OECD Economic Outlook
June 2017

Better, but not good enough

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For a video link to the press conference and related material:
www.oecd.org/OECDEconomicOutlook

OECD Economic Outlook - June 2017

Summary of OECD projections for G20 countries

Real GDP growth

Year-on-year % increase

	2015	2016	2017	2018
World[1]	**3.1**	**3.0**	**3.5**	**3.6**
Argentina	**2.6**	**-2.3**	**2.5**	**3.1**
Australia	**2.4**	**2.4**	**2.5**	**2.9**
Brazil	**-3.8**	**-3.6**	**0.7**	**1.6**
Canada	**0.9**	**1.4**	**2.8**	**2.3**
China	**6.9**	**6.7**	**6.6**	**6.4**
Euro area[1]	**1.5**	**1.7**	**1.8**	**1.8**
France	**1.2**	**1.1**	**1.3**	**1.5**
Germany	**1.5**	**1.8**	**2.0**	**2.0**
India[2]	**7.9**	**7.1**	**7.3**	**7.7**
Indonesia	**4.9**	**5.0**	**5.1**	**5.2**
Italy	**0.7**	**1.0**	**1.0**	**0.8**
Japan	**1.1**	**1.0**	**1.4**	**1.0**
Korea	**2.8**	**2.8**	**2.6**	**2.8**
Mexico	**2.7**	**2.0**	**1.9**	**2.0**
Russia	**-2.8**	**-0.2**	**1.4**	**1.6**
South Africa	**1.3**	**0.3**	**0.8**	**1.2**
Spain	**3.2**	**3.2**	**2.8**	**2.4**
Turkey	**5.9**	**3.1**	**3.4**	**3.5**
United Kingdom	**2.2**	**1.8**	**1.6**	**1.0**
United States	**2.6**	**1.6**	**2.1**	**2.4**
OECD[1]	**2.2**	**1.8**	**2.1**	**2.1**
Non-OECD	**3.9**	**4.1**	**4.6**	**4.8**
World real trade growth	**2.7**	**2.4**	**4.6**	**3.8**

1. With growth in Ireland in 2015 computed using gross value added at constant prices excluding foreign-owned multinational enterprise dominated sectors.
2. Fiscal years starting in April.

Key messages

Global growth expected to pick-up modestly with upside risks

- **Confidence is increasing and investment and trade are picking up from low levels**
- **Growth is broad based; recovery in commodity producers helps the modest global upturn**
- **Signs of rising demand for high-tech goods and investment to upgrade capital**

Productivity and wage growth remain subdued; financial stability risks persist

- **Headline employment indicators are improving but labour markets have not recovered**
- **Financial risks from high and rising credit growth, house price increases, interest rate gaps**

More needs to be done to share the gains from structural trends and trade

- **Changes to technology, consumer preferences and trade are occurring simultaneously**
- **Job losses from shifts in activity are concentrated in manufacturing and specific regions**

An integrated policy approach is needed to make globalisation work for all

- **A more level playing field for the international system**
- **Domestic reforms to boost competition, job creation, skills and innovation**
- **Targeted policies to help people who are left behind seize new opportunities**

Editorial

GLOBAL ECONOMIC OUTLOOK: *BETTER, BUT NOT GOOD ENOUGH*

The mood in the global economy has brightened during the last year. Confidence indicators, industrial production, headline measures of employment, and cross-border trade flows have improved in most economies. However, this still-modest cyclical expansion is not yet robust enough to yield a durable improvement in potential output or to reduce persistent inequalities. Financial vulnerabilities could be realised by policy and geopolitical shocks. Compared to the 20-year pre-crisis average against which expectations have been set, OECD per capita GDP growth remains over ½ percentage point weaker and global growth overall, projected to rise to just above 3½ per cent by 2018, also lags. In sum, the global economic outlook is better, but not good enough to sustainably improve citizens' well-being.

Investment has been a missing support for global growth, trade, productivity and real wages. The *Economic Outlook June 2015 special chapter* on investment for inclusive growth noted three key signals for business to invest: A broad-based global cyclical upturn in demand, regulation that promotes competition, and low policy uncertainties. The first signal may be in train, although the dependence of emerging market and commodity based economies, in particular, on developments in China clouds the stability of the overall global upturn. On the second signal, the *Business and Finance Outlook 2017* documents mergers and acquisitions and cartel behaviour that may dampen the competitive need to invest. On the third signal, protectionist policies in G20 countries and anti-globalisation rhetoric, along with other factors, raise uncertainties. All told, investment prospects are better, but with reservations as to the permanence and clarity of the signals.

Employment growth has recovered relatively well in recent years with trends for employment and labour force participation rates now higher than in the decade prior to the crisis (notably excepting the United States). But, along some dimensions – hours worked and part-time jobs – the quality of work is more precarious, as discussed in the forthcoming *Employment Outlook 2017*. Productivity and real wages both diverge, with a large gap between the highest productivity globalised firms and "the rest". So, while at the macro level labour market prospects and outcomes are better, the foundations for robust consumption and shared well-being are less apparent.

International trade growth revived in the last year, although it still remains less robust than in pre-crisis decades. Technology-driven and deeper trade integration through global value chains creates new markets and raises productivity. Access to a wider variety of goods and services at cheaper prices raises well-being and consumers' purchasing power, particularly low-income consumers. But these gains come with adjustment costs, neither of which have been equally shared across regions and individuals, yielding pressure to retreat from globalisation.

The analysis in the special chapter in this *Economic Outlook* documents that globalisation is part of broader trends: A changing pattern of tastes as income rises (which yields a greater demand for services compared to manufactured goods); on-going technological change (which reduces the workers needed to produce manufactured goods); and evolving trade patterns (wherein producers in advanced economies face enhanced competition not only from firms in emerging market economies but also from advanced economy peers). Manufacturing jobs – a key locus of the globalisation backlash – are more regionally concentrated than are services, adding to the burden of adjustment for those firms and workers.

There are upside risks to the projections for investment, trade, and productivity. Evidence from business surveys and from data suggests that the ageing of the capital stock may spur investment in higher quality capital with more advanced technology. This would improve cyclical conditions and support a revival of investment-intensive global value chains, with knock-on benefits to domestic demand. Higher quality capital would also improve productivity and boost potential output; but would also present new challenges, including to inclusiveness, as outlined in *The Next Production Revolution.*

Financial vulnerabilities continue to cloud the projections. Geopolitical shocks and trade protectionism could catalyse snap-backs in asset prices and realise downside risks through a variety of channels. Global equity prices have increased, reaching historic highs in the United States and Germany, despite little upward revision to GDP growth and inflation. Around $12 trillion of OECD countries' government bonds (32% of the total stock) continue to trade at negative yields. Big corrections in various asset prices would weigh on economic activity via wealth effects (more pervasive in advanced economies), via weak financial conditions of some firms and banks (currently reflected in high non-performing loans, especially in Europe), and via the mismatch of currencies and maturities of assets and liabilities (of particular relevance for some emerging market economies).

The global cyclical upturn is not yet assured; nor are the higher productivity, greater inclusiveness, and non-discriminatory international system that are needed to improve well-being for all. Policymakers cannot be complacent.

Monetary policy is appropriately moving toward a more neutral stance in the United States, as well Europe and Japan are using forward guidance. These actions and words help investors to assess policy risks, to bring asset price valuations into alignment with economic fundamentals, and to emphasise monitoring of exposures and vulnerabilities. Nevertheless, market participants, as reflected in their investment choices, apparently continue to expect monetary policy paths between the United States and the euro area and Japan to diverge over the projection period – to around 150 basis points by the end of 2018. Closing this policy-path gap will likely engender higher financial volatilities than are currently priced in.

Fiscal initiatives that mitigate sources of inequalities have long-run benefits for people, regions, and the fiscal budget. As outlined in the *Fiscal Approach to Inclusive Growth in the G7*, education, child-care, training, and mobility can help address underlying sources of inequalities in market incomes, including within and across regions. “High-multiplier” investments in public research and infrastructure, which were particularly hard hit during the financial crisis, catalyse private business activity including by helping to better connect firms to markets at home and abroad. Such an effective fiscal mix mitigates the need for income redistribution through taxes and transfers in the longer term, thus improving the fiscal position and future output to boost debt sustainability in the longer run.

Each country has its own coherent policy package to boost productivity, employment, and inclusiveness; *Going for Growth, 2017* suggests priorities for all G20 countries. These priorities are designed to maximise policy synergies, such as how addressing non-performing loans can also boost business dynamism, or how active labor market policies work best if there is a competitive business environment, or how promoting geographical mobility and improved skill matching are aided by housing policy reforms.

However, *national* policy settings interact with the nature and degree of *international* economic cooperation to affect firms and citizens. And, given the mutually reinforcing forces of tastes, technology, and trade that hit regions, firms and workers, *targeted* policies need to be reassessed.

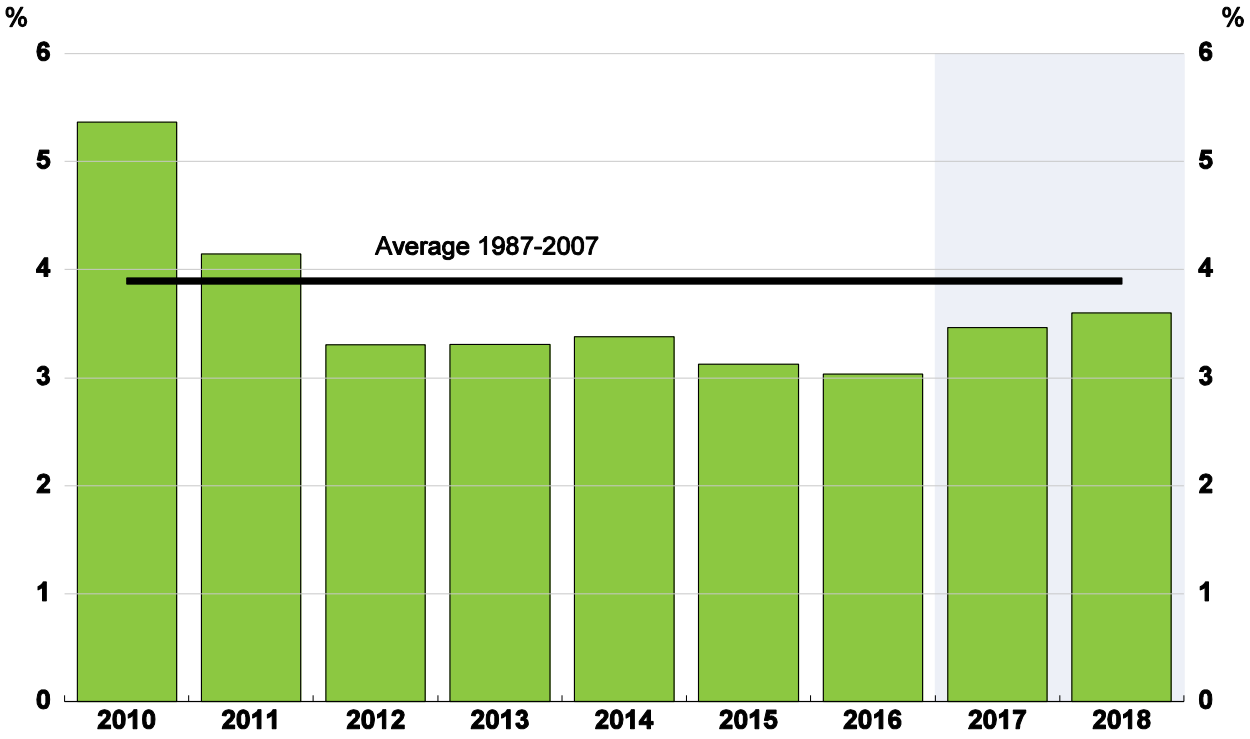
So, *an integrated policy approach* is needed to make the whole system work better for more people. Beyond domestic policies, on the international front, policymakers need to harness the full range of international economic cooperation tools to level the playing field to ensure that international trade is governed by fair rules that are followed, that all businesses adhere to high standards of conduct, that cross-border tax arrangements are transparent and fair, that corruption is reduced, and that labour and environmental standards are respected.

Policymakers should recognise the interconnected nature of their efforts. Better choices on fiscal, monetary, structural, and international policies will improve the well-being of a country's own citizens, but also spill over to improve the outcome for others, raising the probability that the current cyclical upturn will endure and become the foundation for sustained and broad-based improvements in living standards around the world.

7th June 2017.

Catherine L. Mann
OECD Chief Economist

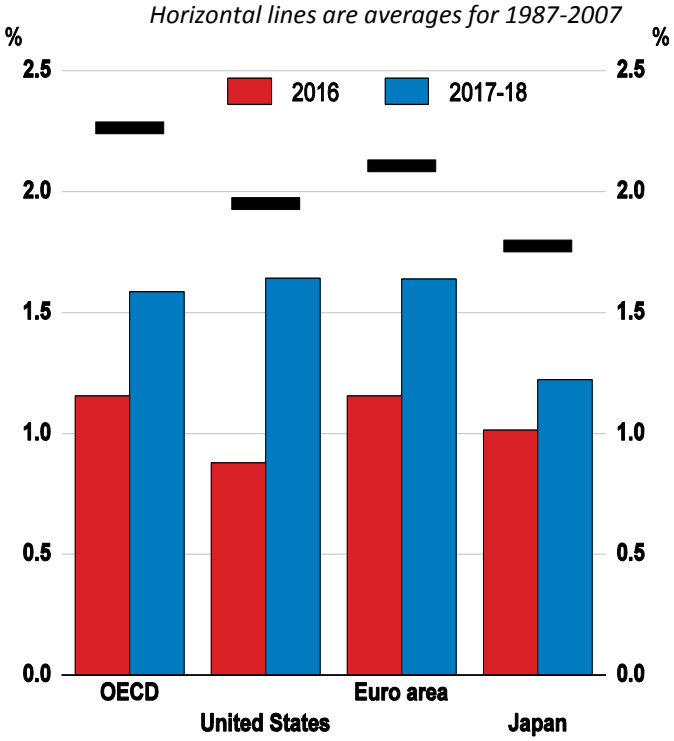
Global GDP growth



Source: OECD June 2017 Economic Outlook database.

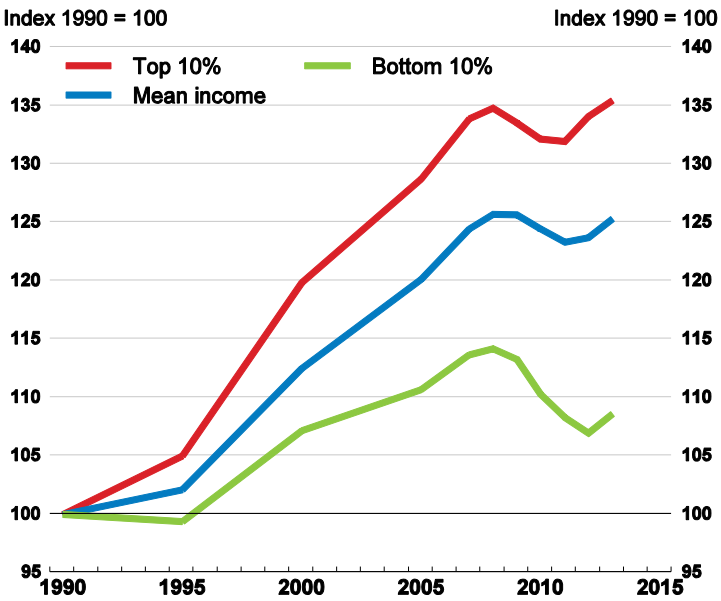
GDP growth per person

Horizontal lines are averages for 1987-2007



Income inequality is rising in the OECD

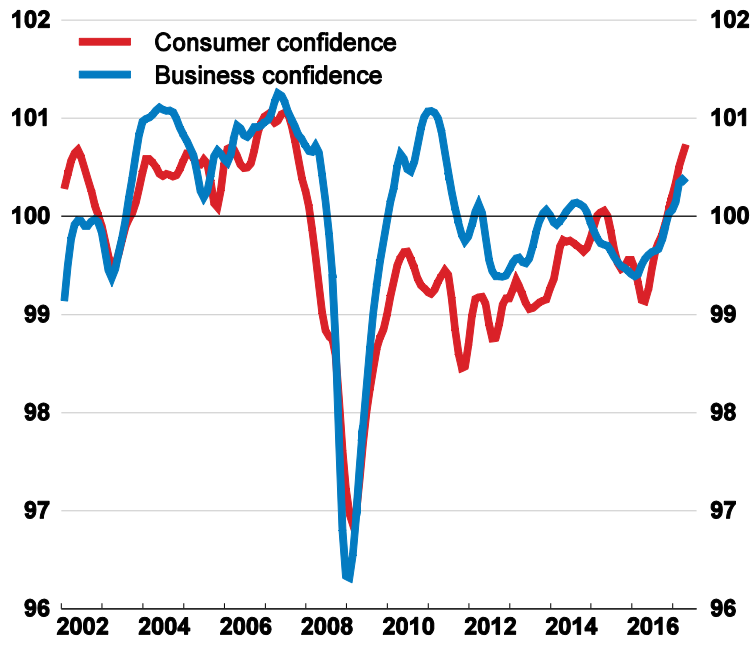
Real household disposable income, total population



Note: RHS is the unweighted average of 17 OECD countries.
Source: OECD June 2017 Economic Outlook database; and OECD Income Distribution database.

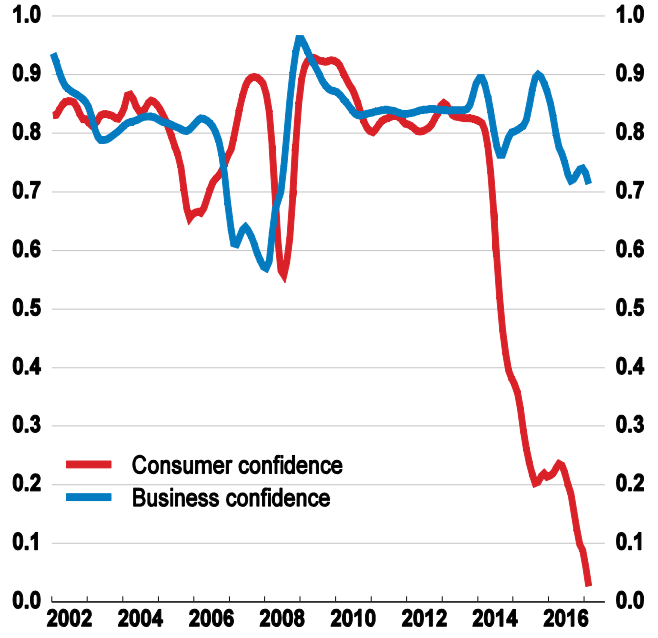
Consumer and business confidence

OECD and BRIICS, Index



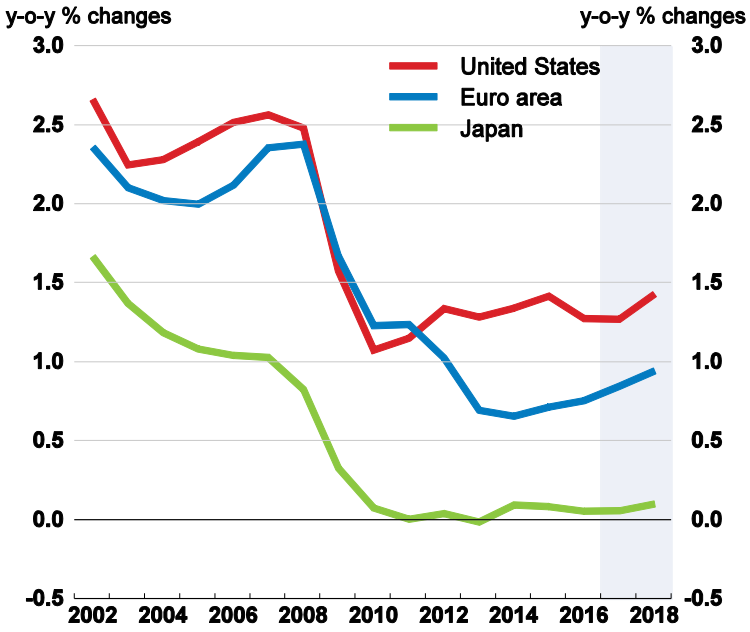
Performance of confidence indicators

OECD and BRIICS, 5-year correlation with activity

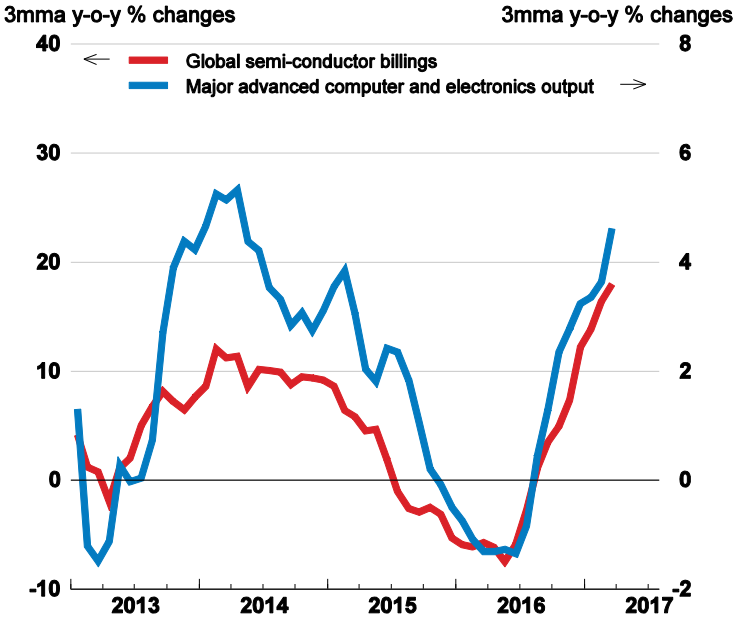


Note: Confidence indices are GDP PPP weighted averages of individual country standardised series where long-term average = 100. Consumer confidence correlation with global retail sales growth and business confidence with global industrial production growth.
Source: OECD Main Economic Indicators database; and OECD calculations.

Productive capital stock growth

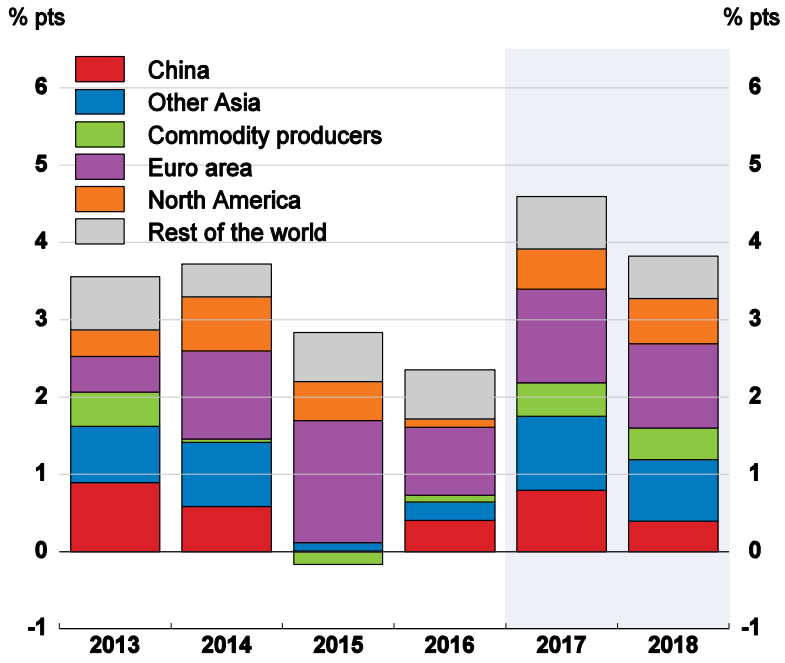


High tech products

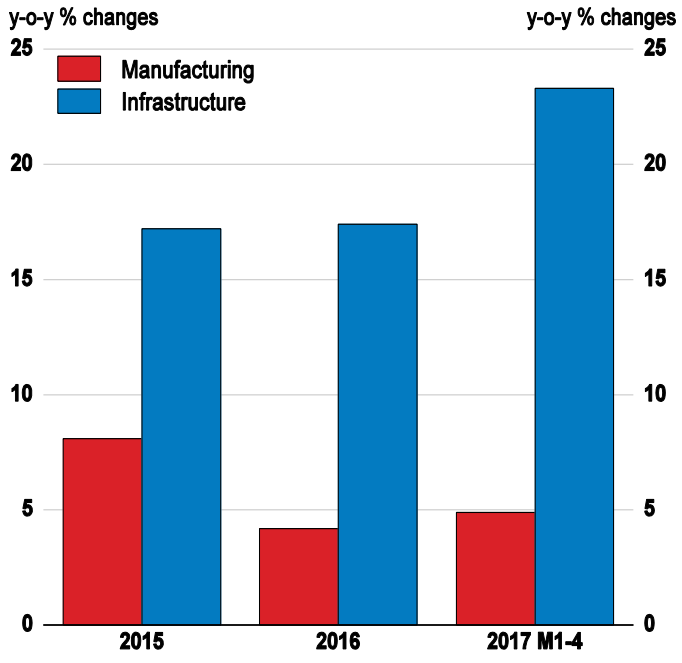


Note: Global semi-conductor billings in nominal US dollars. Major advanced computer and electronics output is a weighted average of production of computer and electronic products for the United States, output of computer, electronic and optical products for Germany, and production of information and communications electronics equipment plus electronic parts and devices for Japan.
Source: OECD June 2017 Economic Outlook database; World Semi-Conductor Statistics; Eurostat; Board of Governors of the Federal Reserve System; Japan Ministry of Economy, Trade and Industry; and OECD calculations.

Contributions to world trade growth



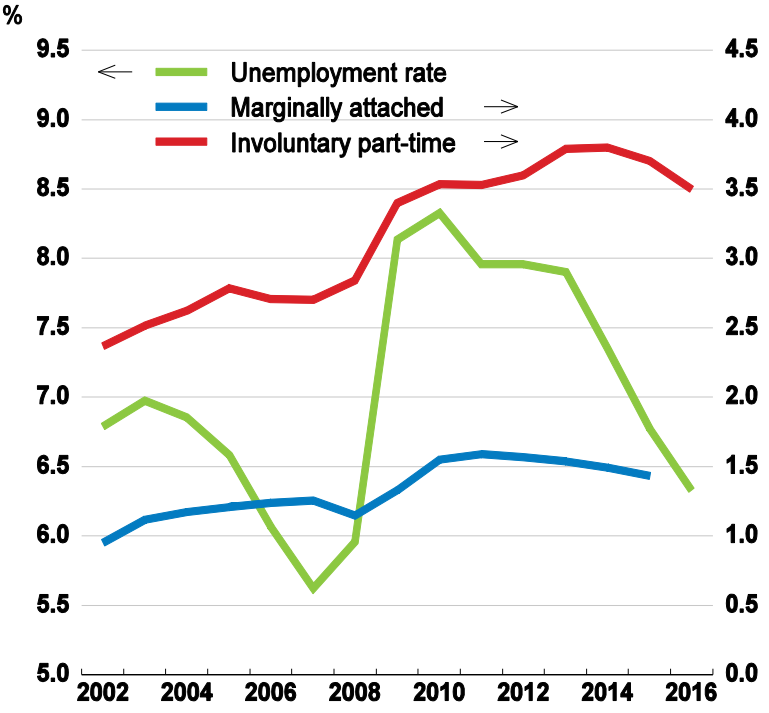
China nominal fixed asset investment



Note: Commodity producers includes Argentina, Australia, Brazil, Chile, Colombia, Norway, New Zealand, Russia, Saudi Arabia, South Africa and other oil producing countries.
Source: OECD June 2017 Economic Outlook database; and National Bureau of Statistics of China.

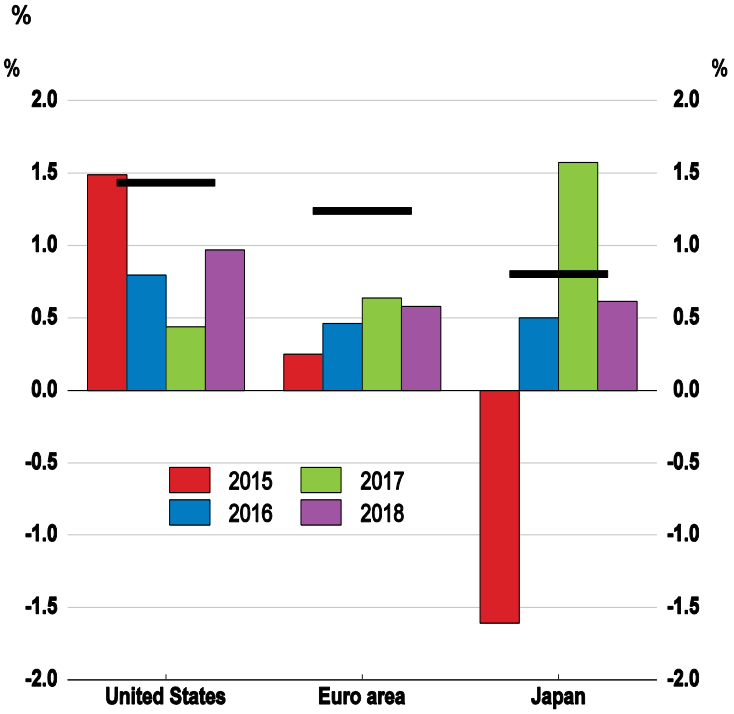
Unemployment and underemployment

OECD, share of labour force



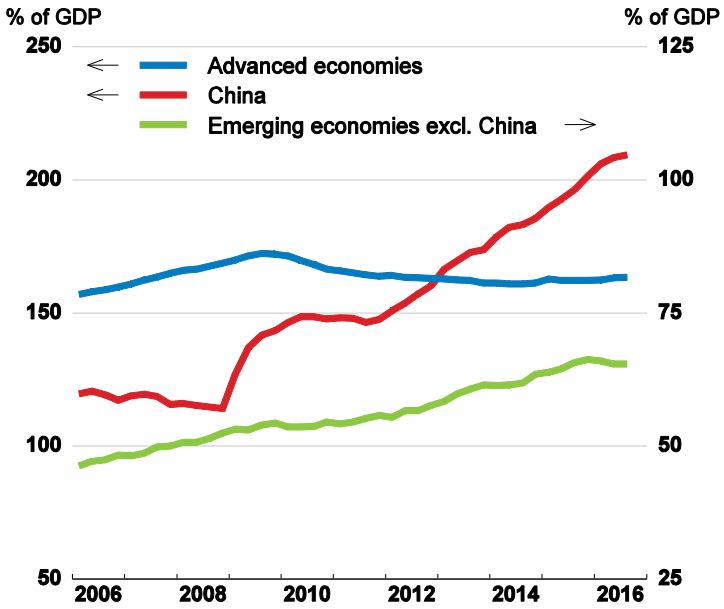
Real wage growth

Horizontal lines are averages for 1987-2007



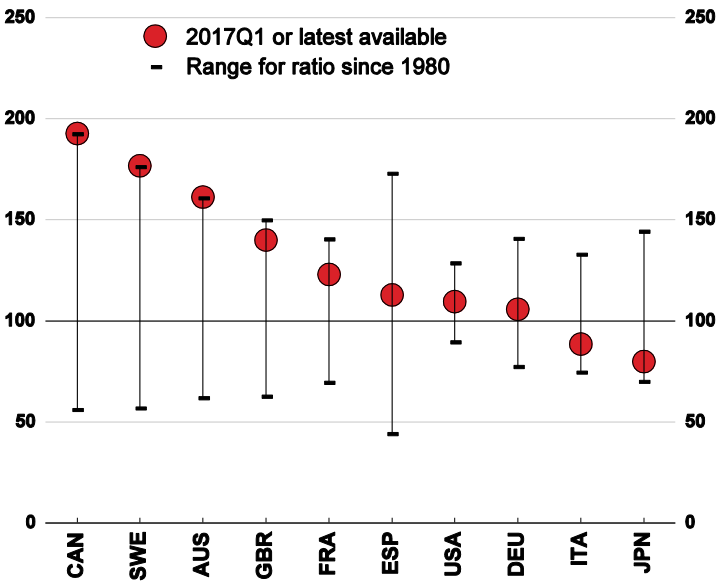
Note: Real wages measured as labour compensation per employee adjusted for the GDP deflator.
Source: OECD June 2017 Economic Outlook database; OECD Employment database; US Bureau of Labor Statistics; Eurostat; and Japan Statistics Bureau.

Private non-financial sector credit



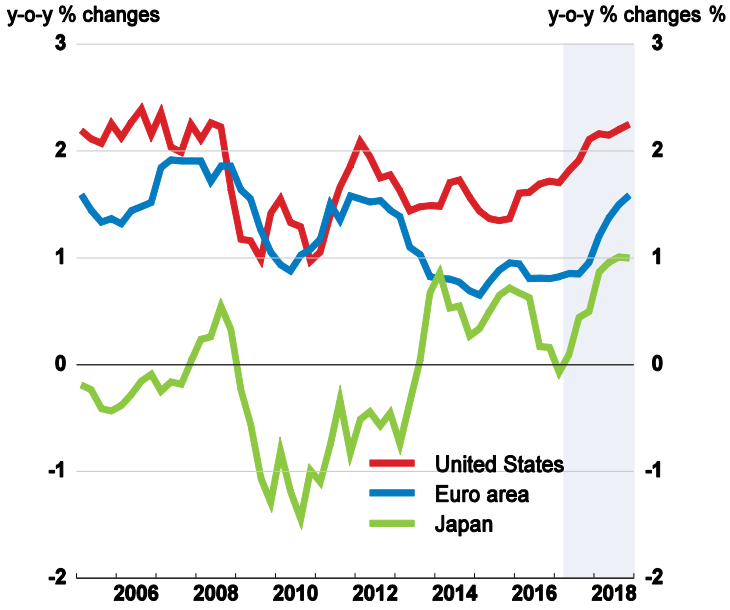
House price-to-rent ratio

Average since 1980 = 100



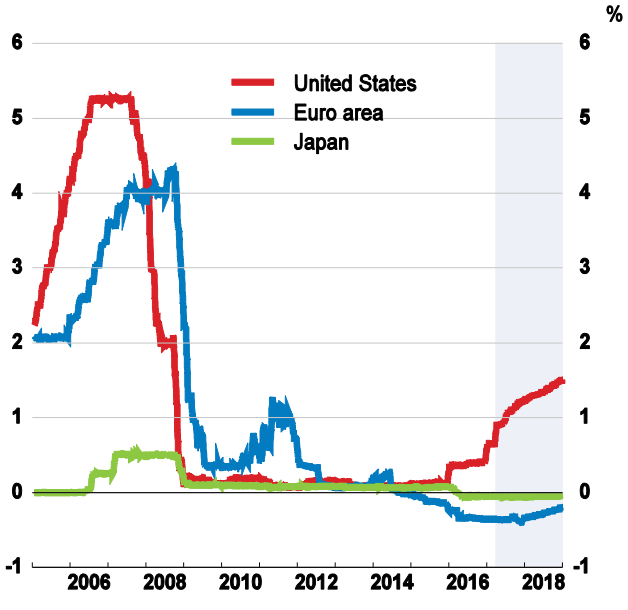
Note: EMEs excluding China is an unweighted average of ratios for Argentina, Brazil, Colombia, India, Indonesia, Mexico, Russia, Malaysia, South Africa and Turkey.
Source: BIS; OECD Analytical House Price database; and OECD calculations.

Core inflation



Market-based expectations of overnight interest rates

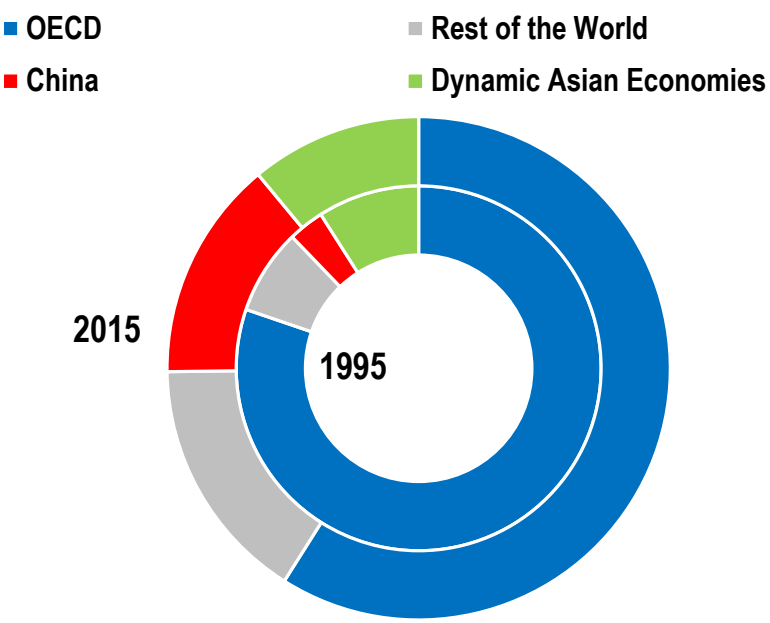
15-day moving average



Note: Core inflation for Japan adjusted for the impact of consumption tax increases.
Source: OECD June 2017 Economic Outlook database; Bloomberg; and OECD calculations.

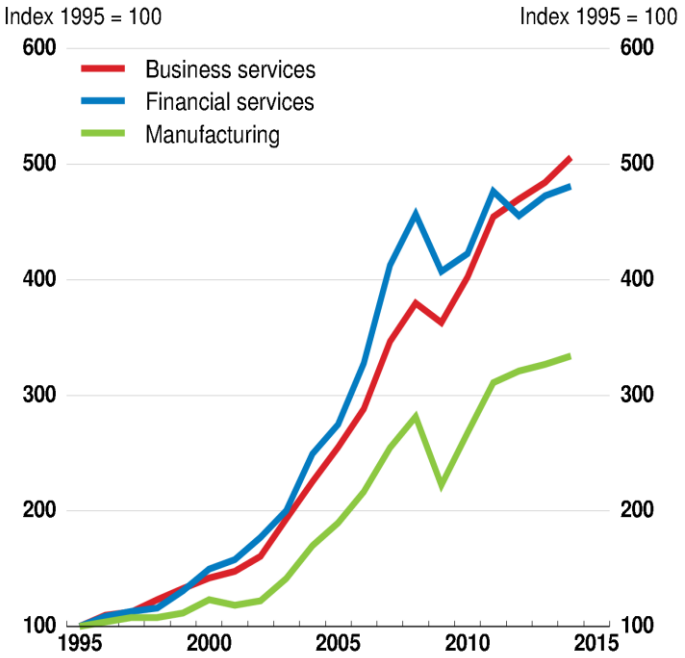
World goods trade

Share of world goods exports volumes



World trade by type

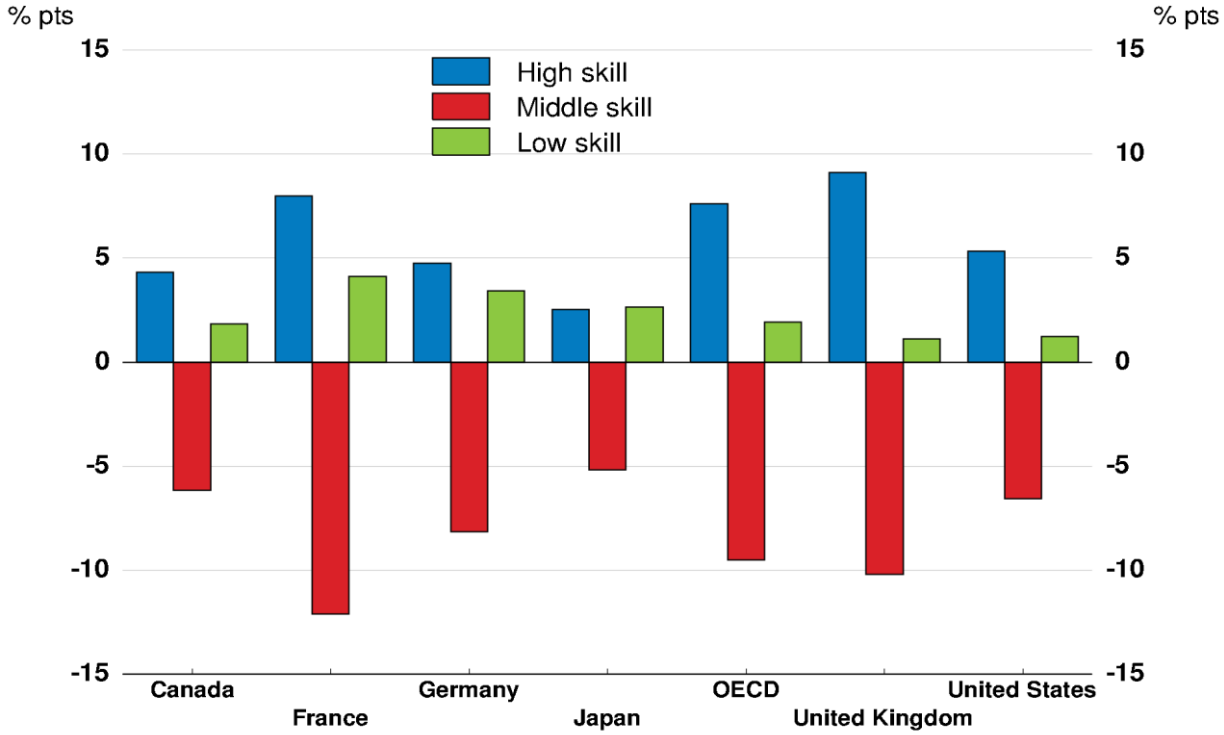
Exports, value



Note: LHS – Dynamic Asian Economies includes Malaysia, the Philippines, Singapore, Thailand, Vietnam, Chinese Taipei and Hong Kong. RHS – Business services includes R&D, ICT, real estate and other business activities. Financial services includes financial intermediation, insurance, pension funding and other financial activities.
Source: OECD-WTO Trade in Value Added (TiVA) database; UN Comtrade database; and OECD calculations.

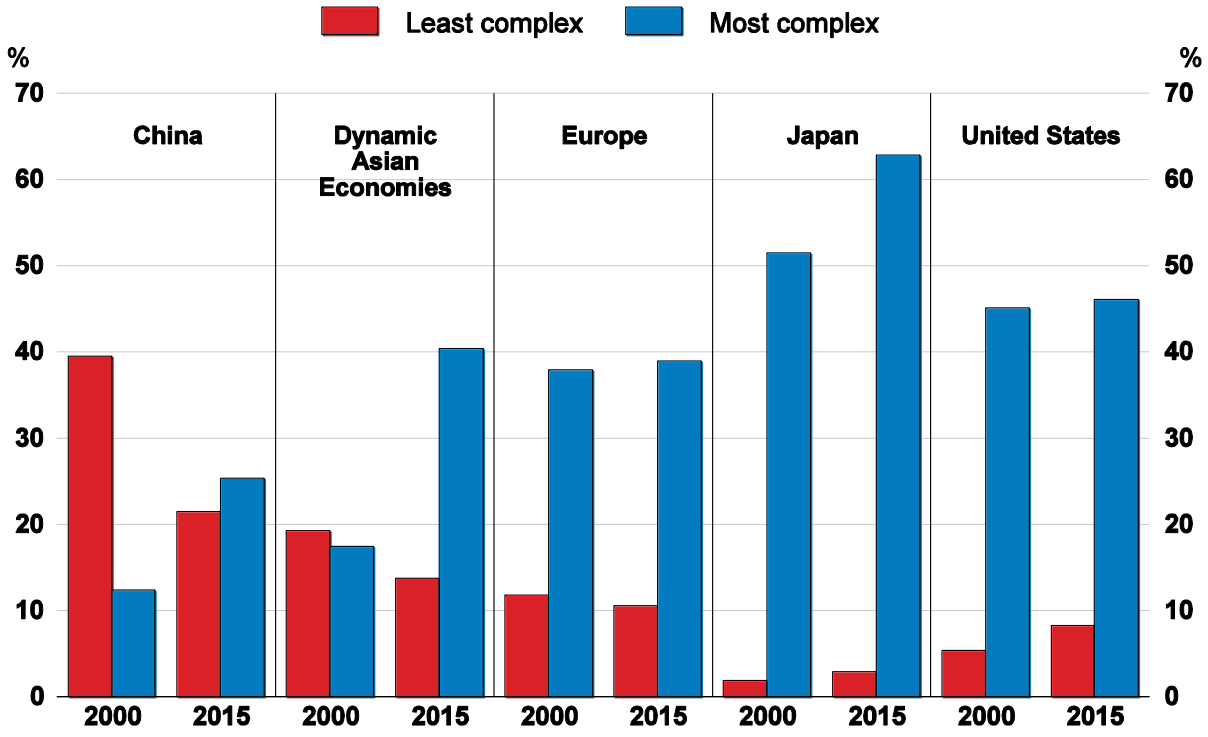
Job polarisation by country

Change by skill level as share of total employment, 1995-2015



Note: OECD is the unweighted average of 24 countries. For Japan 1995-2010.
Source: OECD Employment Outlook 2017; European Union Labour Force Survey; Labour force surveys for Canada, Japan and the United States; and OECD calculations.

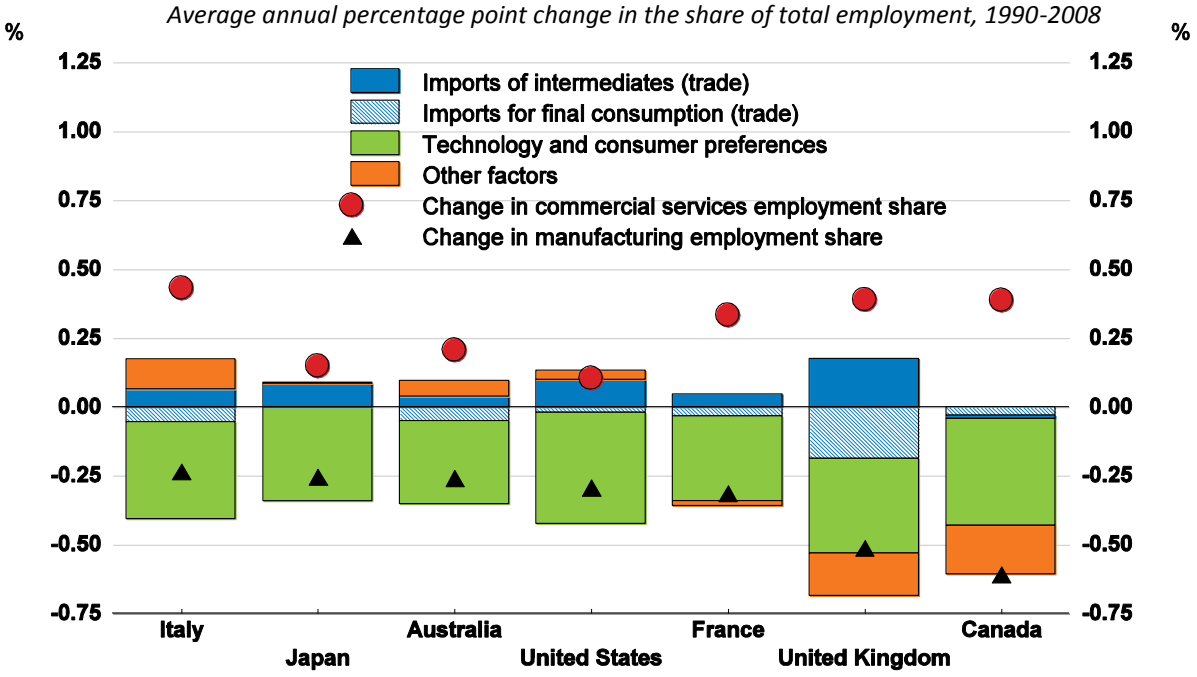
Share of export goods by complexity



Note: In nominal terms. Least complex is the 1st quartile of products by complexity (e.g. crayons), most complex is the 4th quartile (e.g. medical equipment), excluding major commodities. Dynamic Asian Economies includes Malaysia, the Philippines, Singapore, Thailand, Vietnam, Chinese Taipei and Hong Kong. Europe is the unweighted average of the Czech Republic, France, Germany, Ireland, Italy, Poland, Portugal and the UK.
Source: UN Comtrade database; and OECD calculations.

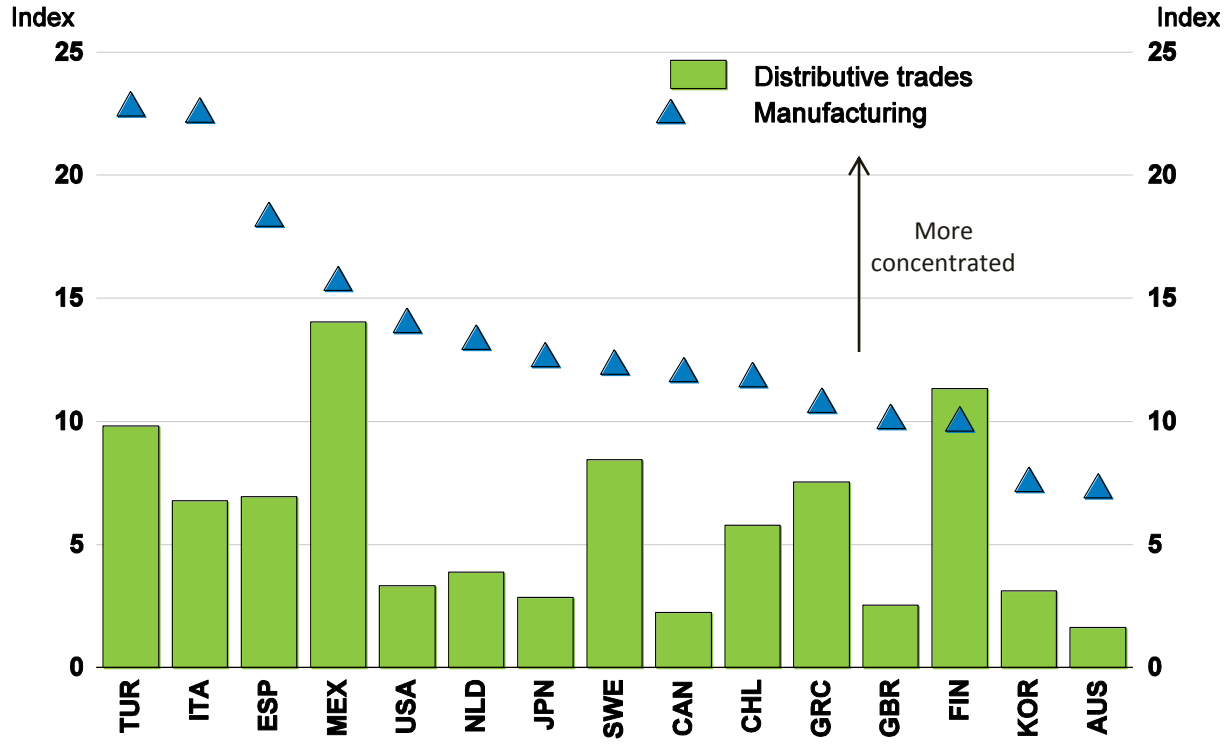
Factors explaining the decline in manufacturing jobs

Average annual percentage point change in the share of total employment, 1990-2008



Note: Decomposition based on regression estimation. Each factor is based on the change over the period. Technology and consumer preferences include ICT and machinery investment, changes in the manufacturing consumption share and time specific effects.
Source: OECD Economic Outlook database; STAN database; and OECD calculations.

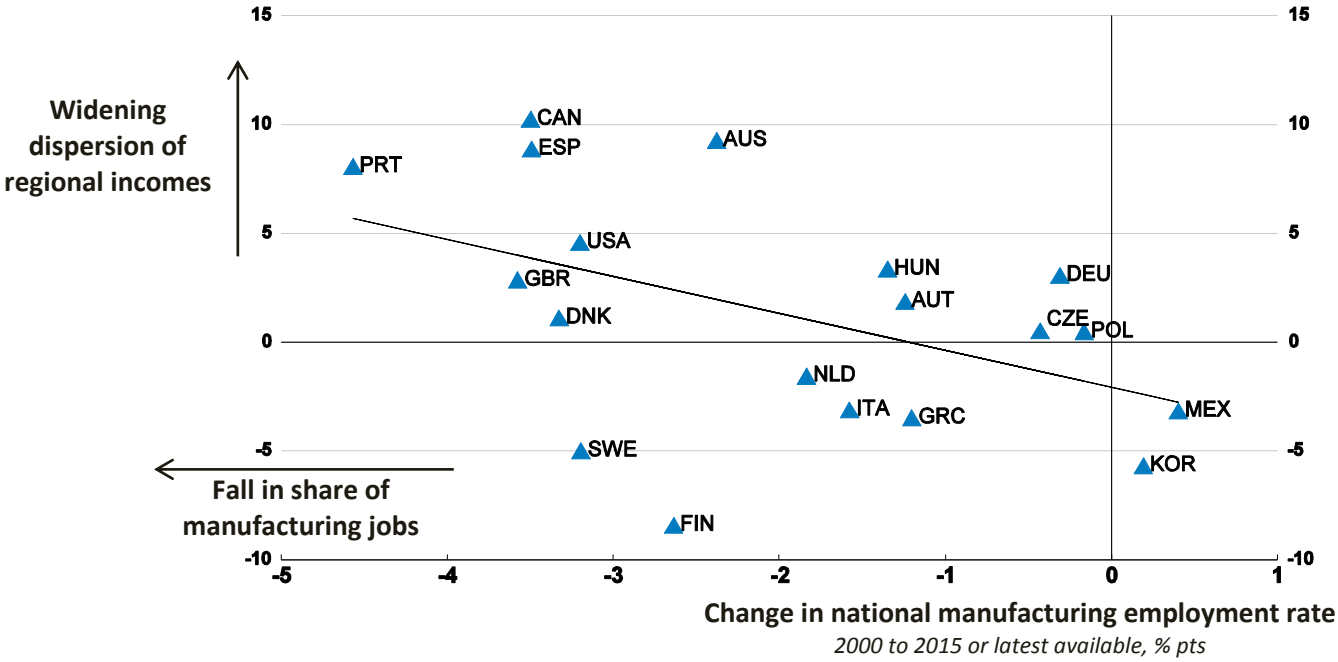
Geographic concentration index by sector



Note: "Distributive trades" includes distributive trade, repairs, transportation and storage, accommodation and food service activities. Index measures the extent to which employment is concentrated in particular regions, varying between 0 (no concentration, where all regions of a country have the same manufacturing employment rate) and 100 (maximum concentration, where all manufacturing employment is concentrated in the smallest region). The index incorporates the size of the region and is based on OECD (2003) "Geographic Concentration and Territorial Disparity in OECD Countries".
Source: OECD Regional database; and OECD calculations.

Change in average income inequality across regions

2000 to 2015 or latest available, 90:50 percentiles ratio, % pts



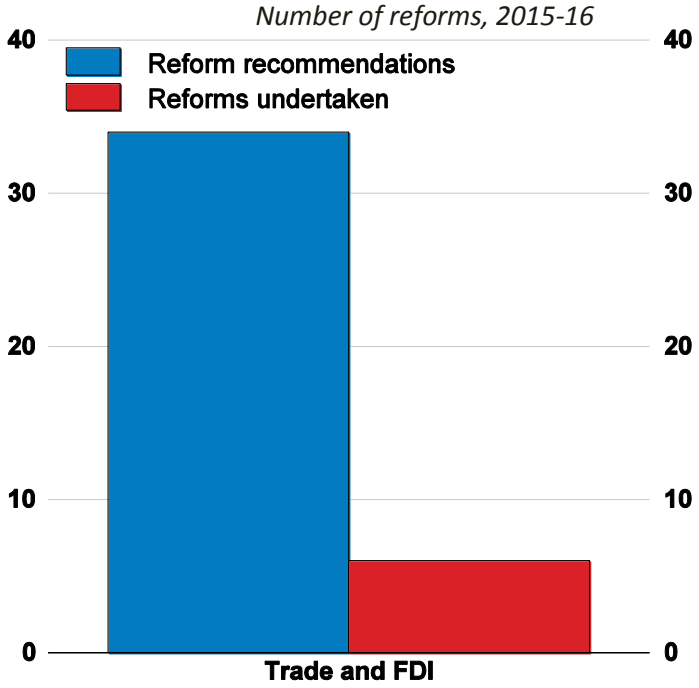
Change in national manufacturing employment rate

2000 to 2015 or latest available, % pts

Source: OECD Regional database; and OECD calculations.

Actions in response to OECD *Going for Growth* recommendations

Number of reforms, 2015-16

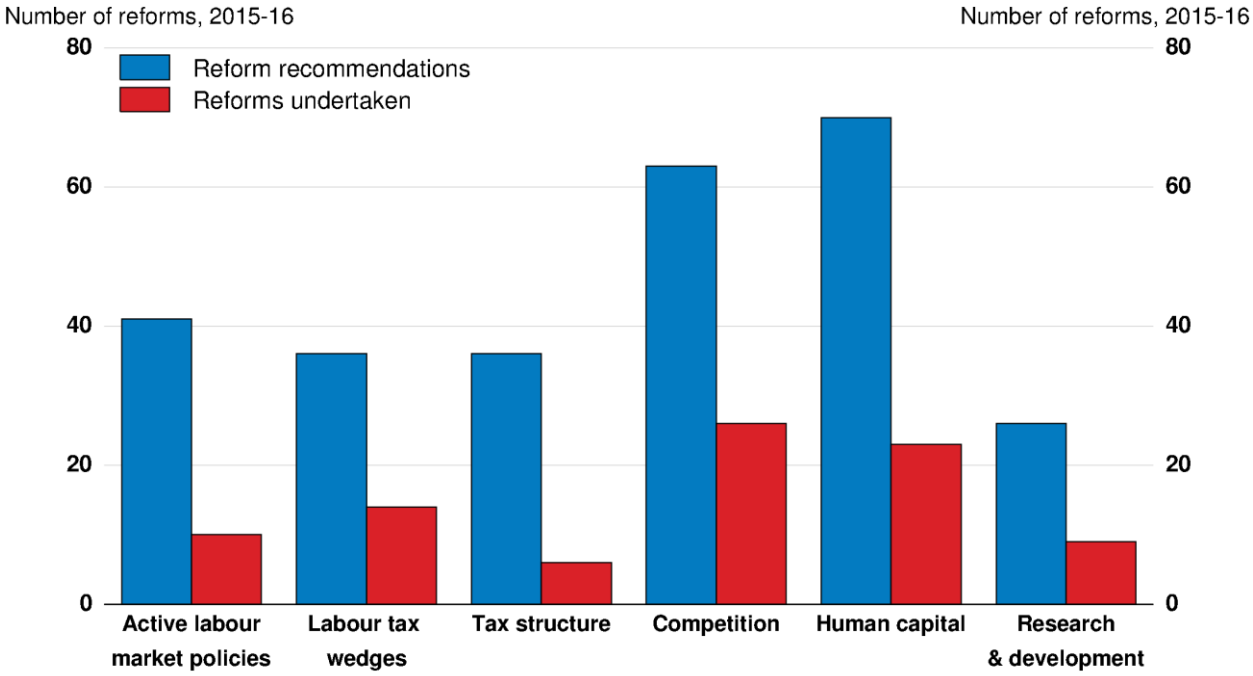


Actions to improve the international environment:

- Pursue open markets for cross-border trade and investment
- Preserve institutions and standards, such as for labour and environmental protection
- Promote multilateral cooperation, e.g. on tax base erosion and profit shifting and competition policy
- Combat corruption, illicit trade and counterfeiting

Note: includes all OECD and BRIICS countries, the EU and Colombia.
Source: OECD Going for Growth 2017

Actions in response to OECD *Going for Growth* recommendations



Note: includes all OECD and BRIICS countries, the EU and Colombia.
Source: OECD Going for Growth 2017

	Countries with OECD *Going for Growth* reform priority
Help laid-off workers to find a new job	
Increase the scope and efficiency of active labour market policies	ARG ESP EST GBR GRC ISR ITA JPN LTU LUX LVA NLD SVN SVK USA ZAF
Boost job creation by reducing the tax wedge on low-skilled workers	BEL DEU ESP EST HUN ITA LVA NLD POL TUR
Better prepare people for work	
Expand and improve vocational training and education	ARG BRA CHN DNK ESP EST FRA GBR GRC IND POL PRT TUR ZAF
Allocate education resources more equitably	CRI CZE DEU DNK FRA HUN NZL POL PRT SWE USA

Source: OECD *Going for Growth* 2017.