OECD ECONOMIC OUTLOOK

Time to turn the tide

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21 November 2019

http://www.oecd.org/economy/outlook/
ECOSCOPE blog: oecdecoscope.wordpress.com

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BETTER POLICIES FOR BETTER LIVES

Key messages

Slow growth is becoming entrenched for structural rather than cyclical reasons

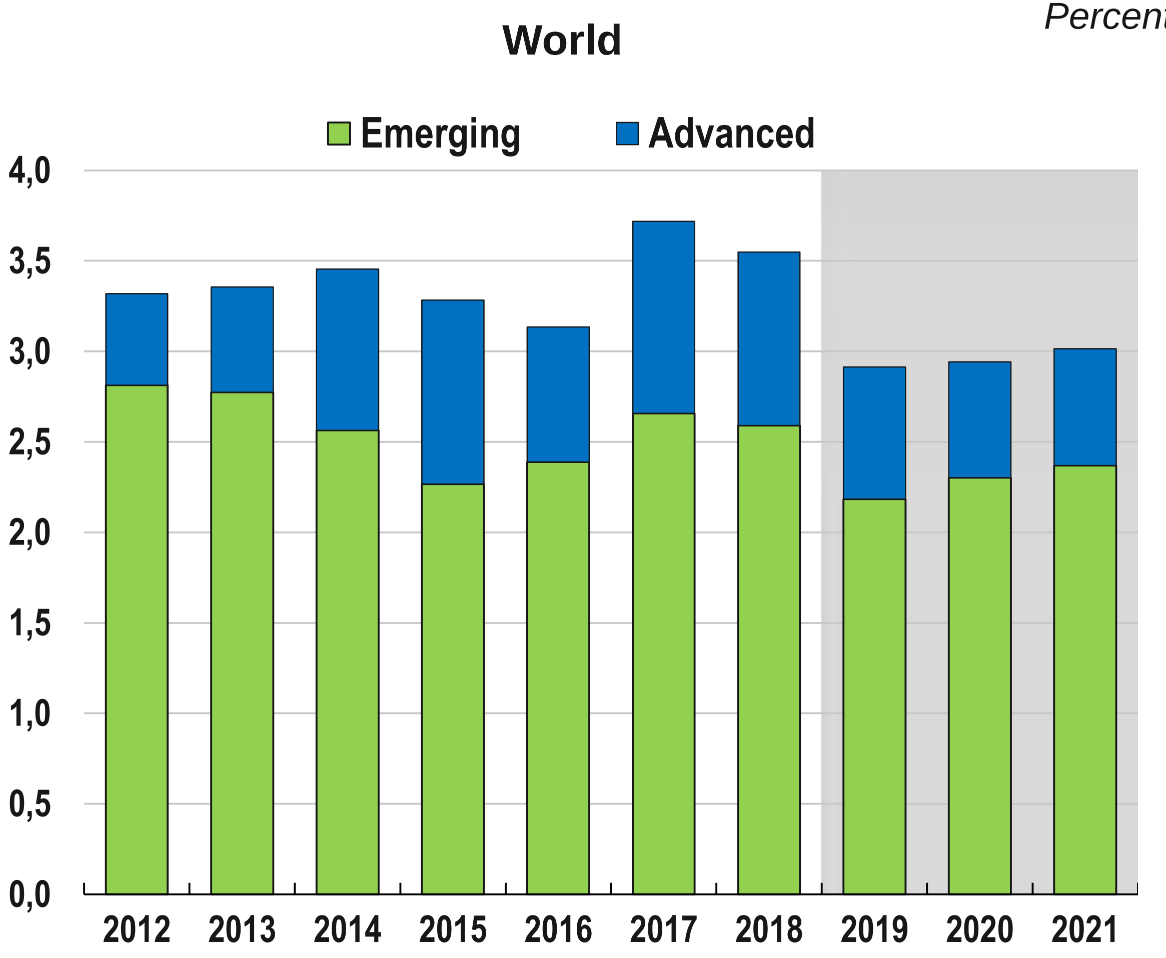
Risks are biased to the downside

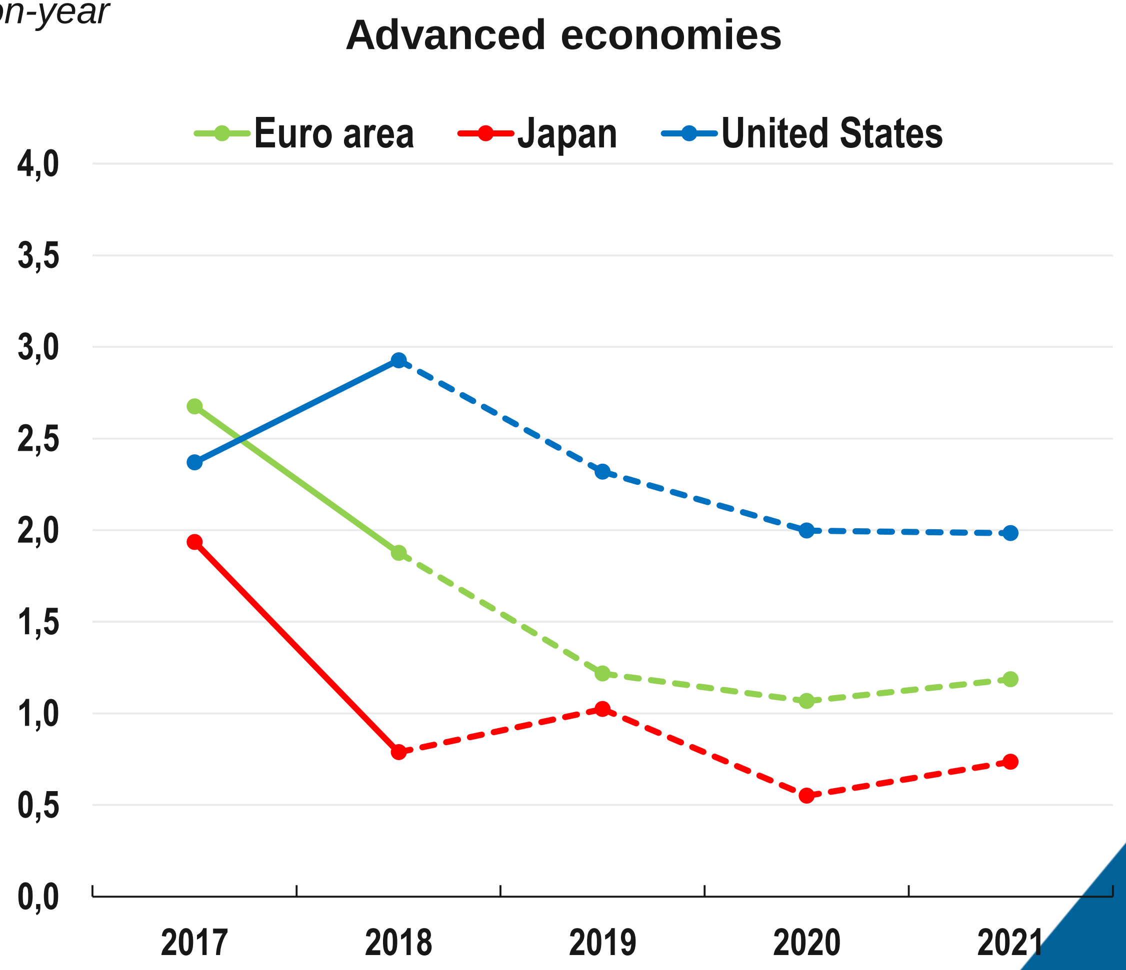
Investment and international cooperation are urgent to escape prolonged stagnation

Growth is projected to remain sluggish

Real GDP growth

Percent, year-on-year





Note: LHS: Calculated using PPP weights. RHS: Dotted lines represent the projection period.
Source: OECD Economic Outlook 106 database; and OECD calculations.

OECD Economic Outlook projections

Real GDP growth

Percent, year-on-year. Arrows indicate the direction of revisions since the September 2019 Interim Economic Outlook

	2019	2020	2021		2019	2020	2021
World	2.9	2.9	3.0	**G20**	3.1	3.2	3.3
Australia	1.7	2.3	2.3	**Argentina**	-3.0	-1.7	0.7
Canada	1.5	1.6	1.7	**Brazil**	0.8	1.7	1.8
Euro area	1.2	1.1	1.2	**China**	6.2	5.7	5.5
Germany	0.6	0.4	0.9	**India**[1]	5.8	6.2	6.4
France	1.3	1.2	1.2	**Indonesia**	5.0	5.0	5.1
Italy	0.2	0.4	0.5	**Mexico**	0.2	1.2	1.6
Japan	1.0	0.6	0.7	**Russia**	1.1	1.6	1.4
Korea	2.0	2.3	2.3	**Saudi Arabia**	0.2	1.4	1.4
United Kingdom	1.2	1.0	1.2	**South Africa**	0.5	1.2	1.3
United States	2.3	2.0	2.0	**Turkey**	0.3	3.0	3.2

downward by 0.3 pp and more — downward by less than 0.3 pp — no change — upward by less than 0.3 pp — upward by 0.3 pp and more

Note: Difference in percentage points based on rounded figures. The European Union is a full member of the G20, but the G20 aggregate only includes countries that are members in their own right.

1. Fiscal years starting in April.

Source: OECD Economic Outlook 106 database; and OECD calculations.

OECD Economic Outlook projections

Real GDP growth

Percent, year-on-year

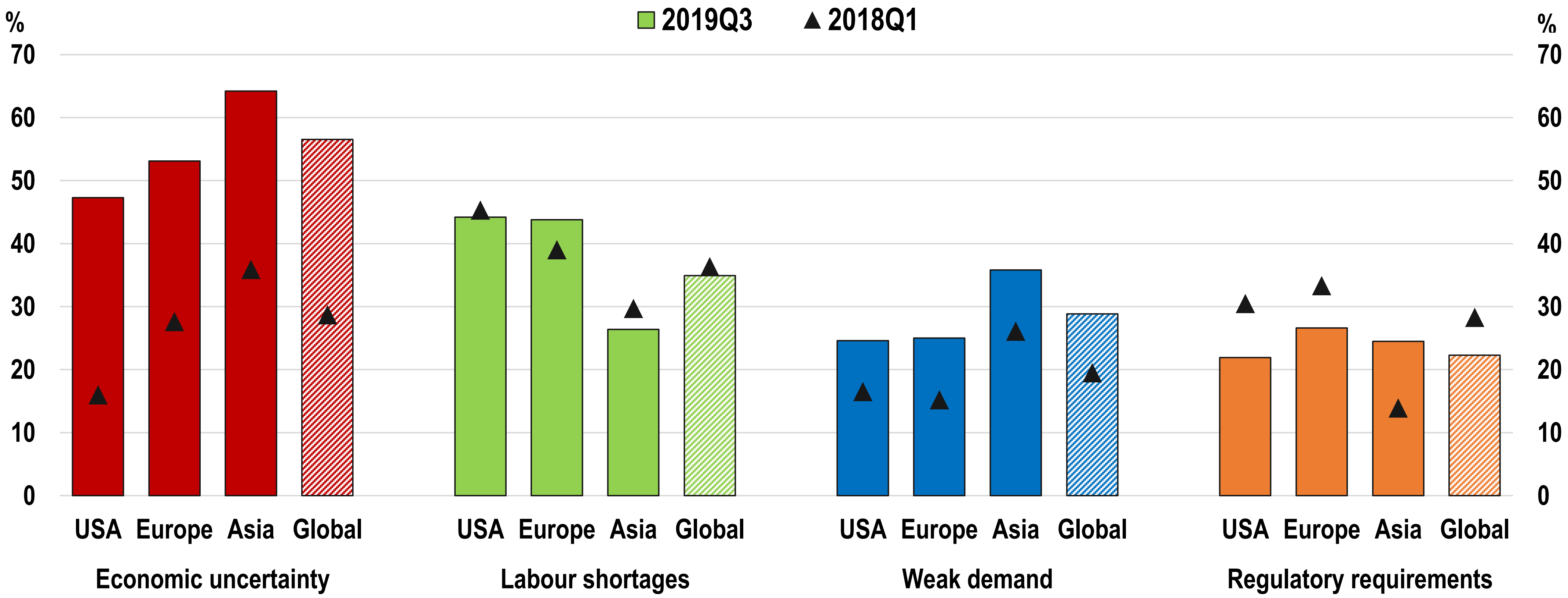
	2019	2020	2021		2019	2020	2021
Austria	1.5	1.3	1.3	**Latvia**	2.3	2.5	2.7
Belgium	1.3	1.1	1.1	**Lithuania**	3.6	2.5	2.5
Chile	2.2	2.4	3.5	**Luxembourg**	3.3	2.8	2.3
Colombia	3.4	3.5	3.3	**Netherlands**	1.7	1.8	1.6
Costa Rica	2.0	2.2	2.3	**New Zealand**	2.7	2.5	2.4
Czech Republic	2.6	2.1	2.3	**Norway**	1.1	2.4	2.3
Denmark	1.8	1.4	1.4	**Poland**	4.3	3.8	3.0
Estonia	3.2	2.2	2.2	**Portugal**	1.9	1.8	1.7
Finland	1.3	1.0	0.9	**Slovak Republic**	2.5	2.2	2.6
Greece	1.8	2.1	2.0	**Slovenia**	2.0	1.6	1.6
Hungary	4.8	3.3	3.1	**Spain**	3.1	3.0	3.1
Iceland	0.8	1.6	2.6	**Sweden**	1.4	1.2	1.2
Ireland	5.6	3.3	3.0	**Switzerland**	0.8	1.4	1.0
Israel	3.1	2.9	2.9				

Source: OECD Economic Outlook 106 database; and OECD calculations.

What are firms concerned about?

Economic uncertainty and weak demand concerns have increased

Share of firms citing each factor as a concern

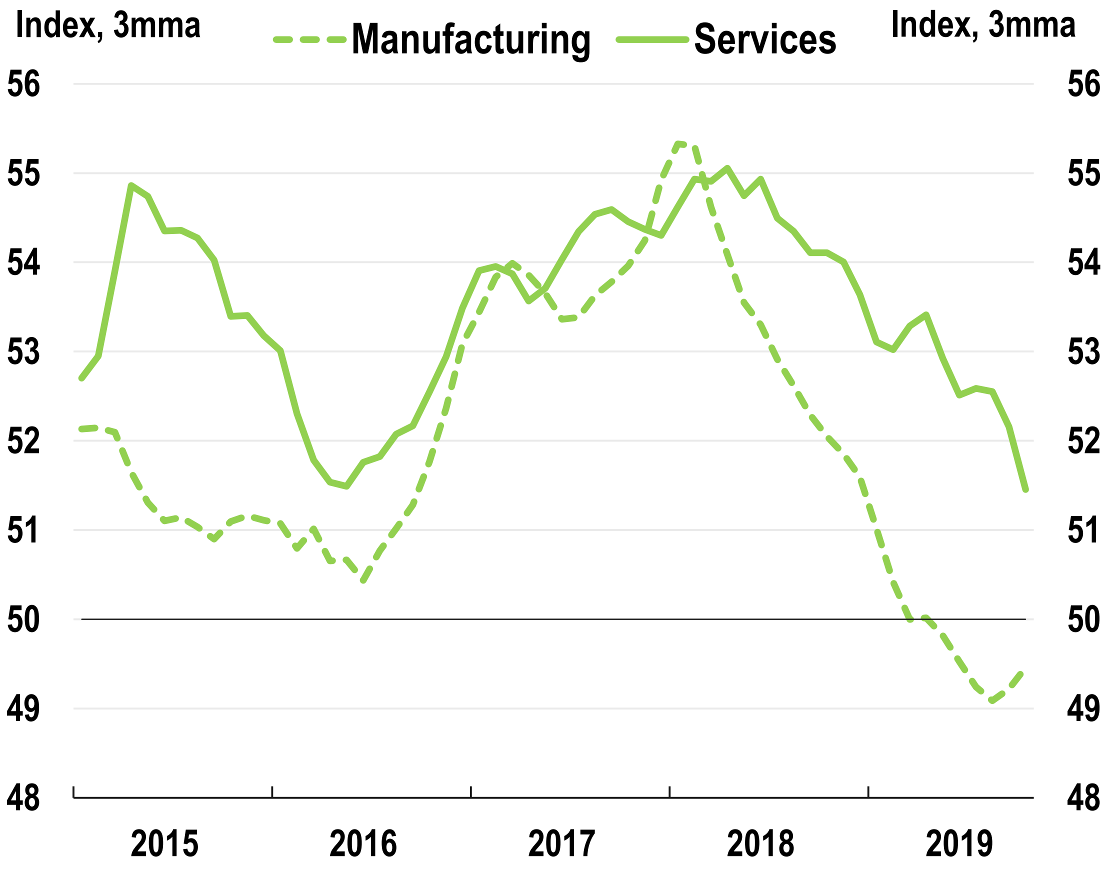


Note: Share of firms citing each factor as the most pressing concern of senior management over the past quarter. Based on surveys from March 2018 and September 2019. The factors shown are among those most heavily cited globally. Firms can choose more than one factor.
Source: Duke CFO Global Business Outlook; and OECD calculations.

The manufacturing slowdown is spilling over to services

Global new orders are faltering

PMI



Trade and investment growth will stay weak

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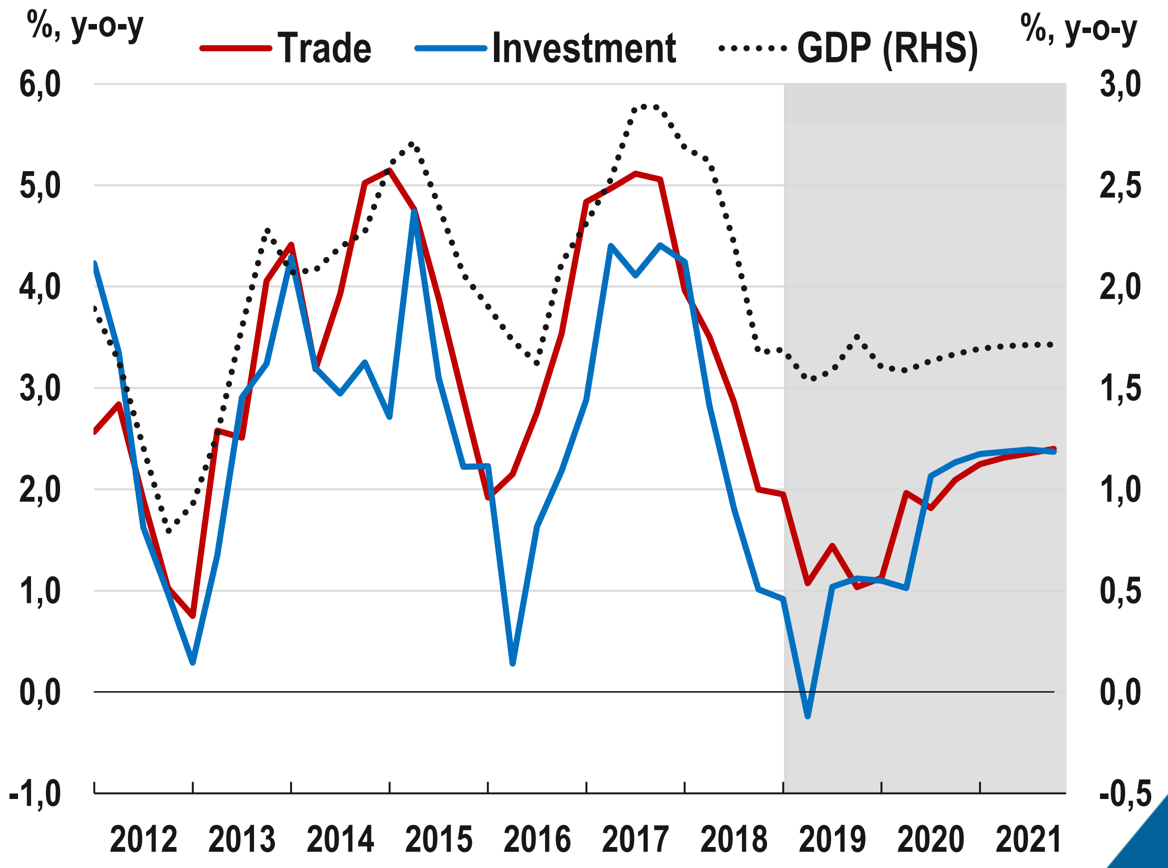
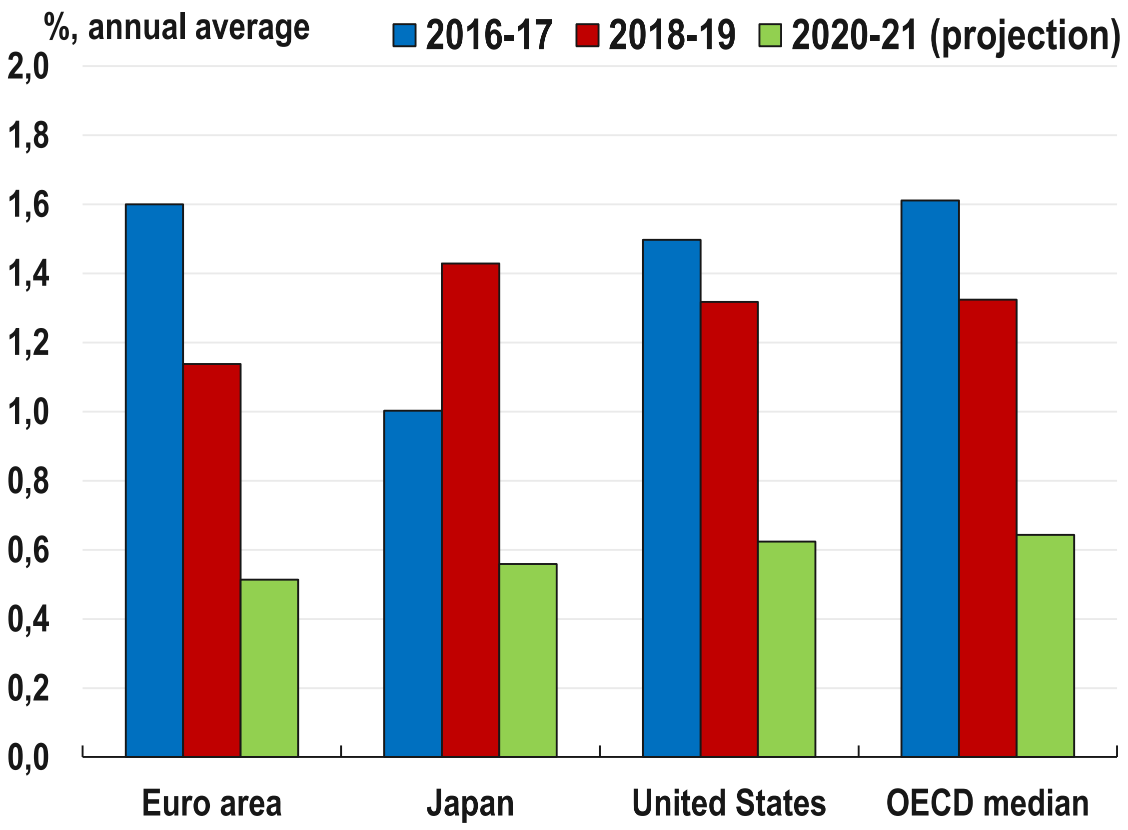


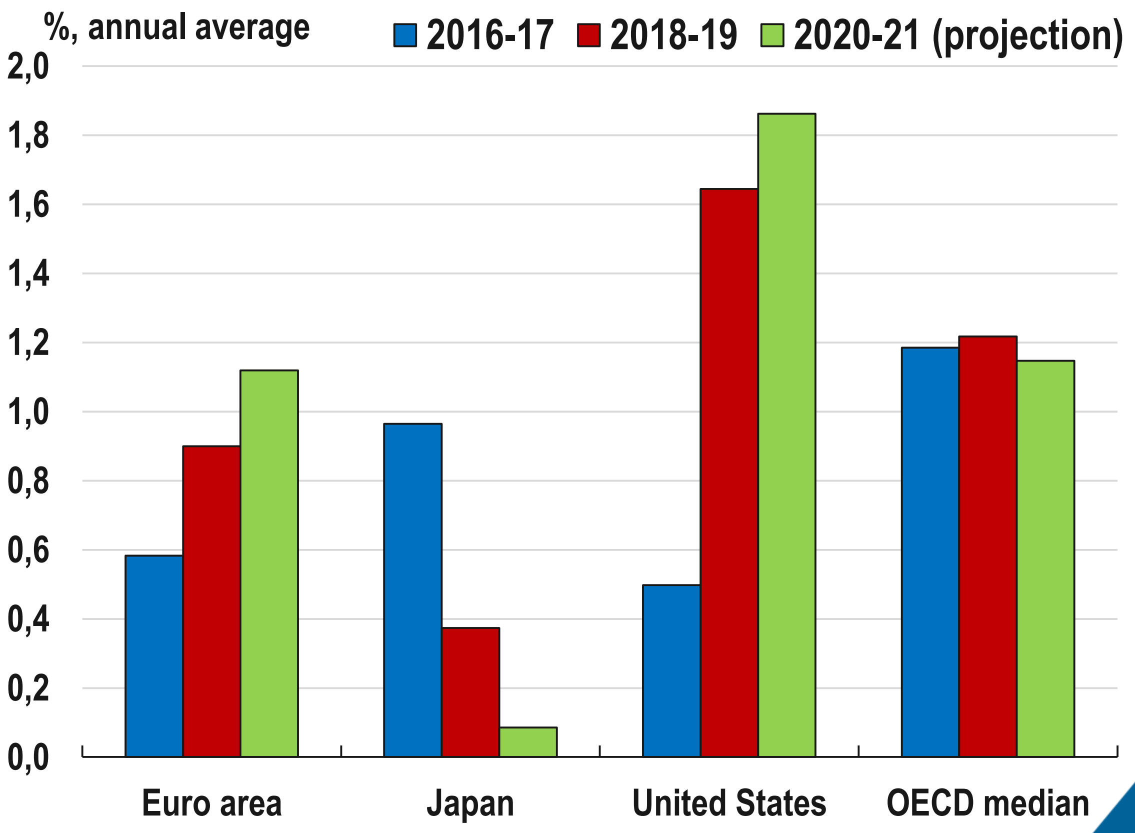
Note: LHS: The last data point is October 2019. RHS: Ireland is excluded from the OECD aggregate. This is because Ireland's imports grew at an annualised rate of 318% in 2019Q2 and there is no corresponding published increase in exports elsewhere. Including Ireland increases world trade growth to 1.7% in 2019Q2, while excluding Ireland world trade growth was 0.4%.
Source: Markit; OECD Economic Outlook 106 database; and OECD calculations.

Growth depends on household consumption but job creation is slowing

Employment growth



Real wage growth

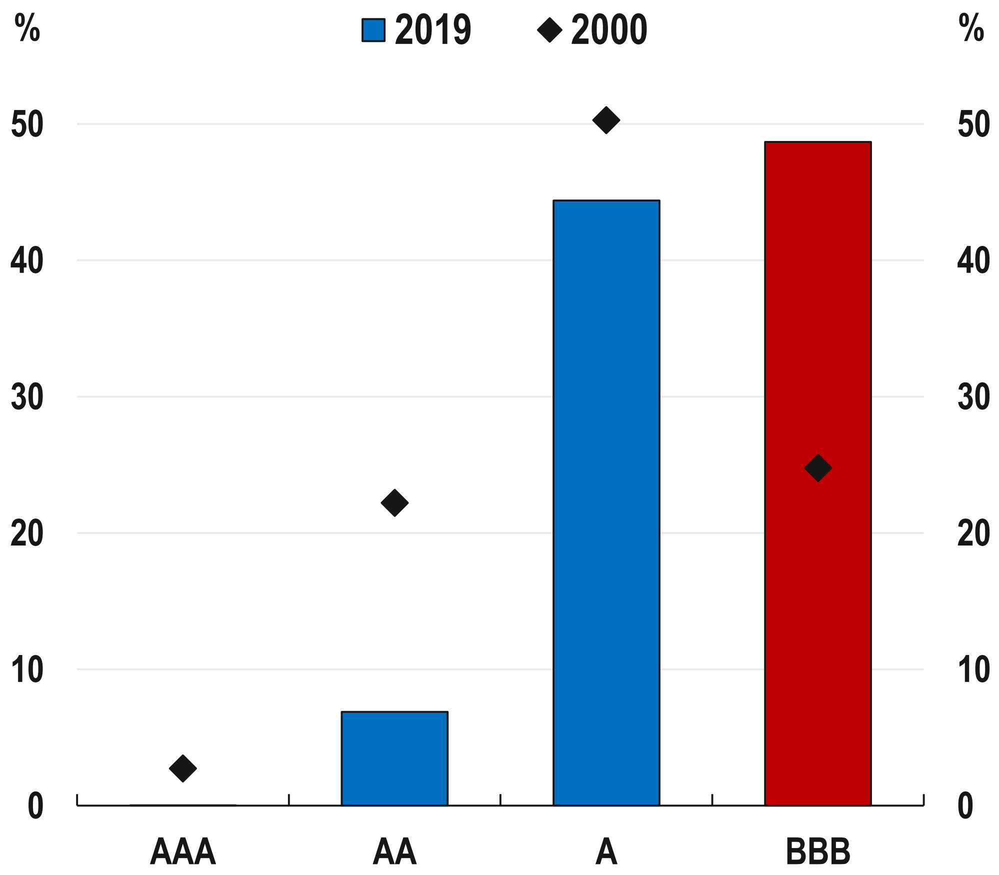


Note: Based on a sample of 33 OECD economies. Real wages are measured as compensation per employee deflated by the private consumption deflator.
Source: OECD Economic Outlook 106 database; and OECD calculations.

RISKS: UNCERTAINTY TURNING INTO LONG-TERM STAGNATION

Tensions in financial markets where low quality debt is at a high level

Issuance of investment-grade corporate bonds



US corporate bond market

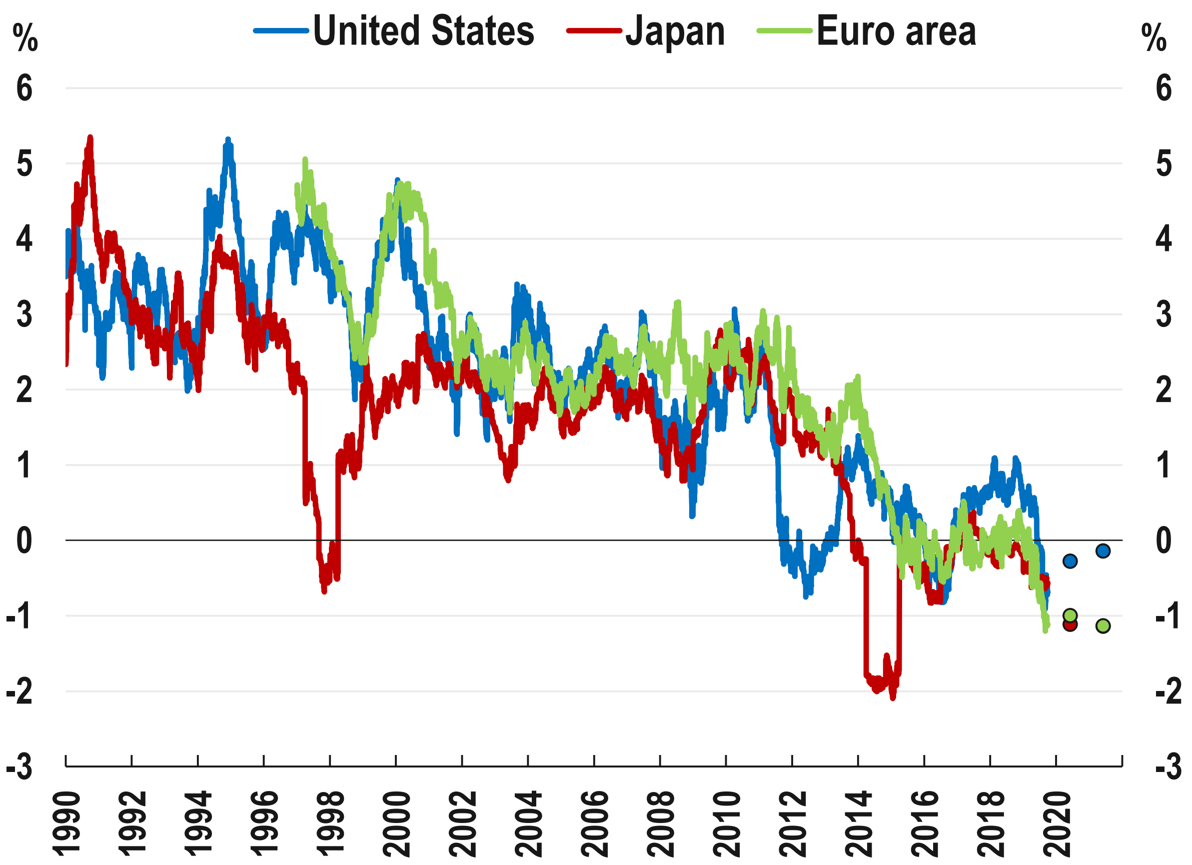
USD billion

Note: LHS: June 2019. Only non-financial companies and companies rated by S&P, Fitch and/or Moody's.
Source: Çelik, Demirtaş and Isaksson (2019), "Corporate bond markets in a time of unconventional monetary policy"; Federal Reserve Bank of New York; Securities Industry and Financial Markets Association; and OECD calculations.

Investment still weak despite low rates

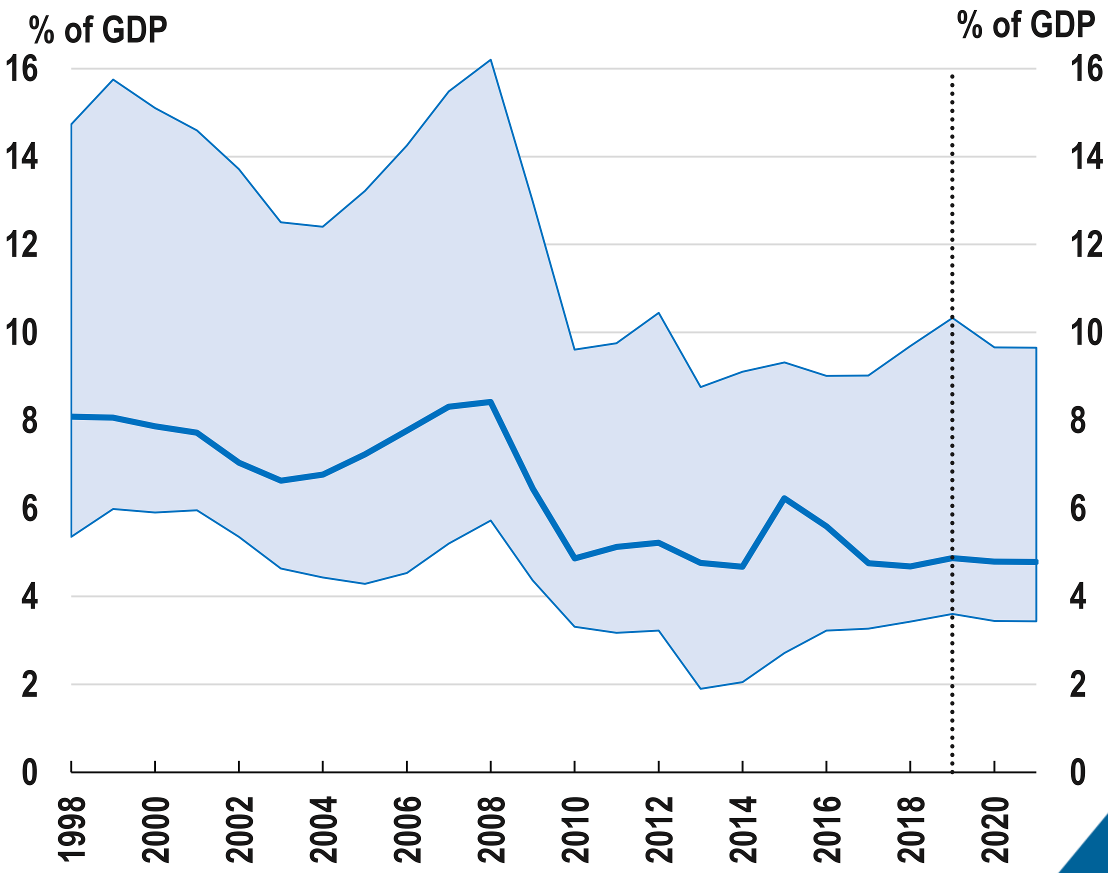
Real interest rates

10-year government bond yields



Net productive investment

OECD average and lower/upper quintiles, constant prices

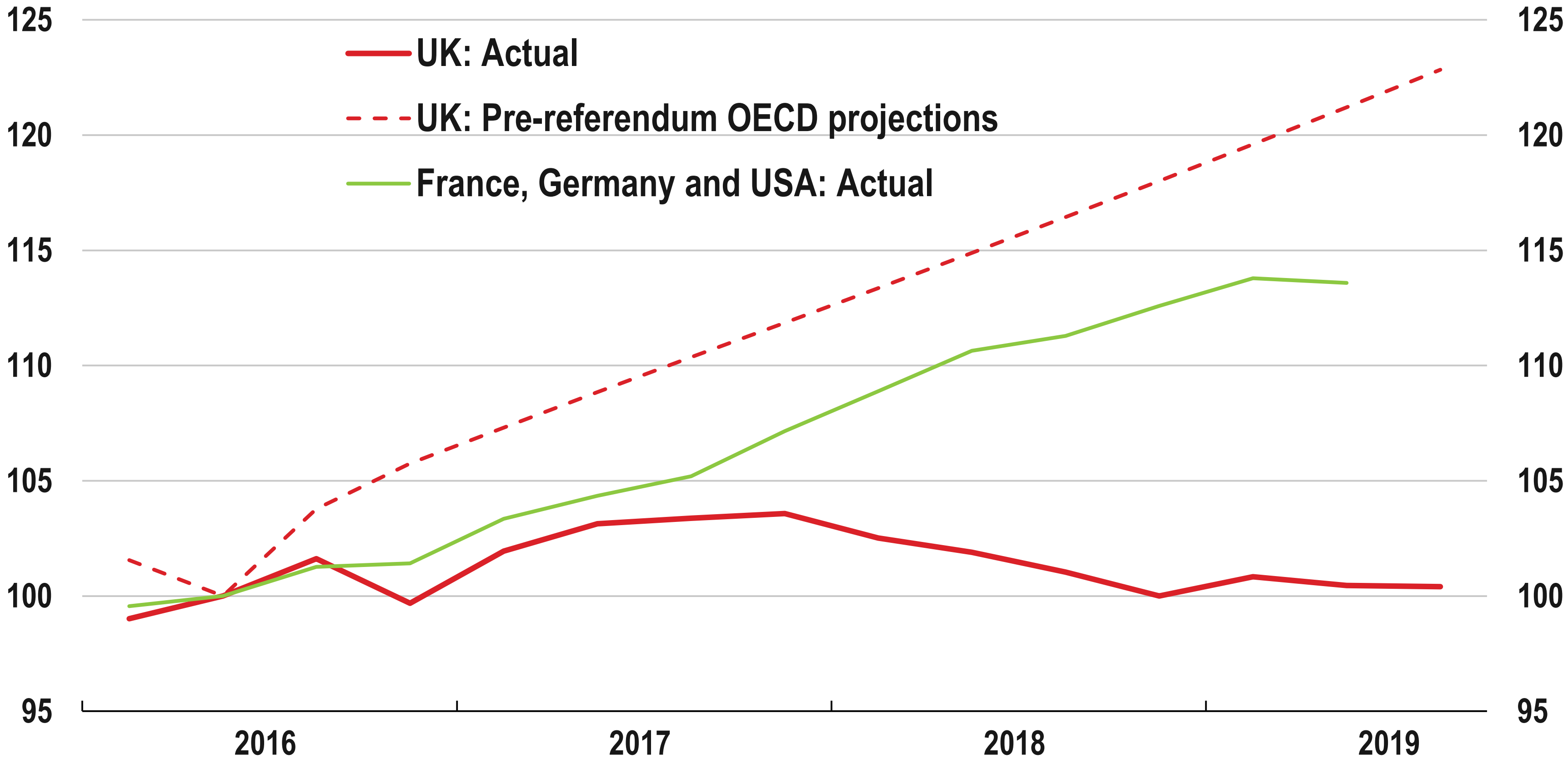


Note: LHS: Real interest rates calculated using inflation excluding food and energy. Dots for 2020 and 2021 indicate projections. RHS: Projections for 2019-21. Net investment is gross fixed capital formation less depreciation. Productive investment is total investment excluding housing.
Source: OECD Economic Outlook 106 database; Refinitiv; and OECD calculations.

Brexit: long-lasting uncertainty depressing investment

Investment shortfall in the United Kingdom

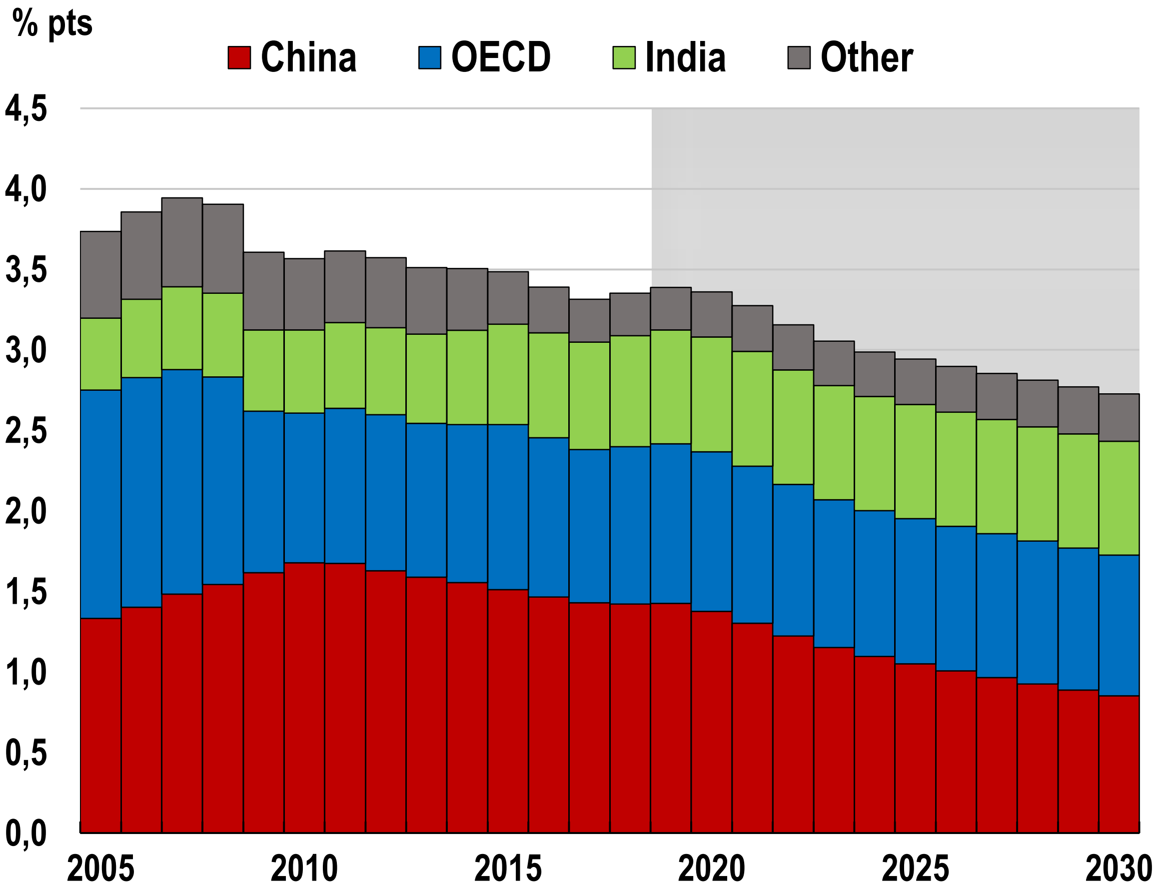
Business investment, index 2016Q2=100, volume



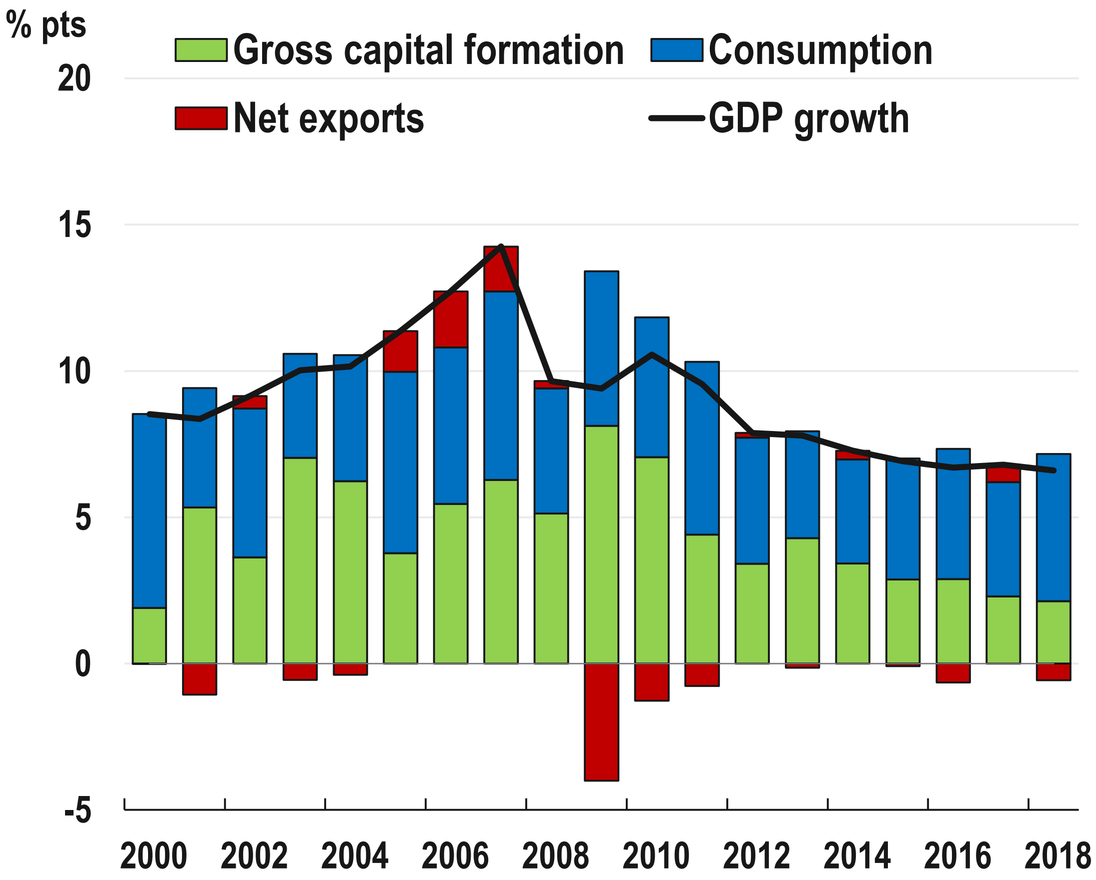
Note: Estimates for UK projections in 2018 and 2019 are based on extrapolations of projected investment growth in 2017. The green line shows the unweighted average of France, Germany and the United States.
Source: OECD Economic Outlook 106 database; and OECD calculations.

China is less of a global growth engine

Contributions to global potential GDP growth



Contributions to GDP growth in China



Note: Long-term projections released in July 2018 using Economic Outlook 103 forecasts.
Source: Guillemette and Turner (2018); OECD Economic Outlook 106 database; and OECD calculations.

THERE IS AN URGENT NEED FOR BOLDER POLICY ACTION

Public investment needs to boost private sector investment and innovation

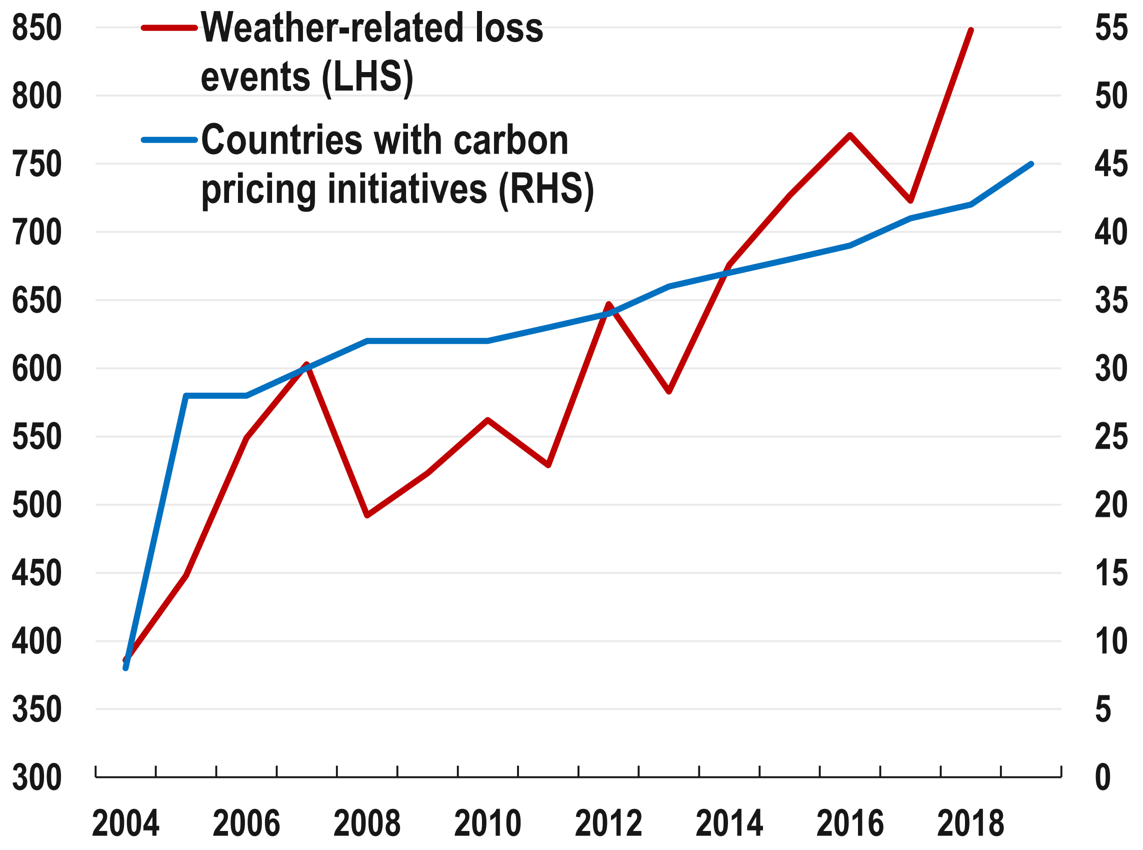
Public investment funds: good practices

Invest in the future	
Digital and physical infrastructure	Energy transition
Disruptive innovation	Enable private investment

Clear and transparent governance		
Transparent selection of projects with high social returns	Clear separation from current government spending	Pre-funded or long-term commitment
Implementation through autonomous agencies	Ex ante and ex post evaluation	Regular monitoring by Parliaments

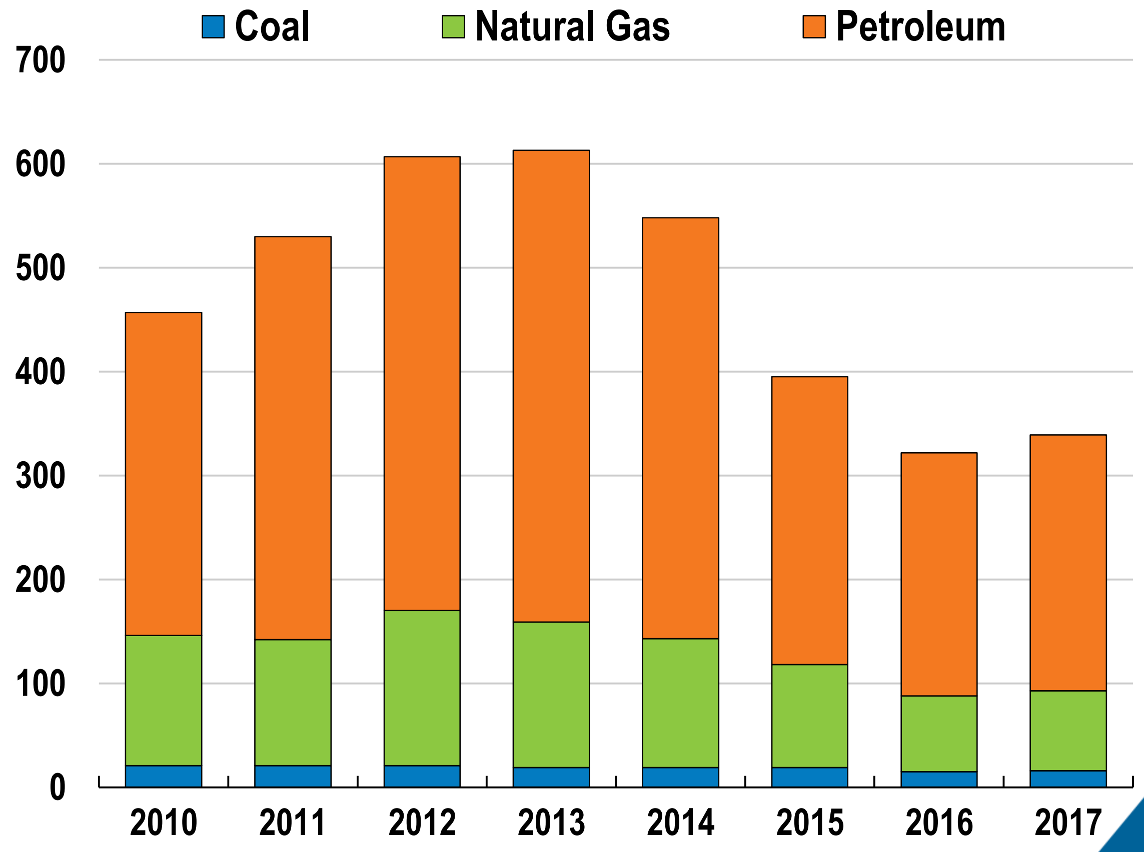
Energy transition: rising concern, insufficient action

Climate change impacts keep rising while mitigation initiatives are limited



Progress reducing fossil fuel subsidies has slowed

Fossil fuel subsidies in USD billion

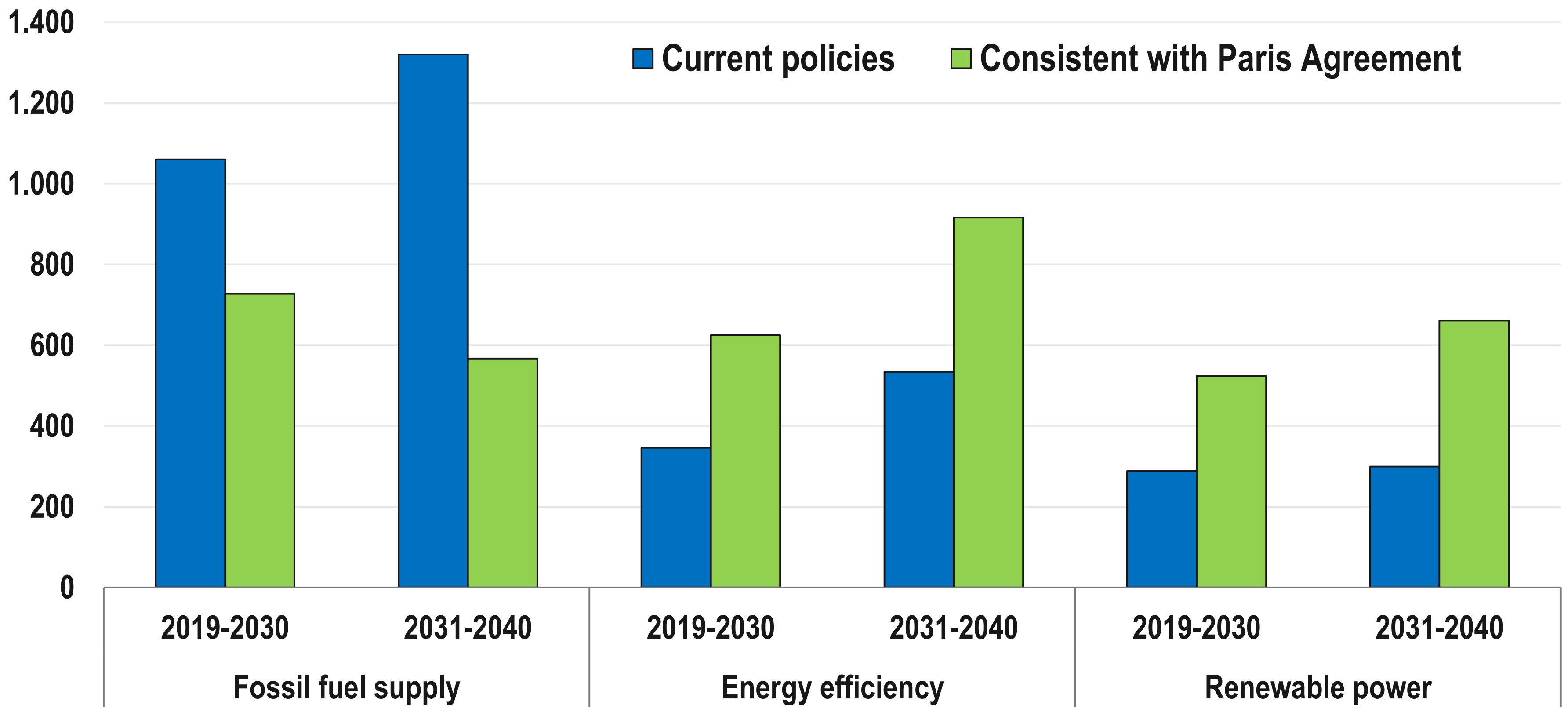


Note: LHS: Recorded events have caused at least one fatality and/or produced normalised losses ≥ US$ 100k, 300k, 1m, or 3m depending on the affected country's income group. Carbon pricing initiatives include carbon taxes and ETS implemented at the national or regional level. RHS: USD billion at 2017 prices.
Source: Munich Re NatCatService; World Bank; OECD Inventory of fossil fuel subsidies 2019; IEA World Energy Outlook 2018; and OECD calculations.

A shift in investment is needed to reach climate goals

Current policies imply unsustainable investment paths

Global annual energy investment, USD billion



Note: USD billion expressed at 2018 prices. Consistent with Paris Agreement refers to the scenario that fully aligns with the Paris Agreement temperature targets and meets objectives related to universal energy access and cleaner air.
Source: IEA World Energy Outlook 2019.

Cooperation is urgently required to strengthen the international system

Fragmentation in the international system is rising

Trade conflicts are rooted in long-standing issues

- Government support to agriculture: **USD 700bn per year**
- Industrial subsidies spreading with little transparency, e.g. **USD 16bn per year** to a few firms in aluminium

Digitalisation and globalisation challenge tax rules

- **USD 100 to 240 billion** are lost annually to tax avoidance by multinationals
- A number of countries are implementing unilateral digital taxes

Moving forward requires finding solutions together

Update trade rules to bring more transparency and predictability

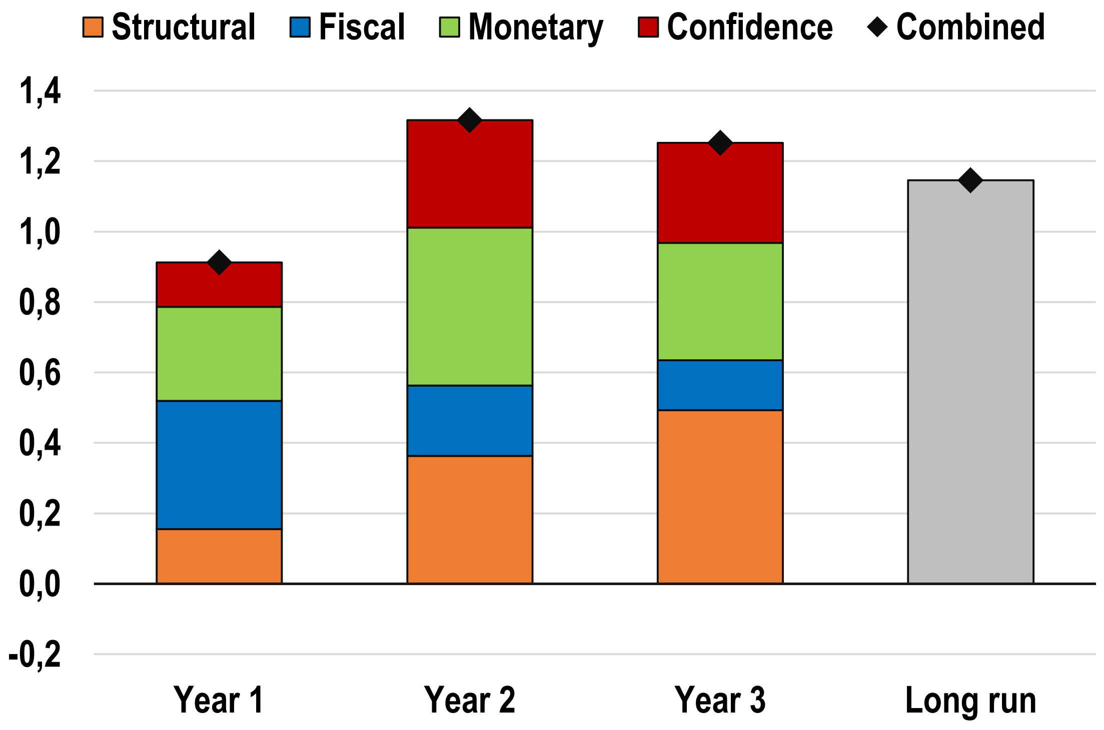
Agree on a consensus solution to the tax challenges of digitalisation by 2020

Coordinated action to invest and reform would lift all economies

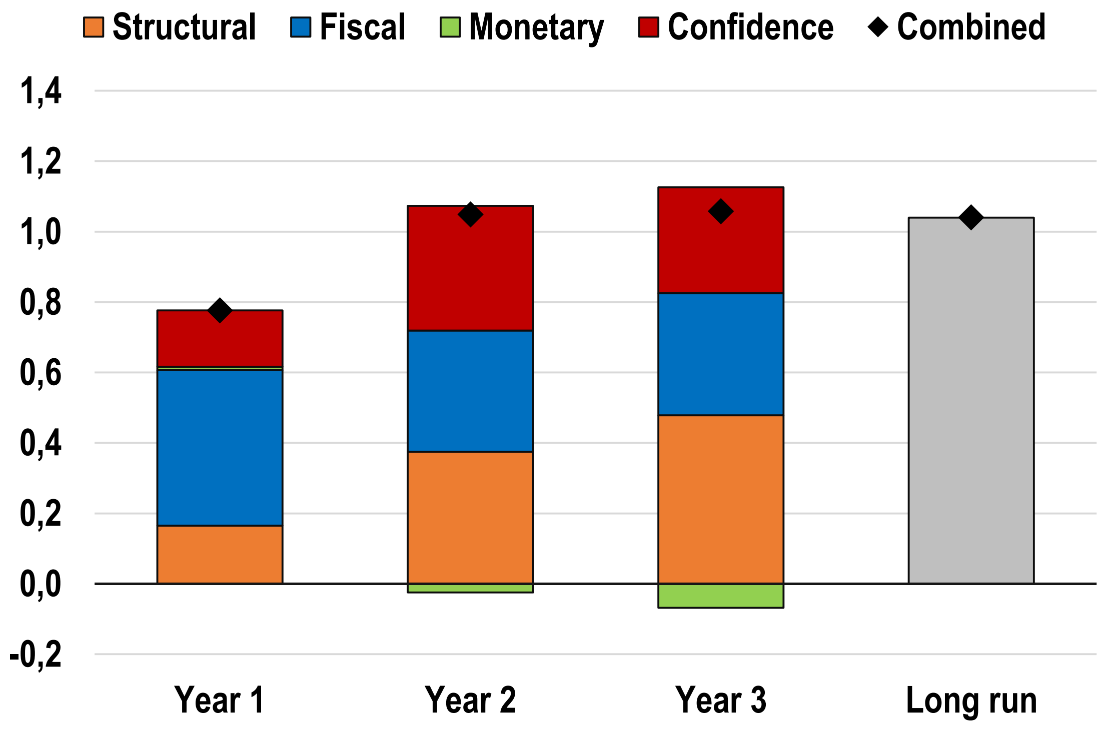
Potential impact of combined policies in G20 economies on GDP

Difference from baseline, percent

G20 countries with monetary space



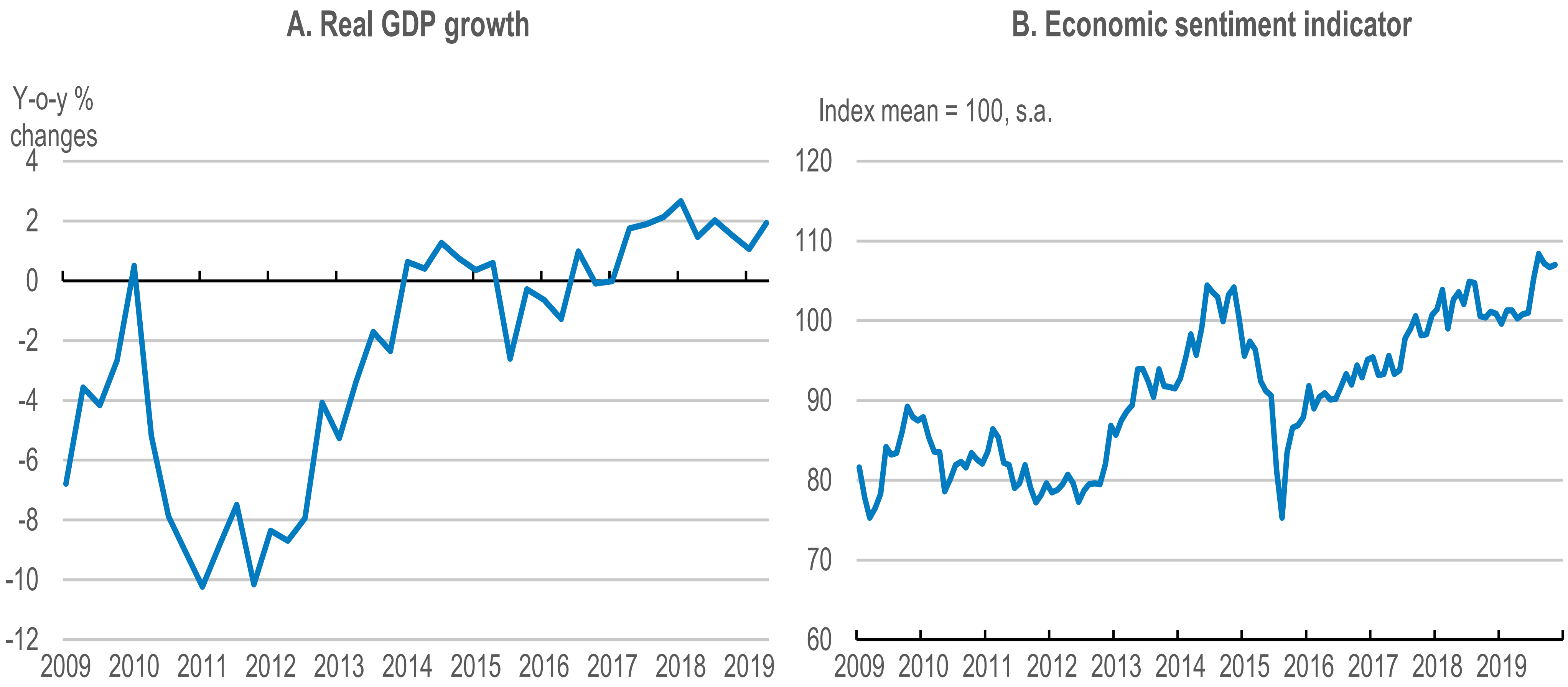
G20 countries with negative rates



Note: Scenario with all G20 economies simultaneously undertaking changes to fiscal, monetary and structural policies. Countries undertake additional debt-financed public expenditure of 0.5% of GDP for three years, monetary policy becomes more accommodative in economies with policy interest rates above zero (all countries excluding Japan, France, Germany and Italy) and productivity-enhancing structural reforms occur. Confidence is modelled by a 50 basis point reduction in investment risk premia for two years, which slowly fades. PPP weighted.
Source: OECD calculations using the NiGEM global macroeconomic model.

OECD ECONOMIC OUTLOOK PROJECTIONS:
FOCUS ON GREECE

Greece's economy is gradually recovering and confidence is rising



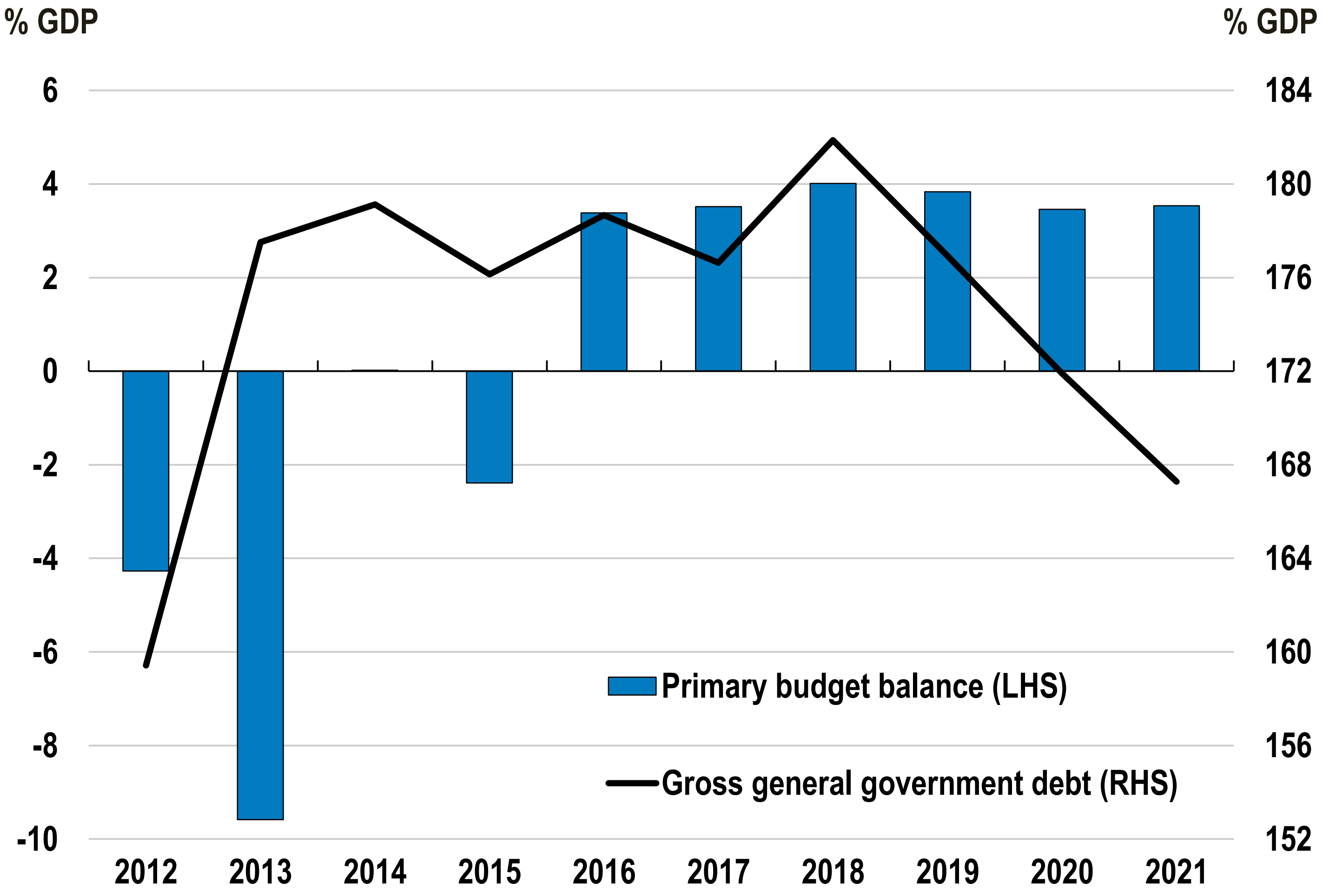
Source: OECD Economic Outlook 106 database; and OECD calculations.

Greece’s recovery will firm

Greece	2016	2017	2018	2019	2020	2021
	Current prices EUR billion	Percentage changes, volume (2010 prices)				
GDP at market prices	176.3	1.4	1.9	1.8	2.1	2.0
Private consumption	122.2	0.9	1.0	0.6	1.8	1.4
Government consumption	35.5	-0.5	-2.5	2.3	1.1	0.7
Gross fixed capital formation	21.2	9.4	-12.0	7.3	10.3	10.0
Final domestic demand	178.9	1.7	-1.2	1.6	2.6	2.3
Stockbuilding[1,2]	- 1.0	0.0	1.8	-0.6	-0.3	0.0
Total domestic demand	178.0	2.0	0.4	0.9	2.3	2.2
Exports of goods and services	52.9	6.9	8.7	3.9	3.6	3.0
Imports of goods and services	54.6	7.4	3.0	4.0	3.1	3.6
Net exports[1]	- 1.6	-0.2	1.9	0.0	0.2	-0.2

Source: OECD Economic Outlook 106 database; and OECD calculations.

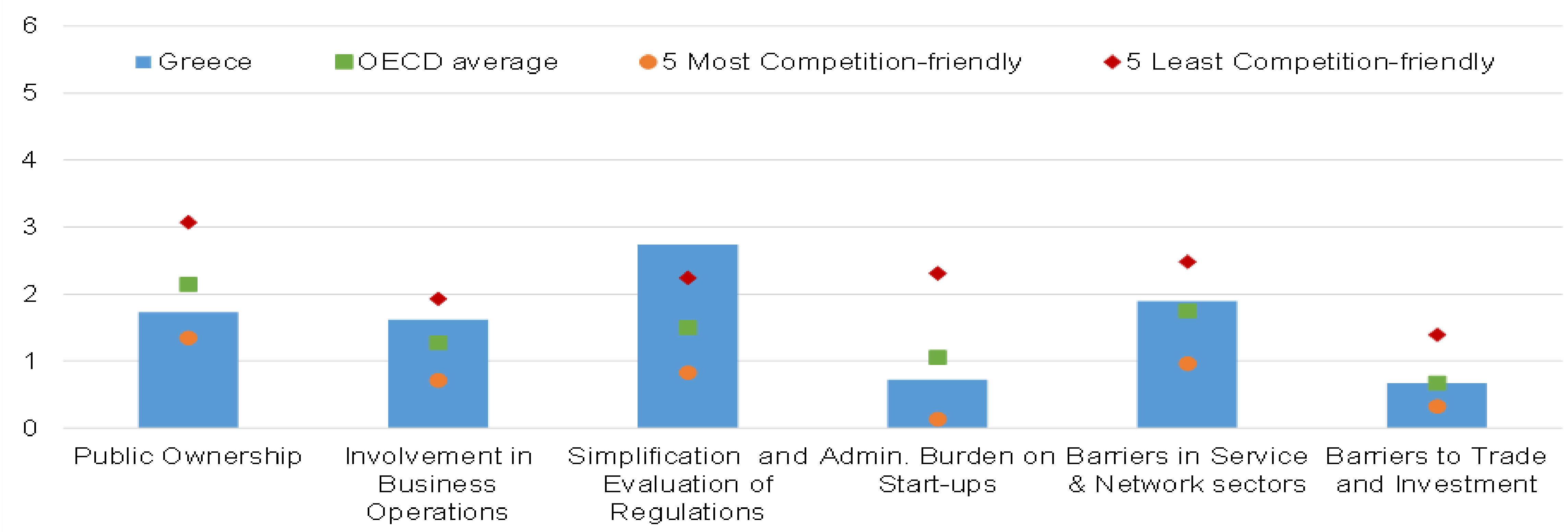
Public debt should continue to decrease



Source: OECD Economic Outlook 106 database; and OECD calculations.

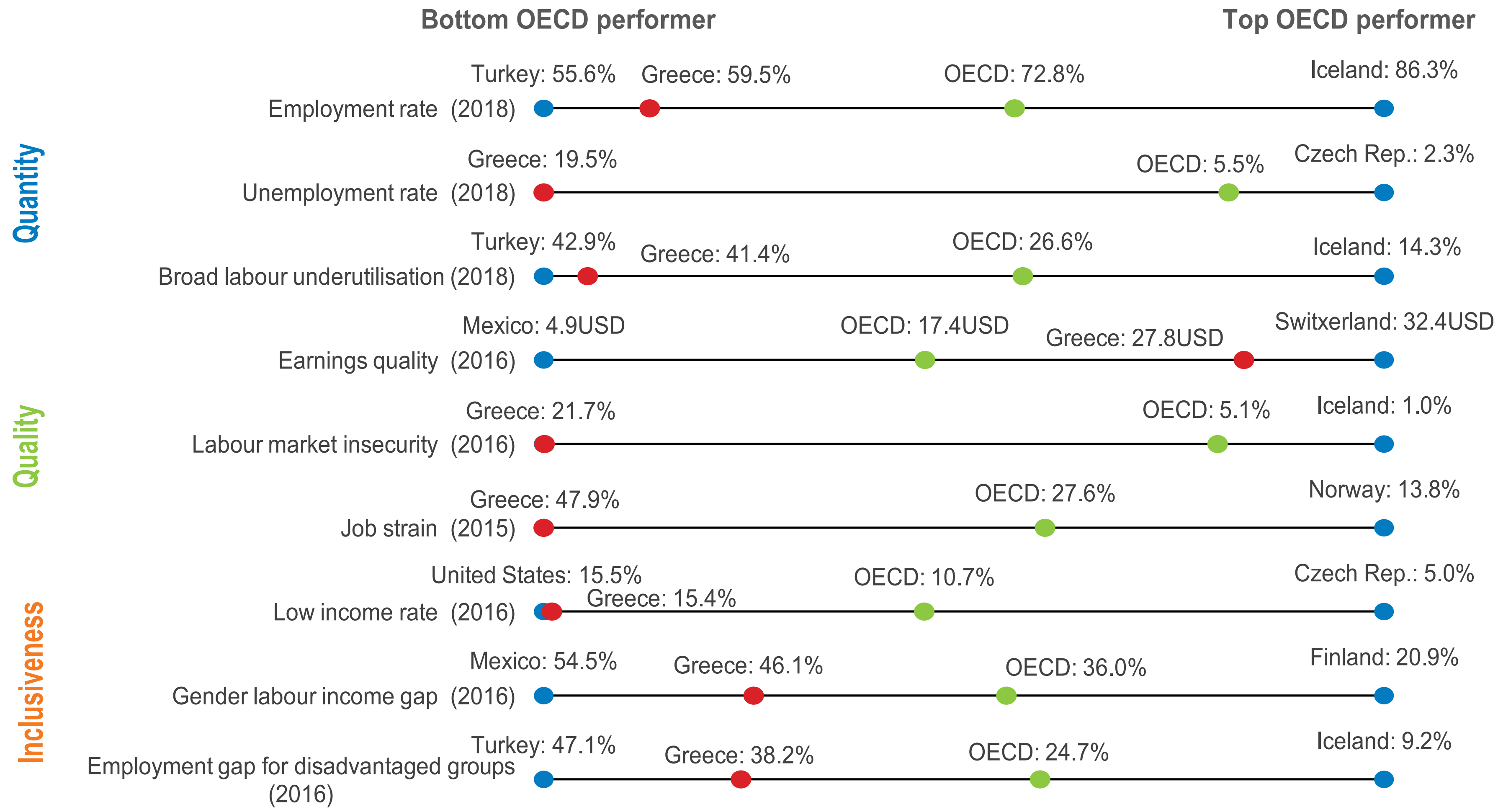
Product market regulation in Greece
(OECD Index)

OECD



Source: Vitale, C. et al. (2019), "2018 Update of the OECD PMR Indicators and Database – Policy Inisghts for OECD Countries", OECD Economics Department Working Papers, forthcoming".

Quantity and quality of jobs in Greece



Source: The new OECD Jobs Strategy 2018, “How does Greece compare?”.

Key policy messages

Restore governments' capacity to invest for the future

- Large needs for climate and digital transitions call for investment now when rates are low for long
- Create investment funds with good governance

Stop harming trade, work together towards a fair globalisation

- Halt the build-up of tariffs, subsidies and other distortions
- Agree a global solution on international taxation by 2020

Cooperate on all fronts to lift growth