



GLOBAL ECONOMIC OUTLOOK

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25 March 2019

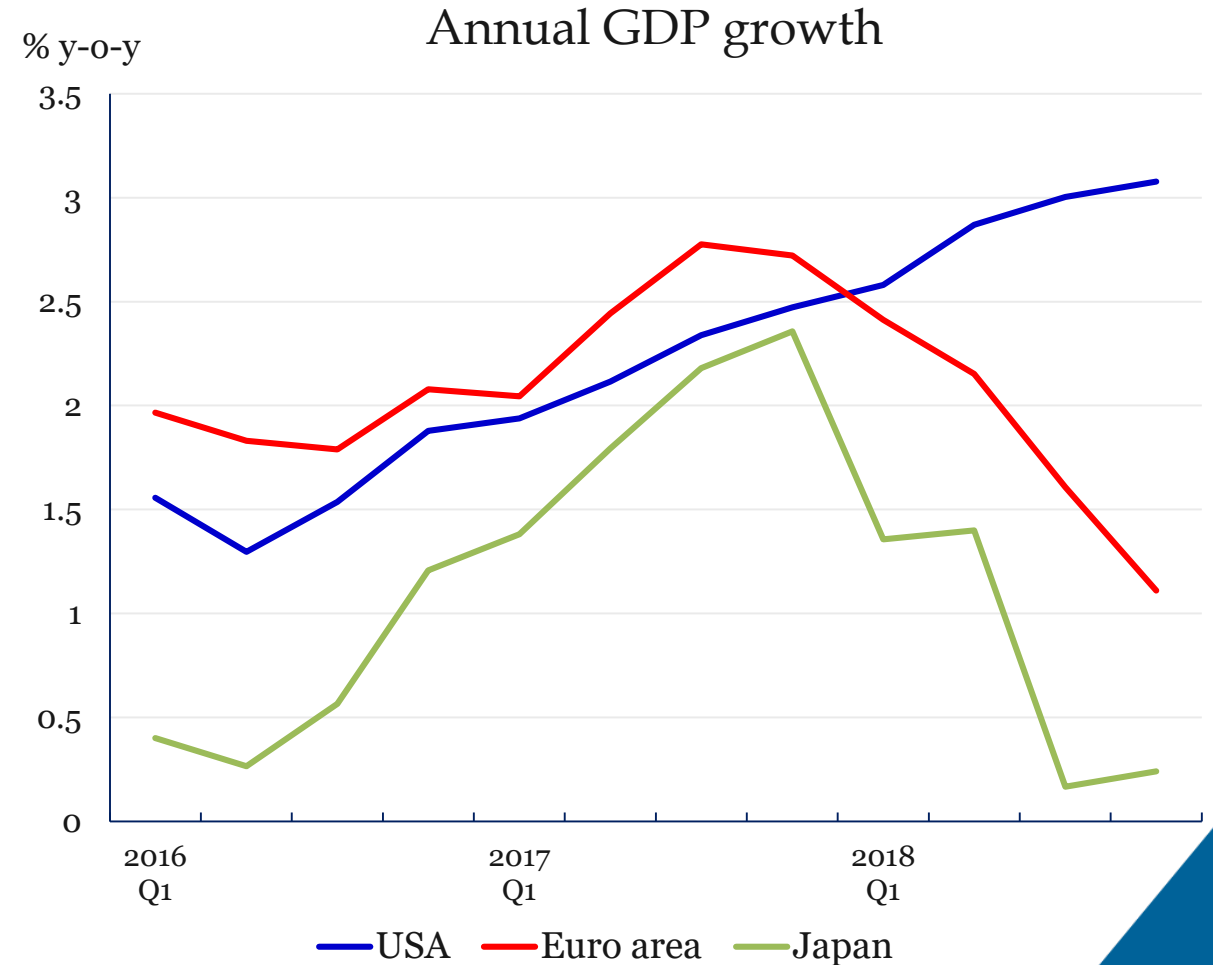
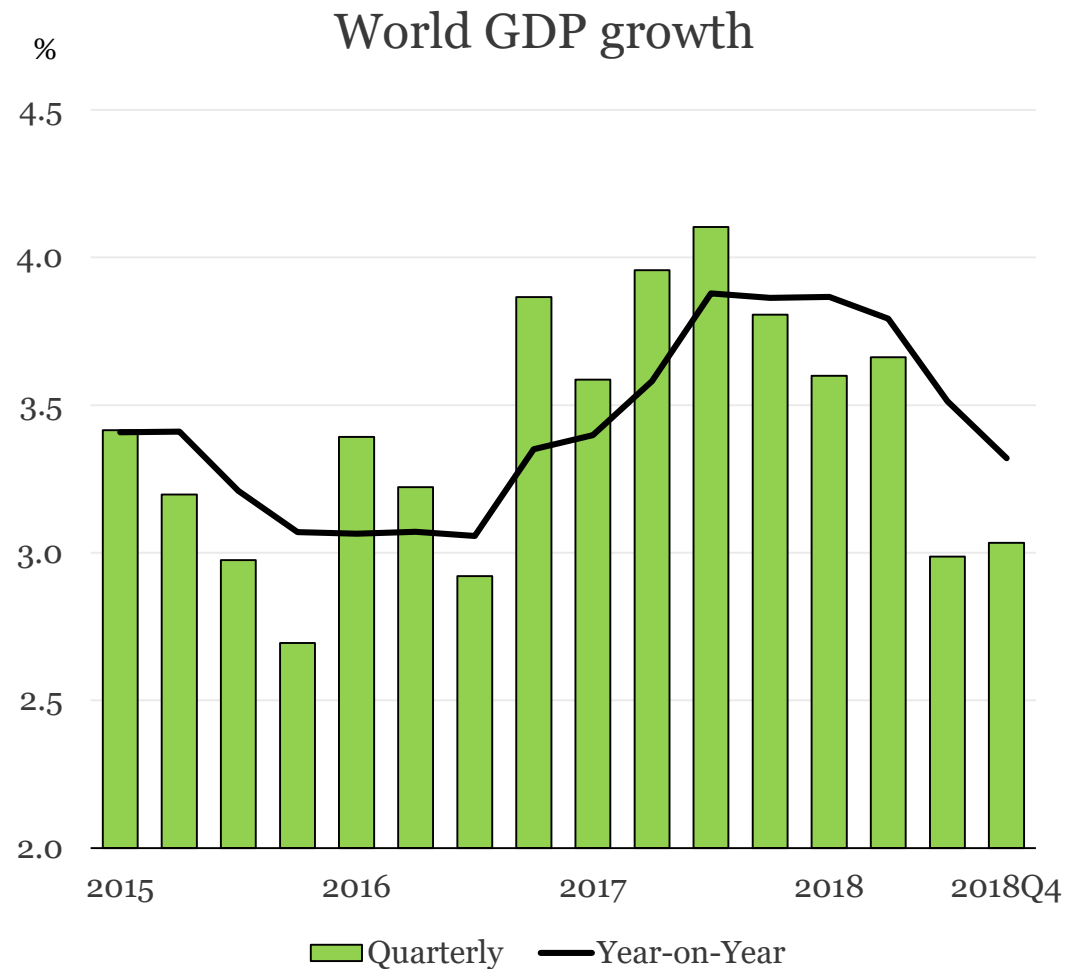


Summary

- Growth is weakening, especially in Europe
 - Business sentiment is moderating
 - Tariffs and policy uncertainties are weighing on trade growth
 - Financial market conditions have improved
 - Labour markets have improved and support domestic demand but wages and inflation remain surprisingly modest
- Downside risks are more prominent: vulnerabilities in China, Europe and financial markets could weaken growth further
- Weaker long term growth prospects call for more ambitious structural reform efforts



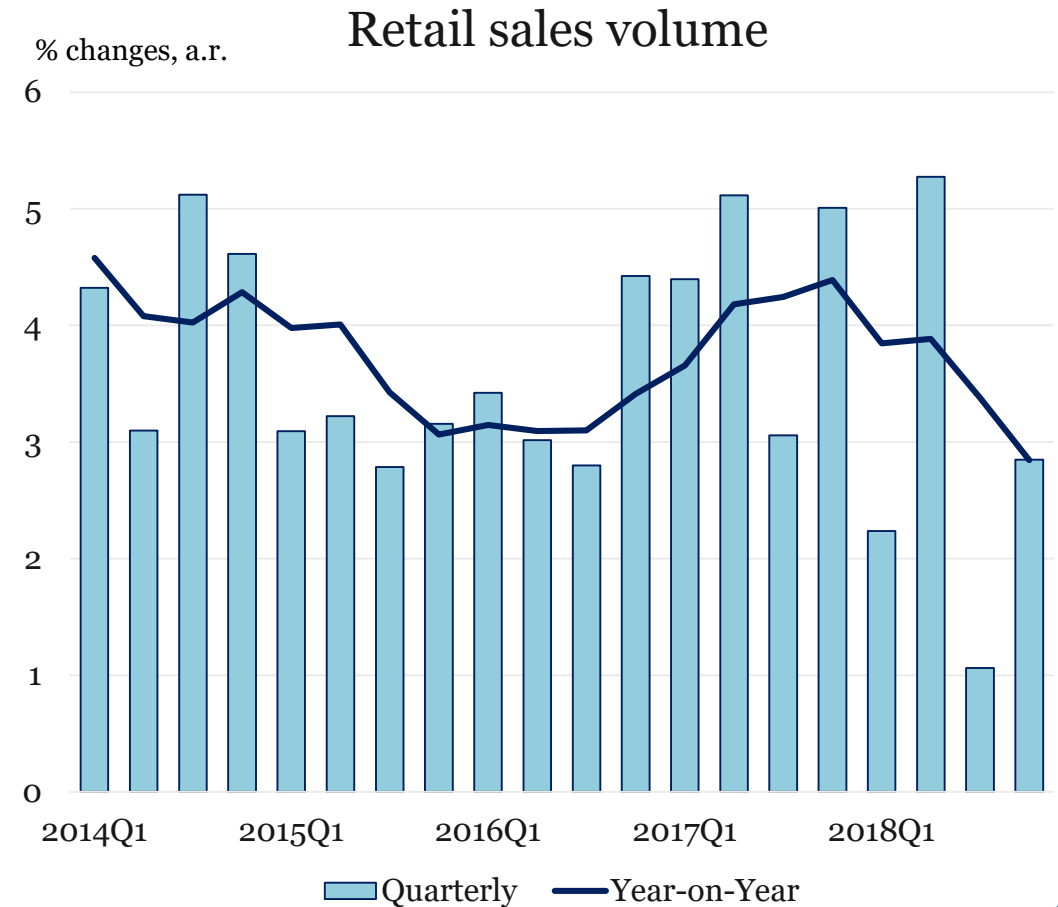
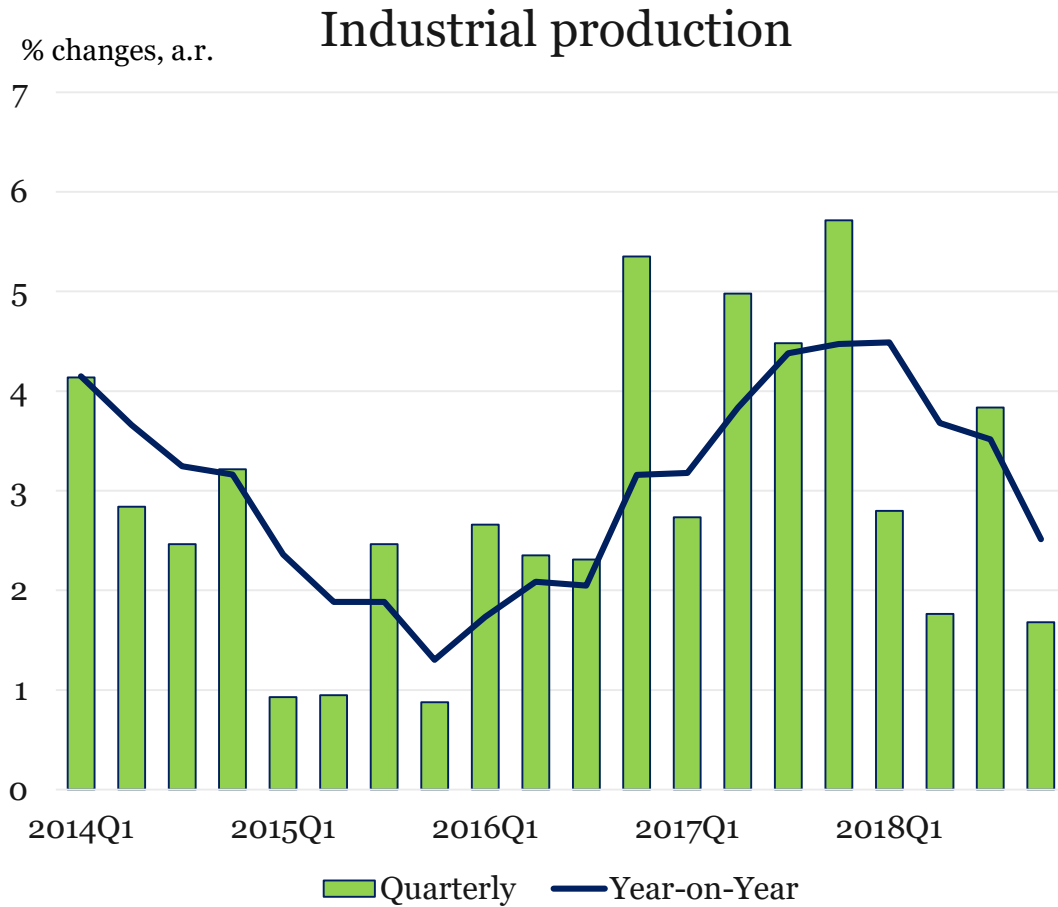
Global growth is slowing with further signs of decoupling



Source: OECD Main indicators database, Thomson Reuters and OECD calculations.



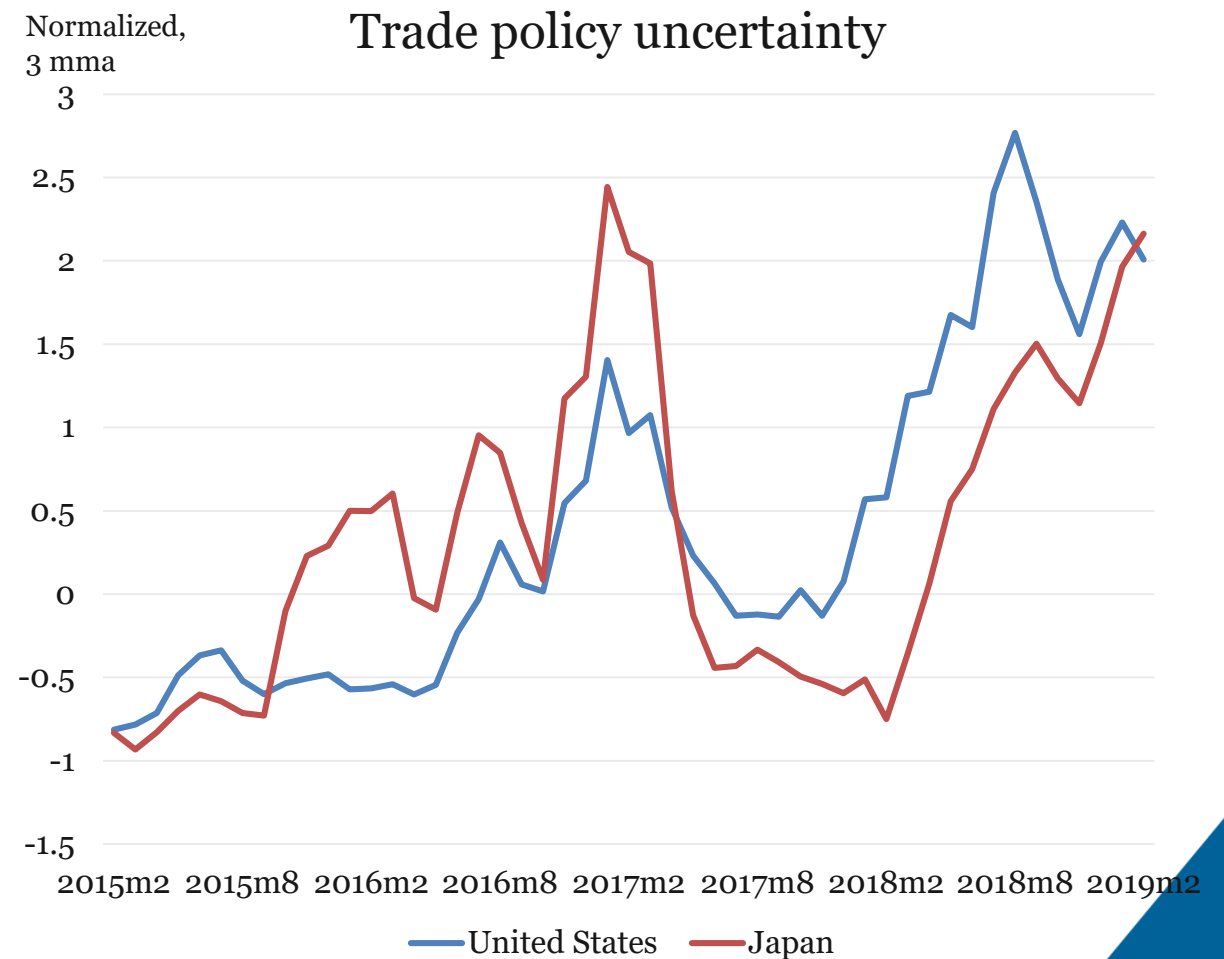
Industrial production and retail sales are easing



Source: OECD Main indicators database, Thomson Reuters and OECD calculations.



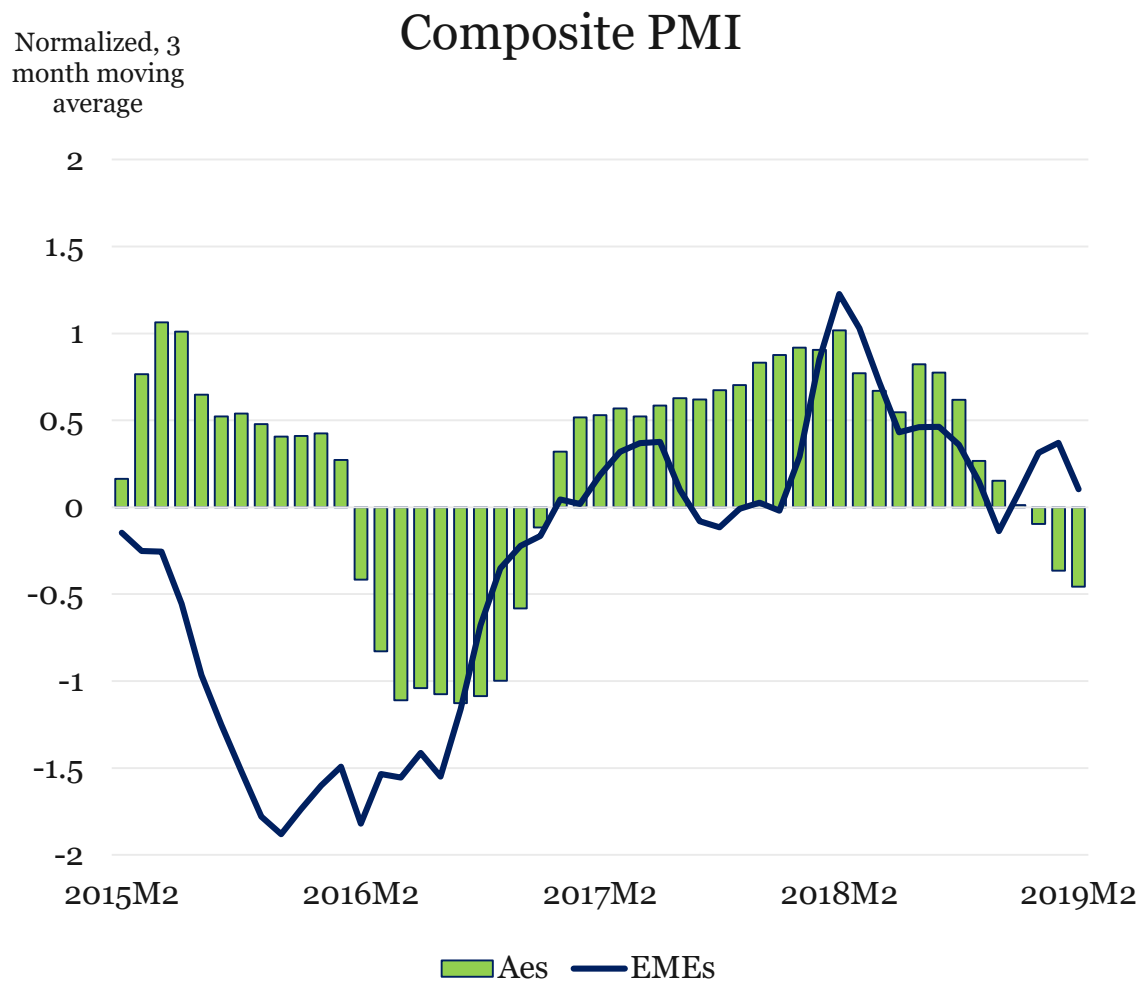
Global trade has slowed down amid rising trade policy uncertainty



Note: The series in the RHS chart are derived from newspaper coverage of trade policy uncertainty in the countries shown.
Source: OECD Economic Outlook Database; policyuncertainty.com; and OECD calculations.



Business survey indicators continue to moderate especially in the advanced economies



Source: OECD Main indicators database, Thomson Reuters, Markit and OECD calculations.



Real GDP growth has been revised down

OECD March 2019 Interim Economic Outlook Projections

Year-on-year, %. Arrows indicate the direction of revisions since November 2018.

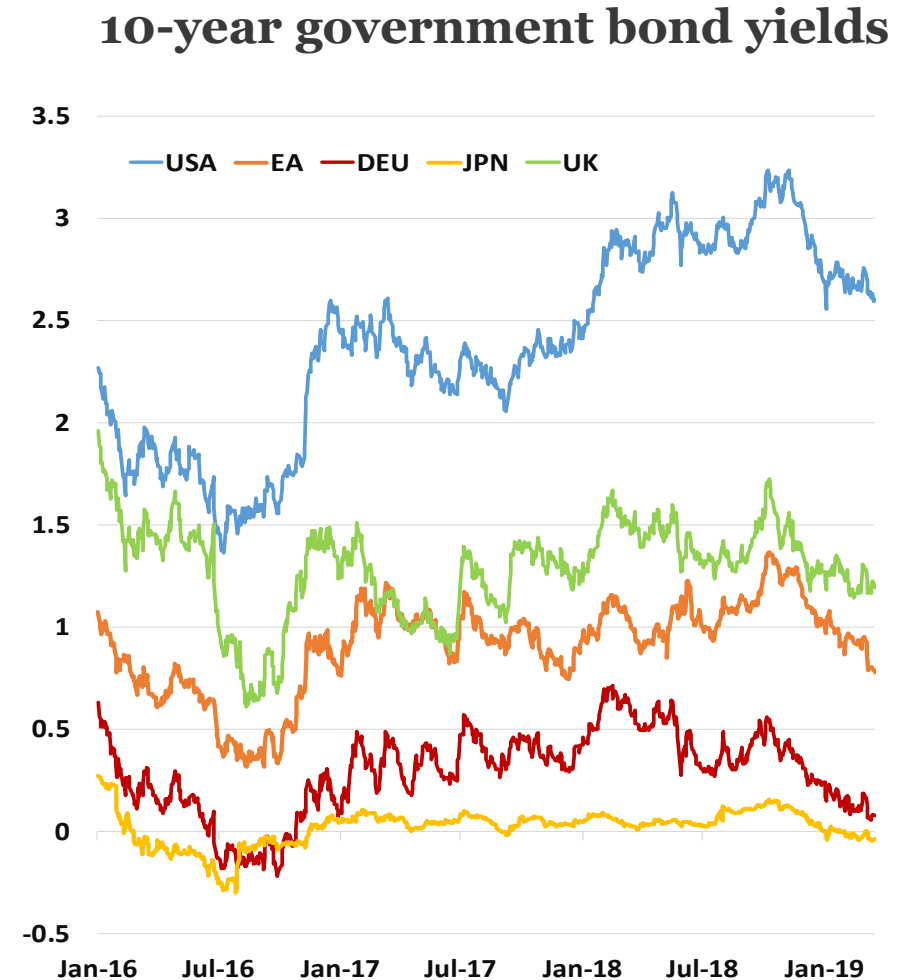
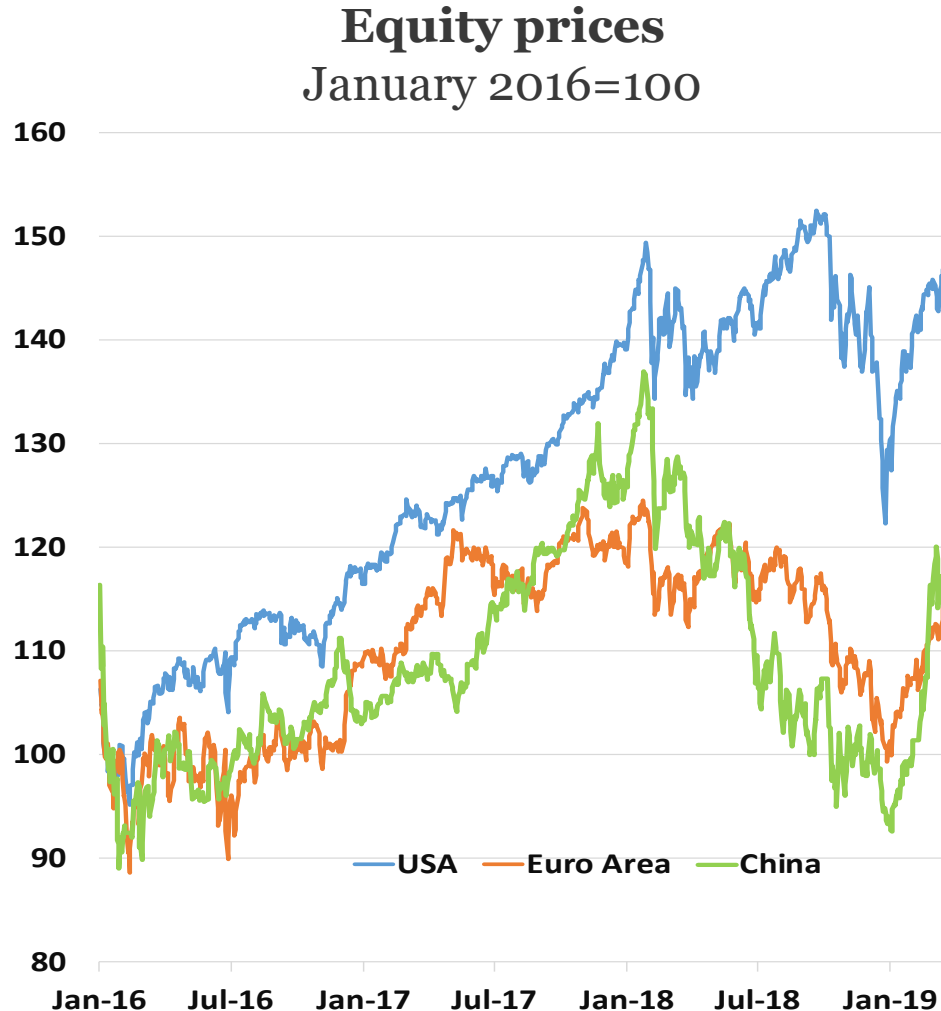
	2018	2019		2020		2018	2019		2020		
World	3.6	3.3	↓	3.4	↓	G20	3.8	3.5	↓	3.7	
Australia	2.9	2.7	↓	2.5	↓	Argentina	-2.5	-1.5	↑	2.3	
Canada	1.8	1.5	↓	2.0	↑	Brazil	1.1	1.9	↓	2.4	
Euro area	1.8	1.0	↓	1.2	↓	China	6.6	6.2	↓	6.0	
Germany	1.4	0.7	↓	1.1	↓	India¹	7.0	7.2	↓	7.3	↓
France	1.5	1.3	↓	1.3	↓	Indonesia	5.2	5.2		5.1	
Italy	0.8	-0.2	↓	0.5	↓	Mexico	2.1	2.0	↓	2.3	↓
Japan	0.7	0.8	↓	0.7		Russia	2.3	1.4	↓	1.5	↓
Korea	2.7	2.6	↓	2.6	↓	Saudi Arabia	2.0	2.1	↓	2.0	↓
United Kingdom	1.4	0.8	↓	0.9	↓	South Africa	0.8	1.7	↑	2.0	↑
United States	2.9	2.6	↓	2.2	↑	Turkey	2.9	-1.8	↓	3.2	↑

Note: Difference in percentage points based on rounded figures. Dark red for downward revisions of 0.6 percentage points and more. Dark green and dark orange for, respectively, upward and downward revisions of 0.3 percentage points and more but less than 0.6 percentage points. Light green and light orange for, respectively, upward and downward revisions of less than 0.3 percentage points. 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.



Financial market conditions have improved following recent declines in long-term bond yields

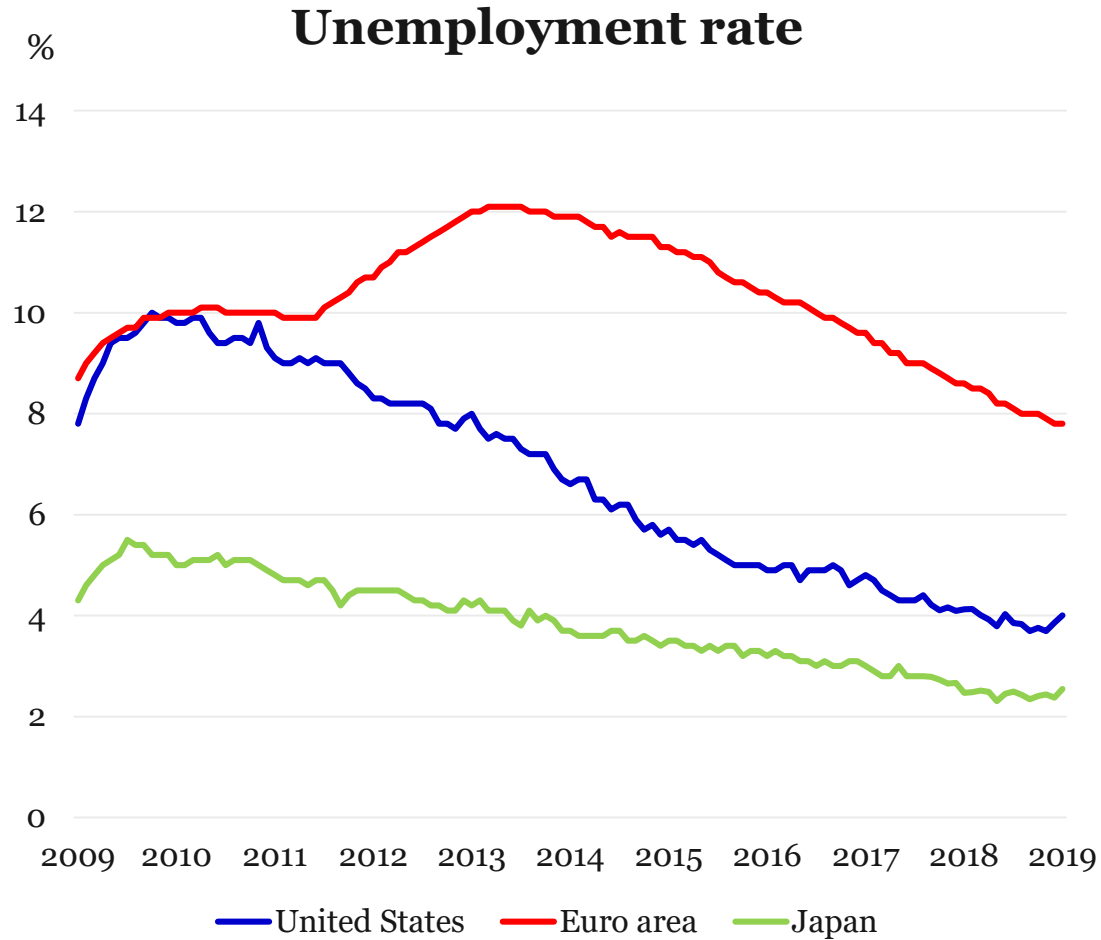


Source: Thomson Reuters.

Note: data up to March 2019. Stock market indices are the S&P500, FTSE Eurotop 100, Nikkei 225 and Shanghai Composite.



OECD-wide unemployment has fallen below its pre-crisis level and wages are slowly picking up

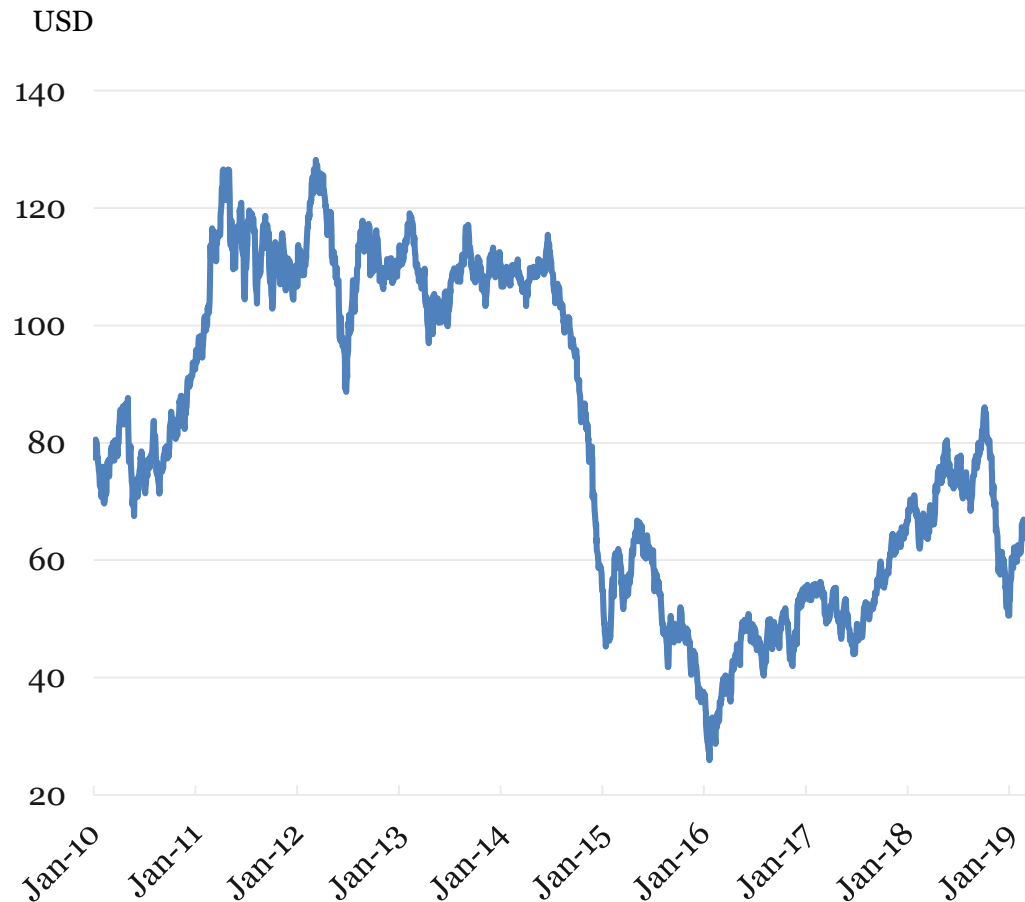


Source: OECD Short-term labor statistics; OECD Economic Outlook database; and OECD calculations.

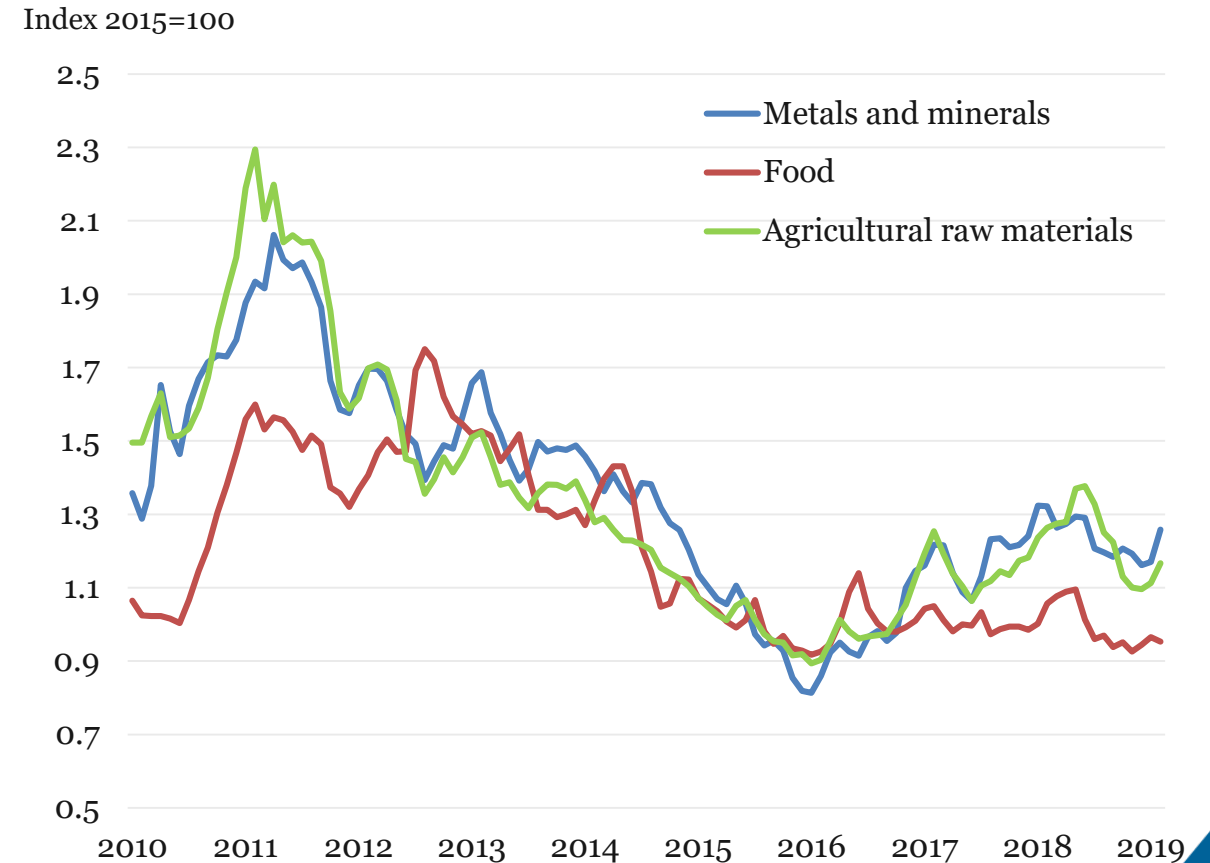


Commodity prices have been volatile

Brent oil prices



Non-oil commodity prices



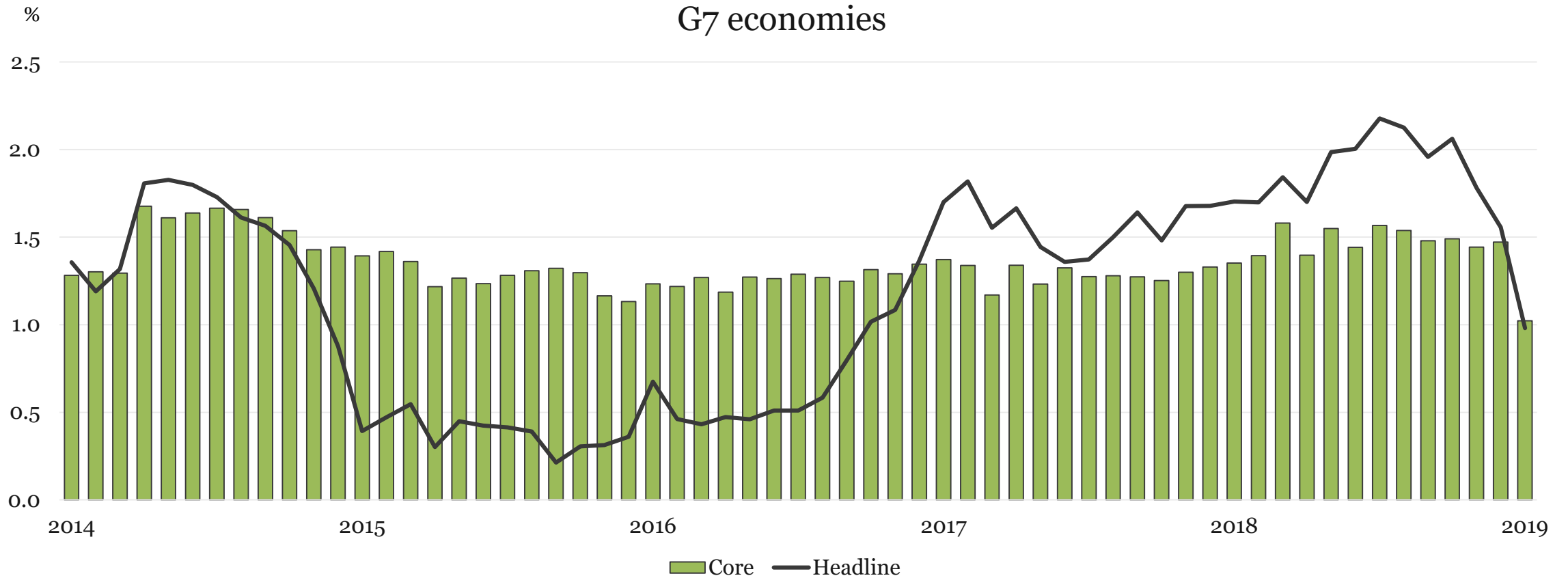
Note: Data up to March 21, 2019 for the LHS figure, up to February 2019 for the RHS figure.

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



But with moderate wage pressure core inflation remains subdued

Annual headline and core consumer price inflation
G7 economies

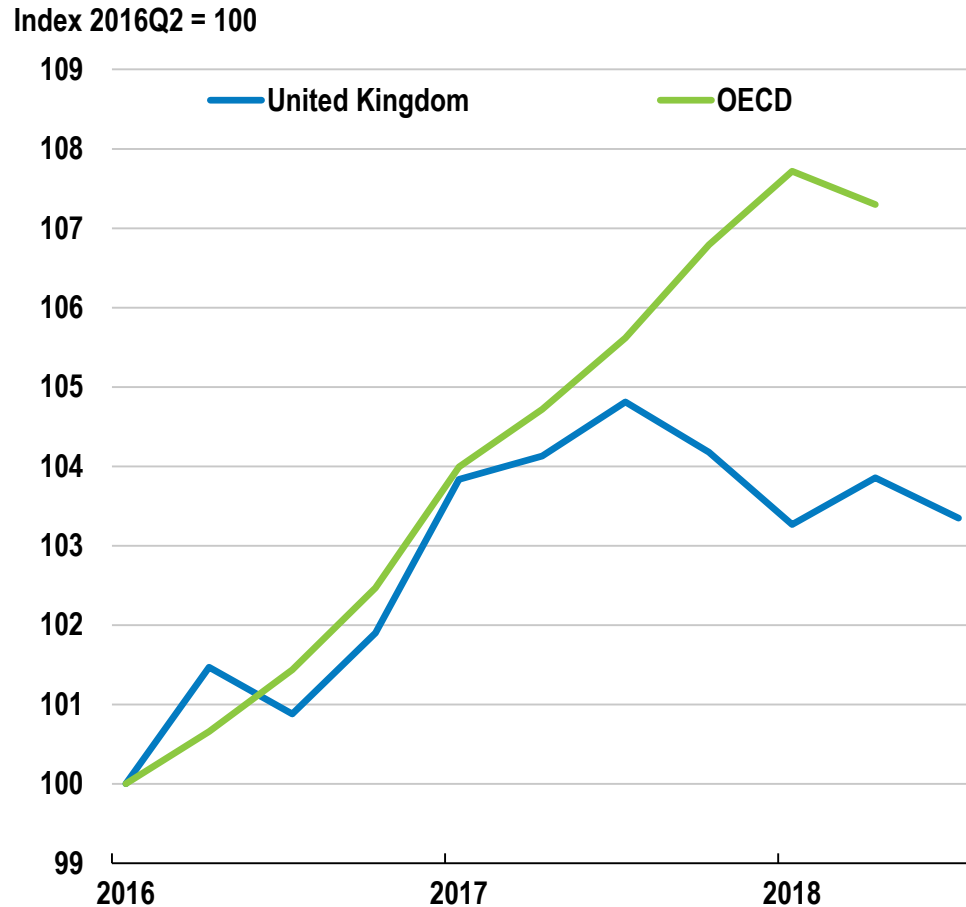


Source: OECD main Indicators database, and OECD calculations.

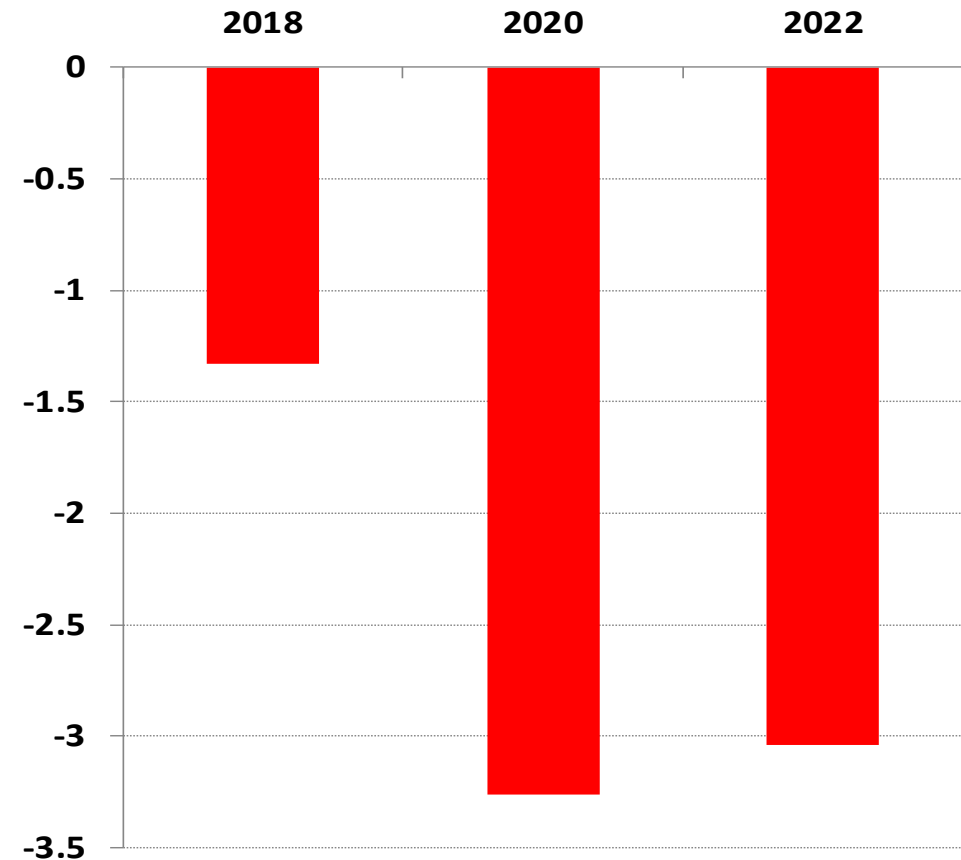


The UK economy has weakened since the referendum and a disruptive Brexit would have sizeable short term costs

Investment has declined



UK GDP relative to staying in the EU *%, difference from baseline*



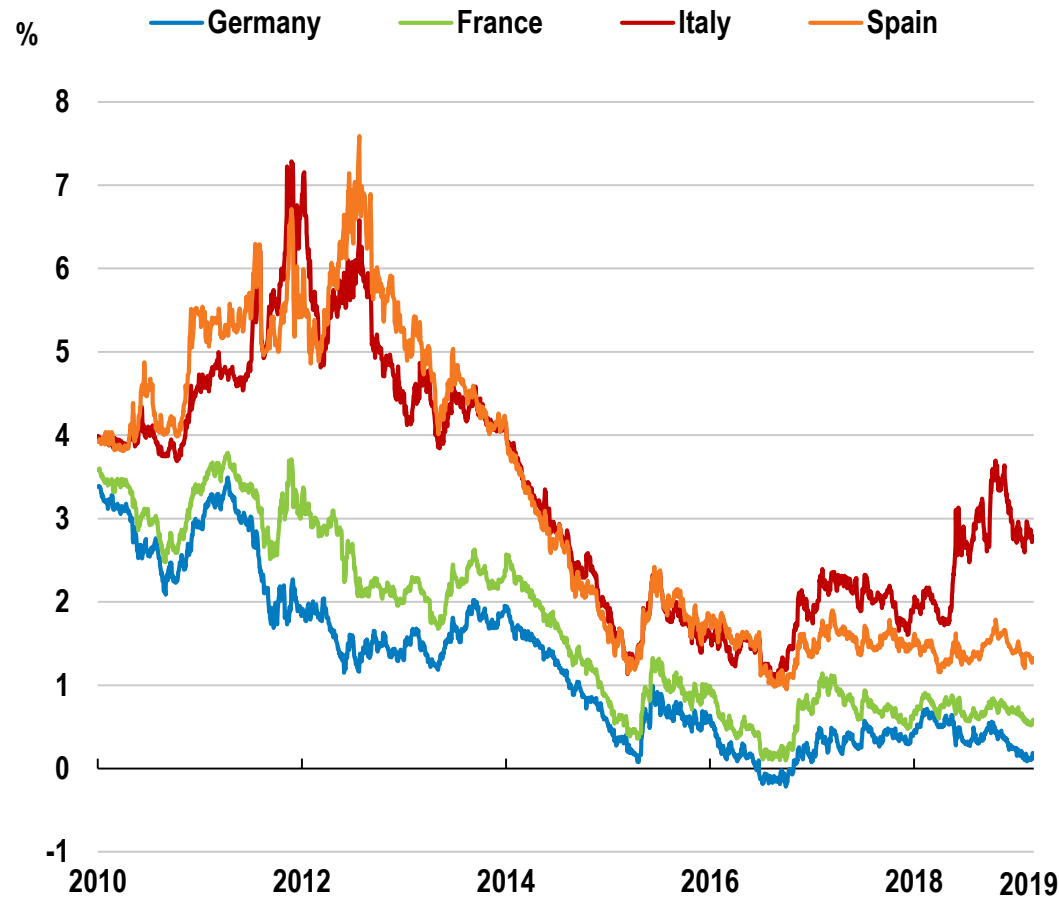
Estimates in the RHS figure are simulations using the NiGEM and METRO global models under the assumption of trade on a WTO basis between the UK and the EU27 from 2019-2023. Taken from OECD Economic Policy Paper no.16 (2016).



Slower credit growth or higher bond yields would weaken the euro area further

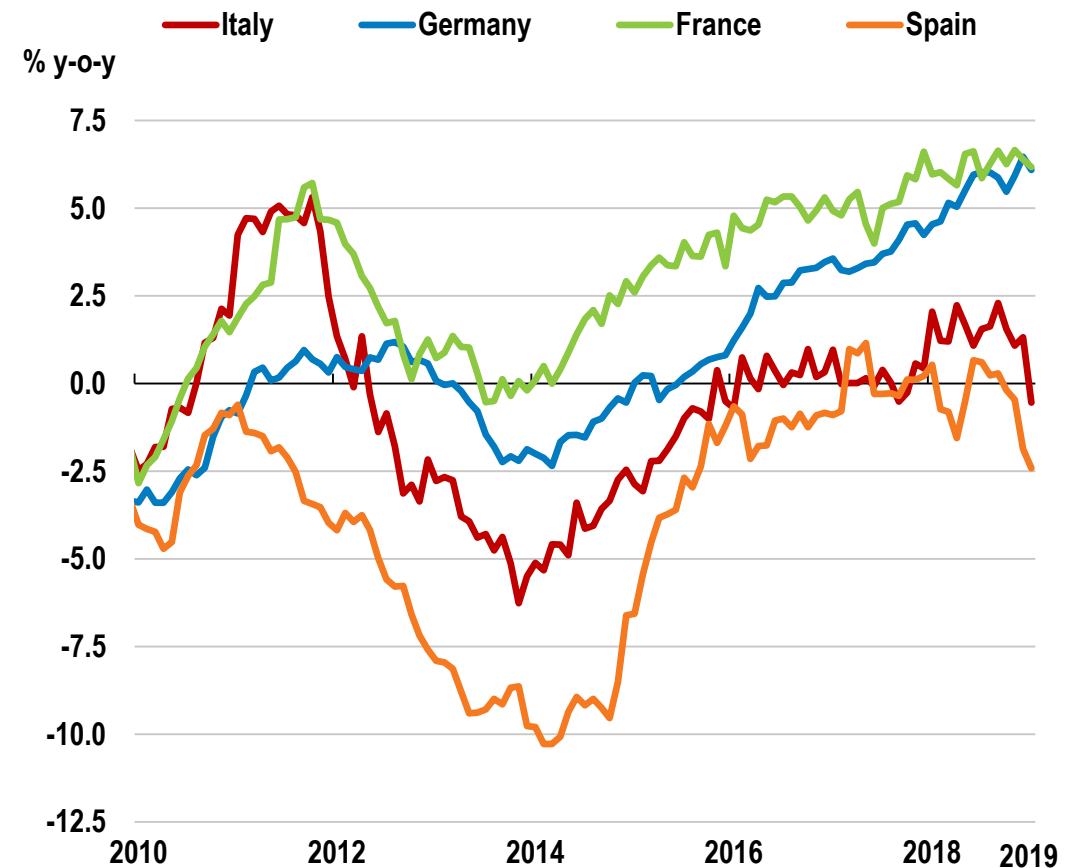
Sovereign bond yields

10-year government bond yield



Credit growth

Bank credit to non-financial corporations

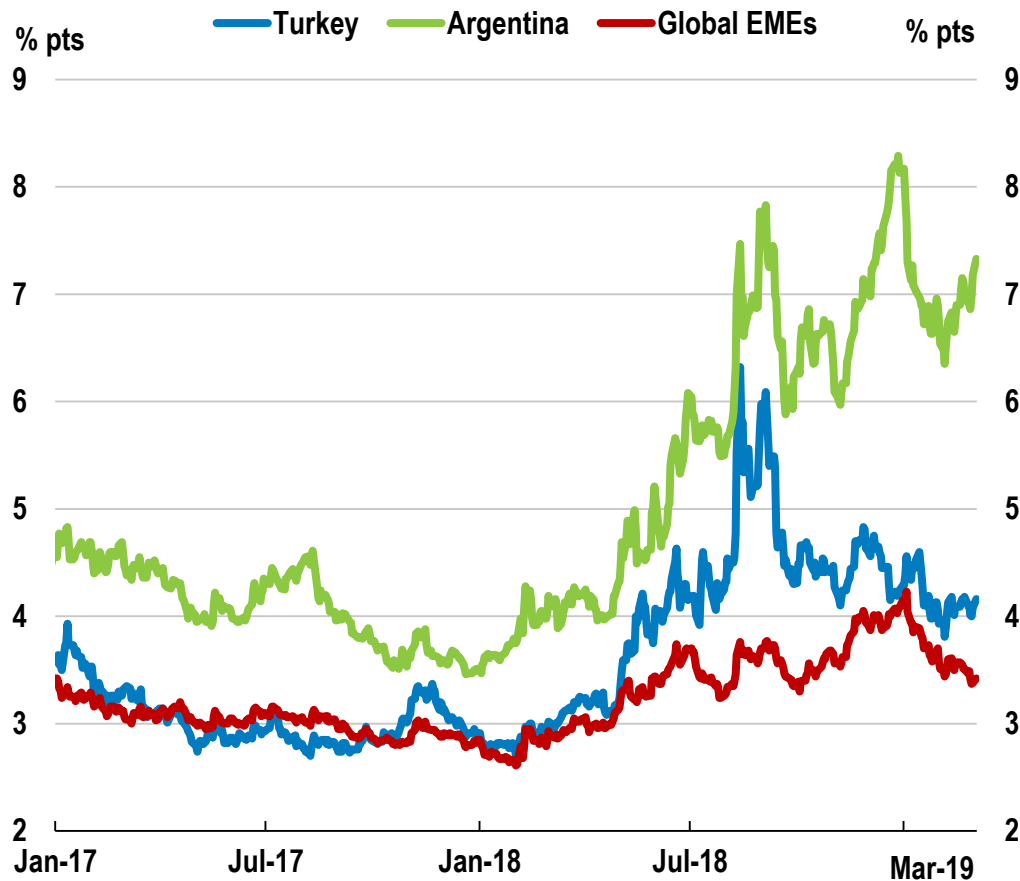


Source: Thomson Reuters and OECD calculations.

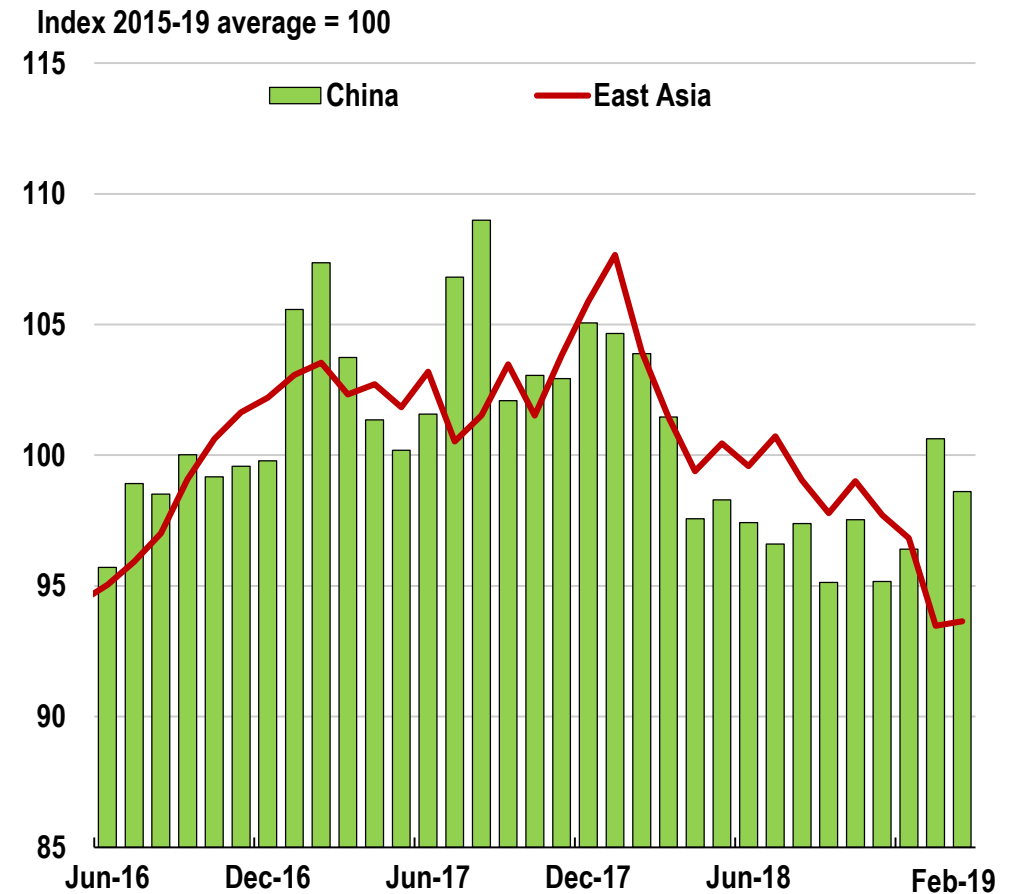


Financial pressure on EMEs has eased, but China and East Asia are still experiencing a trade slow down

EME sovereign bond yield spreads have declined



New export orders *Manufacturing*

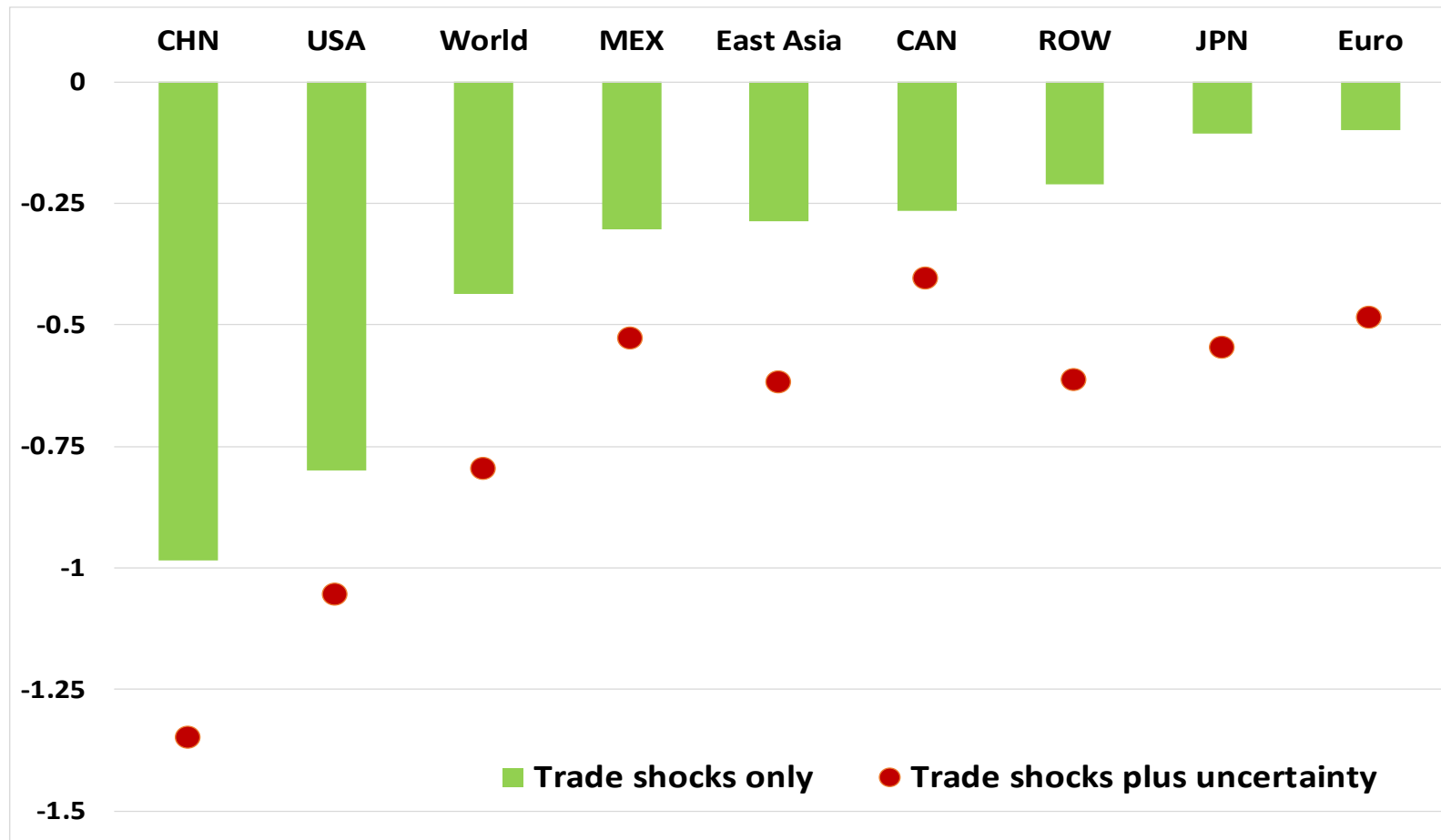


Source: OECD Main indicators database, Thomson Reuters and OECD calculations.



Additional US-China trade shocks would have global effects, especially if uncertainty rose further

Impact of new tariffs imposed on US-China bilateral trade and higher uncertainty
% change in level of GDP from baseline in 2021



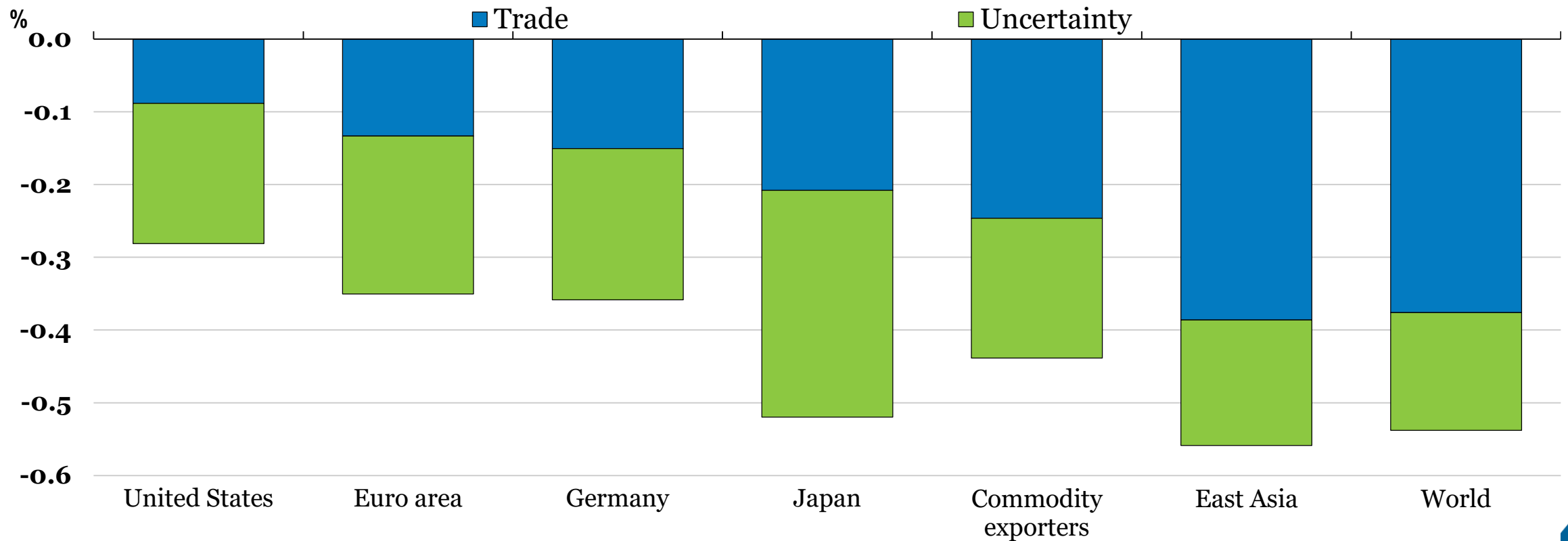
Trade shock is bilateral tariffs of 25% on all US-China trade by the end of 2019. Additional uncertainty shock based on a 50bp rise in global investment risk premia for three years, slowly fading thereafter. OECD estimates using NiGEM model.



A slow down in China would weight on growth across the world

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

%, difference from baseline in the first year

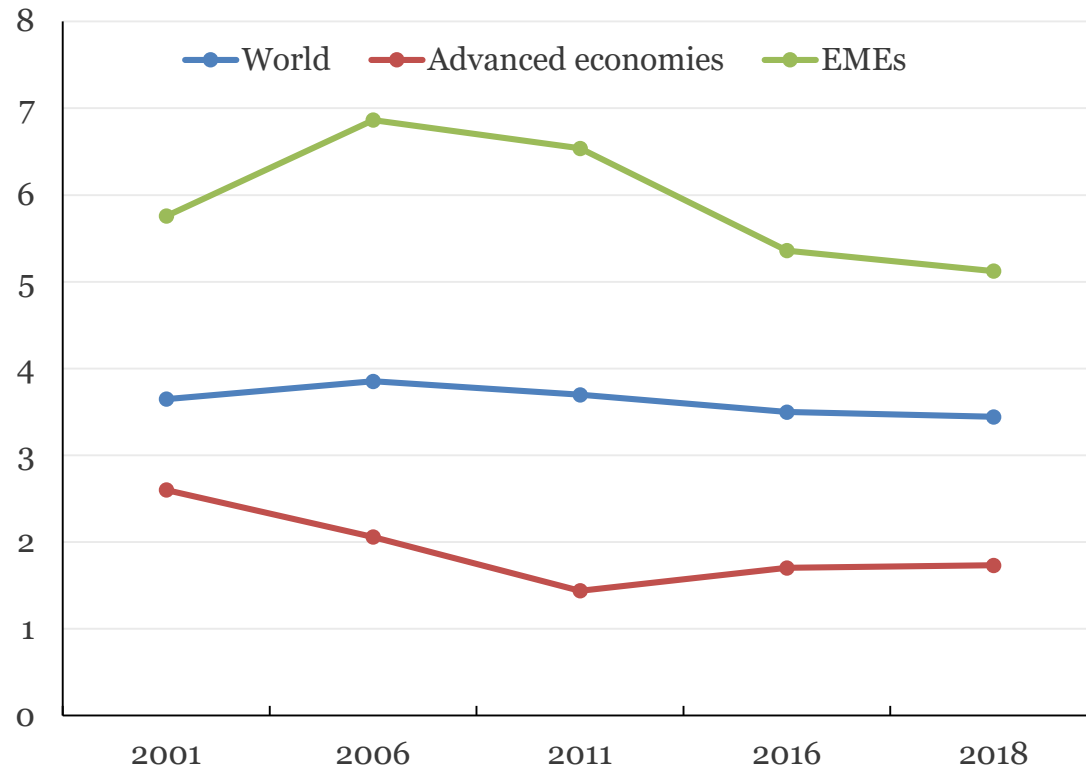


Simulated impact on NiGEM model of a two-year decline of 2 percentage points per annum in domestic demand growth in China and a rise of 50 basis points in investment risk premia in all economies. The blue bars show the contribution from the direct slowdown in trade; the green bars show the additional contribution from adding higher uncertainty. Commodity exporters include Argentina, Brazil, Chile, Indonesia, Russia, South Africa and other non-OECD oil-producing economies. East Asia includes Korea and the Dynamic Asian Economies.

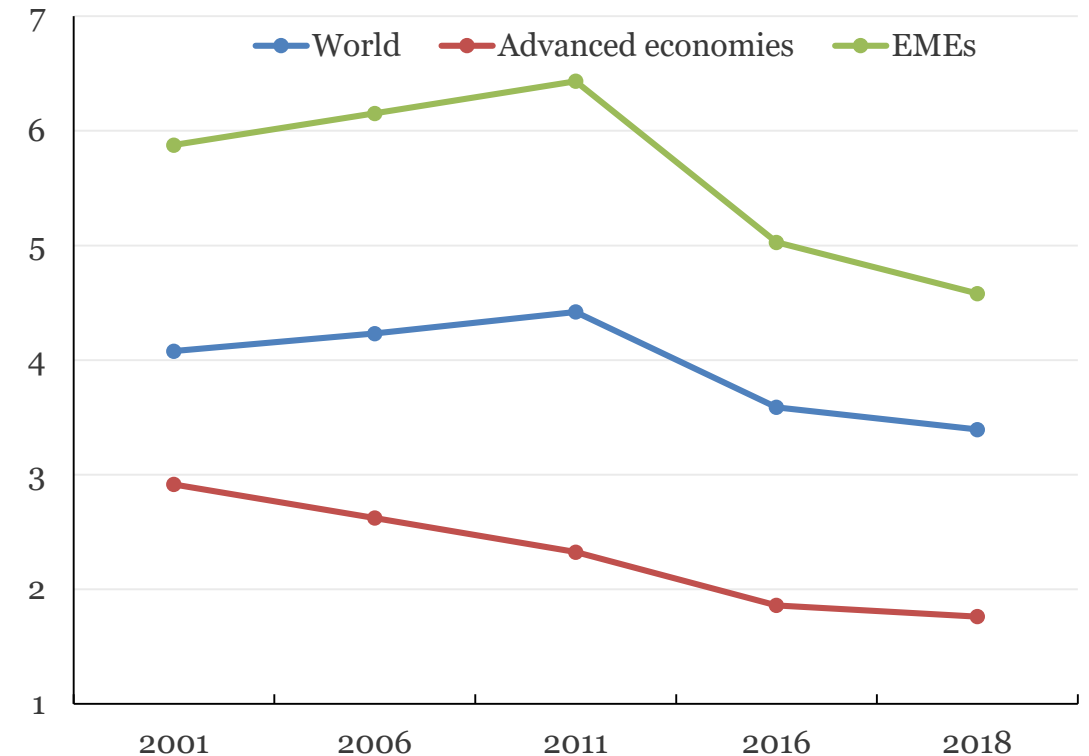


Medium-term growth have weakened calling for structural reforms ambitions to be revived

Potential output growth



Average annual GDP growth expected over next decade



Note: Based on OECD estimates of potential output growth for 46 economies (LHS chart) and consensus forecasts in April for 2001 to 2016, and October 2018 (RHS chart). The countries covered account for around 84% (LHS chart) and 88% (RHS chart) of global GDP in PPP terms.

Source: OECD Economic Outlook 104 database; Consensus Economics; and OECD calculations.

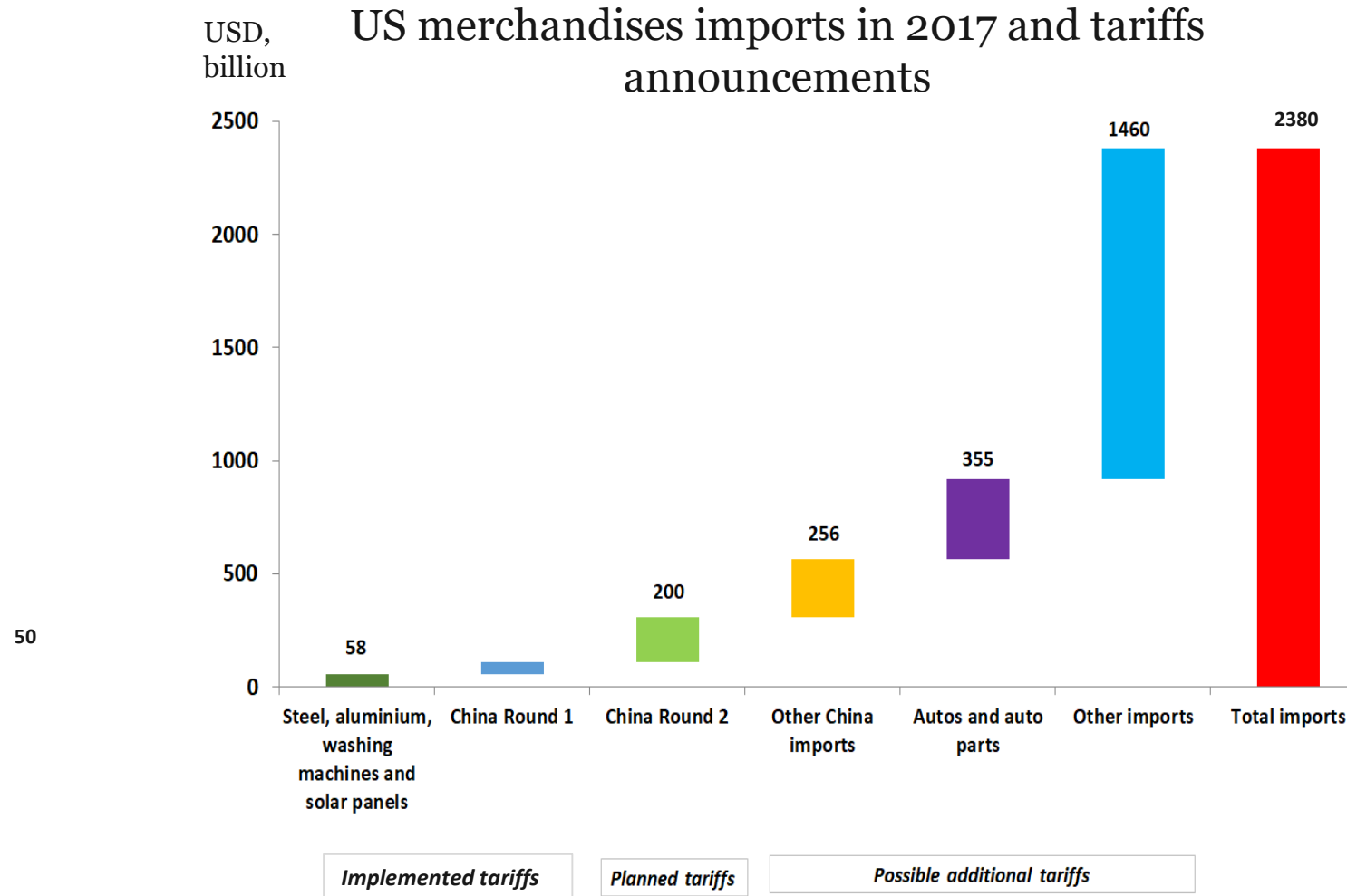


ANNEX





The value of US trade in cars and car parts is sizeable



Note: Peterson Institute for International Economics; US International Trade Administration; and OECD calculations.