# OECD INTERIM ECONOMIC OUTLOOK

## *Short-term momentum: Will it be sustained?*

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**Catherine L. Mann**
**OECD Chief Economist**

www.oecd.org/economy/economicoutlook.htm
ECOSCOPE blog: oecdecoscope.wordpress.com

OECD
BETTER POLICIES FOR BETTER LIVES

# Key messages

## The short-term momentum has become more broad-based

- Growth performance has improved more than expected in the euro area
- The upturn is synchronised across major economies
- Policy support in a number of economies has boosted the first half of 2017

## But strong and sustained medium-term growth is far from secured

- More robust private investment is needed for a self-sustained recovery
- Inflation remains subdued and wages have not picked up
- Stronger future growth in emerging market economies will depend on deeper reform

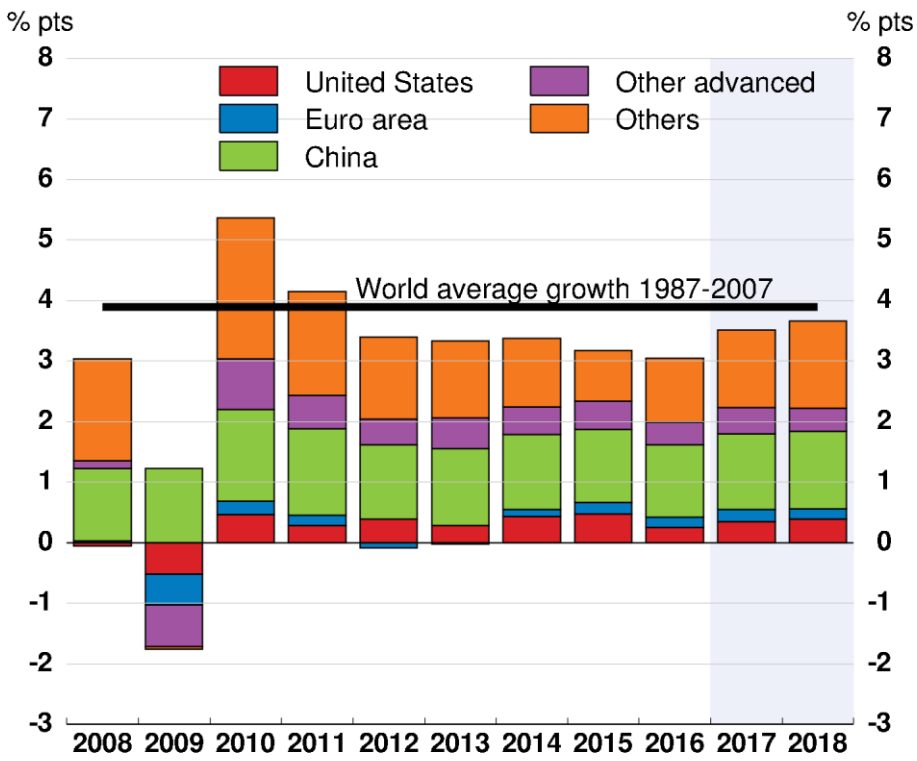
## Policy must not be complacent: fiscal and structural initiatives need to be used

- Rebalance from monetary to fiscal and structural support for growth and wages
- Monetary policy needs to balance being supportive, yet also managing financial risks
- Use fiscal space, with better tax and spending policies to achieve inclusive growth
- Step up structural reform effort to boost productivity, wages and skills

# A synchronised short-term global upturn

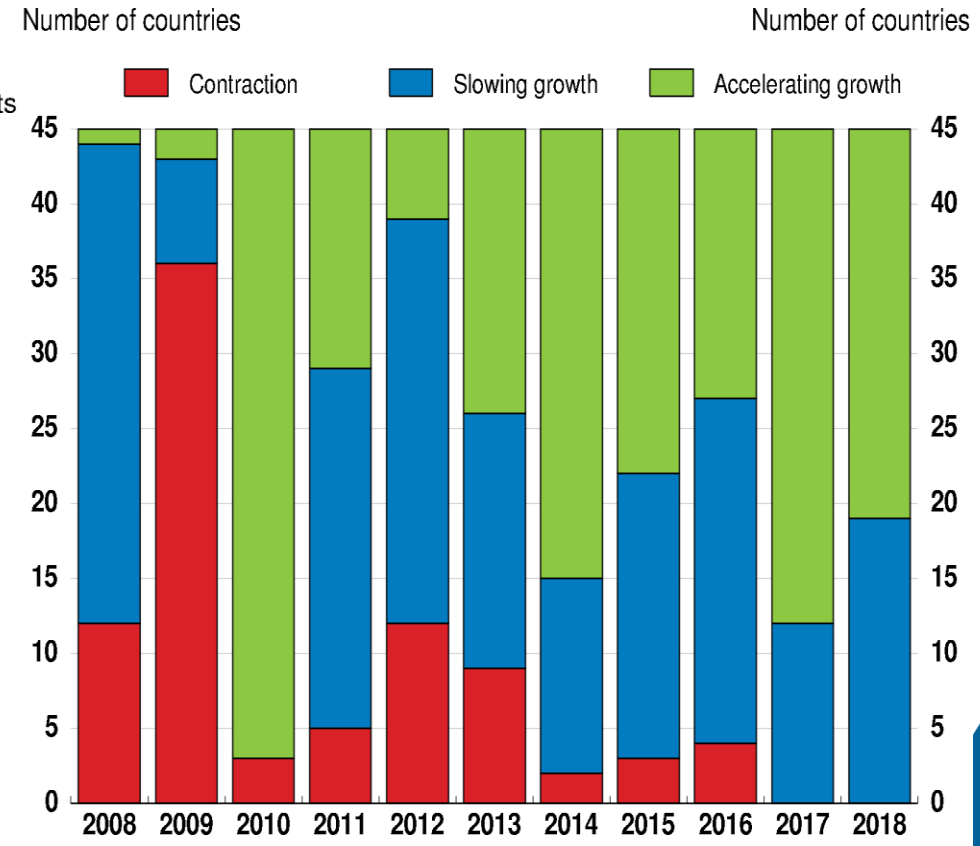
## Global GDP growth

*Contributions by regions*




## The recovery is broad-based

*GDP growth of selected countries*

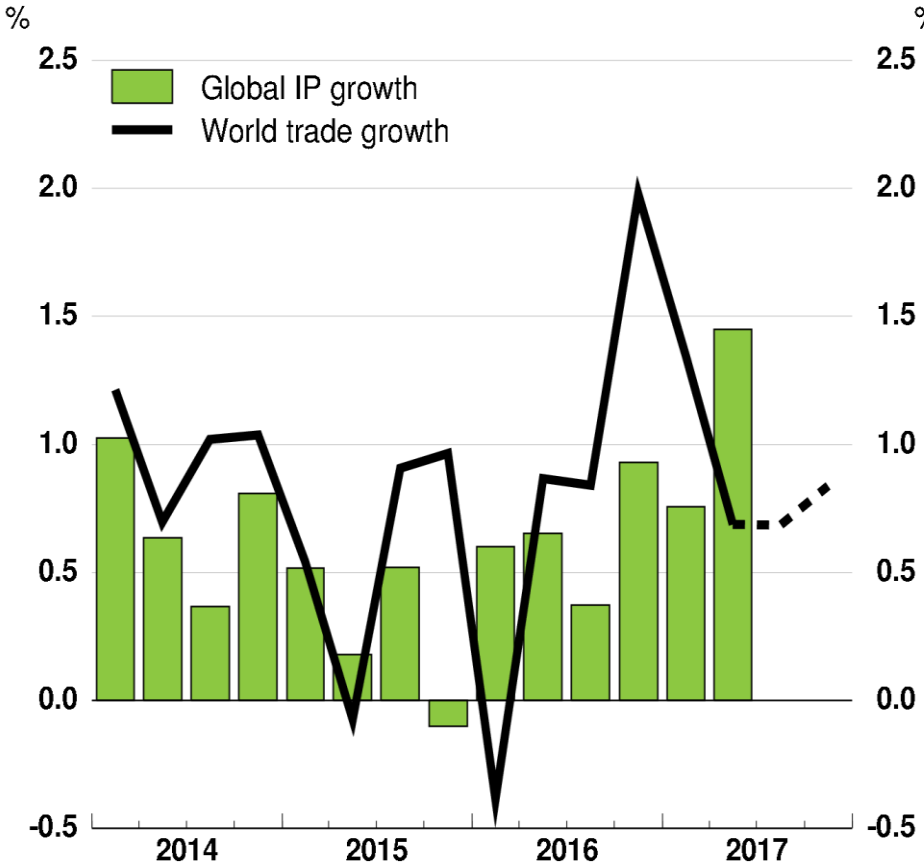



Note: Selected countries are OECD countries, Argentina, Brazil, China, Colombia, Costa Rica, India, Indonesia, Lithuania, Russia and South Africa.
Source: OECD Economic Outlook database.

# Industrial production and trade picked up, the rebound in the tech cycle has accelerated

## Industrial production and trade growth

*Quarterly growth, volumes*




## IT cycle

*Year-on-year changes, 3-month moving average*

Notes: Trade growth based on goods and services trade volumes. The dotted line shows June 2017 forecasts. Semi-conductor billings in nominal USD.
Source: OECD Economic Outlook database; World Semi-Conductor Statistics; and OECD calculations.

# OECD Interim Economic Outlook projections

## Real GDP growth

*Year-on-year, %*

| | 2016 | 2017 | | 2018 | |
|---|---|---|---|---|---|
| | | Interim projections | Difference from June Economic Outlook | Interim projections | Difference from June Economic Outlook |
| World | 3.1 | 3.5 | 0.0 | 3.7 | 0.1 |
| | | | | | |
| United States | 1.5 | 2.1 | 0.0 | 2.4 | 0.0 |
| Euro area | 1.8 | 2.1 | 0.3 | 1.9 | 0.1 |
| Germany | 1.9 | 2.2 | 0.2 | 2.1 | 0.1 |
| France | 1.1 | 1.7 | 0.4 | 1.6 | 0.1 |
| Italy | 1.0 | 1.4 | 0.4 | 1.2 | 0.4 |
| Japan | 1.0 | 1.6 | 0.2 | 1.2 | 0.2 |
| Canada | 1.5 | 3.2 | 0.4 | 2.3 | 0.0 |
| United Kingdom | 1.8 | 1.6 | 0.0 | 1.0 | 0.0 |
| | | | | | |
| China | 6.7 | 6.8 | 0.2 | 6.6 | 0.2 |
| India[1] | 7.1 | 6.7 | -0.6 | 7.2 | -0.5 |
| Brazil | -3.6 | 0.6 | -0.1 | 1.6 | 0.0 |
| Russia | -0.2 | 2.0 | 0.6 | 2.1 | 0.5 |
| | | | | | |
| G20 | 3.2 | 3.7 | 0.1 | 3.8 | 0.0 |

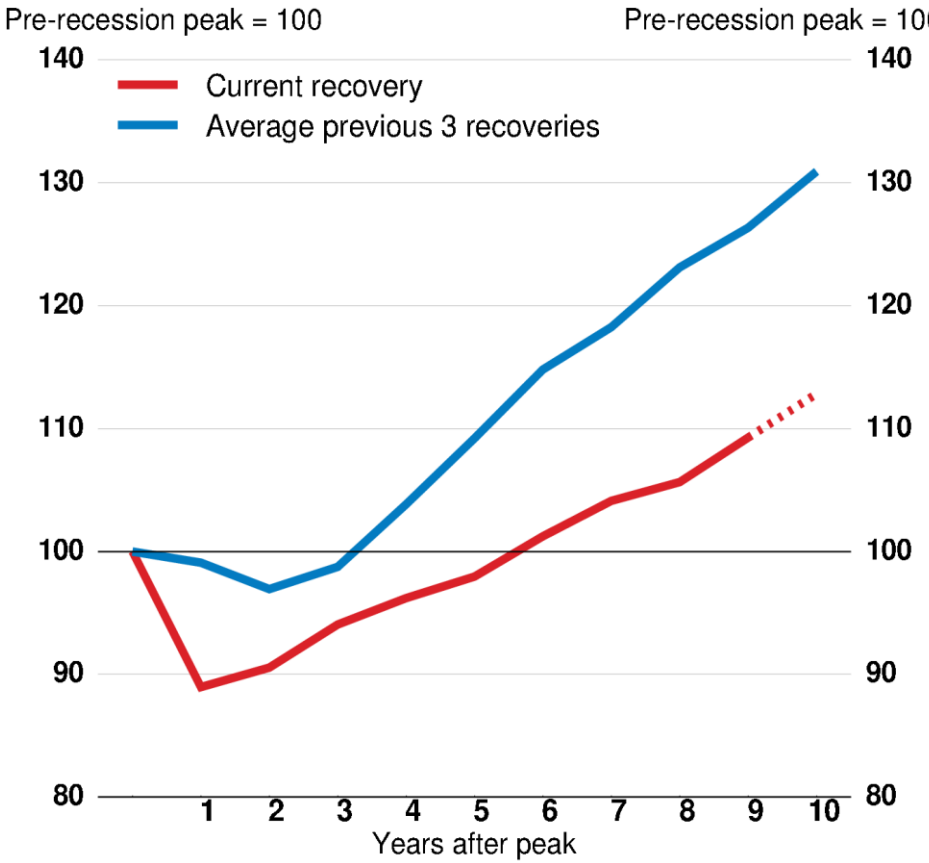
Note: Difference in percentage points based on rounded figures.
1. Fiscal years starting in April.

# STRONG AND SUSTAINED MEDIUM-TERM GROWTH IS FAR FROM SECURED

# There is substantial need for further investment to sustain momentum

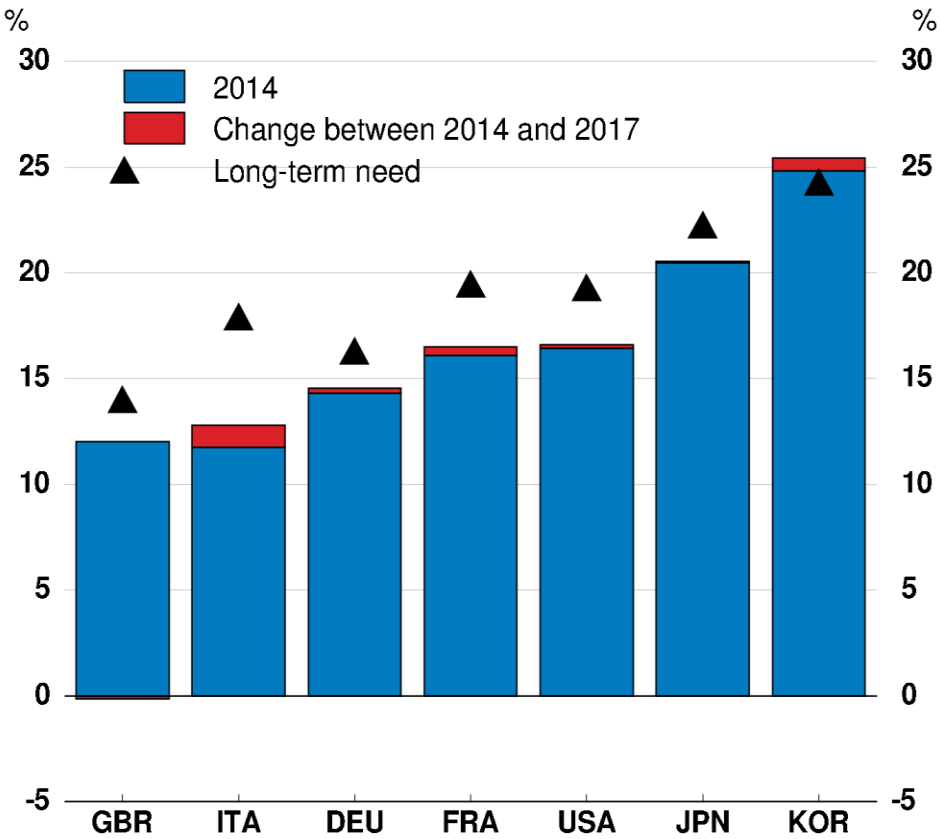
## A weak investment recovery

*OECD countries*




## Investment shortfalls by country

*Non-residential investment, % of potential GDP*

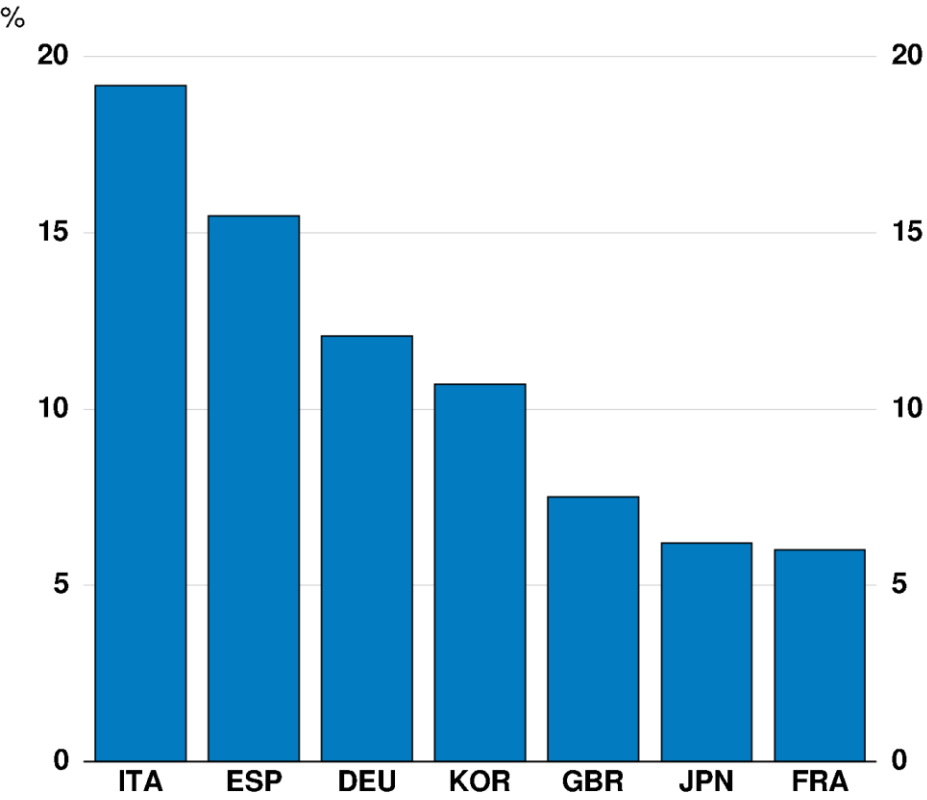



Notes: LHS: Current recovery since 2008Q1 including forecasts in the dotted line. Previous 3 recoveries pre-recession peak in 1973Q4, 1980Q1 and 1990Q3. Investment is real total gross fixed capital formation. RHS: Long-term needs are estimated following methodology of Lewis et al. (2014).
Source: OECD Economic Outlook database; and OECD calculations.

# Structural weaknesses hold back investment

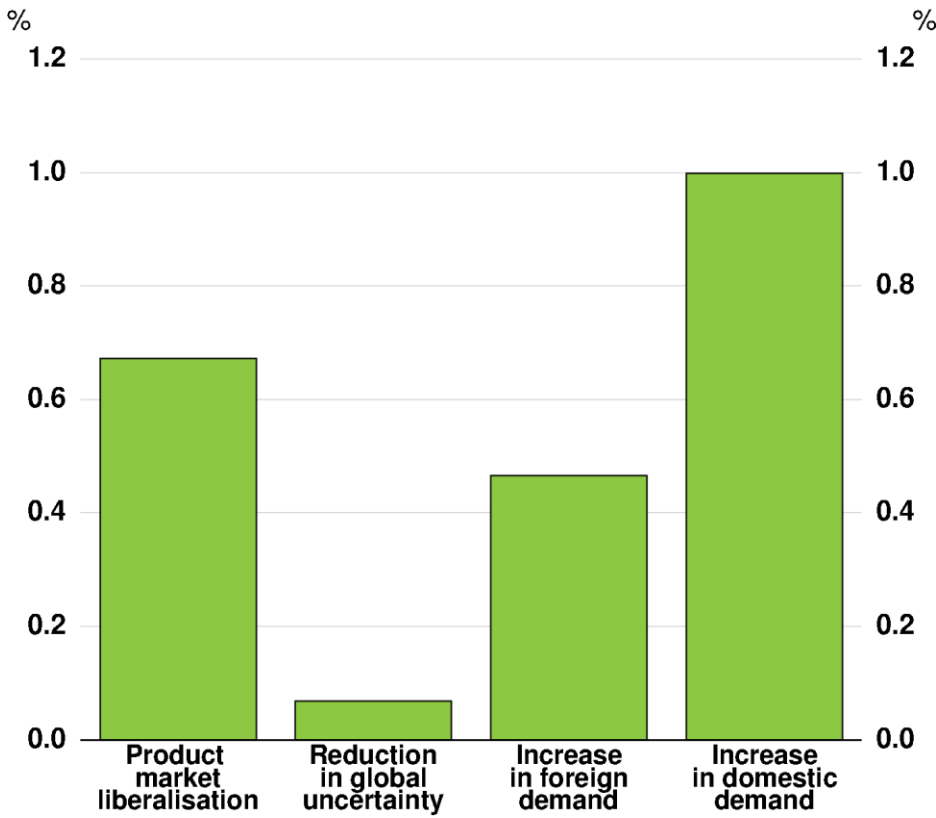
## Capital sunk in zombie firms

*Share of total capital stock, 2013*




## Estimated impact of shocks on investment

*Percentage change after 5 years*

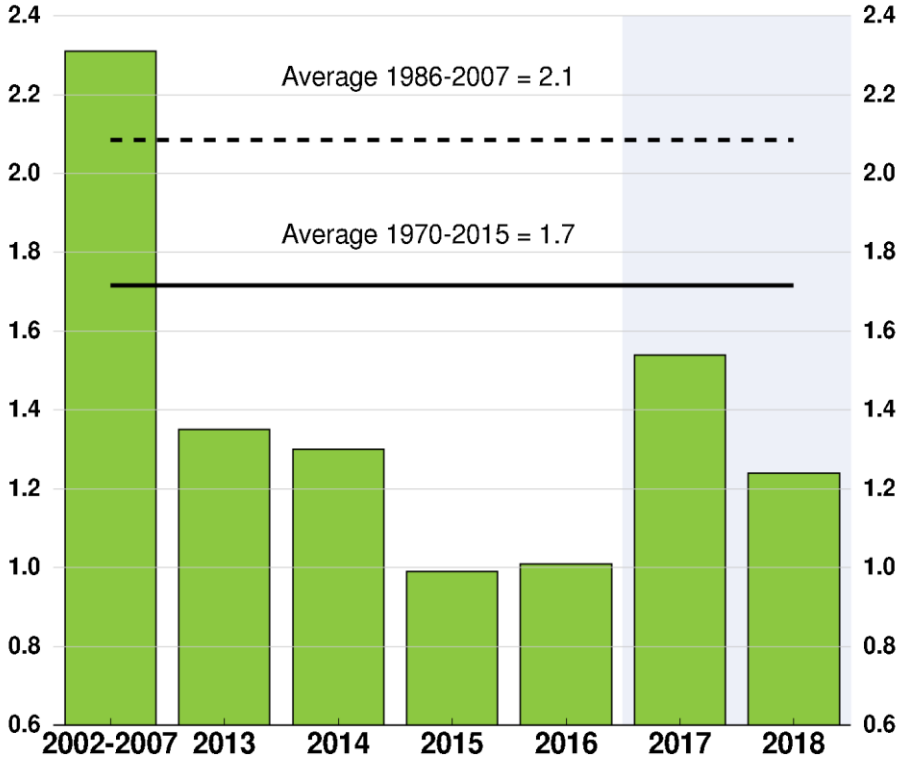



Notes: LHS: Firms aged 10 years or more and with profits not covering interest payments over three consecutive years. The sample excludes firms that are larger than 100 times the 99th percentile of the size distribution in terms of capital stock or number of employees.
RHS: Product market shock: 16% reduction in OECD index of regulation in energy, transport and communications over 5 years, equivalent to the average pace of reduction among 15 OECD countries over 1993-2013. Reduction in the global uncertainty index: two-standard-deviation (26%) reduction. Increase in foreign or domestic demand: 1% increase.
Source: Adalet McGowan, Andrews and Millot (2017), "The Walking Dead? Zombie Firms and Productivity Performance in OECD Countries", OECD Economics Department working paper; and OECD calculations.

# Faster trade growth is needed to achieve stronger productivity gains

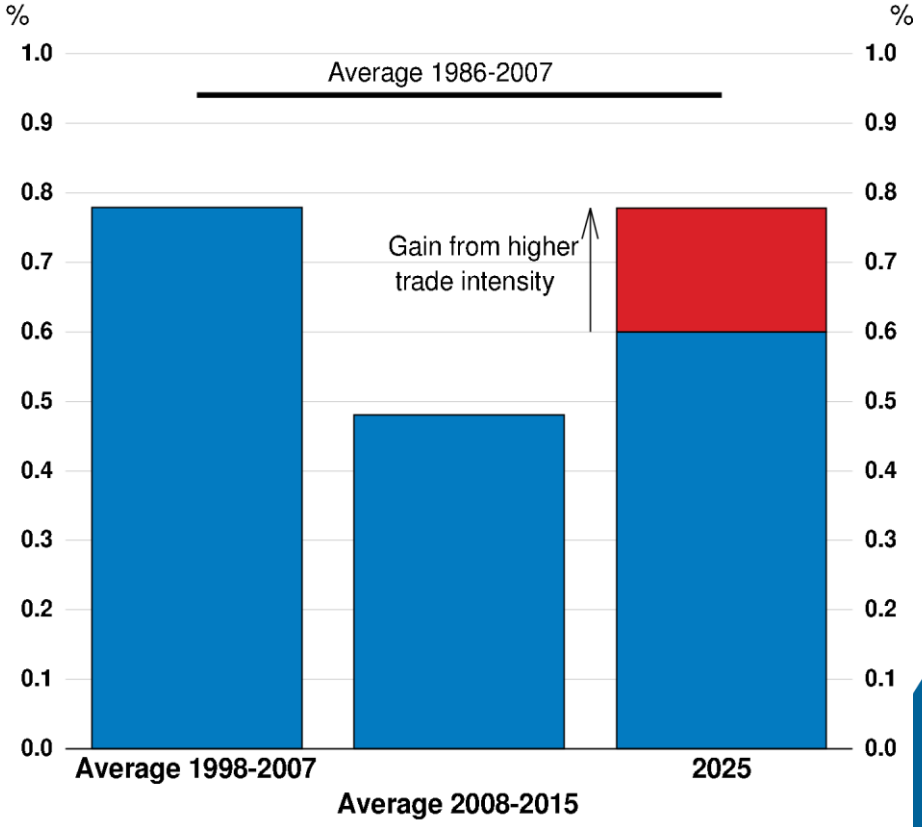
## Global trade intensity

*Ratio of global trade growth to global GDP growth*




## Productivity gains from higher trade

*OECD annual productivity growth; estimated gains from raising trade openness at the same pace as in 1986-2007*



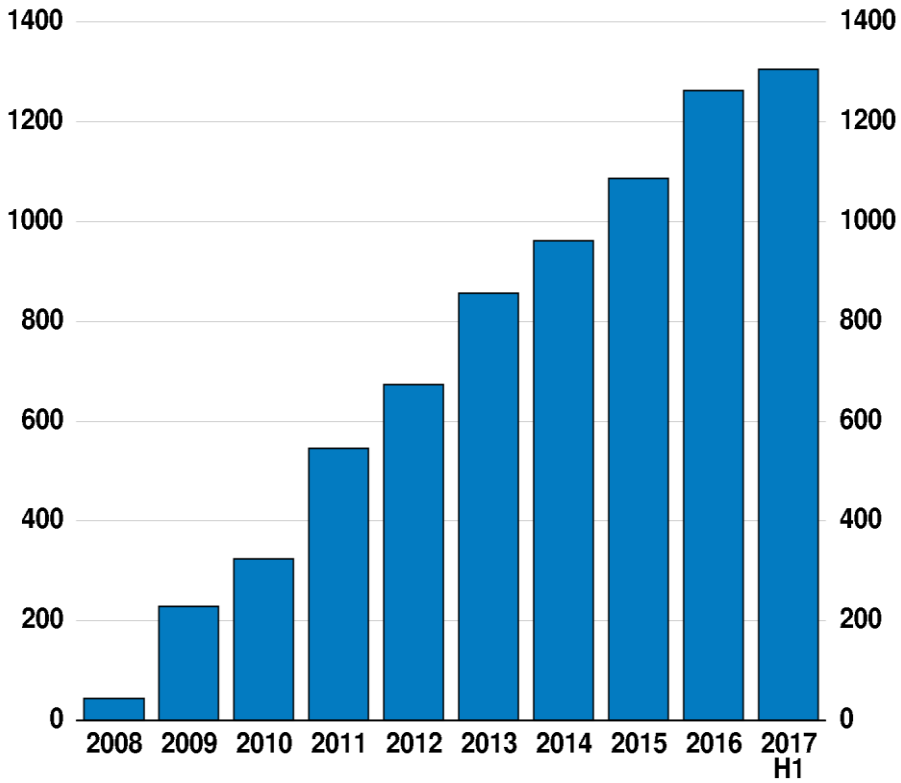

Note: Scenario in which OECD trade openness (exports plus imports as a share of GDP at market exchange rates) increases at the average rate that prevailed over 1986-2007 from 2017 onwards.

Source: OECD Economic Outlook database; Haugh et al. (2016), "Cardiac Arrest or Dizzy Spell: Why is World Trade So Weak and What can Policy Do About It?", OECD Economics Department working paper; and OECD calculations.

# But policy barriers and insufficient global demand are holding back trade and FDI

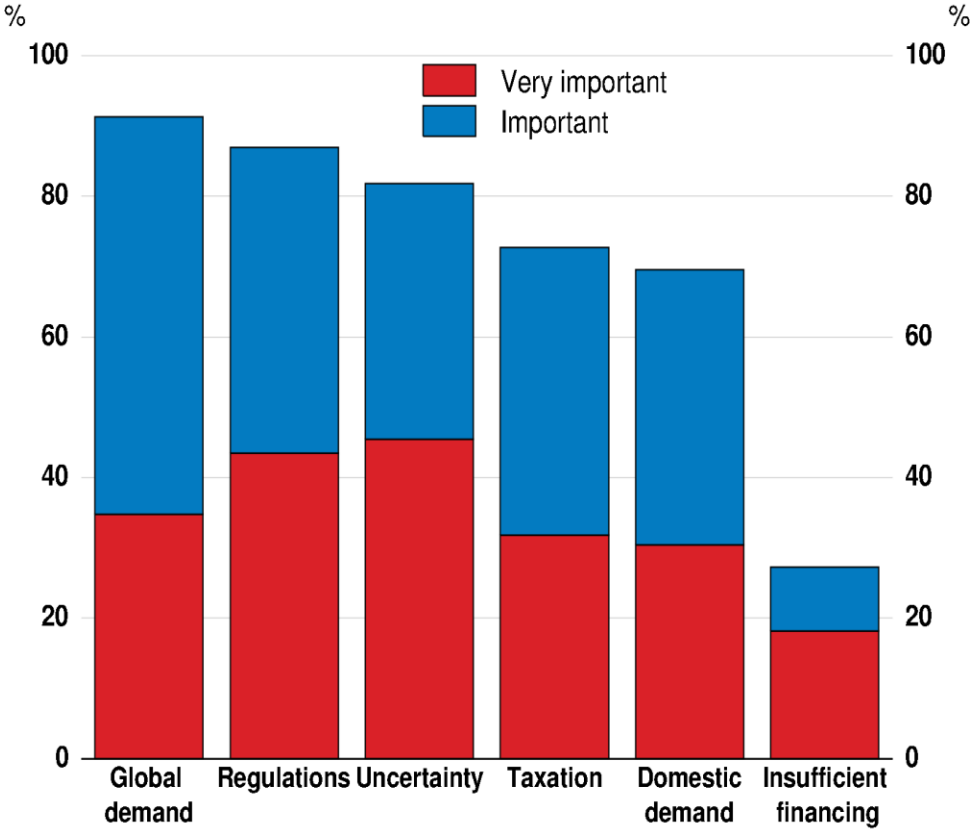
## Trade restrictions in G-20 countries

*Number of new trade restrictive measures in force since the crisis*




## Constraints on cross-border investment

*% of respondents*

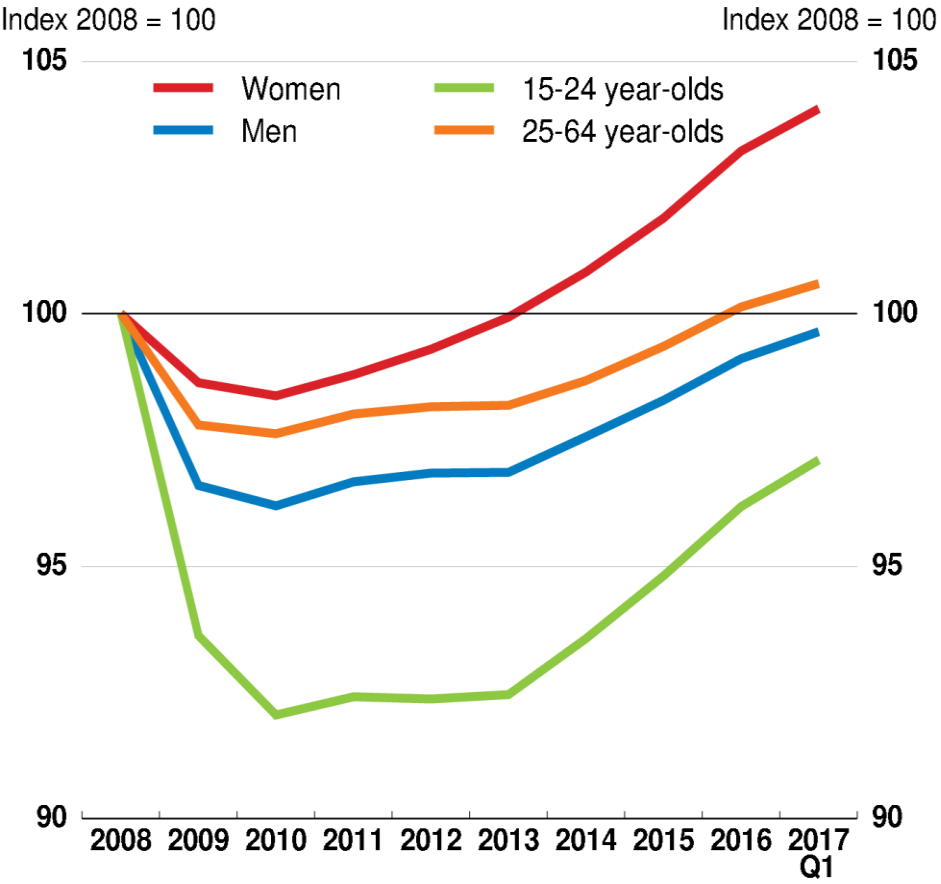



Notes: LHS: measures introduced since 2008 in G-20 countries and still in force. RHS: Responses to questions "In the past six months, what were the most important factors affecting cross-border investment decisions in your country?".
Source: WTO-OECD-UNCTAD G-20 Trade Policy Monitoring Reports; and BIAC Business Climate Survey 2017.

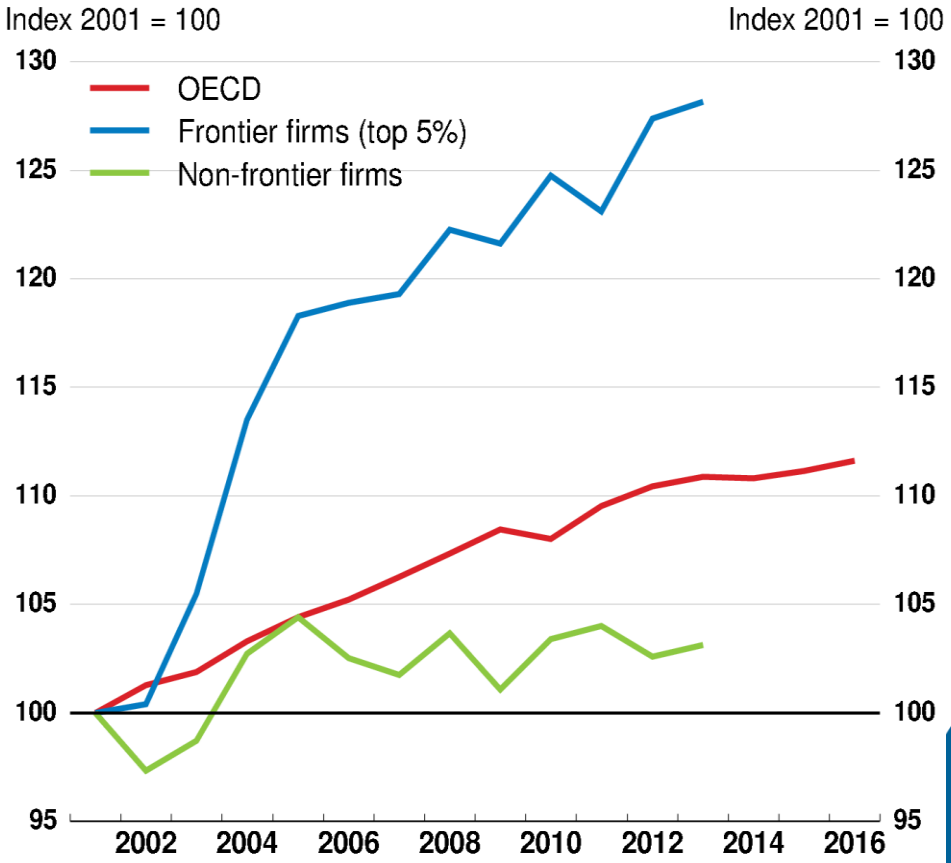
# Medium-term growth depends not only on employment gains, but also on higher wages

## Employment rate

*OECD average*




## Real compensation per worker

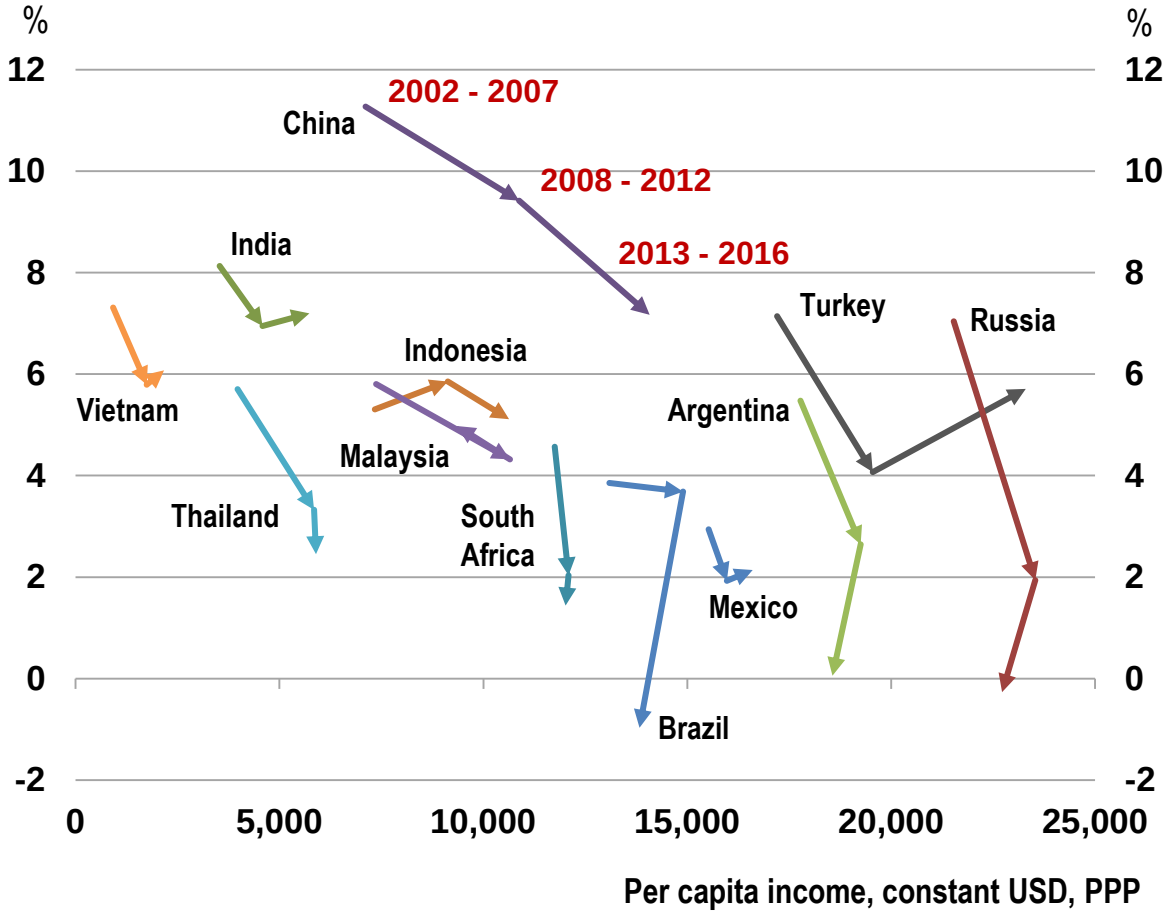



Note: Real wages are measured as labour compensation per employee adjusted for the GDP deflator. OECD real wages are a weighted average for 24 countries.

Source: OECD Economic Outlook database; Orbis data of Bureau van Dijk; and OECD Employment database.

# Robust global growth requires a turnaround in emerging market economies

## Real GDP growth in emerging markets, annual averages per period




EMEs need to maintain growth to ''catch-up'' with advanced economy GDP per capita

But GDP growth in "catching-up" economies has slowed since the 2000s

EMEs have a mixed record on achieving stronger investment and productivity growth

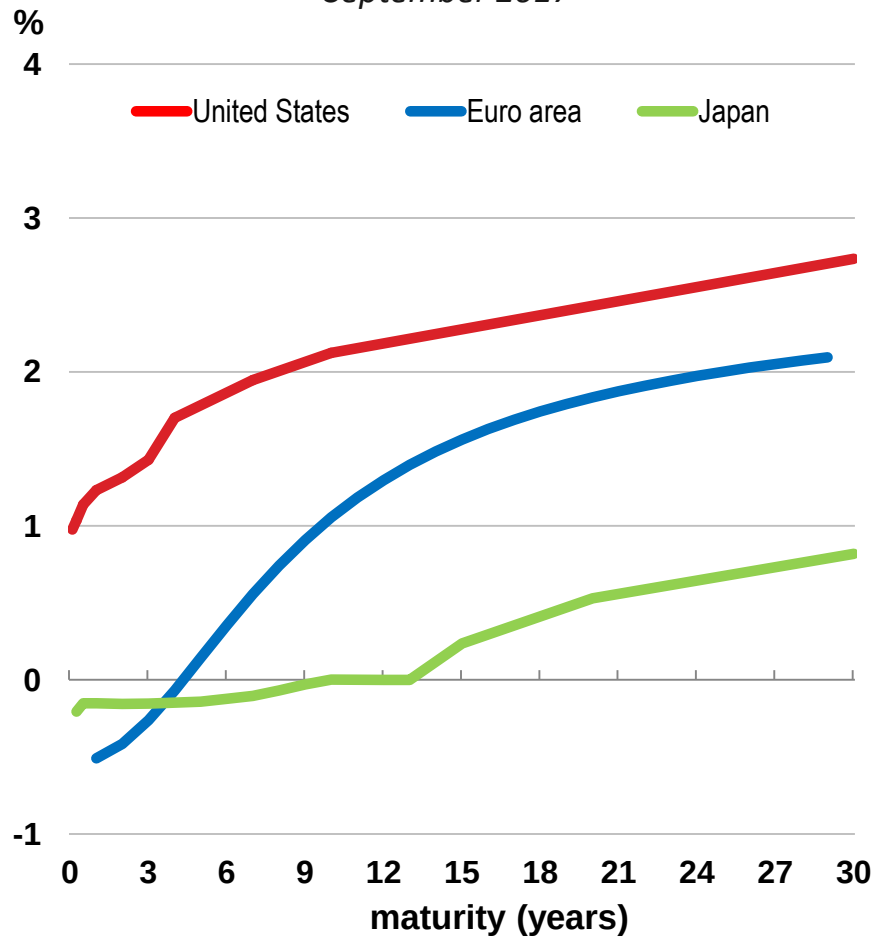
Source: OECD Economic Outlook database; and IMF.

# POLICY MUST ACTIVELY DEPLOY FISCAL AND STRUCTURAL INITIATIVES

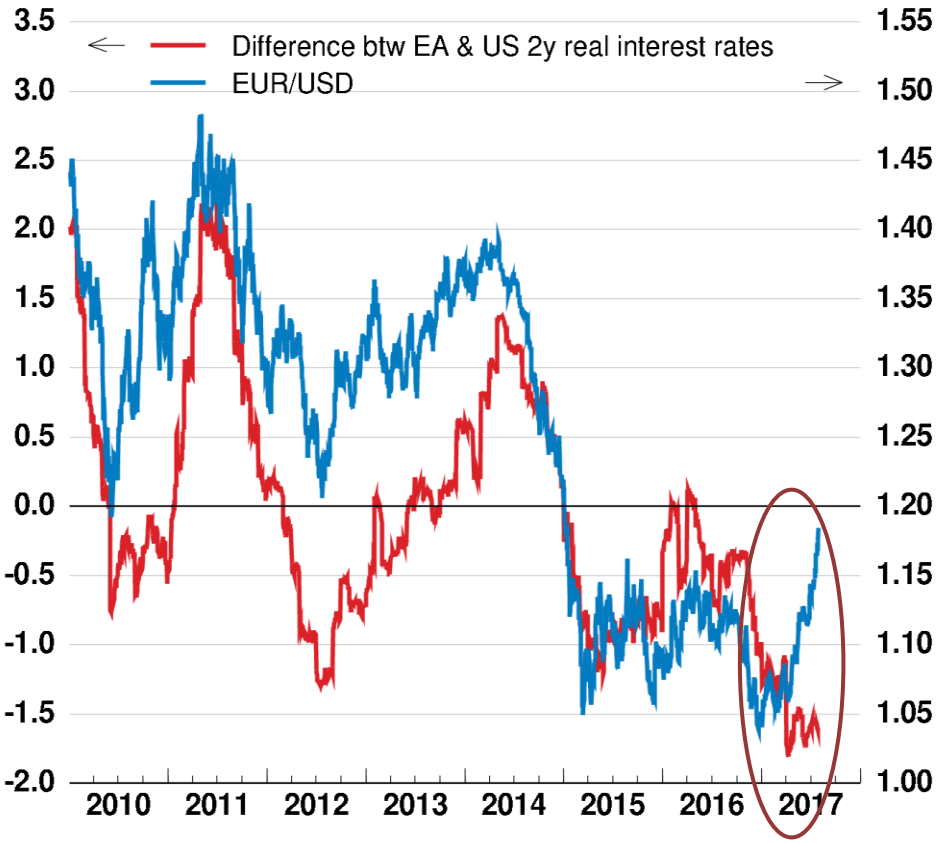
# Interest rates have remained very low

## Yield curves on government debt

*September 2017*



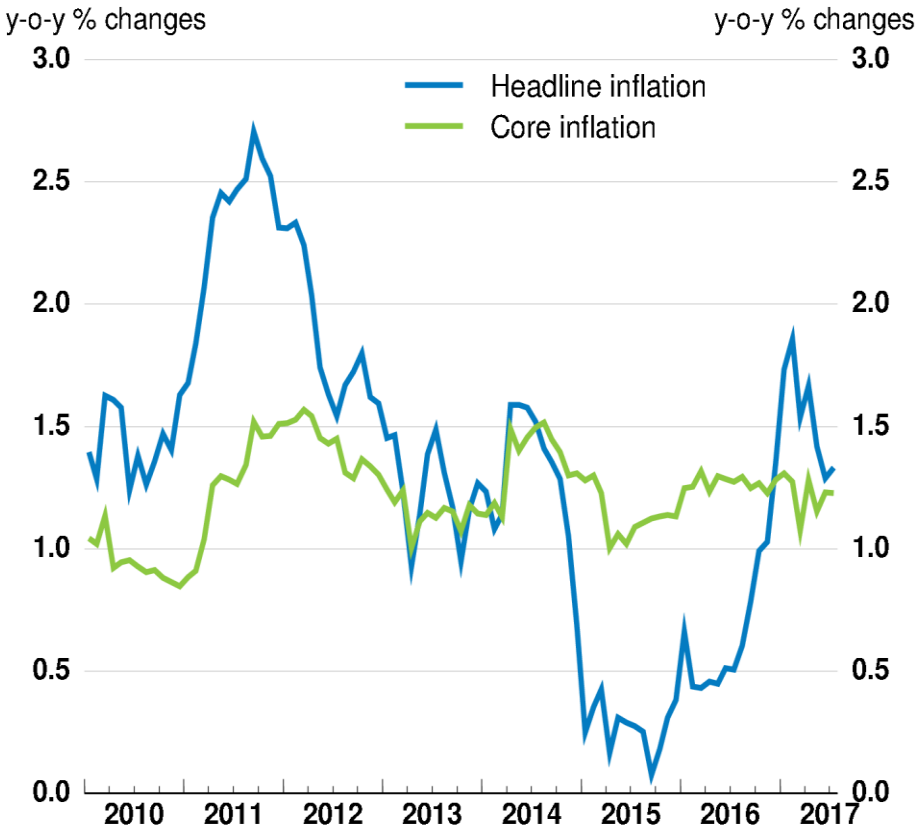

## Disconnect between exchange rates and interest rates



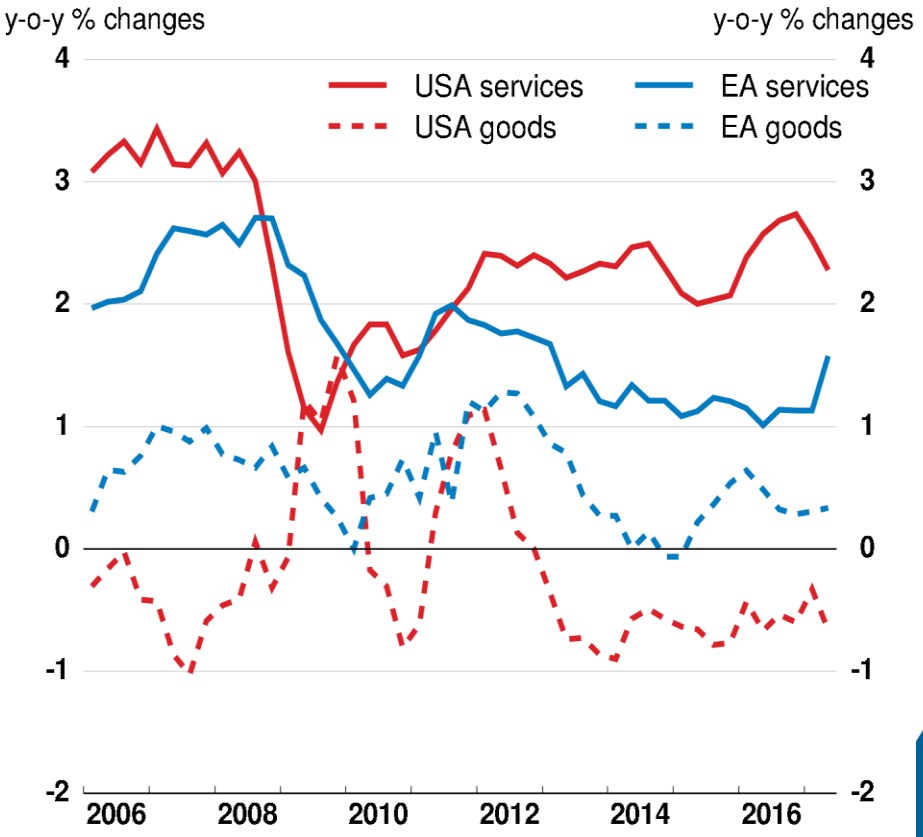

Note: Yield curves on benchmark government debt as of 12 September 2017.
Source: Thomson Reuters; Bloomberg; and ECB.

# Inflation measures remain below objectives in part due to declining services price inflation

## Inflationary pressures remain subdued in advanced economies




## Weak services price inflation has weighed on core inflation

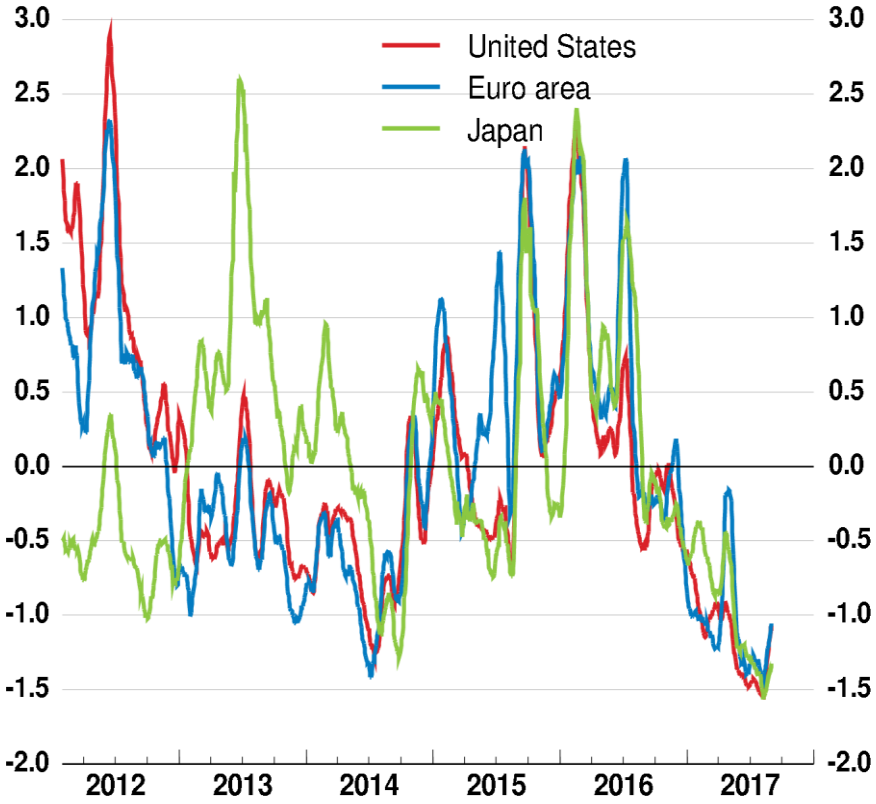



Note: Averages across advanced economies are constructed using PPP GDP weights. Advanced economies include Canada, Japan, Sweden, Switzerland, the United Kingdom, the United States and the aggregate euro area. Core inflation and goods inflation exclude food and energy.
Source: OECD Economic Outlook database; Eurostat; Thomson Reuters; FRED Economic Data; Bureau of Economic Analysis; and OECD calculations.

# But further monetary ease could exacerbate financial-real disconnects and high debt

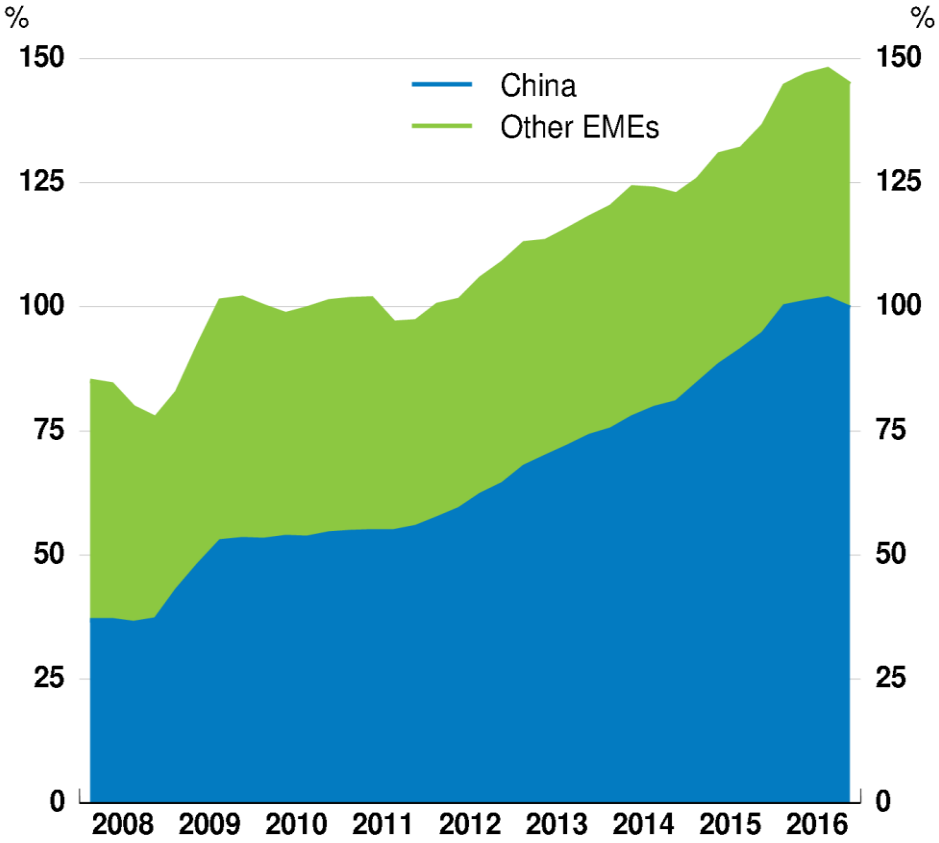
## Low stock market volatility

*30-day moving average, normalised in standard deviations*




## High debt in emerging market economies

*Credit to non-financial sector, in % of total EME GDP*

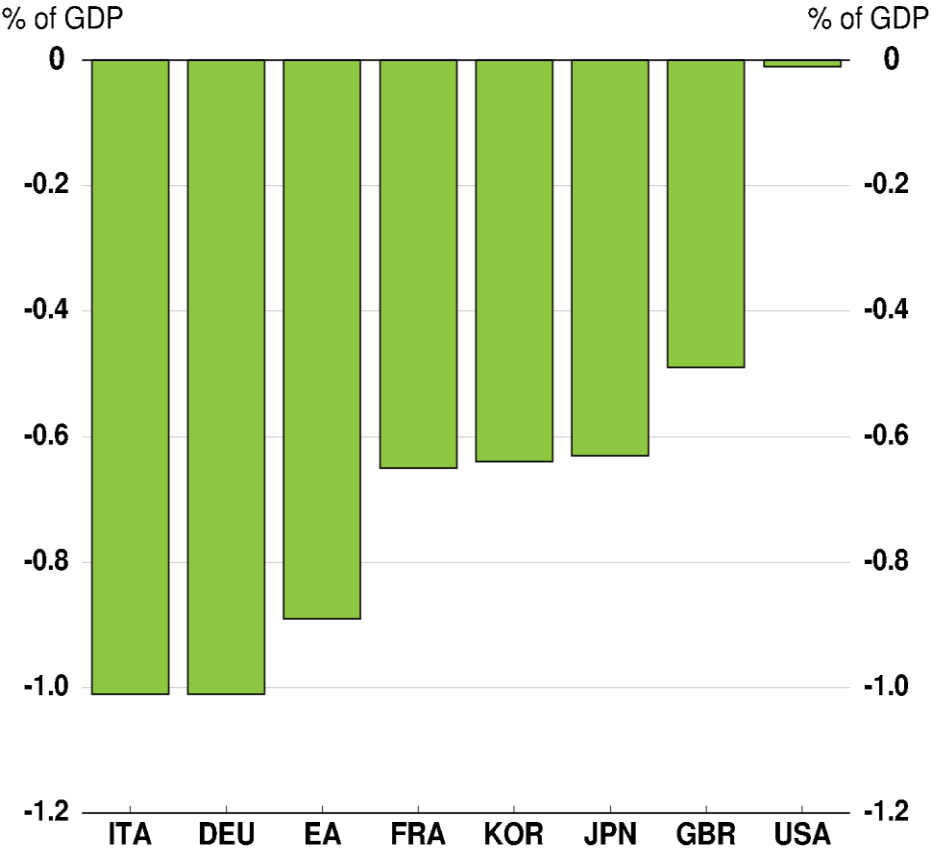



Note: Emerging market economies comprise Argentina; Brazil; Chile; China; Colombia; Hong Kong, China; India; Indonesia; Malaysia; Mexico; Russia; Saudi Arabia; Singapore; South Africa; Thailand; and Turkey.
Source: Thomson Reuters; and Bank for International Settlements.

# Deliver on expected fiscal policy easing

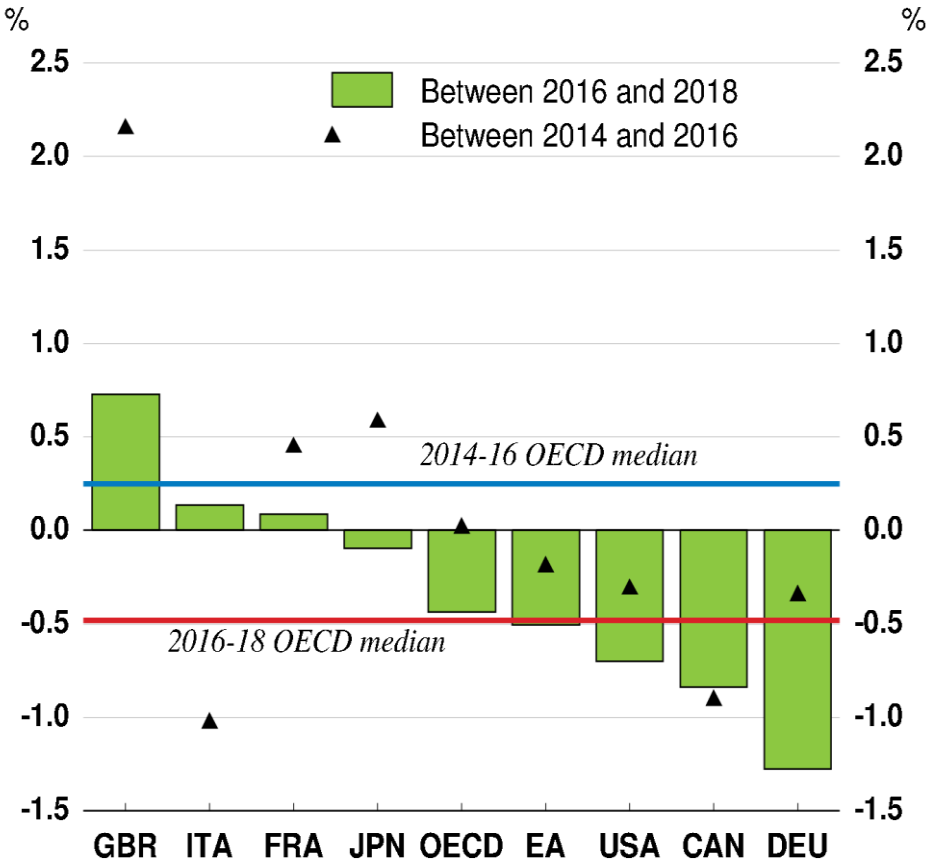
## Government gross interest payments have declined

*Average annual difference between 2011-14 and 2017-18*




## Fiscal stance is expected to ease

*Change in underlying primary balance, % of potential GDP*



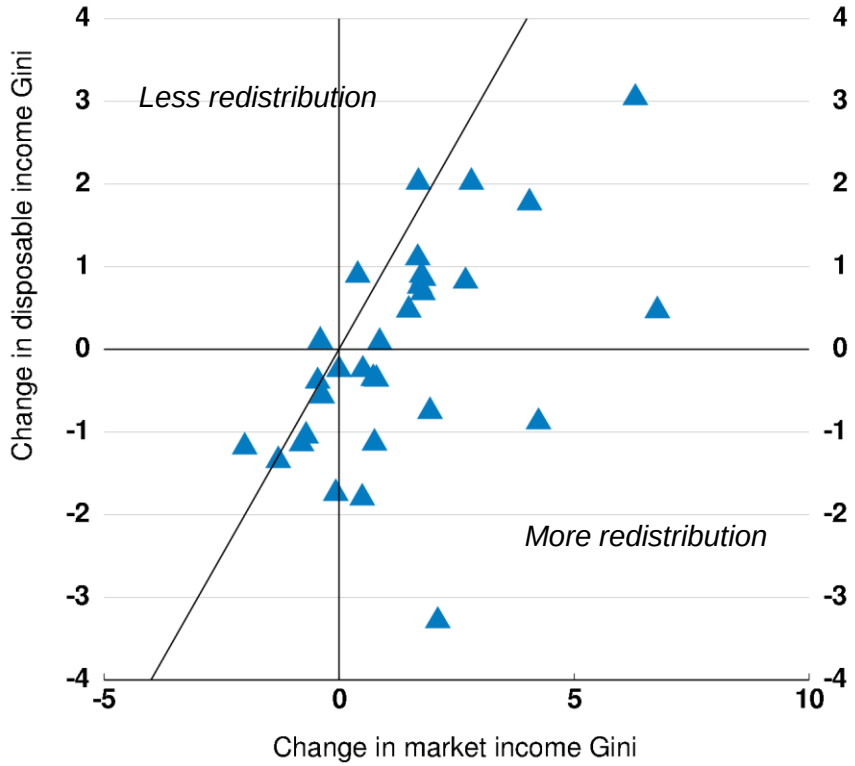

Note: LHS based on general government gross interest payments. Data for 2017-2018 are OECD projections.
Source: OECD Economic Outlook database; and OECD calculations.

# And improve the mix of fiscal policies for inclusive growth

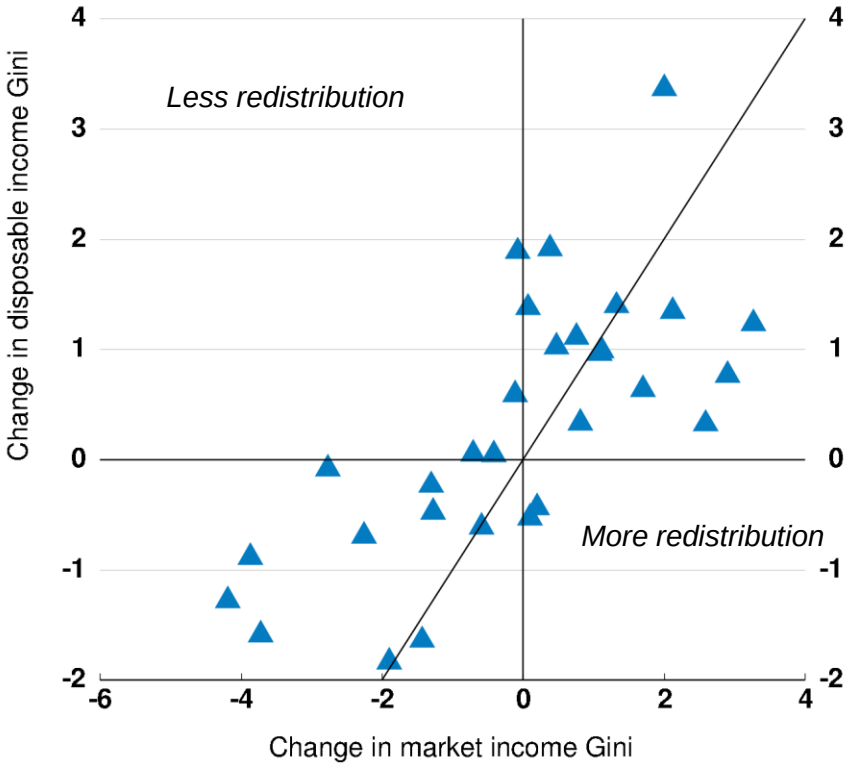
## Fiscal policy has become less redistributive

*Changes in inequality before and after taxes and transfers*

**2007-2010**



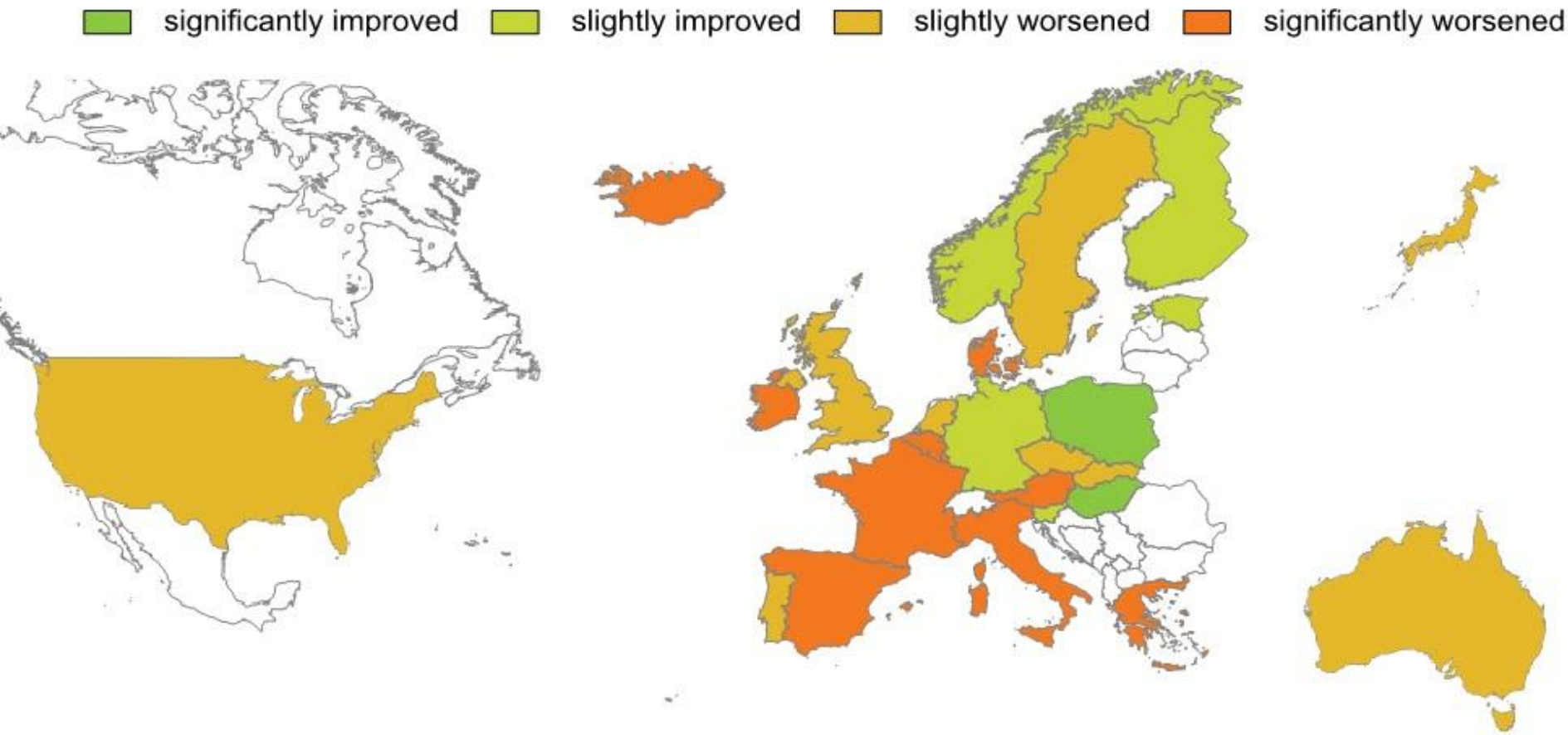

**2010-2014**




Note: The figure shows the absolute change in Gini coefficients between selected years and for all OECD countries with available data. A positive increase in Gini coefficients denote higher inequality.
Source: OECD Income Distribution database; and OECD calculations.

# Improve the public spending mix to boost growth and reduce inequality

## Changes in the pro-growth and pro-equity effectiveness of public spending since 2005



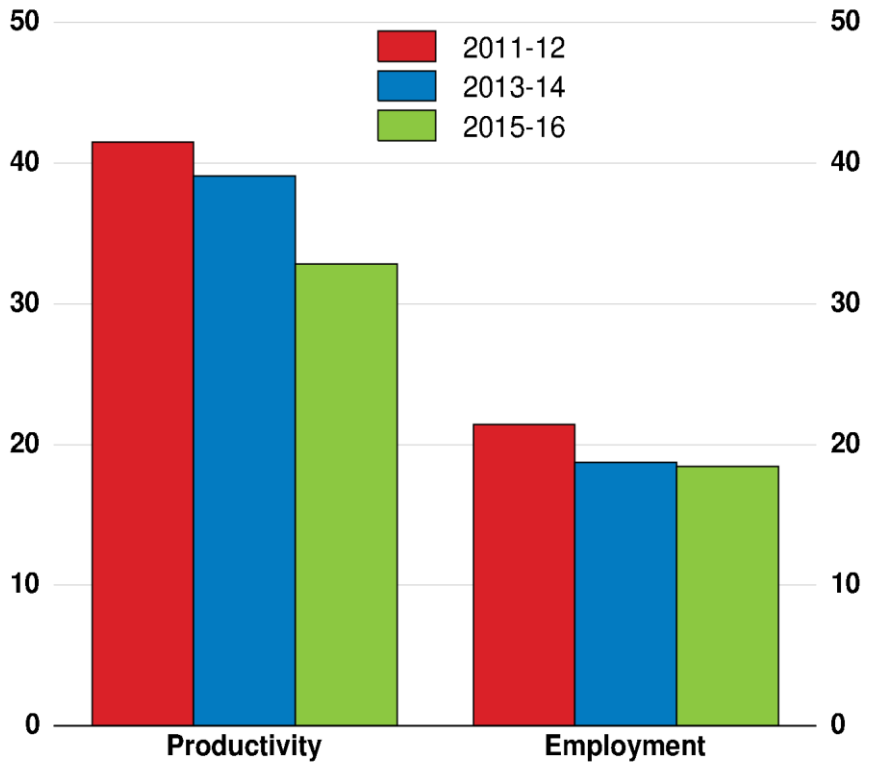

Note: The indicator combines information on the effect of the size and effectiveness of government and the public spending mix on growth and inequality. The categories refer to changes between 2005 and 2012. Significantly improved is a positive change of more than 0.3 standard deviations (sd); slightly improved is a positive change of less than 0.3 sd; slightly worsened is a negative change of less than 0.3 sd; and significantly worsened is a negative change of more than 0.3 sd.

Source: Bloch, D. and J-M. Fournier (2017), "The Deterioration of Public Spending Quality during the Global Financial Crisis: Insights from New Indicators", OECD Economics Department Working Paper, forthcoming.

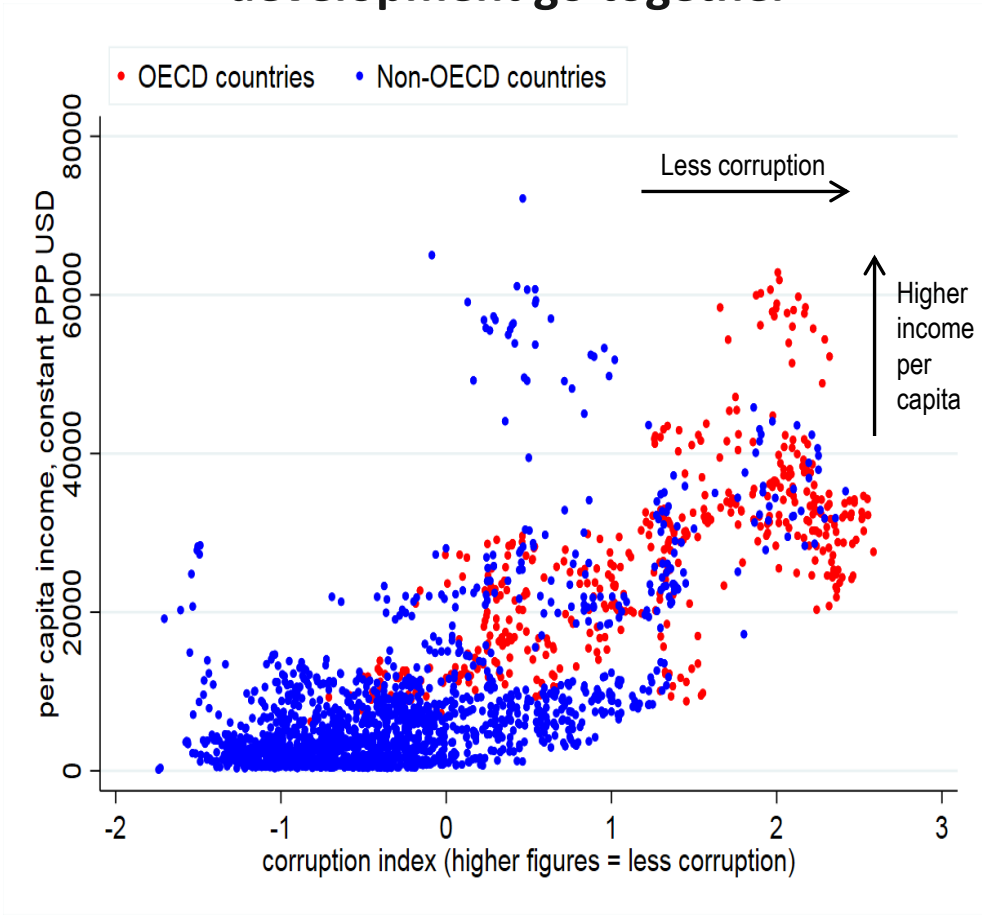
# Growth prospects in EMEs could weaken further without institutional and structural reforms

## Declining pace of reforms in EMEs

*Responsiveness to Going for Growth recommendations, emerging market economies*

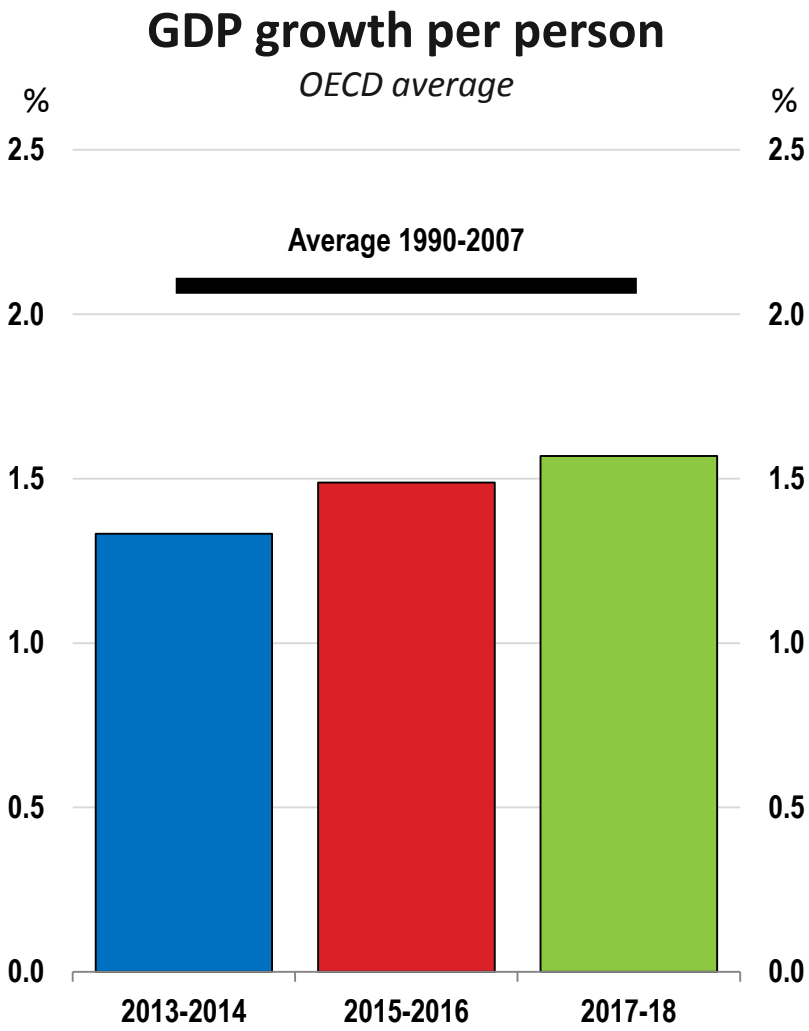



## Lower corruption and higher development go together




Source: OECD *Going for Growth* 2017; OECD Economic Outlook database; Egert (2017), "The quantification of structural reforms: taking stock of the results for OECD and non-OECD countries", OECD Economic Department Working Paper, forthcoming.

# Medium-term growth is far from secured: policy must not be complacent




Rebalance from monetary to fiscal and structural support for growth, while managing financial risks

Make a better use of tax and spending policies to achieve more inclusive growth

Step up structural transformation to boost investment, business dynamism and skills

Source: OECD Economic Outlook database.