



OECD INTERIM ECONOMIC OUTLOOK

*Global growth weakening as
some risks materialise*

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Laurence Boone
OECD Chief Economist

<http://www.oecd.org/eco/outlook/economic-outlook/>
ECOSCOPE blog: oecdoscope.wordpress.com



Key messages

Growth is weakening particularly in Europe

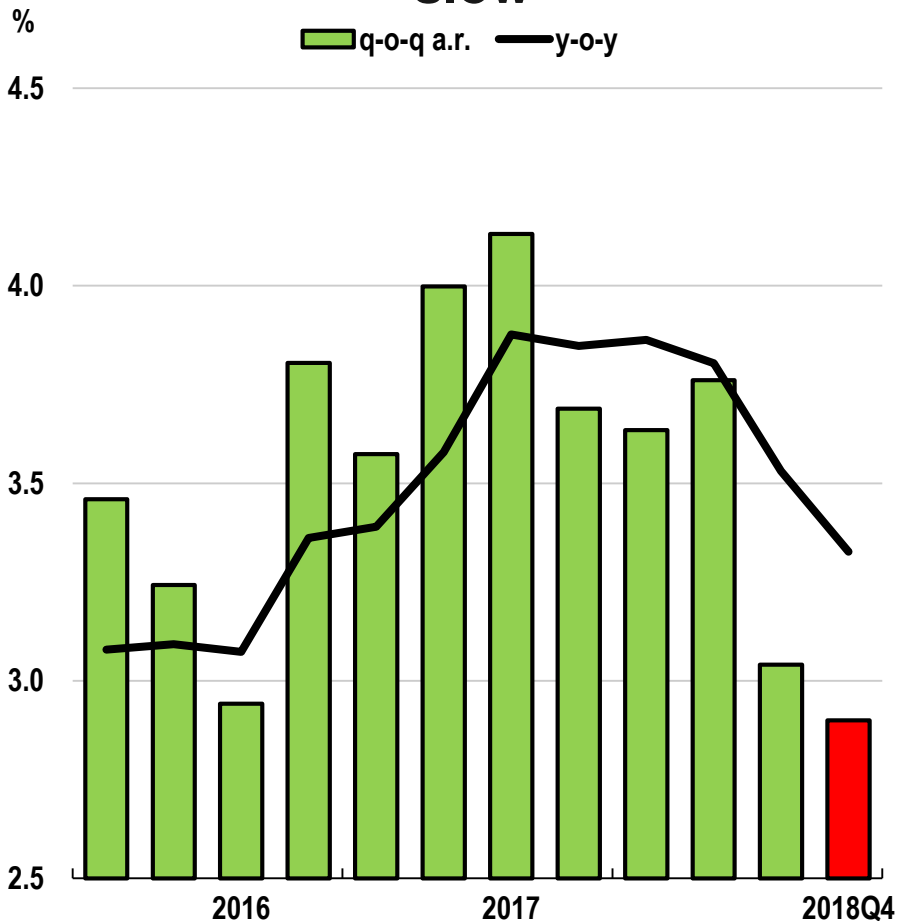
Vulnerabilities in China, Europe and financial markets could derail the global economy

Governments should cooperate to reduce risks

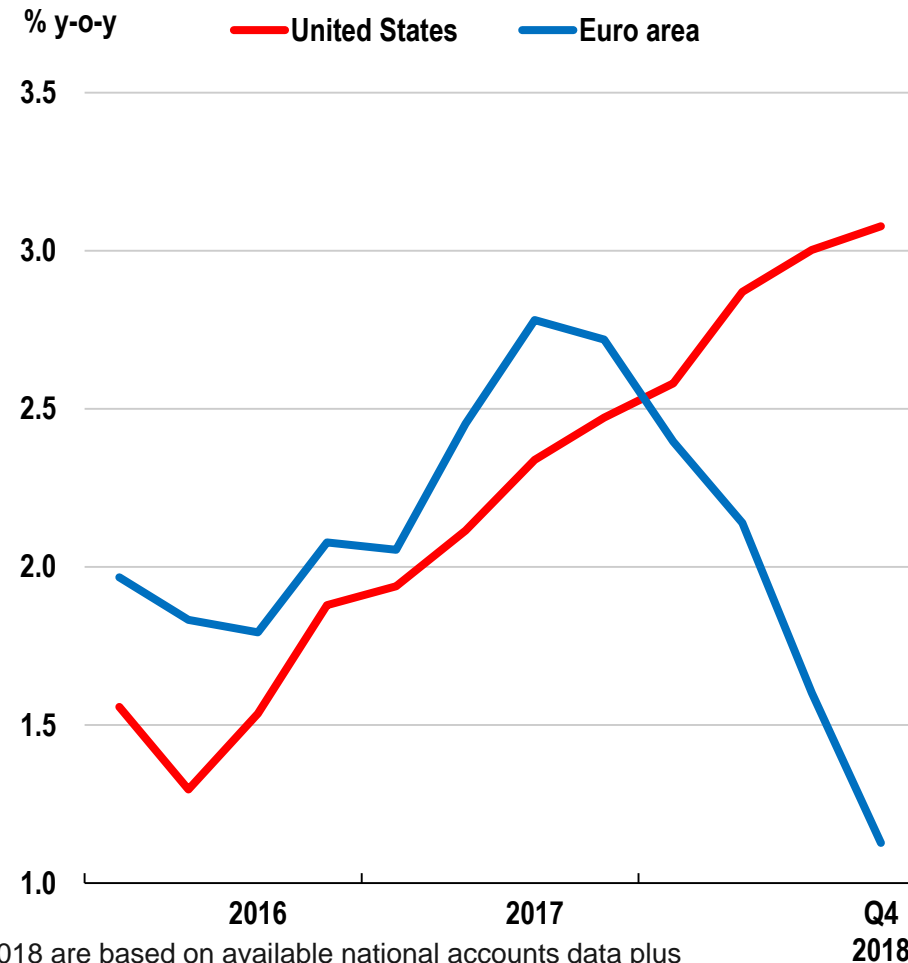


Global growth is slowing with further signs of decoupling

World GDP growth has started to slow



GDP growth is more dispersed



Note: LHS: Global growth in PPP terms. GDP figures for the fourth quarter of 2018 are based on available national accounts data plus estimates for Argentina, Australia, Russia, and Turkey.

Source: OECD Economic Outlook database.



Real GDP growth revised down

OECD Interim Economic Outlook Projections

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

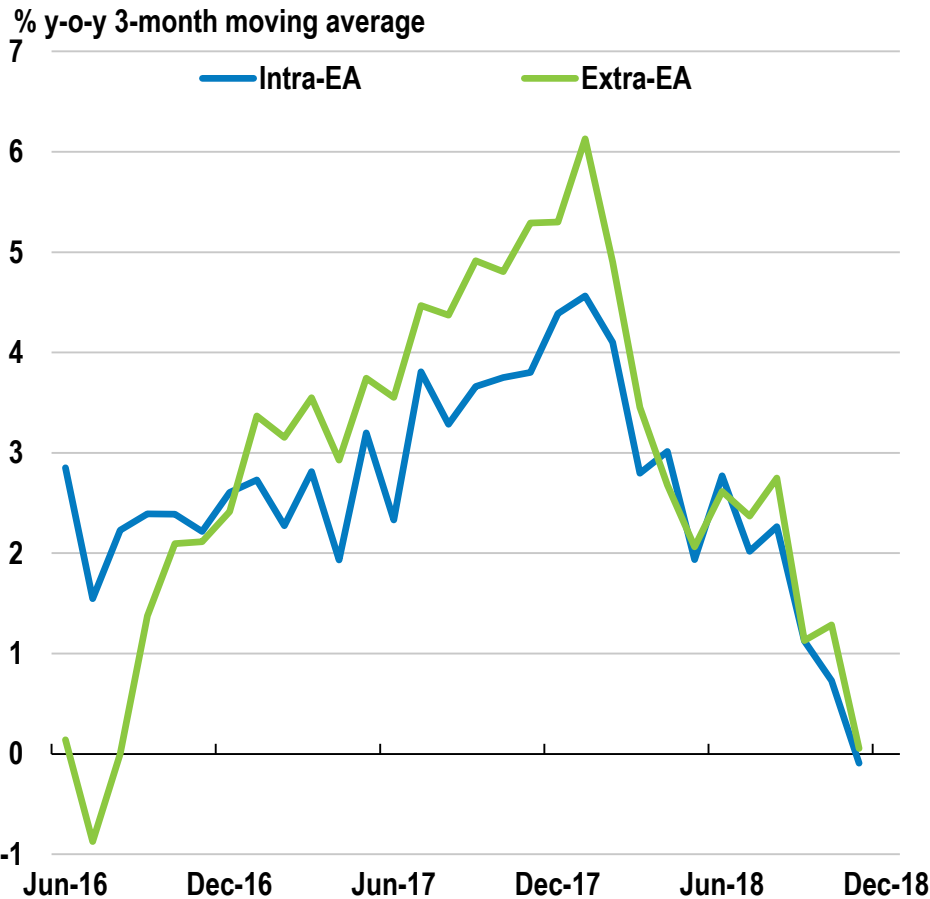
	2018	2019		2020		2018	2019		2020		
World	3.6	3.3	↓	3.4	↓	G20	3.8	3.5	↓	3.7	
Australia	2.9	2.7	↓	2.5	↓	Argentina	-2.5	-1.5	↑	2.3	
Canada	1.8	1.5	↓	2.0	↑	Brazil	1.1	1.9	↓	2.4	
Euro area	1.8	1.0	↓	1.2	↓	China	6.6	6.2	↓	6.0	
Germany	1.4	0.7	↓	1.1	↓	India¹	7.0	7.2	↓	7.3	↓
France	1.5	1.3	↓	1.3	↓	Indonesia	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.

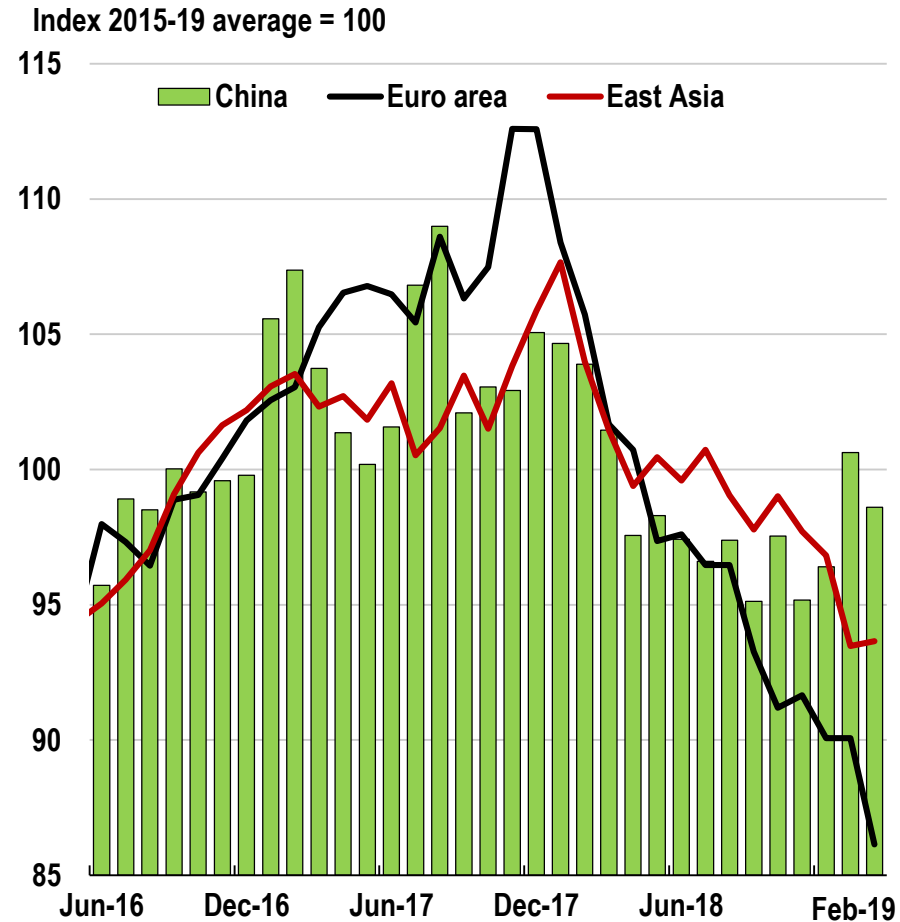


Trade growth continues to decelerate

Euro area export volume growth



New export orders *Manufacturing*

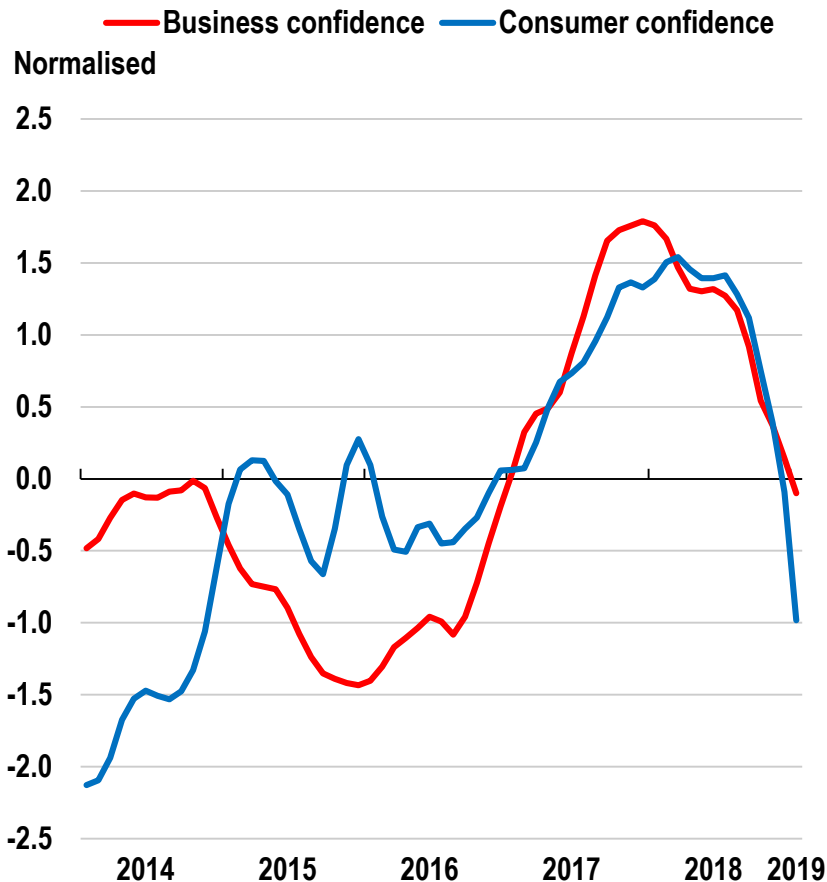


Note: RHS: East Asia is a PPP-weighted aggregate of Japan, Korea, Malaysia, the Philippines, Thailand, Taiwan and Vietnam.
Source: Markit; Eurostat; and OECD calculations.

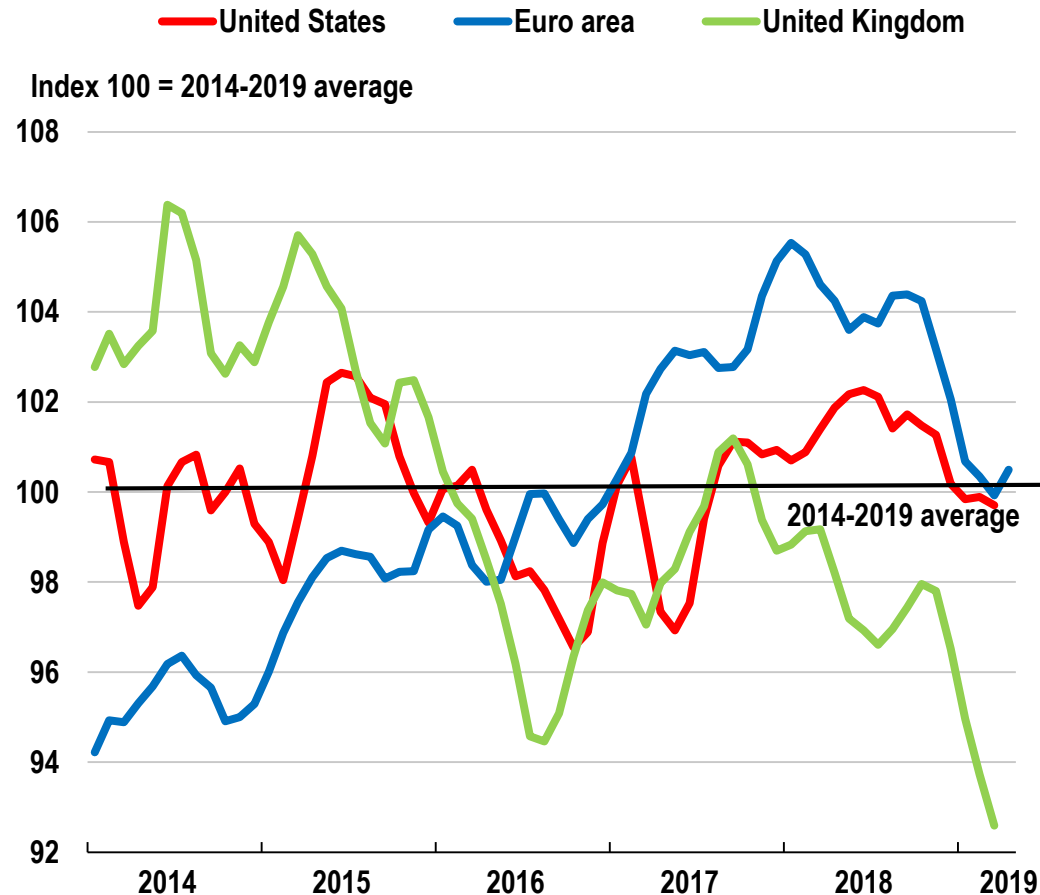


Trade tensions and policy uncertainty take a toll on confidence and hiring intentions

Confidence in OECD countries



Firms' hiring intentions *PMI for employment*



Note: LHS panel: Data normalised over the 2014-2018 period; PPP-weighted aggregates of the OECD countries.
Source: OECD Main Economic Indicators database; Markit; and OECD calculations.



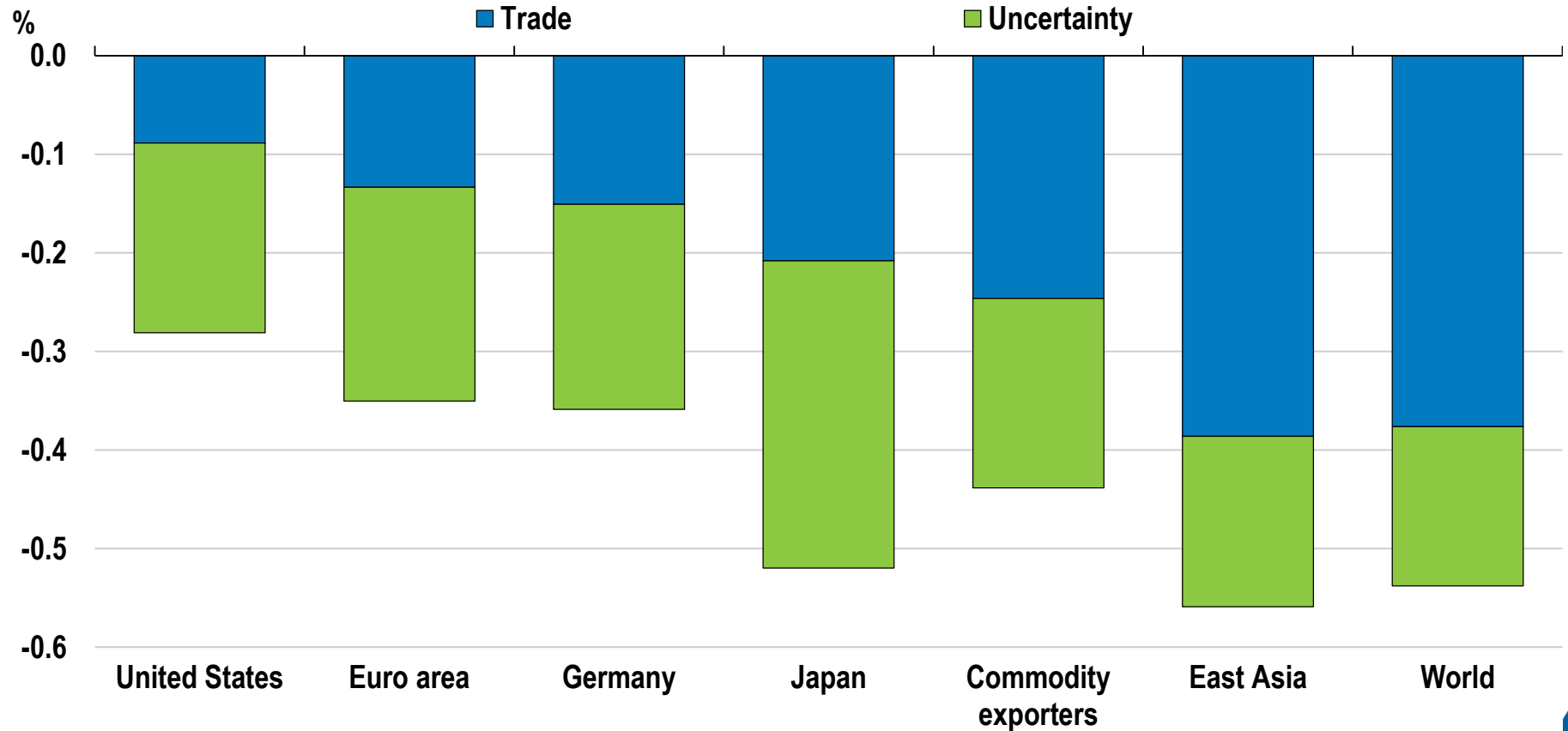
VULNERABILITIES IN CHINA, EUROPE AND FINANCIAL MARKETS COULD DERAIL THE GLOBAL ECONOMY



A slowdown in China would weigh on growth across the world

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

% , difference from baseline in the first year



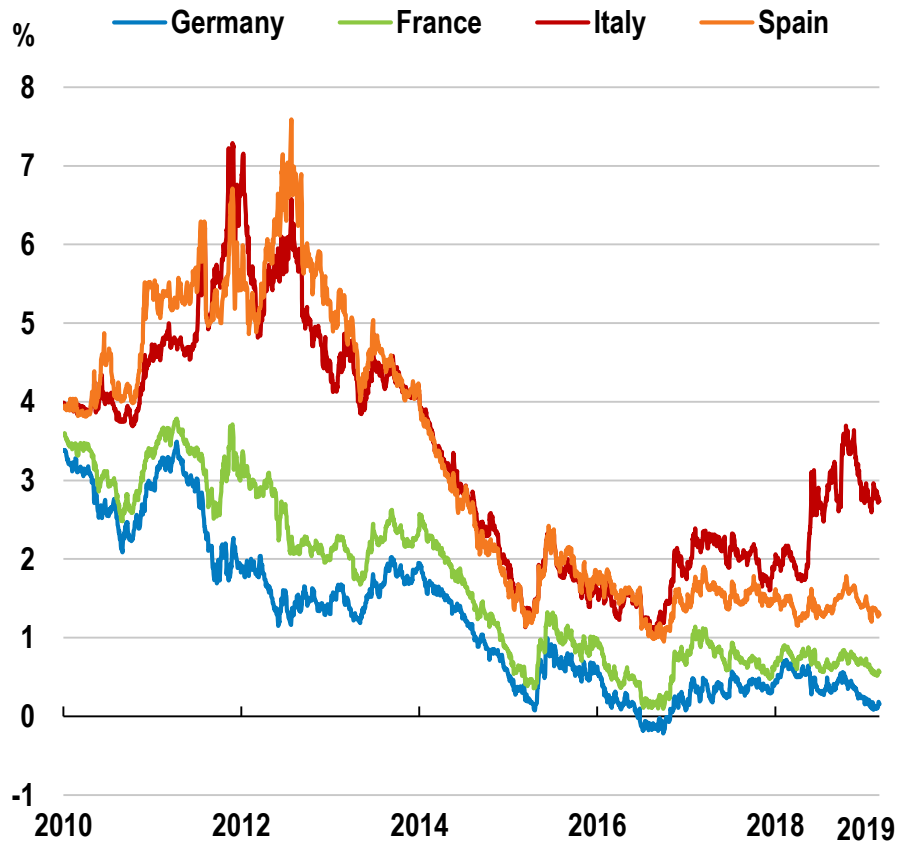
Note: Simulated impact of a decline of 2 percentage points per year in domestic demand growth in China for two years. The uncertainty shock is a 50 basis point increase in investment risk premia in all economies. Policy interest rates are endogenous in all areas. Commodity exporters include Argentina, Australia, Brazil, Chile, Indonesia, Russia, South Africa and the other oil producers. East Asia includes Chinese Taipei, Hong Kong (China), Korea, Singapore, Vietnam and other East Asian countries. Regions are weighted using purchasing power parities. Source: OECD calculations.



Slower credit growth may weaken the euro area further

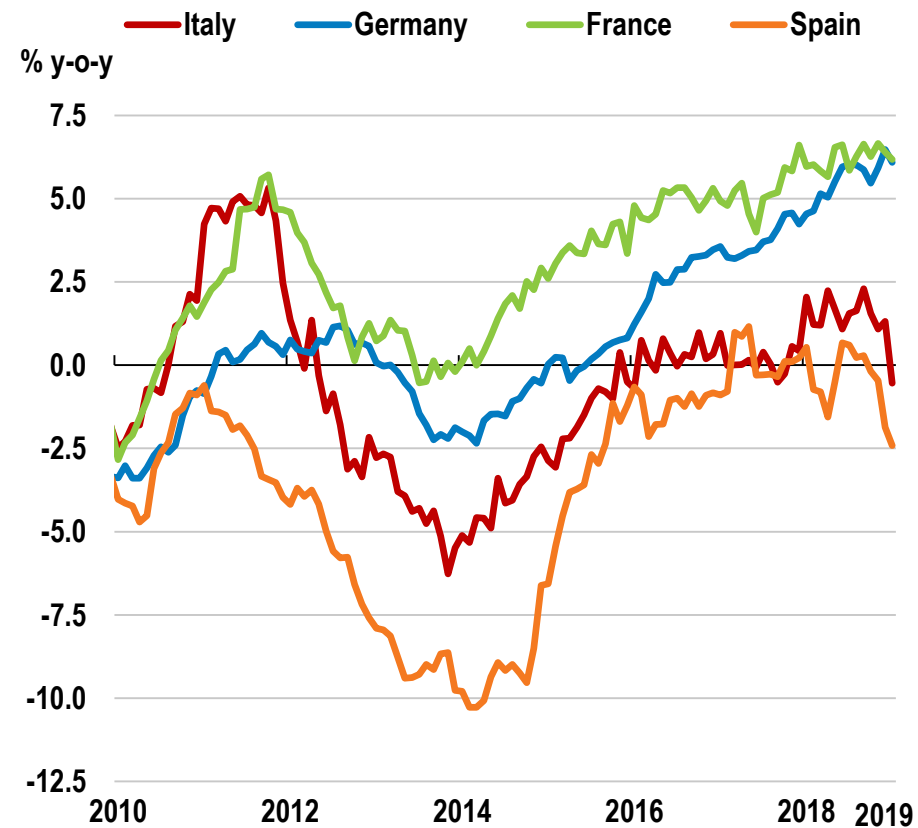
Sovereign bond yields

10-year government bond yield



Credit growth

Bank credit to non-financial corporations

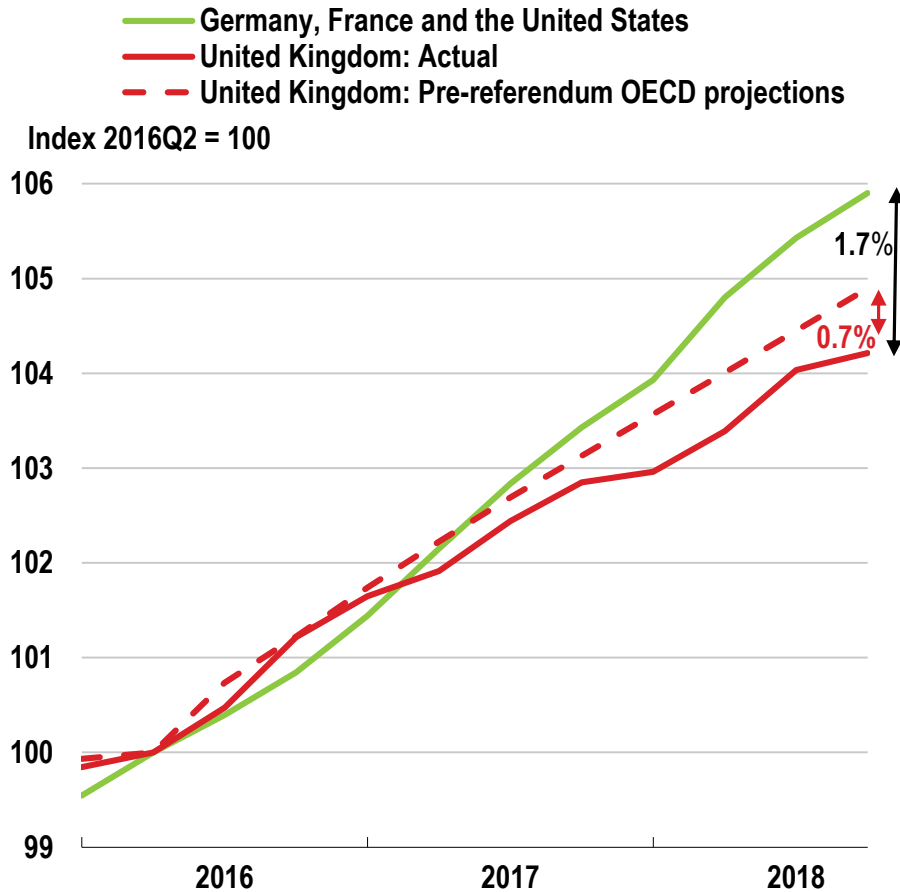


Note: RHS: Credit growth of loans adjusted for sales and securitisation, non-financial corporations.
Source: Thomson Reuters; and OECD calculations.

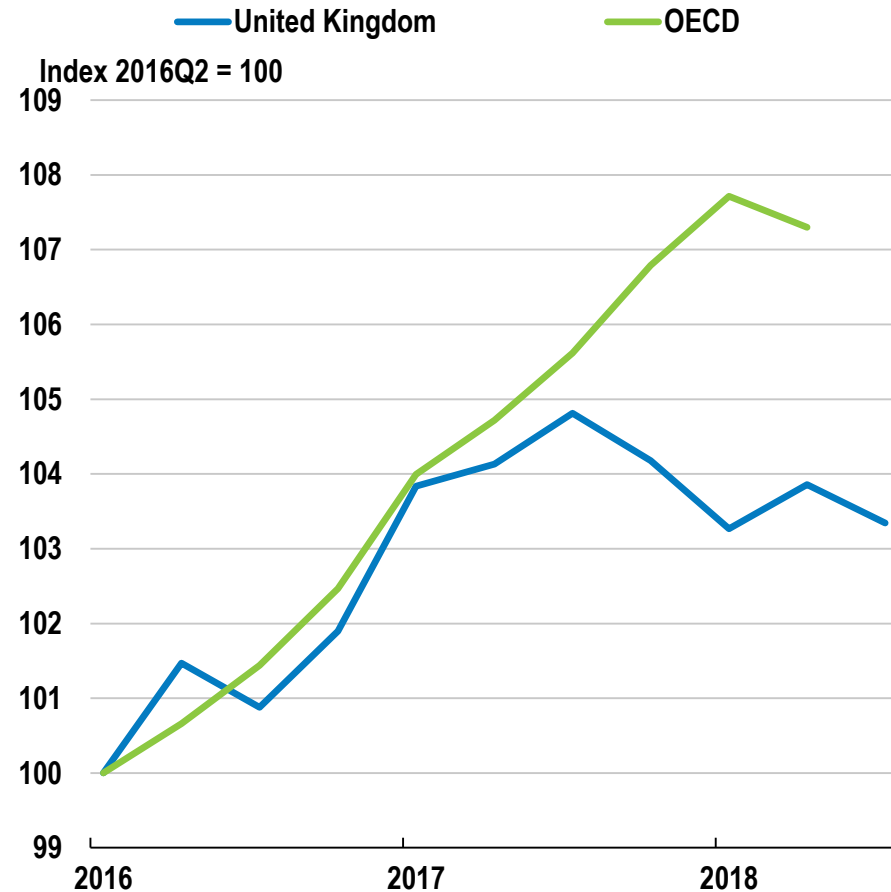


The UK economy has been weakening since the Brexit referendum

Real GDP loss since the 2016 referendum



Investment has declined



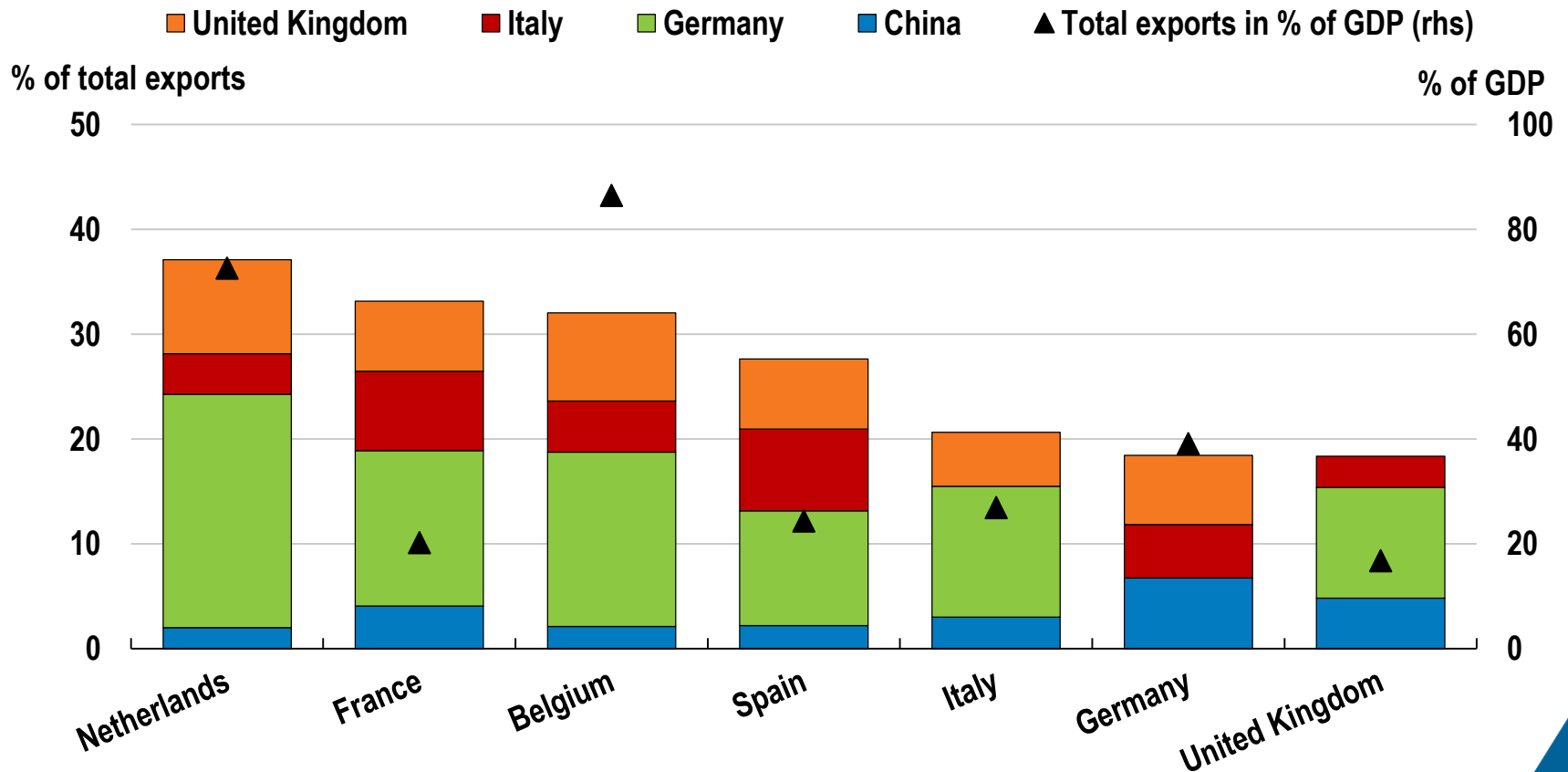
Note: LHS: The green line is a GDP-weighted average of France, Germany and the United States.
Source: OECD Economic Outlook database; and OECD calculations.



A combination of these risks could further weaken euro area growth

Bilateral share of goods exports

2017

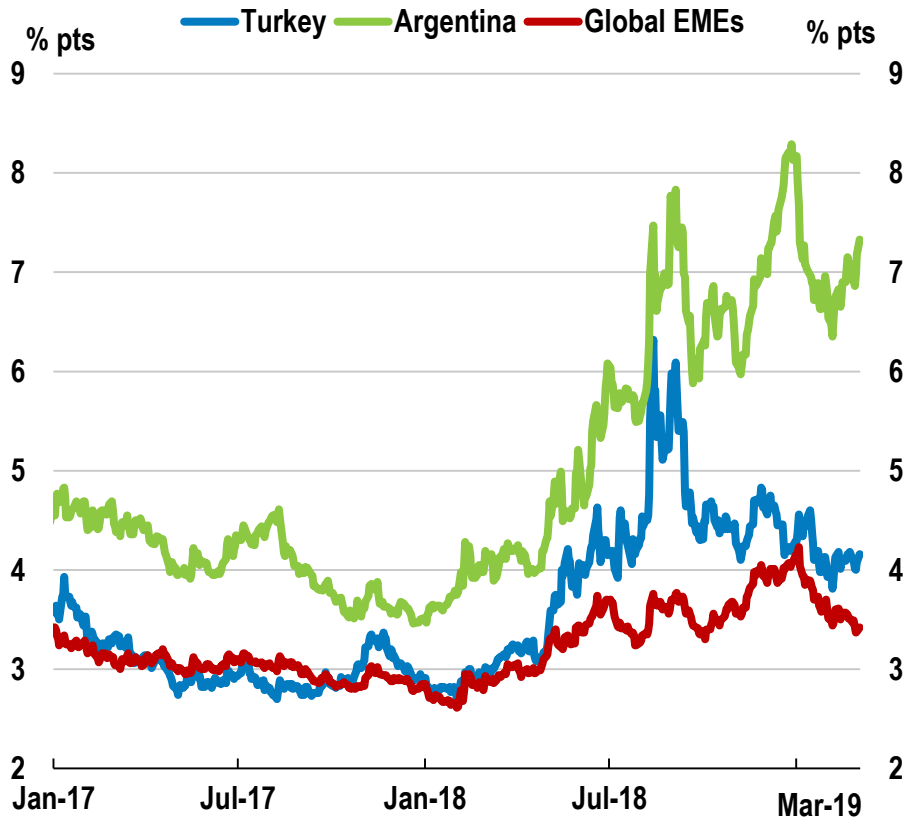


Note: Black triangles represent the share of total goods export in % of GDP. Data as of 2016 for the Netherlands.
Source: OECD International Merchandise Trade Statistics database; OECD Economic Outlook database; and OECD calculations.



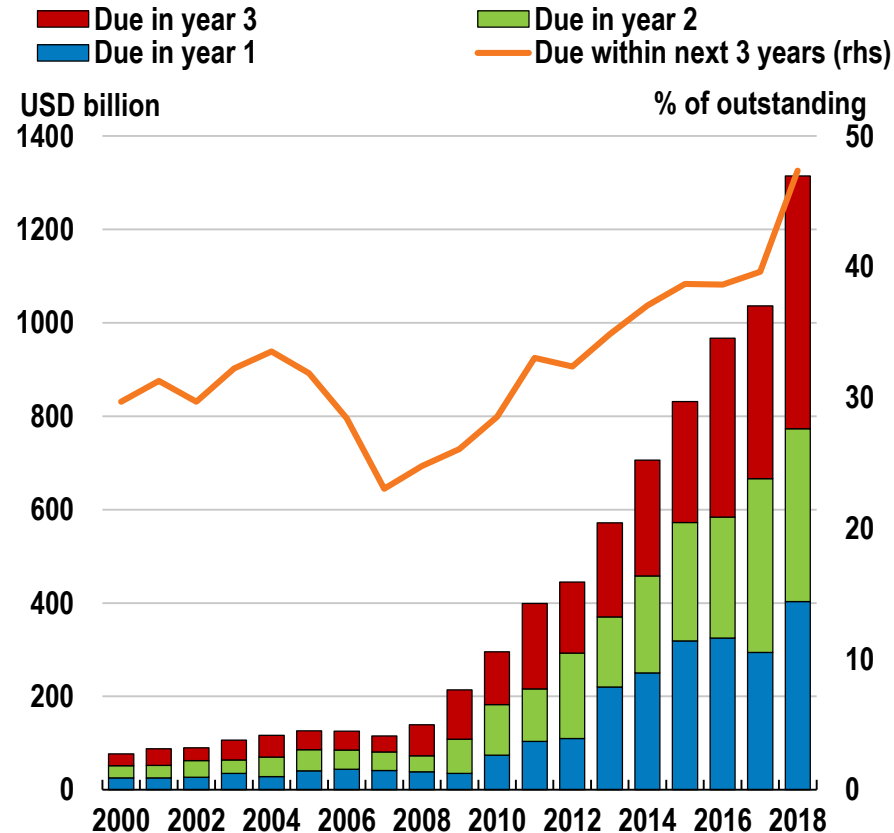
Pressure on EMEs has eased but vulnerabilities persist

EME sovereign bond yield spreads have declined



Record level of corporate bond repayments ahead

Emerging market economies



Note: LHS panel: Global EMEs stands for JP Morgan Emerging Bond Index (EMBI), which measures the yield spread between EMEs' government bonds denominated in US dollars and US Treasuries.

Source: Thomson Reuters; Çelik, S., G. Demirtaş and M. Isaksson (2019), "Corporate Bond Markets in a Time of Unconventional Monetary Policy", Paris; and OECD Capital Market Series.



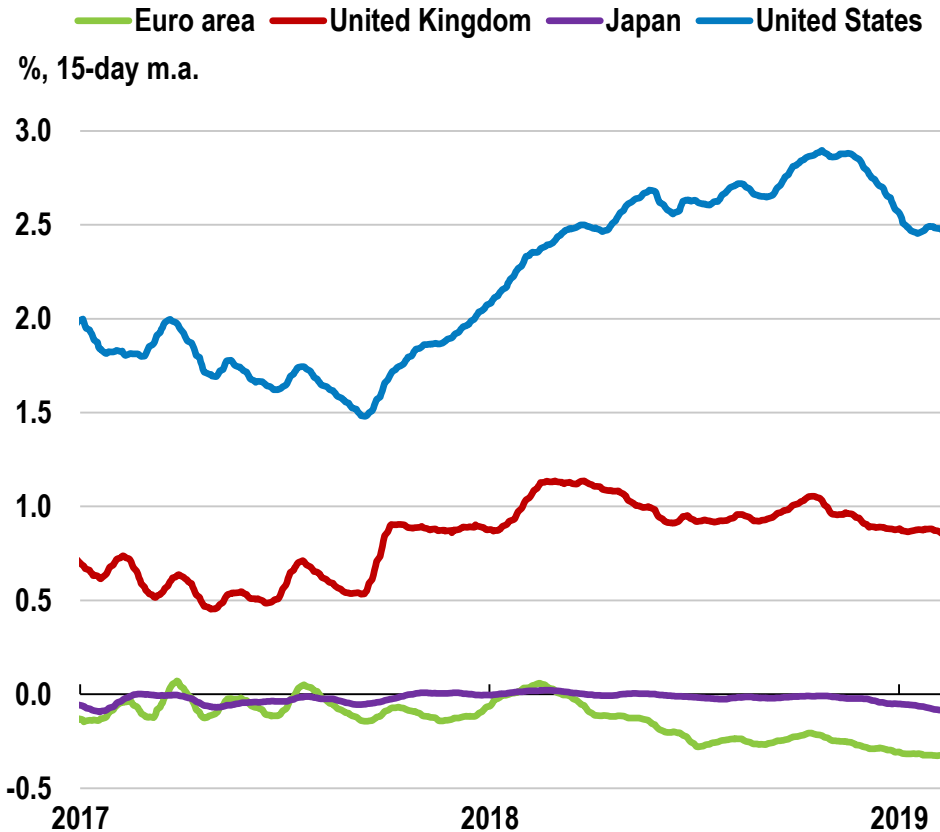
GOVERNMENTS SHOULD
COOPERATE TO REDUCE RISKS



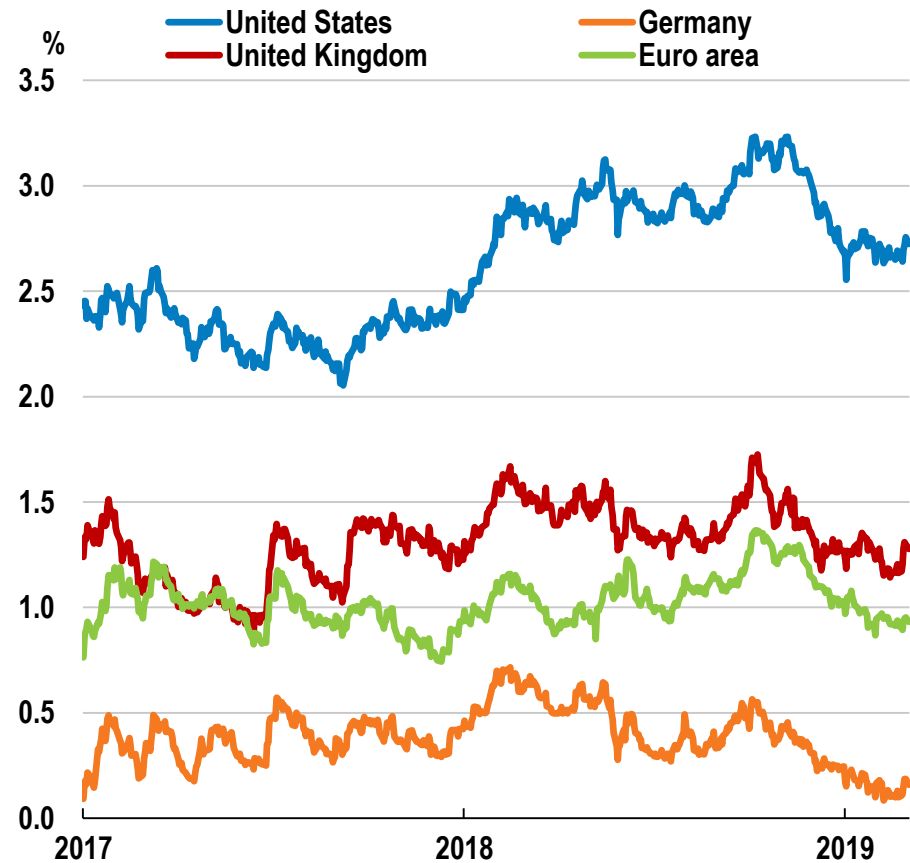
Interest rates are set to stay low for longer

Expected overnight interest rates for end-2019

Market expectations



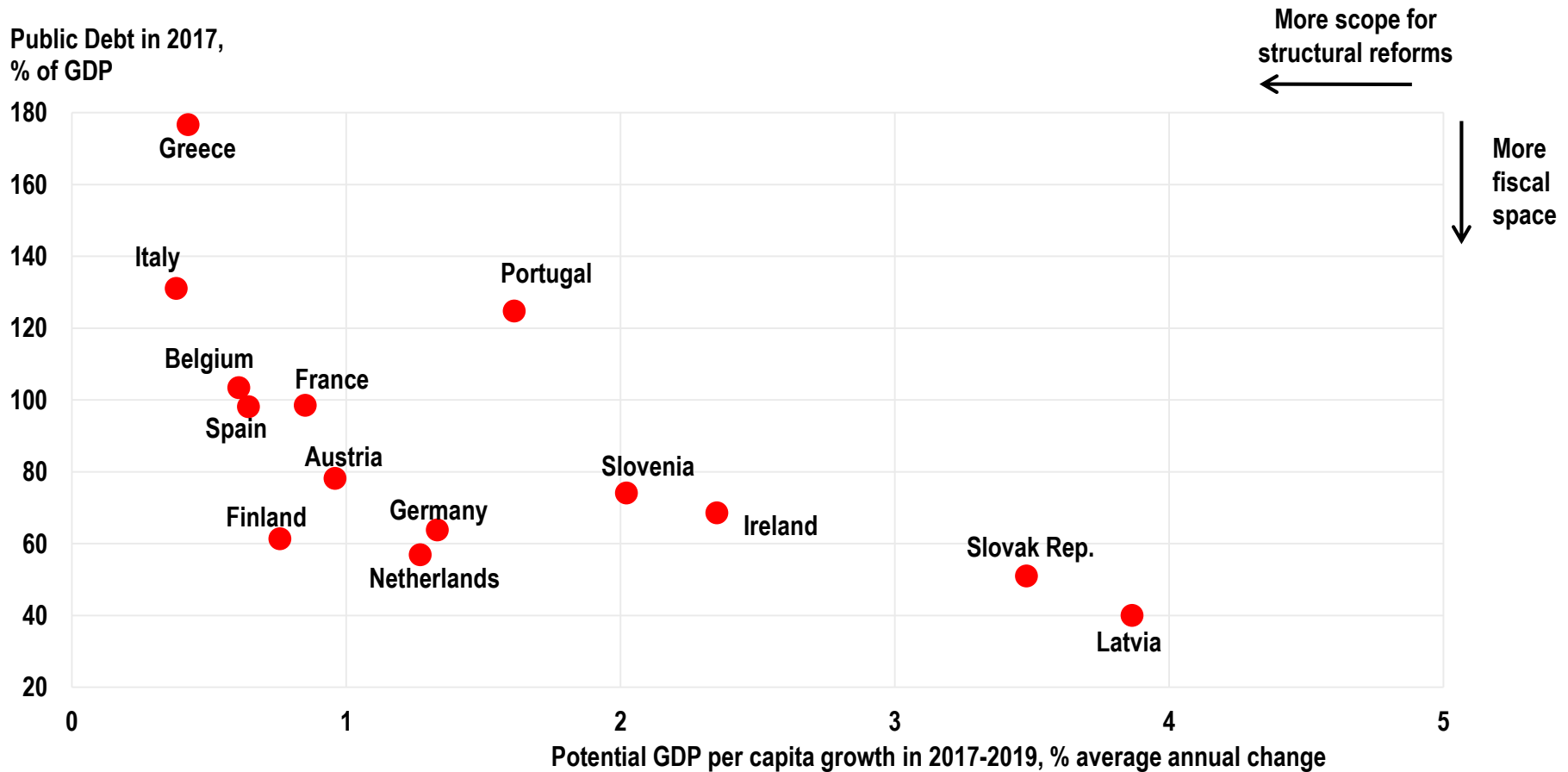
10-year government bond yields





Public debt levels vary between countries but trend growth is low in most euro area countries

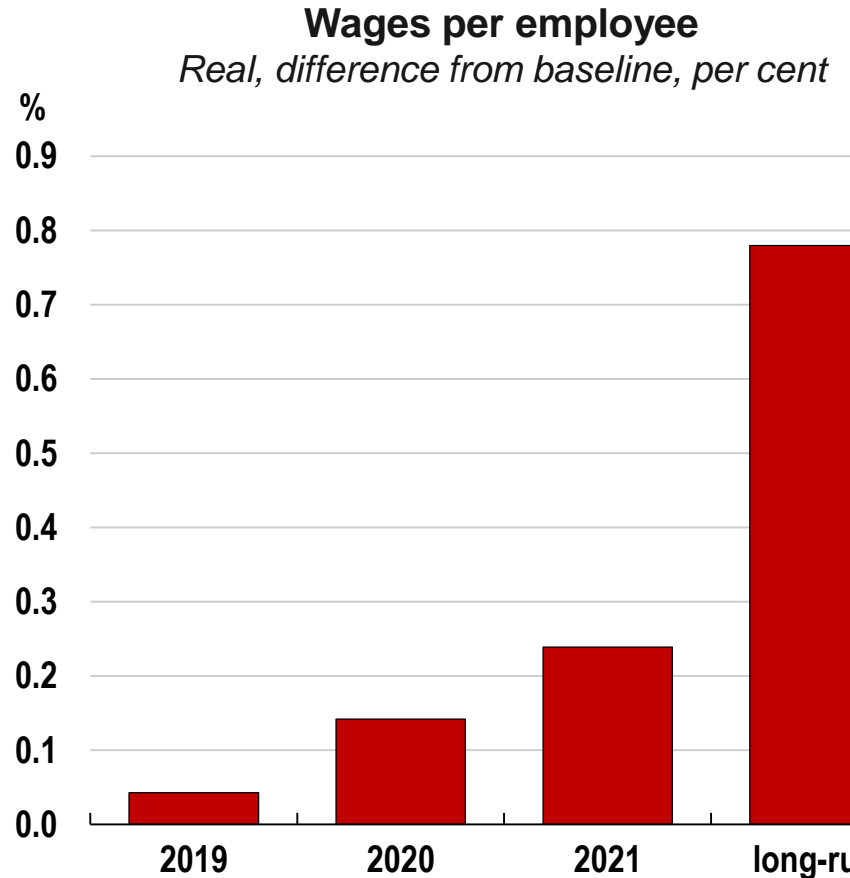
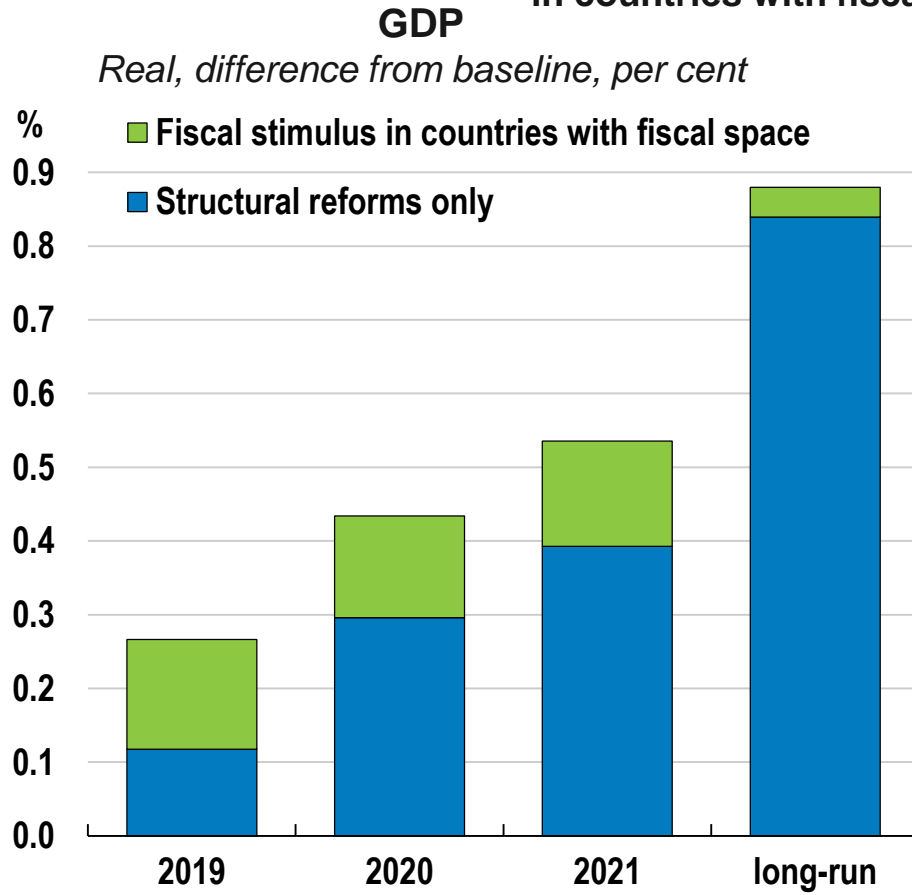
Potential GDP per capita growth and public debt





Euro area: coordinate fiscal support and structural reforms to avoid a downturn and spur wages

Impact of structural reforms and a coordinated 3-year fiscal stimulus
in countries with fiscal space in the euro area



Note: The level of technical progress is gradually raised by 1% by the fifth year in all countries, and countries with fiscal space also increase government investment by 0.5% of GDP for three years. Euro area monetary policy is assumed to be set in a way that takes into account the eventual long-run improvement in output. Countries with fiscal space here include Germany, the Netherlands, Austria, Finland, Ireland, Slovak Republic, Slovenia, Estonia, Latvia, and Lithuania.

Source: OECD calculations.



Key messages

Growth is weakening particularly in Europe

- Uncertainty is weighing on confidence, trade, investment and employment prospects
- EU trade has slowed sharply, contributing to weaker-than-expected growth in Europe

Vulnerabilities in China, Europe and financial markets could derail the global economy

- A sharper slowdown in China would weigh on global growth and could weaken growth in Europe further
- Political uncertainty in Europe is high and could weaken credit growth
- Challenges persist in financial markets and some EMEs

Governments should cooperate to reduce risks

- Intensify multilateral dialogue globally and in Europe to reduce policy uncertainty
- Central banks should remain supportive but cannot and should not act alone
- Euro area governments should coordinate a fiscal and structural push