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Global Scenarios is a quarterly analysis focusing on the outlook for the global economy. Read about the perspectives for and the most important risks to the global economy. The publication *Nordic Outlook* presents our expectations for the Nordic economies.

Introduction: Moving away from the abyss

- Global GDP has collapsed over the past quarter with no regions escaping the downturn. Most recently, the crisis has increasingly moved to Europe and Central and Eastern Europe (CEE) where substantial financial and political tensions are visible. Not everything is doom and gloom, though. Emerging signs of an earlier-than-expected recovery in Asia has been a positive surprise, and leading indicators of global manufacturing production are also bottoming.
- The global economy and financial markets will take a long time to heal, and the sense of crisis should persist in the coming quarters. However, within this environment the massive stimulus from economic policy and lower commodity prices should succeed in stabilising global demand from Q2 2009 and onwards in our view. With the global business destocking process completing in the next few months, global manufacturing surveys should recover over the spring and summer quarters. We expect the contours of a global recovery to be in place entering H2 2009.
- The main risk to our global forecast is an even bigger negative impact from the financial crisis. Event risk remains high and renewed turmoil – not least in CEE – could postpone the recovery. Compared to market consensus we are slightly optimistic on the US and Asia, while we are pessimistic on Euroland and CEE. Consensus is rapidly moving down in the latter regions, though.
- We expect the US to move out of recession by mid-year 2009. Even though the recession dynamics are strong at the moment, the stimulus kicking in from Q2 is massive. We expect this to provide a sufficient boost for a moderate economic recovery in H2 2009. Deleveraging will continue to be a strong headwind, though.
- China has the deepest pockets in the world economy and is one of the few regions where lending standards are actually being eased rather than tightened. China looks to be “last in – first out” of the crisis and is expected to become a stabilising force in the global economy in 2009.
- In Europe the crisis is likely to draw out for a long time. Trend growth will not return until the end of 2010 on our estimates. CEE is in a very severe downturn, and with little ammunition to battle the crisis, the downturn should be long and deep. Substantial event risk for financial markets persists in this region.
- While headline inflation in most countries is expected to fall below zero during spring, this is mainly due to the decline in commodity prices. A huge output gap will put downward pressure on core inflation worldwide, but we believe the risk of deflation in core prices is limited.
- With most central banks at or approaching the zero interest rate boundary, the focus is turning to more non-standard measures such as quantitative easing. The Fed will continue – and possibly expand – its quantitative easing programme and the ECB could start an asset purchase programme during summer. In Emerging Markets we expect further policy easing where possible, but some countries will be forced to tighten fiscal policy in order to receive help from the IMF – especially in CEE.

Looking into the abyss

Dreadful past quarter

The downturn in the aftermath of the bankruptcy of Lehman Brothers turned out to be much more severe than envisaged in late 2008. The last quarter of 2008 was the worst seen in decades, with a collapse in both demand and production as the world economy was left in shell-shock from the escalating financial crisis (see box next page). The worst hit was seen in Japan where industrial production has fallen to levels not seen since 1987! Even the massive boost from a lower oil price has failed to lift consumption growth – as the

money has mostly been saved instead of spent. And in global housing the decline in activity and prices has continued unabated.

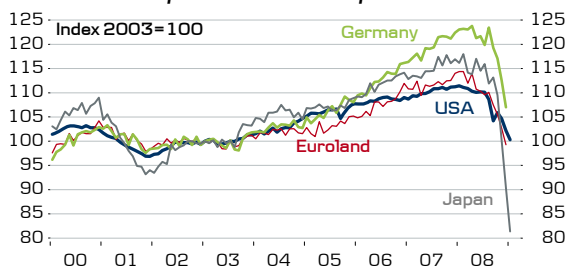
GDP & CPI forecasts				
	USA	Euroland	Japan	China
	--- GDP ---			
2008	1.1 (1.3)	0.7 (1.0)	-0.7 (0.3)	9.1 (9.4)
2009	-2.7 (-0.5)	-2.7 (-0.7)	-5.0 (-0.5)	7.2 (7.5)
2010	2.5 (2.4)	0.8 (1.2)	2.8 (0.9)	9.2 (9.2)
	--- CPI ---			
2008	3.8 (4.6)	3.3 (3.3)	1.5 (1.6)	5.9 (6.2)
2009	-0.8 (0.2)	0.5 (0.9)	-0.9 (-0.6)	-0.4 (2.8)
2010	2.5 (2.4)	1.3 (1.9)	-0.1 (0.5)	1.4 (3.1)

Note: Previous forecasts in parenthesis
Source: Danske Bank

Box I: The shell-shock from the financial crisis

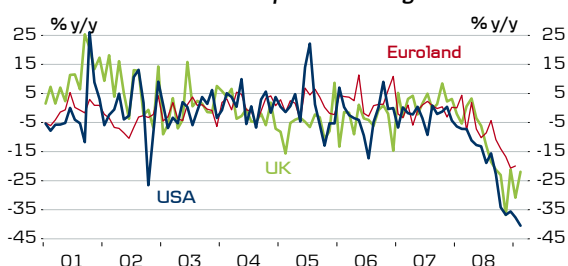
When the bankruptcy of Lehman Brothers occurred in autumn 2008 the world economy was already slowing down - partly in response to the strong rise in the oil price during H1 2008. The dramatic escalation of the financial crisis left the world economy in shell-shock and both production and demand came to a halt.

Industrial production collapses in Q4 08



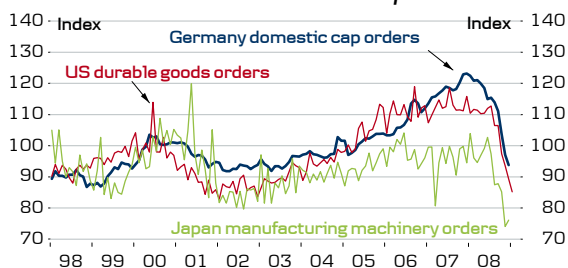
In private consumption the shock is most visible in car sales. Banks tightened lending standards markedly and the asset-backed security market used for car financing in the US broke down. Consumers also voluntarily raised their savings as uncertainty and unemployment rose fast.

Car sales plummeting



The break down in financial intermediation also hurt global investments as the access to *and* cost of funding worsened dramatically. And - as with consumers - companies raised savings by postponing investment plans.

Investments have collapsed



Source all charts: Reuters Ecowin

The economic crisis is putting extra fuel onto the financial crisis fire as it contributes to loan losses and greater uncertainty. After a small improvement early in 2009, the financial crisis took a turn for the worse again in February as equities fell further and credit spreads widened again. The financial crisis has also moved to new places - most recently to CEE where highly leveraged economies are starting to suffer badly from the economic downturn and obstructed access to capital markets. In Euroland, speculation about a break-up in the EMU has triggered a massive widening in spreads between peripheral countries and Germany.

All this has happened with only very few supportive factors apart from the decline in commodity prices. Economic policy has been eased significantly, but with the usual policy lag this will not start to have any material effect before Q2 this year.

Not all has been doom and gloom

It has not all been doom and gloom, though. We are starting to see small signs of improvement in several areas:

- China is showing signs of improvement with the PMI survey for manufacturing picking up quite strongly for three months now. This is earlier than expected and is probably a sign that the fiscal stimulus and easing of lending standards is starting to have an effect. A strong rise in exports in both South Korea and Taiwan in February also suggest that Asia may be over the worst point.
- Global leading indicators are tentatively forming a bottom. The indicators still point to falling production, but at a slowing pace (See [Global: Business Cycle Monitor](#))
- There are more anecdotal reports of businesses having run down inventories to "acceptable" levels. Japanese car makers for example have reported they will start to raise production again soon after cutting back production since September - see [Wall Street Journal article](#).
- Retail sales have shown small improvements in January and February in several countries. Particularly the UK and France have