ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

The Global Economy: Situation and prospects

Council of Europe parliamentary annual committee meeting,
OECD,
19 June 2009

Sven Blondal
Macroeconomic Policy Divison
Economics Department
OECD

Organisation of presentation

- The crisis in a nutshell.
- OECD Interim Economic Outlook projections from late March.
- New information since late March.
- Key risks to the outlook.

The crisis in a nutshell

- The deepest post-war recession in the OECD area.
- The most synchronised recession on record.
- Manufacturing has been particularly hard hit.
- World trade has collapsed.

Interim EO projections, March

- Key features for most countries:
  - GDP growth negative in each quarter of 2009 followed by a weak recovery in 2010.
  - Unemployment rising to double-digit rates in the United States and Europe.
  - Extraordinarily high degree of economic slack by end-2010.
  - Inflation in many countries falling to close to zero.

Interim EO projections, March

Table 1.1. **Growth has collapsed**

OECD area, unless noted otherwise

	Average 1996-2005	2006	2007	2008	2009	2010	2008 q4	2009 q4	2010 q4
					Per cent				
Real GDP growth[1]	2.7	3.1	2.7	0.9	-4.3	-0.1	-1.5	-3.4	1.1
United States	3.2	2.8	2.0	1.1	-4.0	0.0	-0.8	-3.5	1.1
Euro area	2.1	3.0	2.6	0.7	-4.1	-0.3	-1.4	-3.5	0.8
Japan	1.1	2.0	2.4	-0.6	-6.6	-0.5	-4.3	-4.4	0.4
Output gap[2]	-0.2	0.7	1.0	-0.4	-6.5	-8.5			
Unemployment rate[3]	6.6	6.0	5.6	6.0	8.4	9.9	6.5	9.3	10.1
Fiscal balance[4]	-2.2	-1.3	-1.4	-3.0	-7.2	-8.7			
Memorandum Items									
World real trade growth	7.0	9.5	6.9	2.5	-13.2	1.5			
World real GDP growth[5]	3.4	4.3	4.1	2.2	-2.7	1.2			

1. Year-on-year increase; last three columns show the increase over a year earlier.
2. Per cent of potential GDP. Estimates of potential have not been revised and therefore do not incorporate a possible reduction in supply implied by the downturn.
3. Per cent of labour force.
4. Per cent of GDP.
5. OECD countries plus Brazil, Russia, India and China only, representing 82% of world GDP at 2000 purchasing power parities.

Source: OECD.

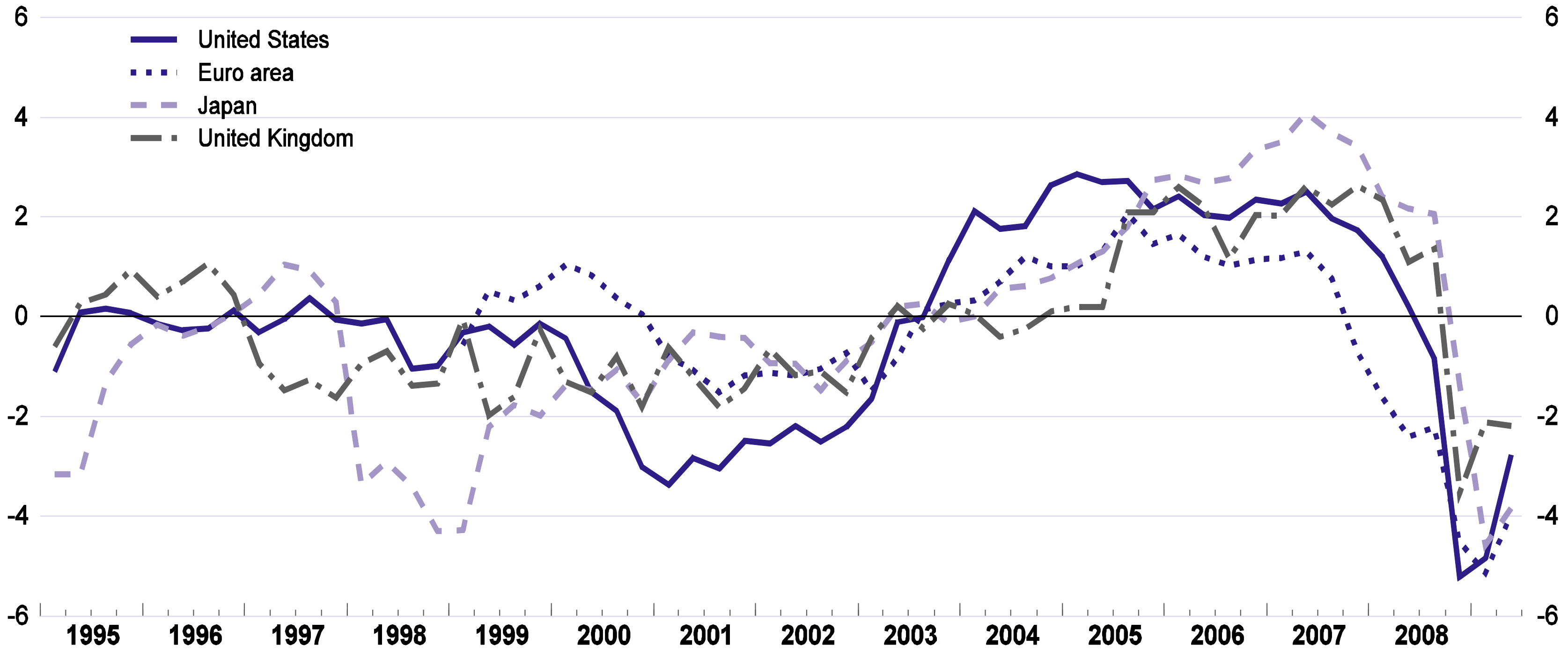
News since late March: The recession has been deeper than anticipated

- First-quarter national accounts show that output fell more than anticipated, especially in the euro area and Japan …
- … reflecting strong reduction in inventories.

News since late March: Financial market conditions have improved (1)

- Money market spreads have come down.
- Credit default swap rates for banks have fallen though still remaining high.
- Bond market spreads have narrowed.
- Stock markets have rebounded.

News since late March: Financial market conditions have improved (2)



Green shoots in the OECD area?

- Little hard data on stabilisation or recovery:
  - United States: Retail sales, house construction permits, new orders in manufacturing, peaking new unemployment claims.
  - Japan and Europe: Industrial production up in Japan in April and retail sales up in the euro area in April.
- Surveys on expectations and confidence point to an improvement:
  - United States: PMI and Michigan consumer expectation survey point to an improvement.
  - Japan and Europe: Business confidence strengthening.

Green shoots outside the OECD area

- China appears to have turned the corner:
  - Industrial production rising strongly.
  - Increased residential construction.
  - Public investment rising by 3.5% of GDP in the five months to April.
- Brazil, India and Indonesia are showing increasing signs of recovery.

Economic Outlook 85

- To be released next Wednesday.
- New numbers.
- New risk assessment.

Risks to the outlook

- Financial markets:
  - Negative risk: Stronger impact of weakness in the real economy on the health of the banking system, with repercussions on the real economy.
  - Positive risk: Faster improvement in financial conditions than assumed.
- Fiscal developments:
  - Positive risk: Fiscal stimulus may have stronger effects than anticipated.
  - Negative risk: Deterioration of fiscal balances may raise long-term interest rates more than assumed.
- Deflation