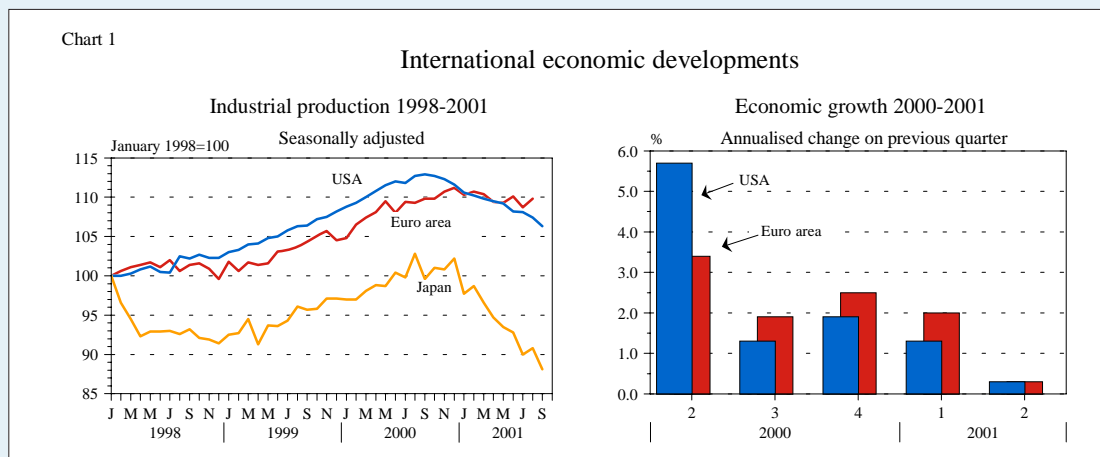


Box 2 The global economic outlook

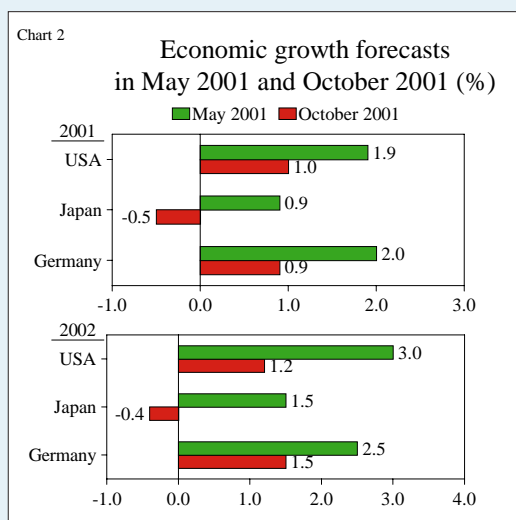
The global economic outlook has deteriorated steadily over the past year, to the extent that it could be called a global recession. The events of September 11 accelerated the downturn which started in the wake of last year's slump in the equities market. GDP in the USA contracted during Q3. The impact of the terrorist

attacks once again. Furthermore, a recession either has already begun or is looming in many emerging economies.

US GDP contracted by an annualised 0.4% during Q3, after stagnation during Q2. These figures are widely expected to be revised downwards later and the contraction is expected to continue into Q4. Until recent-



attacks are only to a limited extent reflected in these figures. Europe is on the brink of a recession and the Japanese economy is expected to dip into a recession



ly, the contraction had primarily appeared in a decline in industrial production. In September it had fallen for twelve consecutive months, by a total of 5.8%. This is the largest continuous slide in industrial production since 1945, although it should be borne in mind that the share of industrial production in the US economy has decreased. As a result, the utilisation of capacity in the manufacturing sector has reached its lowest level since 1983. Relatively buoyant private consumption has until recently prevented the slump in industrial production and sharp contraction in investment from manifesting themselves in falling GDP. In September, however, retail turnover declined by 2.4%, which could suggest that the recession is spreading to private consumption. While this figure reflects the impact of the terrorist attacks on the USA, other forces are also at work.

Unemployment has been increasing rapidly in the USA and rose in October by ½%, to 5.4%. Continuing mass redundancies and a rise in initial claims for

unemployment benefits in recent weeks suggest that unemployment will continue to increase in the near future. This will inevitably undermine private consumption, which could prove sensitive due to household debt accumulation in recent years and a fall in households' financial wealth.

Although the contraction in the USA looks certain to persist until the end of this year, there is less agreement on what the more distant future holds in store. Some analysts claim that the monetary and financial measures which have already been taken will prompt a relatively swift recovery next year, while others point out that the low level of capacity utilisation and household and corporate indebtedness will dampen the impact of lower interest rates on aggregate demand.

Economic developments in Europe follow broadly a similar path to that in the USA, although the downturn is at a less advanced stage. Industrial production has contracted since the beginning of this year but is running at a similar level to that of a year ago, and the contraction has not been a continuous one (for example, growth was recorded in August). Sentiment has been developing along similar lines, however, and could suggest that a recession is looming in some of

the major European countries, including Germany. Since the preceding upswing was not as strong in Europe as in the USA, it is not certain that the reversal will be as abrupt either, at least not on the continent as a whole. The euro region's advantageous competitive position could also soften the impact of the global downturn on European businesses. Nonetheless, a substantial slowdown is at present being forecast for Europe, which was not foreseen a year ago.

Recent economic developments in Japan have been a cause of some concern. Industrial production has shrunk rapidly. Japanese exports were struck hard by the global contraction in the technology sector. An even sharper downturn in growth appears to be taking place in some Asian emerging market economies. In Singapore, annualised growth during Q2 and Q3 plunged by close to 10%, while Taiwan witnessed a drop in GDP during the first two quarters, for the first time in 26 years. There was a contraction in South Korea at the end of 2000, but a recovery at the beginning of this year. Considerable economic difficulties are also being felt in many countries worldwide, e.g. Argentina and elsewhere in South America.