

Global Economy

Portraits of a global recession and recovery

- **US and Eurozone recessions shallower than those in Japan and the UK.**
- **US likely to recoup losses faster than the Eurozone, Japan and the UK.**
- **Japan GDP down 8.3% peak-to-trough, but fell by 9.6% compared to potential.**

Economic data are now pointing to most of the major developed world economies exiting, or having already exited, recession by Q3 2009¹. Economists are also tentatively revising up their forecasts². With the rebound turning into a recovery, attention is now turning to inflation, and whether the economic stimulus will generate inflation or whether prices will be held down by surplus capacity.

It is therefore important to assess just how far national GDP fell in the US, the Eurozone, Japan and the UK, and how long it might take to recover the economic output lost during the downturn (see charts 1-4 on page 2 and table 1 to the right).

Official data indicate that the relative scale of the downturn in US GDP was less severe than in the Eurozone, Japan and the UK, with US GDP down 3.9% from its pre-recession 'peak'. In contrast, the deepest retrenchment was seen in Japan, where output dropped by an eye-watering 8.3% from peak-to-trough. Meanwhile, the economies of the Eurozone and the UK have shrunk by 4.5% and 5.6% respectively from their pre-recessions peaks.

The recessions witnessed in these economies not only erased previously achieved gains in GDP, but also

eroded potential growth³, i.e. gains which may have been achieved if these nations had continued to expand at a trend rate. If the additional loss of trend GDP growth is taken into account, the size of the US economy was approximately 6.8% lower at the end of Q2 2009 than its potential. Taking into account potential gains in GDP, Japan contracted by 9.6% and the Eurozone and the UK by 7.4% and 8.1% respectively.

Table 1: Actual and potential losses in GDP.

	Peak-to-'trough' (Q2 09)	Loss-to-potential	Recovery at trend ¹	Trend ¹
United States	-3.9%	-6.8%	Q4 2010	0.76%
Eurozone	-4.5%	-7.4%	Q2 2011	0.60%
Japan	-8.3%	-9.6%	Q1 2015	0.34%
United Kingdom	-5.6%	-8.1%	Q3 2011	0.70%

All things being equal, the US should be well positioned coming into its rebound. Not only was the actual retrenchment shallower than in the other major regions, but the trend rate of growth achieved prior to the downturn was also faster. If this trend rate is assumed (on average) going forward, the US will recoup the output lost during the downturn by late-2010. Under the same assumptions the Eurozone and the UK, which fell further and generally expanded slower than the US, would recoup their losses during mid- to late-2011. Japan would take much longer to return to its peak prior to the global recession.

The above analysis obviously depends on how quickly these economies can return to trend growth as they pull out of their recessions. Much will depend on the impact of factors such as high unemployment on consumer spending, credit availability and cost and the removal of fiscal and monetary stimuli.

¹ See our commentary note on this subject at http://www.markit.com/assets/en/docs/commentary/markit-economics/sept%2009/Global_GDP_09-09-04.pdf

² See our commentary note at http://www.markit.com/assets/en/docs/commentary/markit-economics/sept%2009/Global_outlook_09-09-07.pdf

³ To calculate the 'trend' growth of these nations, an average was taken for quarter-on-quarter rates of change from the end of the recessions in the early 1990s and the start of the recession in 2008.

Chart 1: US GDP

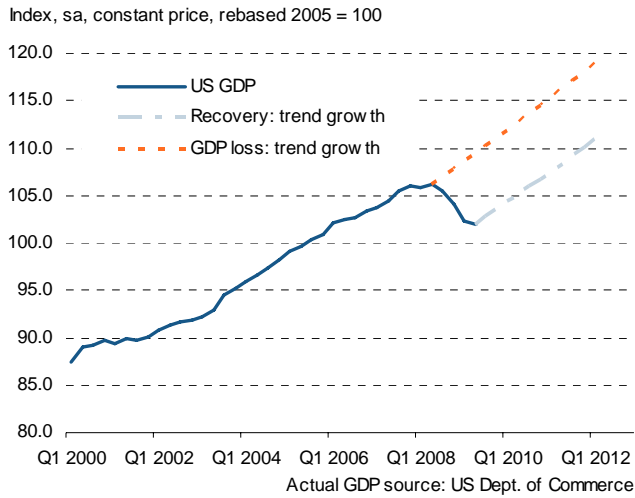


Chart 3: Japan GDP

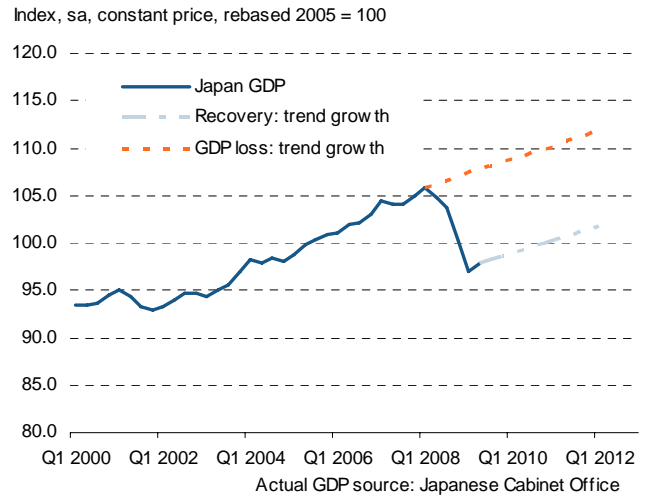


Chart 2: Eurozone GDP

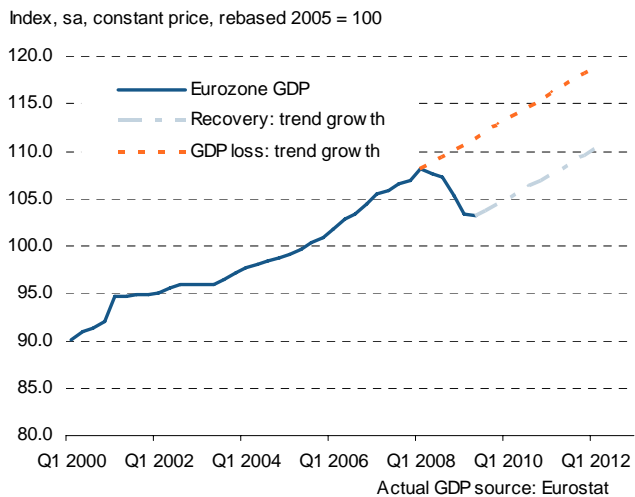
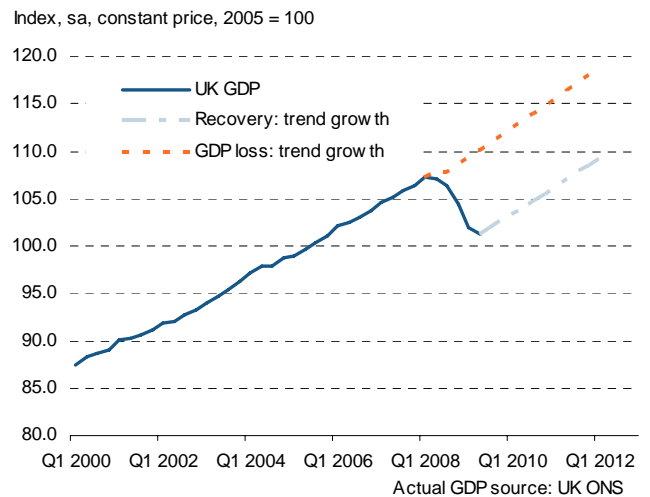


Chart 4: UK GDP



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