



Press Conference

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Press briefing

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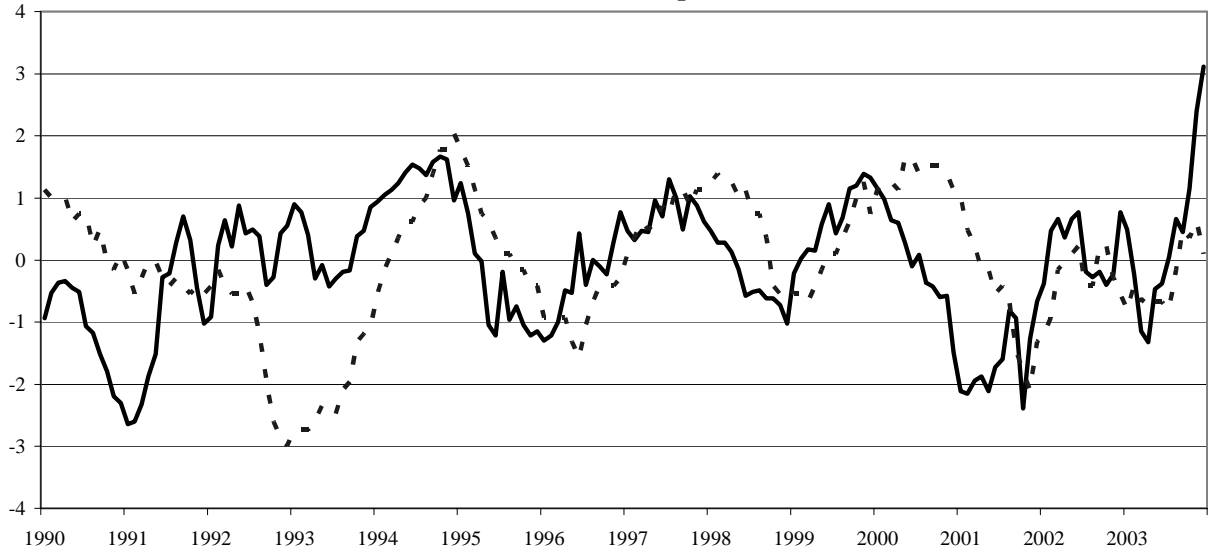
22 January, 2004 - 12h05 Davos time

1. As projected in the *OECD Economic Outlook* published last November, the global recovery is at last shaping up, led by the United States. But in most countries the upturn is distinctly weaker than earlier ones, and there is no room for complacency: growth remains imbalanced and in many OECD countries it is not yet self-sustained. Moreover, the rapid depreciation of the dollar, were it to continue, could damage the emerging recovery in the euro area.
2. Activity has picked up in the course of the second half of 2003 in the six largest OECD economies. Forward-looking data, particularly business surveys, suggest that in the first quarter of 2004 growth should continue at close to or even above potential rates. Further out, the considerable slack observed in five of the six (the United Kingdom being the exception) should diminish. Even so, substantial negative output gaps are set to persist in the euro area over the next two years, especially in France and Germany. Moreover, the projected recovery may be dented by rising dollar oil prices and in Europe by sharp effective exchange rate appreciation.
3. In the United States, growth peaked in the third quarter but should remain very strong, with the output gap shrinking at a brisk pace. With measured productivity rising rapidly, however, employment has only recently begun to turn the corner. As labour force participation fell significantly during the slowdown, returns to the labour force in the early stages of the recovery mean that unemployment may not decline rapidly.
4. In the euro area, the revival of activity is more modest. While manufacturing is staging a comeback, domestic demand has remained anaemic. Fixed investment is still declining and household consumption is lower than income developments would normally suggest. The sizeable appreciation of the euro since late 2003 will hold back the fledgling recovery, although by how much partly depends on the extent to which terms-of-trade gains will effectively boost domestic demand.
5. Measured by real GDP, Japan is outpacing the euro area. Investment and exports have picked up, largely reflecting China's dynamism, although like in the euro area, consumption is lacklustre. Going forward, and given the usual lags, recent exchange rate appreciation may also drag down export growth somewhat. Even so, the outlook for Japan is more heartening than it has been in a long time.
6. Consistent with large output gaps, core consumer price inflation is generally subdued. It has even continued to trend down in the United States, to historically low levels. The vigour of the projected recovery, however, would seem to warrant starting to move US monetary policy back towards a more neutral stance some time this year. Inflation has been stickier in the euro area but it hovers around the ECB's medium-term objective and is set to decline. Euro appreciation has implied a substantial tightening of monetary conditions since the latest interest rate cut in mid-2003 and it is unlikely that a further cut to offset this impact would jeopardise medium-term price stability. In Japan, deflation is lessening, but partly on account of temporary factors, implying that monetary policy should remain resolutely expansionary for the time being, whilst financial sector rehabilitation efforts should be stepped up.
7. The public finances of the "big six" are in a sorry state. In part, the deterioration has been cyclical, but underlying positions were too weak to begin with, or have weakened to a worrying extent over the last three years. In the process, fiscal rules have been abandoned, breached, or reinterpreted but more fundamentally, there is an urgent need for governments to regain control over spending trends and to put them back on a more sustainable course. As the recovery firms, fiscal retrenchment should commence in earnest. If it starts where the cycle is most advanced, it will contribute to reducing external imbalances.

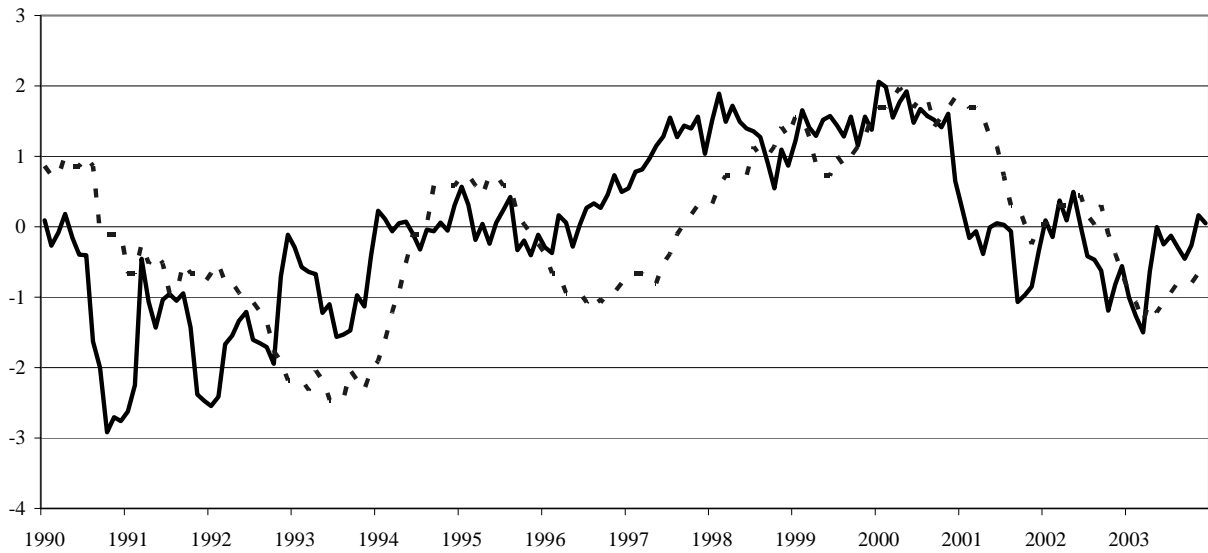
Sentiment

— United States - - Euro area

Panel A. Business expectations



Panel B. Consumer sentiment



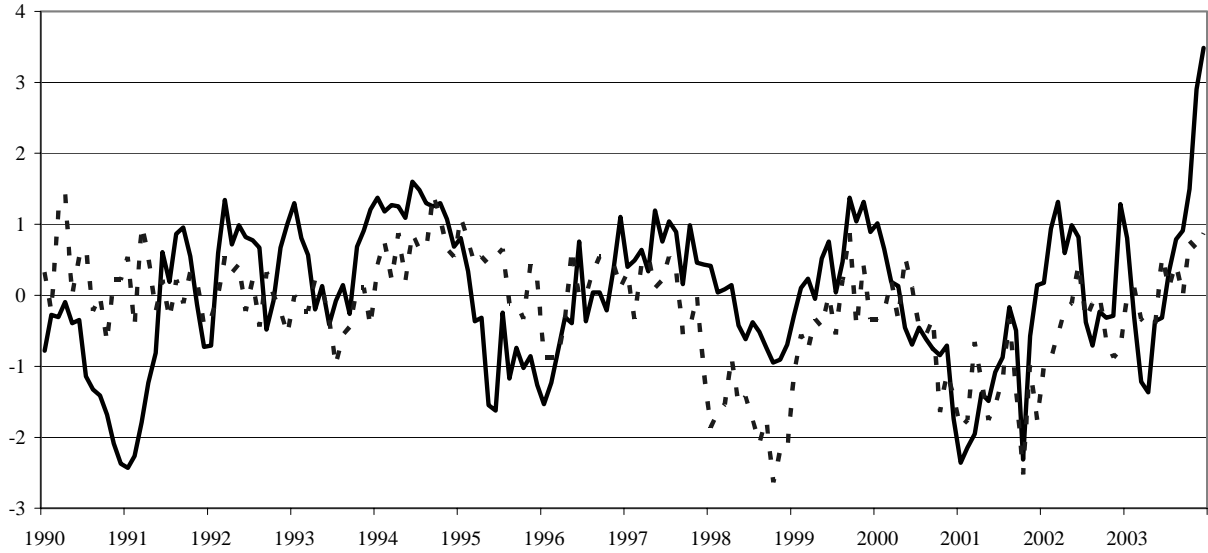
Note: All series have been normalised at the average for the period 1985 to now and are presented in units of standard deviation.

Source: OECD, *Main Economic Indicators*.

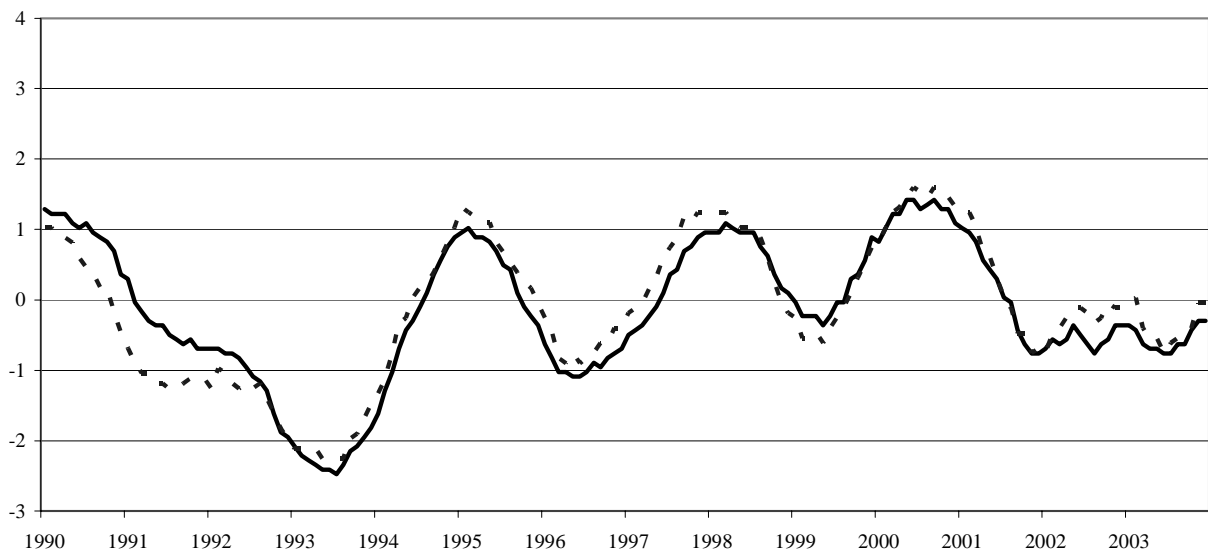
Total orders and export orders

— Total orders - - - Export orders

Panel A. United States



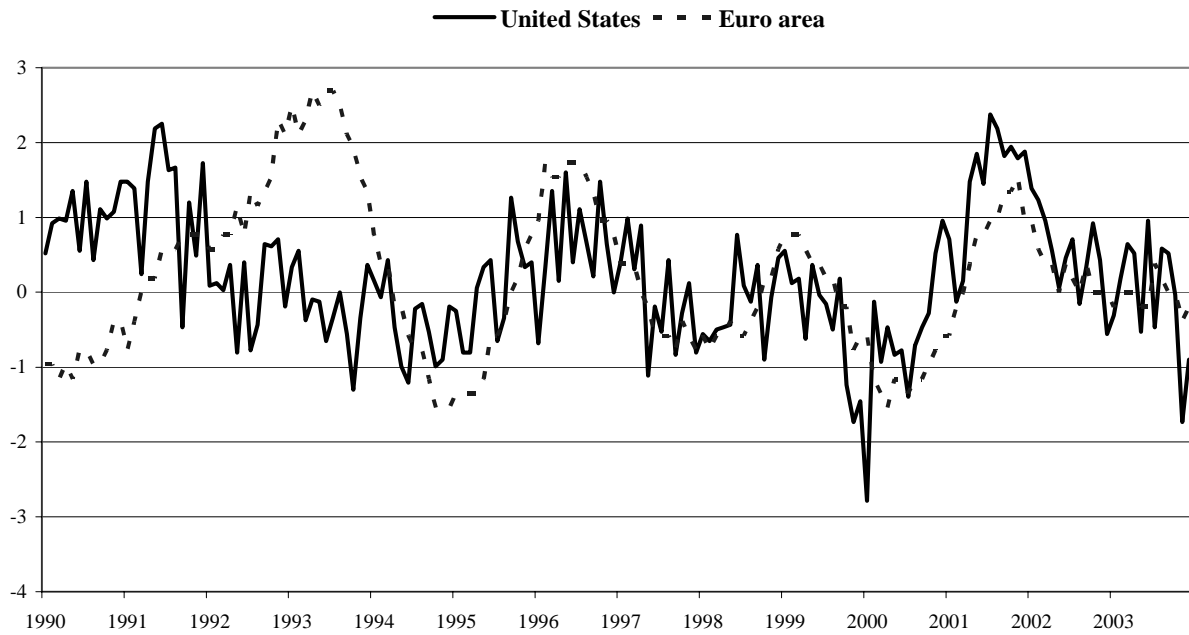
Panel B. Euro area



Note: All series have been normalised at the average for the period 1988 to now and are presented in units of standard deviation.

Source: OECD, *Main Economic Indicators*.

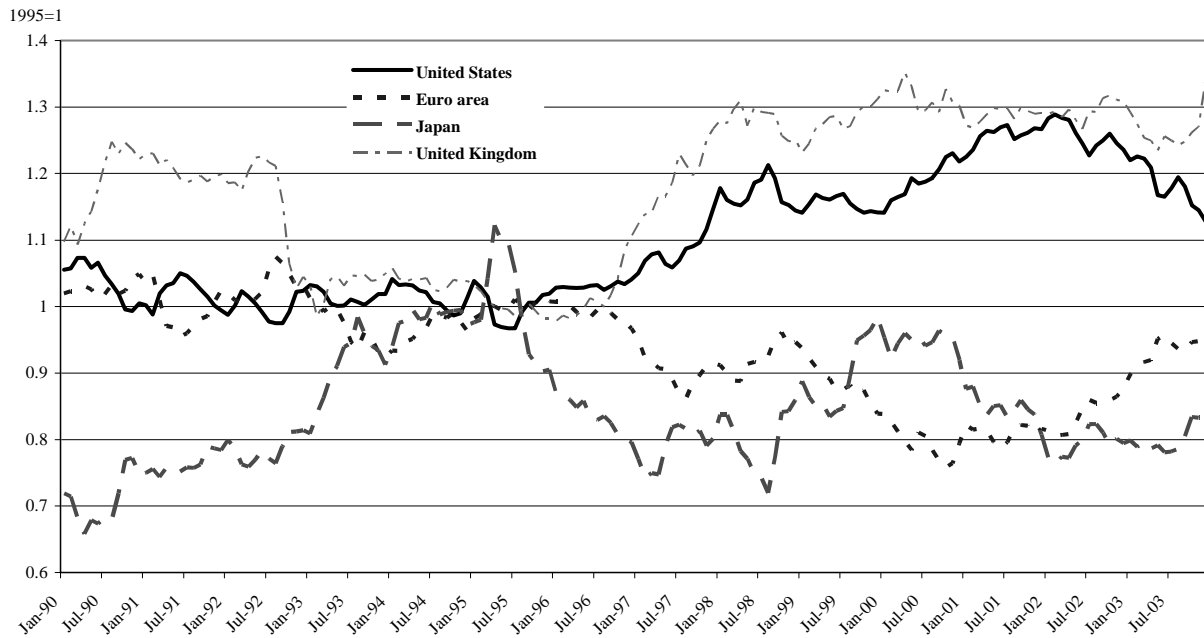
Assessment of inventory positions ¹



Note: All series have been normalised at the average for the period 1985 to now and are presented in units of standard deviation.

1. Data refer to stocks of finished products for the euro area and to manufacturers' inventories for the United States. A rise indicates a decline in inventories.
Source: OECD, *Main Economic Indicators*; ISM *Report on Business*.

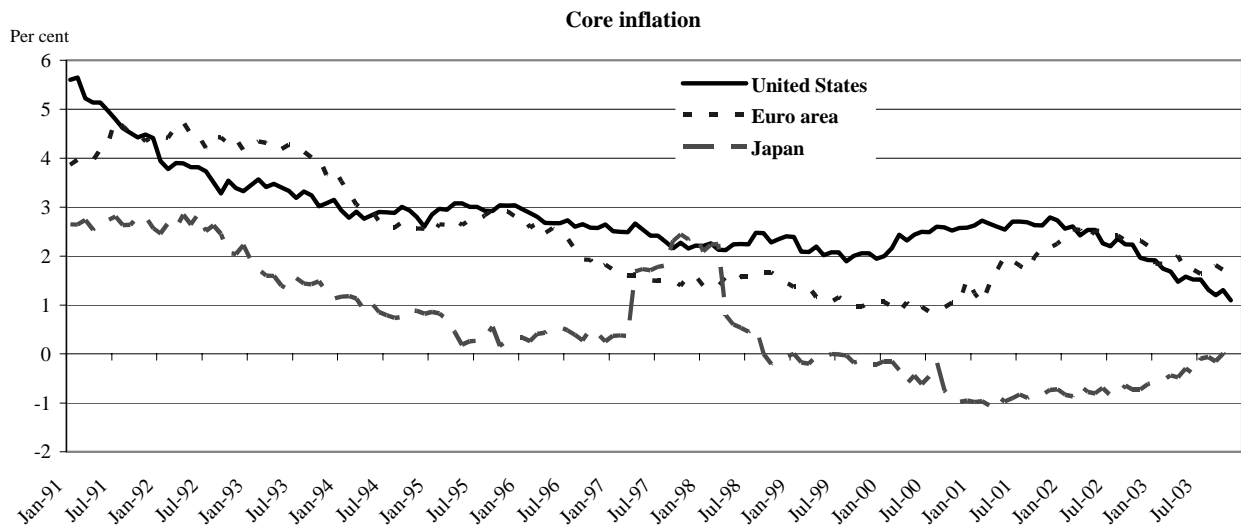
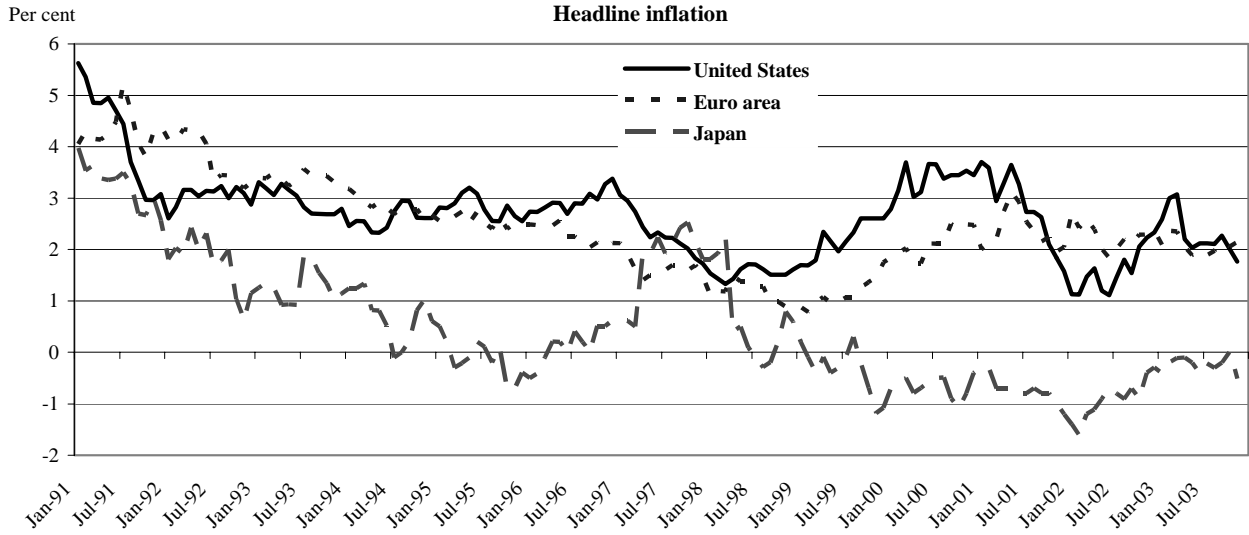
Real effective exchange rates, CPI-based



Source: OECD.

Consumer price indices¹

12-month percentage changes

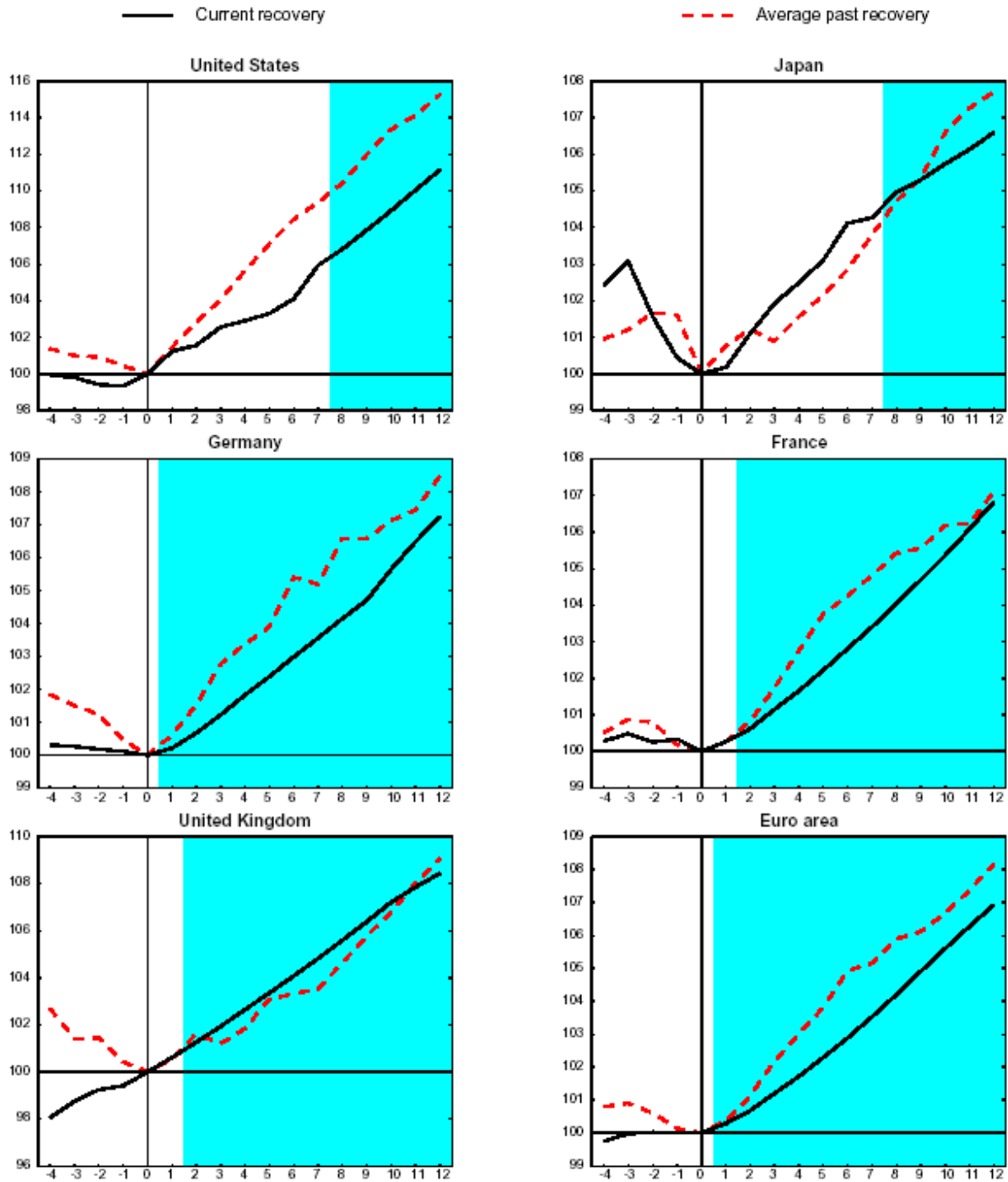


1. For the euro area, harmonised index of consumer prices.

Source: OECD *Main Economic Indicators*.

Business cycles in five major OECD economies and the euro area

GDP level, cyclical trough=100

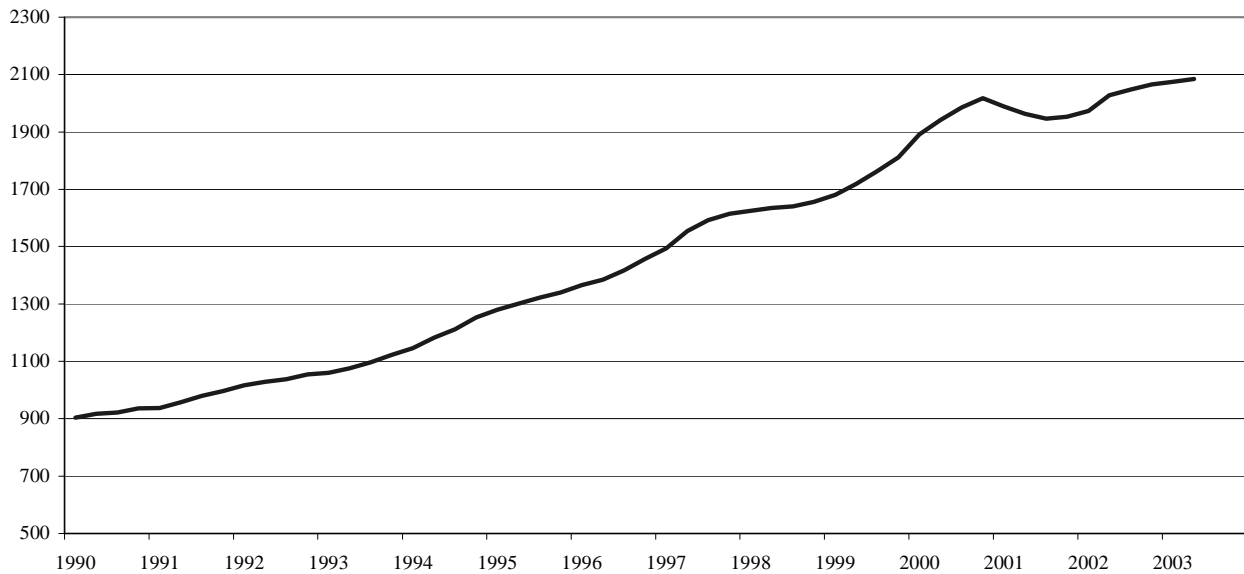


The last turning point - time=0 in the charts - is 2001Q4 for the United States and Japan, 2003Q2 for France, the United Kingdom and the Euro area and 2003Q3 for Germany.
 The shaded area shows the projection period for the current cycle.

Source: OECD.

World trade in goods and services

Billions, 2000 US\$



Source: OECD *Main Economic Indicators*.

GDP growth estimates in the G6¹

(in per cent, quarter-on-quarter, seasonally-adjusted non-annualised)

	2003Q3	2003Q4	2004Q1
	Outcome	Estimates	Estimates
United States	2.0	1.4 (1.0 – 1.8)	1.3 (0.8 – 1.8)
Euro area	0.4	0.6 (0.4 – 0.8)	0.6 (0.2 – 1.0)
Germany	0.2	0.7 (0.2 – 1.2)	0.6 (0.0 – 1.2)
France	0.4	0.7 (0.4 – 1.0)	0.6 (0.2 – 1.0)
Italy	0.5	0.6 (0.3 – 0.9)	0.6 (0.2 – 0.9)
United Kingdom	0.8	0.6 (0.3 – 0.9)	0.7 (0.4 – 1.0)
Japan	0.4	1.1 (0.6 – 1.7)	0.9 (0.3 – 1.5)
G6	1.2	1.1 (0.9 – 1.3)	1.0 (0.7 – 1.3)

1. These estimates are based on a suite of indicator-based models. The associated ± 1 standard error ranges are in parentheses. These are calculated using the errors made from similar forecasts in an out-of-sample exercise over 1998-2002.

Source: OECD Secretariat.