

Box 4 Global economic recovery has begun but its sustainability is uncertain

The global economic outlook has improved significantly since the publication of *Monetary Bulletin* in February. During the final quarter of last year output grew in the US, while a contraction had been widely expected beforehand. Robust growth was recorded in the first quarter of this year, or 5.8% on an annualised basis according to initial estimates. Industrial production is also beginning to grow again after the sharpest contraction for decades. What contributed most to growth in the first-quarter was the end of stock adjustment that took place last year, increased public expenditure and the continued growth in private consumption. In recent weeks, however, signs of weaknesses have appeared which could suggest that the improvement is not on a particularly firm footing. The inventory adjustment is temporary in character, the same probably applies to the increase in public expenditure, and ongoing private consumption growth may depend on continuing low interest rates, since unemployment has probably not peaked yet. Likewise, a convincing improvement in corporate profits is still lacking. There are also lingering doubts concerning the sustainability of long-term growth due to the lack of any significant

reduction in the current account deficit during the preceding recession. According to recent data the deficit appears to be on the rise once more.

In Europe the slow down was less pronounced, and recovery seems to be taking correspondingly longer to get off the mark, especially in Germany. Growth in the euro zone is clearly recovering, however, although the rise in oil prices, if it continues, could slow this down. The euro zone's strength lies in better overall balance and higher corporate profits. The UK economy to some extent displays similar characteristics to the USA. A large contraction has taken place in industrial production, private consumption is strong and the Sterling exchange rate is high. Unlike the USA, however, unemployment has not increased to any extent in the UK and in fact has not been lower for decades.

In Japan the decline in industrial production and increase in unemployment have come to a halt, for the time being at least. However, there seems to be no sign that deflation in Japan is coming to an end and the problems of its financial system remain unsolved. Whether the Japanese economy can avoid a major crisis is still very much an open question.