



OECD ECONOMIC OUTLOOK

(A EUROPEAN AND GLOBAL PERSPECTIVE)

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Key messages

The global economy is stuck in a “low-growth” trap

- Growth in advanced economies is low and has declined in many EMEs
- Weak trade and sluggish investment continue
- Risks: Brexit, high credit growth and debt exposures in EMEs, volatile financial markets

Productivity growth has slowed and inequality has risen

- Prolonged demand weakness is damaging long-term growth prospects
- Productivity gains are not being widely shared
- Wage growth is even lower than productivity growth

Comprehensive and collective action is needed to keep promises

- Monetary policy alone cannot break out of low growth trap and may be overburdened
- Fiscal space is eased with low interest rates; use public investment to support growth
- Structural reform packages needed to boost productivity, wages and equality

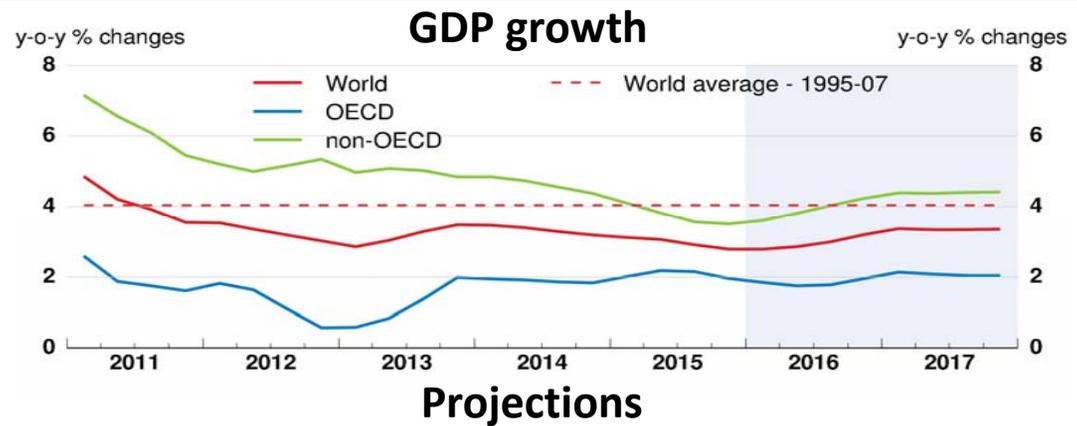




Global GDP growth is low

Global GDP growth in 2016 projected to be about the same as 2015; 2017 only a little stronger

Growth is flat in advanced economies, slower in many EMEs



Real GDP, Annual percentage changes

	2014	2015	2016	2017
World ¹	3.3	3.0	3.0	3.3
United States	2.4	2.4	1.8	2.2
Euro area	1.0	1.6	1.6	1.7
United Kingdom	2.9	2.3	1.7	2.0
Japan	0.0	0.6	0.7	0.4
China	7.3	6.9	6.5	6.2
India ²	7.2	7.4	7.4	7.5
Brazil	0.1	-3.9	-4.3	-1.7

1. Moving nominal GDP weights using purchasing power parities. 2. Fiscal years starting in April.
Source: OECD June 2016 Economic Outlook database.

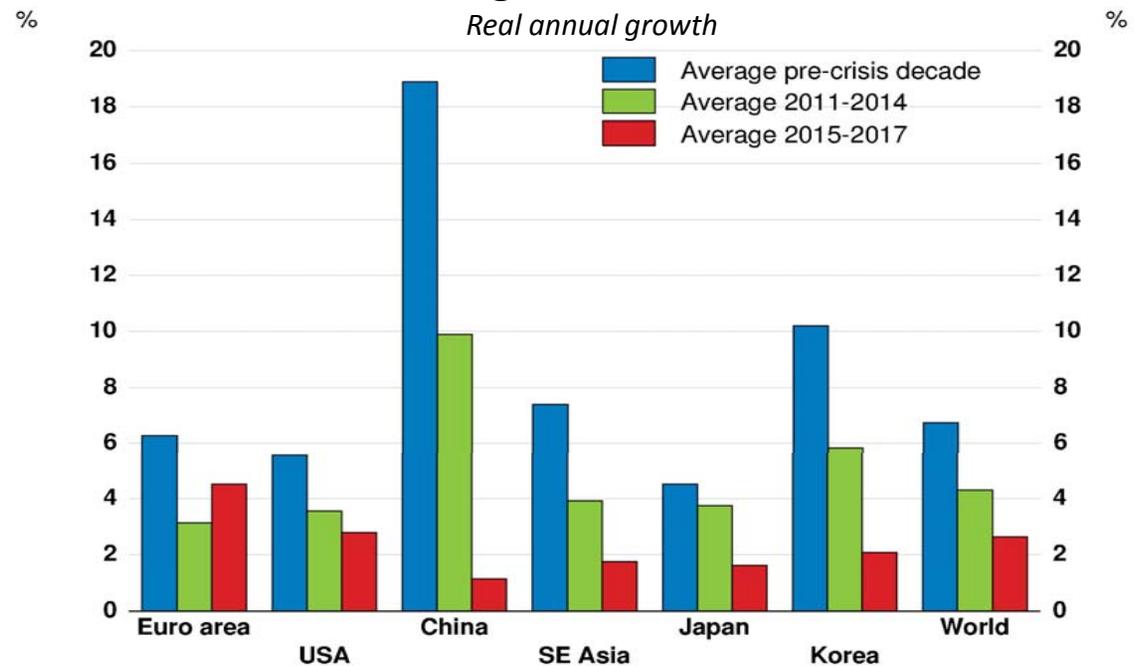




Global trade growth is weak, particularly in Asia

A return to pre-crisis trade growth would boost productivity by 1 per cent on average after 5 years

Trade in goods and services



Note: SE Asia includes Chinese Taipei, Hong Kong, Malaysia, the Philippines, Singapore, Thailand and Vietnam. Euro area and SE Asia include intra-regional trade.

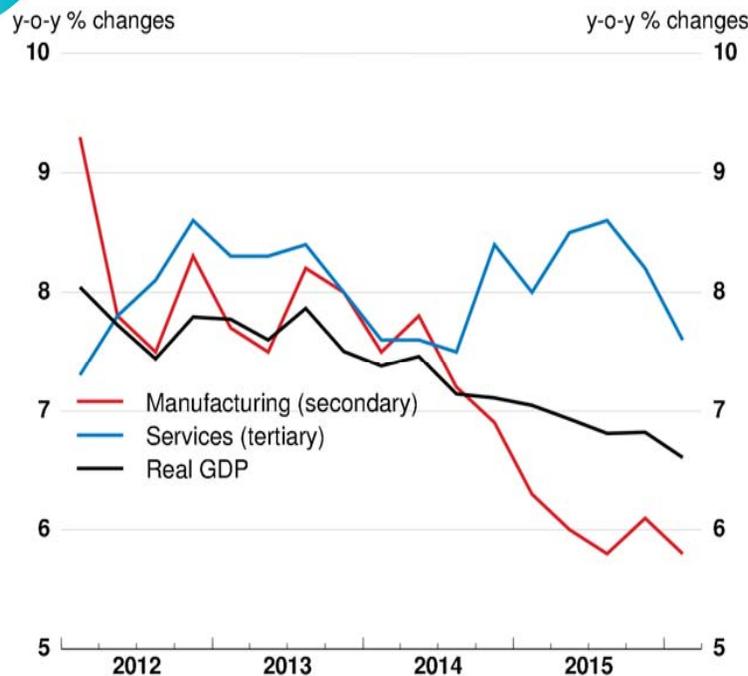
Source: OECD June 2016 Economic Outlook database; OECD calculations.



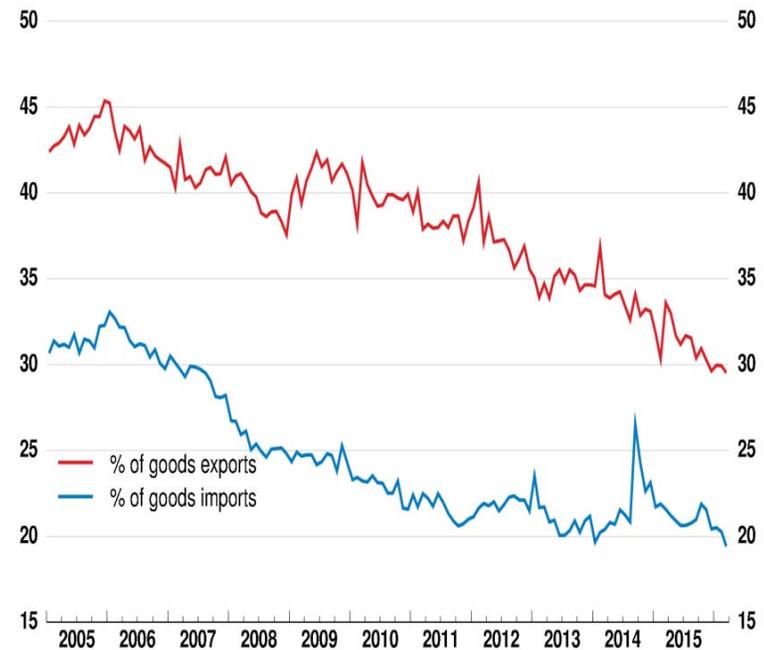


Rebalancing and on-shoring in China has contributed to weak trade growth

Composition of growth in China



The share of China's processing trade is declining

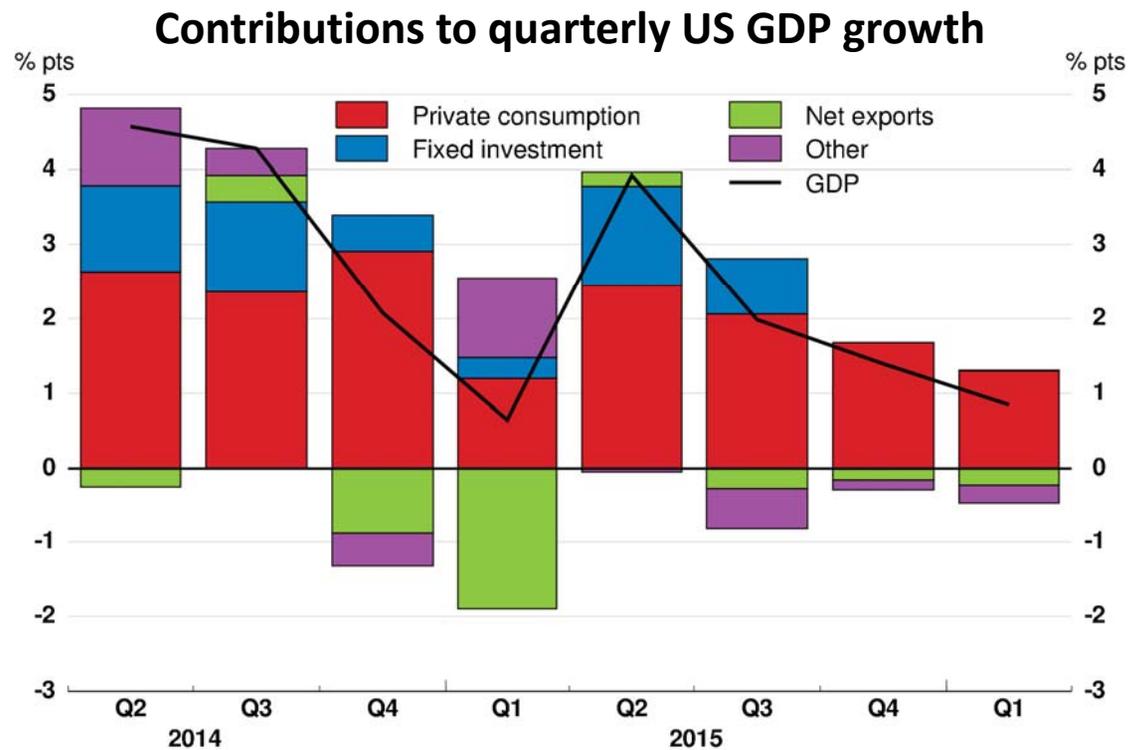


Note: Manufacturing (secondary) includes construction and utilities.
Source: National Bureau of Statistics; General Administration of Customs.





Weak exports and investment are weighing on US growth



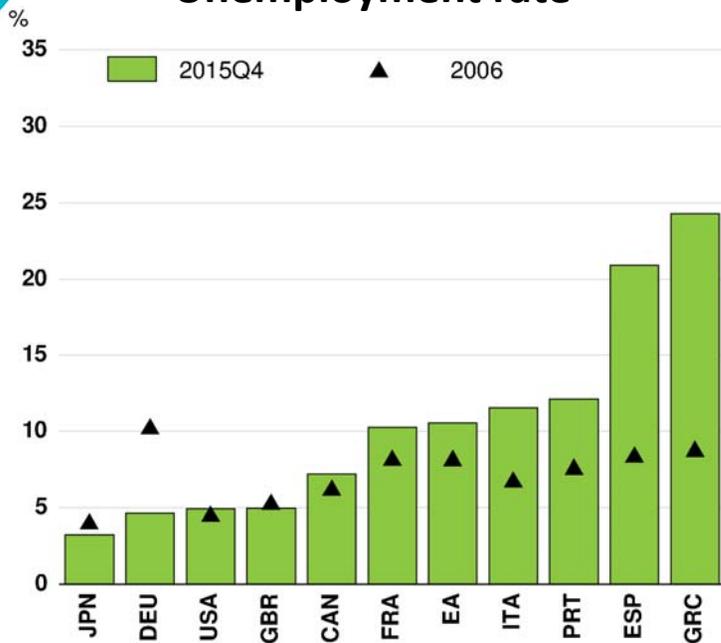
Source: OECD June 2016 Economic Outlook database.



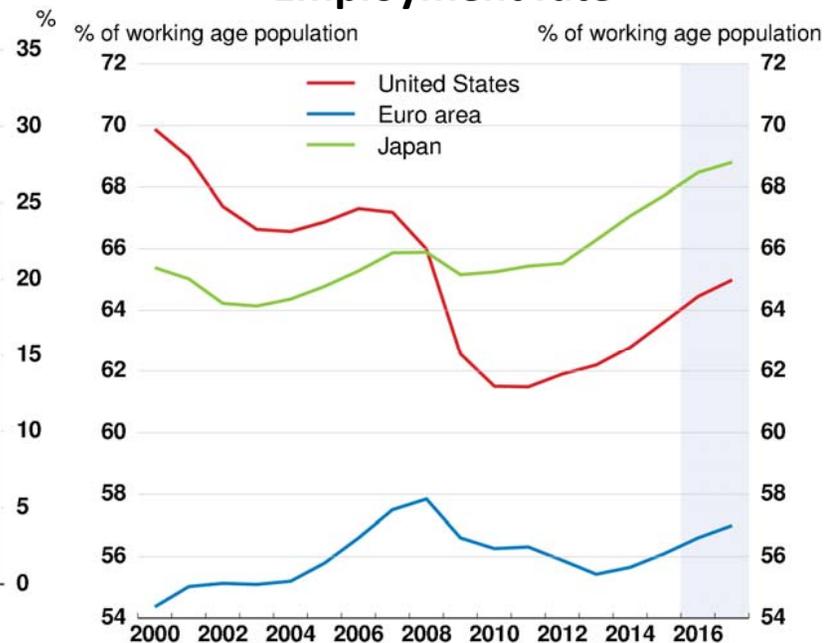


Labour markets are healing only slowly

Unemployment rate



Employment rate



Note: Unemployment rates are 2016Q1 for Canada, Japan and the United States.

Source: Eurostat; OECD June 2016 Economic Outlook database; OECD Labour Force Statistics; OECD Main Economic Indicators; United States Bureau of Labor Statistics.





Risks

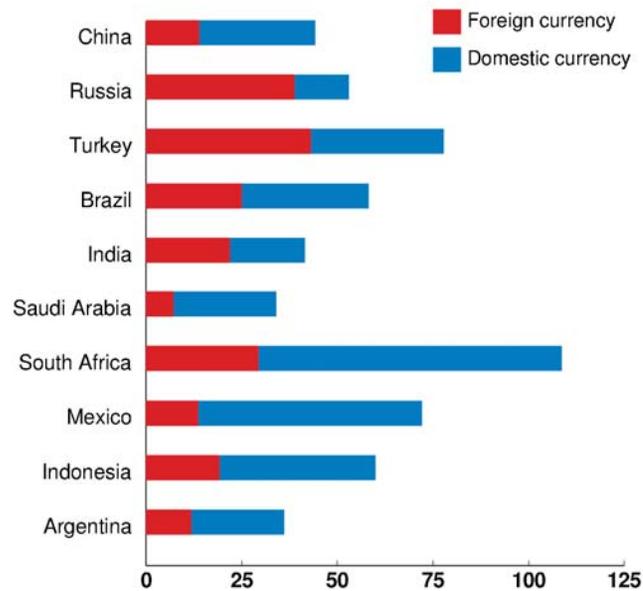




Some EMEs are vulnerable to exchange rate shocks and high domestic debt

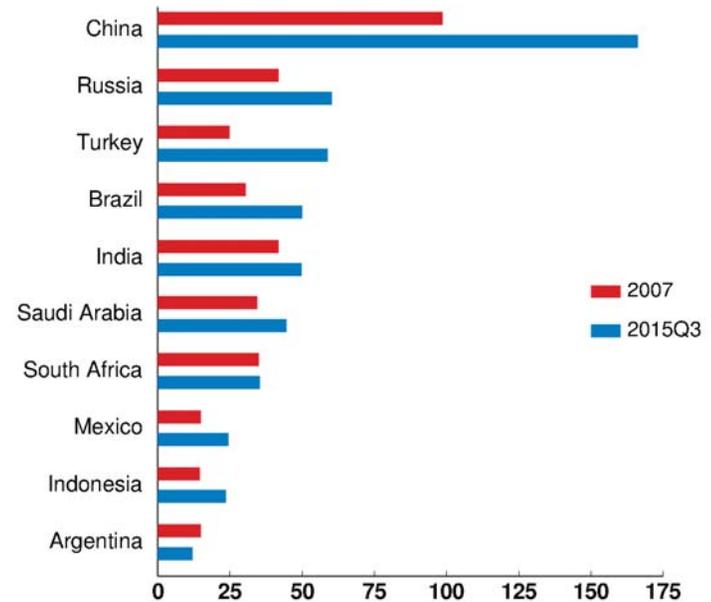
External liabilities

Per cent of GDP, 2015 Q3 or latest available



Credit to corporations has increased

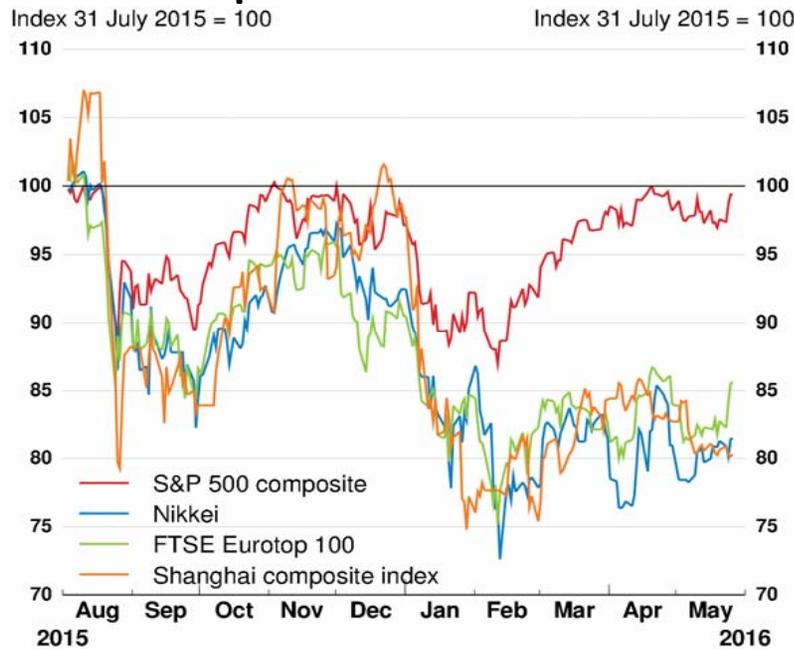
Per cent of GDP





Financial markets have been volatile

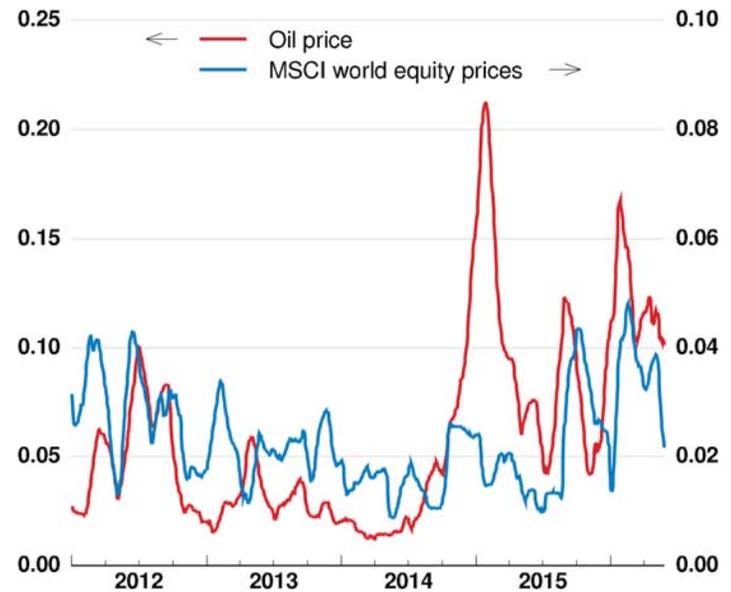
Recovery only in US equity markets compared with summer 2015



Source: Thomson Reuters.

Volatility in asset markets has increased

Rolling 3-month standard deviations

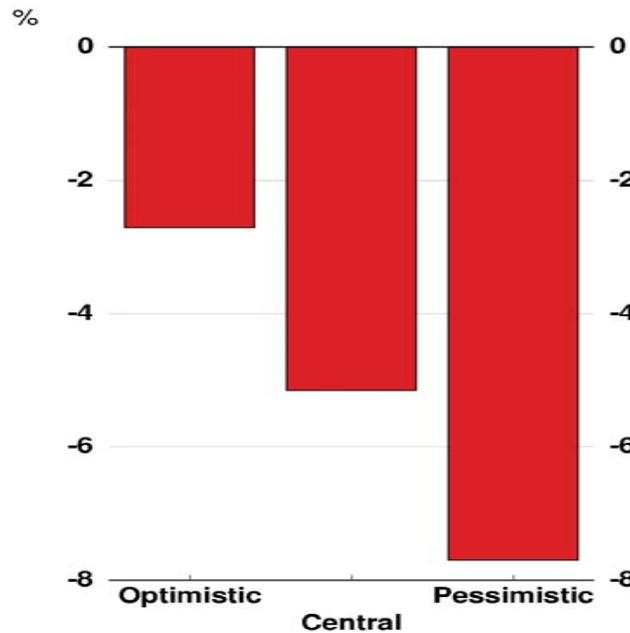




Brexit would impose costs on the UK, European and global economies

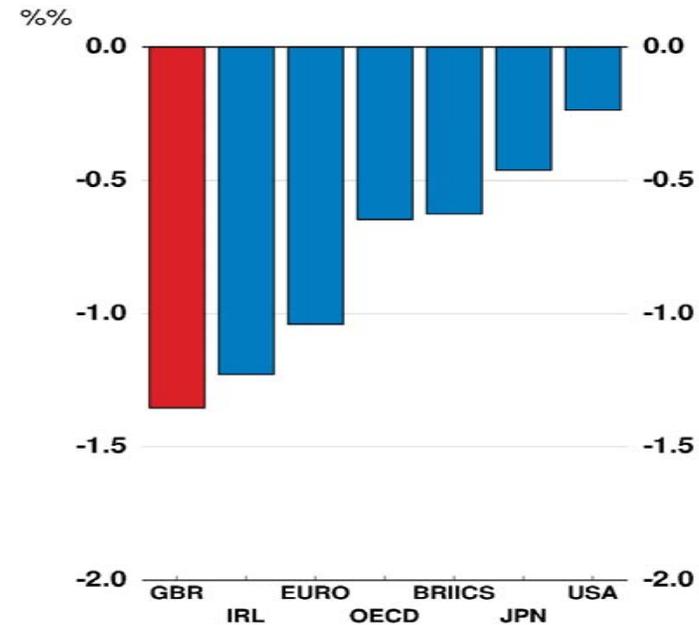
Long-term effect of Brexit on the UK

Real GDP in 2030, difference from baseline



Short-term impact of Brexit

Real GDP in 2018, difference from baseline





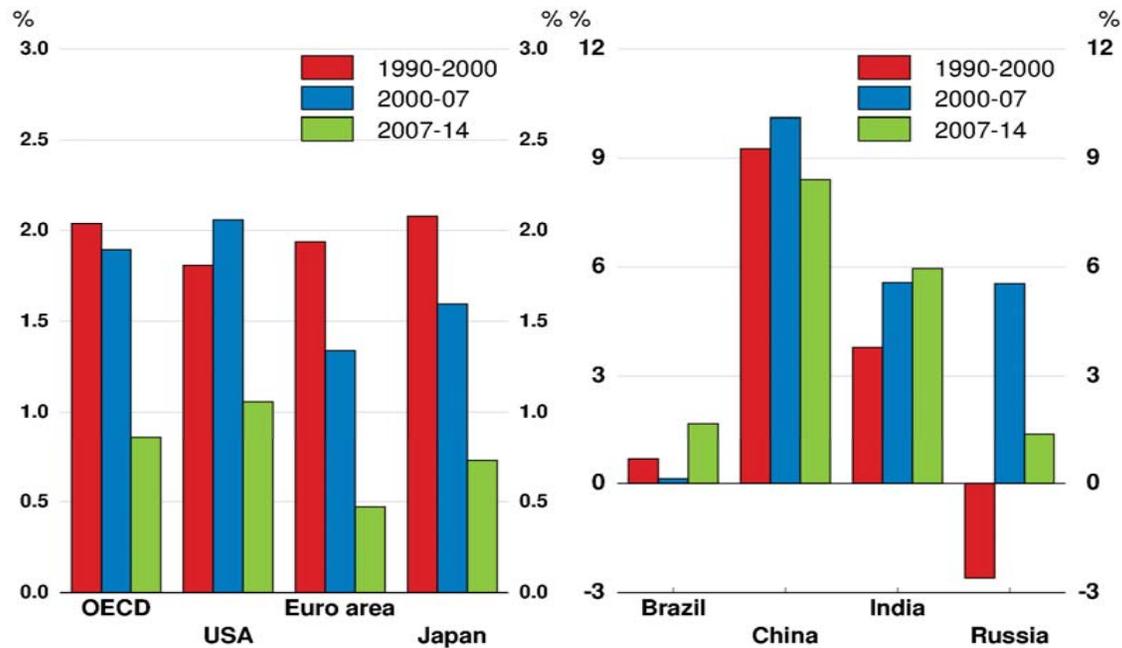
**Slowing productivity growth
and rising inequality
present significant challenges**





Declining productivity growth is widespread in advanced economies and some EMEs

Labour productivity growth



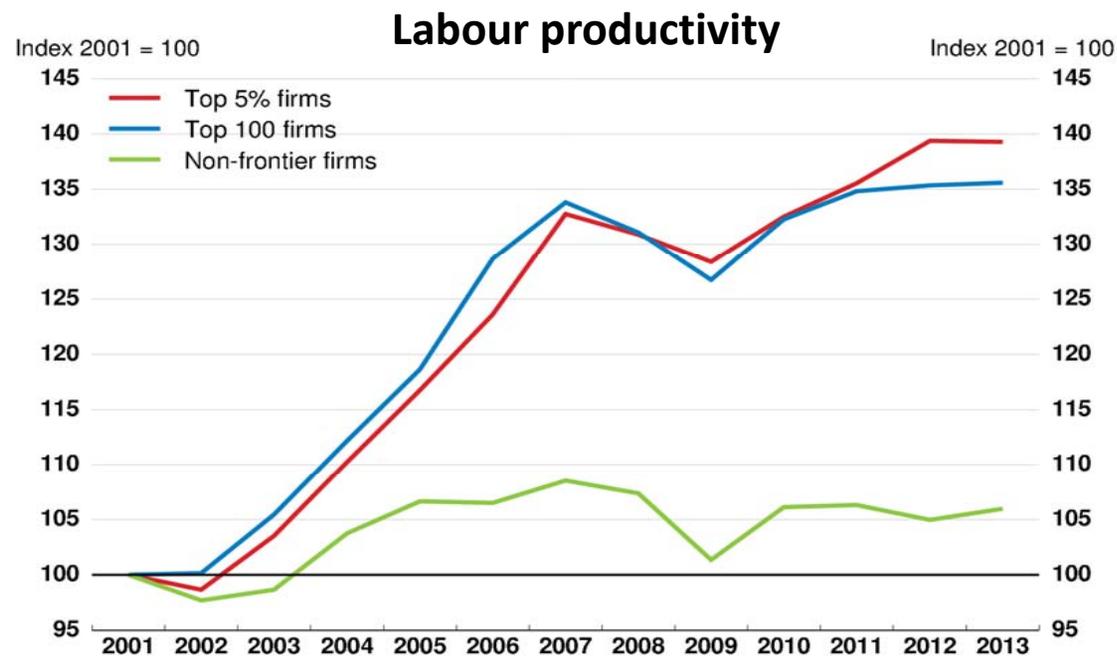
Note: Annualised rate. Output per hour worked for OECD economies. For non-OECD economies, measured as output per worker. Brazil is for 1991-2000.

Source: OECD National Accounts database; OECD Productivity database.





Innovation and diffusion have slowed



Note: Each line shows the average labour productivity (value added per worker). The “Top 5%” and “Top 100” are the globally most productive firms in each two-digit industry. “Non-frontier firms” is the average of all firms, excluding the Top 5%. Included industries are manufacturing and business services, excluding the financial sector. The coverage of firms in the dataset varies across the 24 countries in the sample and is restricted to firms with at least 20 employees.

Source: OECD preliminary results based on Andrews, D., C. Criscuolo and P. Gal (2016), “Mind the Gap: Productivity Divergence between the Global Frontier and Laggard Firms”, OECD Productivity Working Papers, forthcoming; Orbis data of Bureau van Dijk.

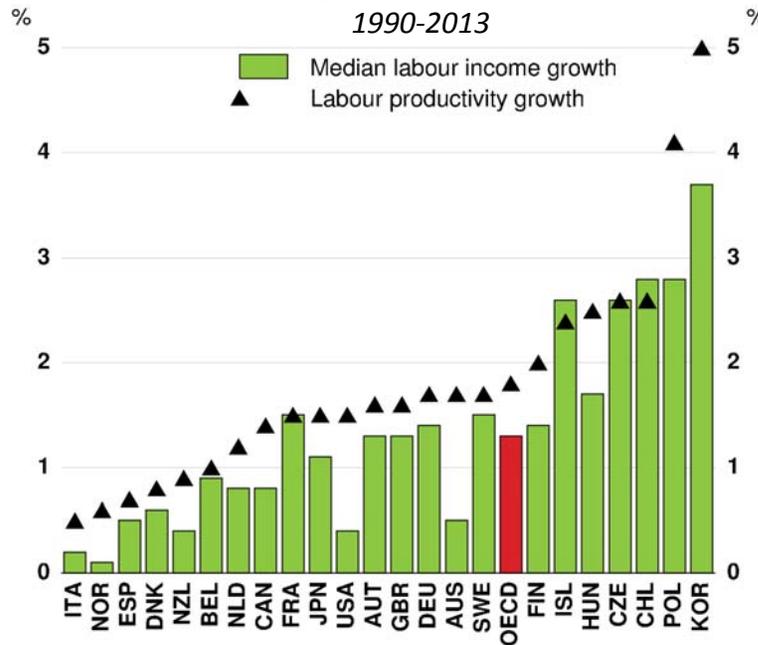




Incomes are rising very slowly for most workers, increasing inequality

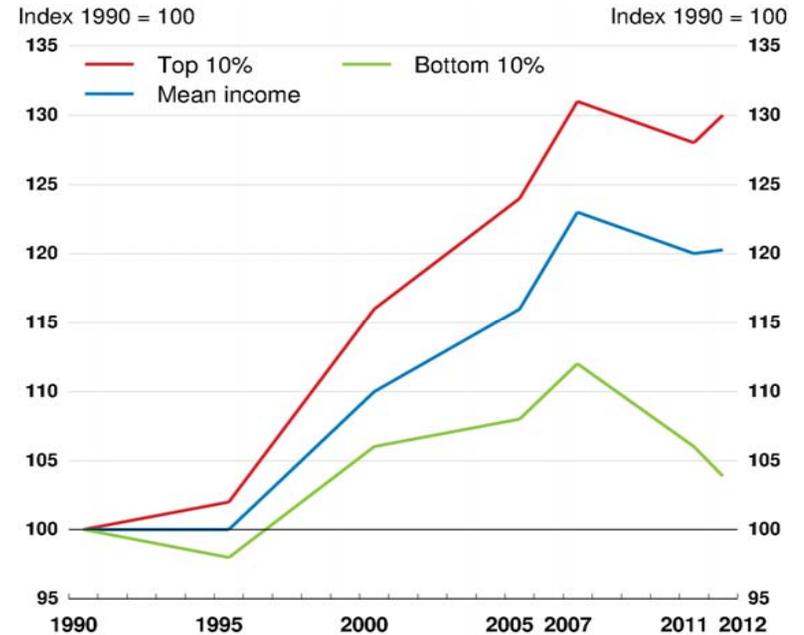
Wages growing less than productivity

Annualised real growth rates, per hour worked, 1990-2013



Inequality in income is increasing

Real household disposable income, total population



Note: OECD is the unweighted average of the countries for which data are available.

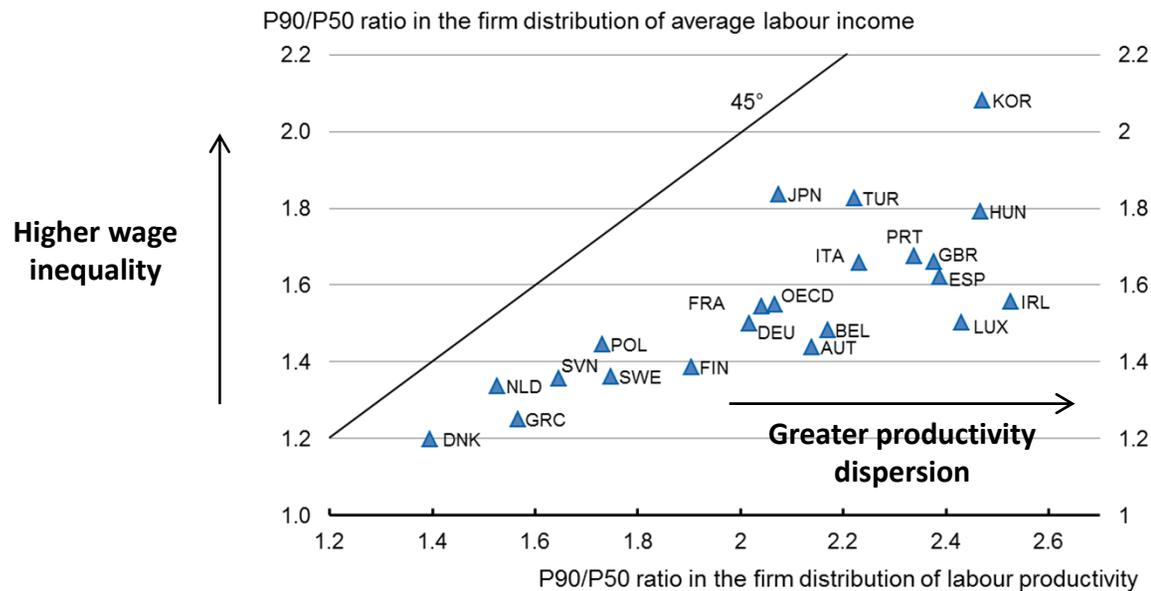
Source: OECD estimations based on Kappeler et al. (2016), "Decoupling of Productivity and Median Wage Growth: Macro-Level Evidence", OECD Economics Department Working Papers, forthcoming; OECD National Accounts database; OECD Earnings database; OECD Income Distribution database; OECD calculations.





Productivity differences are correlated with wage inequality

Wage inequality and productivity dispersion across firms



Note: Data are for 2013. OECD is the unweighted average of the countries for which data are available. The P90/P50 ratio is labour income or labour productivity of the firm at the 90th percentile divided by the corresponding value of the firm at the median. Labour income is total compensation including taxes and the employer's and employee's social security contributions. Source: OECD estimations based on Saia and Schwellnus (2016), "Decoupling of Productivity and Median Wage Growth: Micro-Level Evidence", OECD Economics Department Working Papers, forthcoming; Orbis.





**Comprehensive and collective
policy action is needed
to deliver on promises**



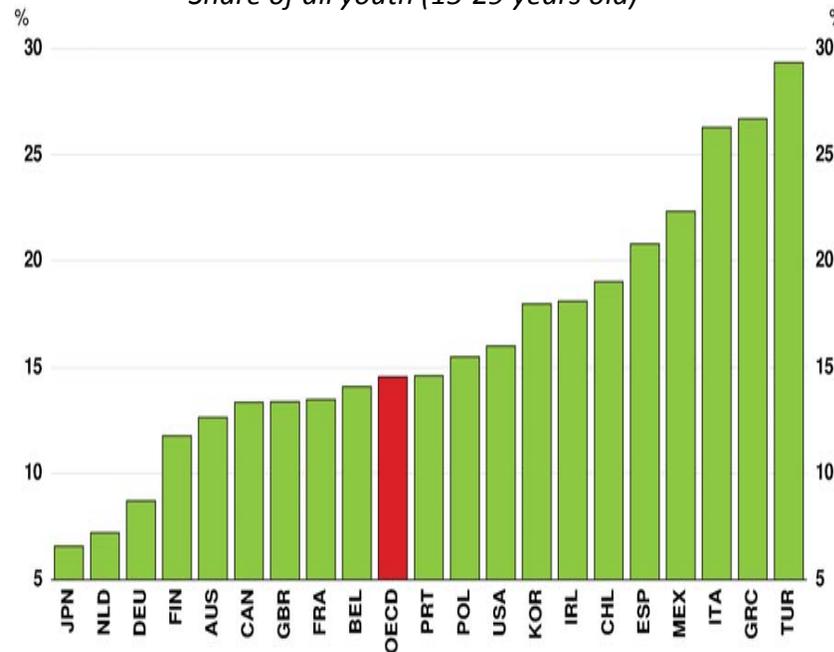


Failure to get out of the low-growth trap means broken promises to the youth

Unemployment in the first 10 years of a worker's career leads to large differences in life-time earnings

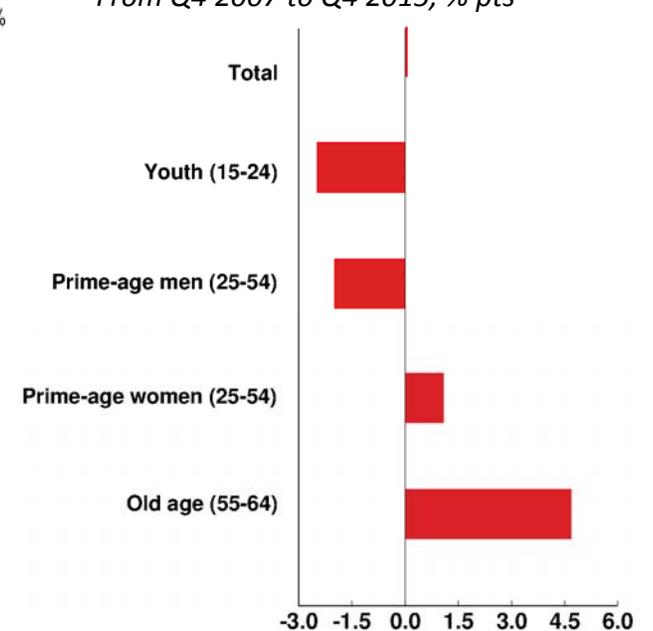
Inactive and unemployed youth

Share of all youth (15-29 years old)



Change in OECD employment rate

From Q4 2007 to Q4 2015, % pts



Note: For LHS, OECD is the unweighted average of 34 OECD countries. 2013 for Chile and the United States. Youth aged 15-24 for Japan.
Source: OECD calculations based on national labour force surveys; OECD Short-Term Labour Market Statistics database.

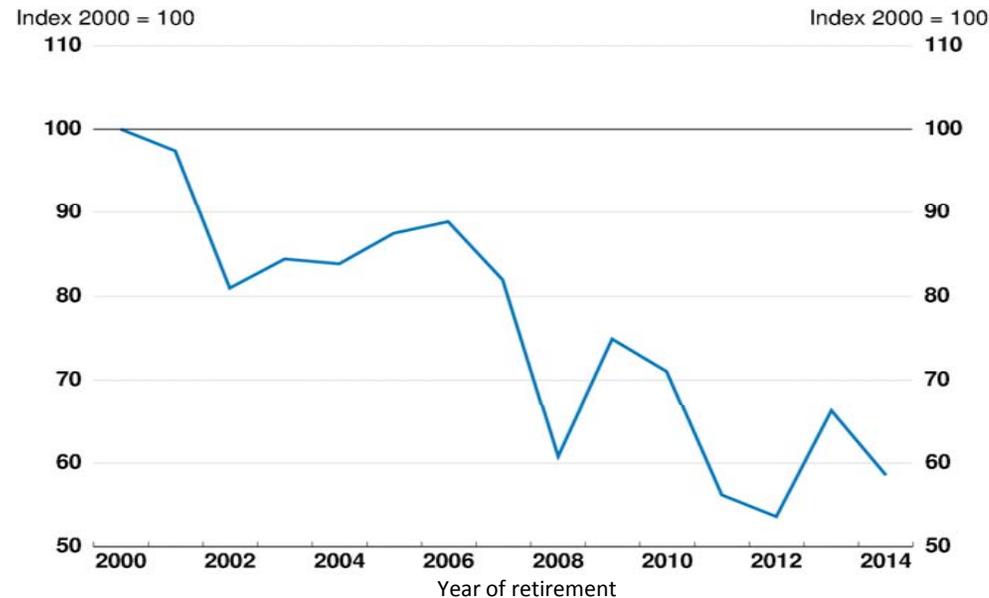




Keeping promises to older people is more difficult with low returns and low growth

Policy reforms become more urgent, including extending working lives

Falling retirement income for a given contribution



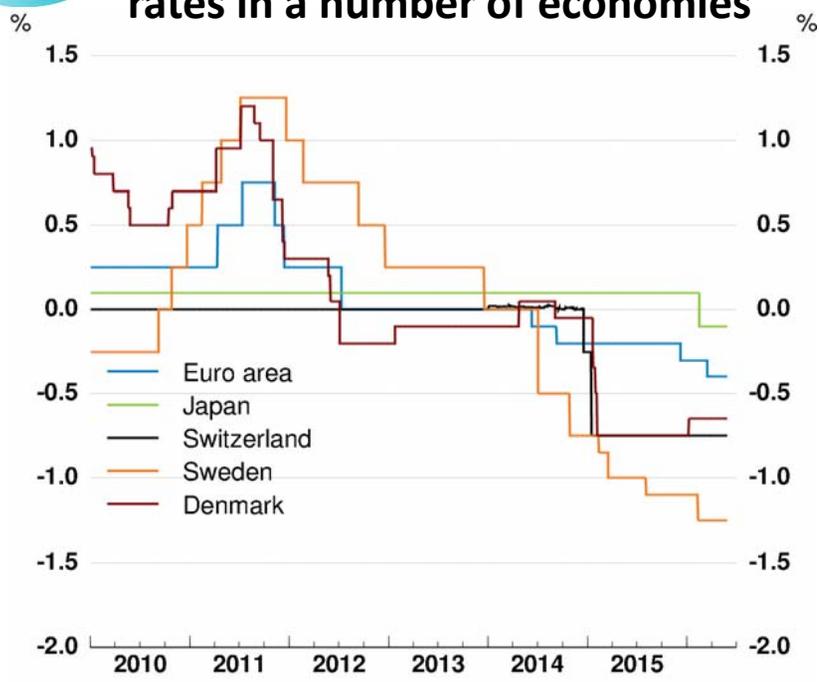
Note: The chart shows the impact of falling interest rates on real incomes in retirement for a defined contribution scheme. Annuity payments calculated for the same hypothetical individual contributing 10% of wages over a 40 year period. The assets are invested in a portfolio comprising 60% of variable income (fixed return of 4.5%) and 40% of fixed income (historical 10 year government bonds yields, kept to maturity) and used at retirement to buy an annuity with a life expectancy of 20 years at age 65 using actual government bond yields for calculating the annuity premium. Constant annual inflation of 2 per cent and productivity growth of 1.5 per cent are assumed.
Source: OECD Business and Finance Outlook 2016 (forthcoming).





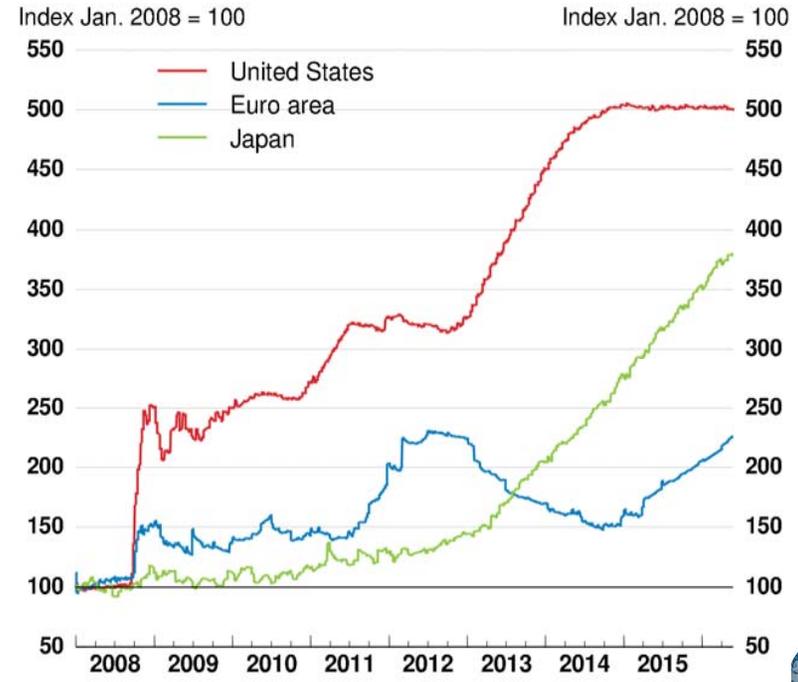
Monetary policy is in uncharted waters

Negative central bank deposit rates in a number of economies



Source: Thomson Reuters.

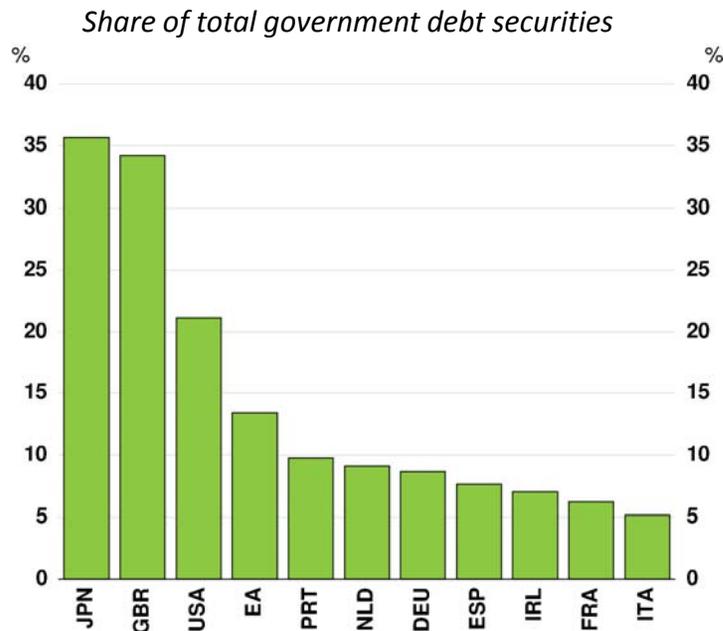
Central bank balance sheets





Relying on monetary policy alone risks less effectiveness and harmful side effects

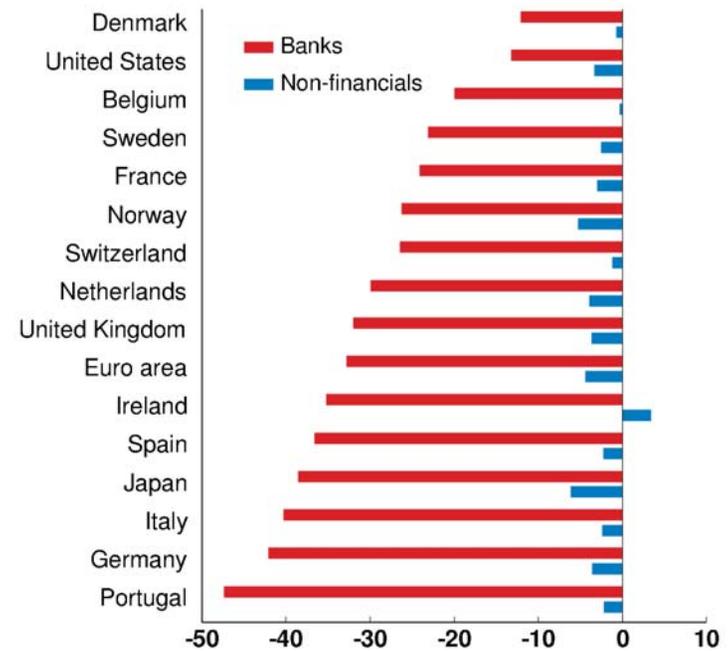
Some central banks are the dominant holders of government bonds



Source: Central banks; Thomson Reuters; and OECD calculations.

Falling bank share prices

Per cent decline over the year to May 2016

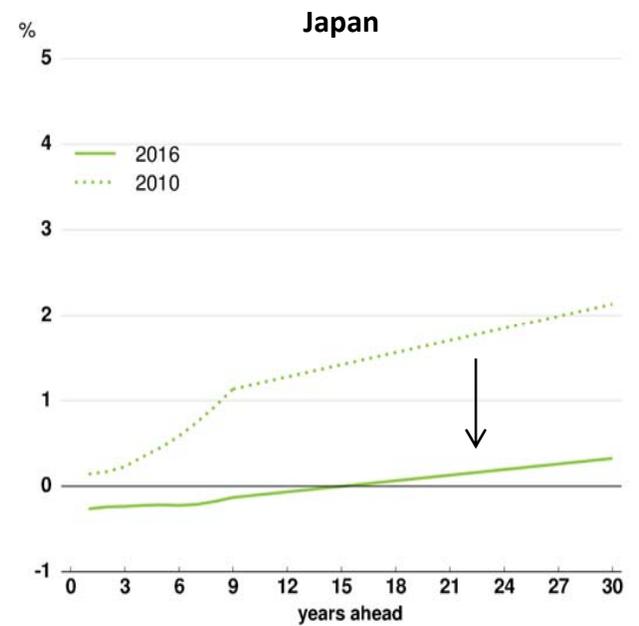
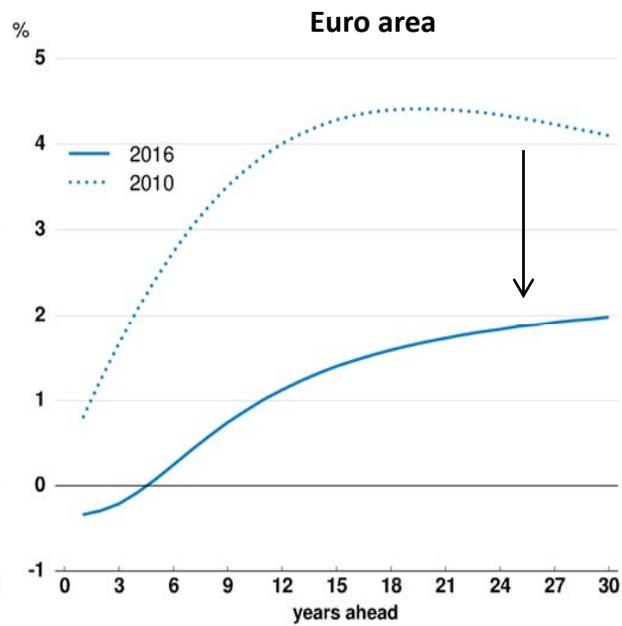
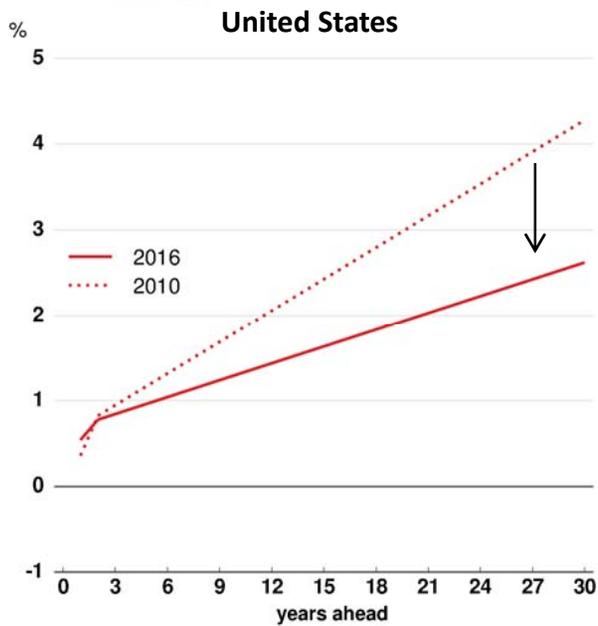




Interest rates on sovereign debt are very low

Yield curves have fallen and flattened

Government bonds



21 Note: Bond yields are the average in May for the year shown.
Source: Bloomberg.

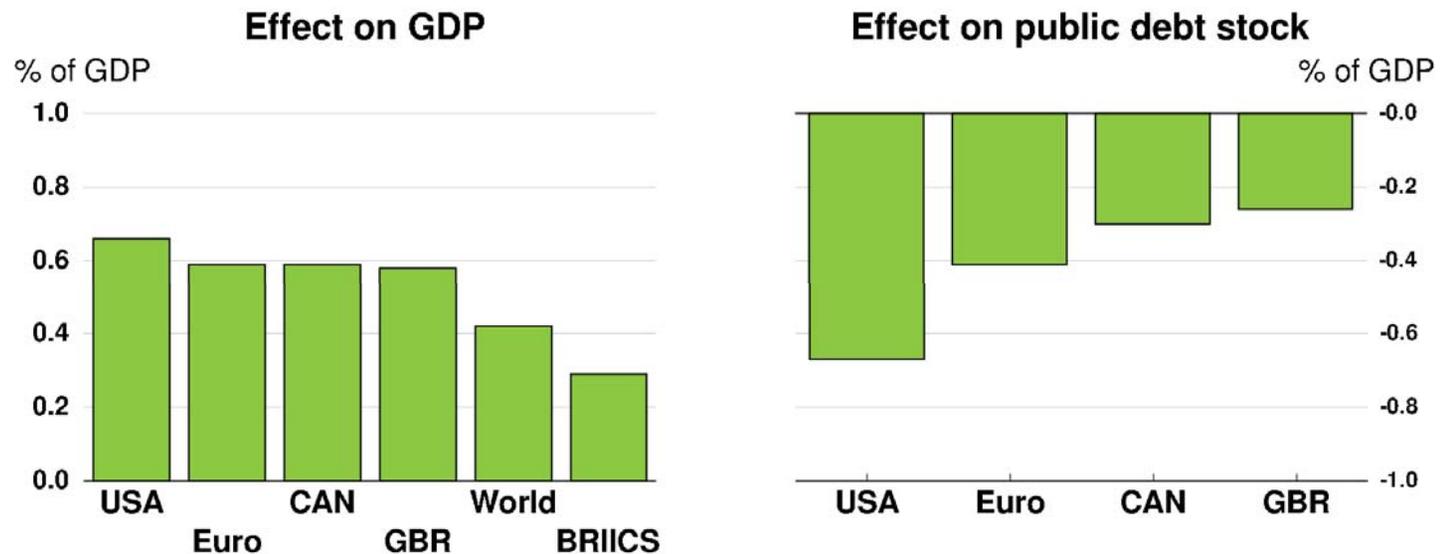




Fiscal policy: use the opportunity to lock-in low borrowing costs and boost growth

1st year effects of a ½ per cent of GDP public investment increase by all OECD economies

Change from baseline



Collective action should focus on quality public investment and pro-growth structural policies





Structural policies to increase productivity can also boost demand and employment

Unique package for each country:

Shift the composition of public spending to investment

Encourage firm entry and investment in service sectors

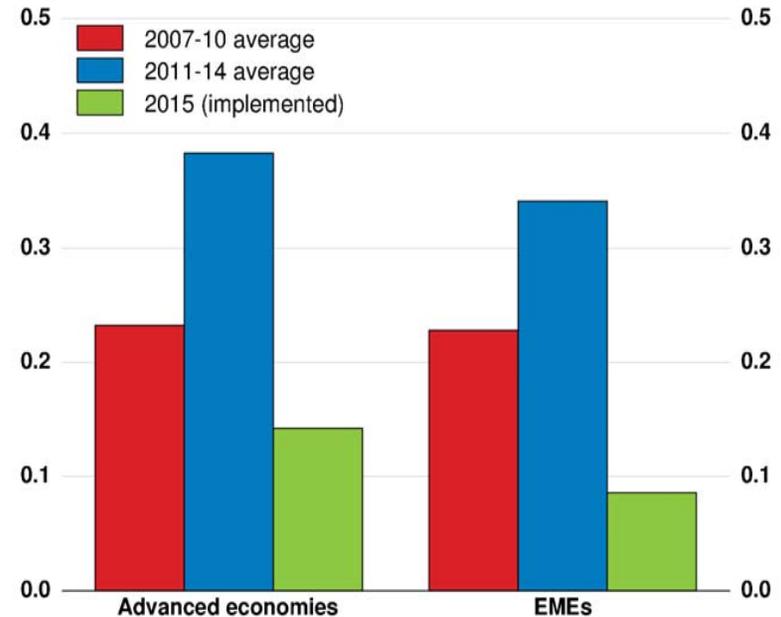
Reduce barriers to geographic and jobs mobility

Package simultaneous labour and product market reforms

Improve function of financial system and access to credit

The pace of structural reform has slowed

Share of OECD Going for Growth recommendations implemented



Note: EMEs include Brazil, Chile, China, Colombia, India, Indonesia, Mexico, Russia, Turkey and South Africa; Mexico and Turkey only prior to 2011. Advanced includes the rest of the OECD.
Source: OECD *Going for Growth* 2016.



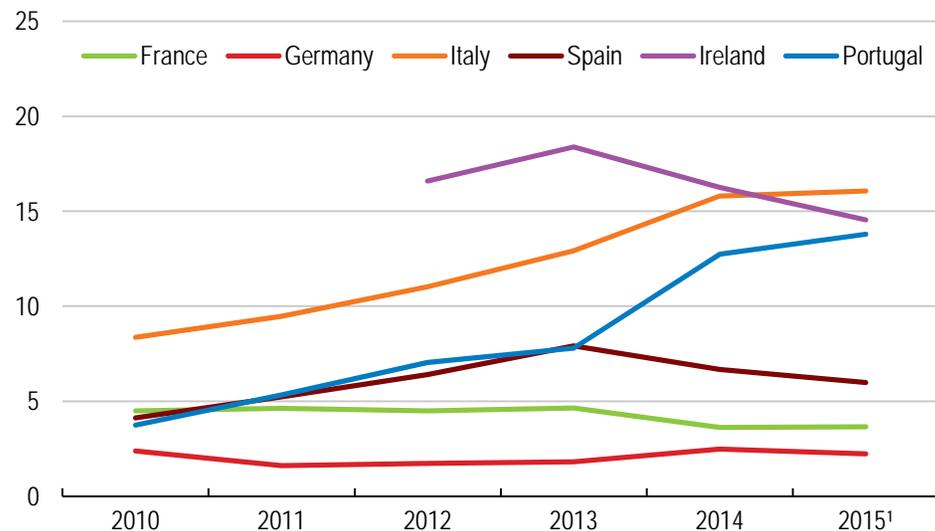


In the euro area, financial sector reforms are a key priority

Speed up resolution of non-performing loans: prudential tools and asset management companies can help

Complete banking union: set up a common backstop to the Single Resolution Fund and deposit insurance at the European level

Non-performing loans (% of total)



1. Average of first three quarters.
Source: European Central Bank.





Summary

Diagnosis: Low-growth trap

- Subdued investment, trade, employment, wage, and productivity growth

Risks: Substantial downside

- Brexit, EME financial vulnerabilities, increased financial market volatility

Consequences: Broken promises to young, old, investors

- Slowing productivity, reduced long-term growth prospects, rising inequality

Recommendations: Comprehensive, coherent, collective action

- Quality public investment, country-specific structural reforms, reduce burden on monetary policy

Outcome: A high-growth path that keeps promises

- Stronger investment, trade, employment, consumption, productivity, equity





Thank you

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ECOSCOPE blog: oecdoscope.wordpress.com/

Launch of the OECD Business and Finance Outlook
<http://www.oecd.org/daf/oecd-business-finance-outlook.htm>

