Press Points for Chapter 5: ***The Changing Dynamics of the Global Business Cycle***

World Economic Outlook, October 2007

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Key Points

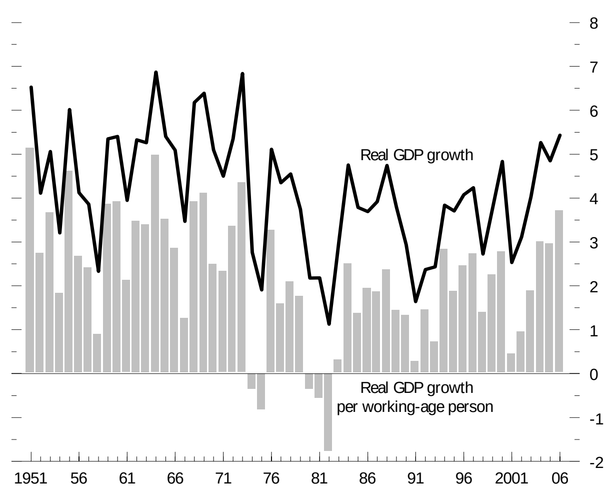
- **Since 2004, world growth has been much more rapid than at any time since the early 1970s. This growth has been shared across countries to an unprecedented degree. Moreover, output volatility in most countries and regions has significantly declined.**

- **Reduced output volatility and the associated increase in the durability of expansions largely reflect sources that are likely to prove persistent. In particular, improvements in the conduct of monetary and fiscal policy, as well as in broader institutional quality, are all expected to keep output volatility low going forward.**

- **That said, lower volatility does not rule out occasional recessions. The abrupt end to the period of strong and stable growth in the 1960s and early 1970s and the Asian crises of the 1990s provide cautionary tales of what can happen if policies do not respond appropriately to new risks and challenges.**

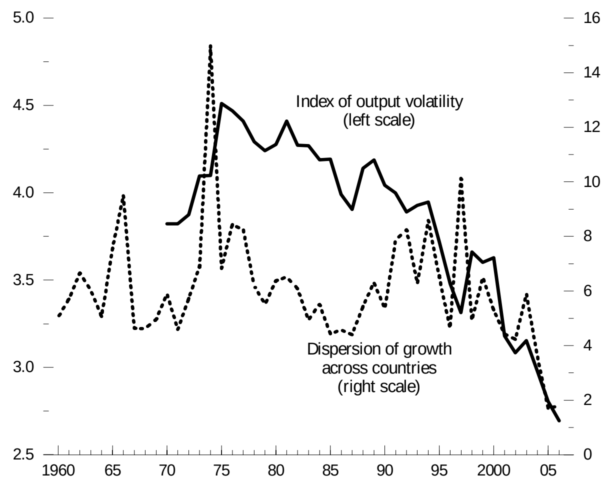
Between 2004 and 2006, the world economy enjoyed its strongest growth since the late 1960s and early 1970s. World output increased by an average 5.2 percent a year during the period (see first Figure). After controlling for increases in the working-age population, growth during these three years was 3¼ percent—only slightly lower than in the 1960s. Not only has recent global growth been high, but output fluctuations have also continued to diminish, even as potentially more volatile emerging market and developing countries account for a rising share of the global economy.

World Growth Has Been High…
(Percent change)



In important ways, the global economy has recently displayed greater stability than observed even in the 1960s—the last golden age of strong and stable growth. In particular, the volatility of output has declined in most countries—in a typical country, output volatility has declined by a third over the past four decades (see second Figure). Growth is also more broadly shared across countries than previously observed. For example, average growth during 2004–06 exceeded 4 percent in two-thirds of countries, and was less than 1 percent in only one out of twenty countries. In other words, virtually all countries have been doing well. Advanced economies in particular have improved their stability since the 1970s, and have typically experienced long expansions. The share of time advanced economies spend in a recession has halved to a mere 8 percent between 1947–82 and 1983–2006. Output stabilization in developing countries has been more gradual and modest, with countries in certain regions such as Asia and Latin America experiencing deep and sometimes recurrent crises until the beginning of this decade.

…Stable, and Shared by Most Countries [1]



[1] The index of output volatility is the rolling 10-year standard deviation of detrended real GDP growth in a typical (median) country. The dispersion of growth is measured as the standard deviation of detrended real GDP growth in the sample of 133 countries.

The chapter suggests that the strong durability of expansions and low output volatility largely reflect sources that are likely to prove persistent. Better monetary policy contributed about one-third to the stabilization of output fluctuations over time. More stable fiscal policy has also helped. Reductions in terms-of-trade volatility (possibly representing only temporary “good luck”) have played an important, but not dominant, role in lowering output volatility—about one-eighth of the total change.

Nevertheless, future stability should not be taken for granted. Low average volatility does not rule out occasional recessions. The process of trade and financial globalization has generated new risks and vulnerabilities. Recent turmoil in global financial markets provides a reminder that the task of maintaining expansions requires policymakers to identify and adapt to new risks and challenges in the global economic system as they arise. It is critical that the prolonged growth we have observed not be allowed to engender any complacency.