



OECD INTERIM ECONOMIC OUTLOOK

*Getting stronger,
but tensions are rising*

13 March 2018

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<http://www.oecd.org/eco/outlook/economic-outlook/>
ECOSCOPE blog: oecdecoscope.wordpress.com



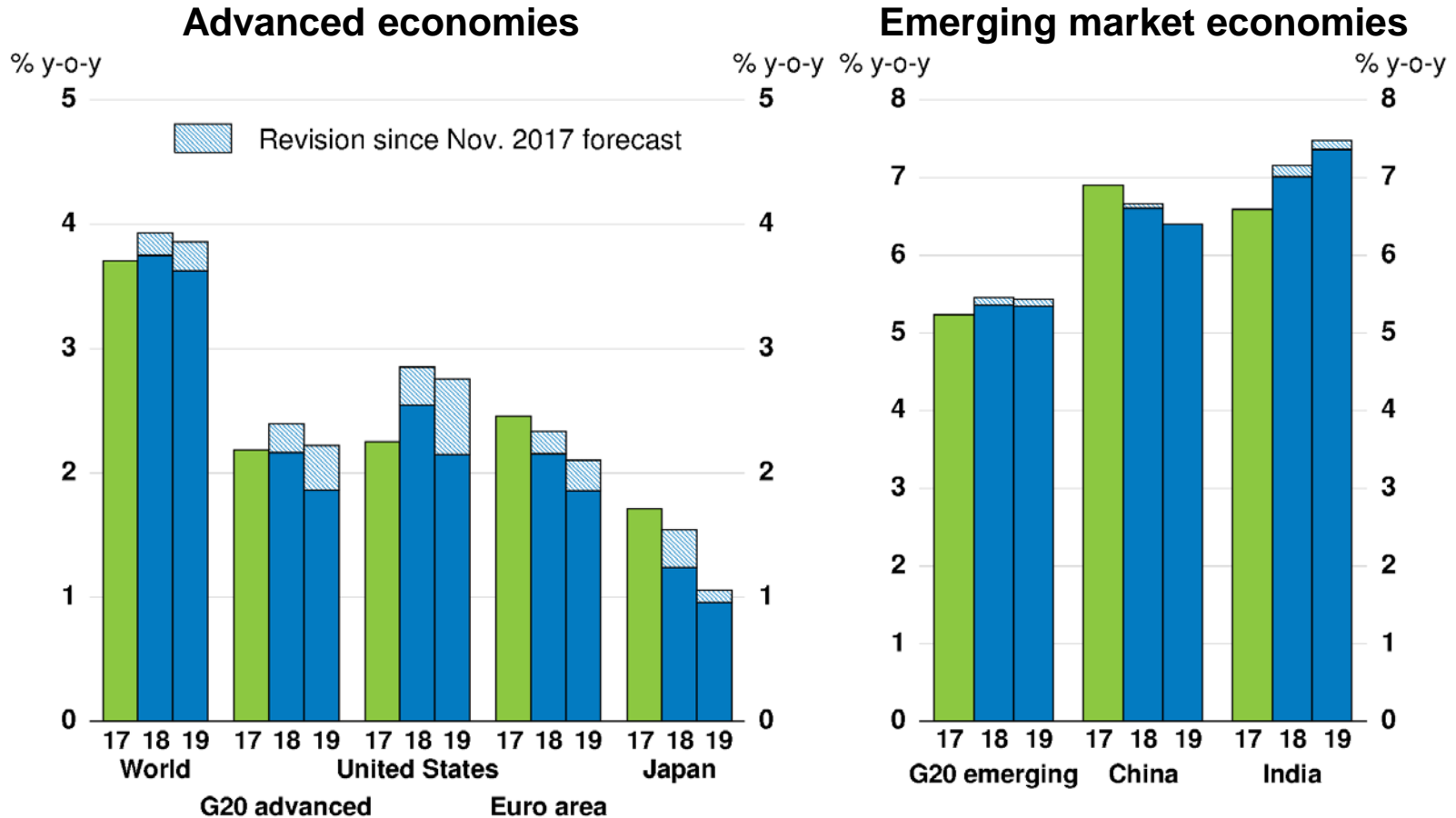
Key messages

- The expansion is set to continue and strengthen
- Trade and private investment are bouncing back
- New fiscal stimulus in the United States and Germany will further boost short-term growth
- Inflation is set to rise slowly
- Interest rate normalisation may create tensions, with high debt and asset prices key vulnerabilities
- An escalation of trade tensions would be damaging for growth and jobs
- Structural and fiscal policies should focus on improving medium-term inclusive growth



The expansion is set to continue

GDP growth



Note: GDP in volume. Fiscal years starting in April for India. The G20 aggregate does not include EU countries that are not G20 members in own right. G20 emerging includes Argentina, Brazil, China, India, Indonesia, Mexico, Russia, Saudi Arabia, Turkey and South Africa, and G20 advanced included other G20 economies. 2017 is actual data or latest estimates.

Source: OECD Economic Outlook database.



OECD Interim Economic Outlook projections

GDP growth

Year-on-year, %. Arrows indicate the direction of revisions since November 2017

	2017	2018	2019		2017	2018	2019
World	3.7	3.9	3.9	G20	3.8	4.1	4.0
Australia	2.3	3.0	3.0	Argentina	2.9	3.2 =	3.2 =
Canada	3.0	2.2	2.0	Brazil	1.0	2.2	2.4
Euro area	2.5	2.3	2.1	China	6.9	6.7	6.4 =
Germany	2.5	2.4	2.2	India¹	6.6	7.2	7.5
France	2.0	2.2	1.9	Indonesia	5.1	5.3	5.4 =
Italy	1.5	1.5 =	1.3 =	Mexico	2.3	2.5	2.8
Japan	1.7	1.5	1.1	Russia	1.5	1.8	1.5 =
Korea	3.1	3.0 =	3.0 =	Saudi Arabia	-0.8	1.6 =	1.7 =
United Kingdom	1.7	1.3	1.1 =	South Africa	1.2	1.9	2.1
United States	2.3	2.9	2.8	Turkey	6.9	5.3	5.1

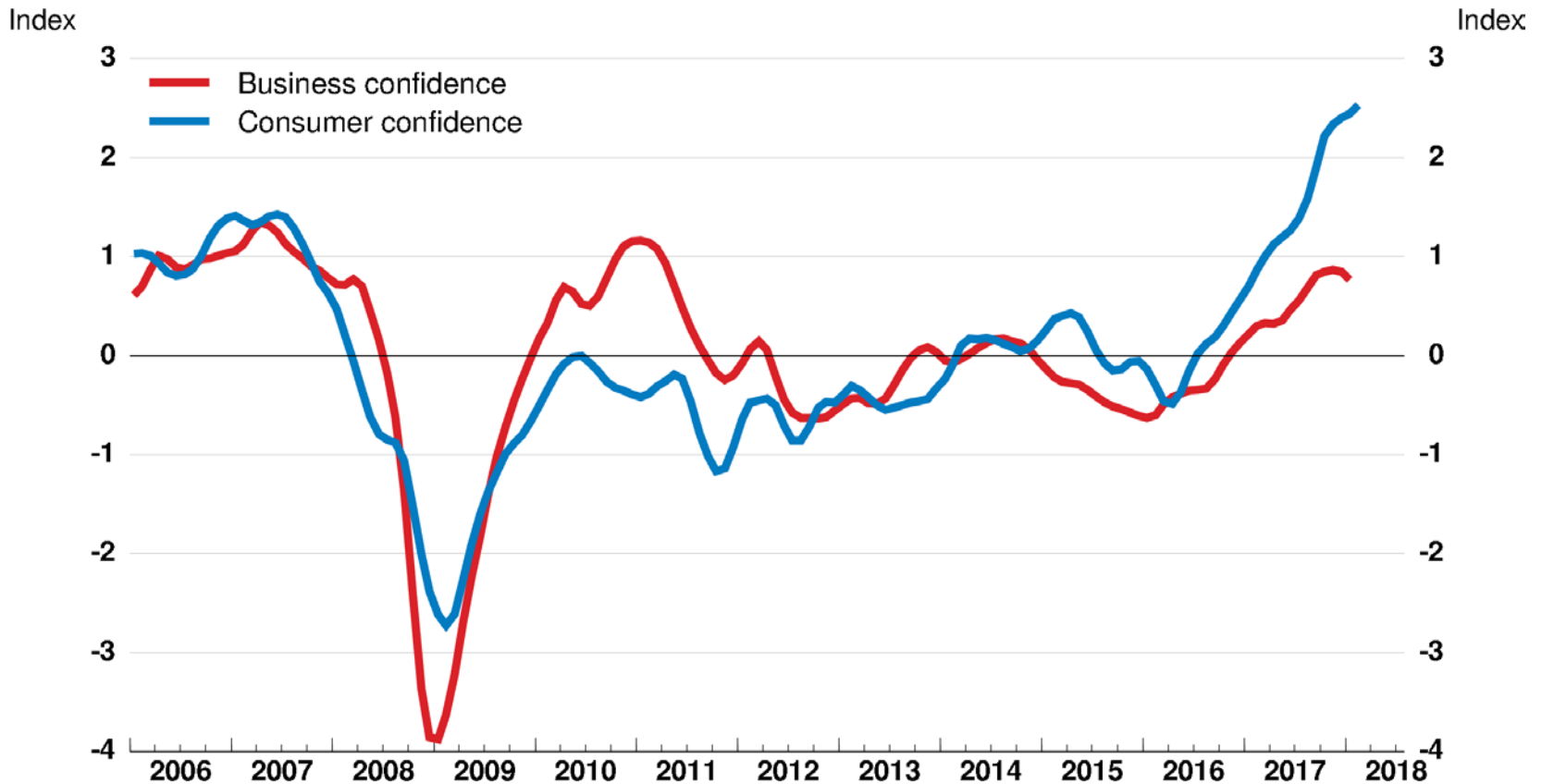
Note: GDP in volume. Difference in percentage points based on rounded figures. Dark green for upwards revision of 0.2 percentage points and more. The G20 aggregate does not include EU countries that are not G20 members in own right.

1. Fiscal years starting in April.



Confidence is buoyant

Consumer and business confidence, OECD and BRIICS



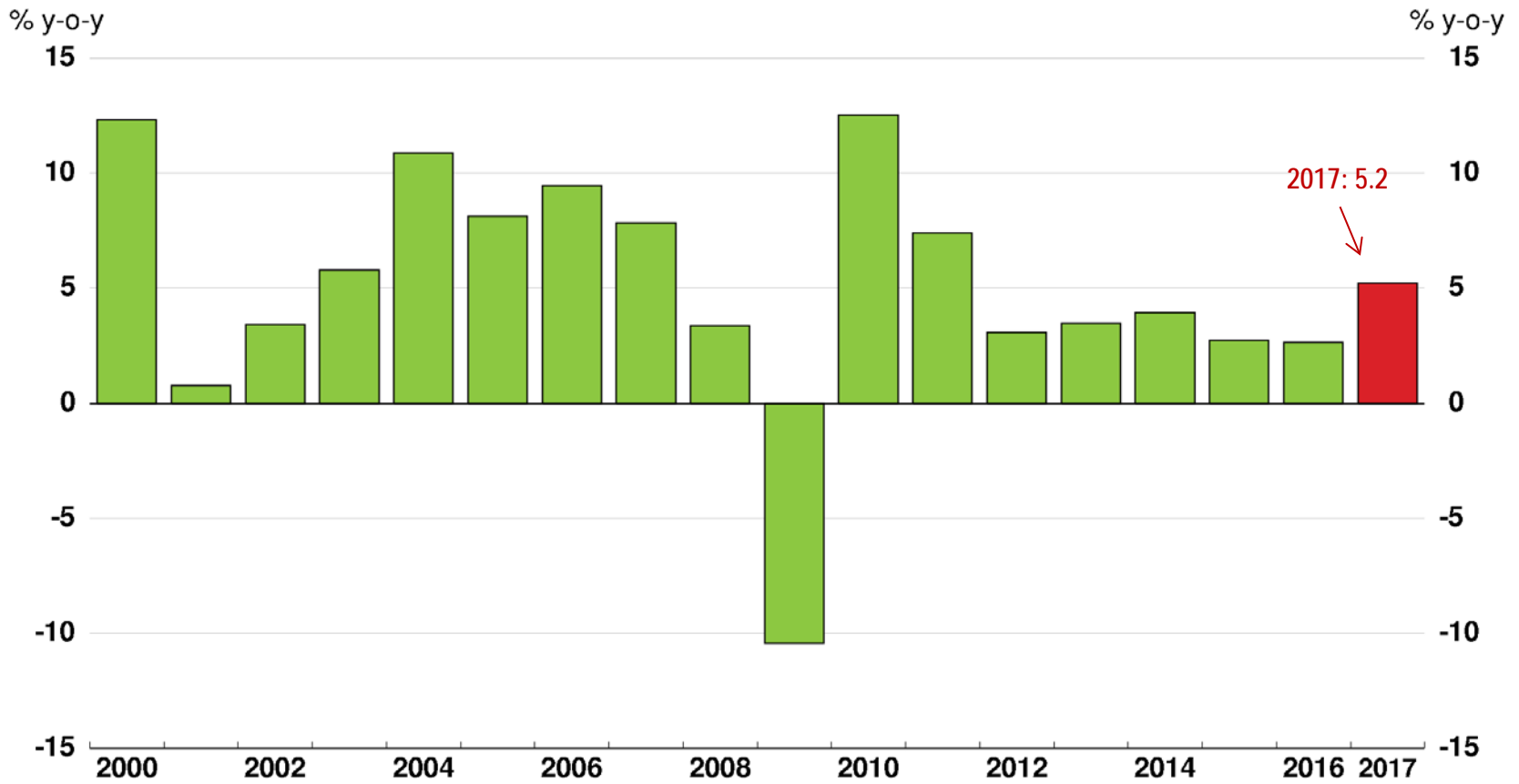
Note: Normalised values over the period 2006-2018, expressed in standard deviations.

Source: OECD Main Economic Indicators database; and OECD calculations.



Trade growth bounced back in 2017

Growth in global trade volumes

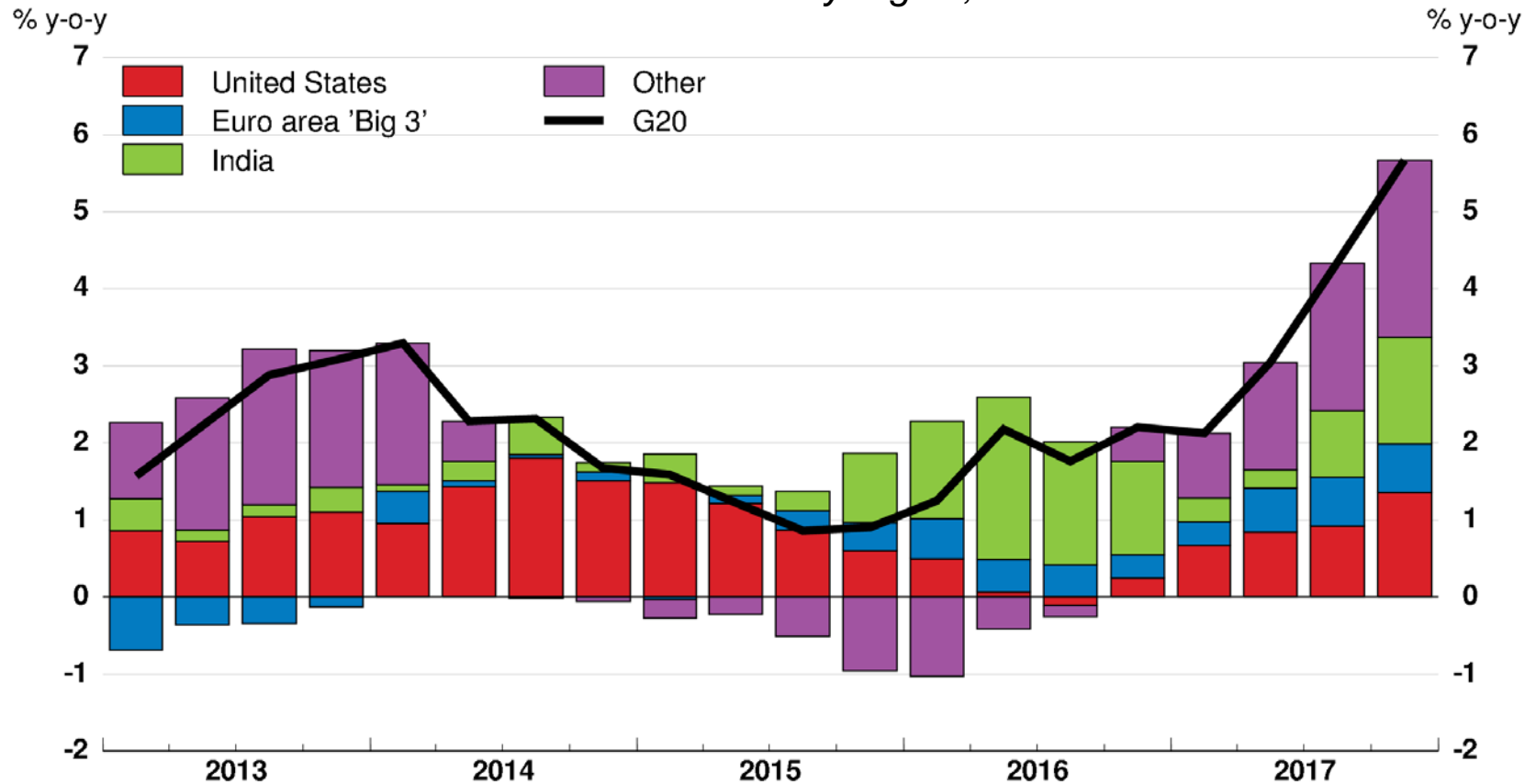


Note: World trade is measured as goods and services trade volumes measured at market exchange rates in US dollars.
Source: OECD Economic Outlook database; and OECD calculations.



Investment is coming back

G20 investment growth
Contributions by region, volume



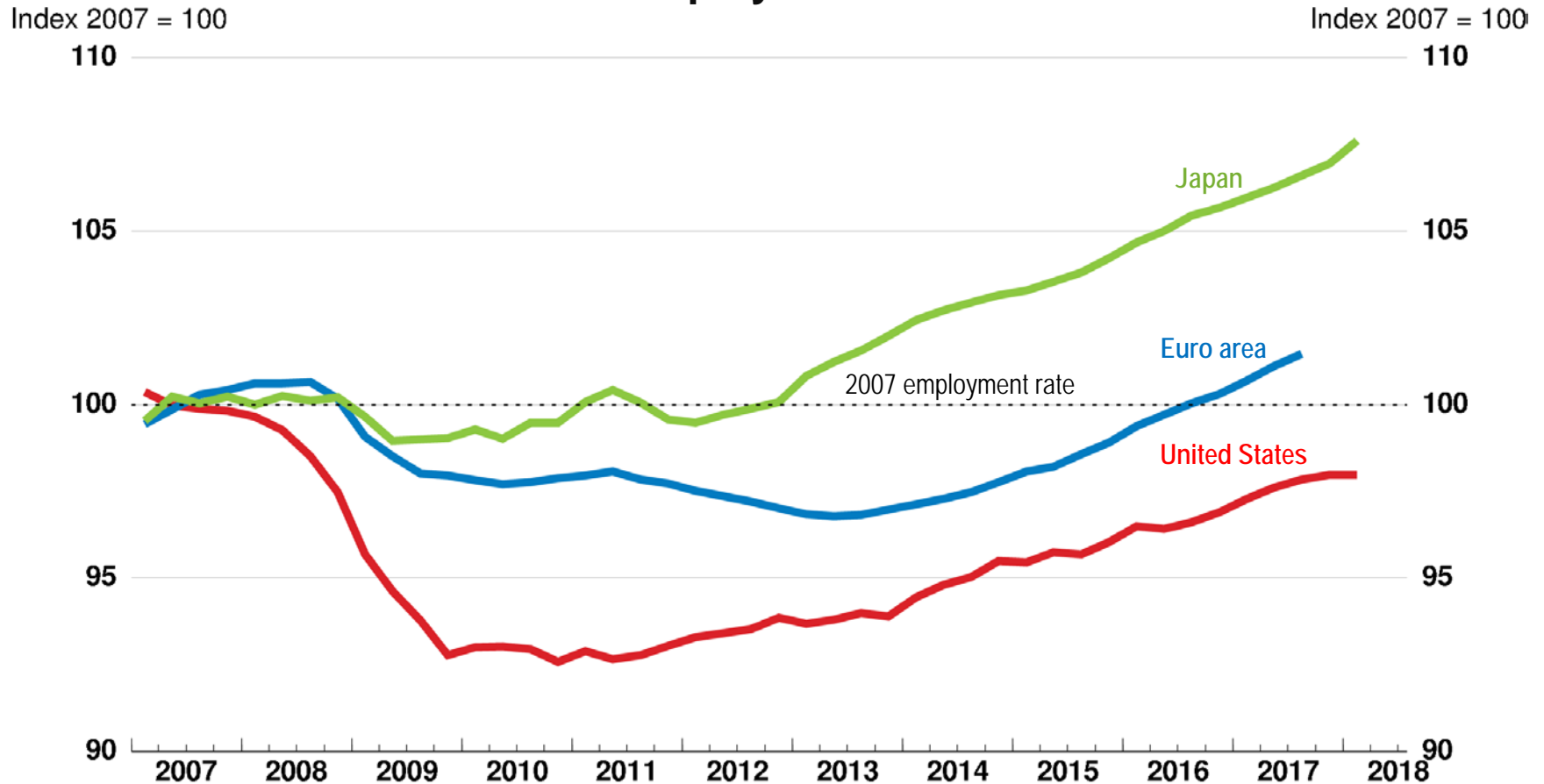
Note: China and Saudi Arabia not included due to data unavailability. The euro area aggregate includes only Germany, France and Italy.

Source: OECD Economic Outlook database; and OECD calculations.



Labour markets are getting tighter

Employment rate

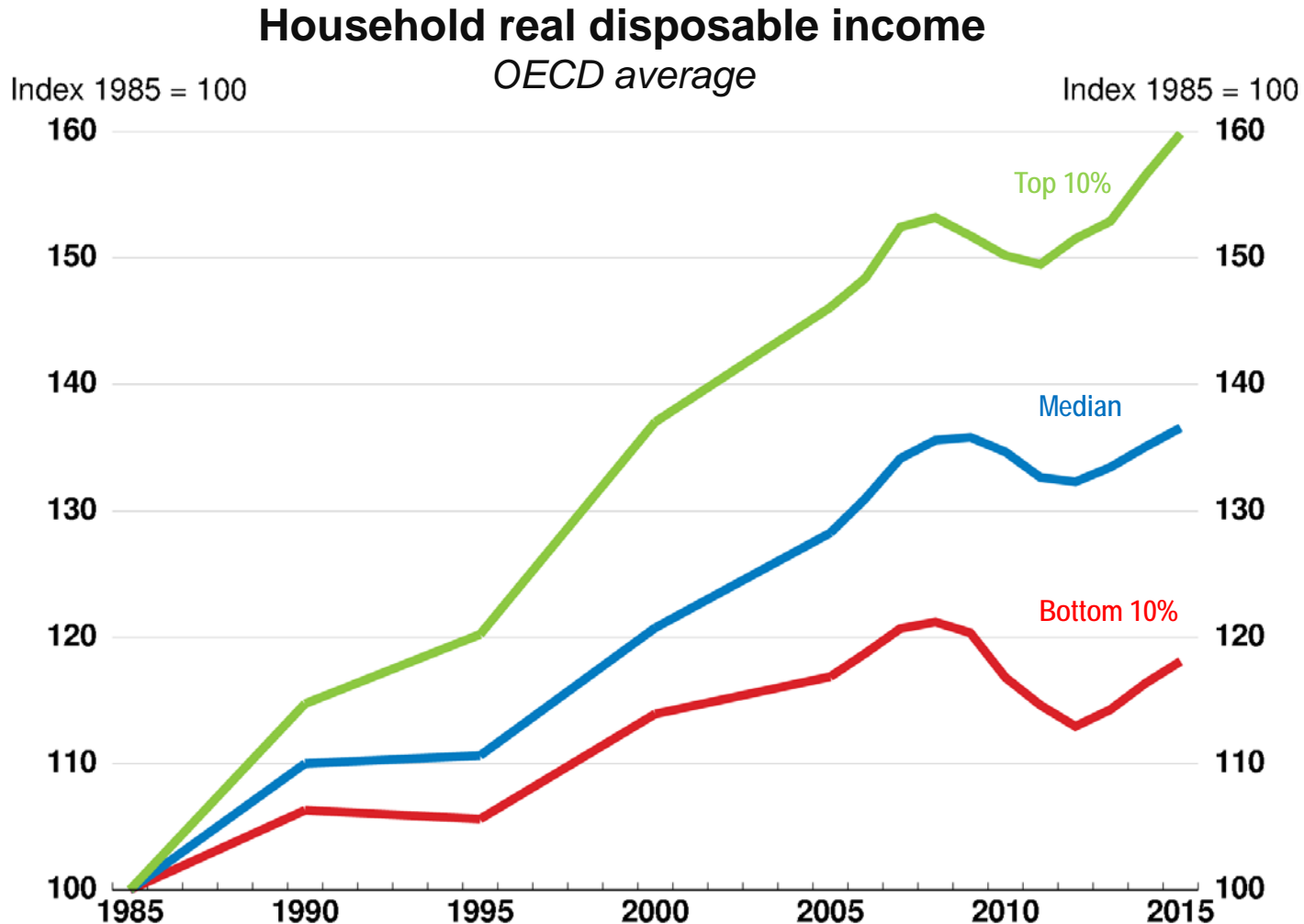


Note: All persons aged 15-64 years.

Source: OECD Short-Term Labour Market statistics; and OECD calculations.



Income gains have been limited, particularly for low-income households



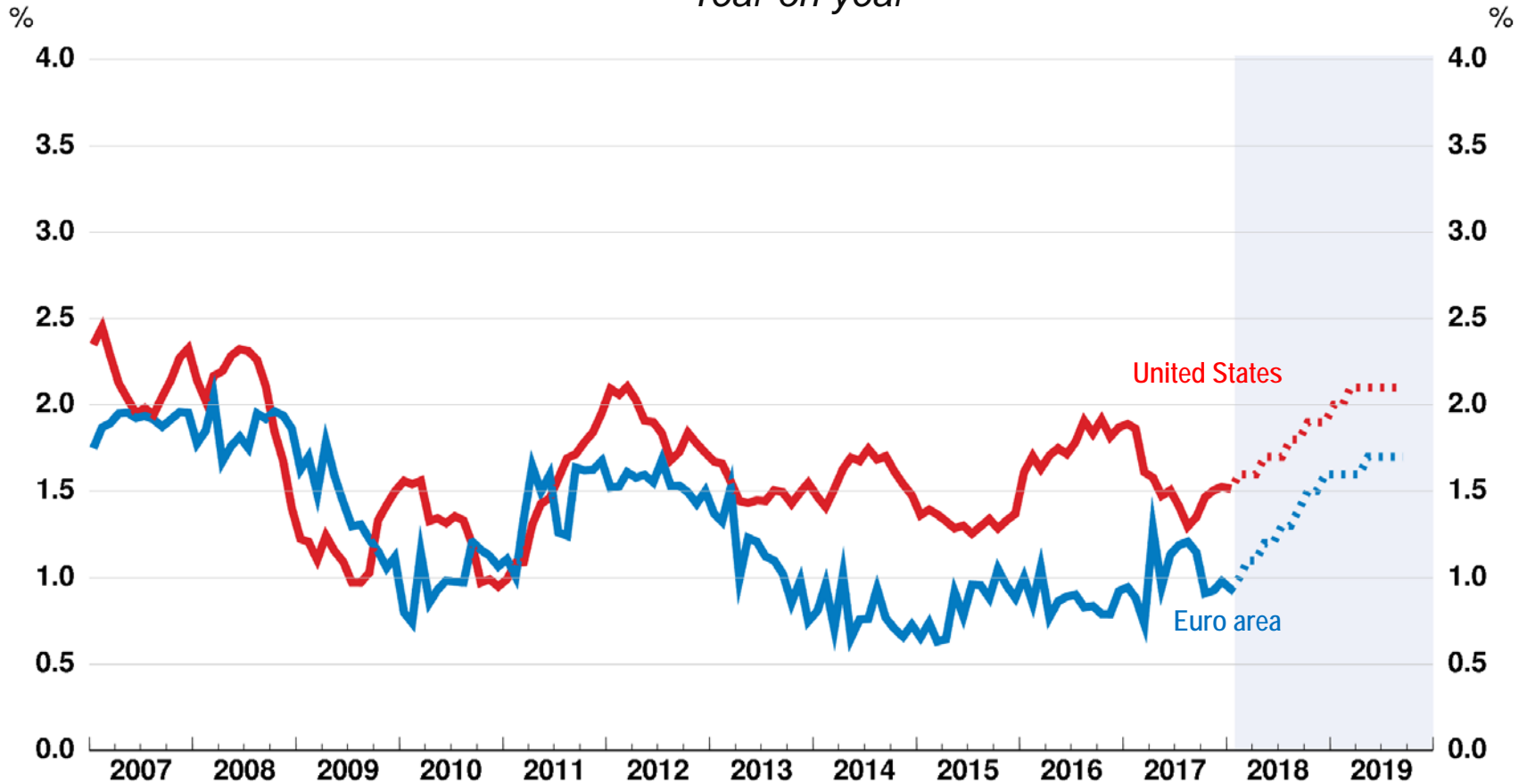
Note: The OECD average is a simple average composed of the 17 OECD member countries for which data is available for the whole period.

Source: OECD Income Distribution database; and OECD calculations.



Inflation is likely to rise

Core inflation in advanced economies
Year-on-year

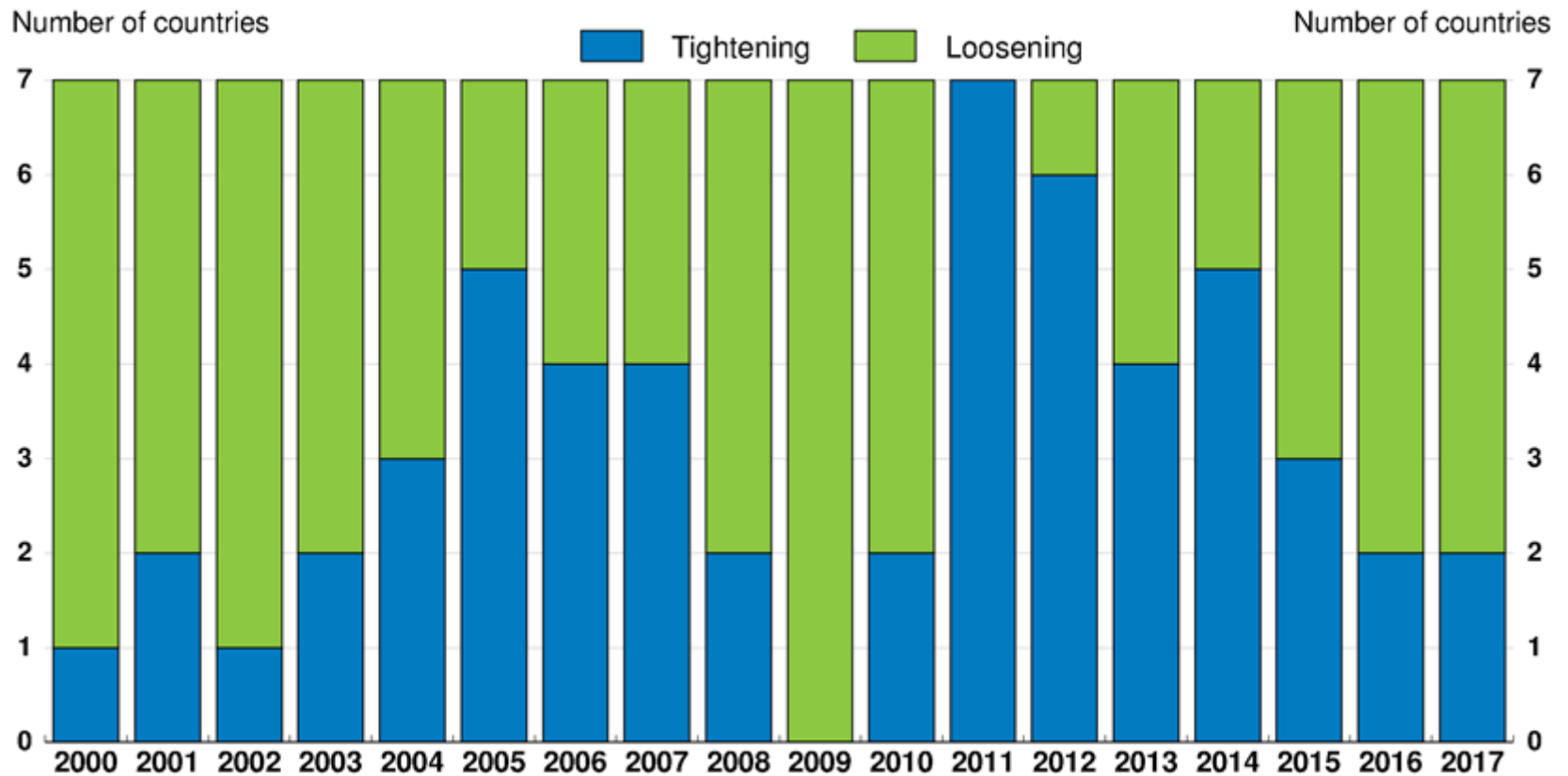


Note: Core inflation excludes energy and food products and refers to harmonised data for the euro area.
Source: OECD Economic Outlook database; Eurostat; and OECD calculations based on November 2017 EO projections.



Fiscal policy has eased in major advanced economies

Change in the fiscal stance in G7 countries



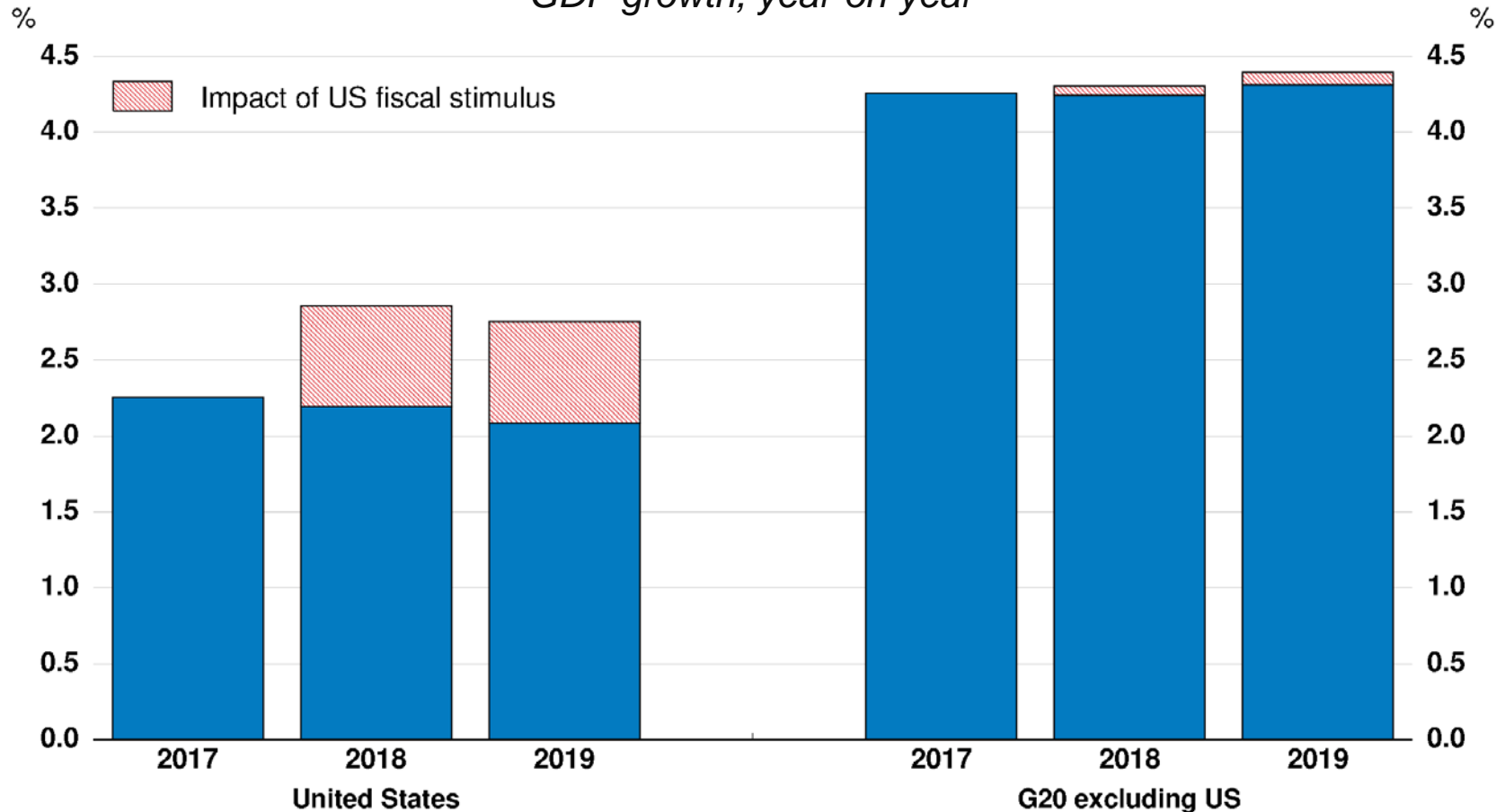
Note: Loosening and tightening indicate respectively a negative and a positive change in the underlying government primary balance in % of GDP.

Source: OECD Economic Outlook database; and OECD calculations.



US tax cuts and new spending will stimulate short-term growth

Growth effect of US fiscal stimulus
GDP growth, year-on-year



Note: GDP growth in volume.

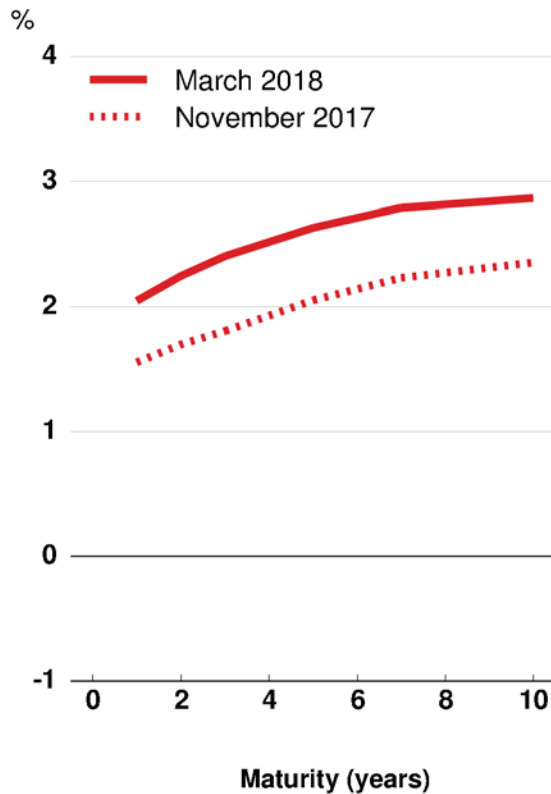
Source: OECD simulation using the NiGEM global macroeconomic model, UK National Institute of Economic and Social Research; and OECD Economic Outlook database.



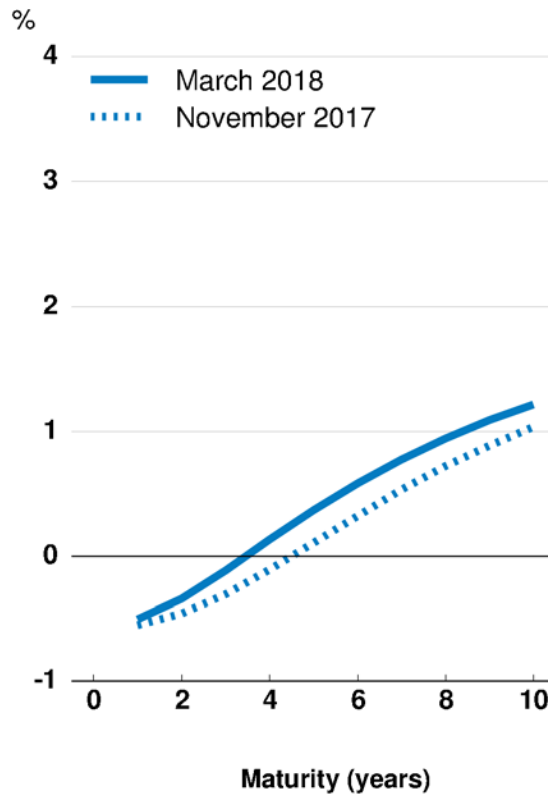
Monetary policy will gradually tighten, albeit at different speeds

Yield curve for government bonds

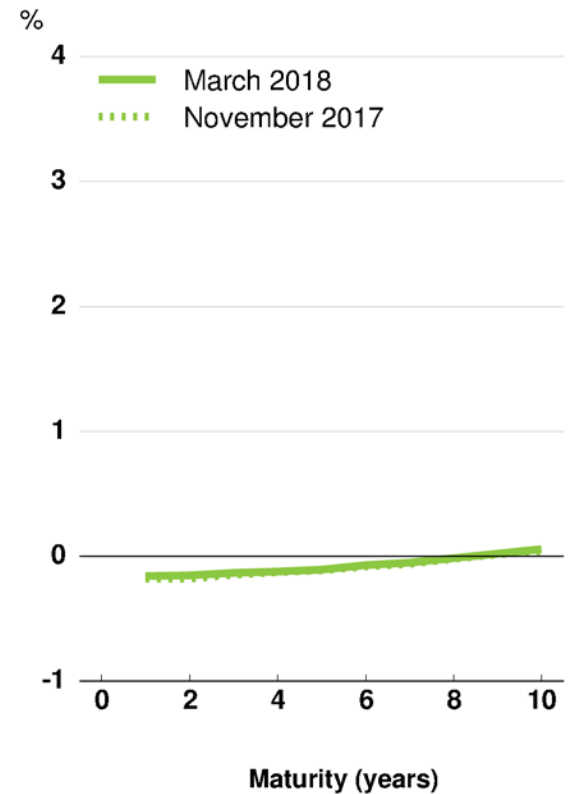
United States



Euro area



Japan

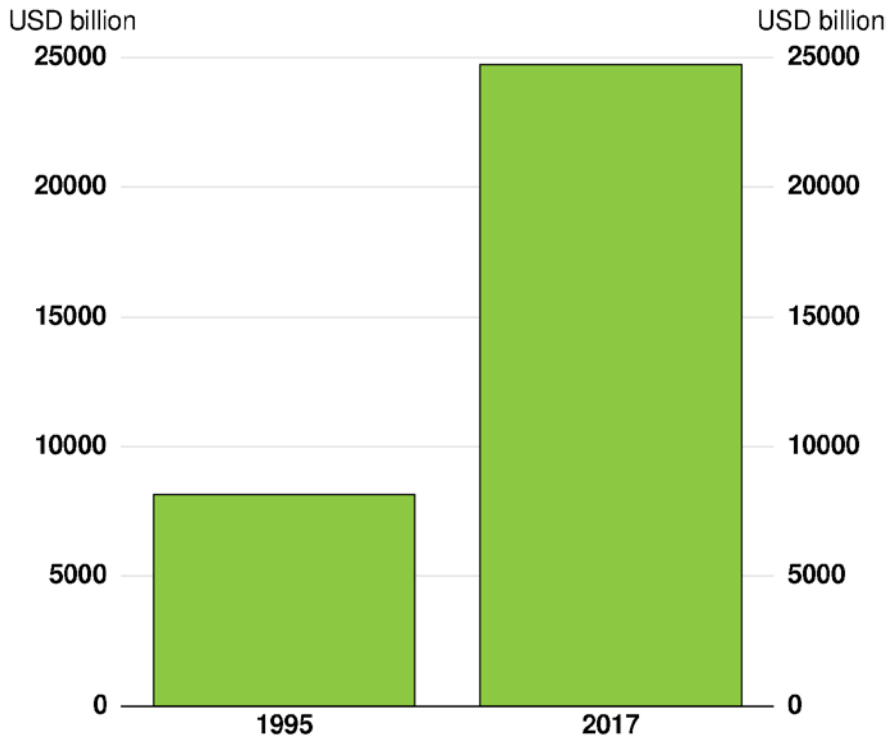


Note: Yield curves on benchmark government debt as of 9 March 2018.
Source: Thomson Reuters and ECB.



An escalation of trade tensions would hurt growth and jobs

Global export volume



Avoid escalation and rely on global solutions to solve steel excess capacity

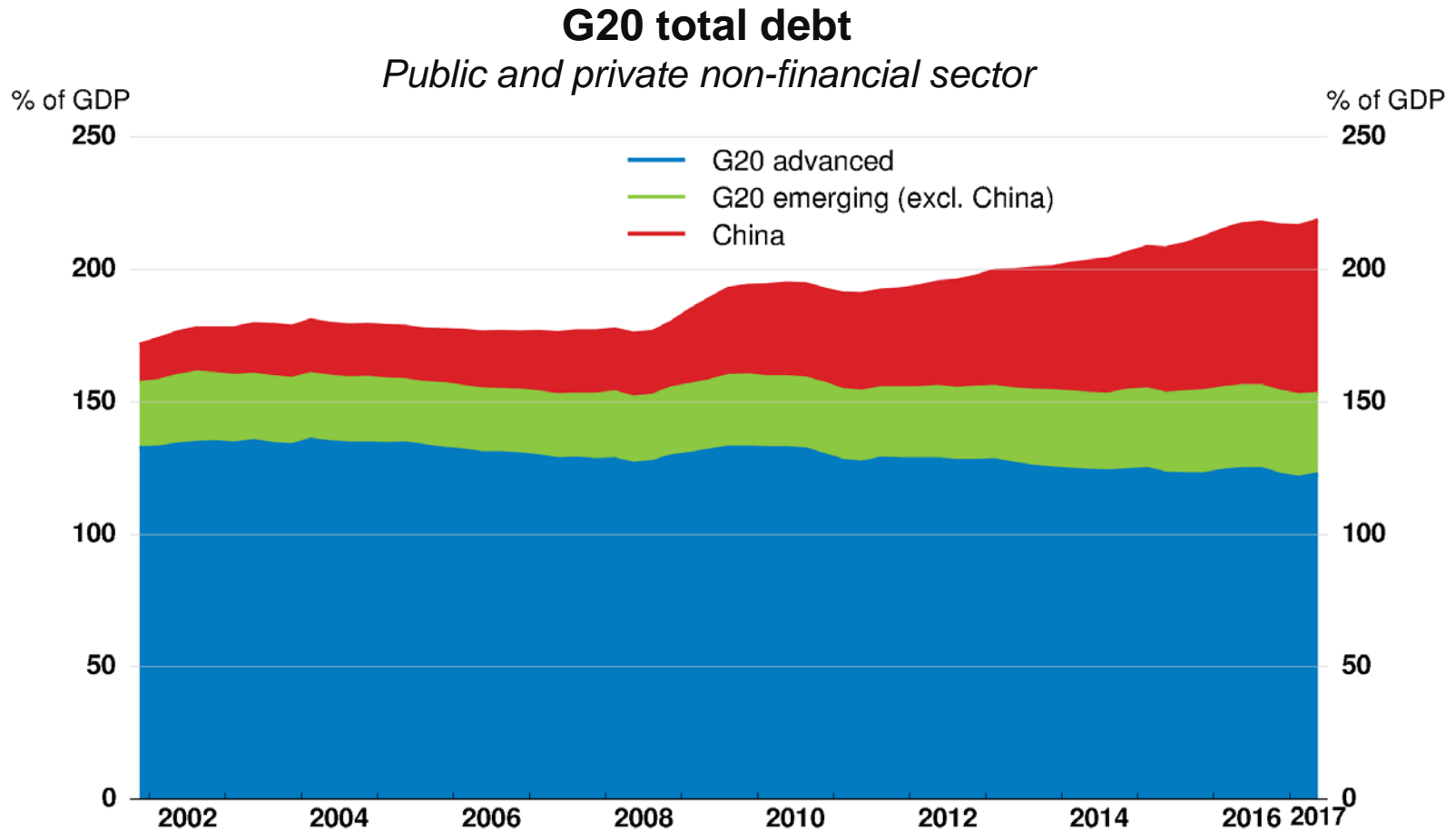
Safeguarding the rules-based international trading system is key

Note: Goods and services exports measured at market exchange rates, at 2010 prices.

Source: OECD Economic Outlook database.



High public and private debt create risks



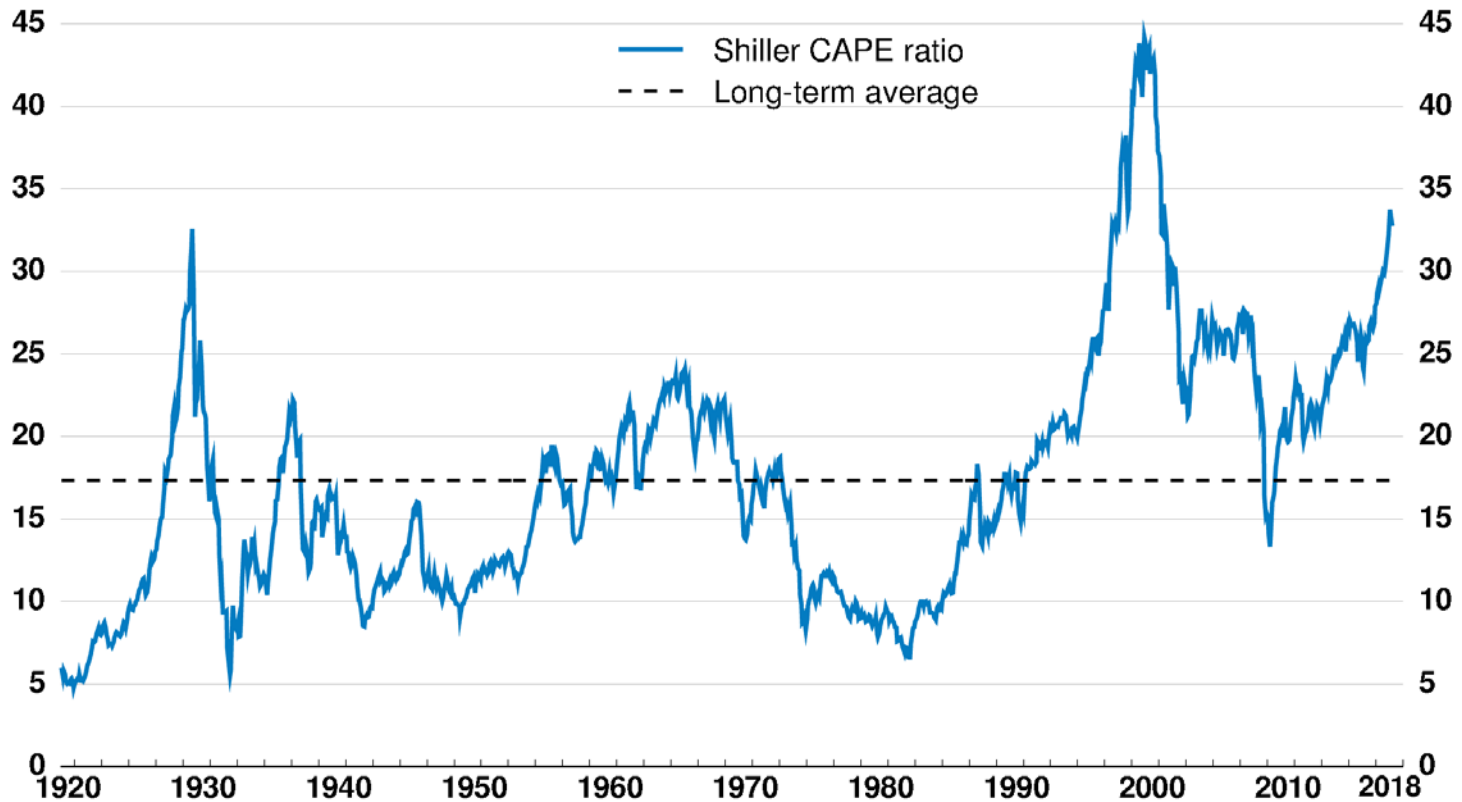
Note: Debt of general government and the non-financial private sector expressed as per cent of GDP weighted by nominal GDP at PPP exchange rates. G20 Advanced comprises Australia, Canada, France, Germany, Italy, Japan, Korea, the United Kingdom and the United States. G20 Emerging comprises Argentina, Brazil, India, Indonesia, Mexico, Russia, Saudi Arabia, South Africa and Turkey. Data as of Q2 2017.

Source: BIS; OECD Economic Outlook database; and OECD calculations.



Stock valuations remain high despite recent turbulence

S&P 500 Price-Earnings ratio
Cyclically adjusted



Note: The Cyclically Adjusted Price-to-Earnings ratio (CAPE) is obtained by dividing the S&P 500 index by a 10-year moving average of earnings, adjusted for inflation. The long-term average is calculated over the 1920-2018 period. CAPE ratio data as of March 2018.

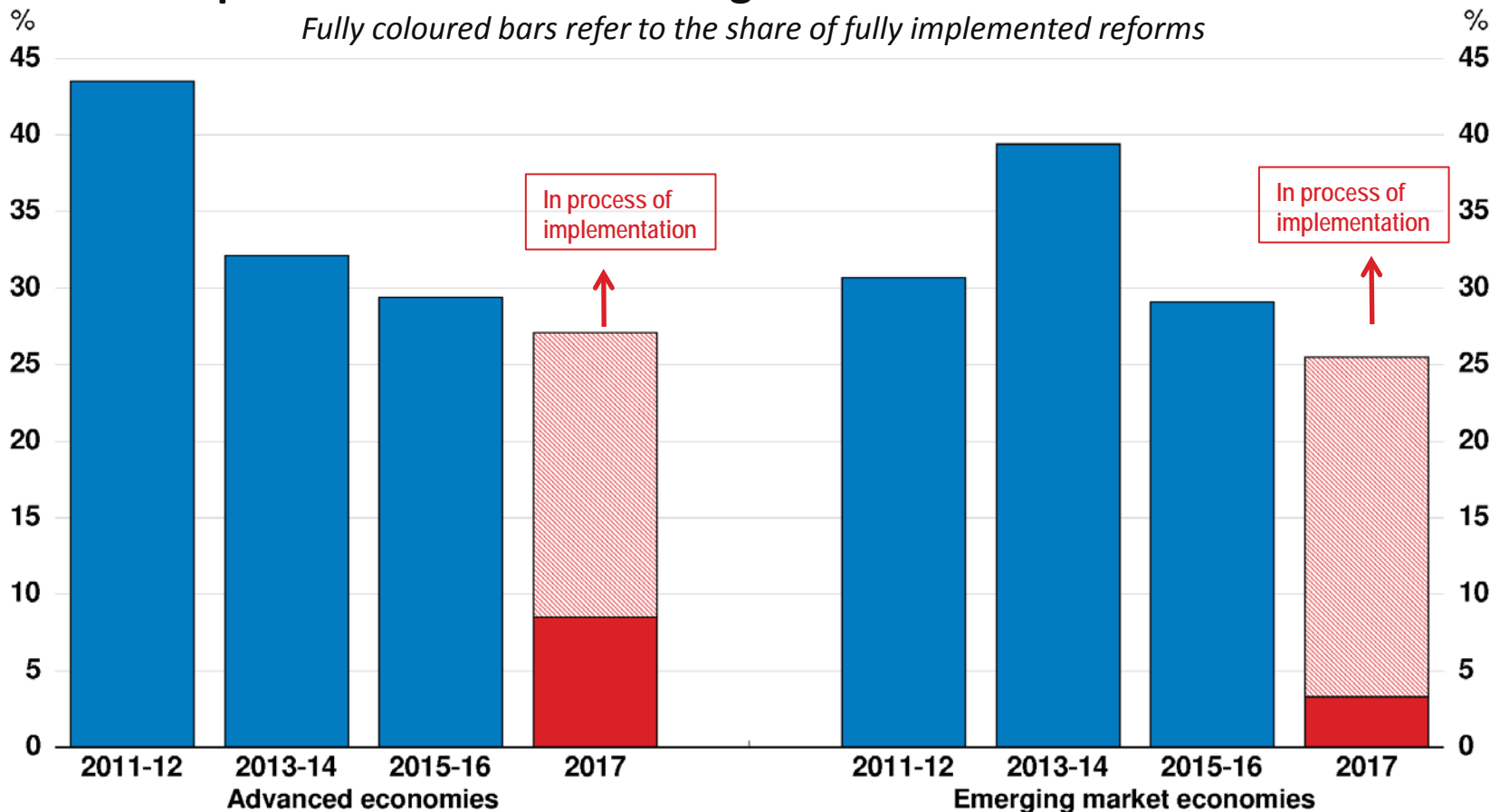
Source: Robert J. Shiller; and OECD calculations.



The pace of structural reform is slow, with some exceptions

Responsiveness rates to Going for Growth recommendations

Fully coloured bars refer to the share of fully implemented reforms



Note: The estimated take-up of reforms is captured by the Going for Growth indicator of reform responsiveness. For 2017, reforms in the process of implementation are shown to ensure comparability with previous two-year periods. Emerging market economies include Argentina, Brazil, Chile, China, Colombia, Costa Rica, Indonesia, India, Mexico, Russia, Turkey and South Africa. Advanced economies include all non-emerging OECD member countries and Lithuania.

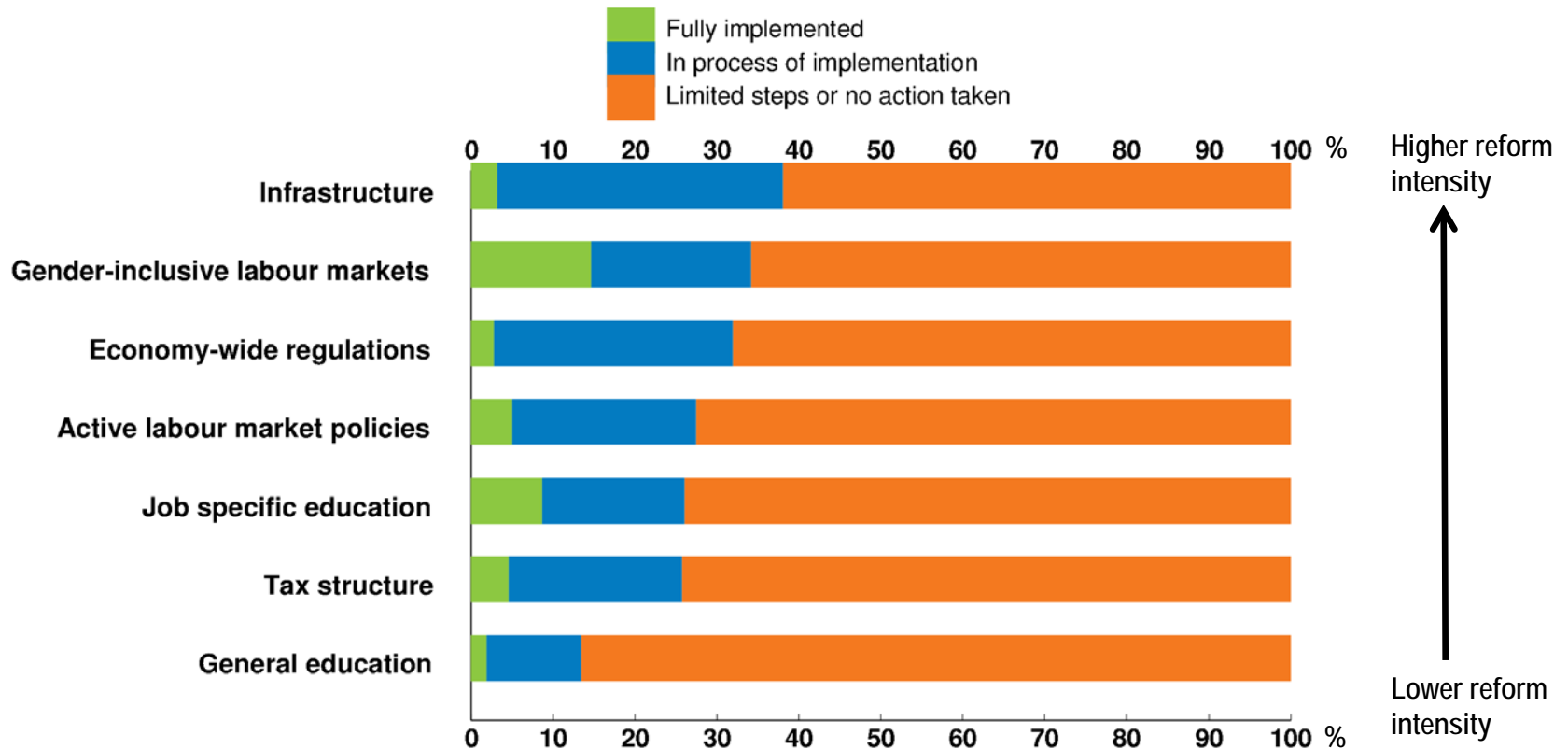
Source: OECD *Going for Growth* 2018 (forthcoming).



Reform progress is slow on tax and skills

Take-up of reforms by area

Share of Going for Growth recommendations implemented



Note: Selection of the reform areas with the largest number of recommendations. Infrastructure includes physical and legal infrastructure. Job specific education includes higher education, vocational education and training. General education includes primary and secondary education.

Source: OECD *Going for Growth* 2018 (forthcoming).



Key messages

The expansion continues

- Growth is improving or steady in most G20 economies
- Trade and private investment are bouncing back
- New fiscal stimulus in the United States and Germany will further boost short-term growth
- Inflation is set to rise slowly

Tensions are rising

- Monetary policy in advanced economies will gradually tighten, albeit at different speeds
- High debt and high asset valuations are key vulnerabilities
- An escalation of trade tensions would be damaging for growth and jobs

Structural and fiscal policies should focus on medium-term prospects

- The pace of structural reform is slow, including to improve skills
- The fiscal stance should support but not overstimulate demand
- Changes in the tax and spending mix would boost long-term inclusive growth