



**Bank
Financial
Group**

TD Economics

Commentary

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WORLD BANK DOWNGRADED ECONOMIC FORECAST IS MOSTLY OLD NEWS

- The World Bank downgraded their forecast for the global economy, now expecting a **-2.9%** contraction for 2009.
- But this figure is not directly comparable to global growth figures published by the IMF or ourselves because of the weights used to aggregate various economies.
- Comparing apples to apples, the World Bank's forecast for 2009 global growth is **-1.7%**, compared to our own forecast of **-1.9%**.

Market sentiment soured today, in part on the release by the World Bank of their annual *Global Development Finance* report. At face value, however, there is little new in the report so we are a bit puzzled by the market's reaction. The World Bank sees labour markets continuing to weaken around the world, a slow and shallow recovery, and low-income developing economies being particularly hit hard, as well as other developing economies with high external indebtedness and large current account deficits. We fully agree, but this seems to have been the market consensus for several months now. And even the economic forecasts in the World Bank's report are little different from our own.

Much of the coverage of the report has focused on the World Bank's downgraded economic forecasts, citing their expectation for a contraction of the global economy by -2.9% in 2009 followed by a +2.0% expansion in 2010. These figures, however, are not directly comparable to our own global growth figures of -1.9% and +2.7% for 2009 and 2010, respectively, or the similar figures released by the IMF in April for -1.3% and +1.9%. While all of these growth figures are real GDP figures, meaning they are adjusted for inflation, the World Bank figures cited (as well as OECD figures to be released later this week) weight

GLOBAL ECONOMIC OUTLOOK				
Annual per cent change unless otherwise indicated				
Real GDP	2007 Share	2008	Forecast	
			2009	2010
World	100	3.0	-1.9	2.7
U.S.	21	1.1	-2.8	1.6
Canada	2	0.4	-2.4	1.4
Remaining Americas	8	3.8	-3.1	3.0
EU-13	16	0.6	-4.4	1.2
U.K.	3	0.7	-3.4	1.9
Remaining Europe, Middle East, and Africa	13	4.3	-1.4	1.9
Japan	7	-0.7	-7.0	1.3
China	11	9.0	6.7	8.4
Remaining Asia	18	4.7	-1.6	3.6

TD Economics forecast as at June 2009

individual economies in the world at market exchange rates, rather than purchasing power parity-adjusted (PPP) exchange rates used by most commentators, which adjusts for the wide differences in the cost of living around the world.

The end result is that the World Bank's headline figures place higher weights on developed economies like the U.S., Eurozone, and Canada, and less weight on developing economies. Since developing economies typically grow faster than developed economies, this means market exchange rate forecasts are almost always below PPP forecasts. In their report, the World Bank does provide the comparable PPP-adjusted global growth figures, which come in at -1.7% in 2009 and +2.8% in 2010, so virtually the same as our existing forecast (for more, see our Quarterly Economic Forecast of June 16th at <http://www.td.com/economics/qef/qefjun09.pdf>).

This methodology in no way affects the growth rates

of the individual economies reported. Overall, these forecasts were significantly lower than their previous forecasts, but this reflects the much worse than expected contraction in the first half of this year, not a material weakening to the forecast going forward. Indeed, we see very little difference between the World Bank's new forecasts and our own. For 2009/2010, they forecast U.S. GDP growth of -3.0%/+1.8%, we forecast -2.8%/+1.6%, so not meaningfully different. For the Eurozone, they forecast -4.5%/+0.5% while we forecast -4.4%/+1.2%, as we have begun to discount the risk of second-round financial strains there but still see significantly subpar growth. For Japan, they forecast -6.8%/+1.0%, while we forecast a similar -

7.0%/+1.3%. Among emerging markets, the 2009 forecasts are little different between our own and the World Bank's. For 2010, we are more optimistic on China, Brazil, and Mexico, but less optimistic on India and Russia than the World Bank.

The global economy will continue to see a tough slog. But we would focus less on 2009 growth statistics which are pulled down by the past and more on the future, which continues to point to recovery, although a shallow and likely choppy recovery at that.

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