



From Recession to Recovery

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Motivation

- Global economy is experiencing deepest downturn in post-WWII period
 - Most advanced economies currently in recession

- Two key aspects of the current recessions are:
 - Their association with financial crisis
 - Their high international synchronization

Questions

- Are recessions and recoveries associated with financial crises different from others?
- What are the main features of globally synchronized recessions?
- What are the implications for the short-term prospects of the global economy?

Key Messages

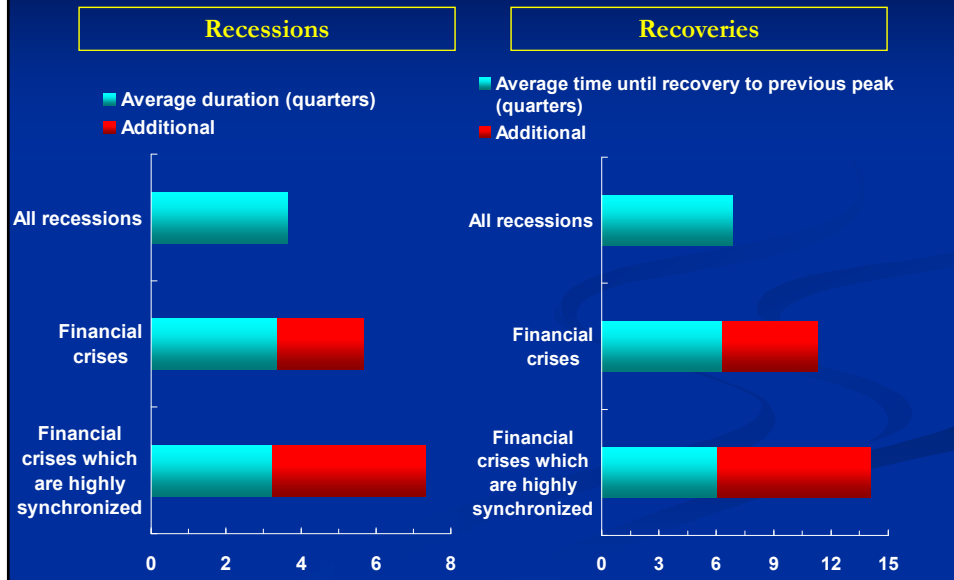
- Recessions associated with financial crises are severe and recoveries from such recessions are typically slow. These features become more pronounced if, in addition, the recession is global.
- Consistent with these findings, the April 2009 WEO projected that global economic activity will decline in 2009 and recover gradually during 2010.
- Recent developments are mixed ... outlook remains broadly in line with April 2009 WEO forecast.

1. Recessions and Recoveries

We Examine Business Cycles in 21 Advanced Economies ...

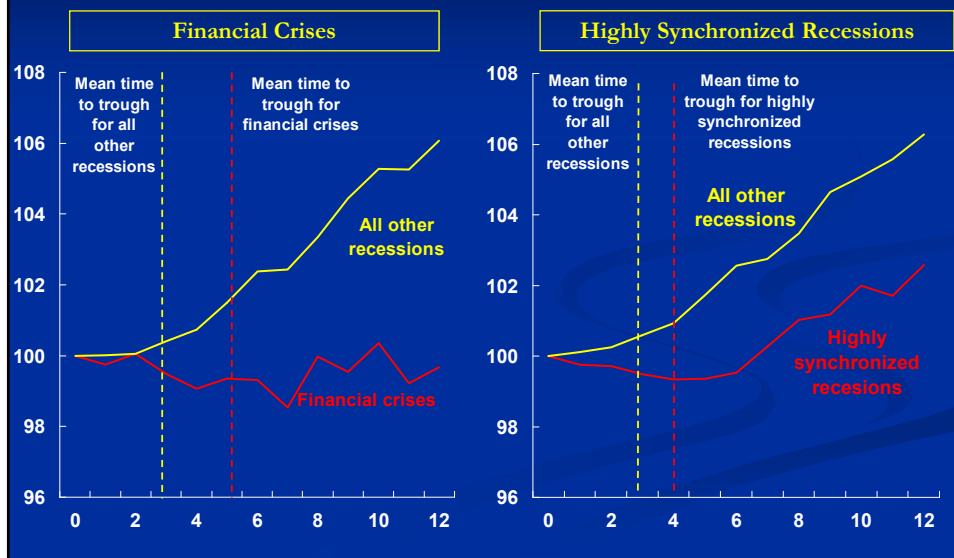
- Excluding the current recessions, there were 122 recessions since 1960. Of which:
 - 15 were associated with financial crises
 - 37 were globally synchronized (1975, 1980 and 1992).
 - 6 were both associated with financial crises and globally synchronized.

Recessions and Recoveries are Longer when Global and associated w/ Financial Crises ...



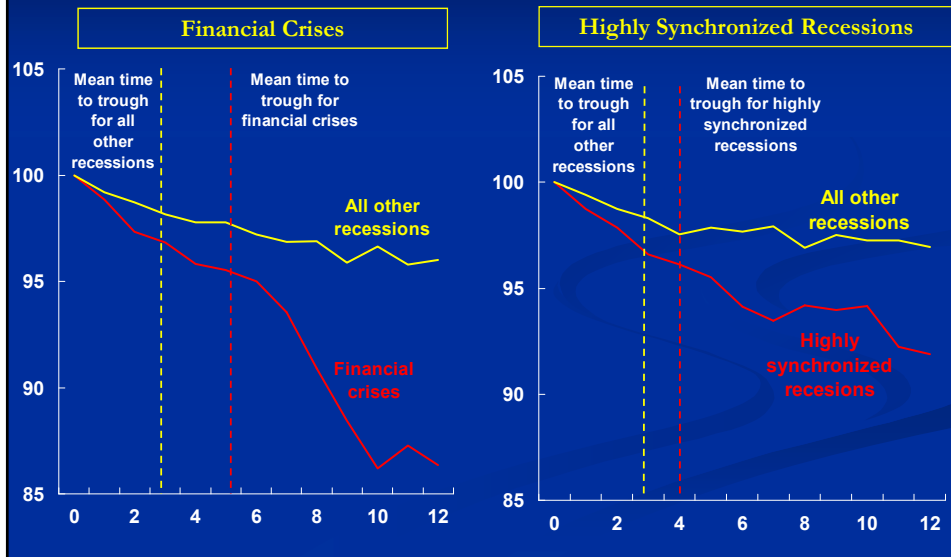
Mainly Reflecting Consumption Dynamics ...

(Median = 100 at $t = 0$; peak in output at $t = 0$)



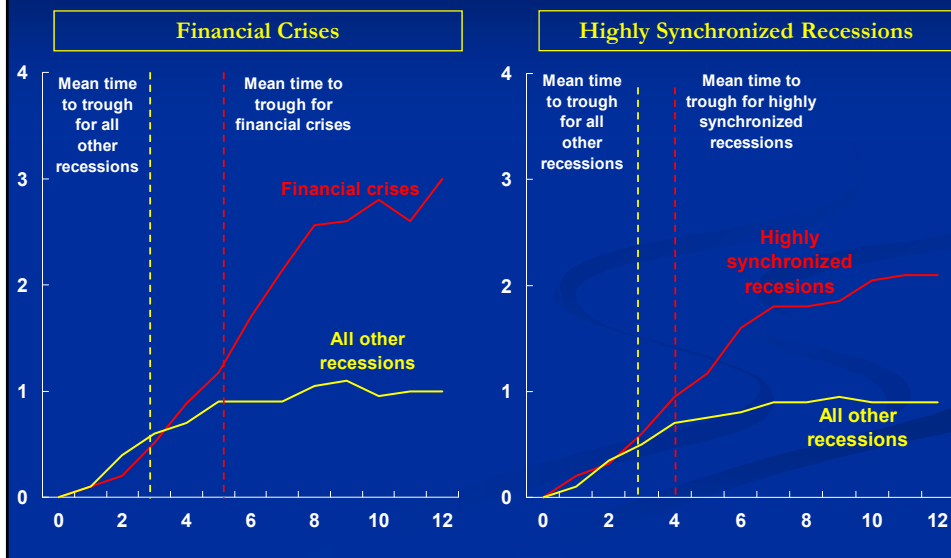
Which, in turn, Reflects House Prices Dynamics ...

(Median = 100 at $t = 0$; peak in output at $t = 0$)



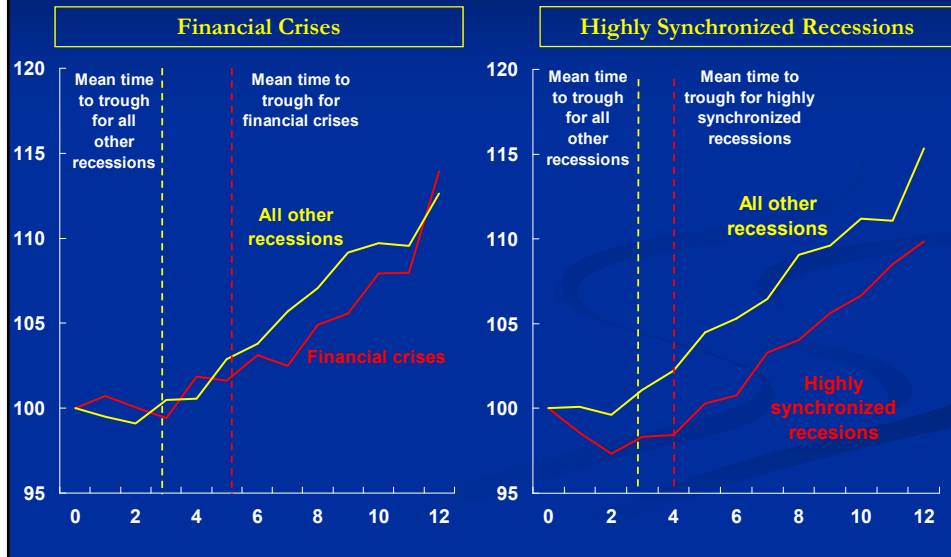
And sharp increases in unemployment ...

(Median difference from $t = 0$, in percentage points; peak in output at $t = 0$)



Exports Play Important Role in Recovery ...

(Median = 100 at $t = 0$; peak in output at $t = 0$)

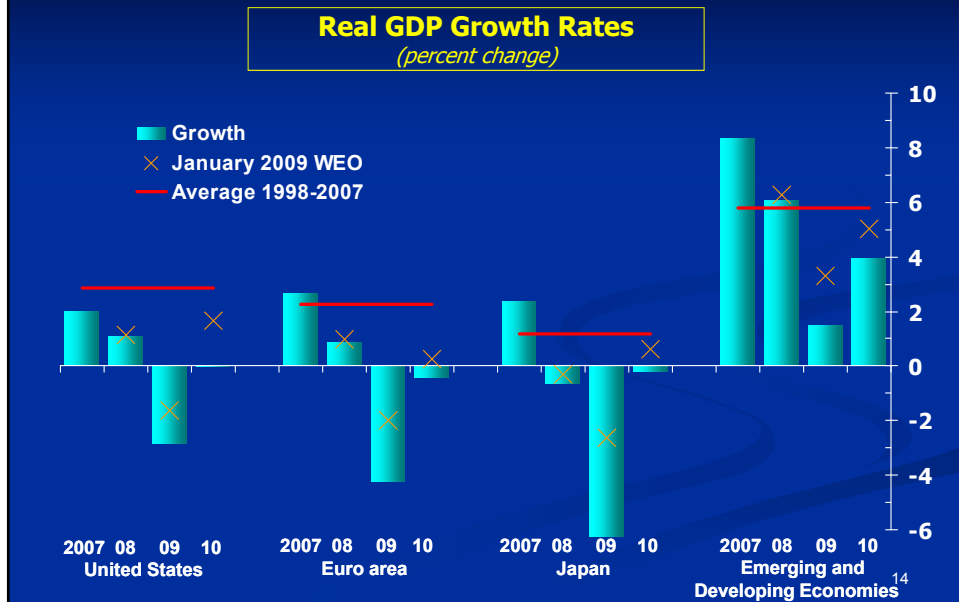


2. Current Global Outlook

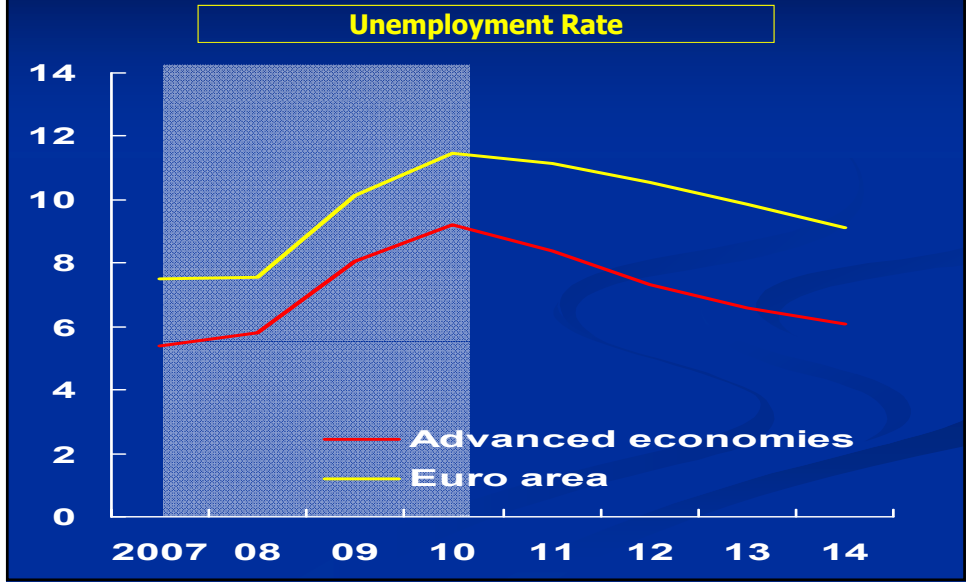
WEO forecast sees world contracting in 2009 and recovering modestly in 2010 ...



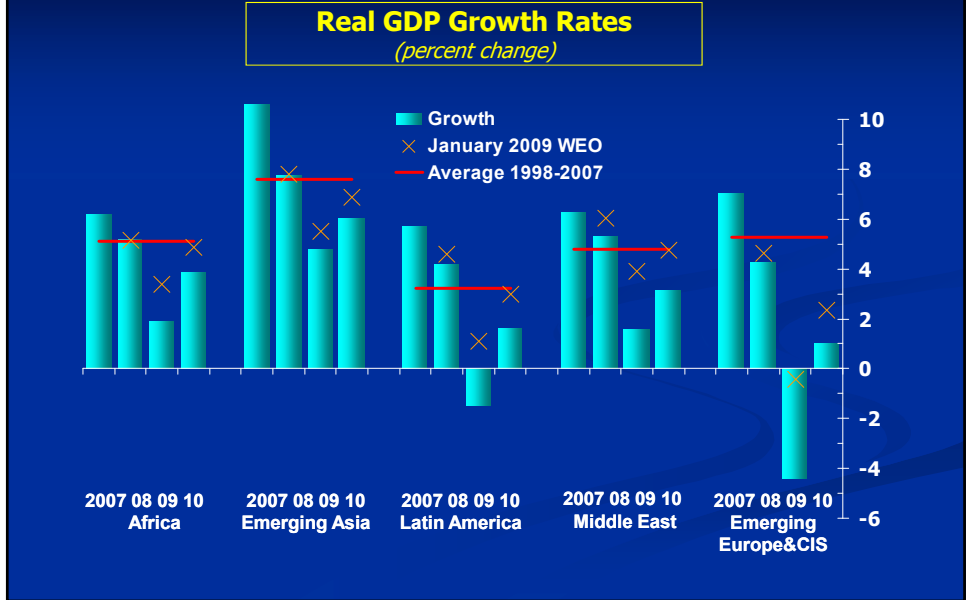
Advanced economies are projected to suffer the deepest recession since World War II...



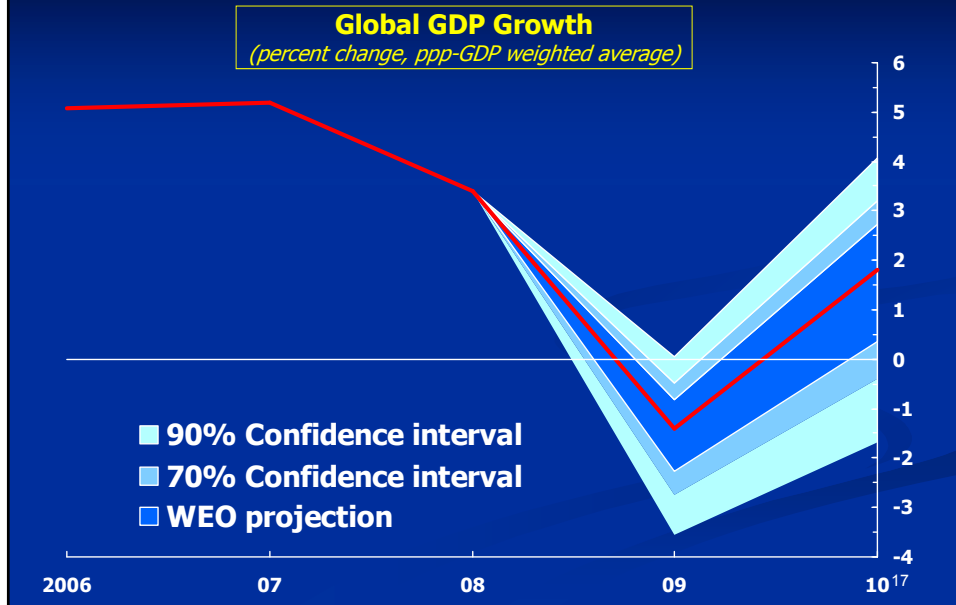
Unemployment in advanced economies would reach very high levels, retreating only in 2011 ...



Emerging economies are projected to suffer too, but high growth in Asia is holding up activity ...



Risks to April WEO projections were seen to be large and tilted to the downside.



April 2009 WEO baseline is broadly consistent with recent developments ...

- Following a disappointing Q1-2009, some indicators suggest that global downturn might be moderating.
- However, signals are mixed and not uniform across country regions.

Risks to the outlook remain tilted to the downside, although probably to a diminishing extent ...

- **Downside risks.**
 - Financial strains could intensify again.
 - Trade and financial protectionism remains a concern.
 - Deflation risks.
 - Concerns about high public debt and fiscal sustainability.
- **Upside potential.**
 - Faster than expected restoration of market trust and confidence, helped by successful macroeconomic policies.



Websites:

<http://www.imf.org/external/pubs/ft/weo/2009/01/index.htm>