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FORMER IMF CHIEF ECONOMIST MUSSA PREDICTS 4 PERCENT ECONOMIC GROWTH FOR US AND WORLD NEXT YEAR WITH US UNEMPLOYMENT DROPPING BELOW 9 PERCENT.

Washington—While most economic forecasters expect a tepid recovery this year and next, a leading economist at the Peterson Institute for International Economics (PIIE) is predicting that GDP growth in the United States and the world will be considerably higher than generally anticipated. Michael Mussa, senior fellow at PIIE and former chief economist at the International Monetary Fund (IMF), predicts that real GDP growth in the world will be 4.2 percent in 2010 over 2009, and real GDP growth in the United States will be 4.0 percent from the middle of 2009 through the end of next year. This is only about two-thirds the pace of typical US recoveries from sharp recessions but it is nearly double the consensus predictions of other top forecasters.

The Mussa projections also imply a cumulative rise of US real GDP from the second quarter of 2009 to the final quarter of 2010 of almost 7 percent, or about \$875 billion in 2005 real dollars. This is considerably higher than the August 2009 Blue Chip Survey, which projected a cumulative rise of barely more than 3 percent. Blue Chip forecasts suggest unemployment in the United States rising above 10 percent. Dr. Mussa projects it to peak at or a little below 10 percent this year and below 9 percent by the end of next year.

Dr. Mussa's findings could have wide-ranging implications for leaders of the world's top economies as they gather in Pittsburgh for the G-20 summit later this month. They will meet to assess the global economic picture and plan future actions, including whether to carry out an early "exit strategy" from the interventions during the crisis of the last year or whether additional stimulus measures might be needed. A more robust than anticipated growth rate in the United States could also have an important impact on the American political scene as the nation heads into an election next year.

The findings were released on September 17 by Dr. Mussa at a luncheon meeting at PIIE.

At the same event, Nicholas Lardy, senior fellow and author of several books and numerous papers on China's economy, unveiled his own conclusion that China's growth in 2009 will be in the 8- to 9-percent range and that next year it will probably be in the 9- to 10-percent range. Moreover, Dr. Lardy argues that China's recovery is sustainable, contrary to the contention of some specialists that recovery is short term because of its dependence on temporary government spending

for investment. For example, he argues, household consumption growth is the strongest of any emerging market. The conclusions of Dr. Mussa and Dr. Lardy indicate that the two most important economic powers are poised to help the world climb out of the worst global economic downturn in modern history. (See table 1.)

“The great global recession of 2008 and early 2009 is over and world recovery is now under way,” Dr. Mussa reported at the PIIE event. Whereas most forecasters expect a weak recovery, and some fear a “double dip” in which economies fall back into recession at an early stage, Dr. Mussa holds the view that “a V-shaped recovery is still the most likely course”—that is, a steep recovery following a deep recession.

Dr. Mussa notes that the latest figures show that the world recession bottomed out around the middle of this year. His forecast for global real GDP growth (on a year-over-year basis) is minus 1.1 percent this year and 4.2 percent for 2010, spurred in part by greater than anticipated growth in developing countries and emerging markets. His forecast for 2009 is modestly above corresponding forecasts by the IMF but considerably higher than the IMF forecasts for 2010. The IMF is somewhat more pessimistic than the average of most published forecasts.

The latest forecasts are especially striking for the United States. The latest figures on US GDP indicate a decline of real growth in 2009 of minus 2.4 percent, compared to 2008. But real GDP growth during the second half of 2009 is now expected to sharply reverse the decline of the first half of the year. Also remarkable is that the real GDP during 2010 is expected to grow 5 percent on a fourth-quarter-to-fourth-quarter basis, underpinning the projection of a rise of 4 percent year-to-year. Dr. Mussa’s cautionary note is that typical recessions in the United States have been followed by growth in the first six quarters afterward of about 10 percent. Thus his projection suggests a growth substantially short of the recoveries following recessions of the 1950s through the 1980s.

Dr. Mussa’s and Dr. Lardy’s presentations at PIIE were scheduled to be followed by a question-and-answer session presided over by C. Fred Bergsten, director of PIIE.

**Table 1 Real GDP Growth Forecasts for 2009 and 2010 Mussa Baseline and IMF
(July 2009 Year-over-year percentage changes)**

Country/Region	2008	Mussa 2009	Mussa 2010	IMF 2009	IMF 2010
World	2.7	-1.1	4.2	-1.4	2.5
Advanced economies	0.5	-3.3	3.3	-3.8	0.6
United States	0.4	-2.4	4.0	-2.6	0.8
Japan	-0.7	-5.2	2.5	-6.0	1.7
United Kingdom	0.7	-4.0	2.5	-4.2	0.2
Canada	2.0	-2.0	3.4	-2.3	1.6
Euro Area	0.6	-3.7	2.3	-4.8	-0.3
Germany	1.0	-4.8	2.2	-6.2	-0.6
France	0.3	-3.0	2.2	-3.0	0.4
Italy	-1.0	-4.5	1.8	-5.1	-0.1
Other Euro Area	1.4	-3.0	2.5	—	—
Other Advanced	1.6	-3.5	4.5	-3.9	1.0
Developing Countries	7.6	1.9	5.4	1.5	4.7
Asia	7.9	6.0	7.8	5.5	7.0
China	9.0	8.3	9.0	7.5	8.5
India	7.1	6.4	7.5	5.4	6.5
Other Developing Asia	6.3	0.5	5.5	—	—
Latin America	4.1	-2.3	3.4	-2.6	2.3
Brazil	5.1	Nil	3.6	-1.3	2.5
Mexico	1.4	-5.8	3.0	-7.3	3.0
Central & Eastern Europe	3.0	-3.5	2.6	-5.0	1.0
Commonwealth of Independent States	5.5	-4.8	2.6	-5.8	2.0
Middle East	4.2	2.0	4.0	2.0	3.7
Africa	5.2	2.0	4.0	1.8	4.1

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