GLOBAL ECONOMIC OUTLOOK

Véronique SALINS, ECO/MPD

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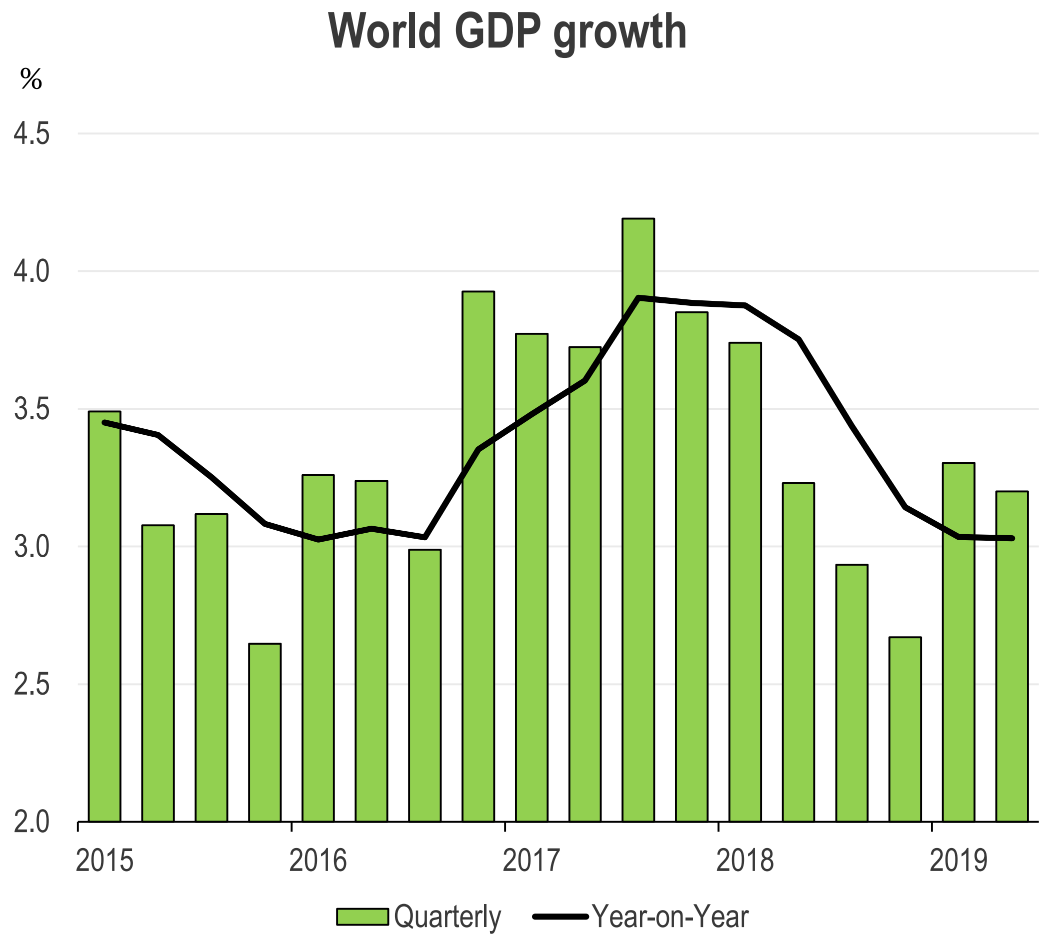
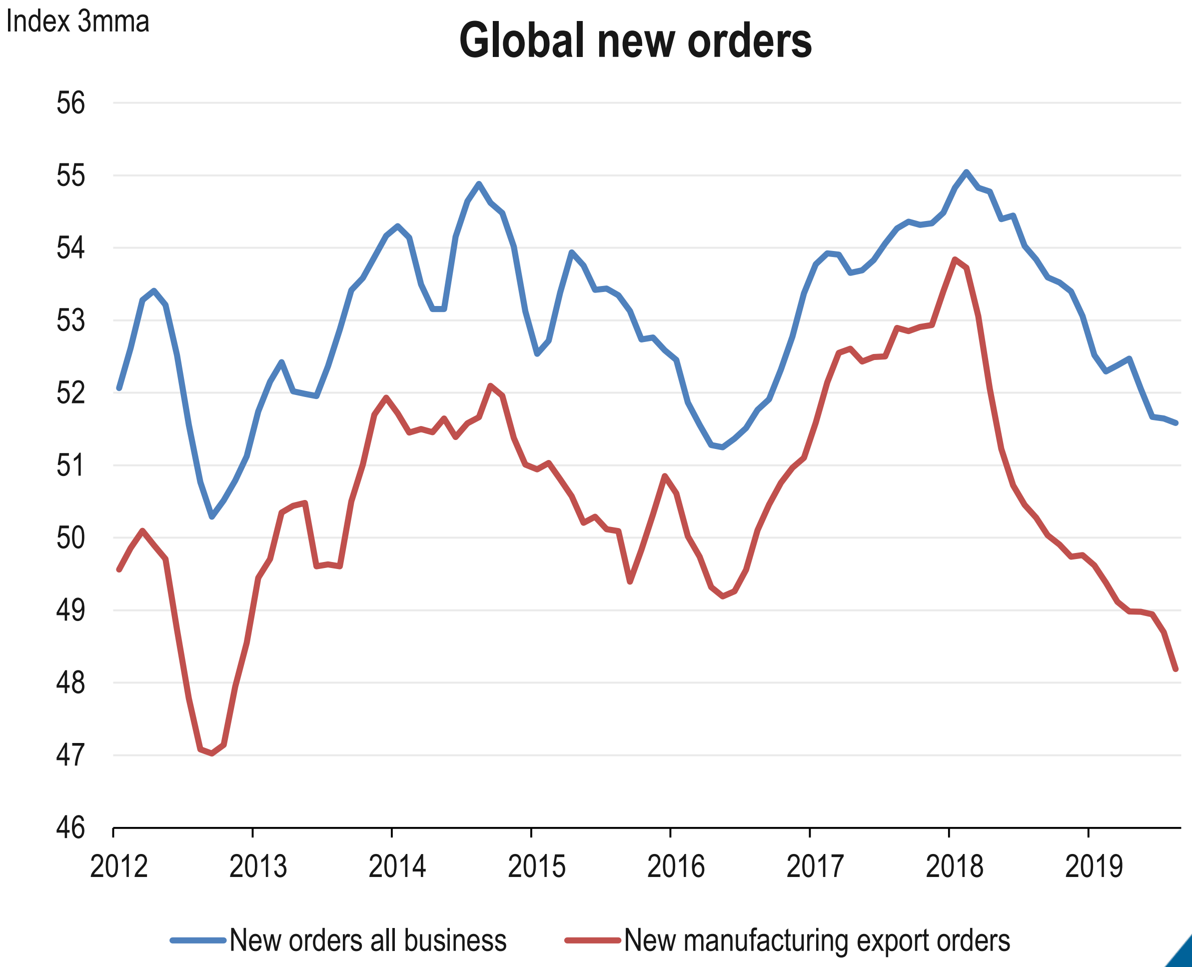
BETTER POLICIES FOR BETTER LIVES

Key messages from new OECD Interim Economic Outlook

- The global outlook continues to darken
  - Growth continues to slow in advanced and emerging economies
  - Investment is taking a hit as high policy uncertainty feeds a collapse in trade growth and a manufacturing slump
  - Consumption is holding up but is threatened by slowing job growth
- Trade and political tensions fuel risks of persistent low growth
  - Escalating trade restrictions are entrenching uncertainty and endangering future growth
  - A no-deal Brexit would hurt the UK economy and create disruptions across Europe
  - High private debt of deteriorating quality could amplify the effects of shocks
- Governments can reverse the spiralling costs of uncertainty and invest more
  - Halt the surge in trade-distorting tariffs and subsidies and restore predictable rules for business
  - Limit the reliance on overstretched monetary policy, think fiscal and structural
  - Undertake public investment and enhance structural reforms to escape persistent weak growth

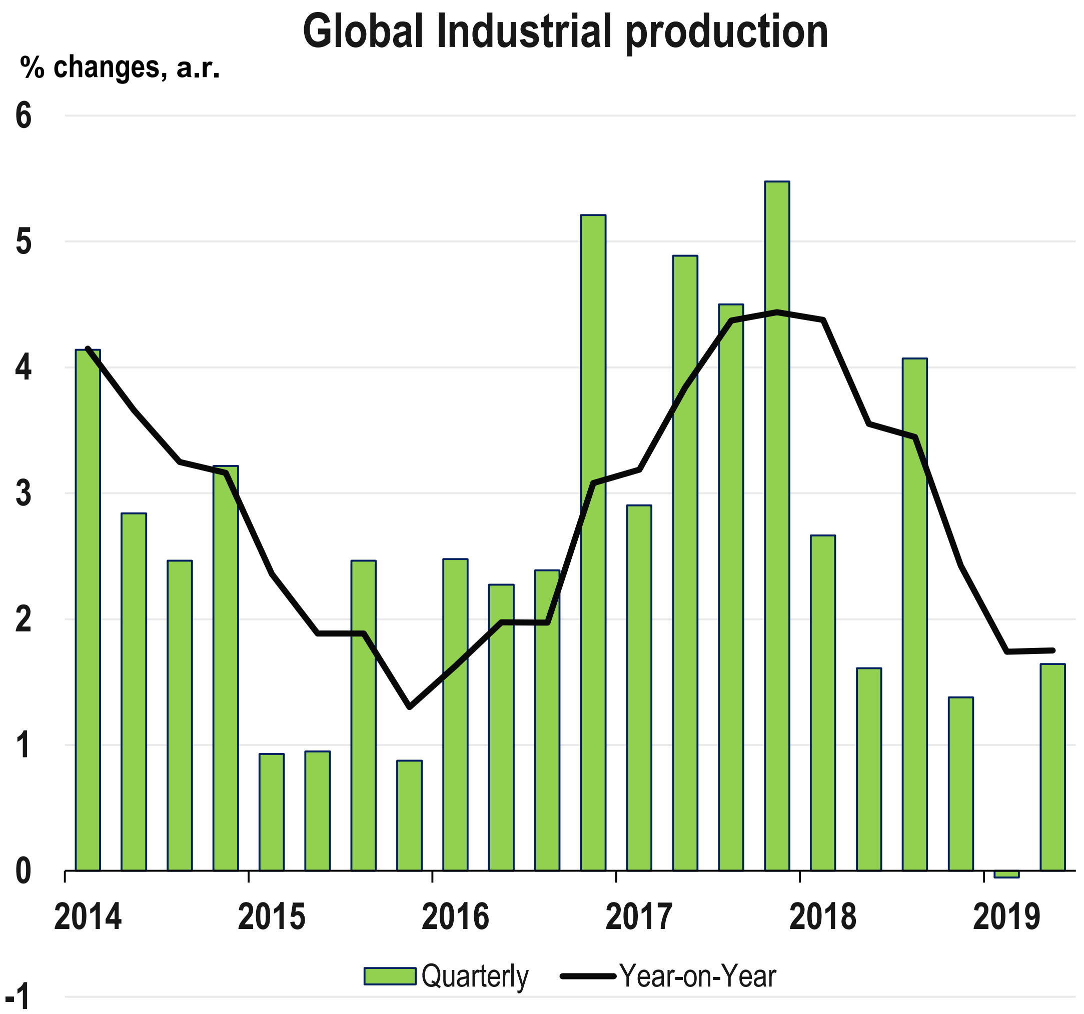
Global growth is weakening

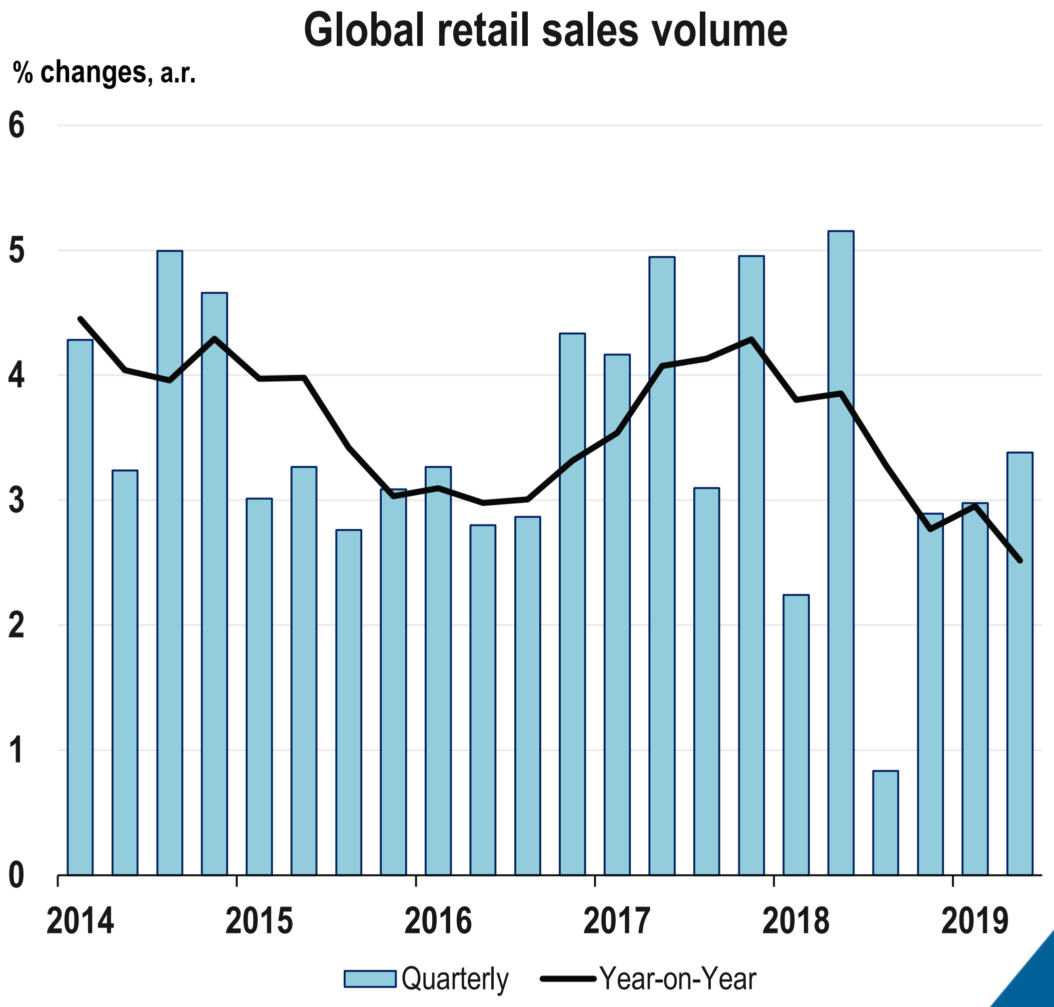




Note: GDP aggregation using PPP weights. Quarterly estimates for 2019 are based on countries with available national accounts data.
Source: OECD Economic Outlook database; Markit; and OECD calculations.

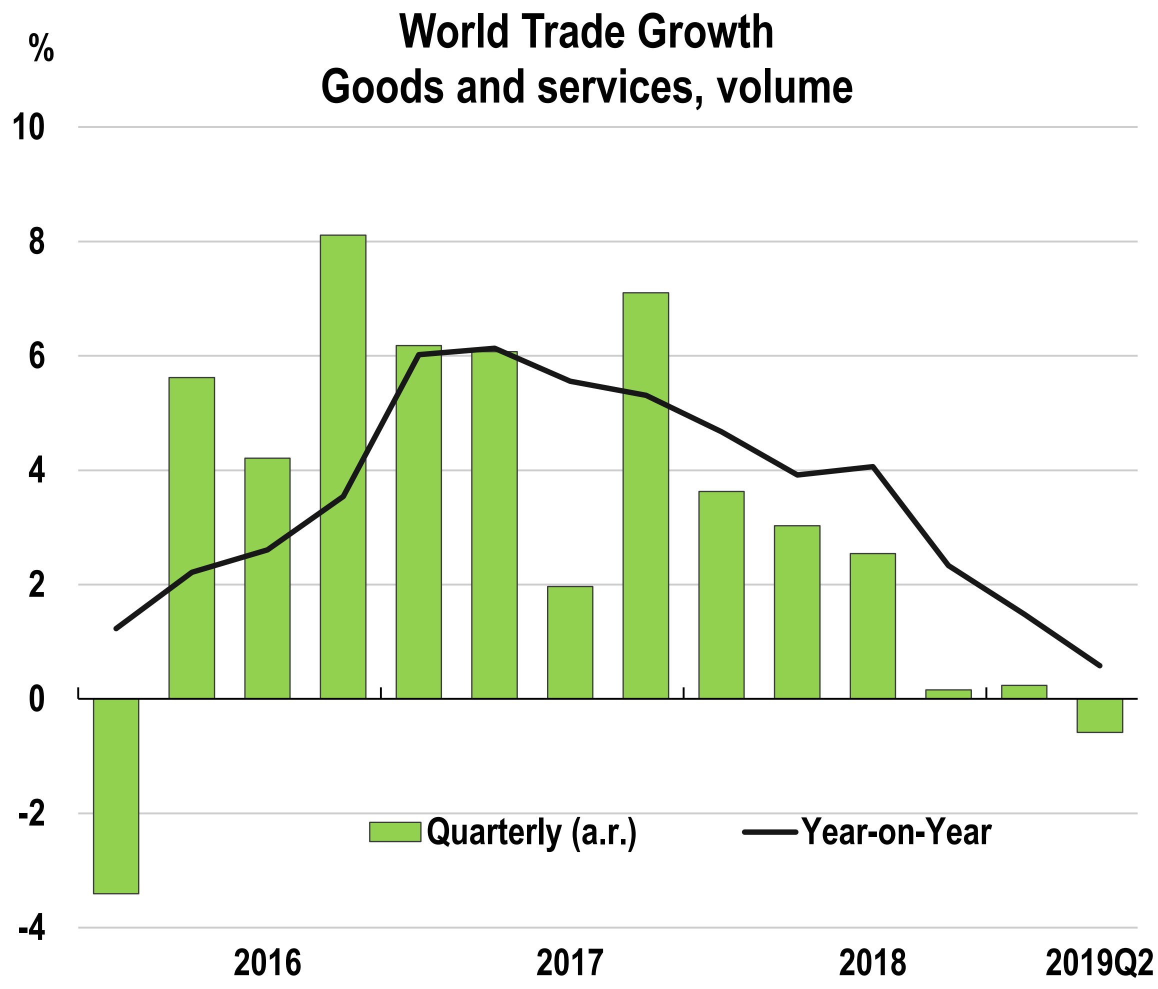
Industrial production has slowed significantly, service sector output is still supported by resilient consumption

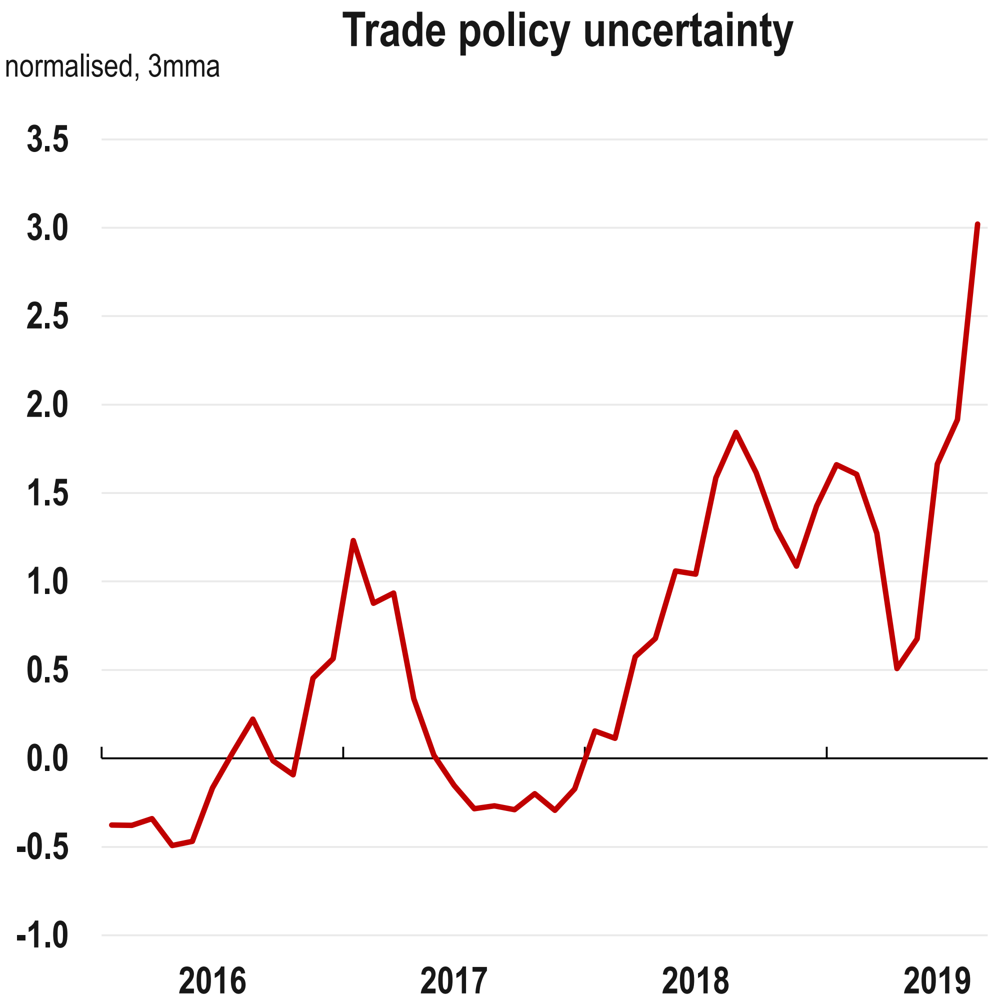




Source: OECD Economic Outlook database; and OECD calculations.

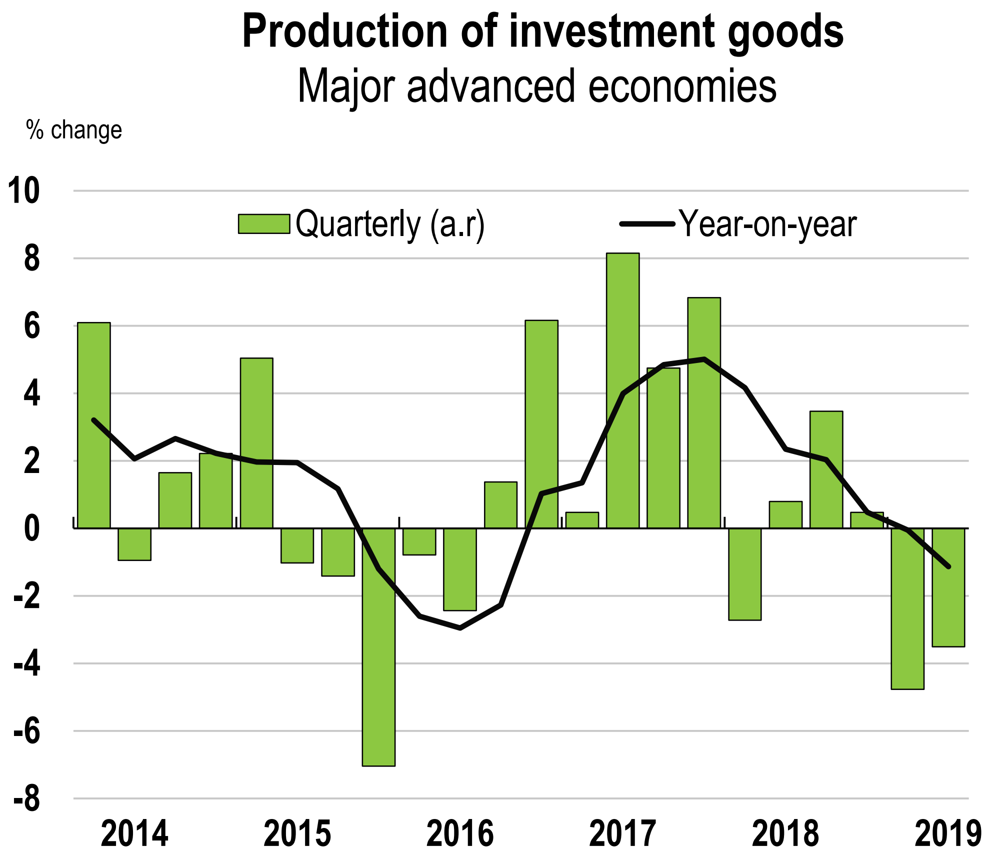
Trade restrictions are dragging down global trade and raising uncertainty

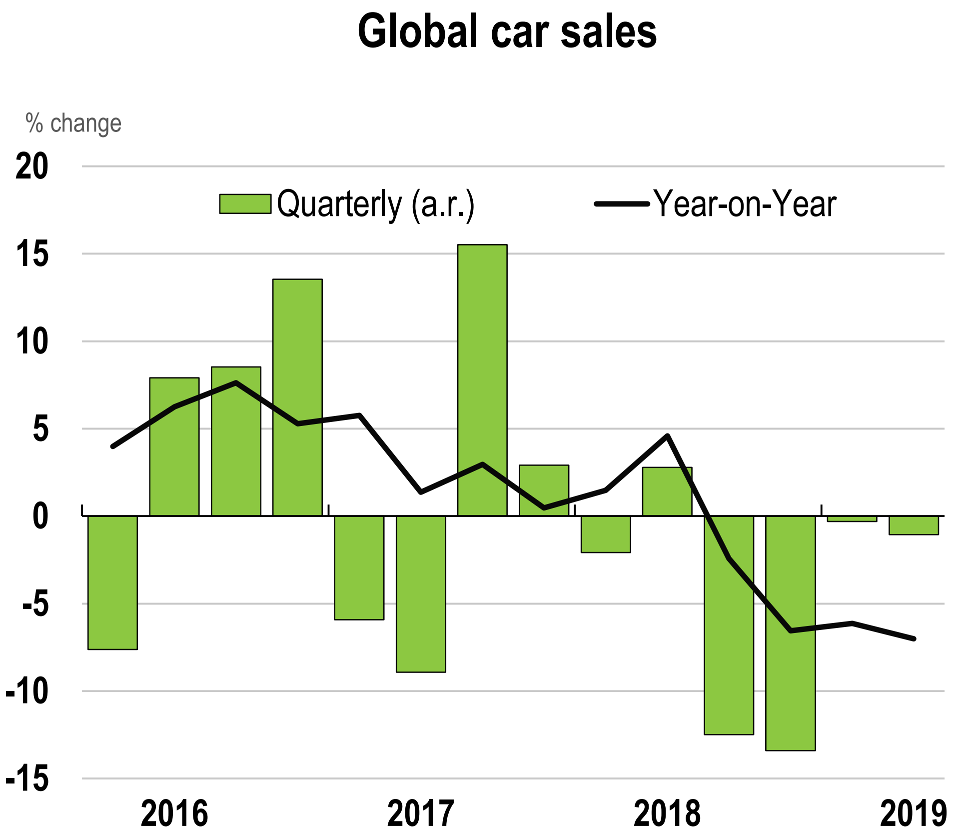




Note: Trade policy uncertainty is a weighted average for the United States and Japan, normalised over 2011-2019.
Source: OECD Economic Outlook database; policyuncertainty.com; and OECD calculations.

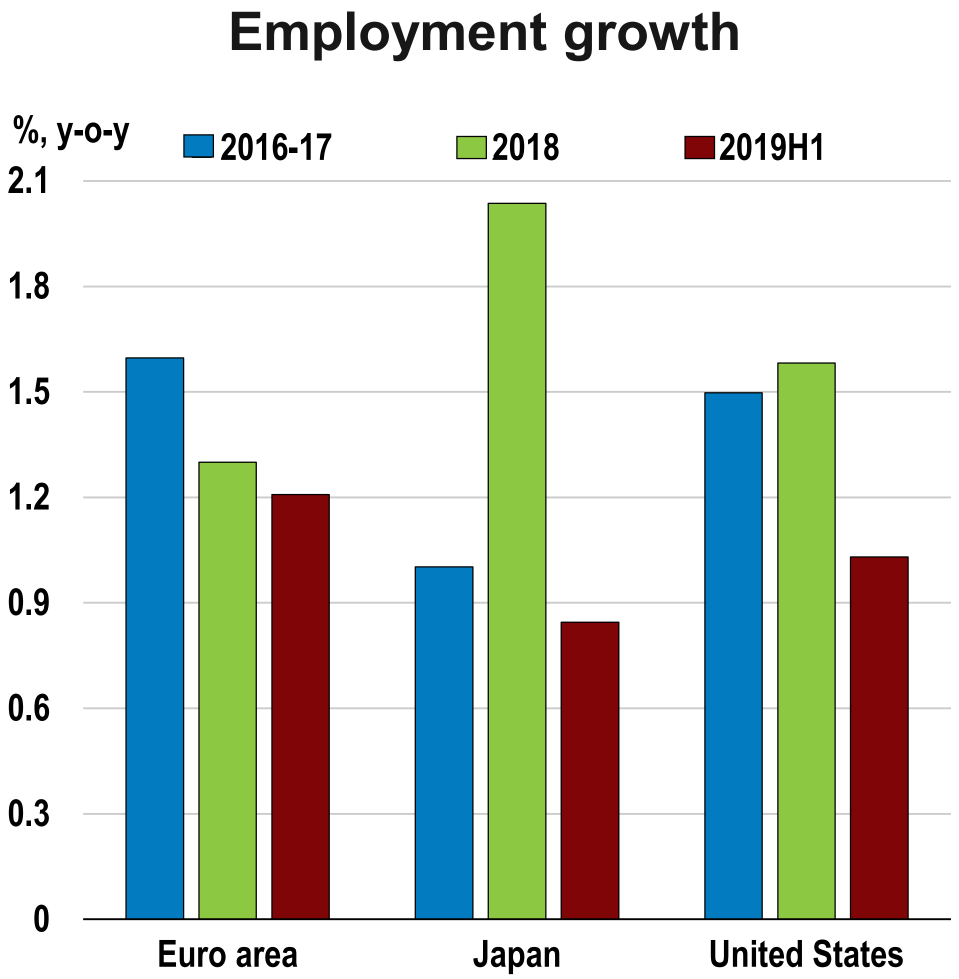
Uncertainty is weighting on demand for investments goods and consumer durables

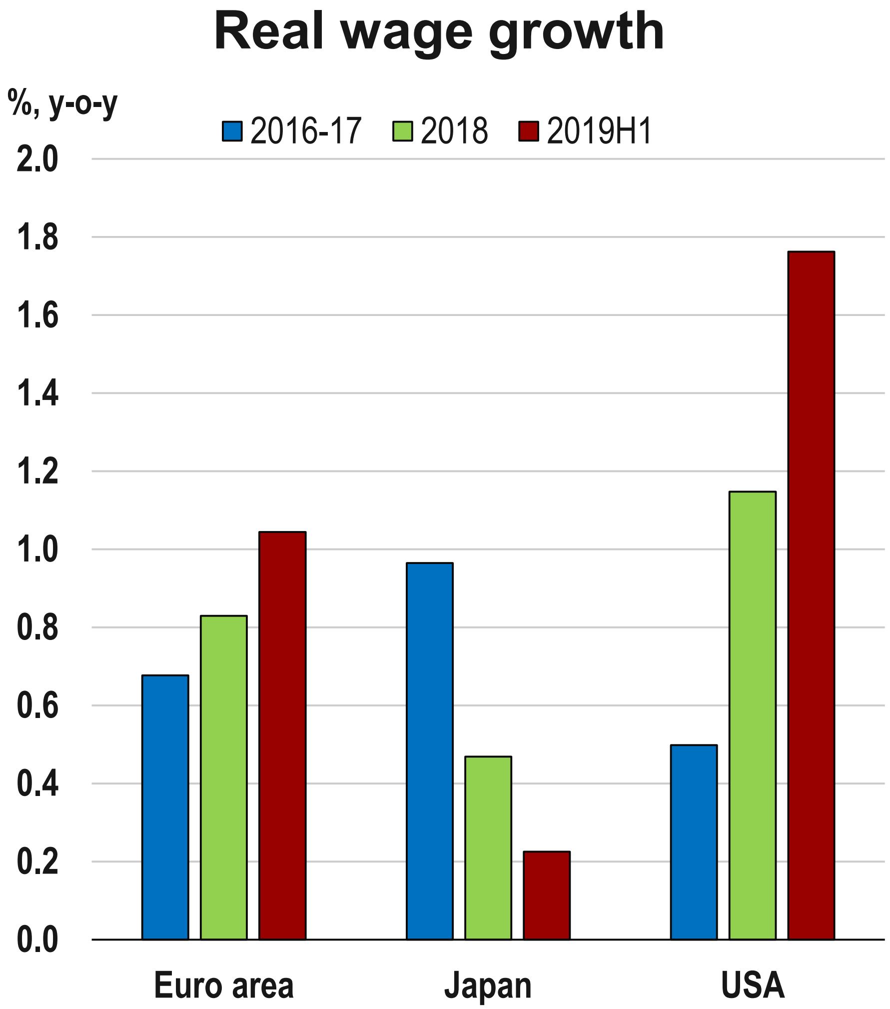




Note: Production of investment goods is a weighted average of output in the euro area, the United States, Japan, Korea and the United Kingdom. Production of business equipment is used for the United States.
Source: OECD Economic Outlook database; US Federal Reserve; Eurostat; Ministry and Trade and Industry, Japan; KOSIS; and OECD calculations.

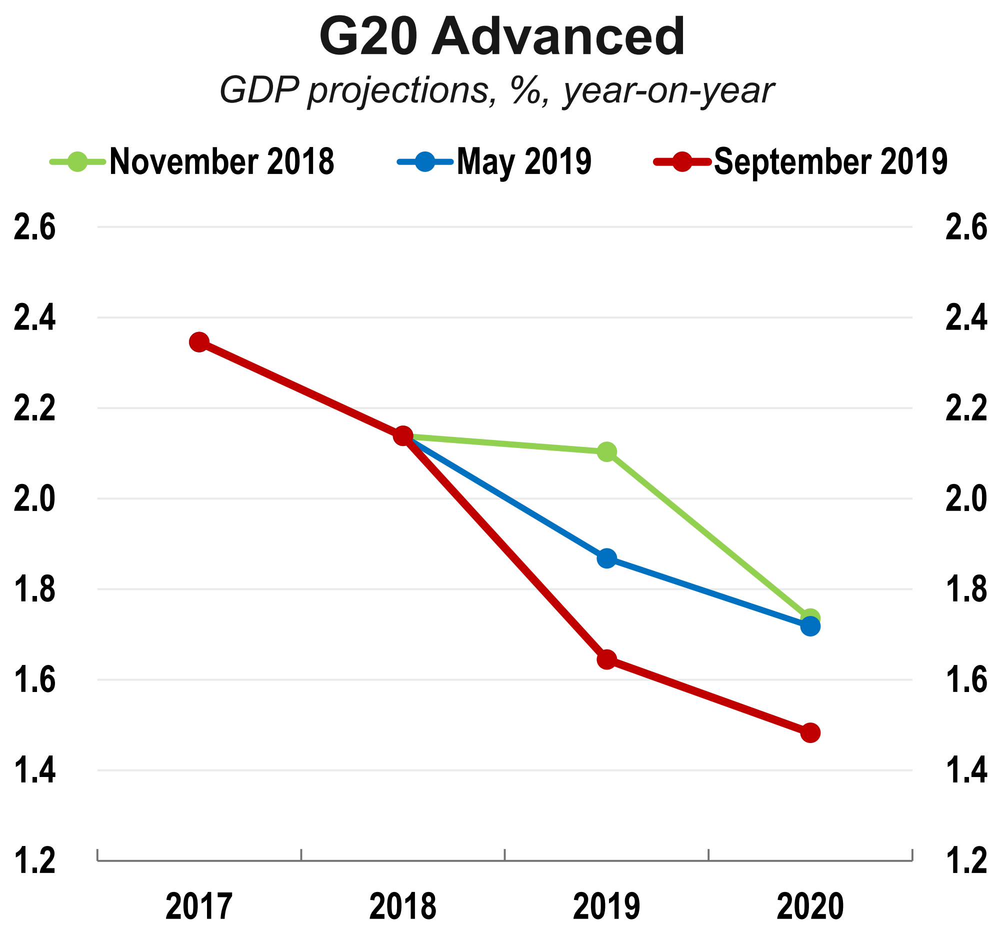
Labour market are still supporting households incomes but employment growth is slowing

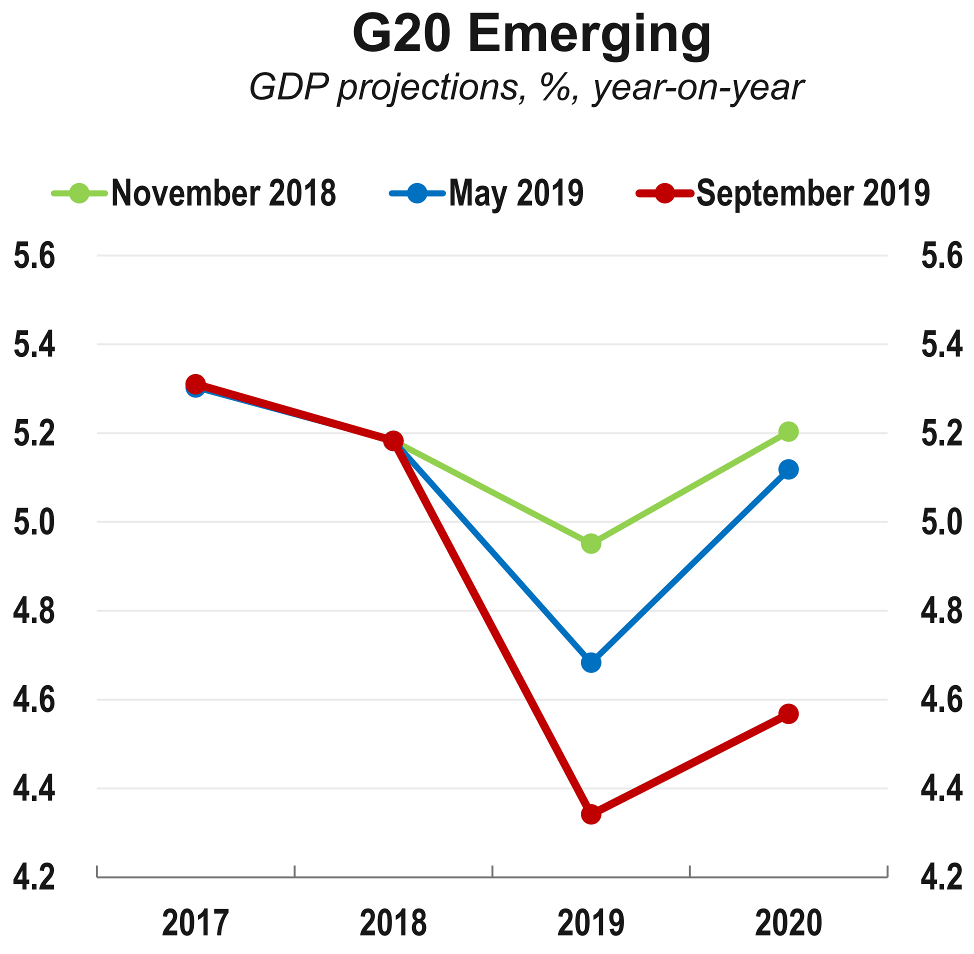




Note: 2019H1 is annualised. Real wages are measured as compensation per employee deflated by the private consumption deflator. Data for the euro area are estimated for 2019q2 using seasonally adjusted data for negotiated wage growth and harmonized consumer prices.
Source: OECD Economic Outlook database; Eurostat; ECB; and OECD calculations.

GDP growth projections have been downgraded





Note: G20 advanced economies are Australia, Canada, France, Germany, Italy, Japan, Korea, the United Kingdom and the United States. G20 emerging economies are Argentina, Brazil, China, India, Indonesia, Mexico, Russia, Saudi Arabia, South Africa and Turkey.
Source: OECD Economic Outlook database; and OECD calculations.

Downward revisions were broad-based

OECD Interim Economic Outlook projections

%, year-on-year. Arrows indicate the direction of revisions since May 2019.

downward by 0.6 pp and more | downward by 0.3 to 0.6 pp | downward by less than 0.3 pp | no revision | upward

	2018	2019	2020
World	3.6	2.9	3.0
Australia	2.7	1.7	2.0
Canada	1.9	1.5	1.6
Euro area	1.9	1.1	1.0
Germany	1.5	0.5	0.6
France	1.7	1.3	1.2
Italy	0.7	0.0	0.4
Japan	0.8	1.0	0.6
Korea	2.7	2.1	2.3
United Kingdom	1.4	1.0	0.9
United States	2.9	2.4	2.0

	2018	2019	2020
G20	3.8	3.1	3.2
Argentina	-2.5	-2.7	-1.8
Brazil	1.1	0.8	1.7
China	6.6	6.1	5.7
India[1]	6.8	5.9	6.3
Indonesia	5.2	5.0	5.0
Mexico	2.0	0.5	1.5
Russia	2.3	0.9	1.6
Saudi Arabia	2.2	1.5	1.5
South Africa	0.8	0.5	1.1
Turkey	2.8	-0.3	1.6

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 also members in their own right.

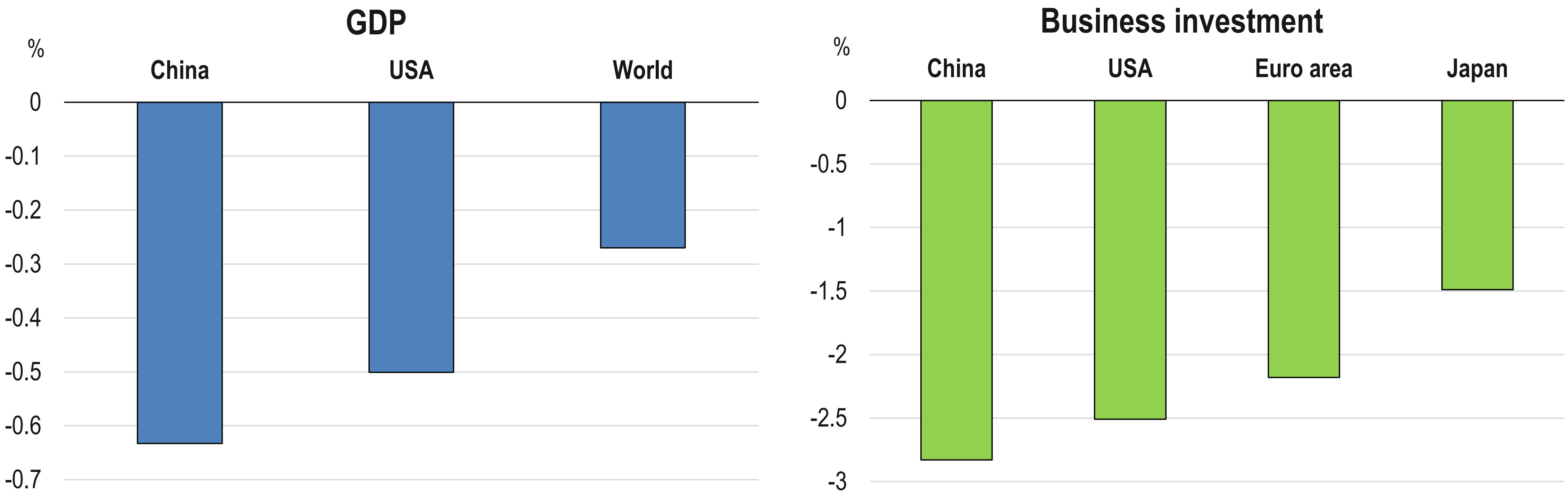
1. Fiscal years starting in April.

Source: OECD Economic Outlook database; and OECD calculations.

Trade conflicts are entrenching uncertainty and risk long-lasting harm to investment

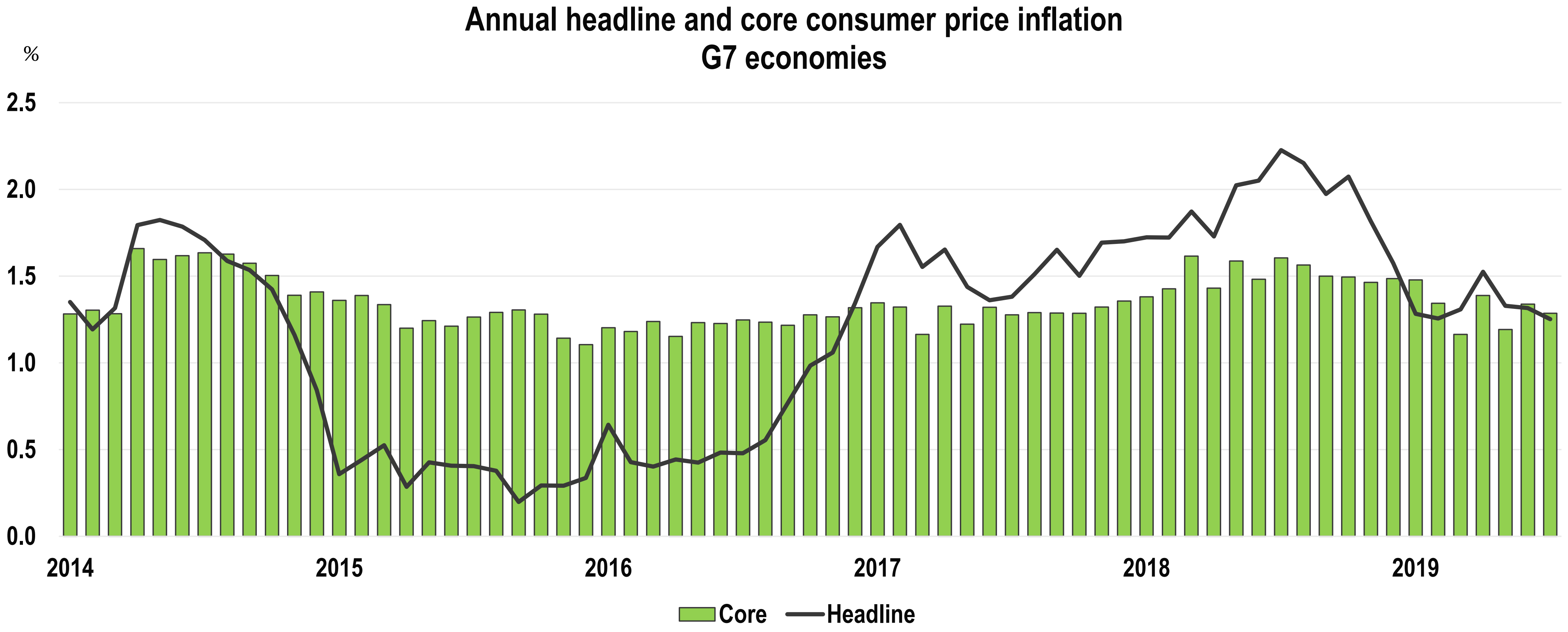
Impact of 2019 US-China trade restrictions

Difference from baseline after by 2020-2021 years



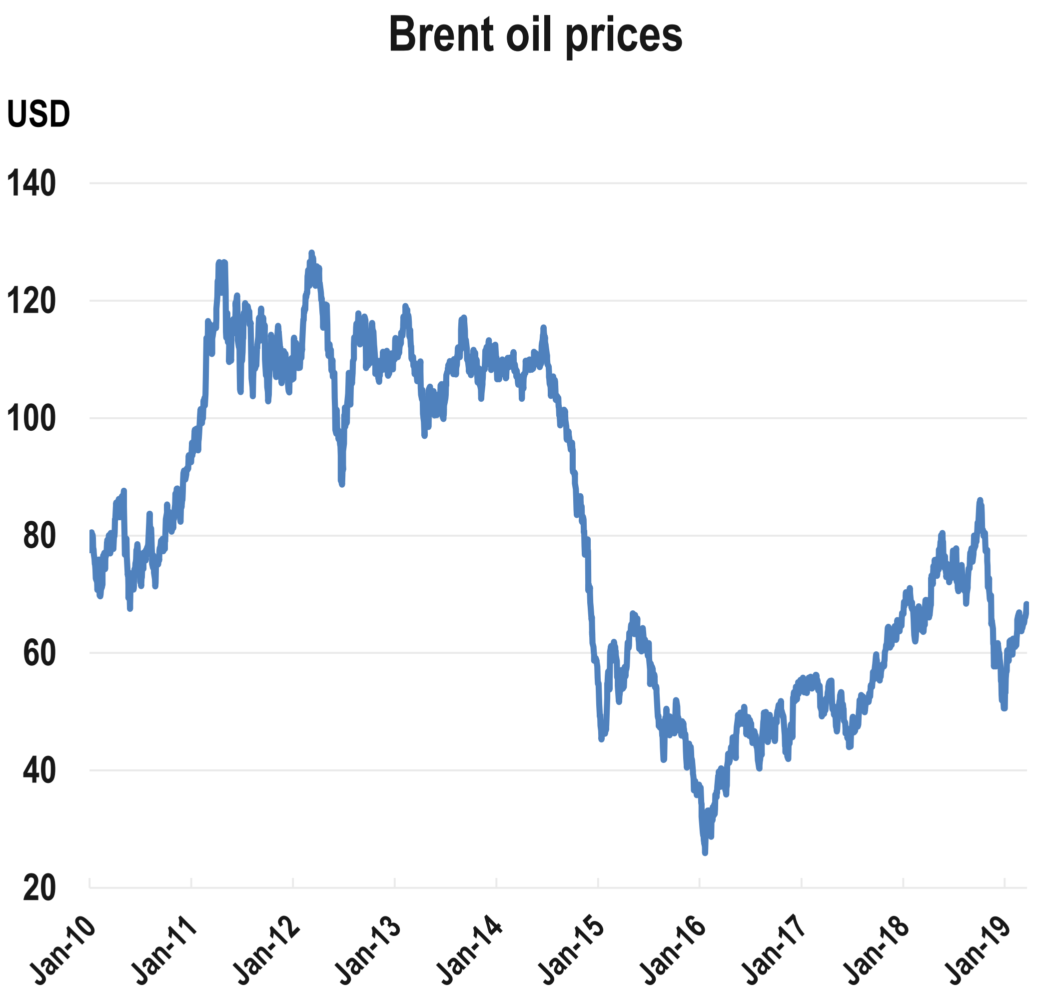
Note: Total investment for China. The scenario shows the impact of: the United States raising tariffs on USD 200 billion of imports from China from 10% to 25% from mid-May 2019 (with reciprocal action by China on USD 60 billion of imports from the United States); the US further raising tariffs to 30% on USD 200 billion of imports to China in October and implementing tariffs of 15% on USD 110 billion and USD 160 billion of remaining imports from China in September and December 2019 respectively, with China assumed to react proportionately to these changes by raising tariffs on imports from the United States; and a global rise of 50 basis points in investment risk premia that persists for three years before slowly fading thereafter. All tariff shocks are maintained for six years. Based on simulations on NiGEM in forward-looking mode.
Source: OECD calculations.

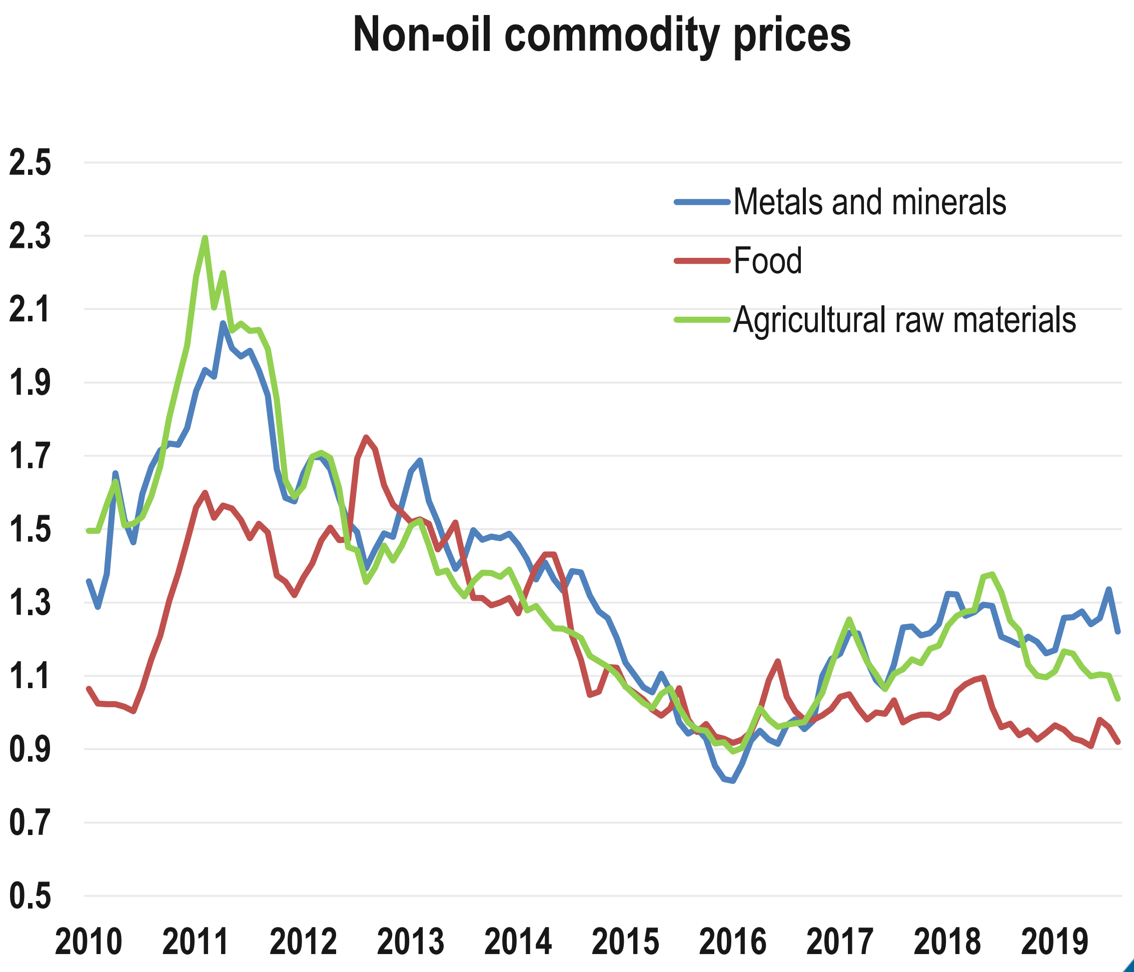
Inflation remains mild and below target



Source: OECD main Indicators database, and OECD calculations.

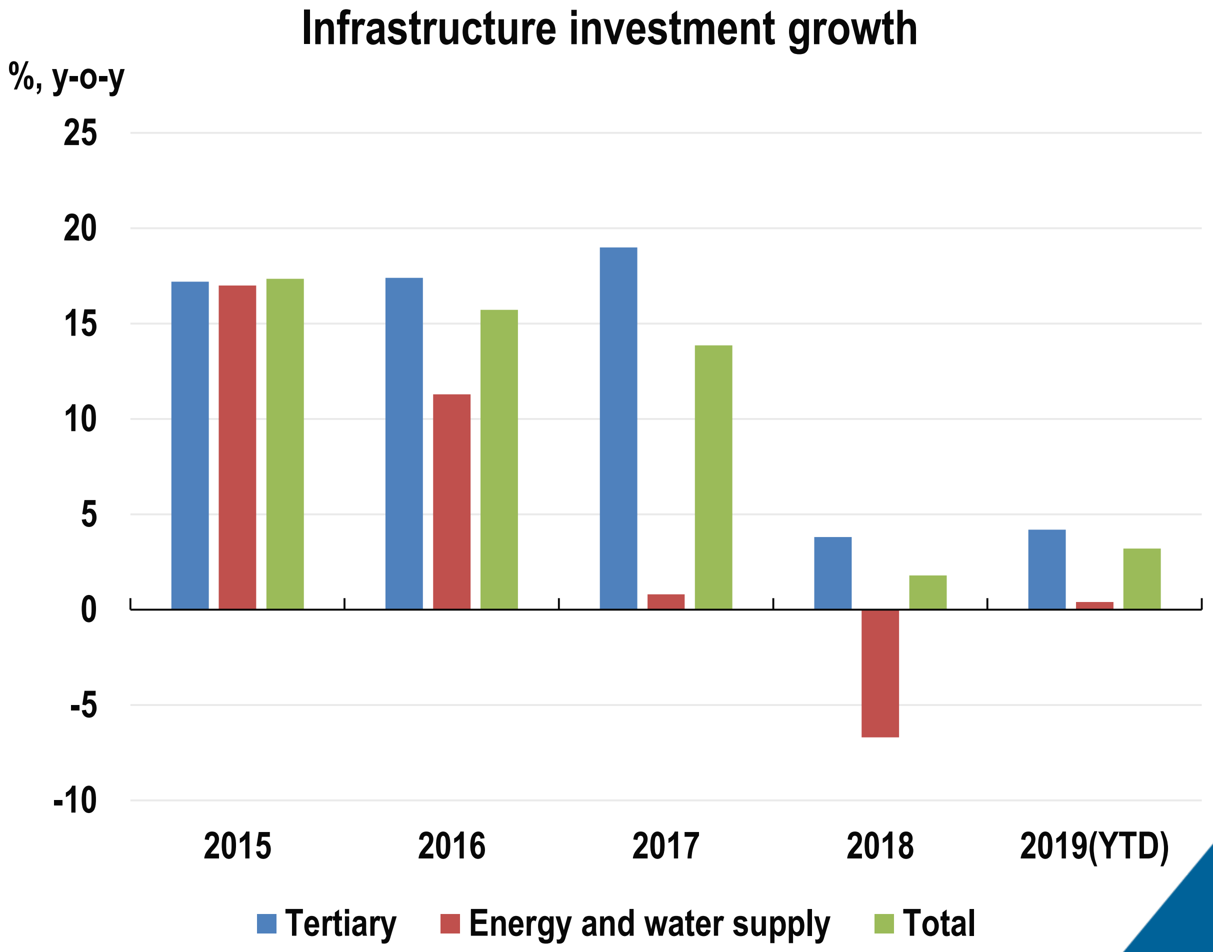
Commodities prices remain moderate but geopolitical tensions could lead to an upward strike in oil prices





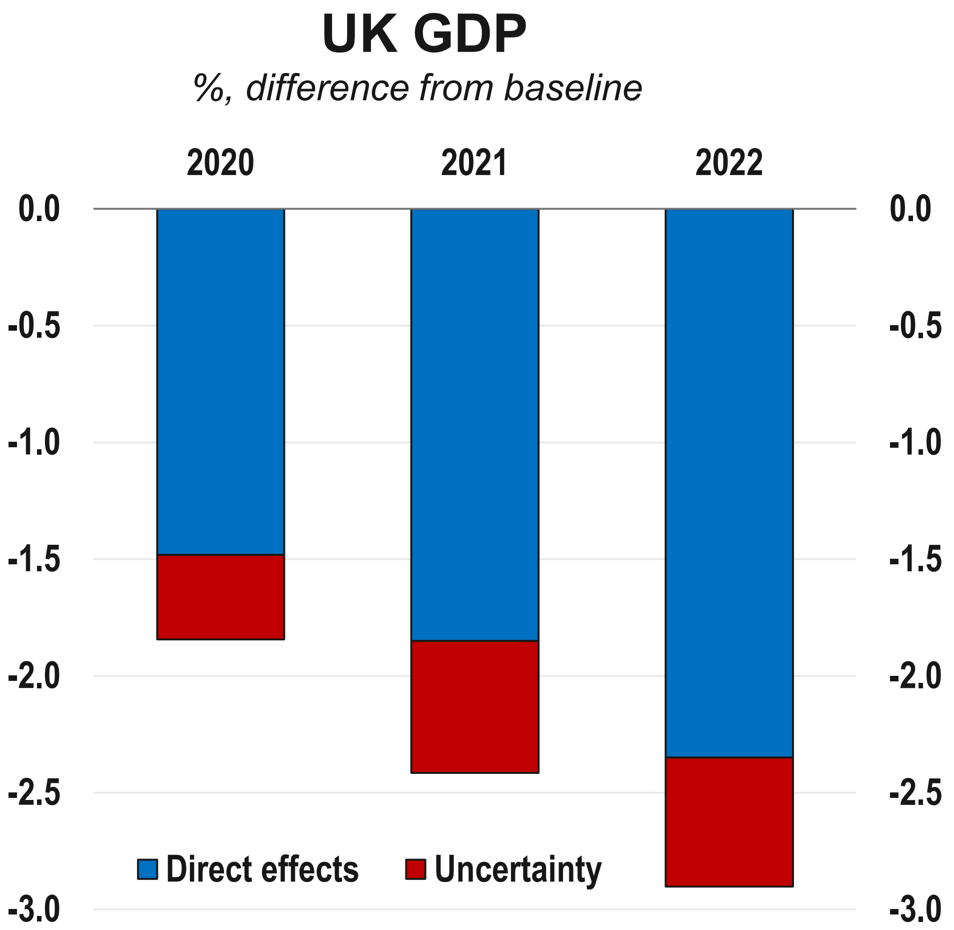
Source: OECD Main Indicators Database, Thomson Reuters and OECD calculations.

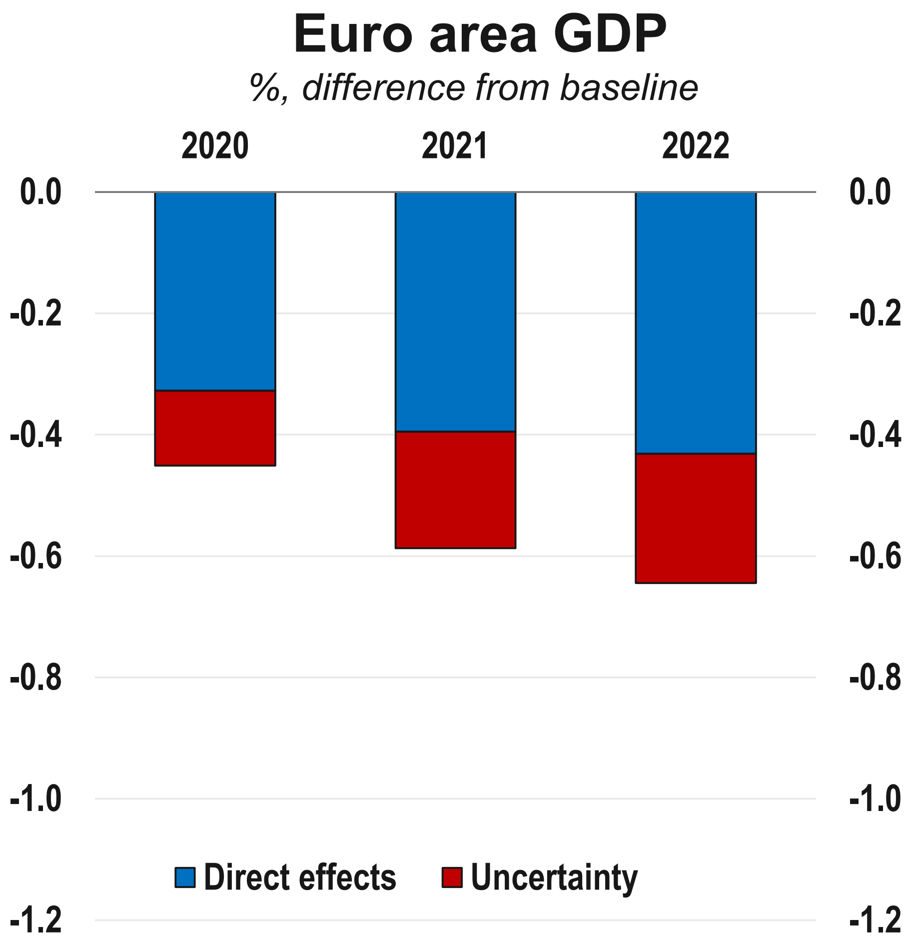
Growth in China could slow more sharply than expected



Note: Export volume data for the United States calculated using seasonally unadjusted data on nominal exports to China and the price of exports to China. Infrastructure investment in the tertiary sector includes investment in transport and communications, plus investment in water management and environmental conservation. Estimates for 2019 are for the first seven months relative to the first seven months of 2018.
Source: OECD Economic Outlook database; Eurostat; Bank of Japan; Census Bureau; Bureau of Labor Statistics; National Bureau of Statistics of China; and OECD calculations.

A no-deal Brexit would have large costs





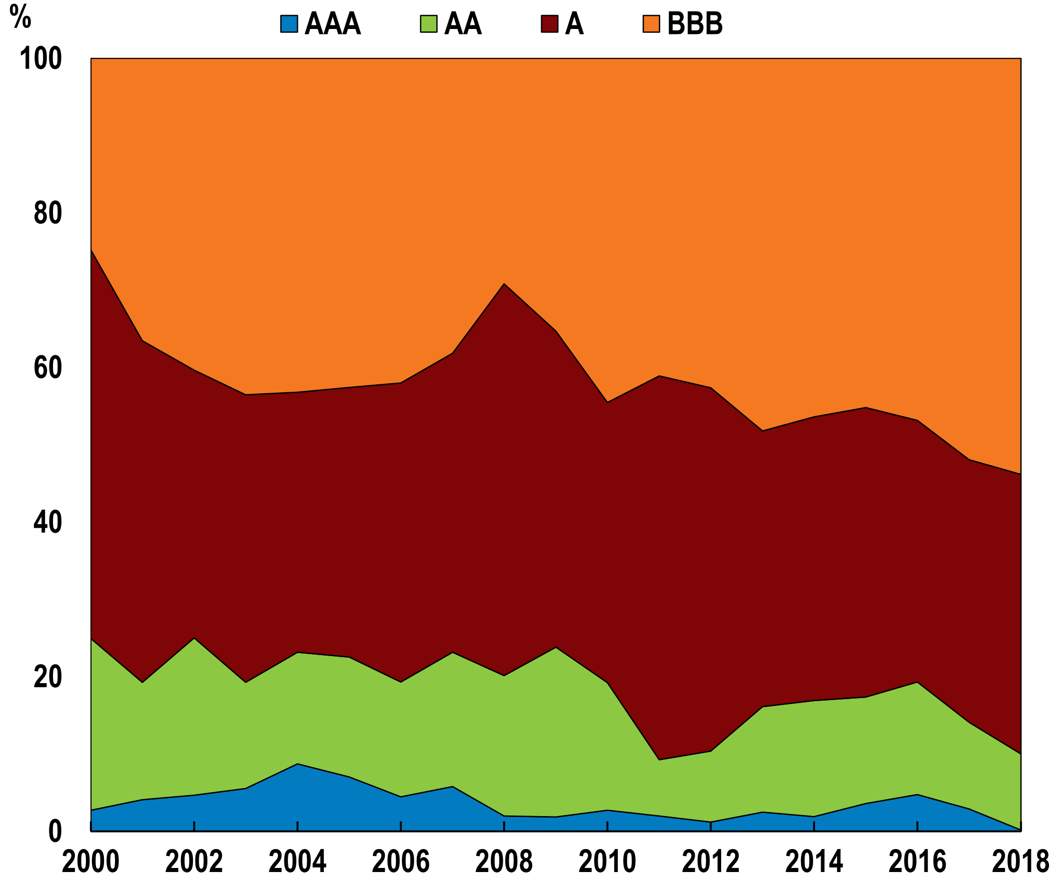
Note: The direct effects include a decline in UK export volumes, declines in EU countries' exports with the impact on individual countries dependent on the extent of their direct trade with the UK, a depreciation of the sterling upon exit, a decline in labour-augmenting technical progress due to lower trade openness and a decline in net inward migration. The uncertainty effect captures a rise in investment risk premia. No monetary and fiscal policy response is assumed beyond already announced measures, which are incorporated in the baseline.

Source: OECD calculations, using the NiGEM global macroeconomic model.

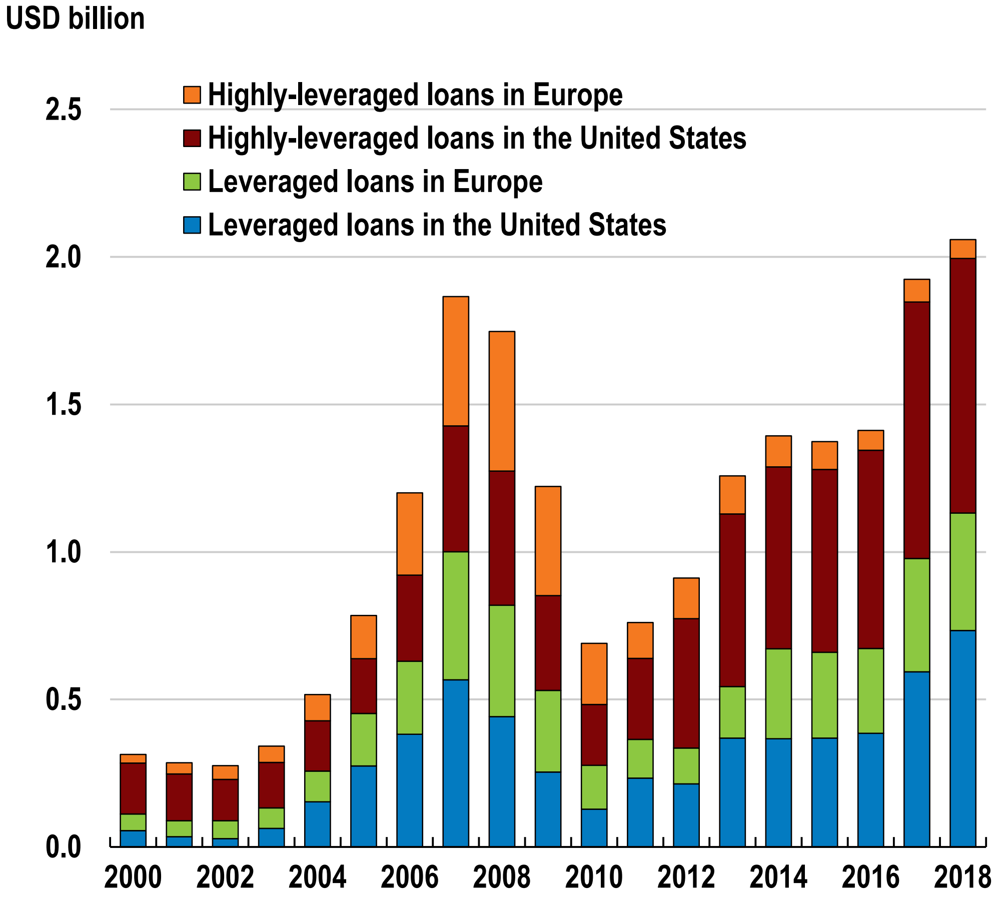
Investors hold massive amounts of risky debt

Investment-grade corporate bonds

% share of bond issuance, by rating



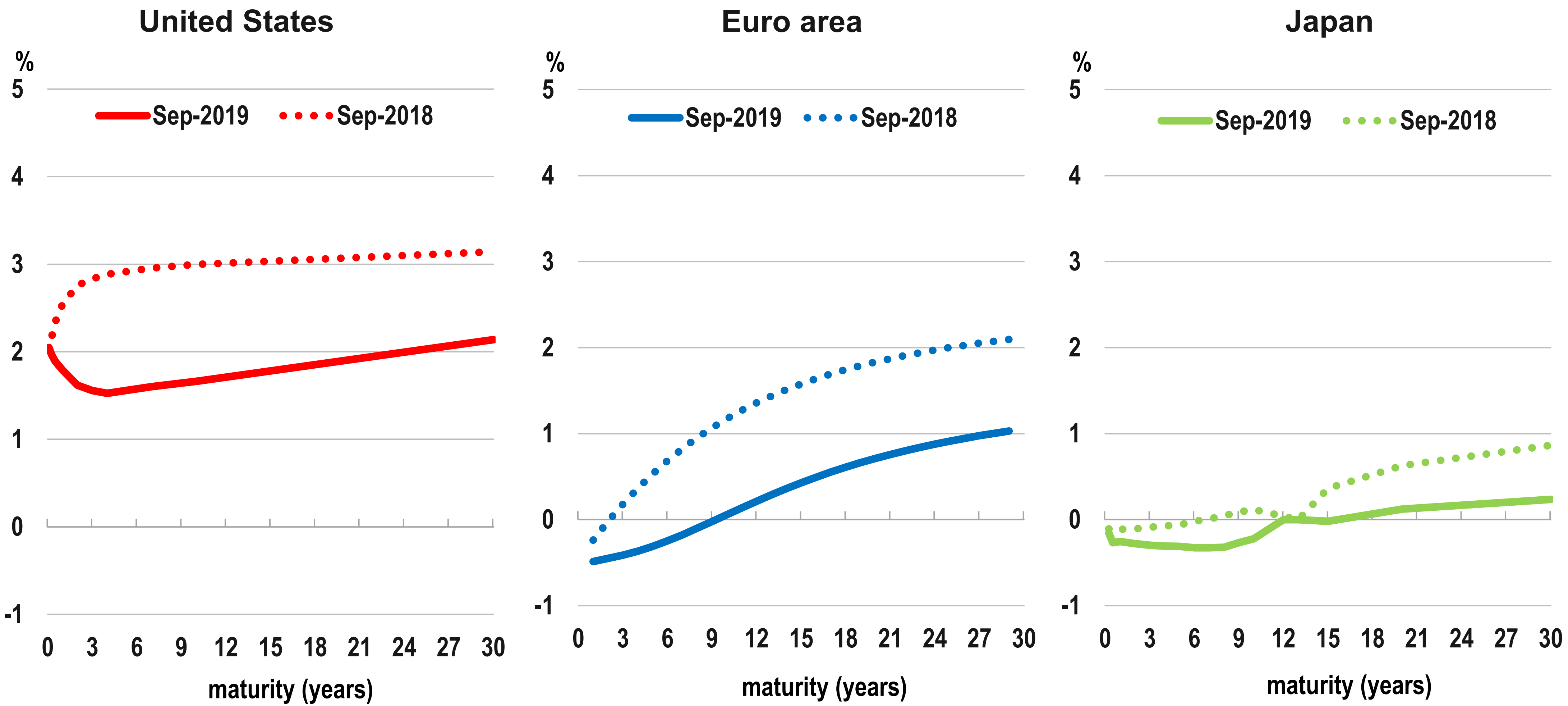
Corporate leveraged loans outstanding



Note: Left: Only non-financial companies rated by S&P, Fitch and/or Moody's. Right: The outstanding amount is calculated based on non-financial corporate loan issuance but excludes the value of drawn and undrawn revolving credit facilities. A linear amortisation schedule is assumed for term loans and other amortising loans (i.e., mortgages, equipment, construction, commercial loans). All other term loans are not amortised as they are repayable at maturity. To account for loan re-financing, a 40% early repayment ratio is assumed.
Source: Patalano and Roulet (2019); and Çelik and Isaksson (2019).

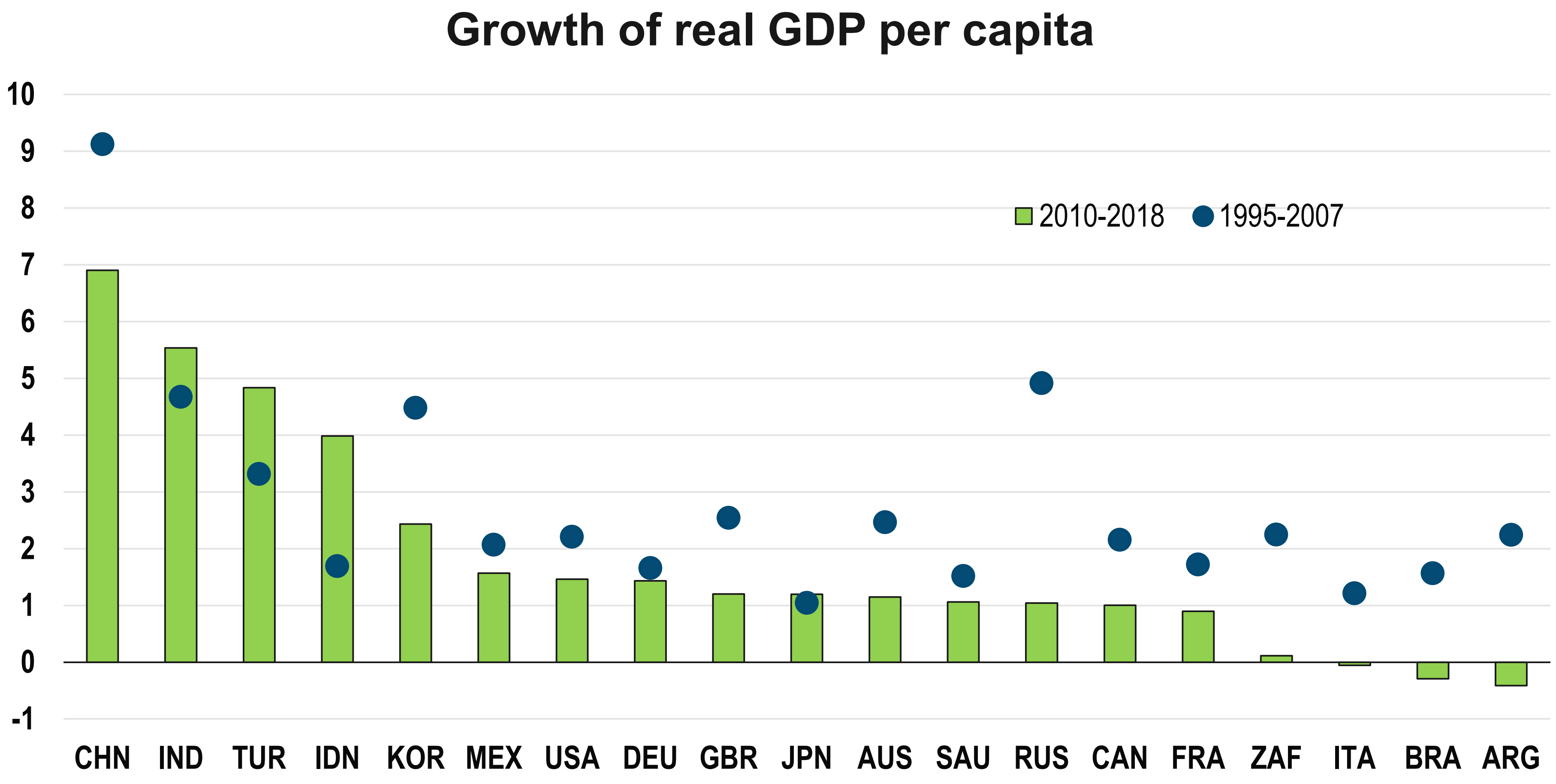
Monetary policy has little room for manoeuvre in advanced economies

Yield curves on government bonds



Note: Yield curves on benchmark government bonds as of 16 September 2019.
Source: Refinitiv; and ECB.

Reducing uncertainty and enhancing fiscal support and structural reforms efforts are needed to avoid persistent low growth



Source: OECD Economic Outlook database.