

Global Economic Forecasts

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Introduction

In addition to quarterly forecasts of the U.S. economy by private-sector forecasters, cited regularly in the preceding article, a number of longer term economic forecasts by governments and international organizations are released—typically in the spring—as full calendar year data become available for the previous year. In April 2002, the International Monetary Fund (IMF) released its annual *World Economic Outlook*, projecting near-term global and regional economic growth for 2002 and 2003, as well as a medium-term forecast for the 2004-2007 period. In May 2002, the World Trade Organization (WTO) released its annual report on international trade in 2001 and predictions for 2002. Also in May 2002, the U.S. Federal Reserve Board summarized U.S. international transactions for the full year 2001. In June 2002, the Organization for Economic Cooperation and Development (OECD) released its semiannual *Economic Outlook*, forecasting economic activity in the industrialized OECD countries for 2002 and 2003. Summaries of these projections follow.

IMF Forecasts Moderate Global Economic Recovery in 2002

In April 2002, the IMF released its *World Economic Outlook*, projecting world output and related measures for 2002 and 2003, as well as select medium-term projections for 2004 to 2007.² Real GDP growth worldwide expanded by 2.5 percent in 2001, and is expected to grow by 2.8 percent in 2002, increasing to 4.0 percent in 2003, reaching a real GDP growth rate of 4.4 percent annually on average over the period 2004 to 2007. World output would be equivalent

to \$49 trillion in 2002, and \$52 trillion in 2003, estimating prices on a purchasing power parity basis (table 1).

Real economic growth is forecast to recover modestly in 2002 in the advanced and developing economies, expand somewhat faster in 2003, and moderate or grow moderately in the medium term over 2004-07. The advanced economies grew in 2001—albeit slowly—at 1.2 percent, but are expected to recover to 1.7 percent growth in 2002, and expand economic output by 3.0 percent in 2003, reaching an annual average growth rate of 3.1 percent over 2004-07. The developing economies, from an economic growth rate of 4.0 percent in 2001, are projected to grow by 4.3 percent in 2002, by 5.5 percent in 2003, and attain an average annual growth rate of 6.0 percent over 2004-07. The economies in transition, which reached a real GDP growth rate of 5.0 percent in 2001, are expected to expand by 3.9 percent in 2002, 4.4 percent in 2003, and reach an average annual growth rate of 5.0 percent over 2004-07.

Consumer prices are estimated to remain low. In the advanced economies, consumer prices are forecast lower, from 2.2 percent increase in 2001, slowing to a 1.3 percent increase in 2002, then expanding by 1.8 percent in 2003, and reaching an average rate of inflation of 2.0 percent annually over 2004-07. In developing economies, consumer price inflation is low as well, starting from a rate of 5.8 percent consumer price inflation in 2001, roughly maintaining this low rate around 5.5 to 5.8 percent in 2002, decelerating slightly to around 4.7 to 5.1 percent in 2003, and somewhat further to an annual average near 4.2 percent during 2004-07.³ Transition economies are expected to experience the greater consumer price inflation, with consumer prices rising by 15.9 percent in 2001, still rising by 10.8 percent in 2002 albeit more slowly, by 8.7 percent in 2003, and subsiding to a 6.2 percent average annual increase during 2004-07.

¹ The views expressed in this article are those of the author. They are not the views of the U.S. International Trade Commission (USITC) as a whole or of any individual Commissioner.

² IMF, “World Economic Outlook – Recessions and Recoveries,” World Economic and Financial Surveys, April 2002, found at Internet address <http://www.imf.org/external/pubs/ft/weo/2002/01/index.htm>, retrieved on May 16, 2002.

³ Forecasts for consumer price changes in the highly heterogeneous grouping of the developing countries vary slightly between the standard 2-year projection in the main text of the report (found in Statistical Appendix Table 8) and that showing the medium-term baseline scenario (Statistical Appendix Table 45).

Table 1
Summary of IMF World Economic Outlook, 2000-2007, medium-term forecast*

Item/area	2000	2001	2002	2003	2004-2007
Real GDP growth			<i>Annual percent change</i>		
World	4.7	2.5	2.8	4.0	4.4
Advanced economies	3.9	1.2	1.7	3.0	3.1
Transition economies	6.6	5.0	3.9	4.4	5.0
Developing countries	5.7	4.0	4.3	5.5	6.0
Trade growth			<i>Annual percent change</i>		
World trade in goods and services (volume basis)	12.4	-0.2	2.5	6.6	7.0
Imports					
Advanced economies	11.6	-1.5	2.1	6.6	6.7
Transition economies	13.2	10.8	8.0	7.7	7.4
Developing countries	16.0	2.9	6.4	7.7	8.5
Exports					
Advanced economies	11.7	-1.3	0.9	6.3	6.6
Transition economies	14.6	6.3	5.2	6.1	6.5
Developing countries	15.0	3.0	4.8	7.0	8.1
Trade balances (current account)			<i>Percent of GDP</i>		
Advanced economies	-1.0	-0.8	-0.8	-0.7	-0.7
Transition economies	3.6	1.9	0.2	-0.6	-1.5
Developing countries	1.2	0.5	-0.4	-0.9	-1.2
Consumer prices			<i>Annual percent change</i>		
Advanced economies	2.3	2.2	1.3	1.8	2.0
Transition economies	20.2	15.9	10.8	8.7	6.2
Developing countries	6.1	5.7	5.5	4.7	4.2
World prices (U.S. dollar basis)			<i>Annual percent change</i>		
Primary commodities, nonfuel	1.8	-5.5	-0.1	7.2	3.4
Oil	57.0	-14.0	-5.3	-4.4	-1.2
Manufactures	-5.1	-2.4	-0.5	1.2	1.0
Developing countries--selected indicators			<i>Annual percent change</i>		
Real GDP	5.7	4.0	4.3	5.5	6.0
Export volume	15.0	3.0	4.8	7.0	8.1
Import volume	16.0	2.9	6.4	7.7	8.5
Regional groups					
Africa					
Real GDP	3.0	3.7	3.4	4.2	5.0
Export volume	5.2	3.0	1.5	4.1	6.1
Import volume	4.7	3.4	3.0	2.6	4.3
Developing Asia					
Real GDP	6.7	5.6	5.9	6.4	6.8
Export volume	22.2	3.6	6.5	7.9	10.0
Import volume	22.1	5.8	9.0	9.7	11.1

See footnote at end of table.

Table 1—Continued**Summary of IMF World Economic Outlook, 2000–2007, medium-term forecast***

Item/area	2000	2001	2002	2003	2004-2007
<i>Middle East and Turkey</i>					
Real GDP	5.8	2.1	3.3	4.5	5.0
Export volume	6.2	1.2	0.6	4.9	4.8
Import volume	15.8	-2.8	6.3	5.5	5.7
<i>Western Hemisphere</i>					
Real GDP	4.0	0.7	0.7	3.7	4.3
Export volume	12.8	3.4	6.7	7.8	7.4
Import volume	11.0	1.6	3.1	7.8	7.0

*Medium-term baseline scenario.

Source: Compiled by USITC staff from IMF, *World Economic Outlook*, April 2002, Appendix Tables 45 and 46--Summary of World Medium-Term Baseline Scenario.

Producer price increases are largely expected to remain moderate for goods traded on world markets priced in U.S. dollars. Primary commodity prices (excluding oil) fell by 5.5 percent in 2001, are expected to fall only 0.1 percent in 2002, but are projected to increase 7.2 percent in 2003, before slower price increases take hold at an annual average of 3.4 percent over 2004-07. Oil commodity prices, which fell by 14 percent in 2001, are projected to fall further by 5.3 percent in 2002, fall 4.4 percent in 2003, and fall at a slower average annual rate of 1.2 percent during 2004-07. Manufacturing prices fell at a 2.4 percent rate in 2001, are forecast to fall at a 0.5 percent rate in 2002, then to rise by 1.2 percent in 2003, and rising more moderately by an annual average of 1.0 percent over 2004-07.

WTO Expects Moderate Growth in World Trade in 2002

International trade in goods contracted during 2001 by 4.0 percent in value terms for merchandise exports and by 1.0 to 1.5 percent for commercial services, according to WTO data released in May 2002 as part of its *Annual Report 2002*.⁴ This slowdown contrasted sharply with brisk increases in 2000, when exports of goods grew by 12.5 to 13.0 percent and services exports grew by 6.0 percent. World exports of merchandise goods in 2001 were estimated at roughly \$6 trillion, and world exports of commercial services around \$1.4 trillion, valuing world trade at approximately \$7.5 trillion in 2001 (table 2).

Three major factors contributed to this slowdown in world trade: (1) moribund demand for information technology (IT) products following the bursting of the global IT market bubble; (2) sluggish demand overall in Western Europe; and to a much lesser extent, (3) depressed demand following the terrorist attacks in the United States on September 11, 2001. Weakening private consumption in all major industrial markets, a marked reduction in business inventories, and a fall in business investment, combined to yield a matching decline in world output throughout 2001.

In 2002, world trade is expected to recover, primarily at first due to inventory rebuilding. The WTO projects that world exports are likely to reach an annualized rate of growth of roughly 6 percent by the fourth

quarter of 2002, but that world trade overall for 2002 is likely to average only the same 1.5 percent annual growth rate as in 2001. Typically, international trade has expanded faster than global economic activity, but a 1 percent expansion of world trade in 2002 would represent the second year running where world trade has lagged behind world output. Part of the underlying explanation for this slower world trade growth may be that IT products constitute a larger share in international trade than they do in world production—such that a depressed world market for IT products affects trade more than production—as well as higher transaction costs for world trade that may result from the terrorist events of September 11, 2001.

Geographically, countries and regions where IT products form a substantial portion of their trade experienced first a great expansion followed by a great decline in their merchandise exports in 2000 and 2001, respectively. East Asian traders with significant involvement in IT product trade—such as Chinese Taipei (Taiwan), Korea, Malaysia, the Philippines, Singapore, and Thailand—experienced as a group a 13 percent contraction in their goods exports between 2000 and 2001, and Japan experienced a 16 percent contraction, compared to overall world exports contracting only 4 percent in the same period. In contrast, transition economies in Central and Eastern Europe saw their merchandise exports expand by 11 percent in 2001, supported by substantial inflows of foreign direct investment.

Goods exports from developing countries contracted roughly 6 percent in 2001, approximating but somewhat greater than the contraction in world trade overall. Tentative estimates—based on incomplete information—of goods exports from the 48 least developed countries point to a stagnation in both exports and imports for 2001, although their overall share in world trade remains very small at one half of one percent (0.5 percent).

In its release, the WTO also reported on a longer term view of commodity prices and export earnings as they concern developing countries. Over recent decades, the WTO has found that developing countries have steadily diversified their export structure to a remarkable degree, both diversifying the items exported and exporting more manufactured goods. Whereas primary products accounted for over 90 percent of developing countries' export earnings in 1955, the share of primary products in these countries' exports accounted for less than 30 percent by the end of the 1990s.

However, although developing countries as a group have sharply reduced their dependence on primary products, this shift is uneven and masks a number of

⁴ WTO, "Chapter II—World Trade Developments," Annual Report 2002, found at Internet address http://www.wto.org/english/news_e/pres02_e/pr288_e.htm, retrieved on May 14, 2002.

Table 2

Summary of WTO estimates of growth in world trade in goods and services, by region, 1990-2001

Country/region	Exports (f.a.s.)				Imports (c.i.f.)			
	Value	Growth			Value	Growth		
	2001	1990-2000	2000	2001	2001	1990-2000	2000	2001
	<i>Billion dollars</i>	<i>Annual percentage change</i>			<i>Billion dollars</i>	<i>Annual percentage change</i>		
Growth in trade in merchandise goods (value basis)								
World	6162	6	13	-4	6439	7	13	-4
North America	994	7	13	-6	1410	9	18	-6
Latin America	349	9	20	-3	381	12	16	-2
Mexico	159	15	22	-5	176	15	23	-4
Other Latin America	190	6	18	-1	205	9	10	0
Western Europe	2484	4	4	-1	2527	4	6	-3
EU-15	2290	4	3	-1	2335	4	6	-2
Transition economies	285	7	26	5	268	5	14	11
Africa	141	4	28	-5	134	3	5	1
Middle East	239	7	42	-9	174	5	10	4
Asia	1671	8	18	-9	1544	8	23	-7
Japan	405	5	14	-16	350	5	22	-8
China	266	15	28	7	244	16	36	8
Growth in trade in commercial services (value basis)								
World	1440	6	6	-1	1430	6	6	-1
North America	298	7	9	-4	227	7	14	-6
Latin America	58	7	11	-4	72	7	12	2
Mexico	13	7	17	-7	17	5	19	1
Other Latin America	45	7	9	-3	55	8	10	2
Western Europe	670	5	1	0	631	5	1	0
EU-15	604	5	1	1	589	5	1	0
Transition economies	55	n.a.	10	10	57	n.a.	18	11
Africa	30	5	0	n.a.	38	4	7	n.a.
Middle East	31	8	15	n.a.	56	4	10	n.a.
Asia	298	9	12	-2	351	7	8	-3
Japan	63	5	13	-7	107	3	1	-8
China	31	18	15	3	36	24	16	2

Note.—“n.a.” indicates not available.

Source: Compiled by USITC staff from WTO, *Annual Report 2002 — Chapter II*, May 2002, Tables II.2 and II.5.

regional differences. Developing Asia has advanced the furthest, from approximately a 60 percent dependence on primary product exports in 1970 to around 15 percent in the late 1990s. Latin America has also substantially reduced dependence on primary product exports since 1970, from about 90 percent to roughly 40 percent in the late 1990s. Africa and the Middle East, however, have made less progress in diversifying away from primary product to more manufactured exports, although where certain countries' dominate regional trade—such as the Republic of South Africa within Southern Africa—any regional trend toward diversification may be obscured.

For over half of the developing countries, dependence on petroleum and fuel exports increased rather than decreased reliance on primary product export earnings—particularly from the mid-1970s to mid-1980s. Sharply lower oil prices from about 1986 have made for sharper rather than more gradual adjustments toward export diversification in these countries.

International Transactions in 2001 Narrowed U.S. Trade Deficit

In 2001, weak economic growth worldwide helped reduce the U.S. current account deficit substantially, decreasing both United States imports and exports of goods and services.⁵ The U.S. deficit on merchandise trade narrowed during the year, with the improvement in the current account assisted further by a slight increase in the U.S. surplus on trade in services. The U.S. deficit on investment income, however, continued to expand.

A U.S. surplus on the capital account in 2001—capital inflows that represent foreign savings seeking to finance investment in the United States—provided the counterpart offset to the U.S. current account deficit. Net private capital inflows set a record pace in 2001, in particular through transactions in private securities.

The reduced U.S. deficit on trade in goods and services in 2001 contrasts with the steady increases in the overall U.S. trade deficit during the past decade. Should U.S. economic activity in 2002 increase at a faster pace than its trading partners, as a number of forecasters broadly expect, the U.S. trade deficit is likely again to widen—with imports of U.S. goods and

services expanding more rapidly than exports of the same. The extent to which the U.S. trade deficit is likely to widen will hinge significantly on the strength of economic activity abroad among principal U.S. trading partners as well as the strength of the appreciation of the U.S. dollar relative to other currencies in recent years.

OECD Forecasts Economic Recovery, Varied by Region

In June 2002, the OECD released its semiannual forecast of macroeconomic activity for the next 18 months, focused on the 30 industrialized nations that comprise the OECD.⁶ Overall, the OECD expects an economic recovery to emerge over the coming quarters, but differentiated by region (table 3). The OECD forecast also finds economic activity outside the OECD area to be firming.

The OECD projects annual economic growth—increase in real gross domestic product, GDP—in the United States to rise from 1.2 percent in 2001, to 2.5 percent in 2002, and increase further to 3.5 percent in 2003. For the European Union (EU), however, growth of 1.7 percent in 2001 is not likely to be matched this year—reaching 1.5 percent in 2002—but with an upturn to 2.8 percent real GDP growth forecast for 2003. Japan's economy—undergoing domestic price deflation, fiscal retrenchment, and structural economic reforms—is forecast to worsen from a contraction of GDP of -0.4 percent in 2001, to -0.7 percent in 2002, before improving with positive economic activity in 2003 of 0.3 percent real GDP growth.

Price inflation is projected in the United States to fall from 2.2 percent in 2001, to 1.5 percent in 2002, and remain at that level at approximately 1.6 percent in 2003. In the EU, inflation of 2.3 percent in 2001 is expected to continue at 2.3 percent in 2002, before subsiding to 1.9 percent in 2003. Japan—again, undergoing deflation—saw its price level fall by -1.4 percent in 2001, which is forecast again at -1.4 percent in 2002, with further deflation expected at -1.7 percent in 2003.

Unemployment in the United States and the EU is expected to show no particular trend over the forecast period. Unemployment of 4.8 percent in 2001 in the United States is expected to rise to 5.6 percent in 2002, then fall to 5.3 percent in 2003. In the EU, unemployment of 7.4 percent in 2001, is expected to rise to 7.6 percent in 2002, and then fall to 7.5 percent in 2003. In Japan, however, unemployment appears to be on the

⁵ William L. Helkie, "U.S. International Transactions in 2001," Federal Reserve Bulletin, May 2002, found at Internet address <http://www.federalreserve.gov/pubs/bulletin/2002/02bulletin.htm#may>, retrieved on May 14, 2002.

⁶ OECD, Economic Outlook No. 71, June 2002, found at Internet address <http://www.oecd.org/>, retrieved on June 18, 2002.

Table 3
Summary of OECD Economic Outlook projections, by selected region/country, 2001-2003¹

Item/area	2001	2002	2003	2001:H1	2001:H2	2002:H1	2002:H2	2003:H1	2003:H2
Real GDP				<i>Percentage change from previous period</i>					
OECD area	1.0	1.8	3.0	1.1	-0.2	2.3	2.8	3.0	3.1
United States	1.2	2.5	3.5	1.2	-0.2	3.5	3.4	3.5	3.7
Japan	-0.4	-0.7	0.3	1.0	-3.4	0.0	0.6	0.2	0.3
EU	1.7	1.5	2.8	1.8	0.6	1.4	2.5	3.0	3.0
Inflation (GDP deflator)				<i>Percentage change from previous period</i>					
OECD area	2.7	2.3	1.8	3.2	2.2	2.6	2.1	1.8	1.7
United States	2.2	1.5	1.6	2.6	1.6	1.3	1.6	1.6	1.5
Japan	-1.4	-1.4	-1.7	-1.6	-0.9	-1.5	-1.6	-1.7	-1.6
EU	2.3	2.3	1.9	2.8	1.9	2.6	1.9	1.9	2.0
Unemployment				<i>Percent of labor force</i>					
OECD area	6.4	6.9	6.7	6.2	6.6	6.9	6.9	6.8	6.6
United States	4.8	5.6	5.3	4.3	5.2	5.6	5.5	5.4	5.2
Japan	5.0	5.8	6.0	4.8	5.3	5.7	6.0	6.0	6.0
EU	7.4	7.6	7.5	7.3	7.4	7.5	7.6	7.5	7.4
Trade balances (current account)				<i>Percent of GDP</i>					
OECD area	-1.1	-1.1	-1.2	-1.2	-0.9	-1.0	-1.1	-1.1	-1.1
United States	-4.1	-4.4	-4.9	-4.3	-3.9	-4.2	-4.6	-4.8	-5.0
Japan	2.2	3.3	4.3	2.0	2.4	3.1	3.6	4.2	4.4
EU	0.1	0.4	0.6	-0.3	0.5	0.4	0.4	0.5	0.6
World trade (volume basis)²				<i>Percentage change from previous period</i>					
Growth in trade in goods and services	0.0	2.5	9.5	-1.8	-5.7	4.2	7.8	10.0	10.3

¹ Seasonally adjusted annual rates. Assumes exchange rates of Apr. 4, 2002, e.g. US\$1=131.9 yen, =1.139 euro.

² Growth rate of the arithmetic average of world merchandise import and export volumes.

Source: Compiled by USITC staff from OECD *Economic Outlook No. 71*, June 2002.

increase, reaching 5.0 percent in 2001, forecast to rise to 5.8 percent in 2002, and rise further to 6.0 percent in 2003.

Trade balances are expected to widen over the forecast period. The United States is forecast to widen its current account deficit to 4.1 percent of GDP in 2001, to 4.4 percent in 2002, and still further to 4.9

percent in 2003. In contrast, Japan is forecast to widen its export-led recovery by widening its current account surplus from 2.2 percent of GDP in 2001, to 3.3 percent in 2002, to 4.3 percent in 2003. The EU is also expected to widen its much smaller trade surplus over the period, from 0.1 percent of GDP in 2001, to 0.4 percent in 2002, and to 0.6 percent in 2003.