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## Article

### Ifo World Economic Survey January 2002

Ifo World Economic Survey

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# IFO WORLD ECONOMIC CLIMATE BRIGHTENS

The Ifo World Economic Climate improved in January 2002 and is now at the same level as in July 2001, i.e. before the terrorist attacks in New York and Washington (84.1 after 70.7 in October 2001 84.1 in July 2001 and 117.2 at the peak in this cycle in April 2000; 1995=100). However, it is too early to interpret this improvement as the onset of a world-wide recovery. For such an assertion experience dictates three consecutive, positive survey results. At this stage it cannot be ruled out that as in the early 1990s, an initial improvement of the indicator will be followed by a renewed setback before finally a longer lasting recovery phase starts. Thus, the next two surveys in April and July will be crucial for predicting the timing and the strength of the recovery.

## World economy: Rebound of climate indicator

After having reached an all-time low in October 2001, the overall indicator bounced back in January 2002, reaching exactly the same value as in July of last year, i.e. the last survey before the terrorist attacks in the United States. Despite the recent pick-up, the indicator is still well below its long-term average (see Figure 1).

The improvement of the world indicator resulted exclusively from more positive expectations; the assessment of the current economic situation stag-

nated at its low October level. In most countries it is expected that in coming months the recovery in the hard-hit capital expenditure sector will be somewhat more pronounced than in private consumption, which proved to be quite resilient during the past recession.

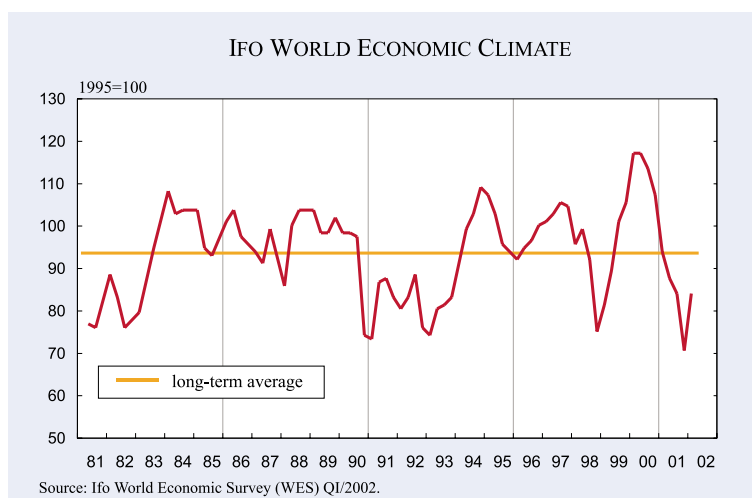
## Asia: Economic climate recovers from low reached last autumn

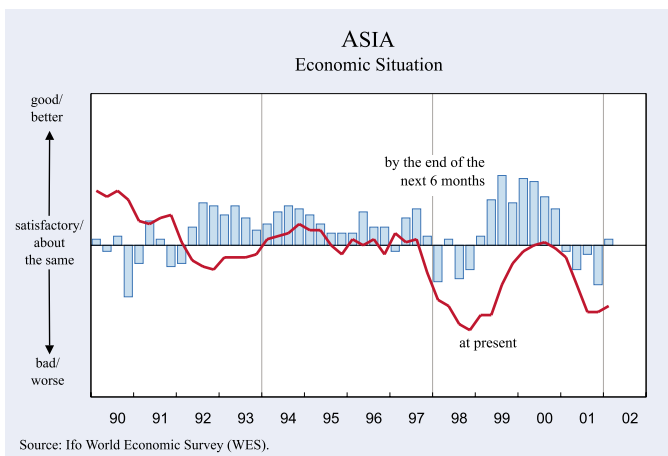
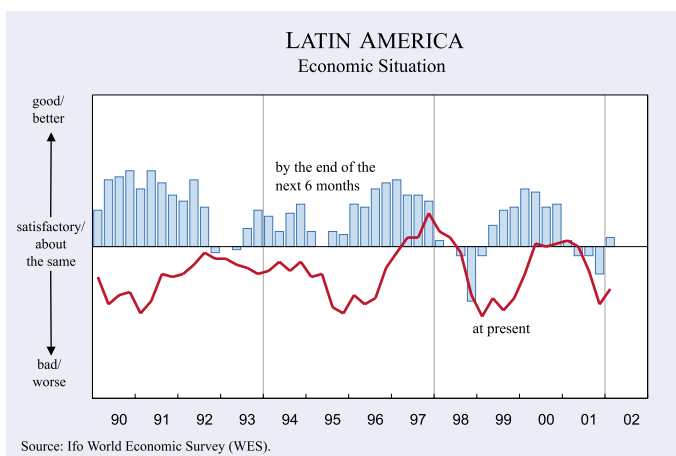
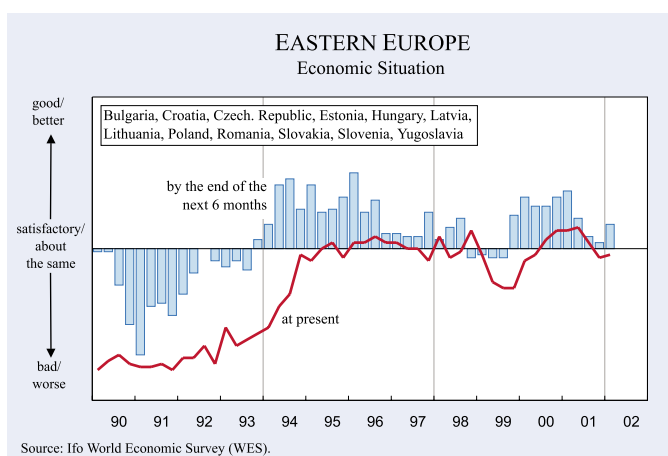
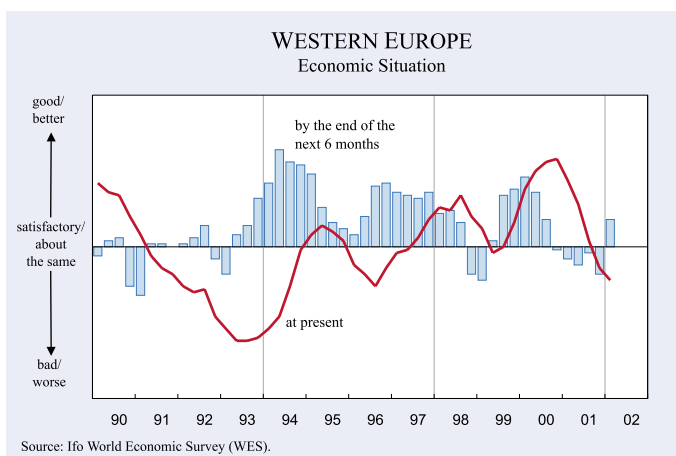
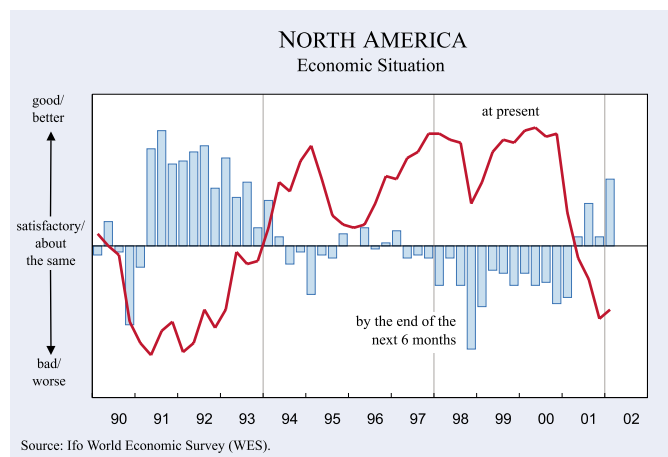
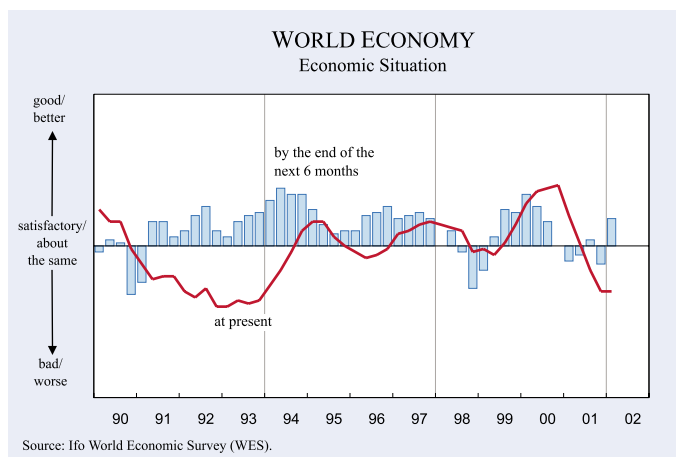
In Asia, both the assessments of the current economic situation as well as the expectations for the development in the next six months improved. Nevertheless, the current situation is still regarded as unsatisfactory. However, the variance in answers is here particularly marked: In China the relatively positive economic performance continued at the start of the new year and is expected to deteriorate only marginally in the course of the next six months. In most other Asian countries the current economic situation remained depressed, but the expectations for the next six months show growing optimism, so, for example, in South Korea, Taiwan, Pakistan, the Philippines, Singapore, Thailand and India. On the other hand, in Japan the depressed economic situation still shows no sign of improvement according to the experts polled in the survey.

## Western Europe: Cautious hopes for an economic recovery in the course of the next six months

The assessment of the current situation in most Western European economies deteriorated further, with the exception of Denmark, Sweden and the United Kingdom where some improvements were reported. However, expectations for the next six months picked up relatively strongly in almost all European countries included in the survey.

Figure 1





The lowest marks for the current situation were again given by WES correspondents in Germany. On the other hand, economic assessments remained better than the European average particularly in Norway. The outlook for the next six months improved particularly for capital expenditures, which suffered strongly during past twelve months.

#### **Eastern Europe: Economic climate still relatively robust**

The assessments of the current economic situation remained almost unchanged, being still close to the "satisfactory" level. The expectations for the next six months show growing optimism. The current economic situation continues to be more positive than average particularly in Estonia, Hungary, Latvia Slovenia and the Czech Republic. On the other hand, in Bosnia-Herzegovina, Poland, Bulgaria, Croatia and Yugoslavia the current situation is clearly below the "satisfactory" level, though the expectations point more than in the previous survey to some recovery in the course of the next six months.

In Russia, both the current economic situation and the economic outlook for the next six months deteriorated somewhat and slipped now slightly into negative territory. The lower oil price appears to have been mainly responsible for the more sceptical answers. In Kazakhstan, too, the assessment of the current economic situation and the outlook for the next months deteriorated somewhat but still remained quite positive. In contrast, the economic situation is still unsatisfactory in the Ukraine, though less so than in the previous survey; the expectations for the next six months are now seen much more confidently than in past surveys.

#### **United States: Increasing signs of economic recovery**

In contrast to most other countries, the current economic situation in the United States is already showing signs of a recovery, though they are still weak. However, the optimism in the expectations regarding economic developments in the next six months has increased sharply. Thus, the new data support our view that the U.S. economy will pull out first from the cyclical trough. As in most other countries the outlook for capital expenditures improved more than that of private consumption.

Exports are expected to pick up in the course of the next six months but less than imports, with the result that the trade balance will deteriorate further. The single most important problem remains insufficient demand followed by unemployment.

#### **Latin America: Better economic climate despite economic chaos in Argentina**

The signs of economic recovery in the G7 area – particularly in the United States – are showing spill-over effects in Latin America. Brazil, the largest economy in this area, appears to have left the doldrums. The assessment of the current economic situation has emerged from negative territory and expectations for the next six months improved even more, largely due to better export prospects. The economic climate is also relatively positive in Chile. By far the most negative assessments concerning the current economic situation came from Argentina, hit by the currency and banking crisis, followed by Uruguay, Paraguay and Bolivia.

#### **Oceania: First signs of recovery in Australia and New Zealand**

The current economic situation improved somewhat in Australia but declined slightly in New Zealand. Expectations for the next six months point to further recovery in Australia and an unchanged situation in New Zealand. Trade barriers to exports are regarded as a serious problem in both countries. Even more important in New Zealand is the lack of skilled labour, whereas Australia is suffering from increasing unemployment.

#### **Africa: Deterioration of an unsatisfactory economic situation**

In most African countries the economic situation deteriorated somewhat and thus dipped further into negative territory. Also expectations for the next six months worsened, in contrast to the more optimistic trends in most other parts of the world. In South Africa the current economic situation is still better than the African average but here, too, a downward trend can be observed. Not satisfactory but somewhat better than the African average is the economic climate in Tunisia and Morocco. In most other African countries in the WES sample (Kenya, Nigeria and Zimbabwe), the economic sit-

uation is far below the satisfactory level, and no improvement is expected in the next six months.

#### **Near East: Downward trend of economic activity continues**

The economic situation was assessed more unfavourably than in the previous survey and is now clearly below the satisfactory level. However, the outlook for the next six months improved somewhat. An optimistic view of the current situation reemerged only in the United Arab Emirates, in Saudi Arabia and to a somewhat lesser degree in Bahrain. In Iran, Israel, Lebanon and Turkey the current economic situation is assessed as bleak; however, in most cases some improvement is expected in the course of the next six months.

#### **Interest rates: not much scope left for further cuts**

Significantly fewer experts than in the previous survey expect the downward trend of short-term interest rates to continue in the coming months. A spectacular swing from expected rate cuts to possible rate hikes can be observed in the United Kingdom, in Taiwan and in New Zealand. In the United States, where after 11 cuts short-term rates have reached low levels (1.75%), a stable development is expected in the course of the next six months. On the other hand, in Latin America expectations switched from an increase of short-term interest rates to a decrease; this swing is particularly pronounced in Brazil. In Venezuela, Costa Rica and Uruguay the trend of short-term interest rates will remain upward, however. Further cuts of short-term rates are particularly expected in Eastern Europe and to a lesser degree in the Euro area.

With regard to the long-term interest rates, a stabilisation or even a slight increase is expected in the course of the next six months. Thus, the downward trend which started in early in 2000 appears to have come to an end. Long-term interest rates are expected to increase in the next six months particularly in the United Kingdom, Canada, the United States, Australia, Venezuela, Taiwan and also Japan, though here from a very low level.

#### **Inflation expected to slow down in coming months**

On a world-wide scale consumer price inflation in 2002 is now seen to be 3.2% compared with 3.6%

in the previous year (see Table). In the Euro area the inflation rate is expected to reach 2.1% in 2002 after 2.8% in the previous year. Similar figures prevail for the United States. Here a reduction of the inflation rate from 2.8% in 2001 to 2.2% this year appears likely. Asia will again show the highest degree of price stability (1.5% after 1.6% in 2001), influenced heavily by deflationary trends in Japan and Hong Kong (in both cases consumer prices will decline again by almost 1%) and continuing low inflation in China (1.3% after 1.6% last year). But also in other parts of the world a downward trend of inflation – though from a higher level – is expected, e.g. in Eastern Europe from 8.9% last year to 6.7% this year and from in the Near East 17.6% to presumably 12.2% this year. Exceptions from the falling inflation trend are Latin America, and here particularly Argentina and to a lesser degree Venezuela and Uruguay. The increasing price trend in Africa is widespread, though particularly pronounced in Zimbabwe where inflation is expected to surpass the 100% threshold this year.

#### **Euro is still regarded as undervalued**

The euro was still seen as undervalued against practically all currencies, though again somewhat less strongly than in the previous surveys. Conversely, the US dollar and the British pound continue to appear overvalued according to the majority of experts polled. After marked devaluations in recent months, the Japanese yen is now close to an appropriate level according to the majority of the WES experts. Particularly in the Euro area and in Oceania (Australia and New Zealand), a decline of the value of the dollar appears likely, though this expectation was in both cases even more pronounced in the previous survey. On the other hand, in Asia as well as in Eastern Europe and even more pronounced in Latin America and Africa the dollar is expected to strengthen further in the course of the next six months.

#### **Unemployment and insufficient demand maintain their top position amongst economic problems**

The ranking of economic problems remained widely unchanged with unemployment and insufficient demand still seen as the currently most urgent economic problems in most regions of the world.

**Expected Inflation Rate for 2002<sup>\*)</sup> WES 75 (January 2002) and for 2001<sup>\*)</sup> WES 74 (October 2001)**

	2002	2001		2002	2001
<b>AVERAGE of 80 COUNTRIES</b>	<b>3.2</b>	<b>3.6</b>	<b>OCEANIA</b>	<b>2.7</b>	<b>3.6</b>
27 High-income countries	1.7	2.2	Australia	2.8	3.7
44 Middle-income countries	8.8	8.8	New Zealand	2.2	2.7
19 Upper-middle	8.8	7.9			
25 Lower-middle	8.7	11.0	<b>CENTRAL &amp; EASTERN EUROPE</b>	<b>6.7</b>	<b>8.9</b>
9 Low-income countries	4.8	4.3	Bosnia-Herzegovina	2.0	1.0
High-income OECD countries	1.8	2.3	Bulgaria	7.6	7.4
Middle-income OECD countries	8.1	10.2	Croatia	4.2	5.4
Middle-income oil exporters <sup>1)</sup>	8.1	8.4	Czech Republic	4.6	4.9
EU countries	2.1	2.7	Estonia	4.4	5.0
EURO-Area <sup>2)</sup>	2.1	2.8	Hungary	6.5	8.9
Mediterranean (non-EU) countries <sup>3)</sup>	16.9	25.5	Latvia	3.1	2.9
ASEAN and East Asian NICs <sup>4)</sup>	2.5	2.5	Lithuania	2.4	2.5
Asian Pacific Rim <sup>5)</sup>	2.3	2.4	Poland	4.8	5.7
Arabian OPEC countries <sup>6)</sup>	4.2	5.6	Romania	22.3	31.2
			Slovak Republic	6.2	7.5
<b>WESTERN EUROPE</b>	<b>2.1</b>	<b>2.7</b>	Slovenia	6.7	8.3
Austria	1.9	2.5	Yugoslavia	22.5	43.5
Belgium	2.0	2.4			
Denmark	2.0	2.4	<b>CIS</b>	<b>15.5</b>	<b>17.0</b>
Finland	1.7	2.5	Kazakhstan	6.5	9.0
France	1.7	2.0	Russia	18.3	18.8
Germany	1.7	2.4	Ukraine	7.8	9.5
Greece	3.0	3.4			
Ireland	3.4	4.5	<b>CENTRAL &amp; LATIN AMERICA</b>	<b>11.4</b>	<b>6.7</b>
Italy	2.4	2.8	Argentina	72.9	- 0.2
Netherlands	2.7	4.6	Bolivia	5.0	7.7
Norway	2.2	2.9	Brazil	6.2	7.4
Portugal	3.3	3.8	Chile	3.3	4.2
Spain	2.9	3.5	Colombia	7.5	8.6
Sweden	2.3	2.6	Costa Rica	10.7	11.5
Switzerland	1.0	1.2	Ecuador	18.2	21.9
United Kingdom	2.1	2.4	El Salvador	2.0	4.8
			Mexico	5.4	6.3
<b>NORTH AMERICA</b>	<b>2.2</b>	<b>2.7</b>	Panama	1.9	1.4
Canada	2.1	2.5	Paraguay	10.0	10.0
United States	2.2	2.8	Peru	2.8	2.7
			Uruguay	10.8	5.5
<b>ASIA</b>	<b>1.5</b>	<b>1.6</b>	Venezuela	17.8	13.6
Bangladesh	1.5	3.0			
China P.R.	1.3	1.6	<b>NEAR EAST</b>	<b>12.2</b>	<b>17.6</b>
Hong Kong	- 0.8	- 0.7	Bahrain	3.5	3.0
India	4.5	4.9	Iran	13.0	18.0
Indonesia	11.9	11.1	Israel	3.0	3.2
Japan	- 0.9	- 0.7	Lebanon	1.0	1.0
Korea	3.8	3.8	Saudi Arabia	1.3	1.1
Malaysia	2.8	3.0	Turkey	51.0	66.2
Pakistan	6.0	6.5	United Arab Emirates	2.5	3.9
Philippines	5.6	6.4			
Singapore	1.6	1.8	<b>AFRICA</b>	<b>10.5</b>	<b>9.2</b>
Sri Lanka	13.9	14.9	Algeria	4.8	-
Taiwan R.O.C.	1.3	1.3	Egypt	7.0	4.9
Thailand	2.0	2.1	Kenya	7.2	6.4
Vietnam	3.6	1.4	Morocco	2.5	2.4
			Nigeria	15.5	16.3
			South Africa	7.0	6.2
			Tunisia	2.9	2.5
			Zimbabwe	102.6	80.6

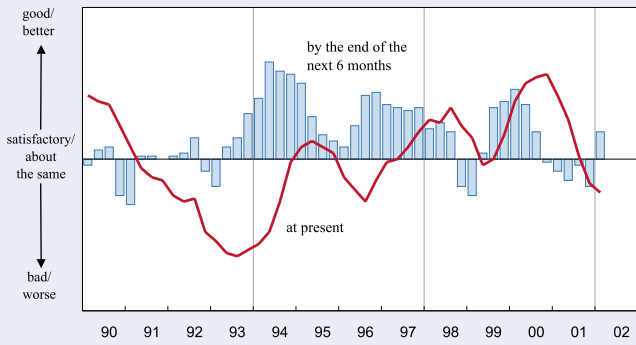
<sup>\*)</sup> Compared to average of previous year. – <sup>1)</sup> Algeria, Indonesia, Iran, Saudi Arabia, Venezuela. – <sup>2)</sup> EU countries without Denmark, Sweden, United Kingdom. – <sup>3)</sup> Algeria, Bosnia-Herzegovina, Croatia, Egypt, Israel, Lebanon, Morocco, Slovenia, Tunisia, Turkey, Yugoslavia. – <sup>4)</sup> Hong Kong, Indonesia, Korea, Malaysia, Philippines, Singapore, Taiwan, Thailand, Vietnam. – <sup>5)</sup> Australia, China P.R., Hong Kong, Indonesia, Korea, Malaysia, New Zealand, Philippines, Singapore, Taiwan, Thailand, Vietnam. – <sup>6)</sup> Algeria, Iran, Saudi Arabia, United Arab Emirates.

Changes worth mentioning are in the United States the growing importance of public deficits (rank 4 after rank 10 in the previous survey) and of lack of confidence in government's economic policy (rank 3 after rank 6). In Africa higher public deficits (rank 4 after rank 6) and increasing inflation (rank 6 after rank 8) are starting to cause

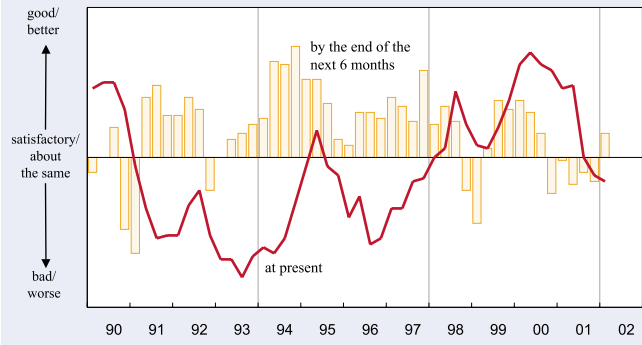
growing concern among the WES correspondents. Apart from these changes, there remained striking differences: In CIS countries the lack of international competitiveness still tops the list of problems, whereas in Eastern Europe this rank is occupied by public deficits and in Oceania (particularly Australia) by trade barriers to exports.

# EUROPEAN UNION

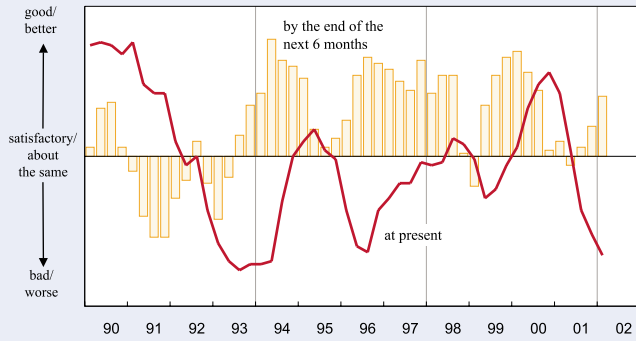
EUROPEAN UNION  
Economic Situation



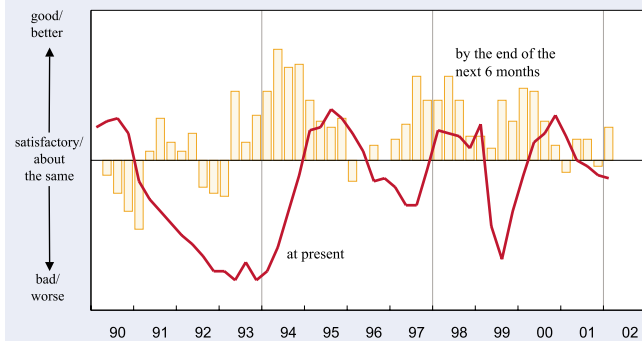
FRANCE  
Economic Situation



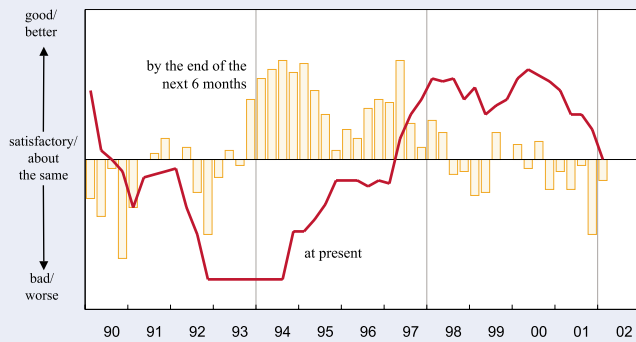
GERMANY  
Economic Situation



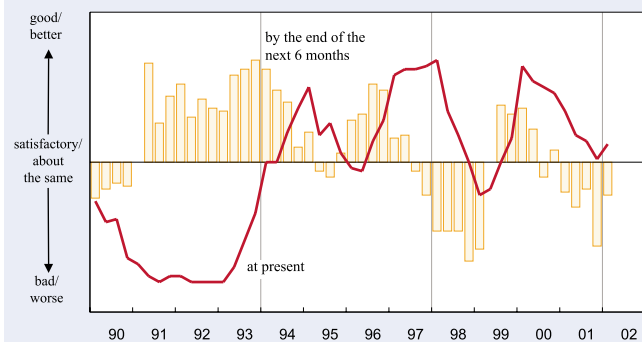
ITALY  
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SPAIN  
Economic Situation

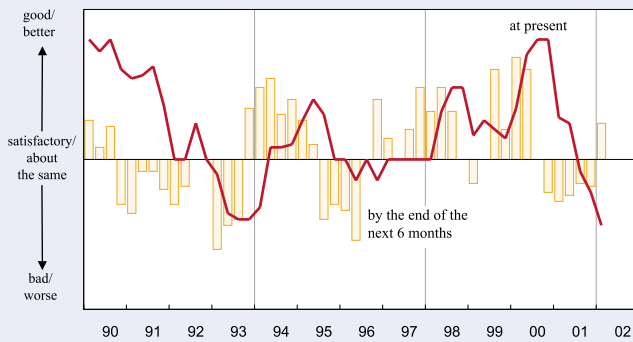


UNITED KINGDOM  
Economic Situation



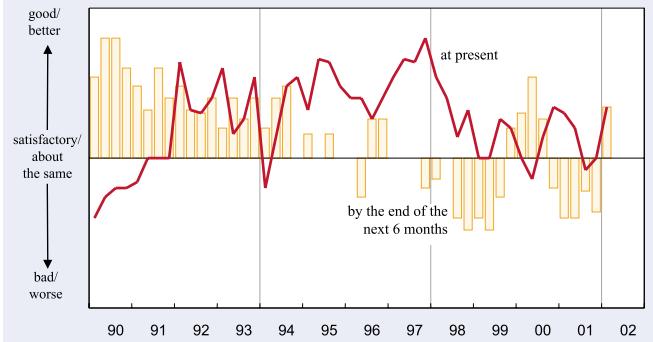
# EUROPEAN UNION

**AUSTRIA**  
Economic Situation



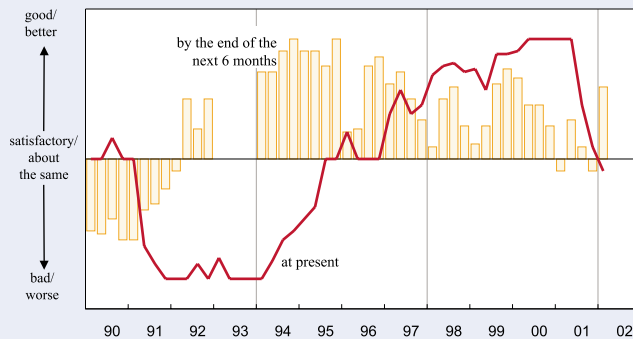
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**DENMARK**  
Economic Situation



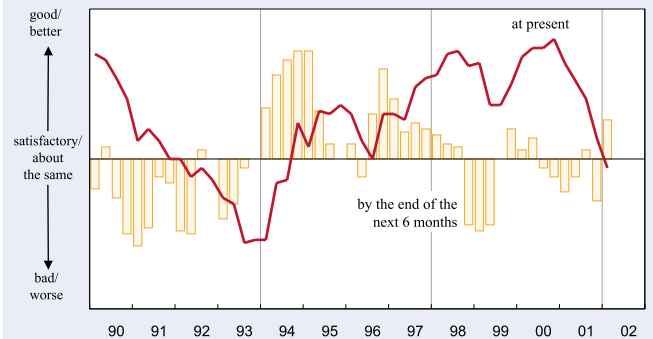
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**FINLAND**  
Economic Situation



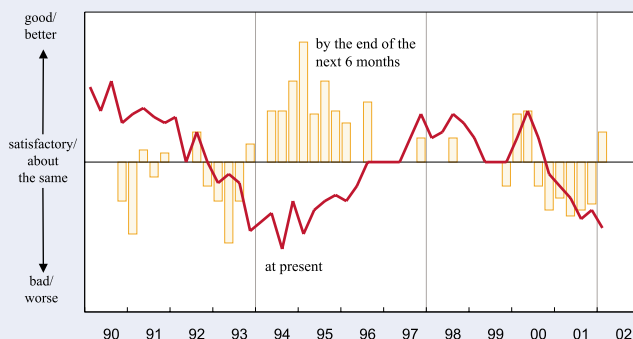
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**NETHERLANDS**  
Economic Situation



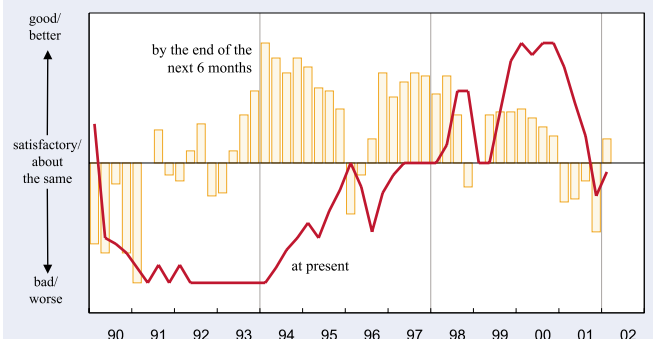
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**PORTUGAL**  
Economic Situation



Source: Ifo World Economic Survey (WES).

**SWEDEN**  
Economic Situation

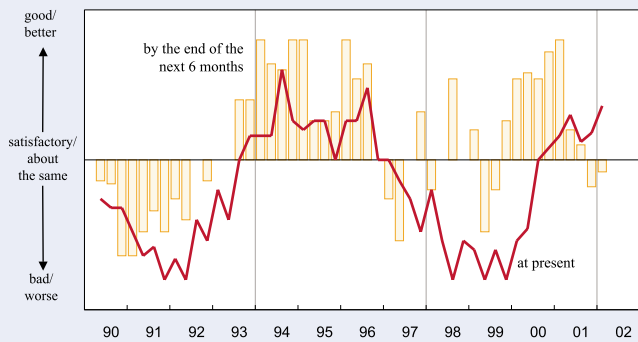


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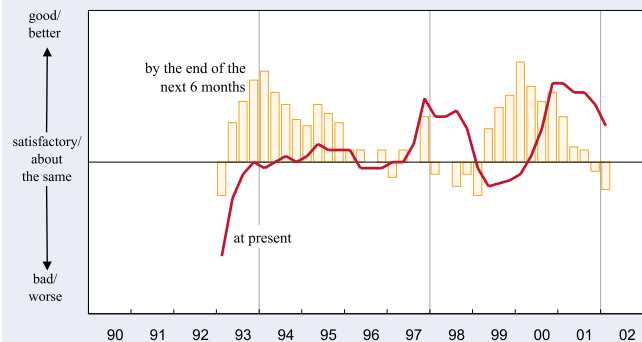
# EASTERN EUROPE

**CZECH REPUBLIC**  
Economic Situation



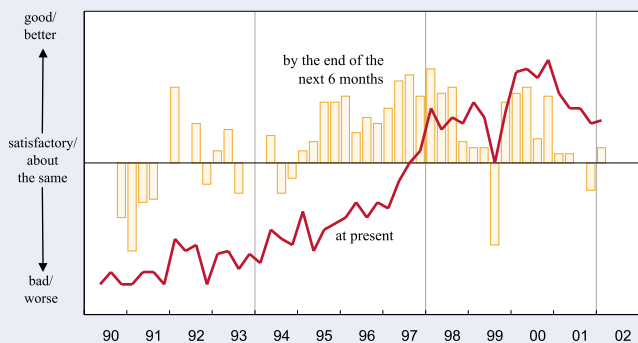
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**ESTONIA**  
Economic Situation



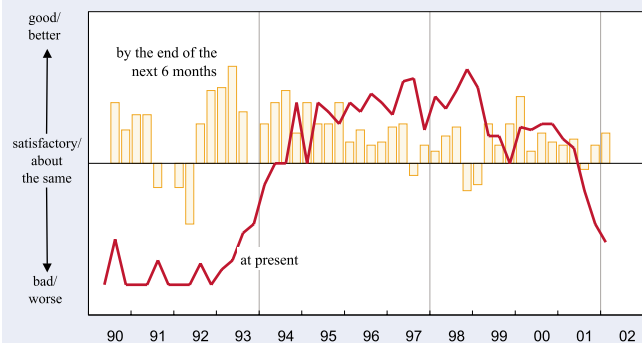
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**HUNGARY**  
Economic Situation



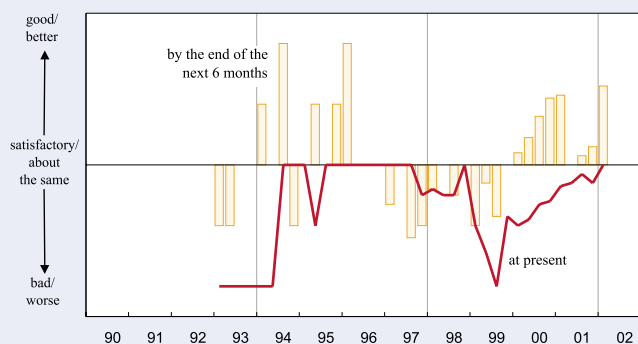
Source: Ifo World Economic Survey (WES).

**POLAND**  
Economic Situation



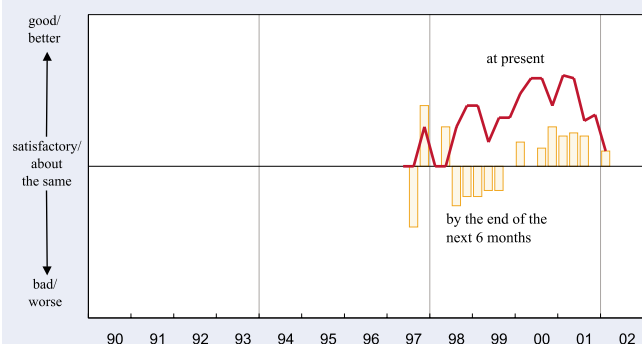
Source: Ifo World Economic Survey (WES).

**SLOVAK REPUBLIC**  
Economic Situation



Source: Ifo World Economic Survey (WES).

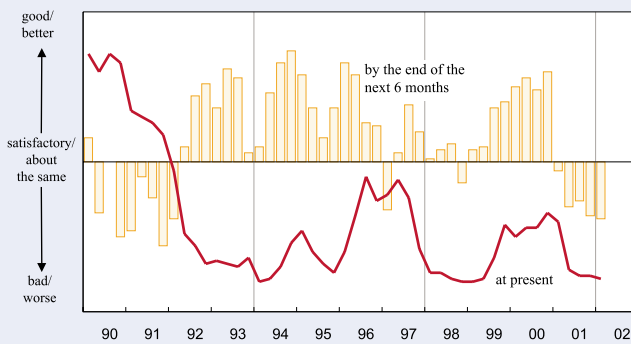
**SLOVENIA**  
Economic Situation



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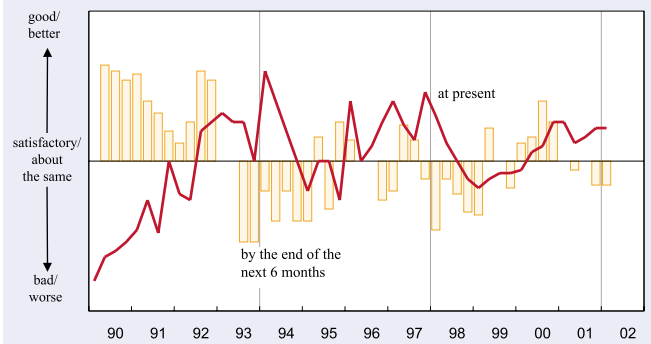
# ASIA

**JAPAN**  
Economic Situation



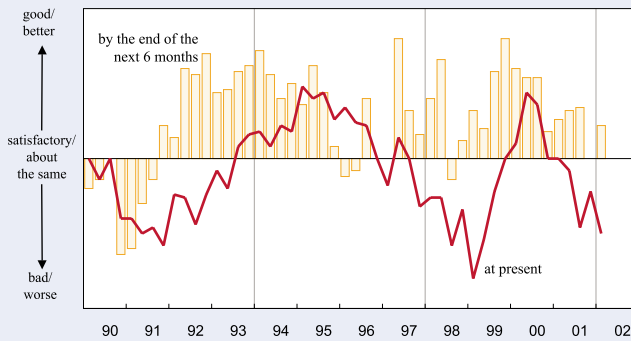
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**CHINA P.R.**  
Economic Situation



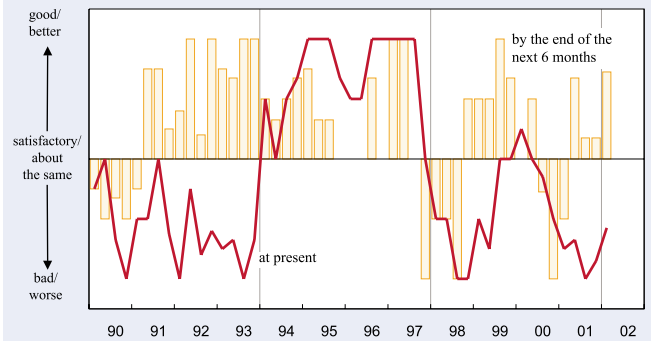
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**INDIA**  
Economic Situation



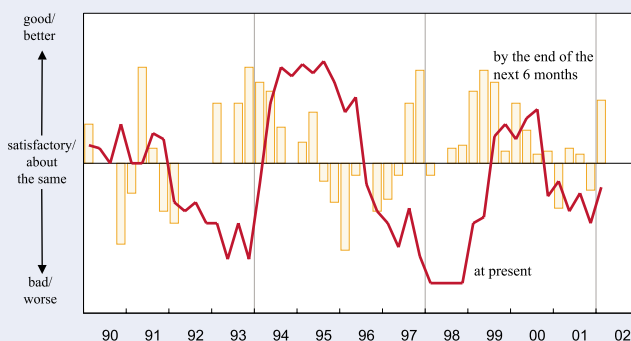
Source: Ifo World Economic Survey (WES).

**PHILIPPINES**  
Economic Situation



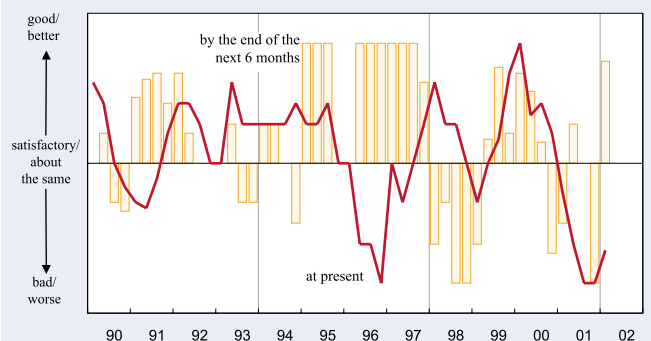
Source: Ifo World Economic Survey (WES).

**SOUTH KOREA**  
Economic Situation



Source: Ifo World Economic Survey (WES).

**TAIWAN R.O.C.**  
Economic Situation



Source: Ifo World Economic Survey (WES).