Global growth is picking up, led by OECD economies…

Source: OECD May 2014 Economic Outlook database.
...and the outlook for trade and investment is finally improving

OECD investment
Volumes, index, 2007 = 100

World trade in goods and services
Volume, year-on-year percentage change

Source: OECD May 2014 Economic Outlook database.

The US recovery is driving faster growth in the OECD...

Source: OECD November 2013 and May 2014 Economic Outlook database.
...while growth in non-OECD economies was revised downwards

- Growth close to potential in China.
- Other BRICS: tighter monetary/credit policies to deal with high inflation check growth in 2014, but fade in 2015.
- Slower growth in the non-OECD has negative spillover effects on the OECD.

The risks remain tilted to the downside

- On the downside:
  - Interaction of vulnerabilities in EMEs and monetary policy normalisation in United States
  - Uncertainty about prospects & financial risks in China
  - Disinflation continues or strengthens in the euro area
  - Spillovers from events in Ukraine & slowdown in Russia
  - Financial fragilities resurface in the euro area
  - Debt dynamics worsen in Japan
- On the upside:
  - Some of the downside risks could fade away quickly
  - Pent-up demand in the United States
Financial conditions in EMEs have tightened, which may expose vulnerabilities…

- Comparing maximum movements shows that the turbulence in early 2014 was more differentiated

…with non-negligible spillovers to OECD

- Model simulation of a fall in non-OECD domestic demand suggests spillovers could be tangible, but manageable
  - Simulated using a macro-model (NiGEM)
  - Allows for effects on currencies, asset prices and risk premia.

First year GDP effects from a 2% decline in non-OECD domestic demand

Note: Based on NiGEM simulations. Combined spillovers on high-income countries of a 2% decline in non-OECD domestic demand; a 20% currency depreciation vis-à-vis the US dollar of current account deficit EMEs; and a 10% decline in non-OECD equity prices and 50 basis points increase in the risk premium in OECD countries

Greater uncertainty about the outlook for China and financial instability

- Credit growth in the non-banking sector has been rapid
- Large exposures to the real-estate sector imply risks from a downturn in property prices

Disinflationary pressures in the euro area could intensify

**Euro area headline inflation**
- Per cent

**Inflation expectations in the euro area**
- From inflation swaps; 10-day moving average, in per cent

1. Year-on-year change of harmonised index of consumer prices.
   Source: OECD May 2014 Economic Outlook database.

Source: Datastream; OECD calculations.
In the longer term, EMEs are likely to continue growing in significance

The changing composition of global GDP to 2060
At current PPP, in per cent of world GDP

A. GDP in 2010
- United States: 22%
- China: 16%
- Other OECD: 10%
- Other non-OECD: 6%
- India: 13%
- Japan: 7%

B. GDP in 2030
- United States: 21%
- Japan: 9%
- China: 22%
- Other OECD: 12%
- Other non-OECD: 13%
- India: 16%

C. GDP in 2060
- United States: 15%
- Japan: 11%
- China: 20%
- Other OECD: 17%
- Other non-OECD: 15%

Source: OECD Economic Outlook Long-term database

Summary

- The global recovery is gaining momentum
  - Growth should pick up in the OECD
  - EMEs still growing rapidly but slower than in the past
  - Investment and trade strengthening
- Risks are smaller but to the downside
  - Financial vulnerabilities in EMEs and further turbulence as US monetary policy normalises
  - Slowing growth and financial stability risks China
  - Disinflationary pressures could intensify in the euro area
  - Fragility in the euro area financial system
  - Japan’s fiscal situation