

# GLOBAL ECONOMIC DEVELOPMENTS

Issue 1

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- China's output plummeted 6.1% in the first quarter of 2009.
- Global growth is expected to contract by 1.3% in 2009.

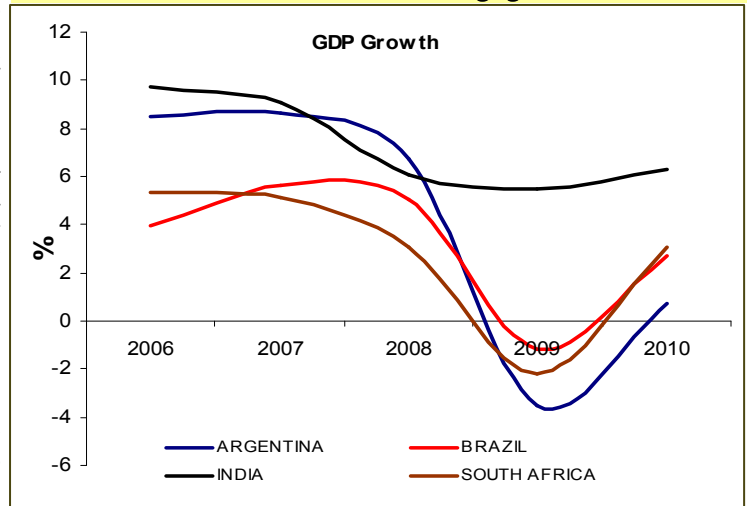
## GLOBAL ECONOMIC DEVELOPMENTS: FIRST QUARTER 2009

The global economy has continued to dwindle significantly in recent months and the decline in global demand has resulted in a marked contraction in international trade. The sustained cut in global output has had an impact on employment as companies downsize operations. Global financial turmoil has thus ravaged most economies around the world.

Advanced economies have tried to shore up the effects of the financial crisis through the government spending. The US GDP growth shrank by 6.1% in 2009 Q1. Similar trends have exhibited in the UK and Japan with GDP falling by 1.9% and 4% respectively.

**Box 1** shows that emerging economies have not been spared either. The downward trend became more apparent in 2007. India's down turn has been less pronounced compared to its counterparts. On the other hand, Argentina

**Box 1: GDP Growth for Select Emerging Economies**



Source: Calculations from Bureau Van Dijk Database

is the worst affected.

China's output plummeted to 6.1% in 2009 Q1 and a 6.8% decline in Q4. Brazil is among the fastest growing emerging economies but its GDP fell by 3.6% in 2008 Q4.

Russia has tumbled into its first recession in decade as oil price, its main source of

revenue, declined. Its economic output plummeted by 23% in 2009 Q1.

The IMF, in January 2009 was forecasted that global growth will average 0.5% in 2009, has downgraded its outlook for the global economy for the third time in five months and now expects a contraction of 1.3% in 2009.

## INSIDE KWAZULU-NATAL

*KZN unemployment has been the hardest hit*

**K**ZN has not been spared by the wrath of the financial crisis. In 2009 Q1, the provincial economy declined by 6.7% which was 0.03% deeper than the national economy. Thus, in line with national developments, KZN slipped into a recession in the first quarter.

The shrinking of the provincial economy has impacted negatively on jobs. The number of unemployed persons rose to 733 000 from 690 000 in 2008 Q4, making KZN the worst affected.

According to StatsSA, the unemployment rate for KZN in 2009 Q1 stood at 22.6%

which is higher than the national average of 21.9% for the same period.

Manufacturing has the largest contribution to GDP averaging around 24% between 2000-2008. Mining and agriculture which are labour intensive have contributed less than 10% to GDP combined.

## GLOBAL ECONOMIC GROWTH OUTLOOK

Box 2: Global Economic Outlook, July 2009

GEOGRAPHICAL REGION	Forecast		Projections	
	2007	2008	2009	2010
<b>World Output</b>	<b>5.1</b>	<b>3.1</b>	<b>-1.4</b>	<b>2.5</b>
Advanced Economies	2.7	0.8	-3.8	0.6
United States	2.0	1.1	-2.6	0.8
Euro Area	2.7	0.8	-4.8	-0.3
Japan	2.3	-0.7	-6.0	1.7
United Kingdom	2.6	0.7	-4.2	0.2
Emerging and developing	8.3	6.0	1.5	4.7
Africa	6.2	5.2	1.8	4.1
China	13.0	9.0	7.5	8.5

Source: IMF World Economic Outlook, July 2009

The World economy is showing signs of recovery

World output will fall by 1.4% in 2009 and then grow at 2.5% in 2010

Africa's regional growth is expected to fall to 1.8% before growing 4.0% in 2010.

*"South Africa is doing well even in the face of the financial crisis"*  
Fitch Rating Agency

The IMF notes that global financial conditions have improved a great deal. This is largely due to public intervention. However, such interventions are not sustainable as the burst out of the recession should be brought about by private investment.

The world economy is showing signs of recovery as a result of massive macroeconomic and financial policy support in advanced economies. Even so, it is important to note that the recession is not over and the recovery is likely to be slow.

Global economic activity is forecast to contract by 1.4% in 2009 and then grow at 2.5% in 2010 (See Box 2). This is about 0.6 percentage

point higher than envisaged in the April 2009 World Economic Outlook.

Not much deviation has occurred from the April's forecast. The IMF's April 2009 World Economic Outlook economic growth projections for all countries were lower than their September 2008 counterparts due to the sudden and steep declines in global production and world trade.

The IMF has warned that the US recession may last into 2010 unless policy-makers can stabilise the financial system. For the US economy, the IMF projects contractions of 2.8% in 2009 and 0.1% in 2010. The economy of the 16-nation Euro-region is expected to contract by 4.2% in

2009, worse than the 2% slump that the IMF forecast in its January 2009 update.

Japan is expected to experience the sharpest contraction among the G-7 economies in 2009, with real GDP projected to fall by 6.0% as net exports, business investment and private consumption weaken simultaneously.

In Africa, regional growth is expected to slow sharply to 1.8% this year before growing 4.1% in 2010. China's output is also forecasted to fall from 9% to 7.5% in 2009 before expanding to about 8.5%.

## INSIDE SOUTH AFRICA

The taking on of reigns by the new administration was well received internationally. Even though the new political dispensation has taken over particularly at this time, policy continuation is anticipated.

The Economic Intelligence Unit (EIU) has even noted that the Mr Zuma's cabinet choices show that he intends to be pragmatic. The appointments of Trevor Manuel to the

new planning commission and his replacement, Pravin Gordhan, have not been met with hostility at all by the local and international markets.

The recent appointment of Gill Marcus to replace the outgoing reserve bank governor Tito Mboweni was widely welcome

as well.

Fitch Ratings Agency has also confirmed that SA is doing well even in the face of the recession. Despite the current macroeconomic challenges the country is facing, SA is still a preferable investment destination for many.

