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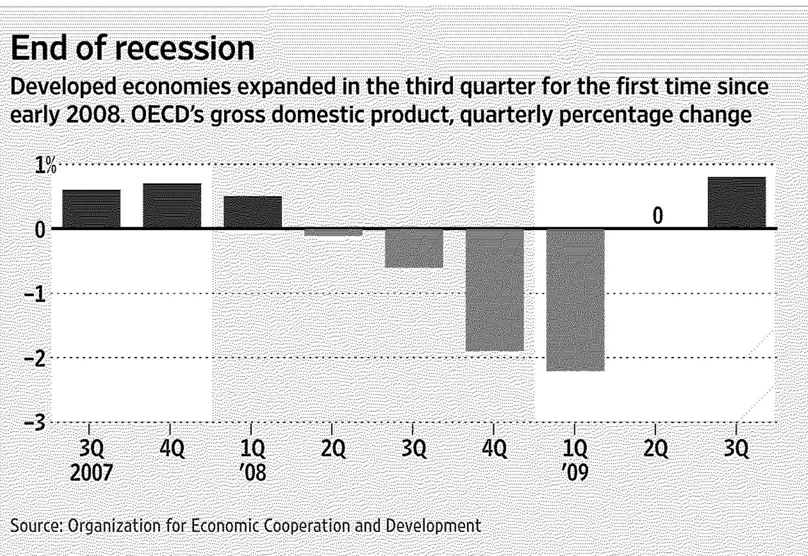
OECD exits recession amid warnings

IMF chief Strauss-Kahn advises caution in recovery, telling governments to be wary about dropping stimulus measures



BY PAUL HANNON AND NATASHA BRERETON

LONDON—New data show the world's developed economies emerged from recession in the third quarter, but International Monetary Fund Managing Director Dominique Strauss-Kahn said further stimulus steps are needed before governments can let down their guard.

In a speech, Mr. Strauss-Kahn said governments should err on the side of caution, "as exiting too early is costlier than exiting too late."

Figures released by the Organization for Economic Cooperation and Development showed economic output in its 30 members in the third period was up 0.8% from the second quarter, although it was 3.3% lower in annual terms.

The OECD said the combined gross domestic product of the 30 members grew for the first time since the 2008 first quarter. The combined GDP of the Group of Seven largest developed economies rose 0.7% from the second quarter, but was also down 3.3% from the third quarter of last year.

OECD members account for 61.3% of world GDP. With large developing economies like China also growing, the third-quarter figures indicate that the world economy has emerged from its deepest recession since World War II.

Mr. Strauss-Kahn said conditions in the global economy remain highly vulnerable and are threatened by undercapitalized banking systems, weak household finances, high unemployment and large public deficits.

He added that designing and communicating plans for fiscal consolidation—cutting budget deficits—should be the top priority, especially for advanced economies, where there is "little sign" of inflationary pressures and monetary policy can afford to stay accommodative for "some time."

"I think it is still too early for a general exit. Exit should instead await a sustained recovery in private demand, as well as entrenched financial stability—a key litmus test," Mr. Strauss-Kahn said.

Separately, at an event in Madrid, European Central Bank President Jean-Claude Trichet said the ECB has a strategy to exit its stimulus measures and urged euro-zone governments to come up with strategies to withdraw their own stimulus programs once the crisis has passed.

"When the appropriate time comes, there should be no concern about the ECB's determination and ability to exit," Mr. Trichet said.

Last week, Mr. Trichet oversaw what was widely seen as the ECB's first step to withdrawing its banking support programs, tightening requirements for asset-backed securities, a class of investment underpinned by income from loans such as credit cards, auto and student loans and mortgages.

Also Monday, Markit's flash composite purchasing-managers index for the euro zone—a gauge of private-sector activity—rose to a two-year high of 53.7 in November from 53.0 in October.

That reflected a rise to 51.0 in the manufacturing index from 50.7 in October, while the PMI for the services sector increased to 53.2 from 52.6. A level above 50 signals an expansion in activity, while a level below 50 signals a contraction.

"The November survey suggests that the euro zone continued to expand at a robust pace," said Chris Williamson, chief economist at Markit. "However, we also saw the first signs of growth peaking."

The smaller-than-forecast manu-

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facturing PMI gain of just 0.3 point, as well as the slower pace of gains across the subsectors, reinforce economists' views that the European Central Bank should keep interest rates at the current accommodative level of 1% well into 2010.

"While the November euro-zone purchasing managers surveys suggest that euro-zone growth in the fourth quarter may well outstrip the 0.4% GDP expansion achieved in the third quarter, there are warning signs within the surveys that the recovery may lack stamina and could well slow early in 2010," said Howard Archer, chief euro-zone and U.K. economist for IHS Global Insight.

"Consequently, there is a compelling case for the ECB to only very gradually withdraw its emergency liquidity measures, and to keep interest rates down at 1% until deep into 2010," he said.

—Ilona Billington and Jonathan House contributed to this article

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