

Global Outlook: What will grow, how much, and how fast?

By James Haughey

World economic growth has gradually slowed from average-plus to average over the last year, and it will slow further to average-minus over the next year.

The prediction is for worldwide GDP (gross-domestic-product) growth to slow from an estimated 3.6% in 2006, the highest in six years, to 3% this year and recover to 3.2% in 2008. So far, the slowdown has been primarily in North America, but, looking ahead, the slowdown



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in growth will be more significant in Europe and Asia, with North American growth recovering partially from the slow economic growth in mid-2006.

The impact on electronics marketers initially has meant slower sales growth for consumer products with little impact on capital-goods sales. Later this year and early in 2008, the impact of slower economic growth will reach capital spending. But with economic growth near average, capital spending will continue to expand more quickly than consumer spending through 2008. Slower economic growth will reduce inflation. This factor will be significant for purchases with a relatively large commodity and a relatively small manufacturing content. The inflation slowdown will be marginal for purchases with a relatively large manufacturing content because commodity prices fall much more steeply than wage cost when product demand slows.

Growth by region

North American GDP growth will slow from 3.4% last year to 2.5% this year and recover to 3.1% next year. Mexican GDP growth is expected to plunge from 4.5% last year to only 1.5% this year as oil prices sink much lower and domestic social troubles restrain foreign investment. The recent appreciation of the peso also will reverse, making Mexican sourcing more attractive this year. North of the border, Canadian GDP will follow the same path as in the United States. The recent weakening of the Canadian dollar is expected to hold through 2008, making Canadian sourcing more attractive. Eurozone economic growth jumped to an unsustainably high 2.6% last year but is forecast to slip to less than 2% in 2007 and probably 2008. Policy actions to raise credit costs have set this process in place.

Asian GDP growth, meanwhile, will drop from 4.7% last year to about 4% in both 2007 and 2008. Japan will contribute the most to the slowdown, with GDP growth falling from nearly 3% to approximately 2%. Similar to the situation in Europe, tighter credit has initiated the slowdown. Growth slowdowns in Japan and Europe are no longer the same process as in the United States. They began later and so will persist into 2008.

Elsewhere in Asia, growth will slow marginally in China, India, and the other manufacturing-export-driven economies due to slower growth in export sales to Europe and North America.

South America and Eastern Europe also will experience weaker growth in 2007. The slowdown will be marginal in Eastern Europe, where the only negative is restrained exports in a slower growth world economy. Growth will

dip as much as one percentage point in South America, which will be beset by both slower export growth and much weaker commodity prices. The poorer developing countries, which have recently become significant end markets for entry-level consumer electronics, will experience little, if any, slowdown in their 5 to 8% GDP growth rates in 2007. Countries very dependent on oil or minerals exports are an exception. Falling electronic-product prices will cause electronics sales to rise much faster than GDP. Generally, these countries have much improved foreign-exchange reserves after several years of above average export-commodity demand and prices, so there is little risk of the import quotas and tariffs that have disrupted sales to these countries in the past.

China will account for 25% of all world GDP growth in 2007. Small changes in Chinese import demand quickly spread worldwide. Unfortunately, the Chinese economic-accounting system is not yet fully separate from China's socialist past. China reports an approximate 10% annual growth rate every quarter before industrial countries have enough time to make their quarterly GDP estimates. As a result, there will be no warning of changes in Chinese economic trends.

China is trying to restrain spending to prevent an acceleration of inflation. Electronics production and imports are largely exempt from these efforts. Real estate, cars, and industrial-materials factories are the key targets. But there is a small risk that China will too heavily handle the restraints, causing a deeper world economic slowdown this year.

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