

Unrealistic expectations cast shadow over G20 summit

With real economic activity sinking relentlessly and the mood of despair deepening, misguided hopes that April's G20 summit in London will be the turning point can only serve to worsen despondency, writes David Kern



The current recession is much nastier than originally envisaged. In the last quarter of 2008, GDP shrank at an annualised rate of around 6% in the US, the UK and the eurozone. In Japan, the economy plummeted at an annualised rate of more than 12%. Countries with strong export sectors, such as Germany and Japan, have suffered worse downturns than the US and the UK with their overvalued housing markets. China is facing huge pressures.

Employment The first quarter of 2009 has seen a further sharp deterioration, with unemployment up sharply. US jobs fell by 651,000 in February, the third straight month with losses exceeding 600,000. Since the recession began, the US has lost 4.4 million jobs; more than half of these losses have occurred in the past four months. At 8.1%, US unemployment is at its highest in more than 25 years.

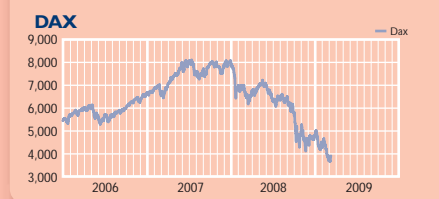
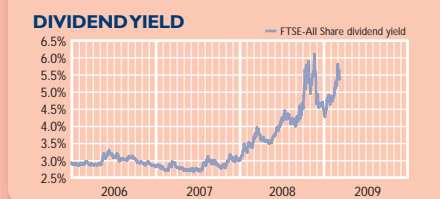
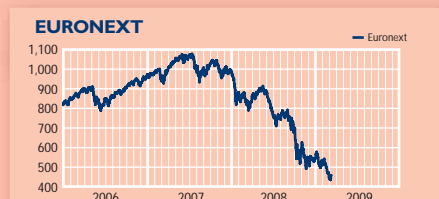
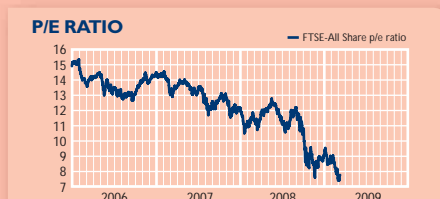
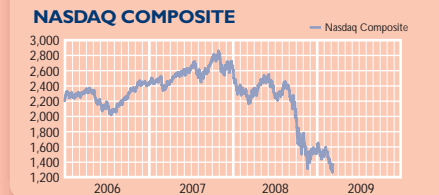
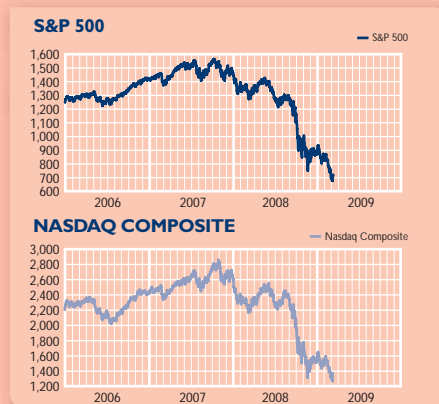
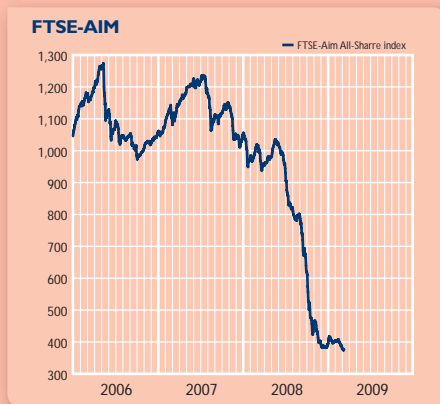
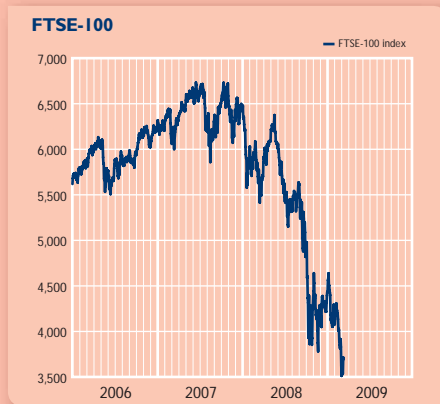
Rates The US Fed funds rate has been at almost zero since December. In the UK, Bank Rate was cut to 0.5% in March, but further cuts are unlikely. In both the US and the UK, monetary policy has already moved to the unconventional arena of quantitative measures, with the aim of unblocking credit markets and increasing money supply.

The US programme is mainly concentrated on supporting the issuance of up to \$1,000bn of new securities backed by consumer loans. The UK plan (an initial allocation of £75bn, with the option of increasing to £150bn) is even more aggressive. The Bank of England is purchasing government bonds, an extreme measure that is nearest to outright money creation. The European Central Bank, which cut rates to 1.50% in March, is still moving too slowly. But, in the face of deepening recession, it will reluctantly have to cut rates further and pursue quantitative easing.

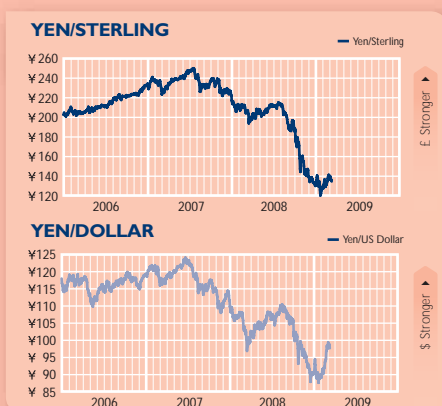
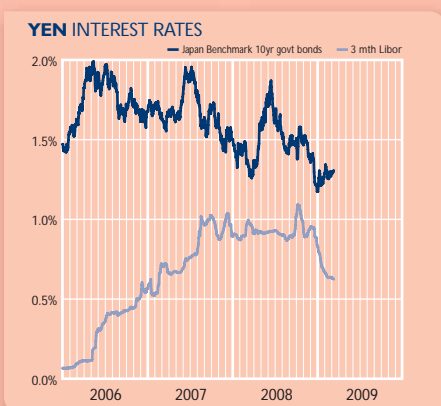
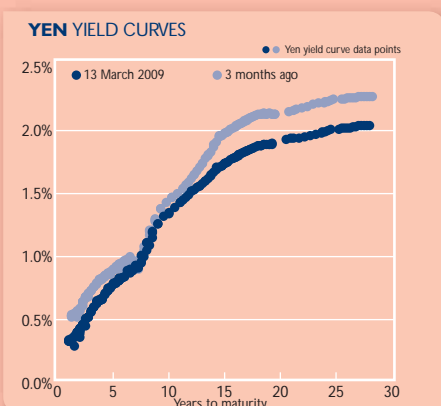
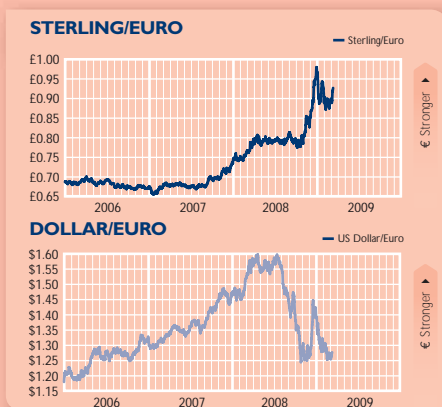
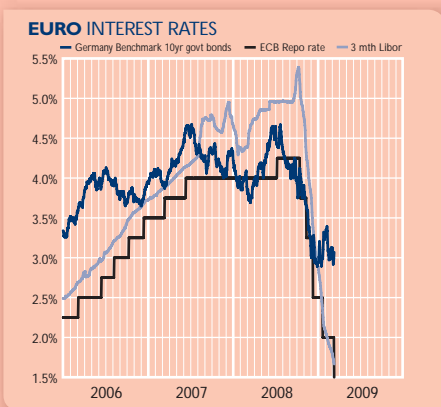
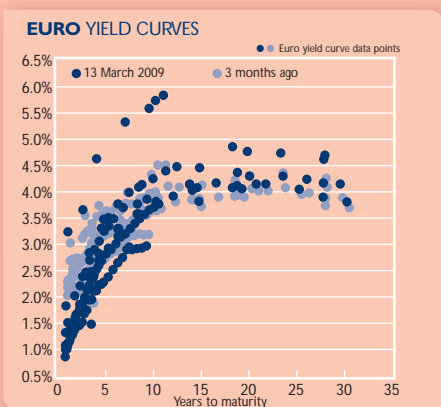
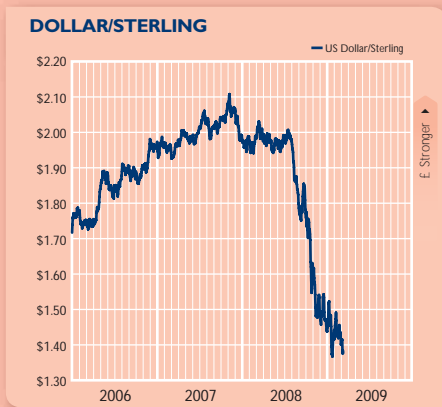
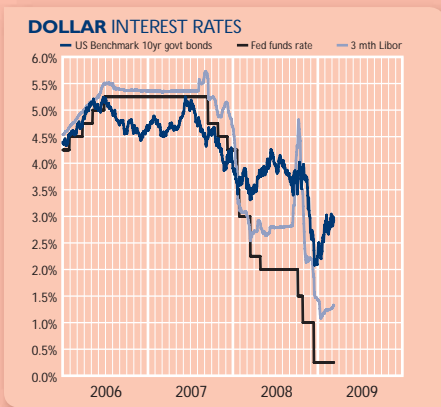
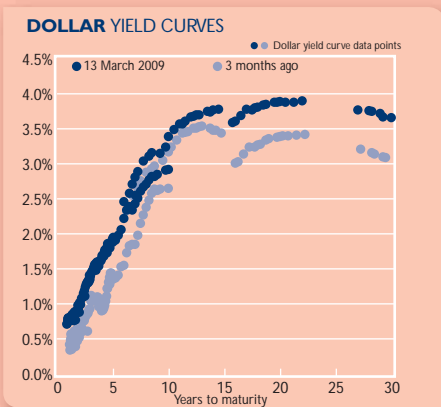
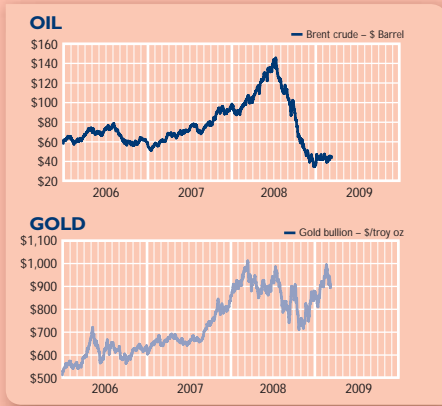
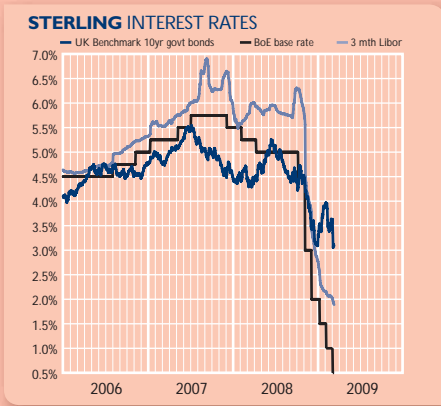
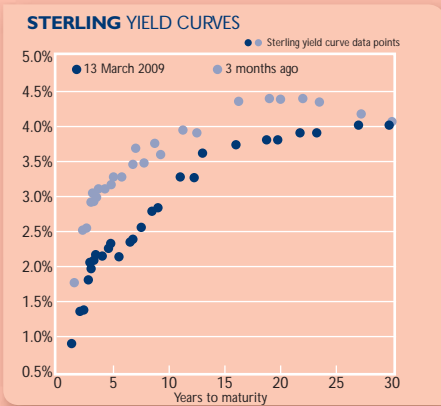
The G20 summit, by involving China and other emerging powers in key decisions, will acknowledge new realities in the global balance of power. But there are genuine divergences between the key players, which will be difficult to reconcile. Chinese exports plunged 25.7% in February compared with a year ago, much worse than expected, as the global crisis damages China's export sector. If the Chinese react by devaluing their currency, the threat of a trade war between the US and China would escalate.

There are also worrying tensions between the US, which advocates aggressive Keynesian stimulus, and a more cautious Europe led by Germany.

David Kern of Kern Consulting is economic adviser to the British Chambers of Commerce. He was formerly NatWest Group chief economist



All graphs source: Thomson Reuters Datastream



All graphs source: Thomson Reuters Datastream