

Global Recession: How Long? How Deep?

M. Ayhan Kose
Research Department
International Monetary Fund

Presentation at the Tusiad-Koc University ERF conference on
“Global Economic Crisis and the Turkish Economy”
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This talk is based on the following studies:

1. “Global Recessions and Recoveries,”

Ayhan Kose, Prakash Loungani, and Marco Terrones

2. “What Happens During Recessions, Crunches and Busts?”

Stijn Claessens, Ayhan Kose, and Marco Terrones

3. “Global Prospects and Policies”

IMF, World Economic Outlook, April 2008, Chapter 1

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Disclaimer!

The views presented here are those of the authors and do not necessarily reflect the views of the IMF or IMF policy.

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Challenges Facing World Economy

- **Recessions in many countries**
- **Collapse of global trade and capital flows**
- **Massive difficulties in financial markets**
- **A global recession like no other since the WW II**

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Objective: Three Questions

- How deep is the ongoing global recession?
- Why is it so deep?
- What is next?

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Results

- How deep is the ongoing global recession?
By any measure, the ongoing global recession is the deepest one of the postwar period
- Why is the global recession so deep?
It is stemming from difficulties in financial markets and is the most synchronized one. Such recessions tend to be deeper and longer
- What is next?
Growth is projected to reemerge in 2010, but it would be well below potential. The recovery hinges on the health of financial markets and sustained policy support

Outline

- **What is a global recession?**
- **How deep is the ongoing global recession?**
- **Why is it so deep?**
- **What is next?**

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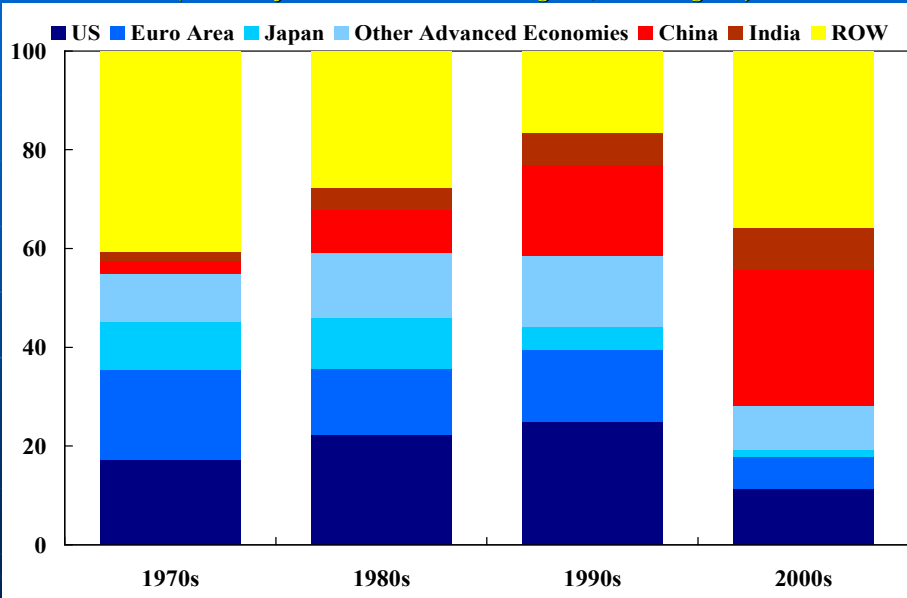
What is a global recession?

- A significant decline in activity spread across many segments of global economy
- In the past, a recession in advanced countries could have been called a global recession, but no longer...
- Today, emerging and developing countries constitute a much larger share of global output and growth; much stronger global trade and financial linkages
- Need to use multiple measures of global economic activity

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Dynamics of Global Growth Shifting

(Percent of Global Growth due to Regions, PPP Weighted)



How to measure global activity?

- Benchmark: World real GDP per capita (PPP weighted)
- Also check whether there is a significant decline in activity spread across many segments of global economy, how?
- Consider a broad set of global macroeconomic indicators: GDP, industrial production, trade, capital flows, oil consumption and unemployment
- Global Recessions: **1975, 1982, 1991 and 2009**

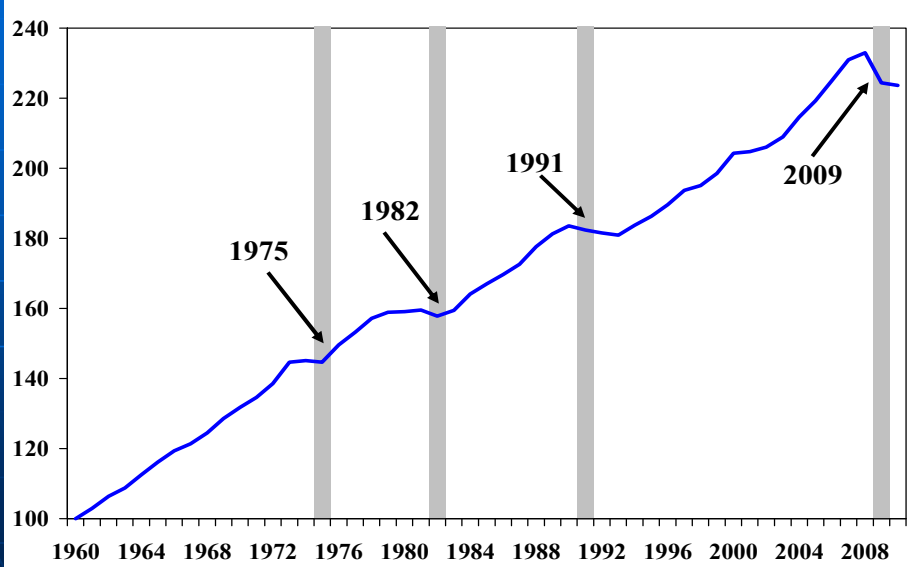
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- What is a global recession?
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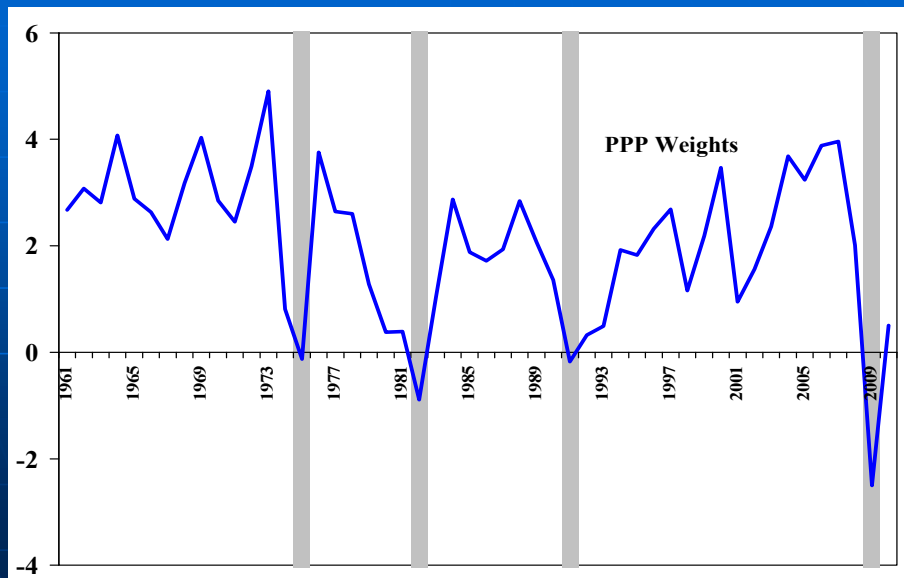
Global Recessions: 1975, 1982, 1991 and 2009

(1960=100; contractions in PPP-weighted global per capita GDP are shaded)



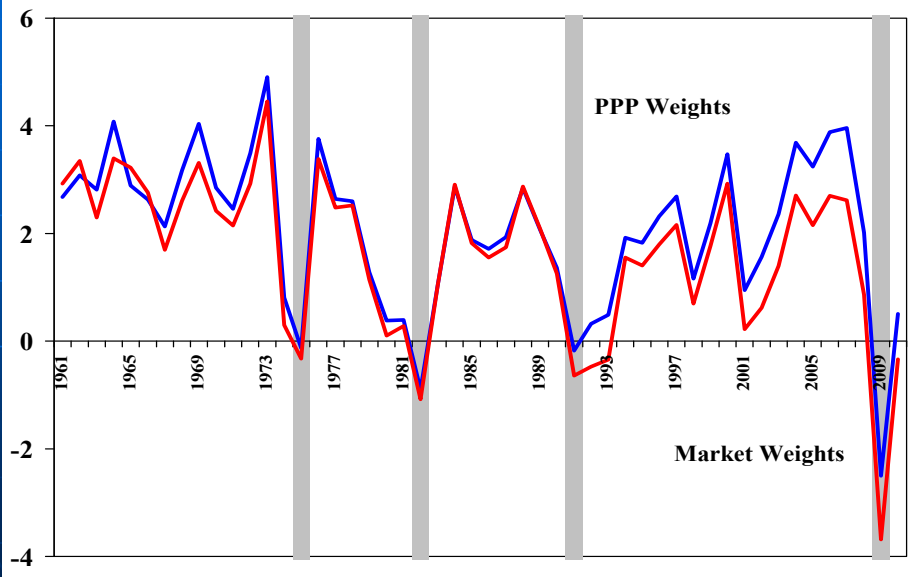
2009 Recession: Like no other!

(percent change from a year earlier; contractions in PPP-weighted per capita GDP shaded)



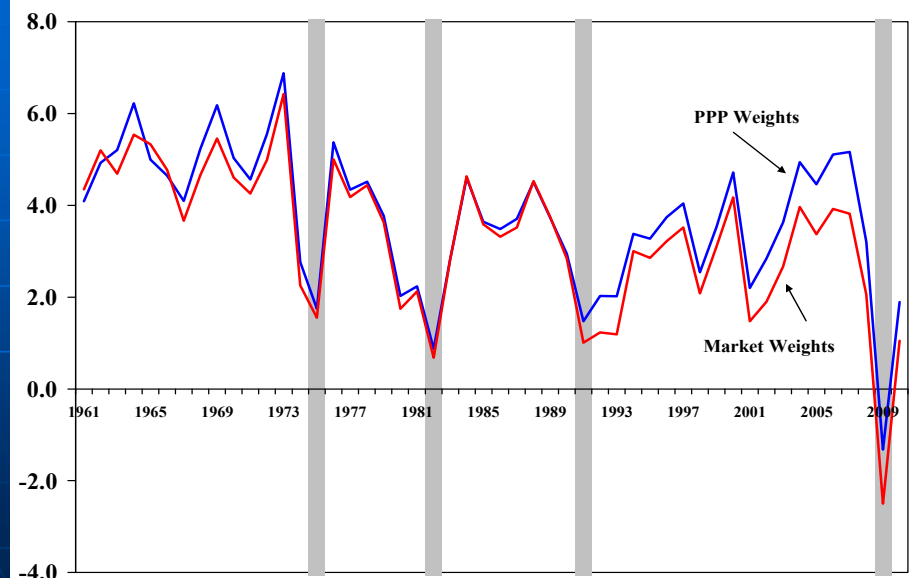
Even deeper with market weights

(percent change from a year earlier; contractions in PPP-weighted per capita GDP shaded)



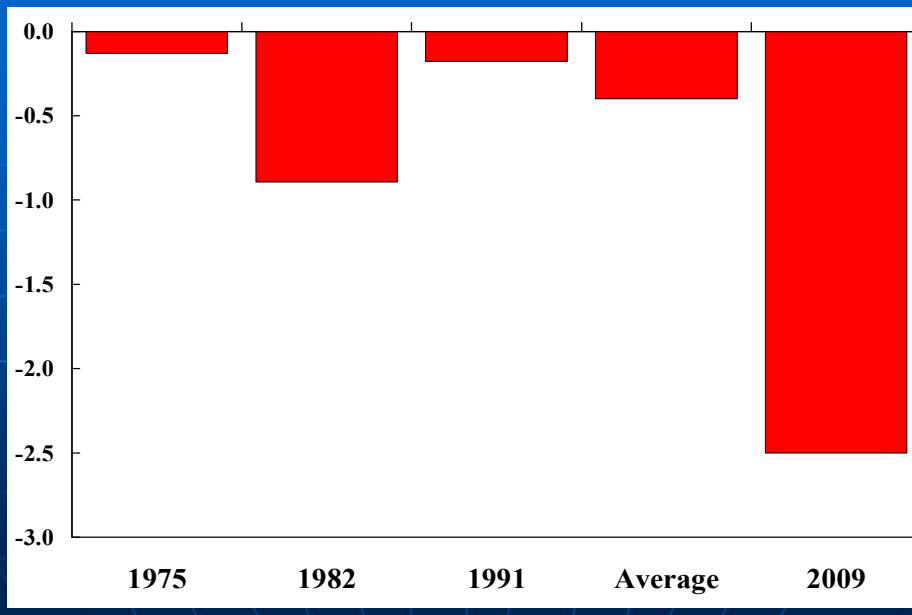
First Contraction in Global GDP...

(percent change from a year earlier; contractions in PPP-weighted per capita GDP shaded)



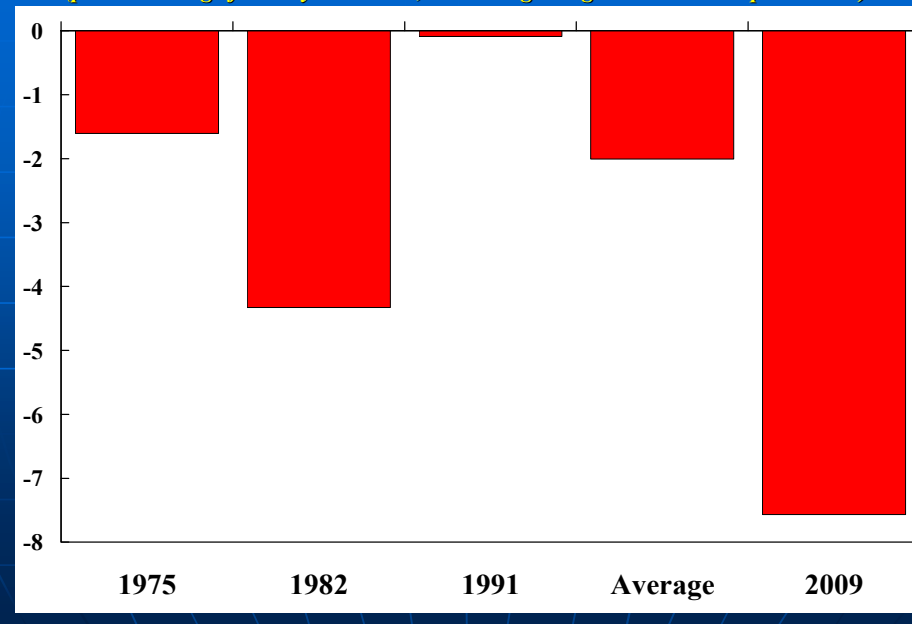
World GDP During Global Recessions

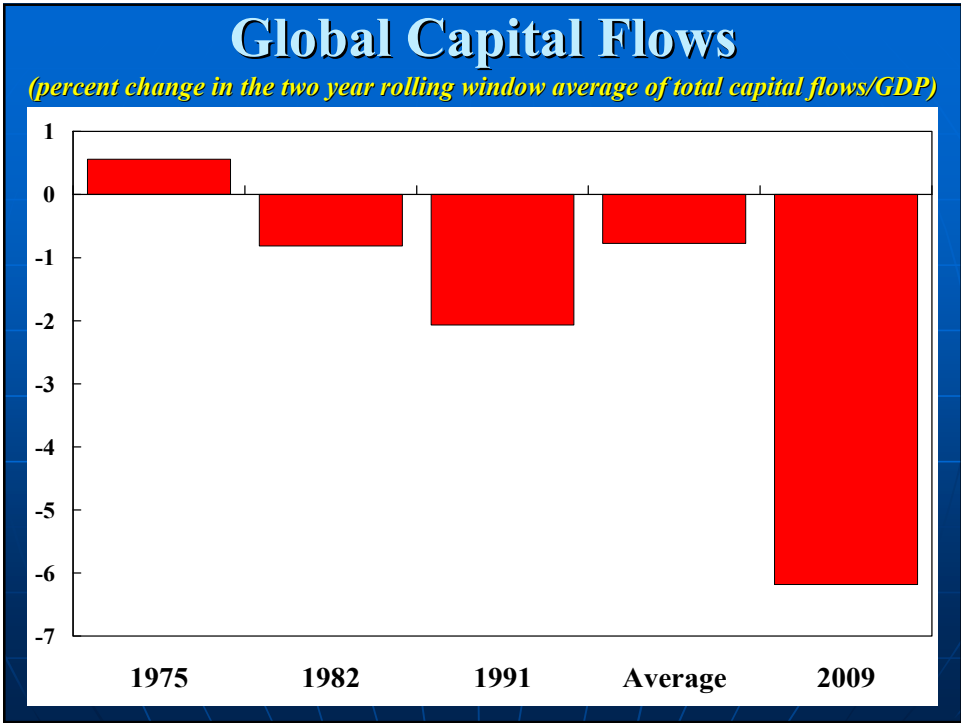
(percent change from a year earlier; PPP-weighted global per capita GDP)



Global Industrial Production

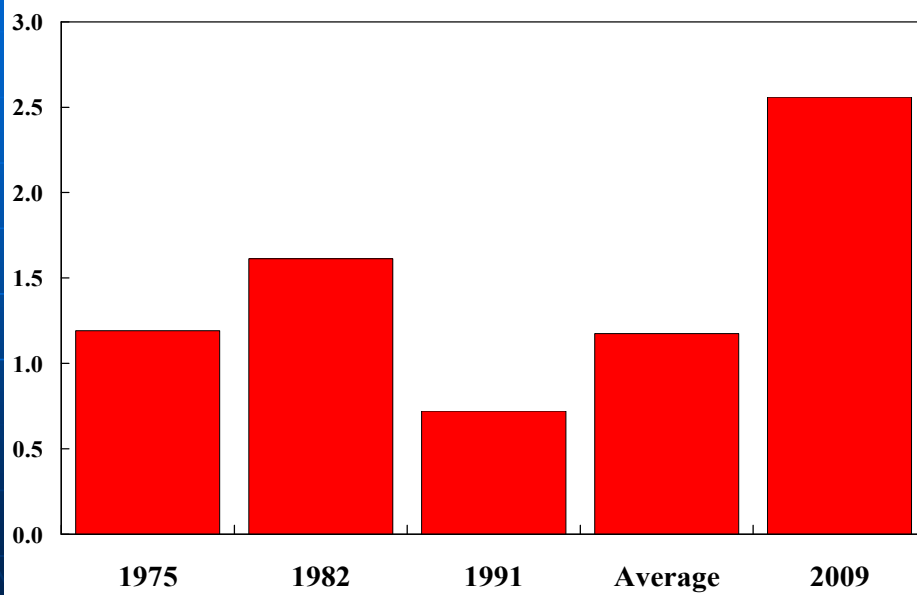
(percent change from a year earlier; PPP-weighted global industrial production)





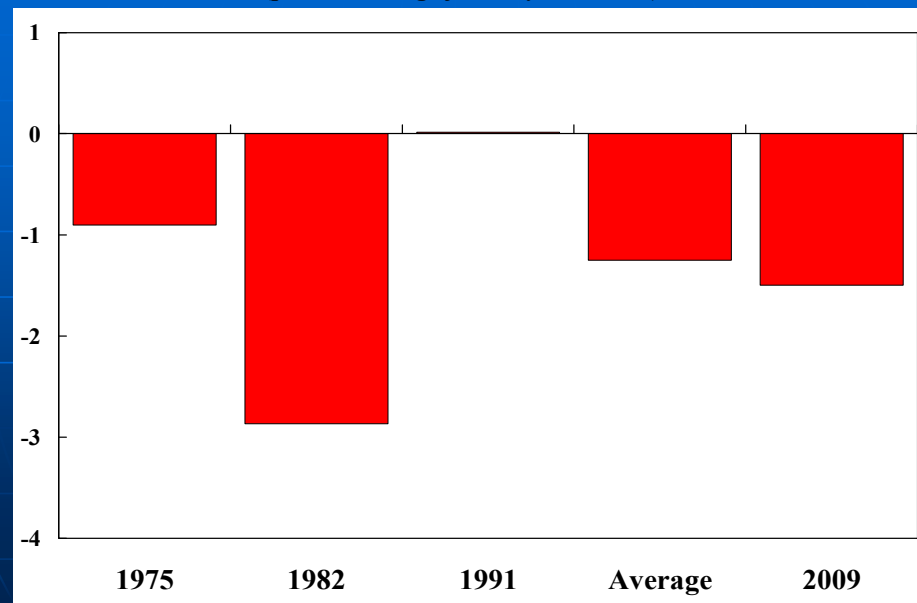
Increase in the Global Unemployment Rate

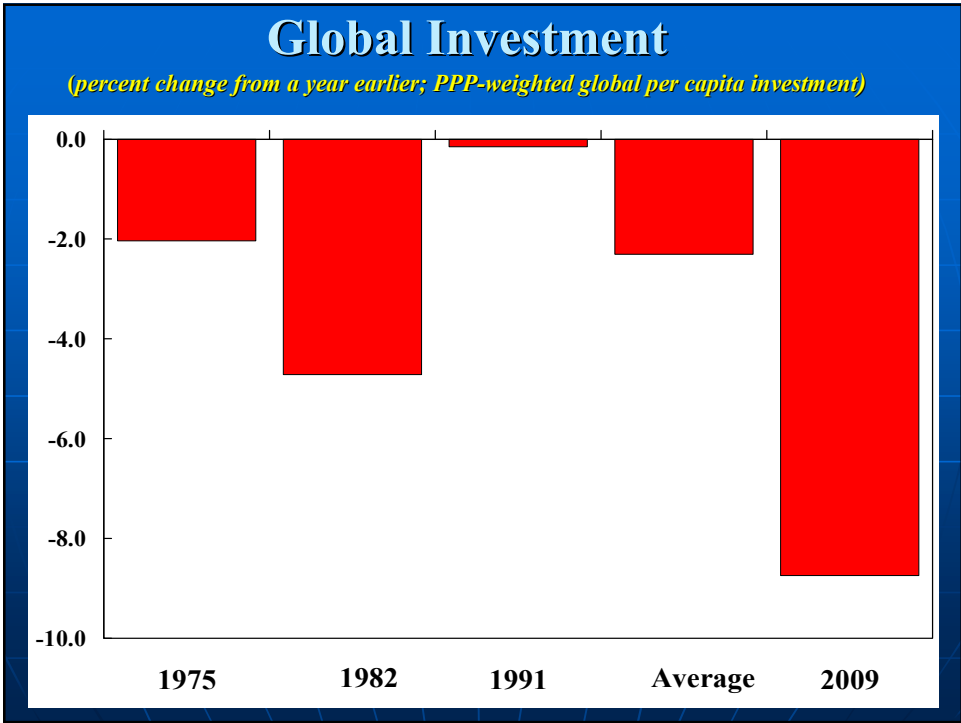
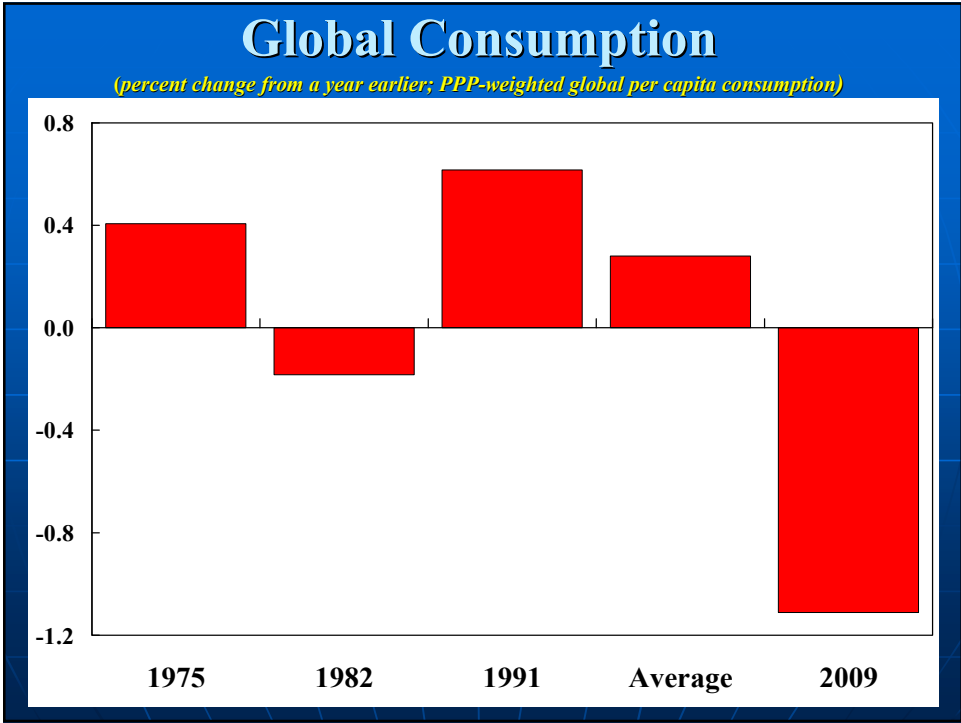
(change in the level from a year earlier)



Global Oil Consumption

(percent change from a year earlier)





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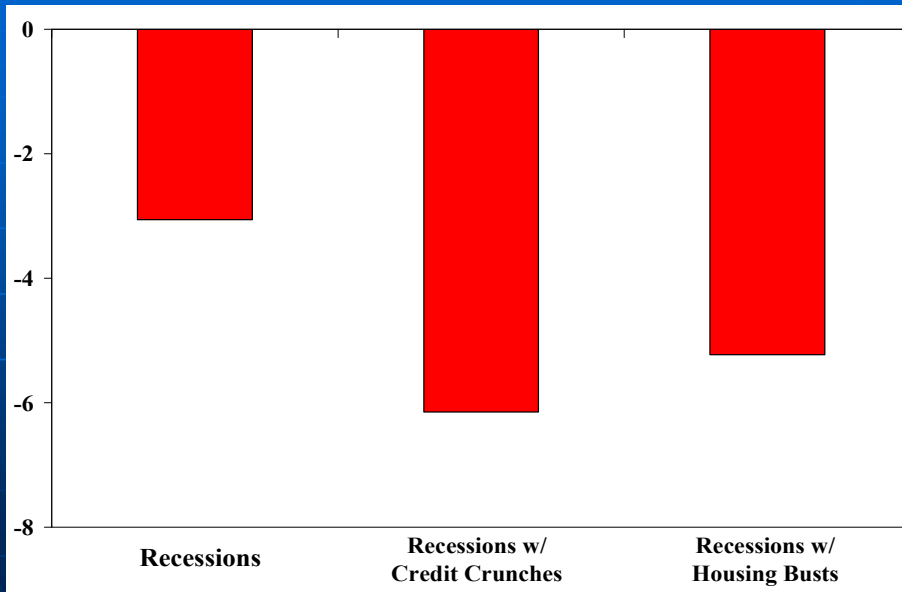
Why is the global recession so deep?

- The global recession stems from a multitude of financial market difficulties
- Problems in credit markets
- Sharp losses in asset (housing and equity) markets
- Recessions associated with financial market problems tend to be deeper and longer

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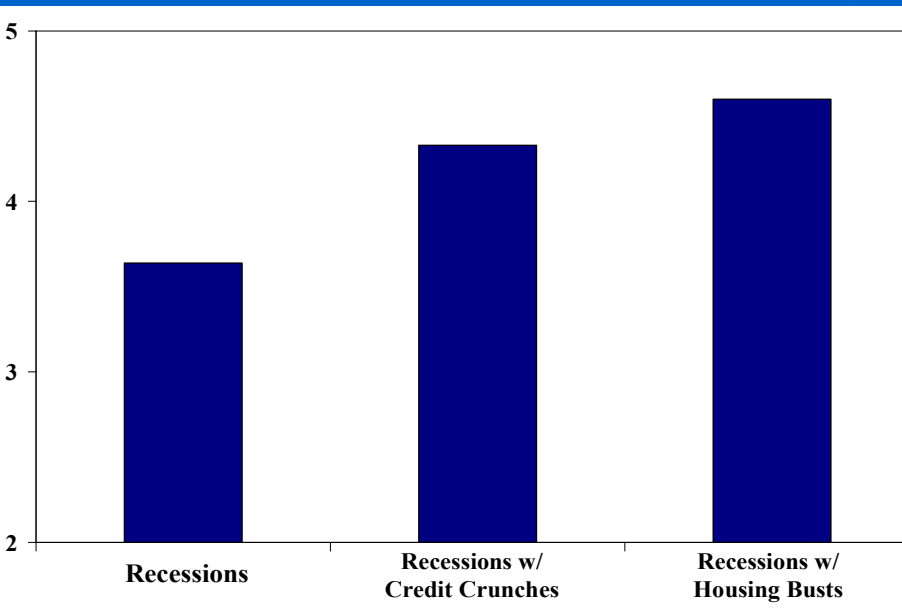
Deeper Recessions w/ Severe Financial Problems

(Cumulative GDP loss, percent, from Peak to Trough)



Longer Recessions w/ Severe Financial Problems

(Duration from Peak to Trough, Mean, in quarters)



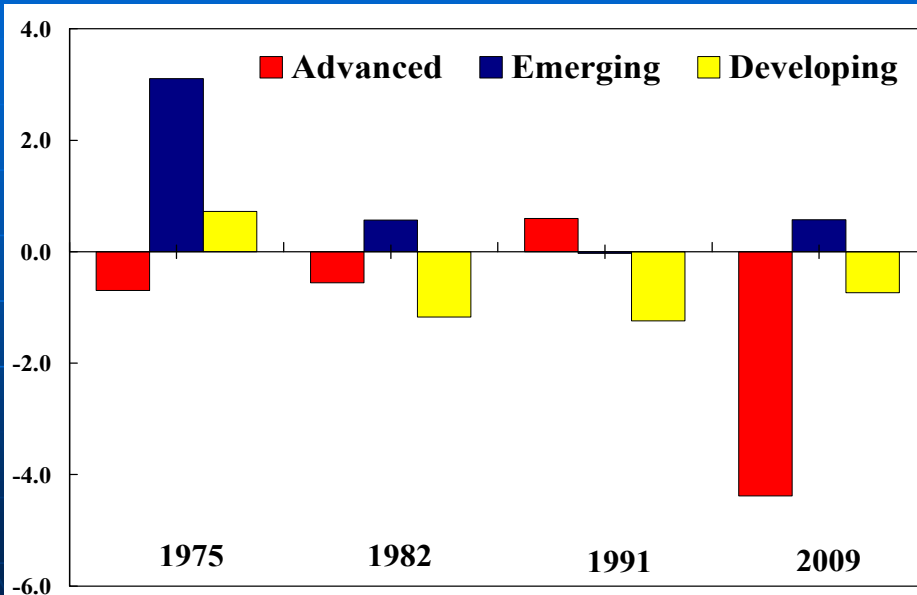
Why is the global recession so deep?

- Sharp declines in growth in advanced countries
 - The main customers of goods and services
 - The centers of global financial markets
- Strong linkages of trade and finance; global production chains
- The global recession is the most synchronized one to date since the WW II
- Highly synchronized recessions are often deeper and longer

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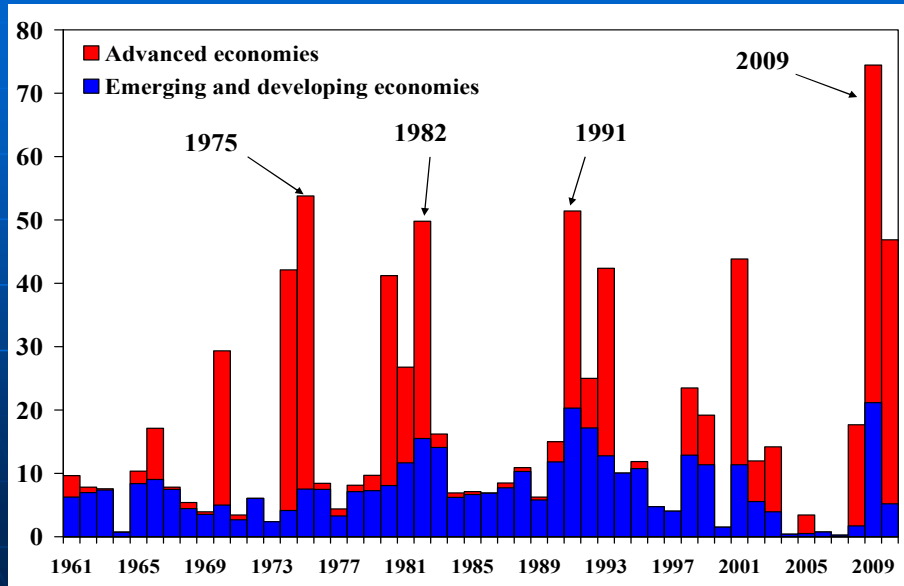
2009 Recession Driven by Advanced Countries

(Real PPP-Weighted Per Capita GDP Growth during Global Recessions, percent)



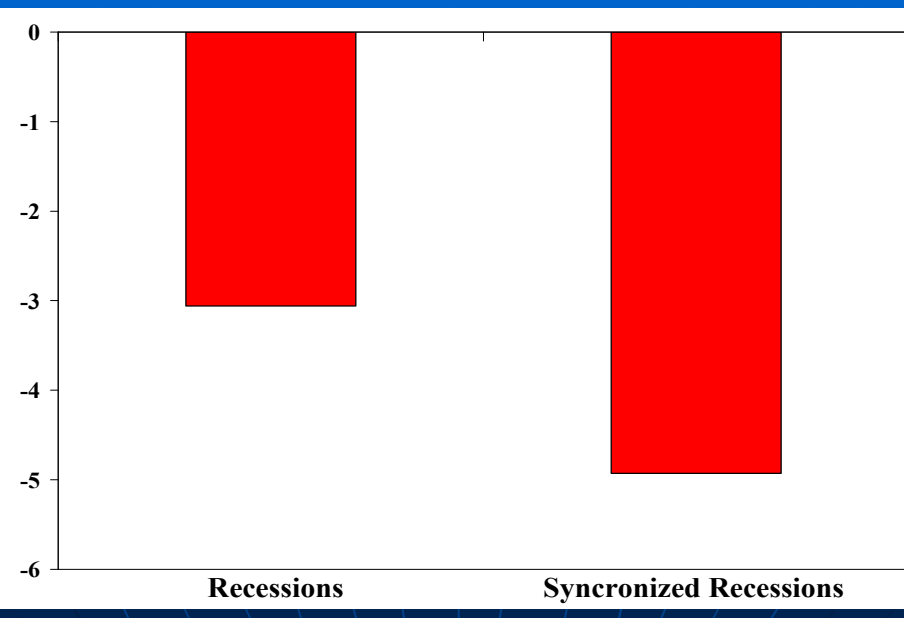
Most Countries in Recession

(PPP-weighted percent of countries)



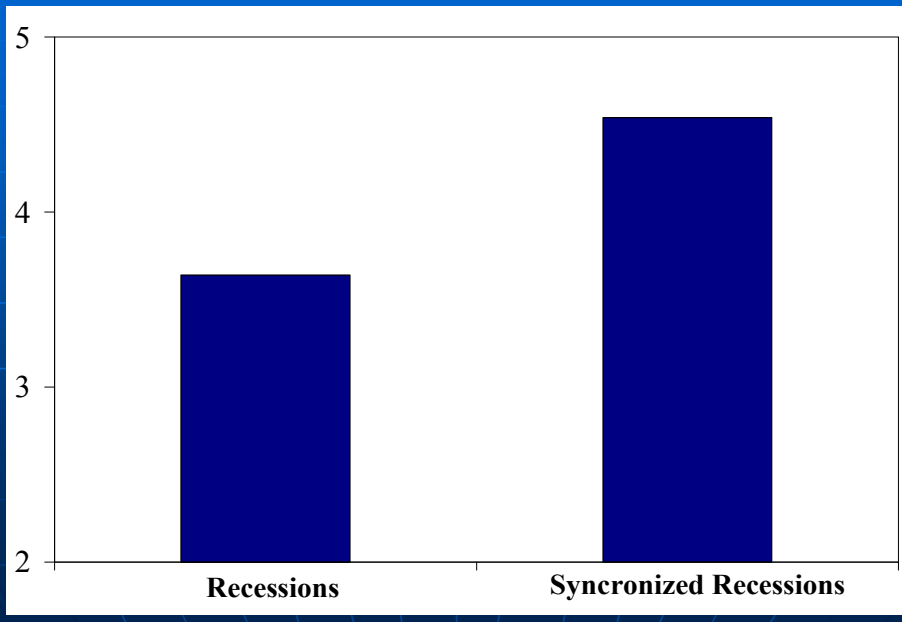
Deeper Recessions When Globally Synchronized

(Cumulative GDP loss, percent, from Peak to Trough)



Longer Recessions When Globally Synchronized

(Duration from Peak to Trough, Mean, in quarters)



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- **What is next? Global Prospects: 2009-2010**
(Based on the projections in the *IMF's WEO, April, 2009*)

Global Prospects: 2009-2010

- Global growth is projected to decline 1.3 percent in 2009, a 1¾ percentage point downward revision from the January *WEO Update*
- Advanced economies to suffer deepest recession since the WW II
- Growth in virtually all countries to decelerate sharply from rates observed in 2003–07
- Global growth is projected to reemerge in 2010, but at 1.9 percent well below potential

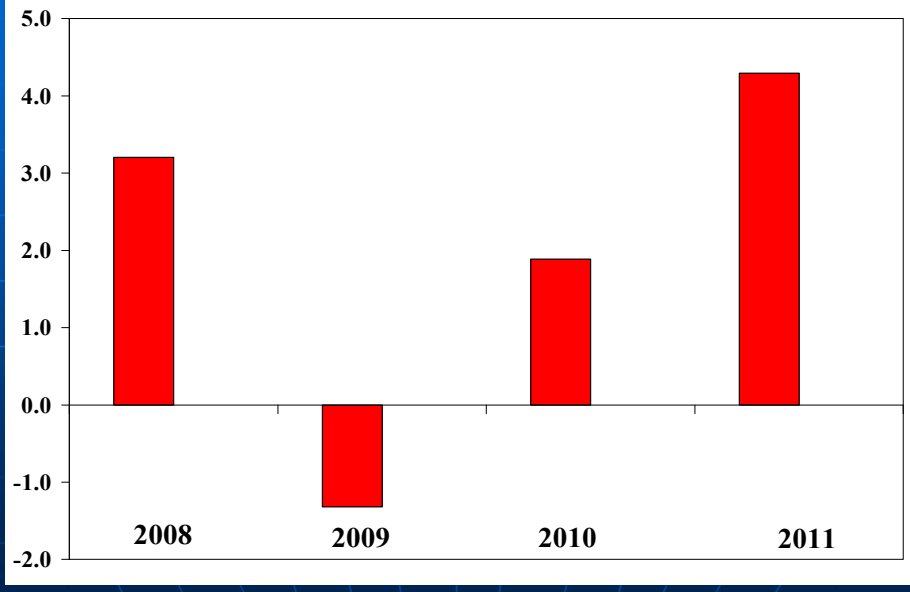
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Prospects for recovery depend on

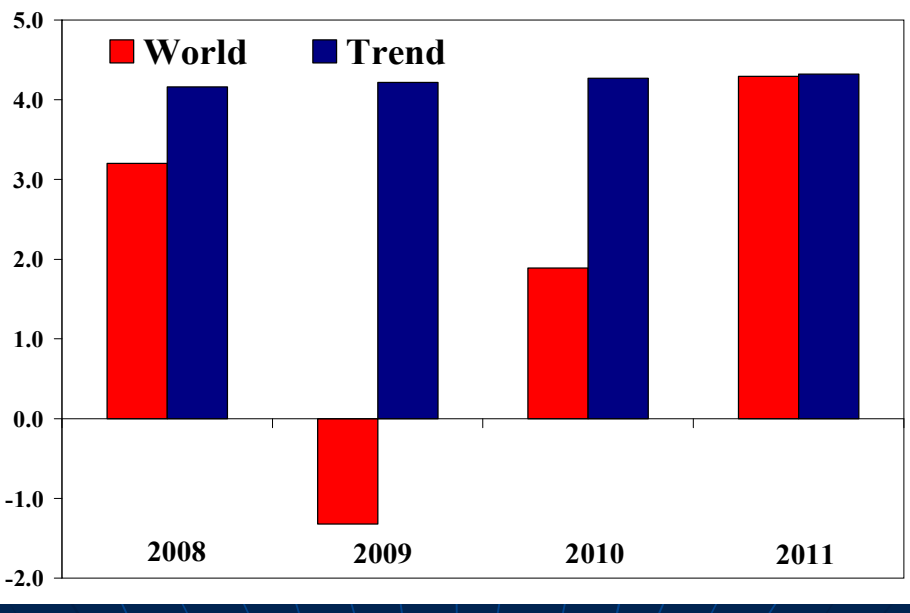
- Returning the financial sector to health
- Sustained macroeconomic policy support
- External financing for emerging economies
- Stable commodity prices

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World economy to contract in 2009, but recover in 2010 *(percent change in total PPP-weighted world GDP growth)*

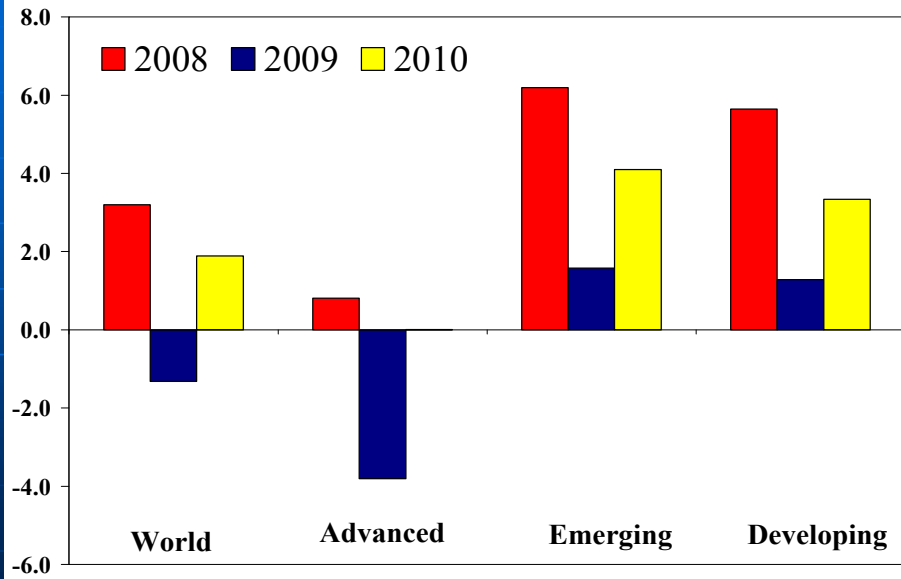


But the global growth in 2010 below potential *(percent change in total PPP-weighted world GDP growth)*



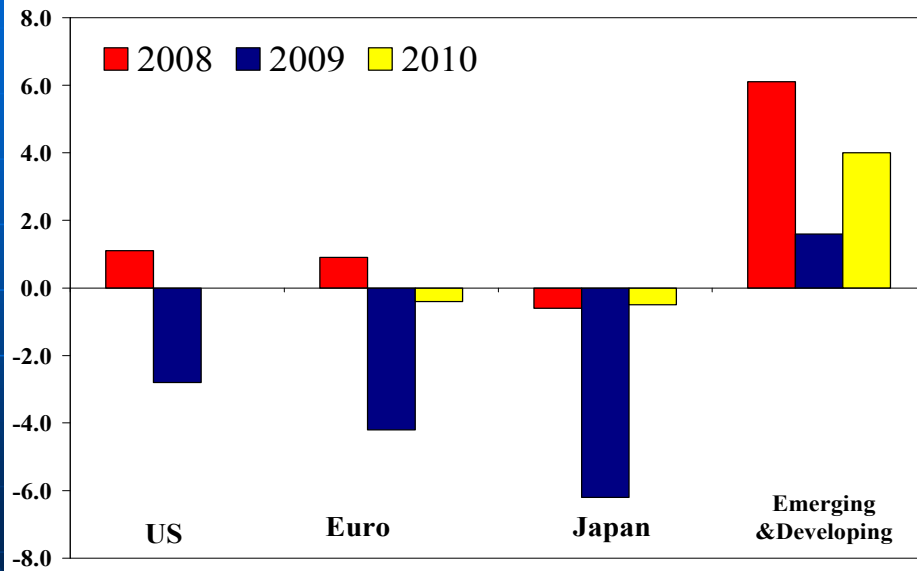
Advanced economies in deep recession in 2009

(percent change in total PPP-weighted world GDP growth)



Especially, US, Euro Area and Japan...

(percent change in total PPP-weighted world GDP growth)



Downside Risks to the Outlook

- Uncertainty remains unusually large
- Downside risks continue to dominate:
 - Adverse feedback loop between financial and real sectors intensifies because political economy is hostile to bank recapitalization
 - Sharp increase in public debt issuance causes negative market reaction
 - Deflation in some advanced countries and corporate distress in some emerging economies

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Being “Rationally” Optimistic: Upside Risks

- Right policy measures can restore confidence, revive demand, and restart a virtuous growth cycle
- There are signs that the “free fall” in manufacturing and retail sales may have stopped
- A typical global recession tends to last a year

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Questions & Comments

M. Ayhan Kose

akose@imf.org

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