

# Perspectives on the Current Economic Crisis

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Paul Ormerod  
Riyadh, Saudi Arabia  
22<sup>nd</sup> December 2008

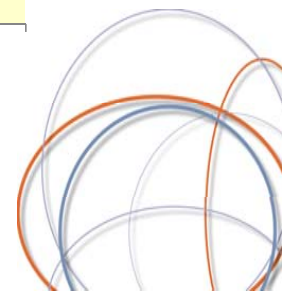
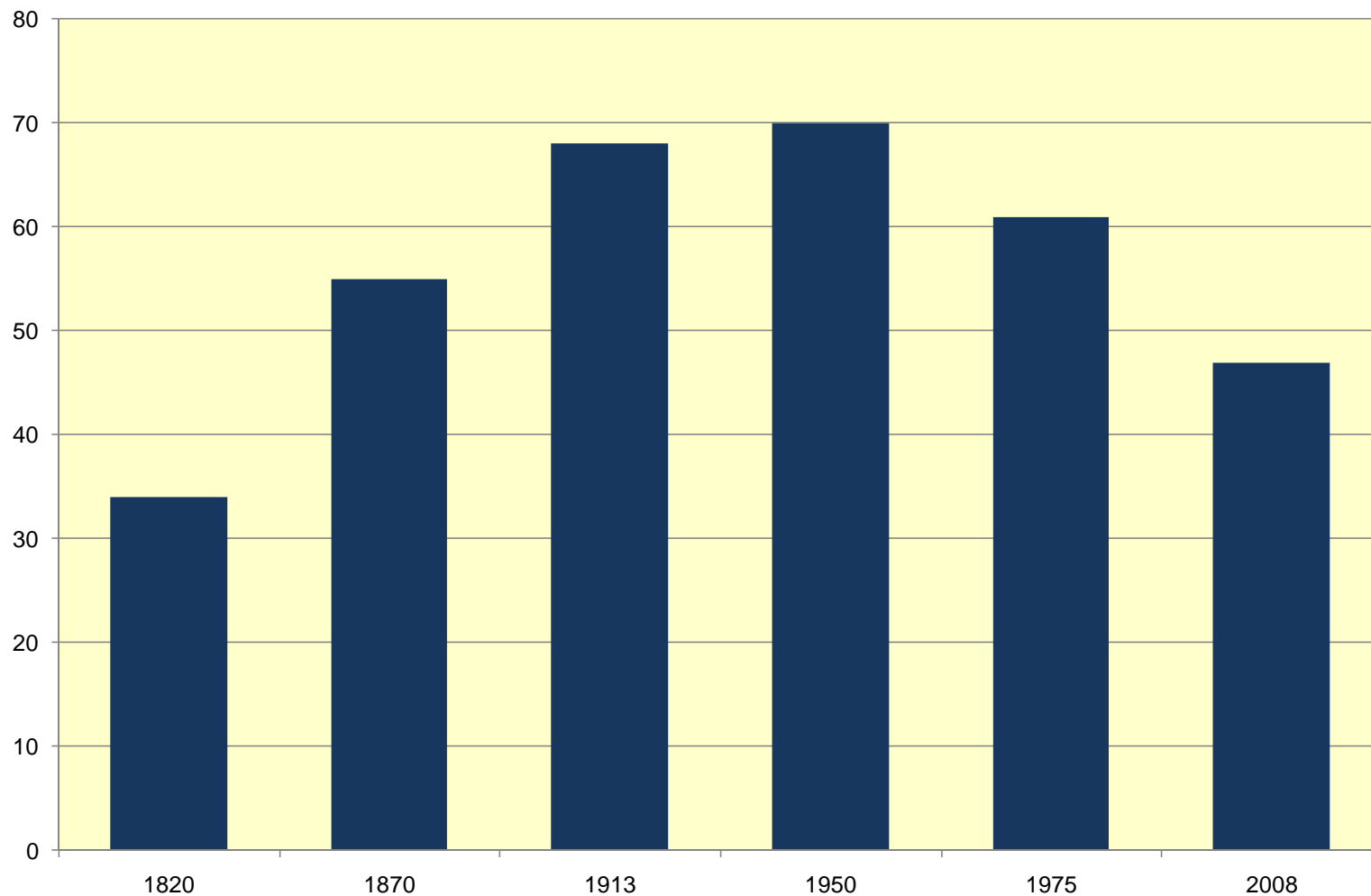
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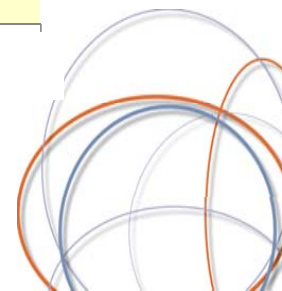
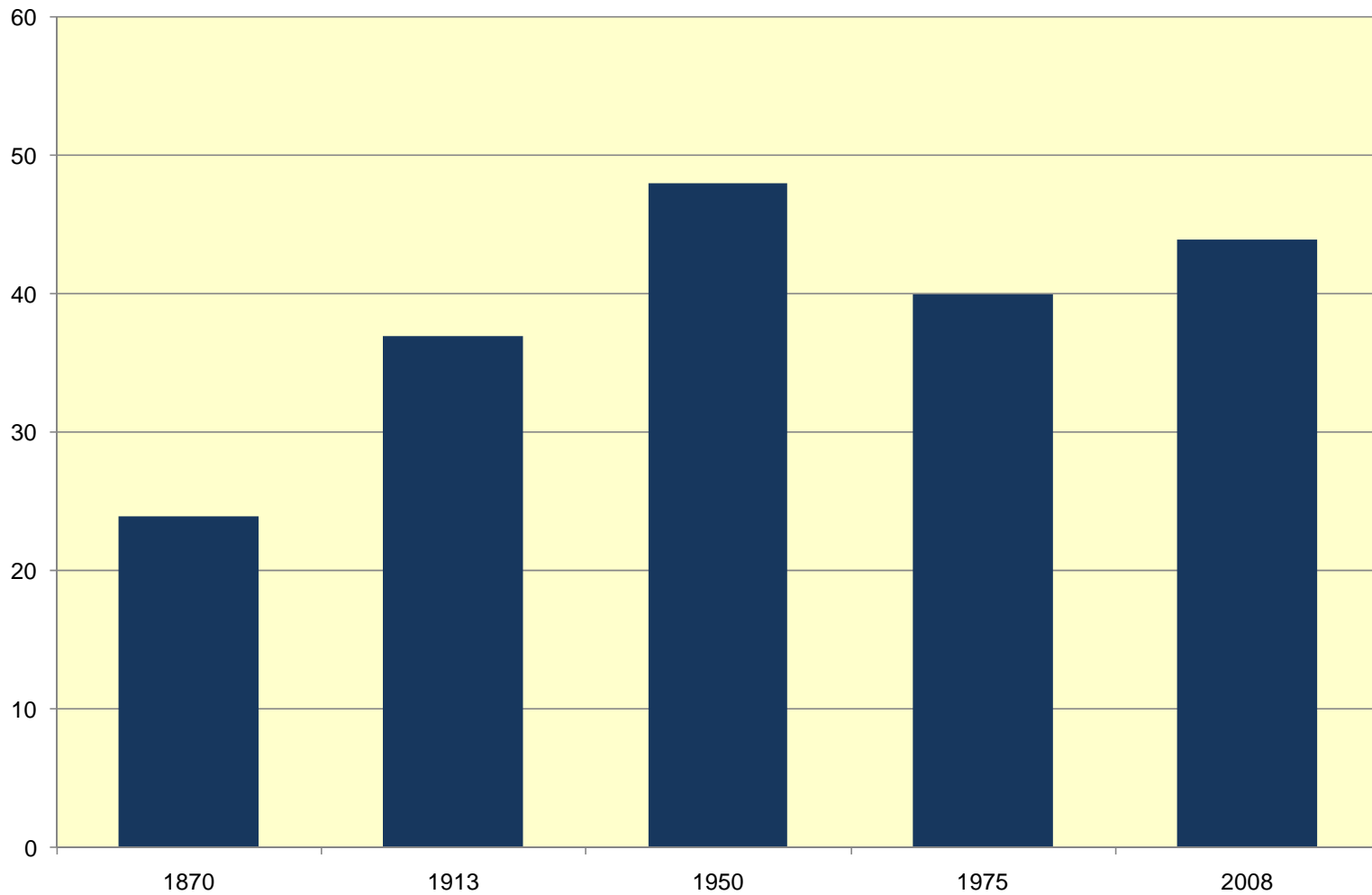
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# Western Economies Share of World Output Per cent, 1820 - 2008



# US Share of Western Output Per cent, 1870 - 2008



- o The Western economies are still the most important group
- o They are a major export outlet for the rest of the world
- o Within the West, America has been for 100 years, and still is, by far the most important economy

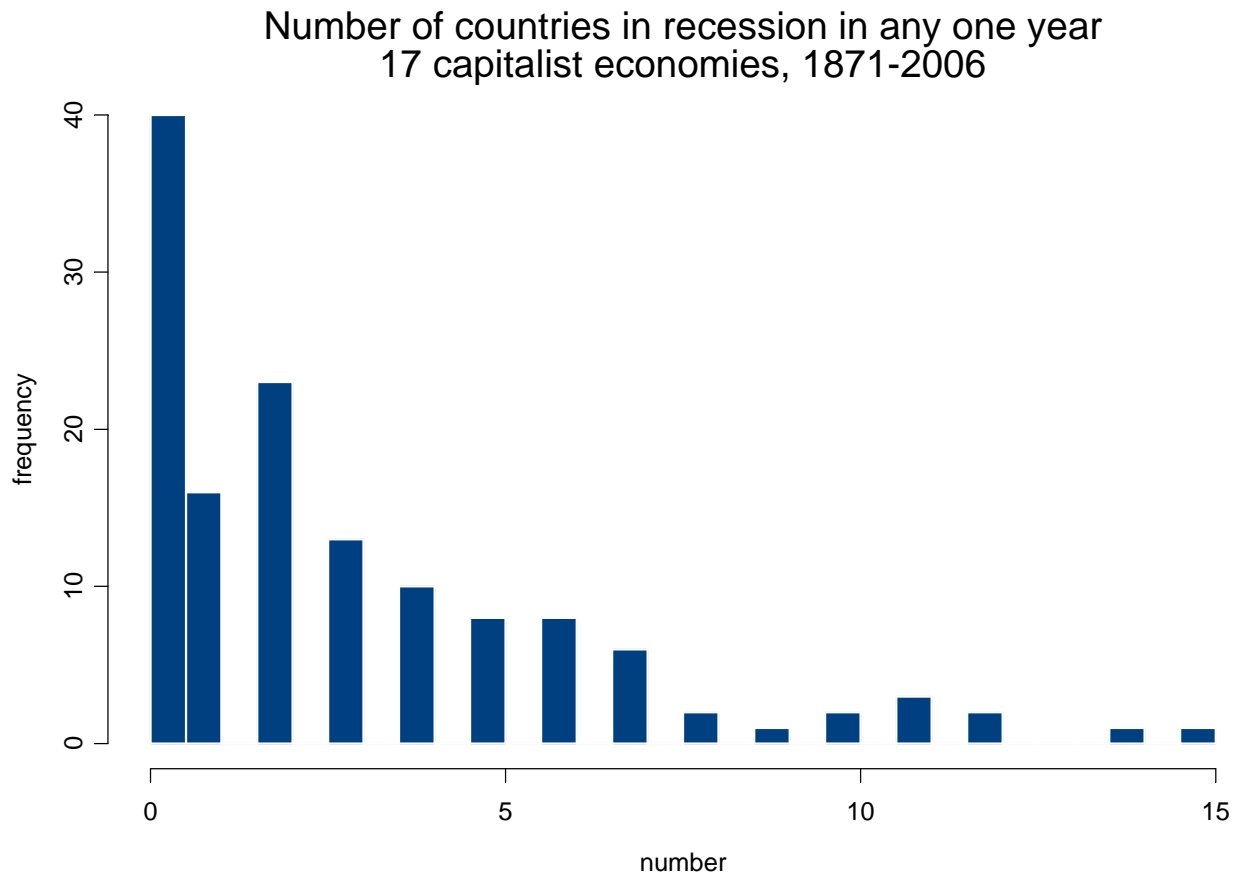


- How long do they last?
- How big are they?
- How many countries are in recession at the same time?

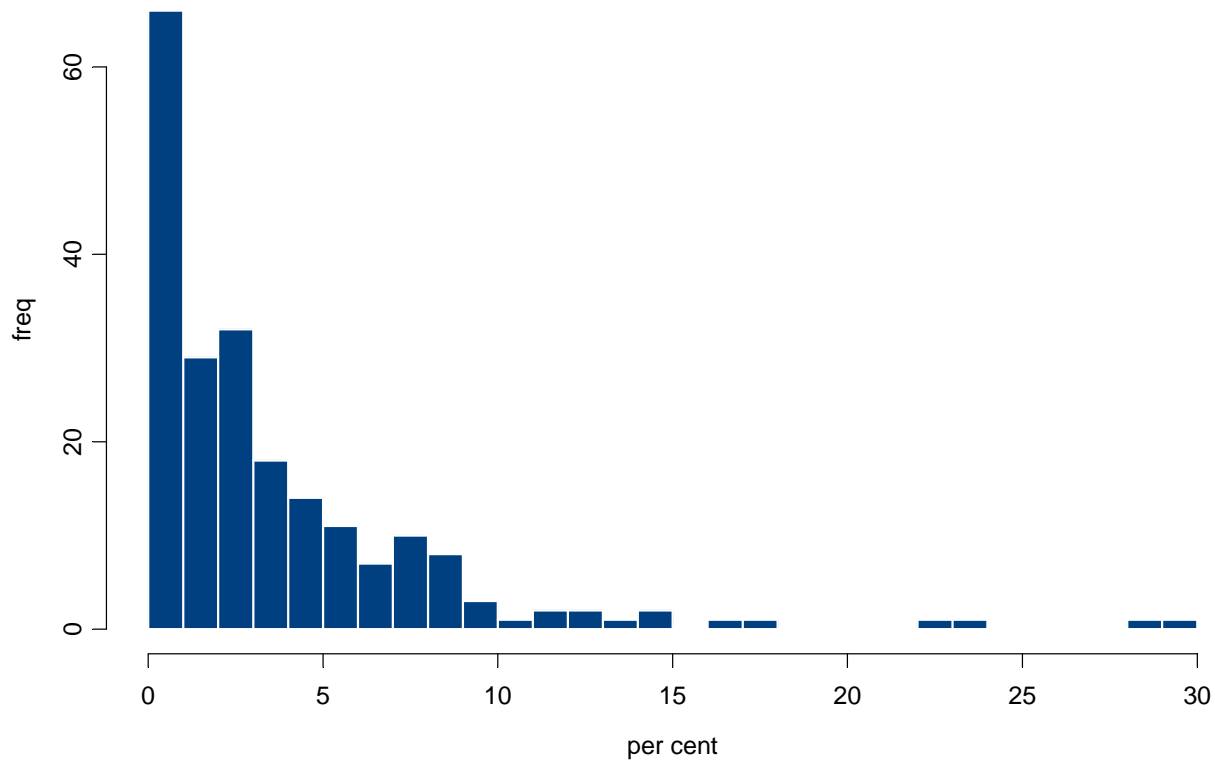


- o There have been 255 examples of recessions within the 17 main economies since 1870
- o 164 lasted just 1 year
- o 58 lasted 2 years
- o Most recessions are short
- o But the longer they last, the less the chance of recovery





Cumulative fall in real GDP, per cent, in recessions  
17 Western countries, 1871-2006, excluding war years





# Volterra What is Happening in this Recession?

- o The recession began before the credit crunch
- o High oil and commodity prices reduced spending power in the West, just like the mid-1970s and early 1980s
- o Financial viability of banks: need to re-build balances implies squeezing consumers
- o Loss of confidence amongst banks: finance not easily available for companies



- This recession is likely to be in the worst 25 per cent of all recessions
- It will be longer and deeper than 3 out of 4 previous recessions
- Duration: 2 years (output falls mid- 2008 to mid-2010)
- Recovery starting during 2010
- Size: fall of at least 5 per cent in output



- o America has more resilience than the other Western economies
- o For example, Microsoft, Google, Yahoo
- o Banks are less exposed to a country default in Latin America, Eastern Europe



- o 13 broad categories of consumer spending e.g. motor vehicles, medical/health care, recreation, services
- o Only in the 1930s were all these sectors in recession together
- o Experience of markets/firms within a country varies widely during recessions
- o Careful selection of investments can bring opportunity



- Recessions do not appear to affect the long-term rate of growth
- Growth rates averaged over 20 or 30 years
- The distribution of growth in periods which start in a recession is the same as the distribution of growth in periods which do not start in a recession

