OECD ECONOMIC OUTLOOK

Growth has peaked amidst escalating risks

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BETTER POLICIES FOR BETTER LIVES

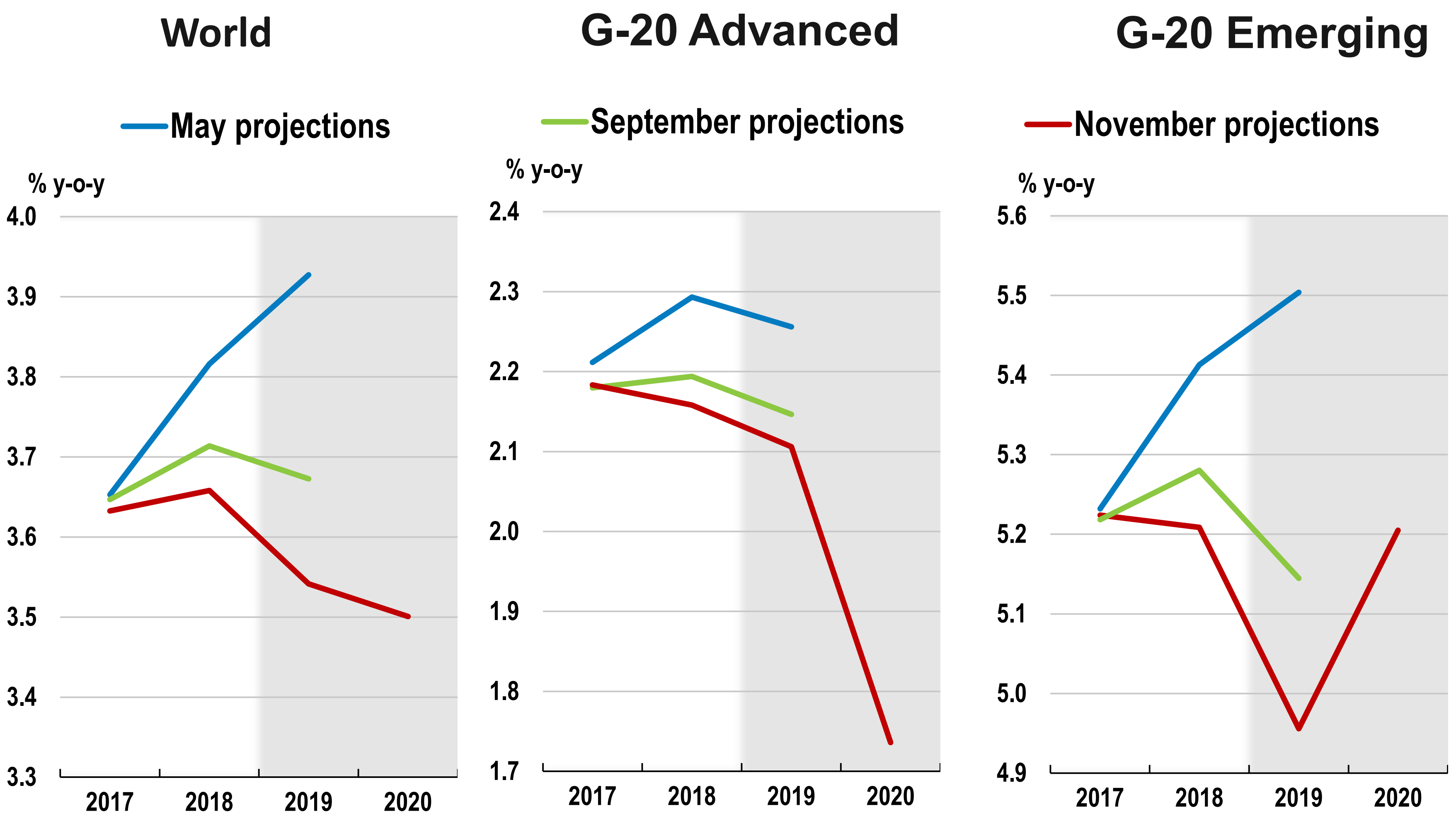
Key messages

Global growth is slowing

Clouds are gathering on the horizon

Enhance cooperation and prepare for more difficult times

Global GDP growth is losing momentum



Note: G-20 advanced economies are Australia, Canada, France, Germany, Italy, Japan, Korea, the United Kingdom and the United States. G-20 emerging economies are Argentina, Brazil, China, India, Indonesia, Mexico, Russia, Saudi Arabia, South Africa and Turkey.
Source: OECD Economic Outlook database; and OECD calculations.

OECD Economic Outlook projections

Real GDP growth revised down

*Year-on-year, %. Arrows for 2018 and 2019 indicate the direction of revisions since September 2018.**

	2018	2019	2020		2018	2019	2020
World	3.7	3.5	3.5				
G-20	3.8	3.7	3.7				
Australia	3.1	2.9	2.6	Argentina	-2.8	-1.9	2.3
Canada	2.1	2.2	1.9	Brazil	1.2	2.1	2.4
Euro area	1.9	1.8	1.6	China	6.6	6.3	6.0
Germany	1.6	1.6	1.4	India[1]	7.5	7.3	7.4
France	1.6	1.6	1.5	Indonesia	5.2	5.2	5.1
Italy	1.0	0.9	0.9	Mexico	2.2	2.5	2.8
Japan	0.9	1.0	0.7	Russia	1.6	1.5	1.8
Korea	2.7	2.8	2.9	Saudi Arabia	1.7	2.6	2.5
United Kingdom	1.3	1.4	1.1	South Africa	0.7	1.7	1.8
United States	2.9	2.7	2.1	Turkey	3.3	-0.4	2.7

*The OECD Economic Outlook includes for the first time projections up to 2020.
Note: Dark orange for downward revisions of 0.3 percentage points and more. Light green and light orange for, respectively, upward and downward revisions of less than 0.3 percentage point. Difference in percentage points based on rounded figures. The European Union is a full member of the G-20, but the G-20 aggregate only includes countries that are also members in their own right.
1. Fiscal years starting in April.

OECD Economic Outlook projections

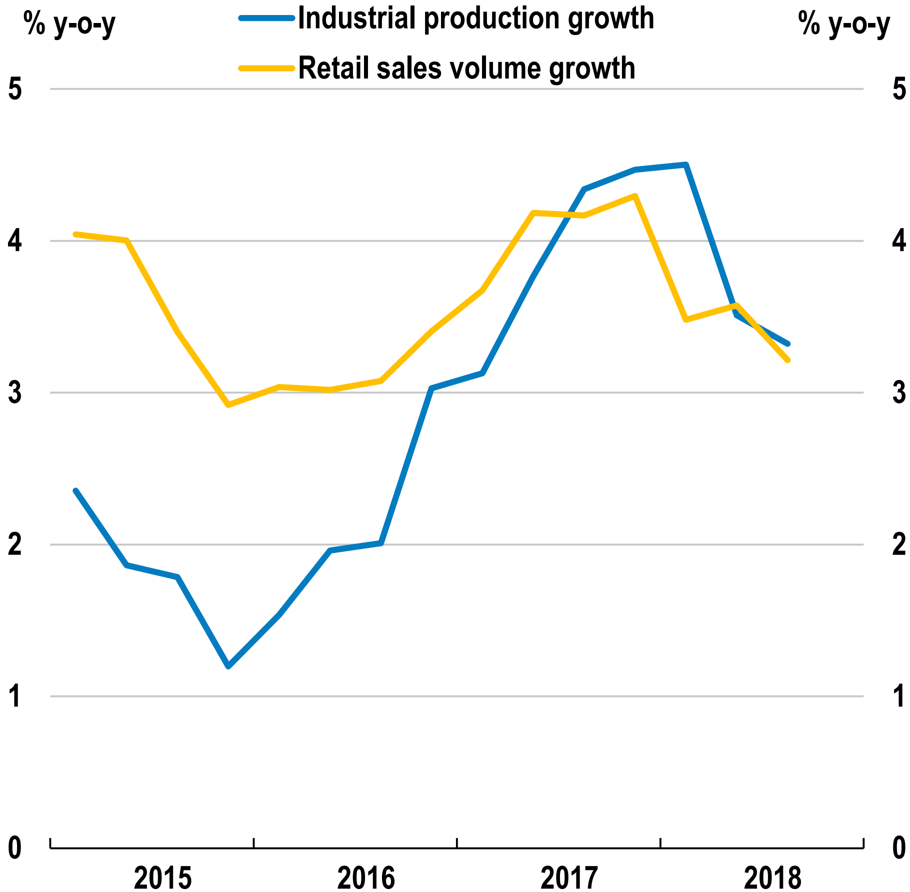
Real GDP growth

Non-G-20 economies, year-on-year, %

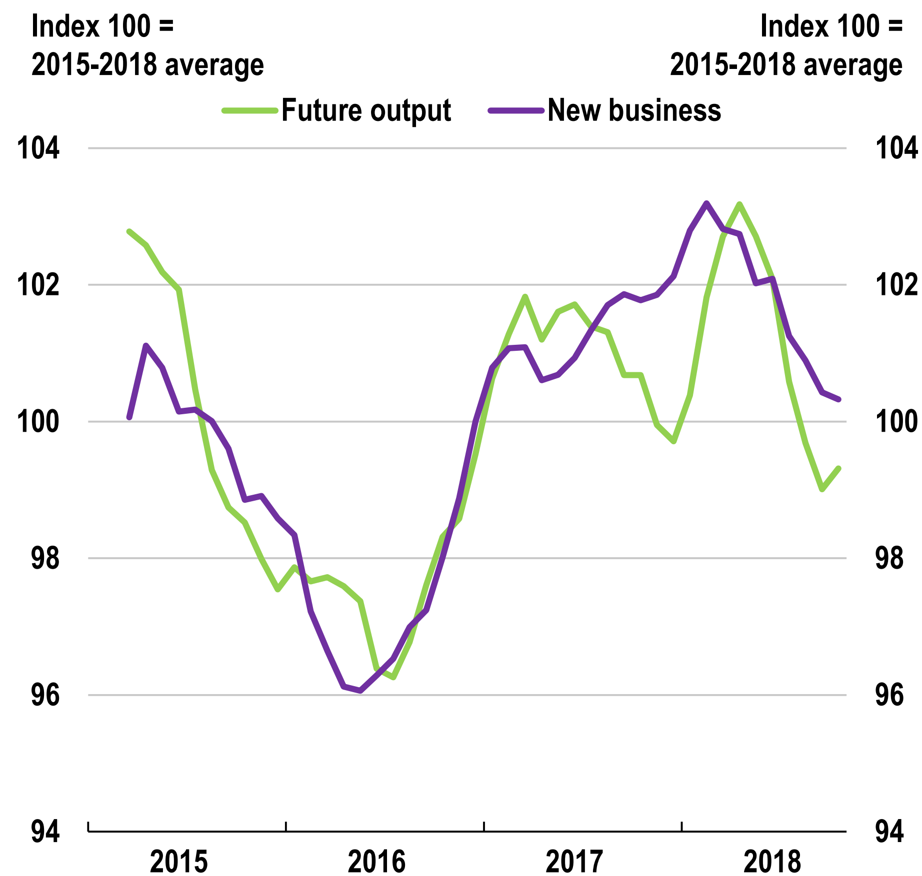
	2018	2019	2020		2018	2019	2020
Austria	2.6	1.9	1.9	Latvia	4.7	3.9	3.3
Belgium	1.5	1.4	1.4	Lithuania	3.4	2.9	2.6
Chile	4.1	3.7	3.4	Luxembourg	3.0	2.9	3.2
Colombia	2.8	3.3	3.4	Netherlands	2.9	2.5	2.1
Costa Rica	2.9	3.0	3.3	New Zealand	2.9	2.8	2.6
Czech Republic	3.0	2.7	2.6	Norway	1.6	1.9	2.3
Denmark	1.2	1.9	1.6	Poland	5.2	4.0	3.3
Estonia	3.3	3.5	2.3	Portugal	2.2	2.1	1.9
Finland	2.8	1.8	1.6	Slovak Republic	4.1	4.3	3.6
Greece	2.1	2.2	2.1	Slovenia	4.4	3.6	2.7
Hungary	4.6	3.9	3.3	Spain	2.6	2.2	1.9
Iceland	3.8	2.8	2.6	Sweden	2.5	1.9	1.9
Ireland	5.9	4.1	3.4	Switzerland	2.9	1.6	1.6
Israel	3.6	3.5	3.3	Tunisia	2.6	3.1	3.3

Activity is losing steam

Global short-term activity



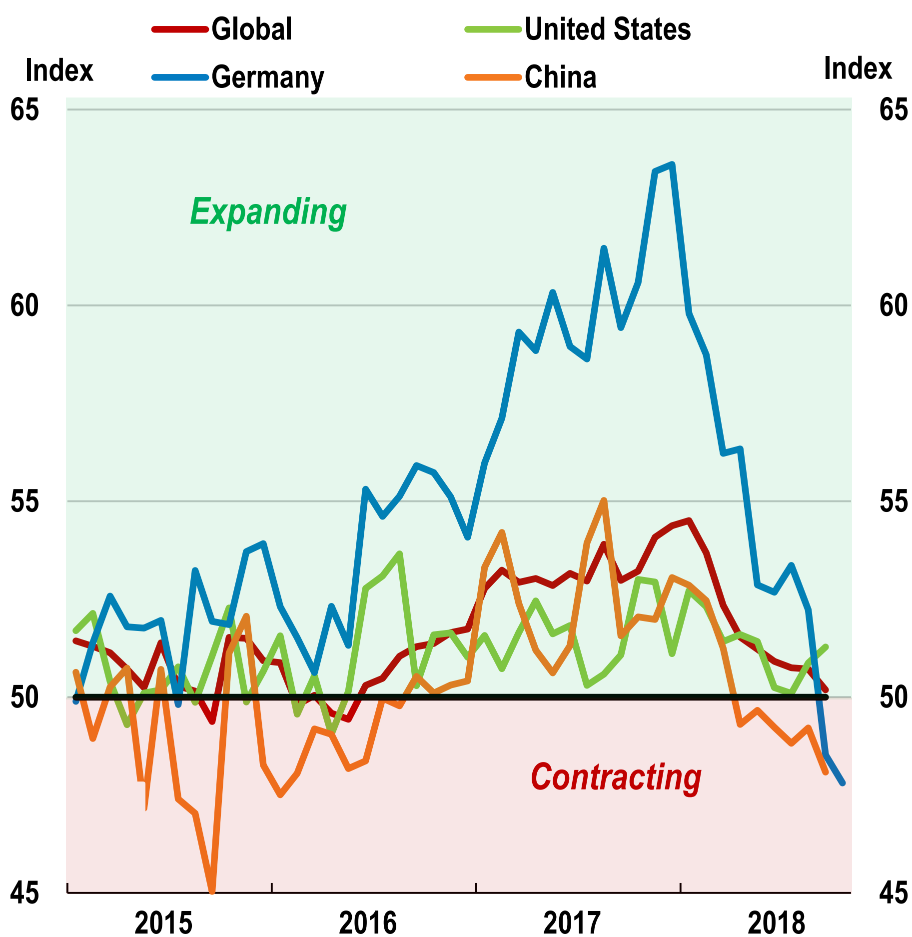
Global business expectations



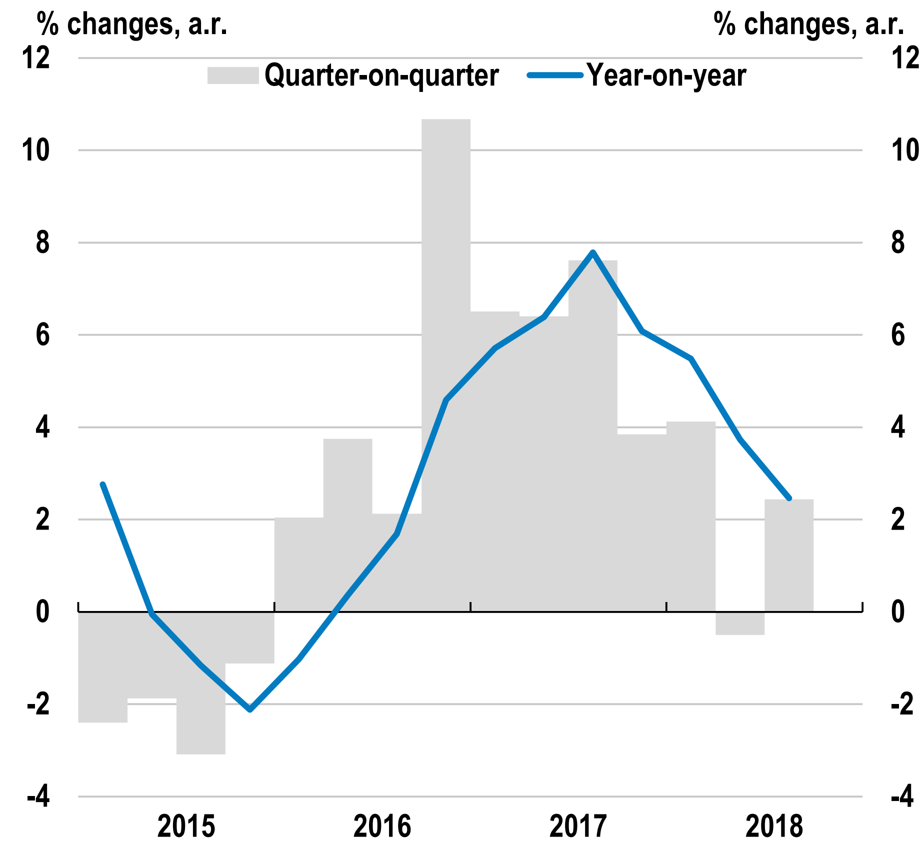
Note: Left panel: industrial production and retail sales aggregated using purchasing power parity weights. Data for retail sales volume growth are retail sales in the majority of countries, but monthly household consumption is used for the United States and the monthly synthetic consumption indicator is used for Japan. Retail sales data are not available for India. Estimates for 18Q3 based on data for the three months up to August. Right panel: Global composite PMI, 3-month moving average, data as of October 2018.
Source: OECD Economic Outlook Database; Thomson Reuters; Markit; and OECD calculations.

Trade growth is decelerating

Manufacturing new export orders



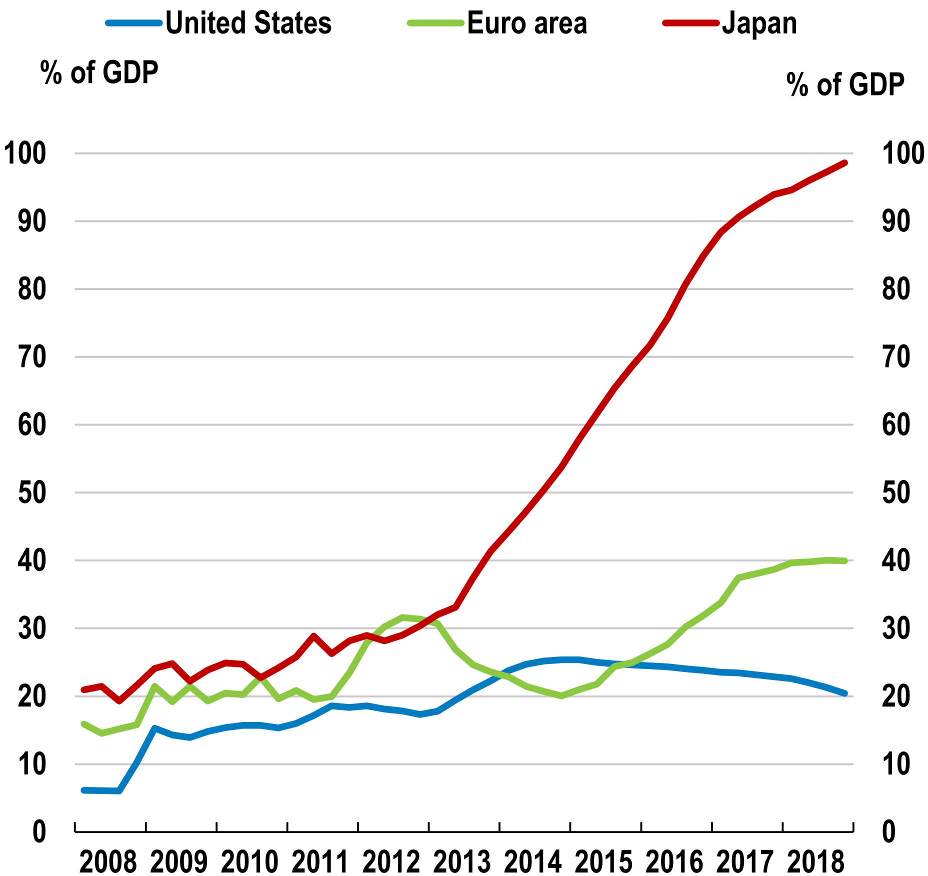
Container port traffic



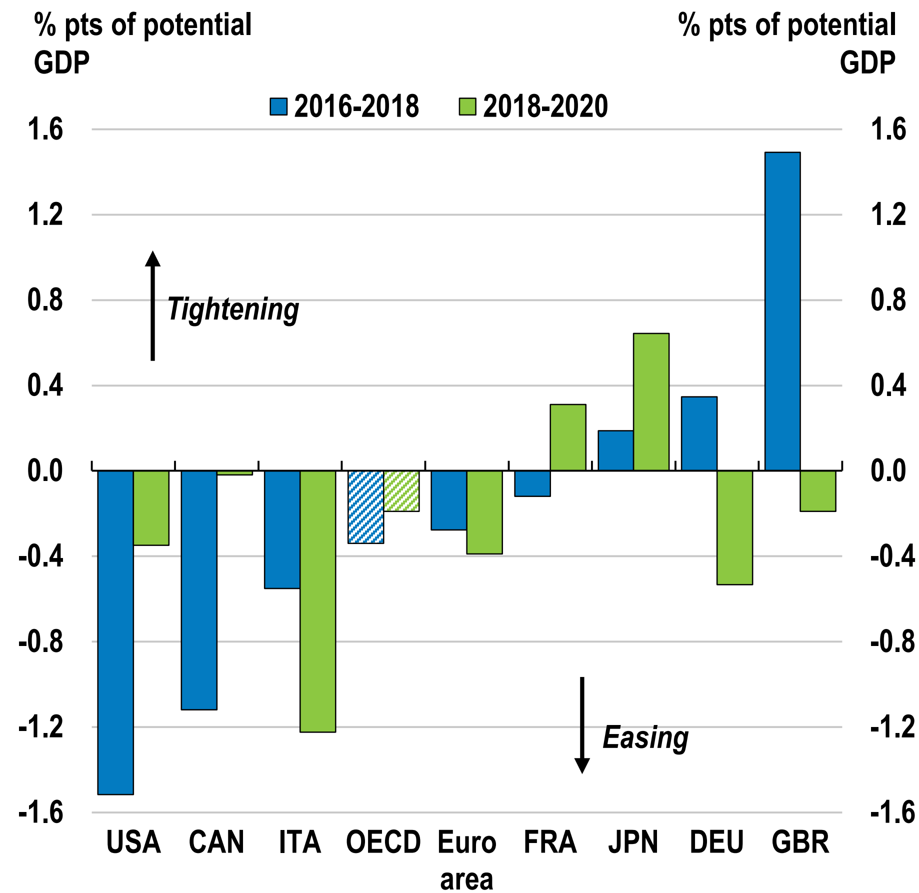
Note: Right panel: Data from 88 ports worldwide.
Source: Markit; Institute of Shipping Economics and Logistics; and OECD calculations.

Fiscal and monetary policies: taking the foot off the accelerator

Central bank total assets



Change in general government primary balance

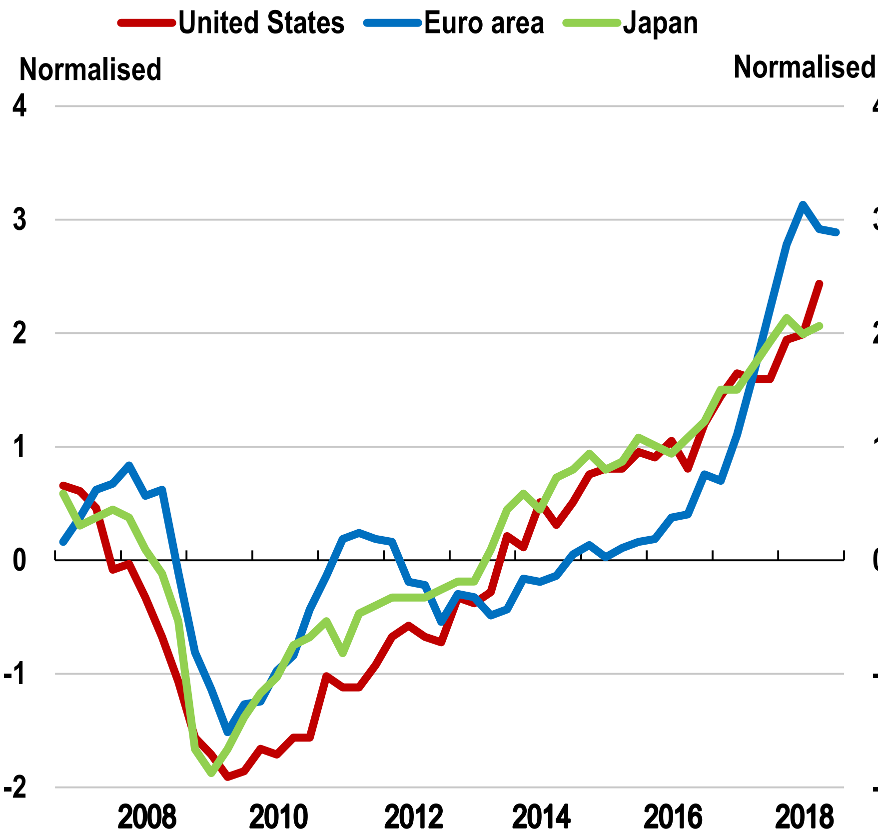


Note: Right panel: the OECD aggregate measures the change for the median OECD country over the periods shown.
Source: Board of Governors of the Federal Reserve System; Bank of Japan; European Central Bank; OECD Economic Outlook database; and OECD calculations.

Labour shortages are rising but employment can still improve

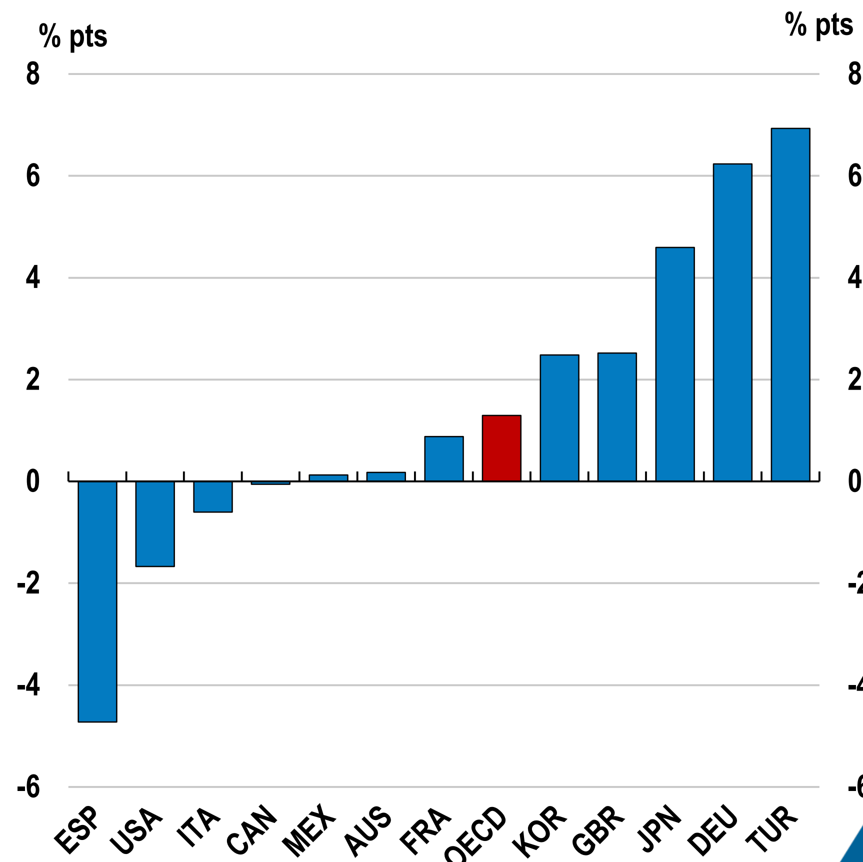
Labour shortages

Based on business surveys



Employment rates

Change between 2007 and 2017

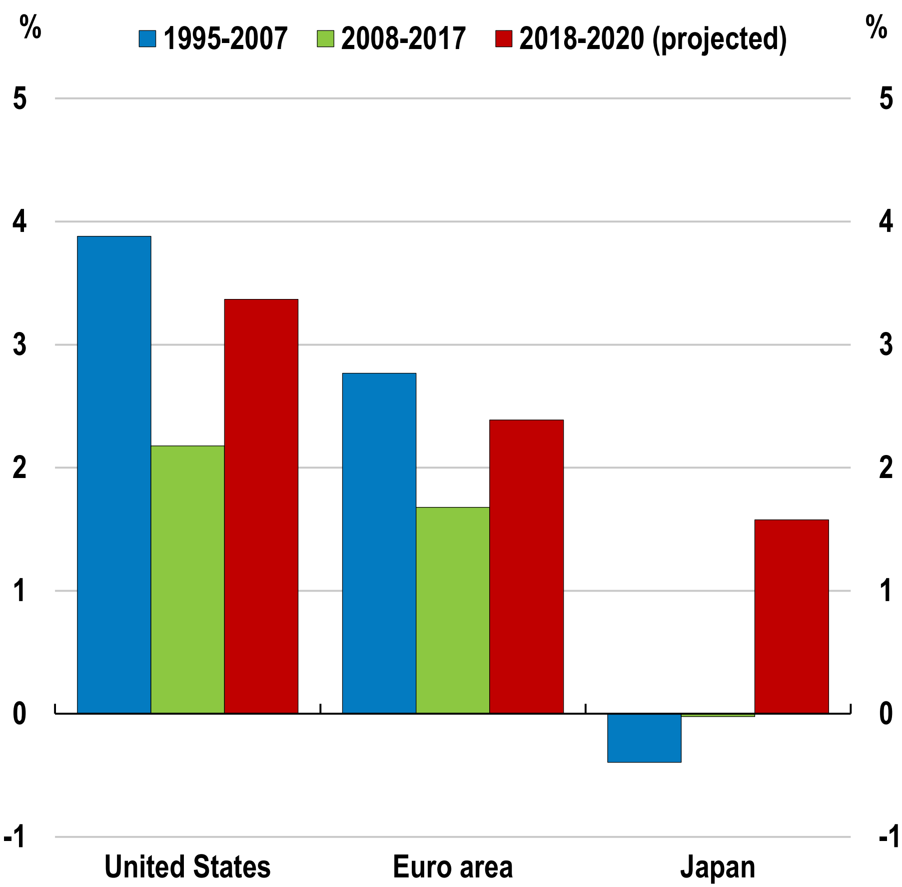


Note: Left panel: Data normalised over the 2002-2018 period. Right panel: the employment rate is defined as the number of employed people as a share of the working-age population (15 to 64 years old).
Source: OECD Economic Outlook database, National Federation of Independent Business; European Commission; Bank of Japan; and OECD calculations.

Wages and prices are set to rise moderately

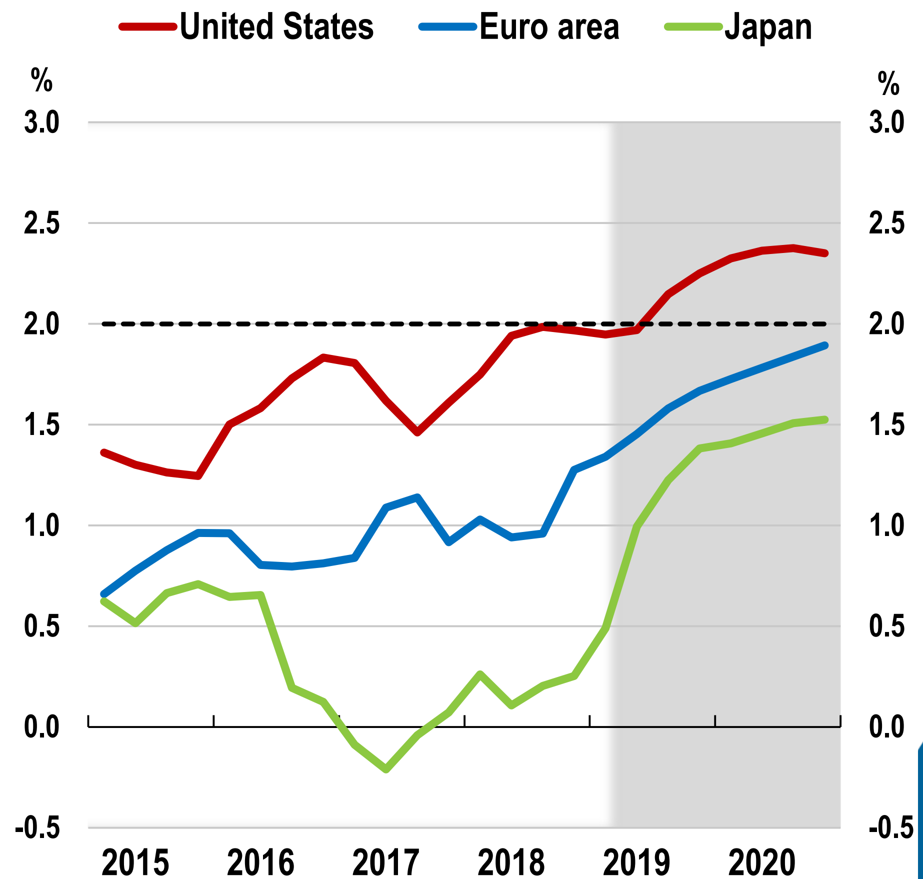
Wage growth

Average annual growth in nominal wages



Inflation

Consumer price inflation, excluding food and energy

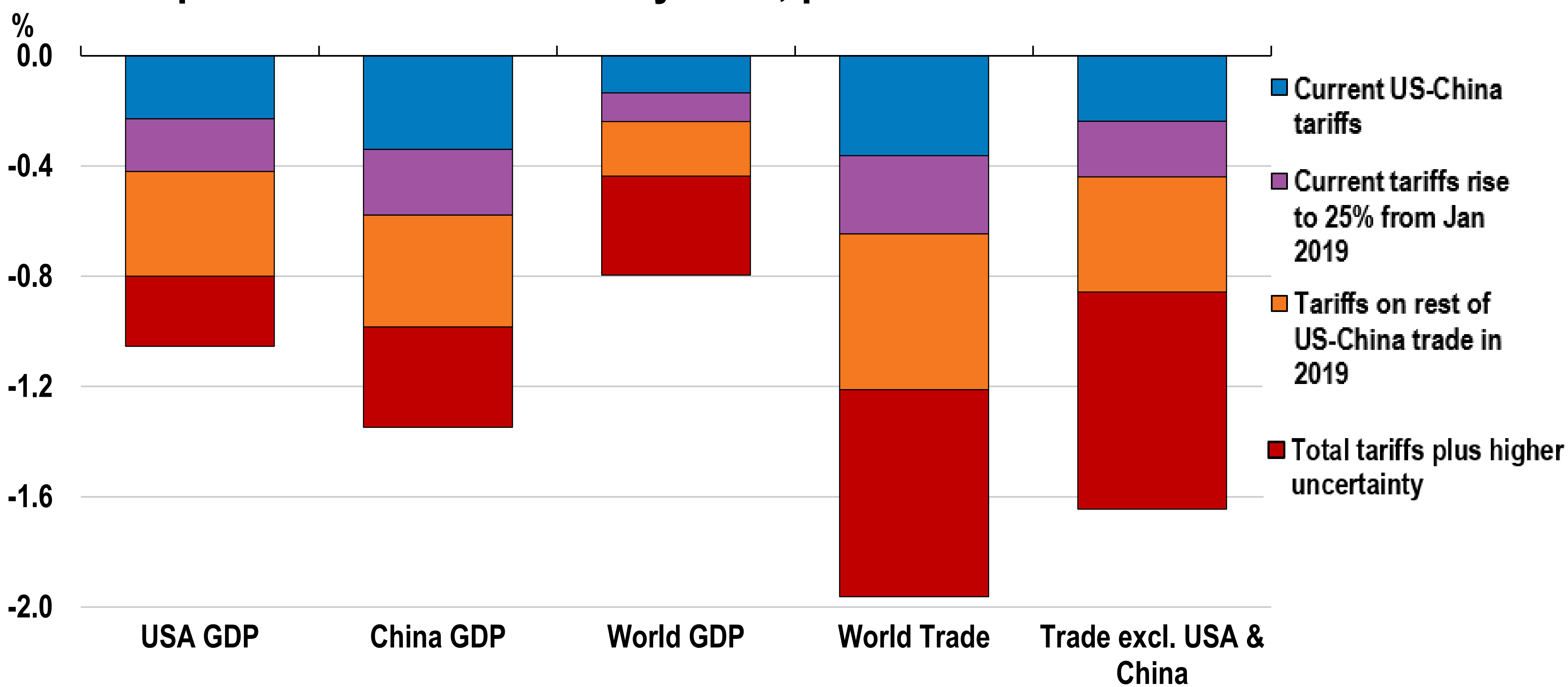


Note: Right panel: Core inflation excludes energy and food products and refers to harmonised data for the euro area. Inflation numbers for Japan are adjusted for the 2014 and planned 2019 consumption tax hikes.
Source: OECD Economic Outlook Database; and OECD calculations.

CLOUDS ARE GATHERING ON THE HORIZON

Tariff hikes act as a brake on GDP growth

Impact on GDP and trade by 2021, per cent difference from baseline

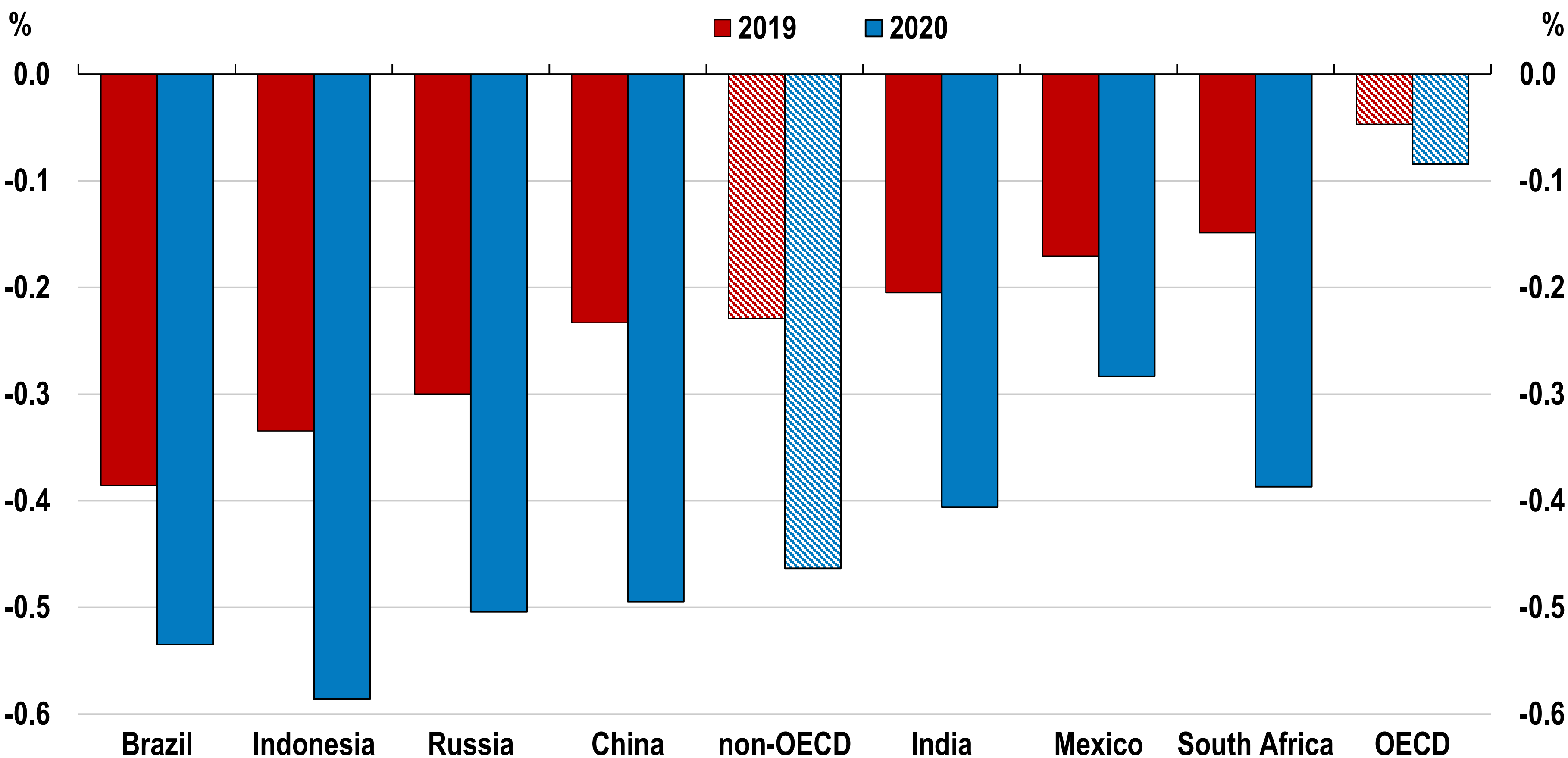


Note: Current tariffs include all tariffs imposed on bilateral US-China trade in 2018 up to the end of September. The purple scenario shows the additional impact of the United States raising tariffs on $200 billion of imports from China from 10% to 25% from January 2019 (with reciprocal action by China on $60 billion of imports from the United States). The orange scenario shows the additional impact if tariffs of 25% are imposed on all remaining bilateral non-commodity trade between China and the United States from July 2019. The red scenario shows the additional impact of related uncertainty resulting in a rise of 50bp in investment risk premia in all countries in 2019-2021.
Source: OECD calculations.

Weaker investor confidence towards EMEs would drag down growth

Output effect of higher interest rates in emerging-market economies

GDP impact of a 1 percentage point rise in investment risk premia in all EMEs, difference from baseline

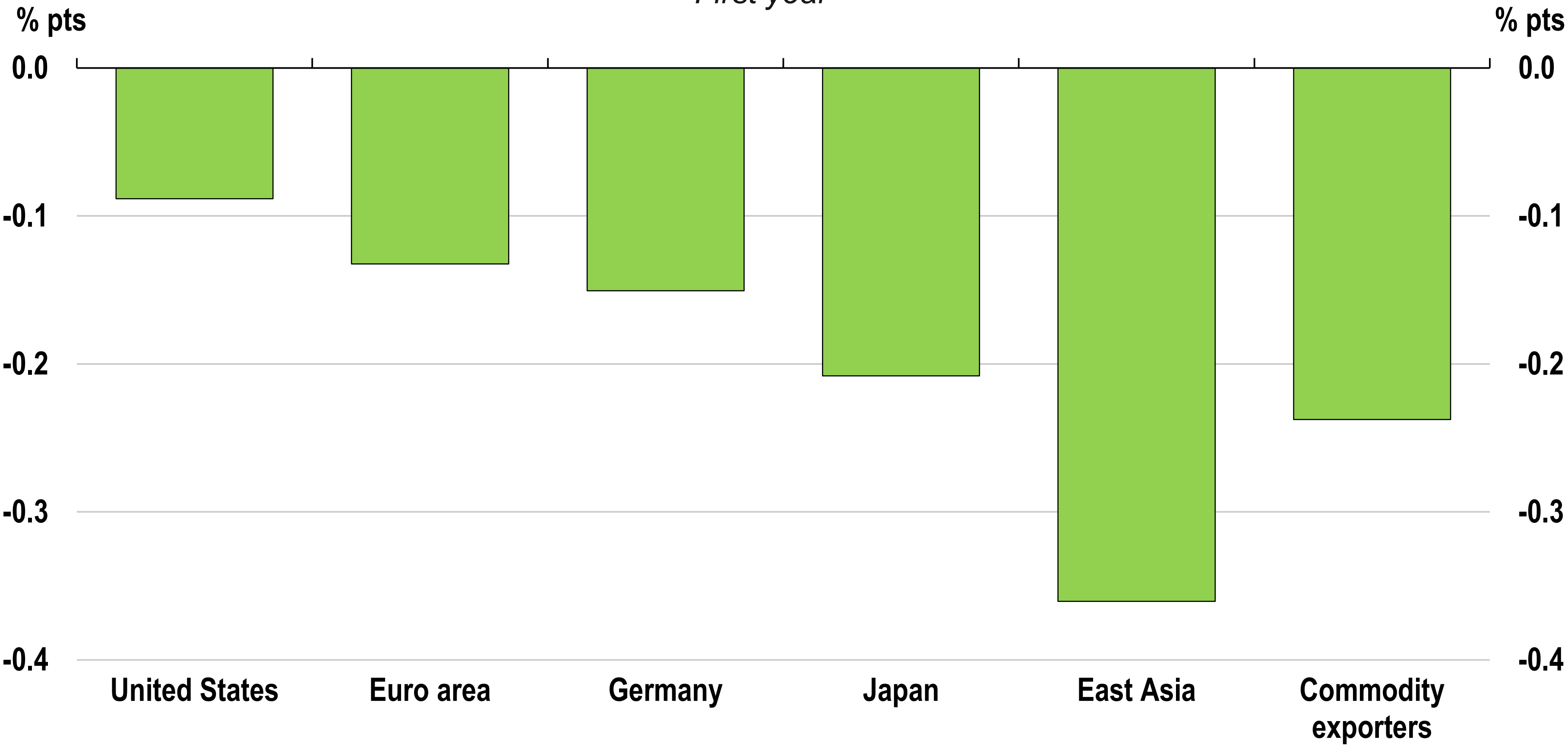


Source: OECD calculations.

A slowdown in China would weigh on growth across the world

GDP growth impact of a negative demand shock of 2% pts in China

First year



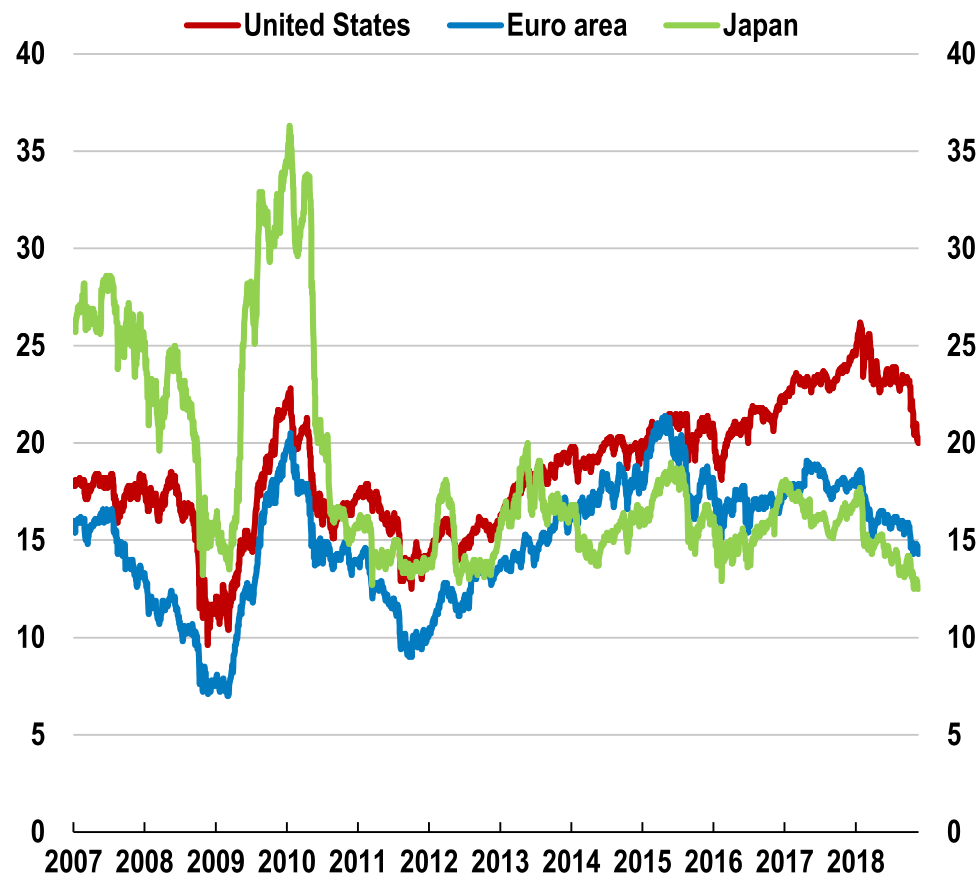
Note: Based on a decline of 2 percentage points in the growth rate of domestic demand in China for two years. Policy interest rates are endogenous in all areas. “Commodity exporters” include: Australia, Brazil, Indonesia, Russia, South Africa and the other oil producers. All countries and regions are weighted using purchasing power parities.
Source: OECD calculations.

A materialisation of risks could deepen asset price corrections

Equity prices have fallen recently

Stock valuations remain elevated

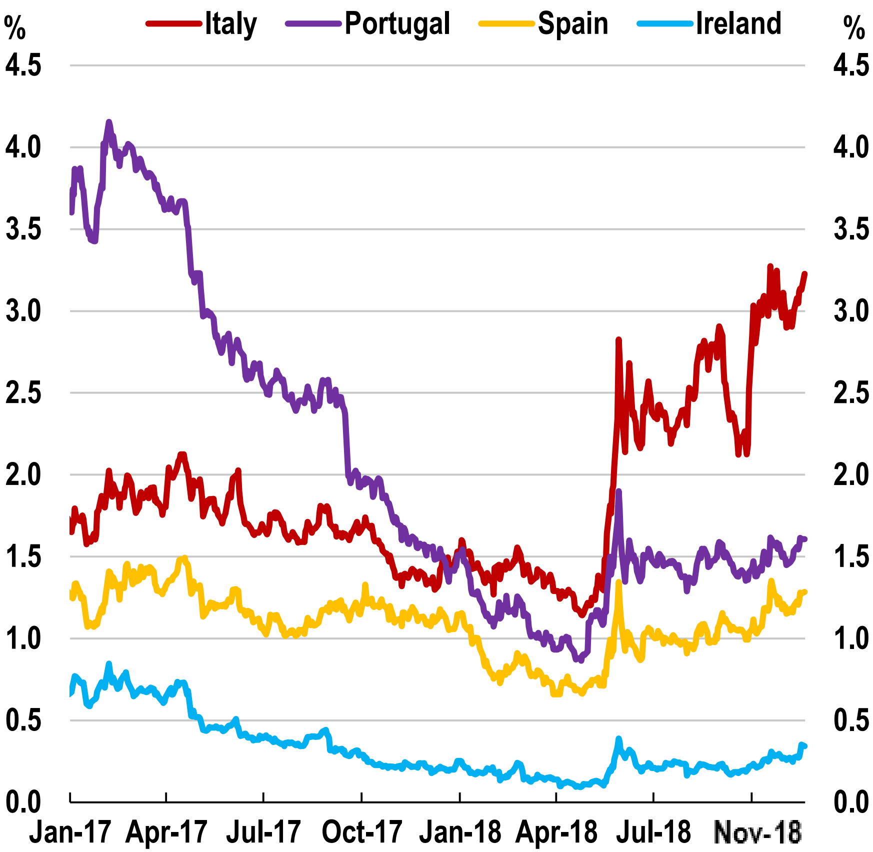
Price/Earnings ratios



Note: Data as of 19 November 2018.
Source: OECD Economic Outlook database; Thomson Reuters; and OECD calculations.

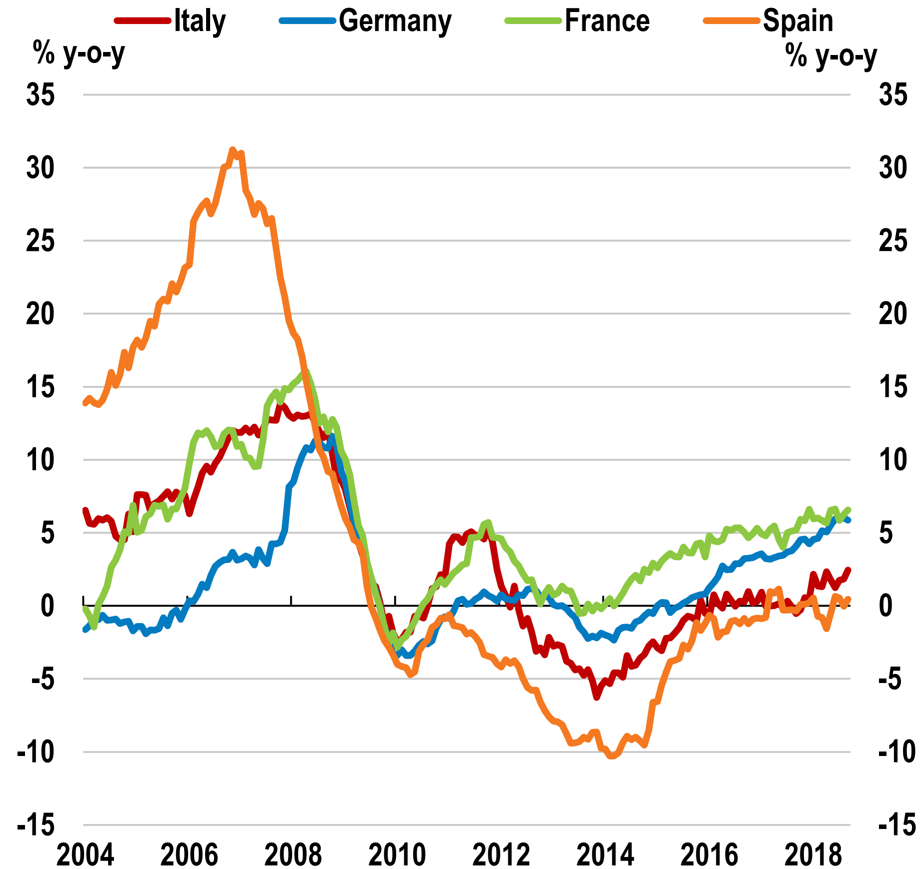
Political risks in the euro area may weigh on credit growth

Sovereign spreads have risen in Italy, but contagion is limited



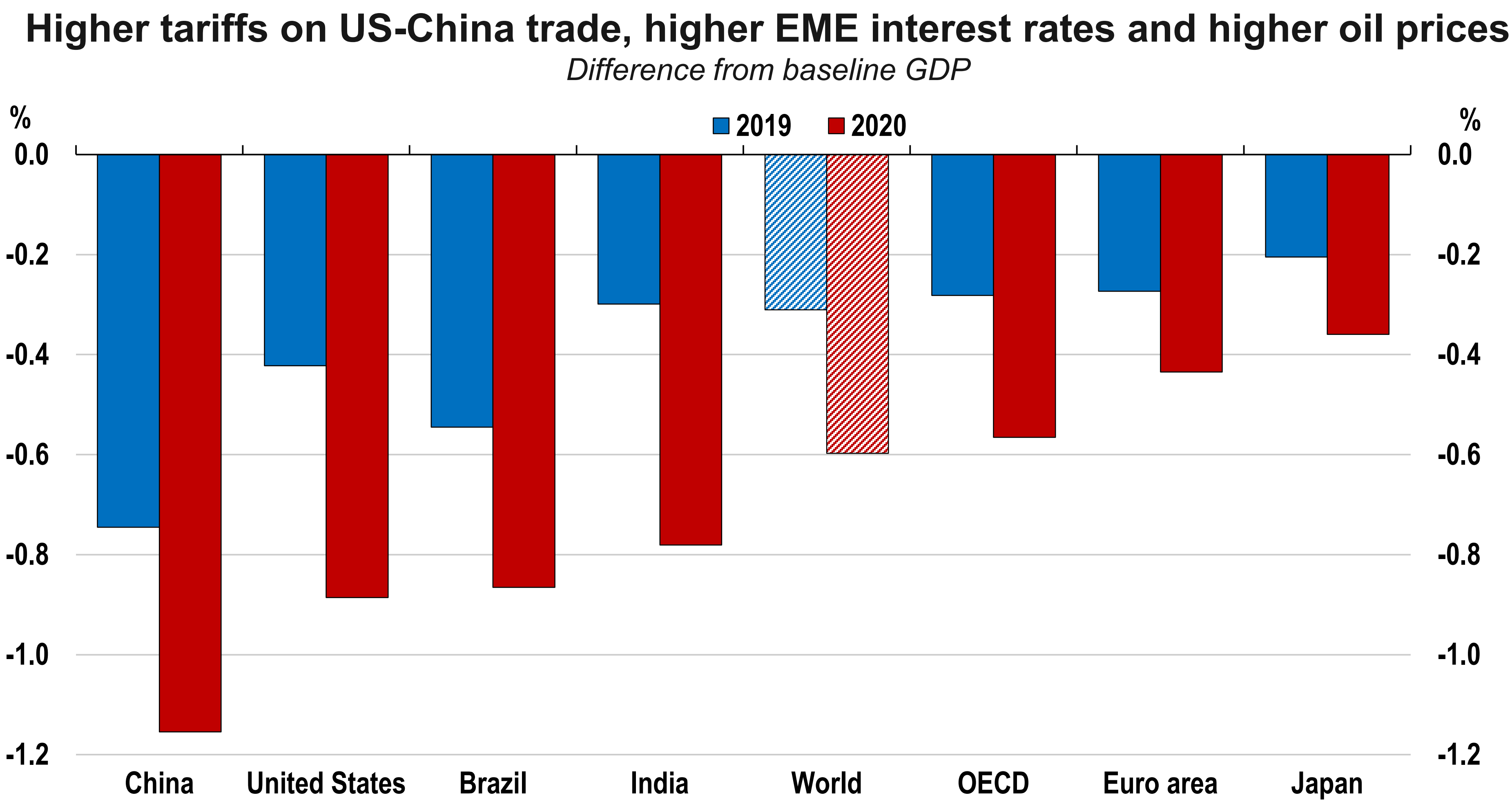
Credit growth to firms remains low

Banking credit to non-financial corporations



Note: Left panel: Sovereign spreads refer to the difference between the yield on a country's 10-year bond issue and the yield on a bond issued by Germany as a benchmark country. Data as of 19 November 2018. Right panel: Banking credit, adjusted for sales and securitisation, from domestic banks to euro area non-financial corporations.
Source: Thomson Reuters; European Central Bank; and OECD calculations.

A combination of risks could amplify each other and seriously erode growth

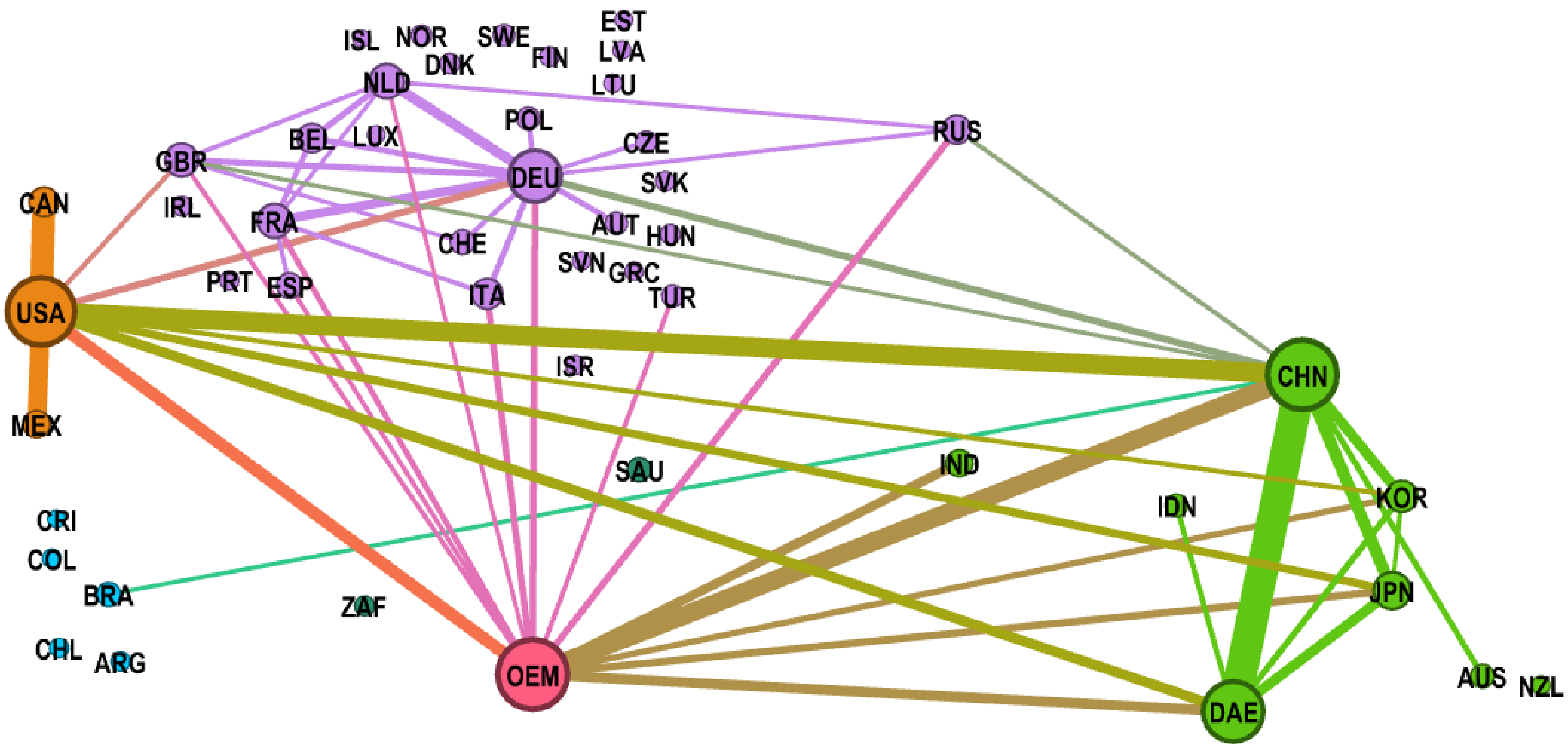


Note: Combined effects of an increase of 20 USD per barrel in oil prices, an increase of 1 percentage point in investment risk premia in all emerging-market economies and a 25 per cent tariff on US-China bilateral trade from 2019 onwards. All shocks are assumed to last for five years. Effect on GDP at constant prices.
Source: OECD calculations.

GOVERNMENTS SHOULD ENHANCE COOPERATION AND PREPARE FOR MORE DIFFICULT TIMES

Trade cooperation is needed to halt GVC disruption and its consequences on growth and jobs

Exports and imports of goods

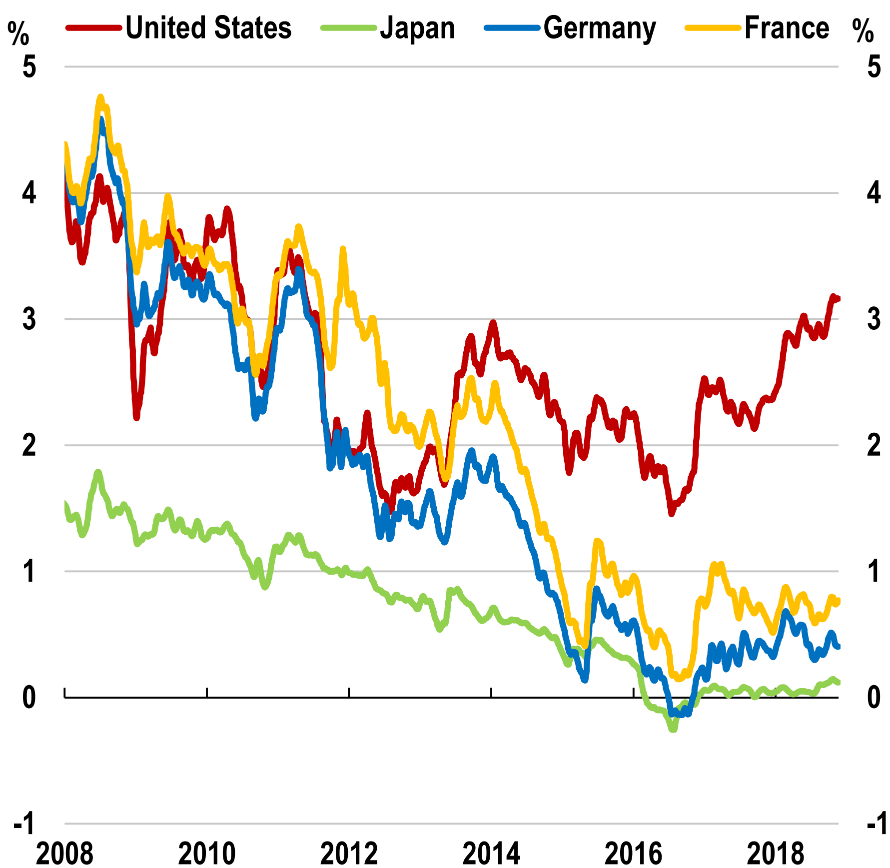


Note: The size of a bubble represents the share of world trade in value-added terms (exports plus imports of value added) of that country or economic area. The thickness of the lines between two bubbles measures the amount of bilateral value-added trade between two trading partners. There are bilateral trade flows between all economies shown but those below approximately 0.2% of total world trade flows are not shown. Dynamic Asia Economies (DAE) include Chinese Taipei; Hong Kong, China; Indonesia; Malaysia; the Philippines; Singapore; and Thailand. Other emerging markets (OEM) include the remaining 129 countries in the world and account for around 10% of world trade.
Source: Gephi; IMF Direction of Trade Statistics database; OECD Economic Outlook database; and OECD Calculations.

Coordinated action will be needed in a downturn

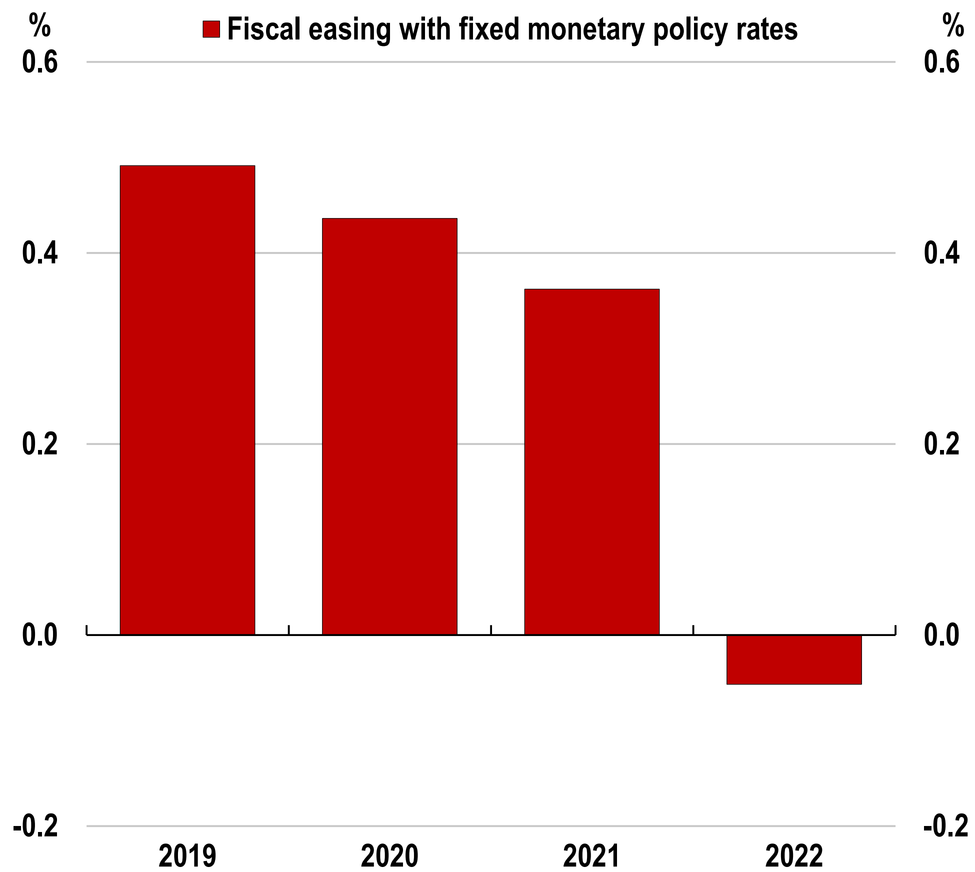
Long-term interest rates remain low

Yield on 10-year government bond issues, 15-day m.a.



Impact of a coordinated fiscal stimulus

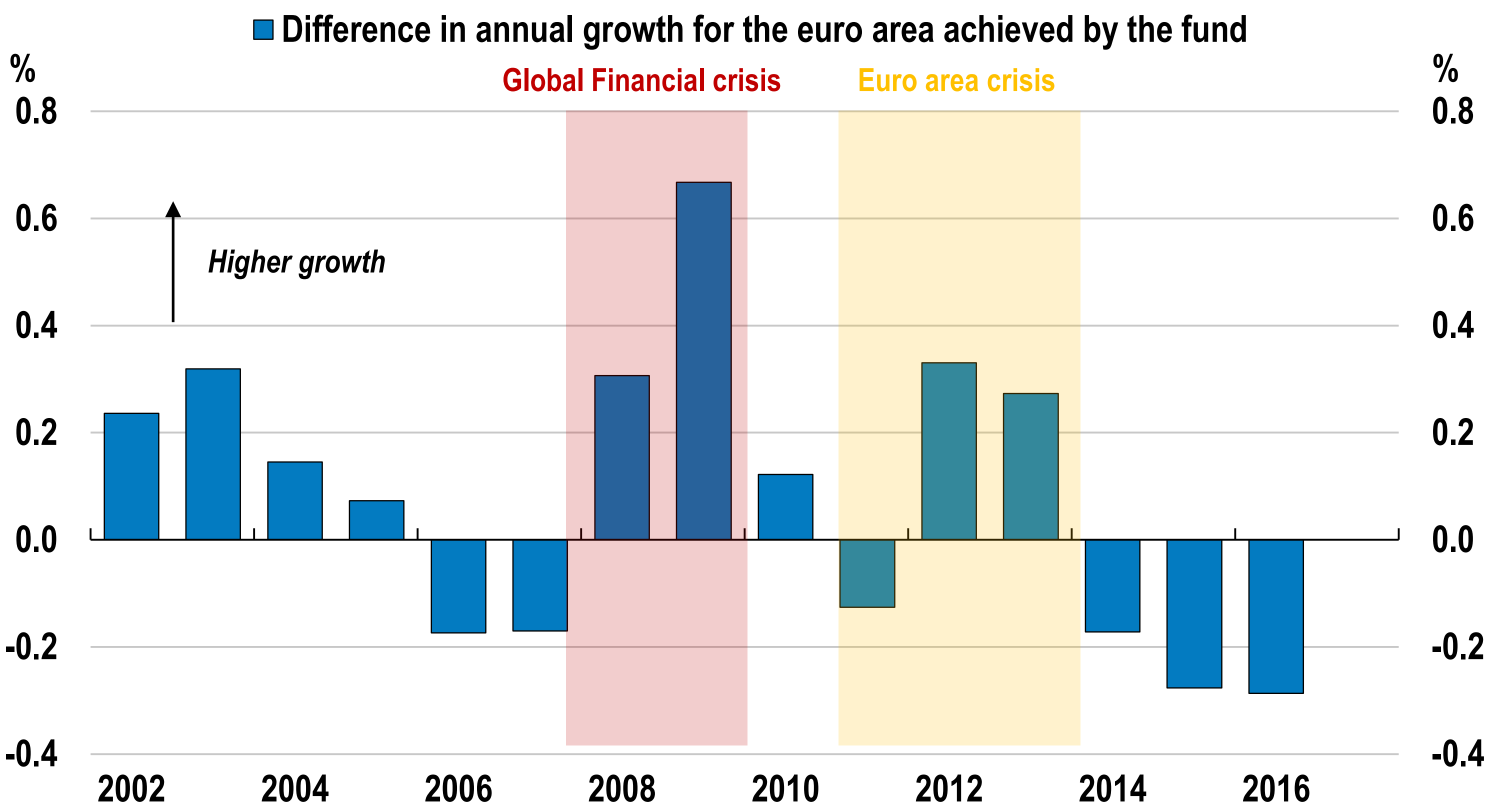
Global GDP, % difference from baseline



Note: Left panel: Data as of 19 November 2018. Right panel: The fiscal scenario is a coordinated global fiscal easing of 0.5% of GDP sustained for three years, with policy interest rates held fixed for three years. Simulations on the NiGEM global macroeconomic model, with model-consistent expectations.
Source: OECD Economic Outlook database; and OECD calculations.

A common fiscal capacity would help the euro area to smooth downturns

GDP growth stabilisation effect

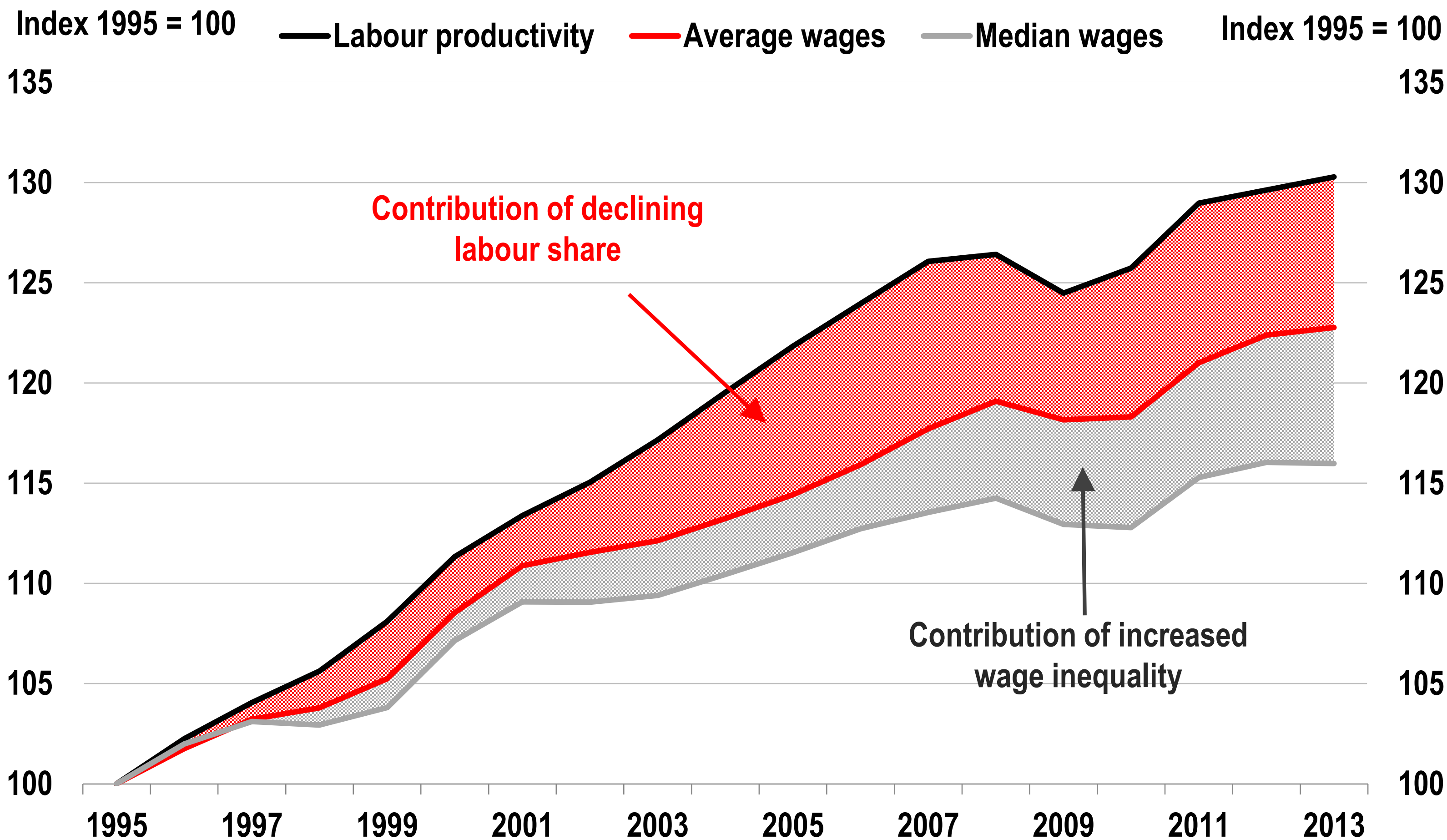


Note: The unemployment benefits re-insurance scheme is a stabilisation mechanism for the euro area. Support from the fund, triggered when the unemployment rate increases to high levels, is proportional to the size of the crisis. A participating country pays 0.1% of GDP per year when the fund issues debt and an additional charge of 0.05% of GDP for every year support was received in the past 10 years. Counterfactual simulations on GDP show that for an average annual contribution of 0.2% of GDP, the fund could achieve significant stabilisation while avoiding permanent transfers between countries.
Source: OECD 2018 Euro area Economic Survey, Claveres; G. and J. Stráský (2018); and OECD calculations.

Raising skills and improving labour markets helps increase wages and reduce inequality

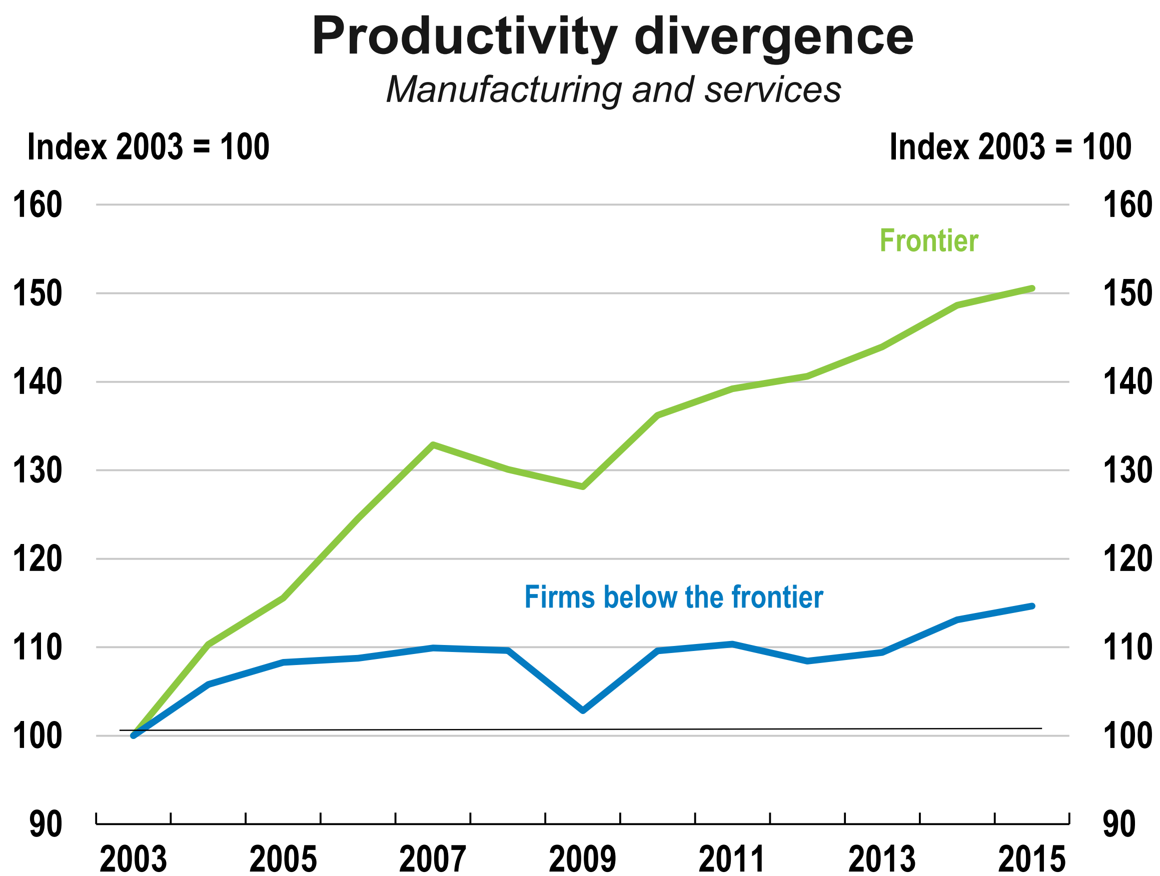
Wage and productivity growth

Real wages, OECD countries



Source: OECD Economic Outlook November 2018, chapter 2.

Product market reforms would help reduce productivity gaps



Note: The frontier is measured by the average of log labour productivity for the top 5% of companies with the highest productivity levels globally across 24 OECD countries, separately within each 2-digit industry and year. “Firms below the frontier” capture the log productivity for all other firms, constructed in a similar way. The series are normalised to 100 in the starting year (2003=100) and the time variation is approximated by changes in the log measures x 100. Services denote market services excluding the financial sector.
Source: OECD calculations using Orbis data of Bureau van Dijk, following the methodology in Andrews et al. (2016).

Key messages

Global growth is slowing

- Global growth is set to weaken on the back of slower trade growth and less supportive policies
- The OECD unemployment rate is at record low and wages are growing modestly
- Inflation has yet to pick up

Clouds are gathering on the horizon

- Tariff hikes are slowing growth and could disrupt value chains and jobs
- Emerging markets remain vulnerable to rising US rates and capital outflows
- Political and geopolitical risks increase uncertainty

Enhance cooperation and prepare for more difficult times

- Cooperation needed to reduce uncertainty, avoid protectionism, and act in face of a downturn
- Strengthen the euro area by completing the banking union and progressing on a common fiscal capacity
- Step up action to reduce inequality and improve trust in governments