



## Overview: global economy facing worst year since 1945

- Conditions in the major economies have deteriorated dramatically over recent weeks, with industrial output, orders, and exports going into freefall as consumer and investment demand have plunged.
- GDP is set to drop steeply in the final quarter of 2008, with the contraction lasting well into 2009. This contraction will be led by the industrial sector, where severe cutbacks in output, employment, and investment are now under way.
- Consumers no longer face squeezed real incomes from high commodity prices, and are also seeing lower interest rates. But these positive factors are being offset by falling asset prices, tight credit, and rising unemployment.
- More than 1.2 million job losses were registered in the US in the last three months as businesses rushed to cut costs, and capital spending plans are also being scaled back rapidly across the major economies.
- Against this background, our growth forecasts have been revised down sharply from last month. We now see GDP contracting around 2% in the US, UK, Eurozone and Japan in 2009.
- Emerging market growth projections have also been scaled back. Aggregate growth in the emergers next year is now seen at just 3%, the lowest since 2001. As a result, the global economy is set to contract by 0.4% - the worst single year since 1945.
- Interest rates are rapidly heading towards zero in the major economies as growth weakens and the financial system remains hobbled. Increasingly, non-standard monetary policy responses such as quantitative easing are being discussed.
- Fiscal stimulus plans continue to be elaborated, with a boost of up to US\$1 trillion being discussed in the US. But these packages remain too modest to prevent 2009 being a very painful year for the global economy.

**Germany: capital goods orders**

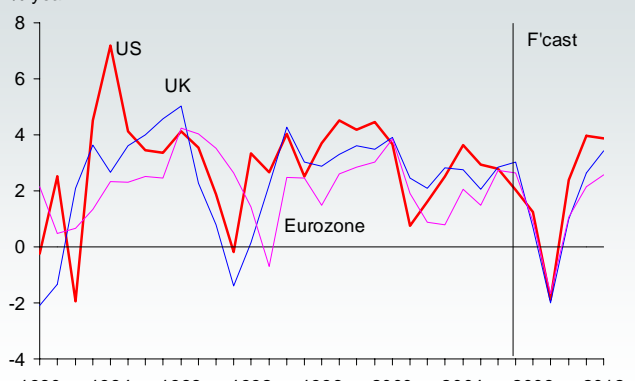
% year



Source : Oxford Economics/Haver Analytics

**GDP growth: US, Eurozone and UK**

% year



Source : Oxford Economics



Summary of International Forecasts						
	2007	2008	2009	2010	2011	2012
<b>Real GDP</b>						
<b>North America</b>						
United States	2.0	1.3	-1.9	2.4	4.0	3.9
Canada	2.7	0.6	-1.3	3.4	4.8	3.5
<b>Europe</b>						
Eurozone	2.6	0.9	-1.8	0.8	1.9	2.3
Germany	2.6	1.2	-2.1	1.0	1.8	2.3
France	2.1	0.8	-1.6	0.5	1.5	2.2
Italy	1.4	-0.5	-2.0	0.4	1.3	1.8
UK	3.0	0.7	-2.0	1.0	2.6	3.4
EU27	2.9	1.1	-1.8	1.0	2.2	2.7
<b>Asia</b>						
Japan	2.4	0.0	-2.2	0.6	1.5	2.0
Emerging Asia	8.8	6.6	4.1	7.0	7.9	7.9
China	11.9	9.0	7.2	9.8	10.0	9.8
India	9.3	7.7	5.0	7.1	8.4	8.3
<b>World</b>	3.8	2.3	-0.4	2.7	4.1	4.3
<b>World 2000 PPPs</b>	4.8	3.5	0.8	3.4	4.7	4.9
<b>World trade</b>	6.0	4.4	-1.0	5.3	7.9	8.0
<b>Inflation (CPI)</b>						
<b>North America</b>						
United States	2.9	4.1	1.0	2.6	2.6	2.5
Canada	2.1	2.5	1.3	2.2	2.5	2.4
<b>Europe</b>						
Eurozone	2.1	3.3	1.0	1.6	2.1	2.0
Germany	2.3	2.6	0.7	1.3	1.9	1.9
France	1.5	3.0	0.6	1.7	1.9	1.6
Italy	1.8	3.4	1.3	1.3	1.9	2.1
UK	2.3	3.6	1.4	1.7	1.5	1.8
EU27	2.4	3.7	1.2	1.7	2.0	2.0
<b>Asia</b>						
Japan	0.1	1.4	-0.5	0.0	0.6	0.6
Emerging Asia	5.0	6.9	3.2	3.5	3.4	3.2
China	4.8	5.8	1.0	2.9	3.0	2.9
India	6.5	7.5	6.4	5.1	4.8	4.6
<b>World</b>	4.0	6.2	4.6	3.8	3.6	3.5
<b>Exchange Rates</b>						
US\$ Effective	77.9	74.4	78.6	77.8	79.8	81.4
\$/€	1.37	1.47	1.32	1.37	1.29	1.25
¥/\$	117.8	103.4	97.8	103.2	101.8	100.8
<b>Commodity Prices</b>						
Brent Oil (\$/bl)	72.7	97.4	47.0	63.1	76.7	80.0

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