 6.8 percent, and the eurozone's will decrease by 4.5 percent. Global trade will fall by close to 10 percent. All of these estimates represent negative revisions from projections made in March.

The report reveals that the financial crisis, which was set into motion by the predatory lending and speculative practices of the major banks, has now become a global crisis of the "real economy." The human consequences will be severe, and will be disproportionately felt by the working masses and the world's poorest regions.

"Unemployment is on the rise, and poverty is set to increase in developing economies, bringing with it a substantial deterioration in conditions for the world's poor and most vulnerable," the report states. It is already anticipated that the economic crisis will throw more than 200 million people into poverty this year, and drive the number of the world's malnourished above one billion for the first time in human history.

Global industrial production fell by 13 percent in the space of six months, between September 2008 and March 2009, according to the World Bank. The dollar value of manufactured trade fell by one third in the same period, and "virtually every" country reported a sharp decline in industrial output.

Many countries are now utilizing less than 70 percent of their industrial capacity, including the US.

Demand for consumer durables fell at an annualized rate of around 20 percent in Western Europe and the US in the fourth quarter of 2008, and in the first quarter of 2009 global demand for autos was down 30 percent.

The crisis in industrial production appears to have become a self-perpetuating cycle. The collapse of manufacturing leads to more layoffs, which further reduces consumers' ability to buy manufactured goods, thus necessitating further layoffs, and so on.

Declining consumer confidence is reflected in an increase in the savings rate, which in the US has shot up from 0.6 percent in 2007 to 5.7 percent by April 2009. The World Bank believes this trend will continue, as households attempt to recoup some of the wealth they have lost in home values and stock market investments. US household wealth declined by nearly 15 percent, or $11.3 trillion, between the fourth quarters of 2007 and 2008.

The World Bank anticipates that developing countries will experience GDP growth of only 1.2 percent in 2009, after growing at a rate of 5.9 percent in 2008 and 8.1 percent in 2007. Excluding China and India, GDP in the developing world is expected to fall by 1.6 percent.

Since peaking at $1.2 trillion in 2007, international capital flows to developing nations fell to $707 billion in 2008, and the World Bank anticipates they will fall to $363 billion in 2009, less than a third of the volume two years earlier.

These "increasingly grave economic prospects" arise from declines in foreign direct investment, cash from exports, and remittances from emigrants. The cash crisis will be complicated by difficulty in securing loans and credit, as the major economies—especially the US—absorb world liquidity through sharply increased deficit spending. The report predicts that developing countries' total borrowing requirements will exceed net capital inflow by as much as $635 billion in 2009.

With few exceptions, developing nations are already suffering from a shortage of capital. In the months after the full onset of the financial crisis began in September of 2008, they suffered from a migration of investment out of their “emerging” economies, as investors sought security in major currencies and economies, and as firms called in investments to improve their balance sheets.

The World Bank predicts that the crisis for developing countries will be most severe in Eastern Europe and Central Asia. There the crisis could “force a number of countries ... into a much less orderly process of adjustment, characterized by substantial currency depreciation and painful cuts in domestic demand.”

Russia, for example, is expected to see its GDP decline by 7.5 percent in 2009, a result of declining commodity prices. Turkey’s economy will fall by 5.5 percent, and Pakistan’s will be stagnant, growing at a rate of 1.1 percent.

Among the big Latin American economies, the World Bank expects that both Brazil and Argentina will see GDP declines, of 1.1 percent and 1.5 percent respectively. Mexico’s GDP may tumble by nearly 6 percent, a reduction owed both to the sharp decline in trade with the US and disruption caused by the swine flu outbreak. Sub-Saharan Africa has been hard-hit by falling commodity prices and “sharply lower” capital inflows, the report notes. Regional growth is estimated at 1 percent for 2009.

Financial markets, which had been slightly down over the last two weeks, reacted negatively to the World Bank’s warnings on global growth. Stock values in the US, Europe, Mexico and Brazil fell after the report’s release on Monday. On Tuesday, Japan’s Nikkei stock index fell 3.1 percent, with analysts citing fears over the global economy. Crude oil prices also declined.

The World Bank report points to the artificial nature of the three-month long increase in stock prices on the major US exchanges. There was nothing taking place in the real economy, either in the US or globally, to justify the ebullient mood among investors. It now appears the run-up in stock prices was orchestrated, with the assistance of the Obama administration, so that the major financial players could recoup some of their losses.

In early March, President Barack Obama appealed to working Americans to invest in the stock market. “What you’re now seeing is... profit and earning ratios are starting to get to the point where buying stocks is a potentially good deal if you’ve got a long-term perspective on it,” he said.

But an article in Tuesday’s *Financial Times*, “Pessimistic Executive Cash Out of Shares,” explains that over the past month—just as the propaganda about “green shoots” in the economy was reaching its crescendo—top executives and company insiders sold off massive amounts of their stocks.

According to data from the US Securities and Exchange Commission, the sell-off of shares “by so-called company insiders” exceeded their purchases by a multiple of 22. Insiders at companies listed on the S&P 500 Index sold $2.6 billion worth of stock in June, while they purchased only $120 million, according to TrimTabs, an investment research company.

“The smartest players in the US stock market—the top insiders who run public companies—are not betting their own money on an economic recovery,” said Charles Biderman, chief executive of TrimTabs.