

**Analysts**

Brian Coulton  
+44 20 7862 4097  
brian.coulton@fitchratings.com

James McCormack  
+852 2263 9925  
james.mccormack@fitchratings.com

Douglas Renwick  
+44 20 7417 4237  
douglas.renwick@fitchratings.com

Andres Klaar  
+44 20 7417 6284  
andres.klaar@fitchratings.com

Ed Parker  
+ 44 20 7417 6340  
ed.parker@fitchratings.com

Shelly Shetty  
+ 1 212 908 0324  
shelly.shetty@fitchratings.com

**Related Research**

- [Global Economic Outlook \(November 2008\)](#)

**Summary: Recession Much Deeper than Anticipated**

The global recession is proving much deeper than anticipated. Recent data have revealed that economic activity and trade declined very abruptly in the last three months of 2008, with the scale and synchronicity of the downturn in production in the advanced economies unmatched by anything seen since the first oil shock in the early 1970s. A widespread collapse in consumer and business confidence in the wake of the intensification of the global banking crisis likely played an important role, alongside a dislocation in the process of trade finance.

While Fitch does not expect the pace of decline witnessed in Q408 to continue on a sustained basis, there are as yet few concrete signs of improvement in Q109. And many of the key drivers of the downturn remain in place. Most significantly, US households are de-leveraging and retrenching at a pace more rapid than witnessed at any time since WWII in response to a sharp acceleration in job losses, ongoing declines in asset prices and tight credit conditions. In combination with sharp cut-backs in corporate spending and ongoing declines in residential investment, Fitch Ratings now expects US GDP to fall by 3.4% this year – the steepest peace-time recession since 1938 – and forecasts unemployment to reach 10% next year.

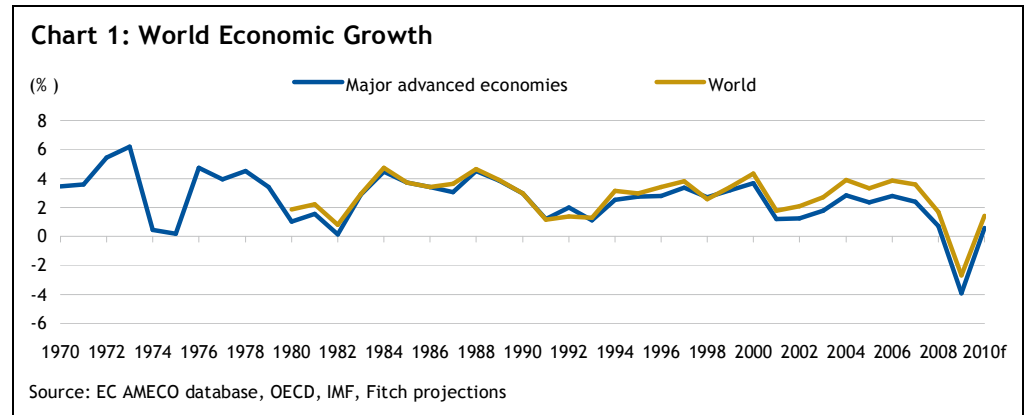
Long-standing concerns about global imbalances have come to the fore as the heavy reliance of many of the world's "producer oriented" economies on US consumers as a source of final demand has been starkly revealed. The biggest downward revisions to the growth outlook among the major advanced economies (MAEs) have actually been for Germany and Japan – where GDP is expected to fall by 3.7% and 6.7% respectively – and parts of East Asia, countries where exposure to tighter credit conditions is low.

But very few countries appear to be sheltered. As prospects for final demand have weakened, credit availability has deteriorated and capacity utilisation rates have fallen to record lows, companies are slashing investment plans aggressively. Fitch is forecasting double-digit declines in business investment in most MAEs in 2009. Along with sharp rises in unemployment, this is significantly amplifying the impact of adjustments in consumer spending and housing investment. The agency expects GDP in the MAEs to fall by 3.8% this year; the previous post-WWII lows for growth in this aggregate in 1975 and 1982 were zero. While growth in the largest emerging markets – Brazil, Russia, India and China (BRICs) – is expected to remain positive at 3.2%, many emerging markets are being severely affected by the decline in world trade, commodity prices and capital flows. Fitch forecasts world GDP to decline by 2.7% this year.

Against this dire backdrop, governments and central banks in the MAEs are implementing unprecedented macroeconomic policy stimulus. Fiscal deficits are rising at an extremely rapid pace, reflecting both discretionary policy easing and "automatic stabilisers" in the form of higher unemployment and welfare payments and shrinkage in the tax base as activity falls. While policy easing is highly synchronised across the MAEs, the largest fiscal stimulus by far is in the US – where the deficit is anticipated to reach 13% of GDP this year – enhancing its global impact.

In addition, central banks have reduced interest rates rapidly, and both the Federal Reserve and the Bank of England (BOE) are now engaging in formal quantitative easing (QE). QE is more or less uncharted territory and its impact is uncertain, but

there is no doubting the speed and size of the macro policy effort. As Chart 2 shows, the combination of fiscal easing and interest rate cuts surpasses anything seen in the post-war period, even ignoring the impact of QE. And it certainly contrasts starkly with policies followed after the 1929 stock market crash, when tight US monetary policies and the widespread use of the gold standard exacerbated global deflationary and recessionary pressures.



Alongside large-scale government intervention to stabilise financial sector, Fitch judges that policy stimulus, helped by the impact of weaker commodity prices on consumer incomes, will spur a mild recovery around the end of the year. Higher government spending will have a direct and sizeable effect on domestic demand, and income tax cuts, even if saved, will help consumers to de-leverage with a smaller negative impact on spending. The impact of monetary policy is more uncertain in light of financial-sector stress, but central banks have a lot of additional firepower with respect to QE, and very low interest rates undoubtedly ease the de-leveraging process by reducing debt service.

The largest emerging markets should also be a source of stability once growth starts to recover in the MAEs. Among the BRICs Fitch expects only Russia to see an outright fall in GDP this year, and all of them have significant external reserve buffers to help take counter-cyclical policy and anti-crisis measures. China has substantial fiscal and credit levers at its disposal and Fitch expects it to avoid a deep recession in 2009 and return to growth of 8% in 2010. Nevertheless, the forecast global recovery in 2010 is to a rate well below trend, implying a further rise in unemployment, and for some economies including the UK and Spain, de-leveraging is expected to keep growth particularly low in 2010.

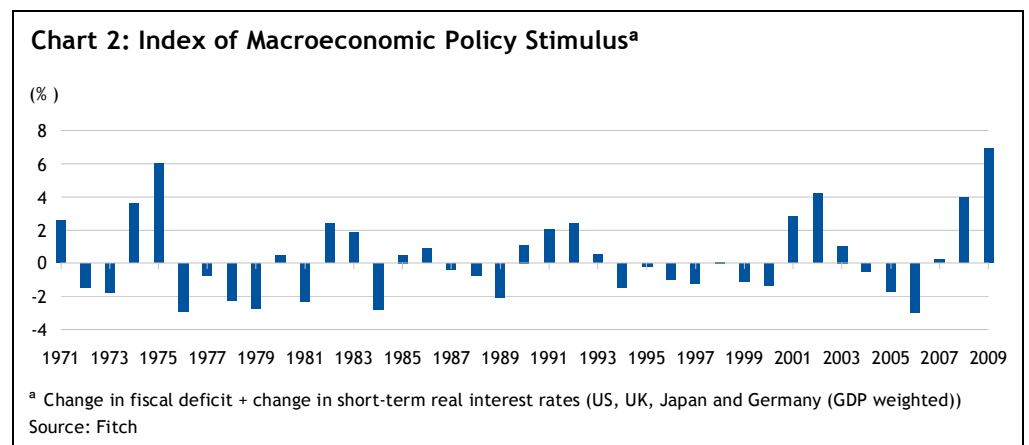


Table 1 summarises Fitch's latest projections. Detailed forecast tables for the major industrialised economies are included in the appendix. A brief summary of the key features of the outlook for global activity in the MAEs and in the BRICs is set out below, followed by a discussion of the prospects for monetary policy in the MAEs.

**Table 1: Global Forecast Summary**

	2008	2009f	2010f
<b>GDP growth</b>			
US	1.1	-3.4	1.0
Euro area	0.7	-3.2	0.4
Japan	-0.7	-6.7	0.1
UK	0.7	-3.4	0.2
Average <sup>a</sup>	0.7	-3.8	0.6
<b>Inflation</b>			
US	3.8	-0.2	0.2
Euro area	3.3	0.7	0.9
Japan	1.4	-0.1	0.1
UK	3.6	2.0	0.8
Average <sup>a</sup>	3.3	0.3	0.5
<b>Interest rates</b>			
US	2.08	0.25	0.25
Euro area	3.89	1.00	0.50
Japan	0.46	0.10	0.10
UK	4.67	0.52	0.50
Average <sup>a</sup>	2.64	0.50	0.33
<b>Assumptions</b>			
Oil (USD/barrel)	97.0	40.0	40.0
JPY/USD	103.4	95.0	95.6
EUR/USD	0.683	0.785	0.788
GBP/USD	0.540	0.702	0.704
<b>Memo: GDP growth</b>			
BRICs <sup>a, b</sup>	7.4	3.2	5.9
World <sup>a</sup>	1.7	-2.7	1.4

<sup>a</sup> Weighted by 2005 GDP at market exchange rates

<sup>b</sup> Brazil, Russia, India and China

Source: Fitch

## Activity

### United States

US GDP fell by 1.6% in Q408, the largest decline since Q182. Private-sector expenditure was much weaker than forecast in the November 2008 "Global Economic Outlook" (GEO), particularly on the investment side but the global downturn also saw exports weaken sharply. Several high-frequency indicators point to a similar decline in activity in Q109, with high inventory levels weighing further on production.

Household sector de-leveraging is happening much faster than at any time since WWII. The household saving ratio has risen from close to zero to around 4% in the last 12 months – roughly equal to the total adjustment seen over a two- to three-year period in earlier recessions. The stretched nature of household balance sheets before the recession – with debt and debt service ratios having reached unprecedented highs and the saving ratio itself averaging just 0.5% over 2005 to 2007 – helps explain the pace of the adjustment, as does the tightening in credit conditions. Expenditure on consumer durables has been at the forefront of retrenchment, falling 10% over the last 12 months.

With unemployment rising rapidly, consumer confidence at record lows and household wealth still being affected by real estate and equity price declines, there seems little prospect of an end to the de-leveraging process in the near term. Fitch's forecast of a 2.8% decline in consumer spending in 2009 implies a further increase in the saving ratio to just below 7%, its average since 1959.

**Table 2: Changes to 2009 GDP Growth Forecasts\***

	Percentage points
US	-2.2
Euro area	-2.6
Japan	-7.2
UK	-2.0
MAE's	-3.0
BRICs	-2.5

\*Since November 2008 GEO

Source: Fitch

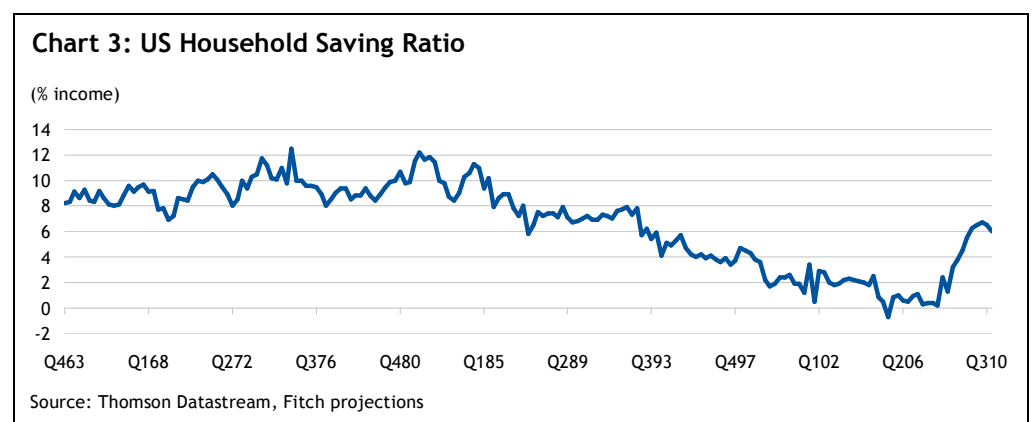
While housing and consumers led the economy into recession, business spending is now starting to amplify the downturn. Private non-residential investment fell by 5.7% in Q408 and business surveys show capacity utilisation rates and new orders having fallen to levels last seen in the early 1980s and forward-looking investment indicators at post-war lows. With bleak prospects for final demand in the near term and banks sharply tightening credit standards for corporate lending, Fitch forecasts private non-residential investment to decline by over 15% in 2009, its sharpest fall since WWII. Recent data also point to further large declines in residential investment in 2009.

The sharp weakening of global demand has adversely affected prospects for a rebalancing of the economy towards the traded sector. Exports fell sharply in Q408 and net trade made a small negative contribution to growth.

Fiscal policy easing represents the most concrete prospect for an improvement in domestic demand in the near term. The Congressional Budget Office (CBO) estimates the impact of the fiscal stimulus package on GDP growth through 2009 to be around 2.5% of GDP, with a similar number for 2010. However, with public investment projects forming a sizeable share of higher public spending, the direct impact is likely to be felt strongest later in 2009 and in 2010.

Fitch expects the economy to return to positive growth next year, primarily reflecting the impact of the fiscal stimulus package, but also some likely stabilisation in housing investment and a weakening inventory overhang. The CBO predicts federal government spending will grow by 34% in nominal terms in fiscal year 2009 (ending September), which should have an important subsequent multiplier effect on wider spending. Lower household tax rates should also help ease the pace at which consumers de-leverage through cutting expenditure, while lower commodity prices will also support consumers' real income.

However, while the forecast assumes that policy measures aimed at stabilising the financial sector gain traction, ongoing household de-leveraging will weigh on private-sector demand, keeping GDP growth in 2010 well below potential. Consequently, Fitch projects the unemployment rate to continue rising to a peak of 10%, implying additional job losses of around 3 million, on top of the 5 million to date since the end of 2007.



### Japan

The Japanese recession became much more pronounced in Q408, when real GDP contracted by 3.2%. Private investment spending declined for the fourth consecutive quarter, consistent with last year's steady slide in business sentiment reflected in the Bank of Japan's (BOJ) Tankan survey.

Household consumption spending also fell in Q408, as labour market conditions continued to deteriorate. The ratio of job offers/applicants is well below one, and

the unemployment rate now exceeds 4%. By January 2009, real wages had been falling year on year for 10 consecutive months.

By far the biggest shock to the Japanese economy in Q4 was from the collapse in exports, which declined by 45%, marking their biggest drop in at least 53 years. Monthly data confirm the poor export performance continued into 2009, and was spread across all of Japan's major export markets. In January, Japanese exports to China were down 35% yoy, the EU by 37% and the US by 44%, and Japan posted its first current account deficit in 13 years.

In 2009, Fitch forecasts a 6.7% contraction in real GDP on the back of significant declines in exports and investment. Only government consumption expenditure is projected to increase in real terms, by 1.9%. Japan's very poor fiscal position will deteriorate further this year, as the consolidated general government deficit is forecast to reach more than 6% of GDP, and the debt/GDP ratio is expected to approach 200%.

### Euro Area

Fitch expects euro area GDP to fall by 3.4% in 2009, a very large downward revision from the November GEO forecast of -0.6%. This reflects the precipitous decline in exports in the large economies in Q408 – which has had a particularly large impact on Germany – and a huge deterioration in the near-term outlook for business investment across Europe as new orders have collapsed and capacity utilisation rates have plummeted.

### Germany

Germany's economy was hit particularly hard by the fall in world trade at the end of 2008, due largely to the high share of exports in GDP (see Table 3). While exports fell 7.4% in Q408 – not substantially greater than elsewhere – the knock-on effect through the wider economy was powerful, not least reflecting high multiplier effects from production cuts in the car industry.

With consumption continuing to stagnate, the reliance on international demand to fuel export and investment growth has left the economy vulnerable in the near term. The collapse in the IFO business sentiment indicator and new orders point to a sharp decline in investment in 2009 and the forecast assumes a 20% decline in machinery and equipment investment, a similar order of magnitude to the correction seen after the re-unification boom.

Monthly data point to further sharp falls in exports in Q109 and the economic crisis unfolding in many parts of eastern Europe will amplify the impact of weaker demand from advanced economy trading partners. Fitch expects net trade to be a substantial drag on growth in 2009 as a whole, in contrast to the pattern through most of this decade. A fiscal stimulus package worth 2% of GDP and an anticipated recovery in the world economy should see a return to positive growth next year.

### France

France was somewhat more sheltered from the trade shock than Germany in Q408, thanks to a pick-up in consumer spending, but GDP fell nevertheless, dragged down by investment and net trade. Fiscal incentives and declining inflation should help to keep consumer spending relatively stable, with high saving rates providing households some scope to smooth consumption in the face of weaker income. However, capacity utilisation and business sentiment have fallen to record lows and Fitch expects investment to decline by 9% in 2009, a similar rate to that seen in the early 1990s recession. The relative stability of consumer spending means that imports are not likely to fall as fast as elsewhere, resulting in a negative contribution to growth from net trade.

**Table 3: Exports of Goods and Services**

Q408, real terms	(%, GDP)
US	12.6
Japan	14.6
Germany	48.9
France	29.7
UK	26.7
Italy	26.5
Spain	28.2

Source: National accounts, Fitch

### *Italy*

The exposure of Italy's economy to the global recession is reflected in the 1% fall in GDP in 2008 as a whole, the largest among the G7. This was despite low private-sector indebtedness and limited banking exposure to the global financial crisis. While high household savings may temper the adjustment in private consumption, investment fell very sharply in Q408 and the collapse in business confidence, new orders and capacity utilisation point to a double-digit decline in investment in 2009. Fiscal policy easing has been minimal, reflecting the government's high debt burden. The collapse in exports in Q408 was just as severe as in Germany, and Fitch expects net trade to contribute negatively to growth in 2009.

### *Spain*

Spain saw the largest fall in consumer spending among the large euro area countries in Q408 at -1.4%. This reflects the economy's high exposure to de-leveraging and the shock to household income from a very sharp increase in unemployment. However, imports fell even more sharply than exports, helping to deliver a positive impulse to GDP from net trade. With consumption forecast to fall by 2.7%, Fitch expects imports to remain very weak over the course of 2009, and this rebalancing of the economy will mitigate the fall in GDP. Macroeconomic policy will also help cushion the adjustment – budget easing is worth 2% of GDP – and with most mortgages at floating interest rates, the decline in the ECB policy rate will ease the household debt-servicing burden significantly. Nevertheless, the overhang in the construction sector is likely to weigh on investment beyond the current year and GDP may fall further in 2010.

### **United Kingdom**

While the UK economy also suffered a large trade shock in Q408, consumer retrenchment became more firmly established, with annual consumer spending growth turning negative for the first time since the early 1990s. With consumer confidence at all-time lows, rising unemployment and job insecurity, ongoing steep falls in house prices and tighter household credit conditions, Fitch expects household de-leveraging to gather pace in 2009. The temporary cut in VAT is unlikely to have a large mitigating effect on this process, although interest rate cuts will help ease household debt service ratios.

Business (private-sector non-residential) investment was down 4.5% in the year to Q408. Business optimism in manufacturing has fallen to its lowest level since the early 1980s, according to the CBI survey, and there is evidence that tighter credit supply is adversely affecting capital expenditure. The overhang in the commercial property sector – where prices have declined by 40% from their June 2007 peaks – is also likely to continue to weigh on the investment outlook. With Fitch expecting investment to decline by 12% and consumption by 2.9%, private domestic demand is forecast to contract sharply in 2009.

Monetary policy conditions have, however, been loosened dramatically, with the BOE cutting rates by 4pp since November and recently commencing a large-scale QE programme, as well as sterling depreciating by 23% since the end of 2007. The latter should prevent UK exports from falling as fast as in other major economies and compress imports. In combination with the impact of fiscal policy easing and budgetary automatic stabilisers this should help set the scene for a very gradual recovery in activity from early 2010. Nevertheless unemployment is expected to rise further to 9% next year.

### **BRICs**

#### *Brazil*

Fitch expects Brazil's economy to stagnate in 2009, reflecting lower commodity prices and reduced international credit. However, as a relatively closed economy it will be less severely hit by the global trade shock. Production indicators have turned negative, with significant contraction in industrial production in Q408 and

the decline continued in January (in year-on-year terms). Domestic demand is expected to decelerate sharply in 2009 in the face of higher unemployment, lower real wage growth, and weak consumer and investor sentiment.

However, fiscal and monetary easing is likely to provide some support. Increased monetary policy flexibility, a significant external cushion, a relatively robust financial system and a large domestic economy mean that Brazil's economy will be well-placed to recover when the external financial environment improves. Fitch projects the Brazilian economy to grow by 2.5% in 2010.

**Russia**

Fitch forecasts Russia's GDP to contract by 3% in 2009. The dislocation in global capital markets has left Russian banks and corporates struggling to refinance substantial foreign-currency debts. This has been compounded by the dramatic fall in oil and metals prices, as well as a precipitous drop in local asset prices.

Nevertheless, Fitch expects GDP growth to recover somewhat to 2% in 2010, helped by some easing in global economic and financial conditions, better base effects, competitiveness gains from the depreciation of the rouble and the impact of a substantial fiscal stimulus and other anti-crisis measures, as the authorities make use of the sovereign wealth funds and foreign-exchange reserves to cushion the downturn.

**India**

India is benefiting from lower oil prices, with falling inflation, a sharp decline in the government's subsidy bill and a halving of the merchandise trade deficit between August 2008 and January 2009; but the economy is clearly struggling amidst the global recession. The central government has responded to slowing growth – and upcoming elections – with fiscal initiatives that will drive the consolidated general government deficit towards double digits in the fiscal year to end-March 2009 (FY09).

Fitch forecasts GDP growth of only 5.0% in FY10, as capital inflows to India drop dramatically, and corporate funding is crowded out by the surge in government borrowing.

**China**

Fitch forecasts GDP growth of 5.6% in 2009 in China, well below the government's stated objective of 8%. In November 2008, the government announced a massive CNY4trn fiscal stimulus package, equivalent to 13% of 2009 GDP. Spending is to be spread over two years, and will be undertaken by the central and local governments as well as state enterprises. The banks will play an integral role in providing financing, and credit growth has accelerated dramatically in recent months.

Despite the magnitude of the stimulus programme – and a probable consequent short-term surge in activity – Fitch does not believe it can prevent the Chinese economy from continuing to register weaker growth rates. In the agency's view, a sustained economic recovery in China cannot precede recovery in its major trading partners.

**Table 4: Growth in the BRICs**

(%)	2008	2009	2010
Brazil	5.1	0.0	2.5
Russia	5.6	-3.0	2.0
India	6.5	5.0	6.3
China	9.0	5.6	8.2

Source: Fitch

## Monetary Policy and Inflation

The major central banks have moved further into crisis response mode since last November, with the Fed, ECB and BOE cutting rates by 75bp, 225bp and 400bp, respectively, since the November GEO. All the major central banks with the exception of the ECB are now formally engaged in QE, aimed at stabilising the financial system and avoiding a sharp contraction in bank credit to the real economy. While the principal objective of QE is to expand the supply of central bank liabilities (cash and central bank reserves) in the economy, central banks have also taken the opportunity to target the associated asset purchases on challenged sectors of the financial markets with an aim to improve market functioning.

With the exception of the UK, headline annual inflation rates have fallen very sharply across the MAEs since November in response to the collapse in oil prices last autumn. Headline inflation is now close to zero in the US and Japan and around 1% in the euro area. Core inflation has also declined across the board by around 0.5% to 0.75% since the autumn, but is still close to 2% in Europe and the US. Fitch expects global commodity prices to remain weak in the face of the severe slowdown in global demand but does not expect further price declines on the scale seen since last summer. On this basis headline inflation rates will rise towards core rates from early 2010. But the severity of the recession will put strong downwards pressure on core inflation itself as unemployment reduces wage inflation, and weak demand and spare capacity limit pricing power. This process will, however, take some time, and while Fitch expects inflation to fall to very low levels, it is not projecting deflation outside Japan in 2010.

### United States

The Fed cut interest rates to a range of 0% to 0.25% in December and signalled a switch to focusing on the size and composition of its balance sheet as the main tool of monetary policy. In addition to an expanded set of facilities to provide liquidity to banks and primary dealers, QE policies are being implemented through the provision of liquidity directly to the non-bank private sector. This has included direct purchases of commercial paper, the Term Asset Backed Securities (ABS) Loan Facility (TALF), which provides loans to holders of ABS collateralised by student loans, auto loans and small business loans, as well as various measures to support liquidity of money market funds. The Fed is also up-scaling its direct purchases of assets, including government-sponsored enterprises' debt and guaranteed mortgage-backed securities (MBS) and Treasury securities.

At its most recent meeting in March, the Fed announced plans to purchase a further USD850bn of agency debt and agency-backed MBS and USD300bn of Treasuries, and to broaden the TALF. At mid-March the Fed's balance sheet stood at USD2,093bn (14.4% GDP), up from USD936bn (6.5%) at end-August 2007. The further monetary expansion was justified by fears that inflation "could persist for a time below rates that best foster economic growth and price stability". While Fitch is not forecasting outright deflation in the US, it expects inflation to remain close to zero through 2010.

### Japan

Japanese inflation returned to zero in January 2009, and Fitch expects prices to fall by about 0.5% on average over the course of the year. Reflecting the complete lack of any pricing pressure as well as the severity of the recession, the BOJ lowered the target for the uncollateralised overnight call rate in October 2008 and again in December, and the target is now 0.1%. In addition, the BOJ has stepped up its purchases of Japanese government bonds, and in January began outright purchases of commercial paper in a special initiative that has been extended to September. The BOJ has also begun direct purchases of corporate bonds and has resumed its purchases of equities held by Japanese banks. Fitch believes that the BOJ will continue to implement a range of policies to counter deteriorating economic conditions.

### Euro Area

The ECB has cut rates four times since November to 1.5% amidst sharply weaker forecasts for activity and the significant decline to date and anticipated further falls in inflation. With the ECB identifying a “broad-based reduction in inflationary risks”, Fitch expects further cuts to 0.5% by the middle of the year. While the ECB has yet to adopt formal QE, its balance sheet has already expanded rapidly as liquidity has been provided to the banking sector, and Fitch expects it will commence a similar QE approach later in 2009. While the “no-bail out” clause prohibits direct funding of budget deficits, the ECB is permitted to purchase government bonds in the secondary market.

### United Kingdom

The BOE reduced rates much faster than anticipated by the market and in the last GEO, with no less than five cuts since November, taking the bank rate to 0.5%. The BOE announced a formal shift to QE policies in February with the announcement of a GBP75bn of asset purchases funded by an expansion of central bank reserves. The assets to be purchased include both private-sector securities – including commercial paper and corporate bonds – under the Asset Purchase Facility and gilts in the secondary market. The initial gilt purchase announcement had a sizeable impact on government bond yields.

Unlike in the US or euro area, headline inflation has remained elevated in the UK and actually rose above the target to 3.2% in February. This reflects the weakness of sterling, which has offset the impact of the decline in global commodity prices on UK import prices. However, utility tariff cuts anticipated in coming months and the impact of the recession on core inflation are likely to see UK inflation decline sharply over the course of 2009.

**Appendix**

**United States**

Change on previous period unless stated (%)	Real GDP	Consumption	Investment	Government spending	Exports	Imports	Industrial production	Unemployment (% labour force)	Non-farm payrolls (s.a. monthly change, 000)	House prices <sup>a, b</sup>	CPI inflation <sup>a</sup>	Interest rates (%)	Bond yields, 10-year (%)
2006	2.8	3.0	2.0	1.5	9.1	6.0	2.3	4.6	178	2.0	3.2	4.96	4.8
2007	2.0	2.8	-2.1	1.9	8.4	2.2	1.5	4.6	96	-2.9	2.9	5.05	4.6
2008	1.1	0.2	-3.4	2.6	6.2	-3.5	-2.2	5.8	-257	-9.2	3.8	2.08	3.6
Q108	0.2	0.2	-1.3	0.8	1.2	-0.2	0.0	4.9	-113	-7.8	4.1	3.22	3.6
Q208	0.7	0.3	0.2	0.4	2.9	-1.9	-1.2	5.4	-153	-7.6	4.4	2.08	3.9
Q308	-0.1	-1.0	-0.8	1.4	0.7	-0.9	-2.3	6.1	-208	-9.0	5.3	2.00	3.8
Q408	-1.6	-1.1	-5.0	0.5	-6.5	-4.7	-3.3	6.9	-553	-12.4	1.6	1.05	3.2
October							1.4	6.6	-380	-9.3	3.7	1.54	3.8
November							-1.3	6.8	-597	-13.2	1.1	1.00	3.5
December							-2.4	7.2	-681	-14.6	0.1	0.61	2.4
January							-2.0	7.6	-655	-16.7	0.0	0.25	2.5
February							-1.5	8.1	-651	-15.0	0.2	0.25	2.8
<b>Forecasts</b>													
2009	-3.4	-3.3	-13.4	5.7	-8.8	-9.1		9.0			-0.2	0.25	2.7
2010	1.0	0.0	-1.0	8.0	0.5	1.0		10.0			0.2	0.25	3.3
Q109	-1.6	-1.0	-5.0	0.4	-2.5	-1.0		8.1			0.2	0.25	2.7
Q209	-1.3	-1.0	-4.0	0.4	-3.5	-3.0		8.9			-0.1	0.25	2.5
Q309	0.3	-0.7	-3.0	5.0	0.0	-3.0		9.3			-0.4	0.25	2.7
Q409	0.6	0.0	-2.0	5.0	0.0	-1.0		9.6			-0.6	0.25	2.7

<sup>a</sup> Change over same period a year earlier (%)

<sup>b</sup> Median price of existing one-family homes, NAR measure

Source: Fitch, Bureau of Economic Analysis, National Association of Realtors (NAR), Datastream

**Japan**

Change on previous period unless stated (%)	Real GDP	Consumption	Investment	Government spending	Exports	Imports	Industrial production	Unemployment (% labour force)	Wages <sup>a, b</sup>	Business confidence Tankan <sup>c</sup>	CPI Inflation <sup>a</sup>	Interest rates (%)	Bond yields, 10-year (%)
2006	2.1	1.5	0.5	0.4	9.7	4.2	4.2	4.1	0.2	6.3	0.3	0.12	1.7
2007	2.4	0.7	0.9	2.0	8.4	1.5	3.0	3.9	-0.7	5.3	0.0	0.47	1.7
2008	-0.7	0.5	-4.8	0.9	1.9	1.1	-3.3	4.0	0.4	-12.3	1.4	0.46	1.5
Q108	0.3	0.7	-0.7	-0.2	3.0	1.5	-0.7	3.8	1.6	-4.0	1.0	0.50	1.4
Q208	-1.2	-0.8	-2.0	-0.9	-2.3	-3.1	-0.8	4.0	0.7	-7.0	1.4	0.51	1.6
Q308	-0.4	0.3	-1.7	-0.1	0.6	1.7	-1.3	4.0	0.2	-14.0	2.2	0.50	1.5
Q408	-3.2	-0.4	-2.9	1.4	-13.8	3.0	-12.0	4.0	-0.5	-24.0	1.1	0.33	1.4
October							-3.1	3.8	0.1		1.7	0.49	1.5
November							-8.5	4.0	-0.7		1.0	0.31	1.5
December							-9.8	4.3	-0.8		0.4	0.20	1.3
January							-10.2	4.1	-1.3		0.0	0.12	1.2
February							-9.4				0.0	0.11	1.3
<b>Forecasts</b>													
2009	-6.7	-2.0	-14.6	1.2	-30.4	-17.0		4.4			-0.1	0.10	1.2
2010	0.1	0.0	-2.1	0.4	5.3	0.7		4.4			0.1	0.10	1.4
Q109	-2.6	-1.0	-5.8	0.2	-22.0	-17.0		4.2			0.0	0.10	1.2
Q209	-1.6	-0.8	-5.5	0.3	-2.0	-2.0		4.4			-0.2	0.10	1.1
Q309	-0.5	-0.3	-3.8	0.1	2.0	-1.0		4.6			0.0	0.10	1.3
Q409	0.3	0.0	-0.8	0.1	3.0	-1.0		4.6			0.0	0.10	1.3

<sup>a</sup> Change over same period a year earlier (%)

<sup>b</sup> Wage index of cash earnings, Ministry of Labour

<sup>c</sup> Diffusion index, all industries

Source: Fitch, Datastream

<b>Euro Area</b>													
Change on previous period unless stated (%)	Real GDP	Consumption	Investment	Government spending	Exports	Imports	Industrial production	Unemployment (% labour force)	Retail sales volumes <sup>a</sup>	Broad money M3 <sup>a</sup>	CPI inflation <sup>a</sup>	Interest rates (%)	Bond yields, 10-year (%)
2006	3.0	2.1	5.9	1.8	8.5	8.3	4.0	8.3	2.1	9.4	2.2	2.76	3.8
2007	2.6	1.6	4.3	2.2	5.9	5.3	3.5	7.4	0.2	11.7	2.1	3.84	4.3
2008	0.7	0.5	0.2	2.0	1.6	1.5	-1.8	7.5	-1.2	8.5	3.3	3.89	4.2
Q108	0.7	0.1	1.2	0.4	1.6	1.1	0.2	7.2	-0.3	10.8	3.4	4.00	4.1
Q208	-0.3	-0.3	-1.2	0.9	0.0	-0.4	-1.6	7.4	-1.1	10.3	3.6	4.00	4.4
Q308	-0.3	0.1	-0.6	0.8	-0.1	1.3	-2.0	7.5	-1.6	9.8	3.8	4.23	4.5
Q408	-1.5	-0.3	-3.7	0.1	-6.5	-4.7	-5.3	7.9	-1.8	8.5	2.3	3.33	3.9
October							-1.8	7.8	-1.9	9.8	3.2	3.86	4.3
November							-2.3	7.9	-1.6	8.8	2.1	3.42	4.0
December							-2.7	8.0	-1.8	8.5	1.6	2.73	3.6
January								8.2		6.7	1.1	2.32	3.7
February											1.2	2.00	3.8
<b>Forecasts</b>													
2009	-3.2							9.4			0.7	1.00	3.5
2010	0.4							10.7			0.9	0.50	3.7
Q109	-1.7							8.6			1.0	2.00	3.7
Q209	-0.4							9.2			0.7	1.00	3.6
Q309	0.0							9.8			0.5	0.50	3.4
Q409	0.4							10.2			0.6	0.50	3.3

<sup>a</sup> Change over same period a year earlier (%)  
Source: Fitch, Datastream

**Germany**

Change on previous period unless stated (%)	Real GDP	Consumption	Investment	Government spending	Exports	Imports	Industrial production	Unemployment (% labour force)	Retail sales volume <sup>a</sup>	Business confidence (IFO, 2,000=100)	CPI inflation <sup>a</sup>	Interest rates (%)	Bond yields, 10-year (%)
2006	3.2	1.2	8.5	0.6	13.1	12.2	5.8	9.8		105.5	1.8	2.76	3.8
2007	2.6	-0.3	4.5	2.2	7.7	5.2	5.8	8.4		106.1	2.3	3.84	4.2
2008	1.0	-0.3	3.6	2.0	2.3	3.6	0.0	7.7		96.8	2.7	3.89	4.0
Q108	1.5	-0.2	3.4	1.0	2.3	2.5	1.4	7.9		104.0	3.1	4.00	3.9
Q208	-0.5	-0.6	-1.4	0.8	-0.3	-1.4	-1.3	7.8		102.1	3.0	4.00	4.3
Q308	-0.5	0.3	0.2	0.3	-0.2	4.1	-1.1	7.6		94.8	3.2	4.23	4.3
Q408	-2.1	-0.1	-2.7	0.0	-7.3	-3.6	-6.6	7.7		86.2	1.5	3.33	3.5
October							-2.1	7.6		90.0	2.4	3.86	3.9
November							-4.0	7.6		85.9	1.3	3.42	3.5
December							-3.9	7.7		82.7	1.0	2.73	3.0
January							-7.5	7.8		83.1	0.9	2.32	3.1
February								7.9		82.6	1.0	2.00	3.2
										82.1			
<b>Forecasts</b>													
2009	-3.7	-0.6	-11.3	1.4	-12.4	-9.2		9.0			0.7	1.00	2.9
2010	0.6	0.1	-0.4	4.0	1.0	1.5		9.9			0.6	0.50	3.1
Q109	-1.7	-0.3	-6.5	0.4	-5.0	-5.0		8.0			1.0	2.00	3.1
Q209	-0.1	-0.4	-3.0	0.4	-3.2	-5.0		8.7			0.7	1.00	3.0
Q309	-0.1	0.1	-1.5	0.5	0.4	0.4		9.4			0.5	0.50	2.8
Q409	0.1	0.1	0.3	0.5	0.2	0.5		9.7			0.7	0.50	2.7

<sup>a</sup> Change over same period a year earlier (%)  
Source: Fitch, Eurostat, IFO, ECB, Datastream

**France**

Change on previous period unless stated (%)	Real GDP	Consumption	Investment	Government spending	Exports	Imports	Industrial production	Unemployment (% labour force)	Retail sales volumes <sup>a</sup>	House prices <sup>a, b</sup>	CPI inflation <sup>a</sup>	Interest rates (%)	Bond yields, 10-year (%)
2006	2.2	3.0	5.0	1.4	5.9	7.4	1.4	8.8	2.7	12.1	1.9	2.76	3.8
2007	2.1	3.1	5.0	1.3	3.1	6.2	1.5	8.0	3.0	6.6	1.6	3.84	4.3
2008	0.8	1.9	0.5	1.5	1.0	1.7	-2.5	7.4	-1.3		3.2	3.89	4.2
Q108	0.4	0.2	0.6	0.3	2.6	2.0	0.1	7.2	-0.3	4.3	3.3	4.00	4.0
Q208	-0.3	0.3	-1.5	0.5	-2.1	-0.6	-1.7	7.3	-1.0	3.0	3.7	4.00	4.4
Q308	0.2	0.3	-0.1	0.8	0.8	1.1	-0.8	7.2	-2.3	0.8	3.6	4.23	4.5
Q408	-1.3	0.5	-1.4	0.2	-3.7	-2.1	-6.6	7.8	-1.6		2.0	3.33	3.8
October							-3.5		-2.4		3.0	3.86	4.2
November							-2.8		-1.6		1.9	3.42	3.9
December							-1.5		-0.8		1.2	2.73	3.4
January							-3.1		0.6		0.8	2.32	3.6
February									-2.6		1.0	2.00	3.6
<b>Forecasts</b>													
2009	-2.7	0.2	-9.2	2.1	-6.1	-3.7		9.2			0.6	1.00	3.4
2010	1.0	0.5	1.0	4.5	2.0	3.5		10.3			1.0	0.50	3.6
Q109	-1.0	-0.2	-3.0	0.3	-3.0	-2.0		8.4			0.8	2.00	3.6
Q209	-1.1	-0.4	-5.0	0.5	-1.0	-1.0		9.0			0.6	1.00	3.5
Q309	0.0	0.2	-2.0	1.0	0.4	0.3		9.5			0.4	0.50	3.3
Q409	0.2	0.1	-1.0	1.0	0.8	0.3		9.9			0.6	0.50	3.2

<sup>a</sup> Change over same period a year earlier (%)

<sup>b</sup> INSEE existing houses and apartments

Source: Fitch, INSEE, Eurostat, Datastream

**Italy**

Change on previous period unless stated (%)	Real GDP	Consumption	Investment	Government spending	Exports	Imports	Industrial production	Unemployment (% labour force)	Retail sales volumes <sup>a</sup>	Business confidence <sup>b</sup>	CPI inflation <sup>a</sup>	Interest rates (%)	Bond yields, 10-year (%)
2006	2.1	1.3	3.2	0.5	6.5	6.2	2.4	6.8	-0.4	95.8	2.2	2.76	4.0
2007	1.5	1.2	1.6	1.0	4.0	3.3	14.4	6.2	-1.7	94.3	2.1	3.84	4.5
2008	-1.0	0.0	0.0	0.0	-0.1	-0.6	-3.4	6.8	-4.1	82.9	3.5	3.89	4.6
Q108	0.3	0.0	-0.3	-0.2	-0.2	-1.2	1.5	6.6	-3.0	90.3	3.2	4.00	4.3
Q208	-0.6	-0.9	-0.5	1.0	-1.0	-1.1	-1.4	6.8	-4.6	87.5	3.8	4.00	4.7
Q308	-0.7	0.3	-1.8	-0.3	-2.4	-0.7	-3.1	6.7	-3.9	82.2	4.1	4.23	4.9
Q408	-1.9	-0.8	-6.9	0.1	-7.4	-6.0	-7.6	6.9	-4.9	71.5	2.8	3.33	4.6
October							-2.5		-4.7	76.3	3.6	3.86	4.8
November							-3.4		-5.0	71.6	2.7	3.42	4.6
December							-3.9		-5.1	66.6	2.4	2.73	4.4
January							-0.2			65.3	1.4	2.32	4.5
February										63.2	1.5	2.00	4.4
										59.8			
<b>Forecasts</b>													
2009	-3.4	-1.3	-11.9	0.7	-11.5	-9.5		8.1			1.1	1.00	4.1
2010	0.8	0.6	1.2	1.5	1.8	2.1		8.9			0.7	0.50	4.3
Q109	-1.3	-0.5	-4.5	0.2	-5.0	-4.5		7.3			1.5	2.00	4.3
Q209	-0.5	-0.3	-2.0	0.2	0.0	-0.1		7.9			1.0	1.00	4.2
Q309	0.2	0.2	-0.2	0.2	0.1	-0.1		8.5			0.8	0.50	4.0
Q409	0.4	0.3	0.1	0.2	1.0	0.3		8.8			0.9	0.50	3.9

<sup>a</sup> Change over same period a year earlier (%)

<sup>b</sup> ISAE index

Source: Fitch, Datastream

**Spain**

Change on previous period unless stated (%)	Real GDP	Consumption	Investment	Government spending	Exports	Imports	Industrial production	Unemployment (% labour force)	Retail sales volumes <sup>a</sup>	House prices <sup>b</sup>	CPI inflation <sup>a</sup>	Interest rates (%)	Bond yields, 10-year (%)
2006	3.9	3.9	7.1	4.6	6.7	10.3	3.7	8.5	2.3	10.2	3.6	2.76	3.8
2007	3.7	3.5	5.3	4.9	4.9	6.2	2.2	8.3	2.7	5.8	2.8	3.84	4.3
2008	1.2	0.1	-3.0	5.3	0.7	-2.5	-7.5	11.3	-5.4	1.1	4.1	3.89	4.3
Q108	0.4	0.1	-0.1	0.7	0.2	-0.5	-1.4	9.3	-2.8	4.0	4.5	4.00	4.1
Q208	0.1	0.0	-2.1	2.1	1.7	0.1	-3.2	10.6	-4.4	2.4	4.7	4.00	4.5
Q308	-0.3	-0.9	-2.2	2.2	0.6	-1.1	-1.3	11.8	-6.3	0.7	5.0	4.23	4.6
Q408	-1.0	-1.4	-5.2	1.2	-10.1	-11.9	-10.0	13.7	-8.1	-2.8	2.5	3.33	4.2
October							-3.7	13.0	-8.3		3.6	3.86	4.5
November							-2.7	13.7	-7.9		2.4	3.42	4.1
December							-3.1	14.3	-8.2		1.5	2.73	3.9
January							-2.4	14.8	-6.2		0.8	2.32	4.1
February											0.7	2.00	4.1
<b>Forecasts</b>													
2009	-3.6	-2.9	-15.3	6.9	-12.9	-14.1		16.2			0.2	1.00	3.9
2010	-0.2	0.0	-7.0	7.0	1.5	1.0		18.5			0.2	0.50	4.1
Q109	-2.0	-1.0	-5.0	1.2	-5.0	-3.0		15.2			0.4	2.00	4.1
Q209	-1.1	-0.6	-5.0	2.0	-2.0	-2.0		15.9			0.2	1.00	4.0
Q309	0.1	0.0	-3.0	2.0	0.2	-1.0		16.5			0.0	0.50	3.8
Q409	0.1	0.0	-2.0	2.0	0.5	0.0		17.1			0.1	0.50	3.7

<sup>a</sup> Change over same period a year earlier (%)

<sup>b</sup> INE index

Source: Fitch, Datastream

**United Kingdom**

Change on previous period unless stated (%)	Real GDP	Consumption	Investment	Government spending	Exports <sup>c</sup>	Imports <sup>c</sup>	Industrial production	Unemployment (% labour force)	Retail sales volume <sup>a</sup>	House prices <sup>a, b</sup>	CPI inflation <sup>a</sup>	Interest rates (%)	Bond yields, 10-year (%)
2006	2.8	2.1	6.0	1.6	11.0	9.6	0.7	5.5	3.2	8.3	2.3	4.64	4.5
2007	3.0	3.1	6.8	1.5	-4.1	-1.5	0.1	5.2	4.4	9.3	2.3	5.51	5.0
2008	0.7	1.4	-3.1	3.7	0.1	-0.6	-2.8	6.5	3.5	-8.6	3.6	4.67	4.5
Q108	0.4	0.7	-3.3	1.9	0.9	-0.2	-0.3	5.3	5.3	1.6	2.4	5.35	4.5
Q208	0.0	-0.4	-0.9	0.7	-1.5	-1.4	-1.2	5.5	4.3	-6.3	3.4	5.03	4.8
Q308	-0.6	-0.2	-2.8	0.6	0.2	-0.2	-1.7	6.0	2.3	-12.4	4.8	5.00	4.7
Q408	-1.5	-1.0	-1.2	1.1	-3.9	-5.9	-4.5	6.5	2.5	-16.7	3.9	3.33	4.0
October							-2.0	6.1	1.7	-15.0	4.5	4.61	4.5
November							-2.4	6.3	1.4	-16.2	4.1	3.23	4.1
December							-1.5	6.5	4.5	-18.9	3.1	2.13	3.3
January							-2.6		3.7	-16.5	3.0	1.61	3.6
February									0.5	-17.7	3.2	1.08	3.6
<b>Forecasts</b>													
2009	-3.4	-2.9	-11.8	2.7	-6.2	-8.8		7.7			2.0	0.52	3.2
2010	0.2	0.2	-3.0	3.0	0.8	1.2		9.0			0.8	0.50	3.0
Q109	-1.2	-0.9	-5.0	0.4	-3.0	-2.5		6.8			3.1	0.58	3.5
Q209	-1.1	-1.0	-4.5	0.5	-1.0	-1.5		7.4			2.1	0.50	3.2
Q309	-0.1	-0.7	-2.5	0.8	1.0	-1.0		8.0			1.6	0.50	3.0
Q409	0.2	-0.2	-0.5	0.8	1.0	0.0		8.5			1.3	0.50	3.0

<sup>a</sup> Change over same period a year earlier (%)

<sup>b</sup> Halifax index

<sup>c</sup> Trade data for 2006 (and growth rates for 2007) are distorted by the impact of MTIC fraud

Source: Fitch, Datastream

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