



OECD ECONOMIC OUTLOOK

Trade uncertainty dragging down global growth

21 May 2019



Key messages

Global economic growth is stabilising at a low level

- Trade growth has plunged and investment has slowed due to high uncertainty
- Manufacturing is weak, but strong labour markets and services are supporting consumption
- A slight pick-up by 2020 will not be enough to boost living standards

Key risks: Trade tensions, China slowdown, high debt

- Further increases in trade restrictions would hurt investment, workers and consumers
- A sharp slowdown in China would hit activity across the world
- Private, often risky, debt is building up

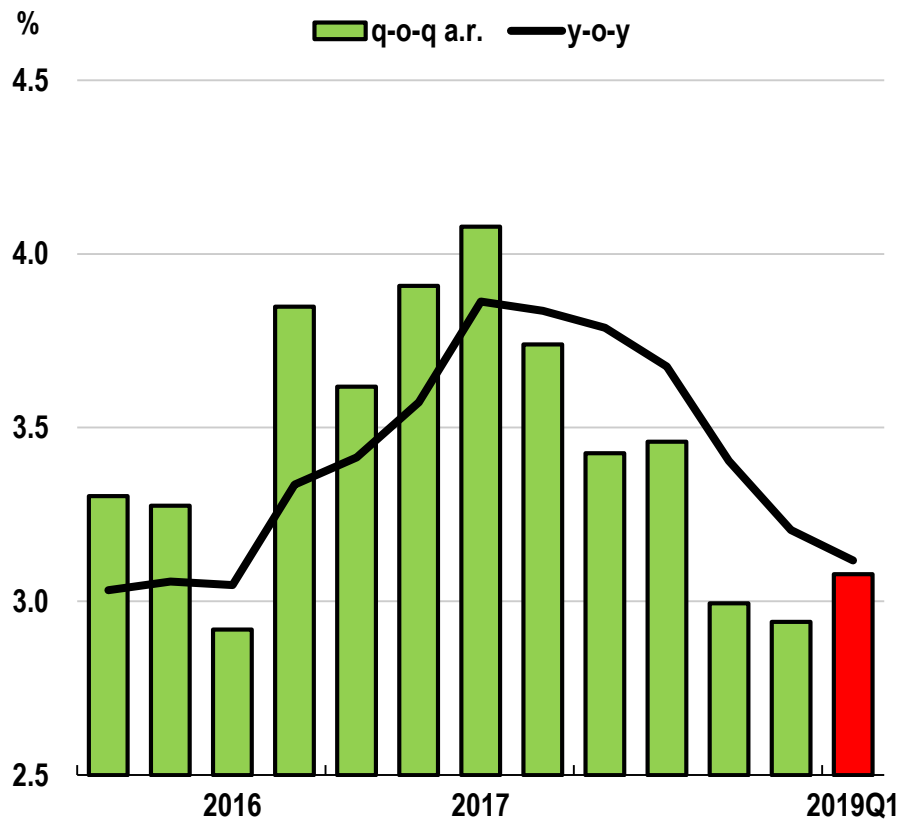
Governments must act urgently to reinvigorate growth that benefits all

- Invest in infrastructure, digital transformation and skills to meet tomorrow's challenges
- In the euro area, combine structural with fiscal policies to stimulate activity
- Resolve trade disputes through increased international cooperation while fixing the international rules-based system



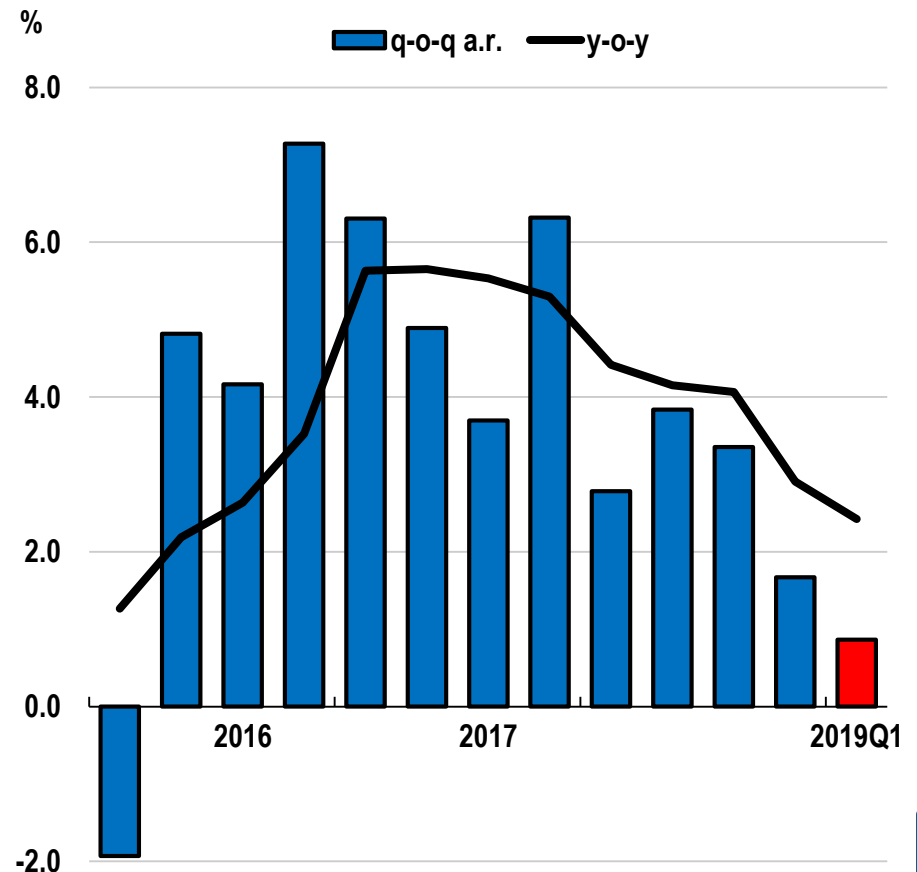
Economic growth has slowed in sync with trade growth

World GDP growth



World trade volume growth

Goods and services



Note: Figures for the first quarter of 2019 are based on currently available data and projections for the remaining economies.
Source: OECD Economic Outlook database.



OECD Economic Outlook projections

Real GDP growth

%, year-on-year

	2018	2019	2020		2018	2019	2020
World	3.5	3.2	3.4	G20	3.8	3.4	3.6
Australia	2.7	2.3	2.5	Argentina	-2.5	-1.8	2.1
Canada	1.8	1.3	2.0	Brazil	1.1	1.4	2.3
Euro area	1.8	1.2	1.4	China	6.6	6.2	6.0
Germany	1.5	0.7	1.2	India¹	7.0	7.2	7.4
France	1.6	1.3	1.3	Indonesia	5.2	5.1	5.1
Italy	0.7	0.0	0.6	Mexico	2.0	1.6	2.0
Japan	0.8	0.7	0.6	Russia	2.3	1.4	2.1
Korea	2.7	2.4	2.5	Saudi Arabia	2.2	2.5	1.9
United Kingdom	1.4	1.2	1.0	South Africa	0.8	1.2	1.7
United States	2.9	2.8	2.3	Turkey	2.6	-2.6	1.6

Note: The European Union is a full member of the G20, but the G20 aggregate only includes countries that are members in their own right.
1. Fiscal years starting in April.



OECD Economic Outlook projections

Real GDP growth

%, year-on-year

	2018	2019	2020		2018	2019	2020
Austria	2.7	1.4	1.6	Latvia	4.8	2.7	2.7
Belgium	1.4	1.2	1.3	Lithuania	3.5	2.9	2.5
Chile	4.0	3.4	3.3	Luxembourg	2.6	2.0	2.5
Colombia	2.7	3.4	3.6	Netherlands	2.6	1.6	1.5
Costa Rica	2.7	2.7	3.0	New Zealand	2.8	2.6	2.5
Czech Republic	2.9	2.6	2.5	Norway	1.4	1.8	2.1
Denmark	1.4	2.1	1.7	Poland	5.1	4.2	3.5
Estonia	3.9	3.2	2.8	Portugal	2.1	1.8	1.9
Finland	2.3	1.5	1.4	Slovak Republic	4.1	3.5	3.4
Greece	1.9	2.1	2.0	Slovenia	4.5	3.4	3.1
Hungary	5.0	3.9	3.0	Spain	2.6	2.2	1.9
Iceland	4.6	1.0	2.4	Sweden	2.4	1.6	1.6
Ireland	6.8	3.9	3.3	Switzerland	2.5	1.0	1.5
Israel	3.3	3.1	3.2				

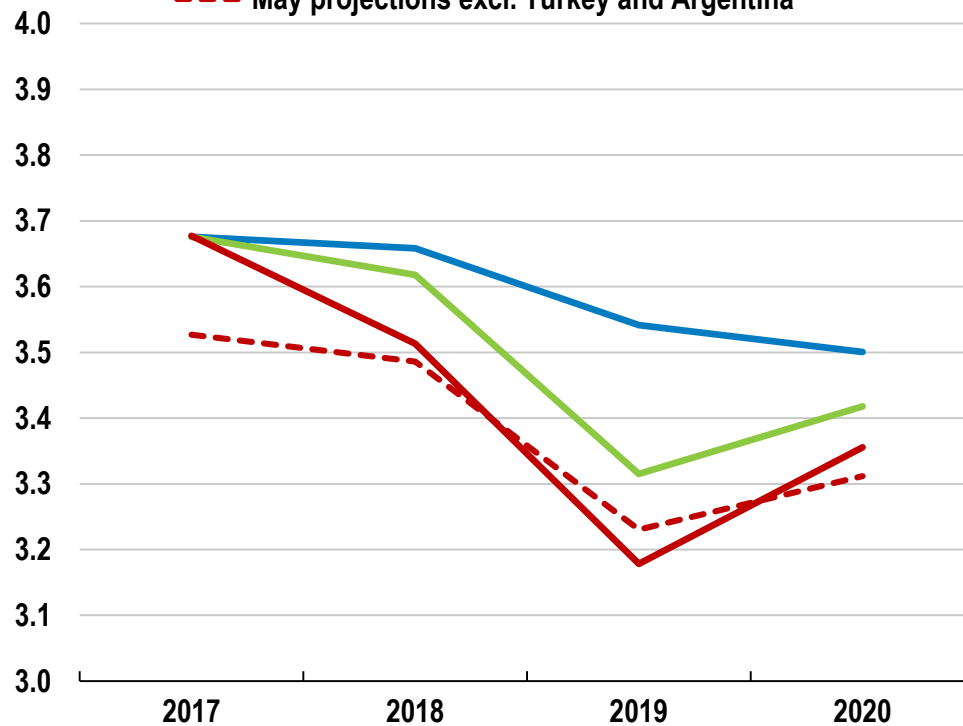


GDP and trade growth are set to stay weak despite a modest pick-up in 2020

Global GDP growth

% , year-on-year

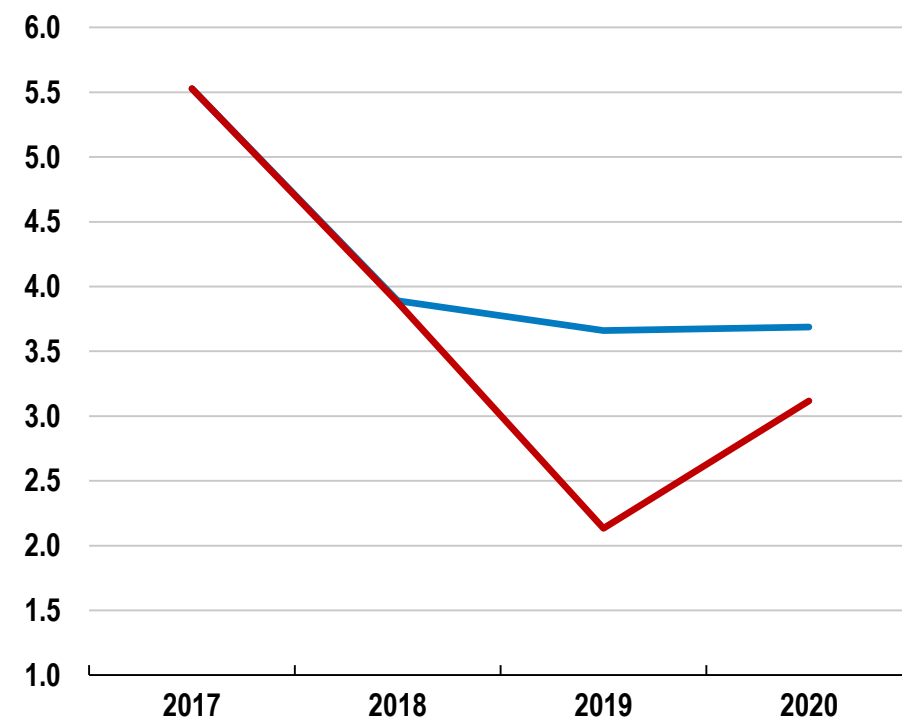
- November projections
- March projections
- May projections
- May projections excl. Turkey and Argentina



Global trade growth

% , year-on-year

- November projections
- May projections

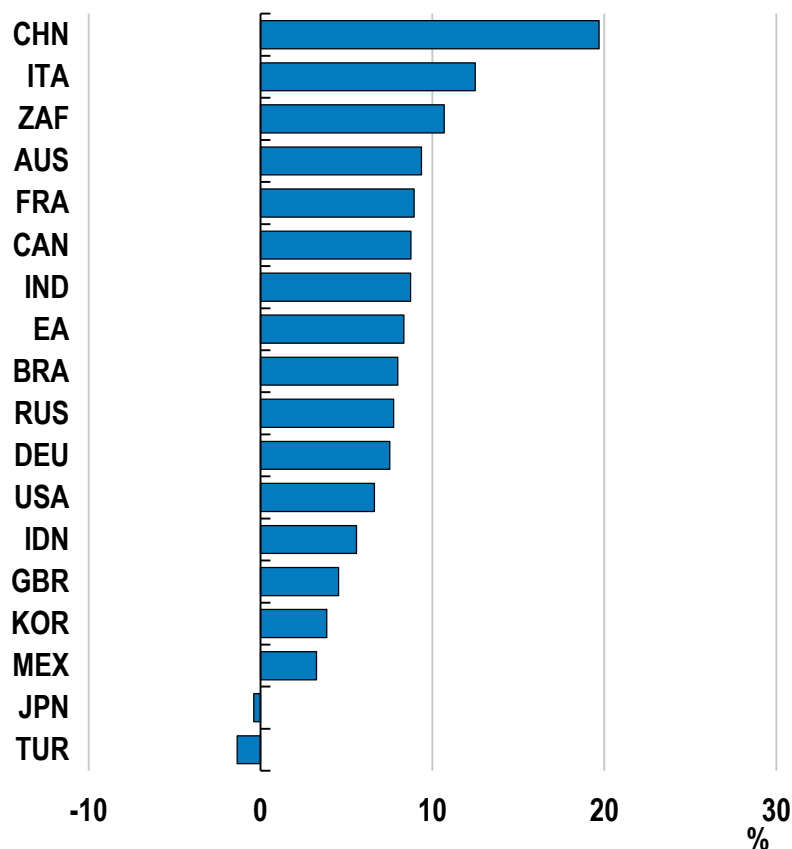




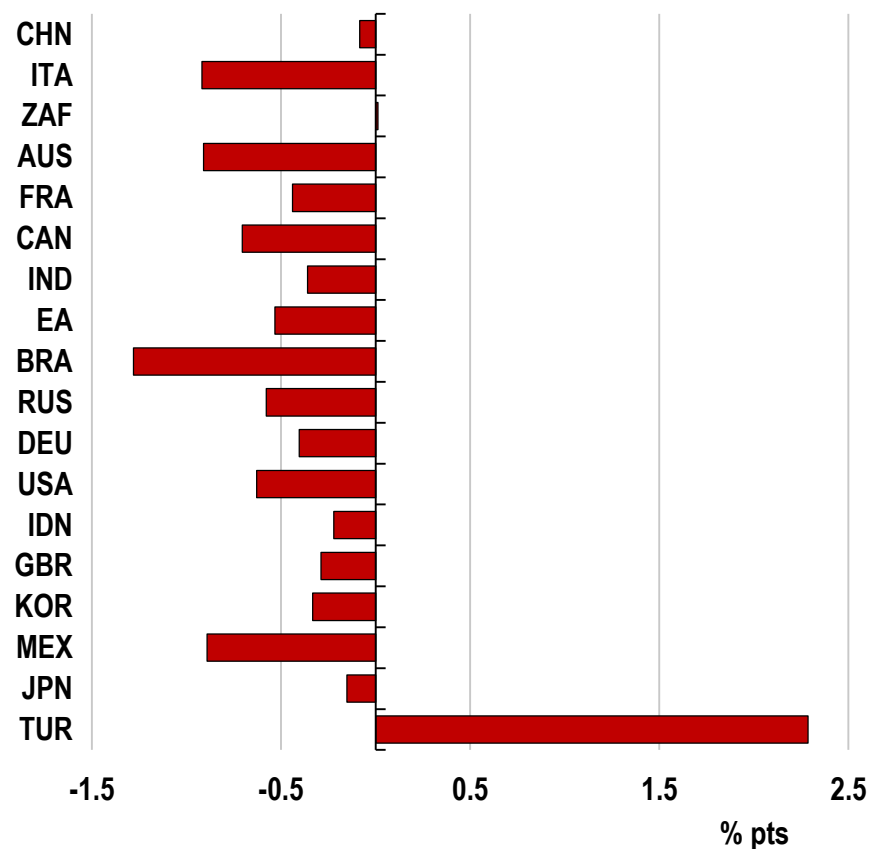
Support has come in the form of more accommodative financial conditions

Changes between November 2018 and May 2019 averages

Equity prices



10-year government bond yields

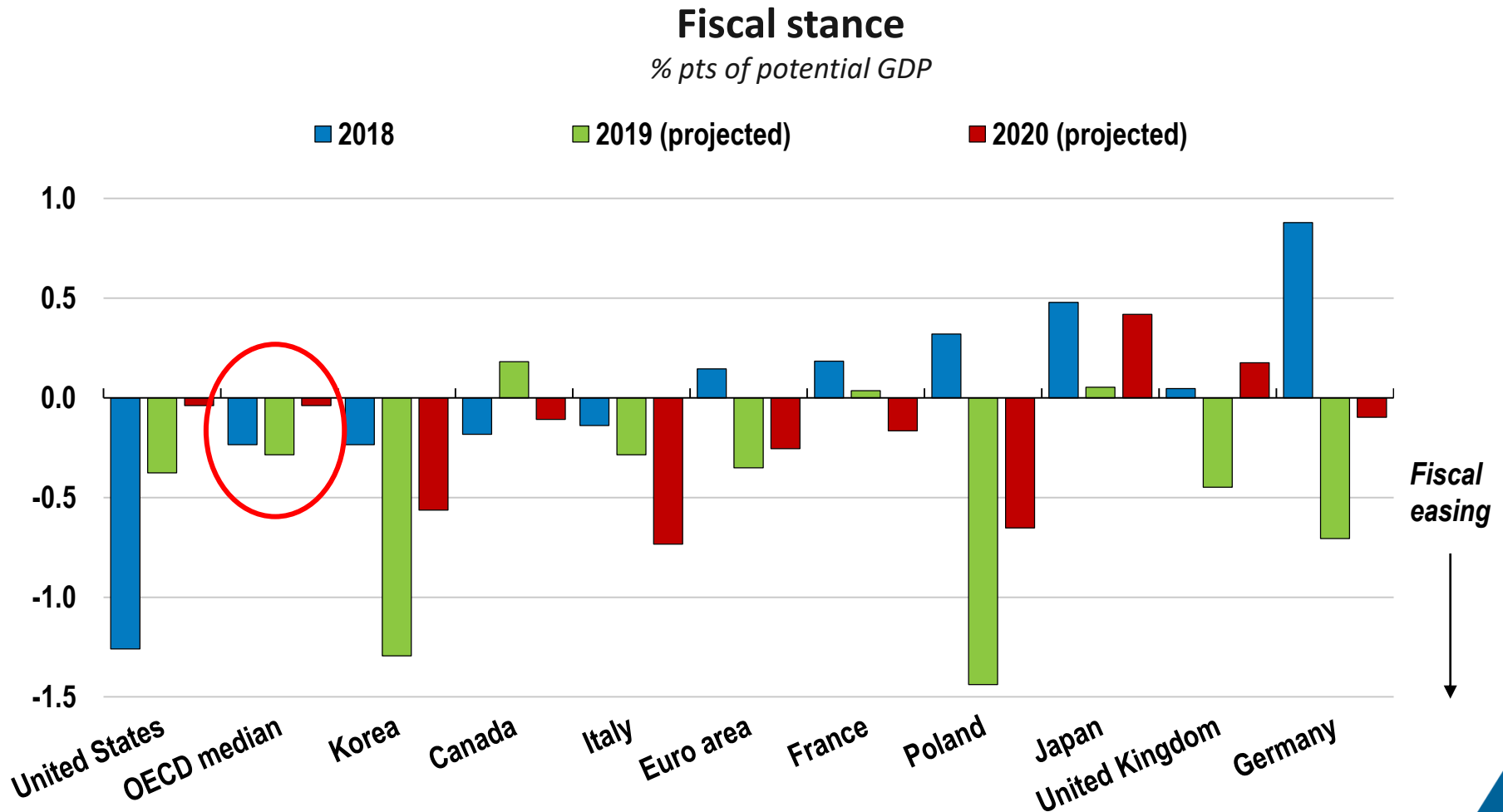


Note: May 2019 average refers to the average over the period from April 18 to May 17.

Source: Refinitiv; and OECD calculations.



Fiscal policy has also provided a buffer, appropriately

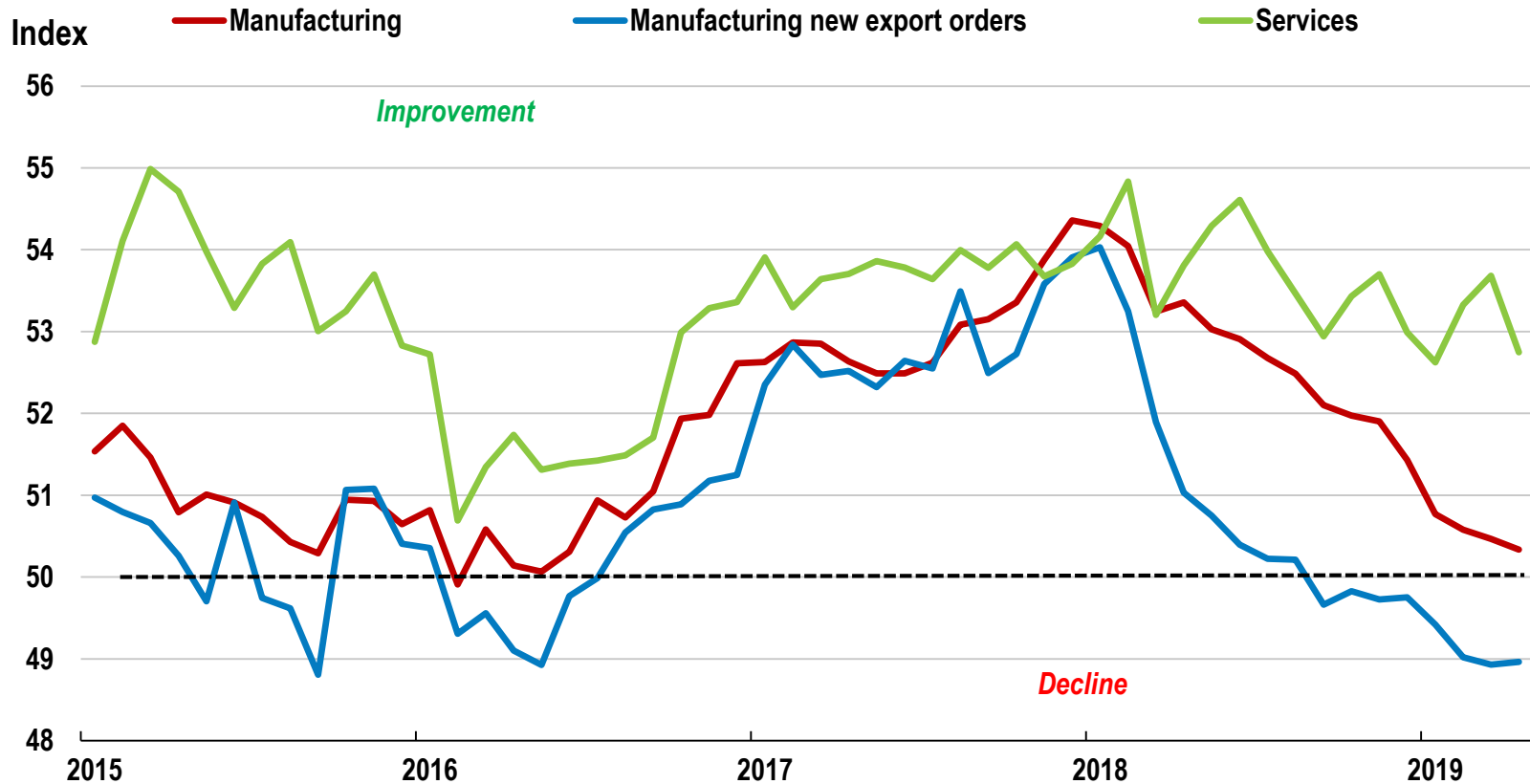


Note: The fiscal stance is defined as the change in the underlying general government primary balance.
Source: OECD Economic Outlook database.



Manufacturing has deteriorated sharply but services hold up

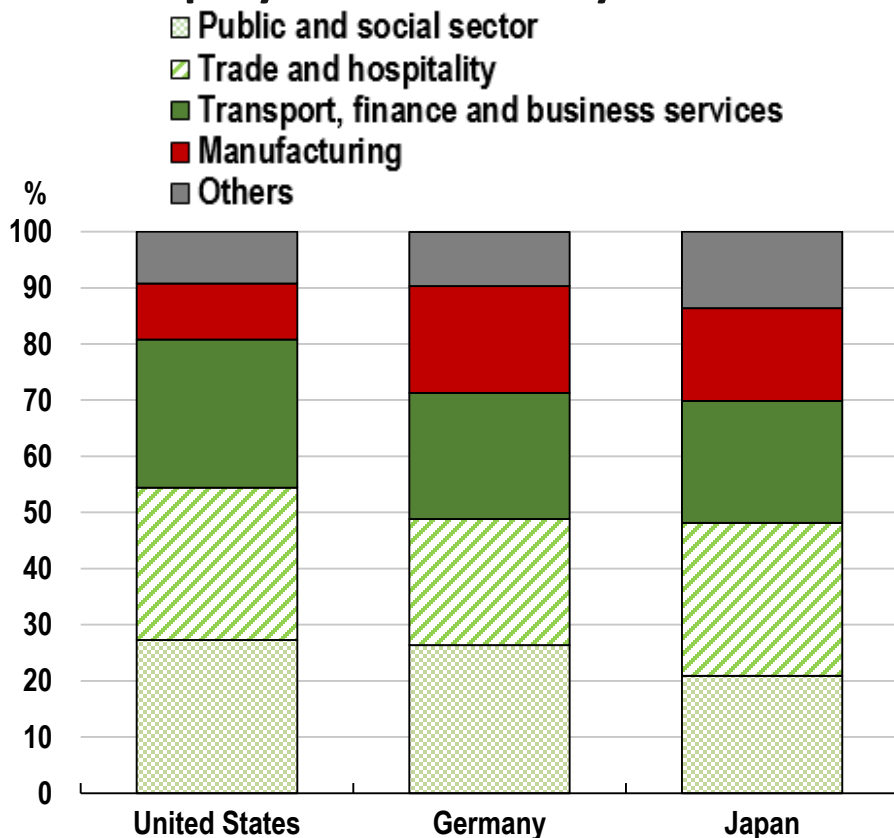
Global PMI





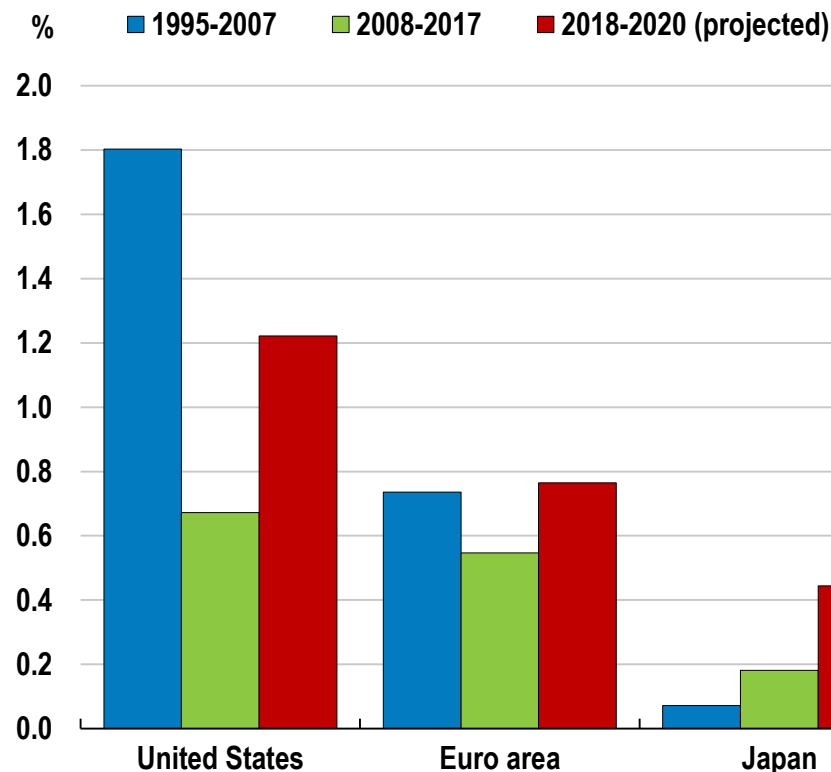
Strong labour markets and services are keeping consumption resilient

Employment shares by sector



Wage growth

Average annual growth in real wages



Note: LHS panel: Data are for 2018 for the United States and for 2017 for Germany and Japan. For the United States, public and social sector include education, health, and public administration. Trade and hospitality include wholesale and retail trade, leisure and hospitality, and other services. Transport, finance and business services include transportation and utilities, information, financial activities, and professional and business services. For Germany and Japan, categories correspond to the respective ISIC Rev.4 categories. RHS panel: Growth rates are annualised. Real wages are defined as the ratio of total compensation per employee and the private consumption expenditure deflator.

Source: BLS; OECD Employment Outlook database; OECD Economic Outlook database; and OECD calculations.



China has launched a sizeable stimulus to offset slowing activity

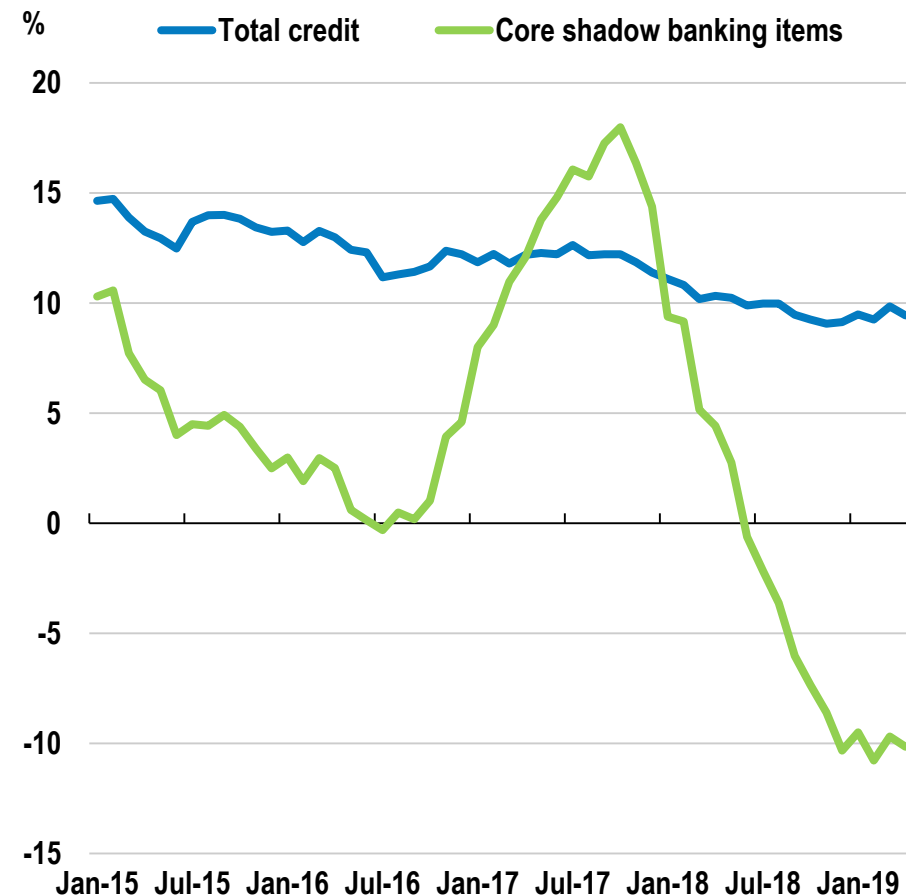
Infrastructure investment

% change, year-on-year, nominal



Credit growth

% change of stocks, year-on-year



Note: RHS panel: Core shadow banking includes entrusted loans, trusted loans and undiscounted bankers' acceptances.
Source: CEIC; Bank for International Settlements; and OECD calculations.



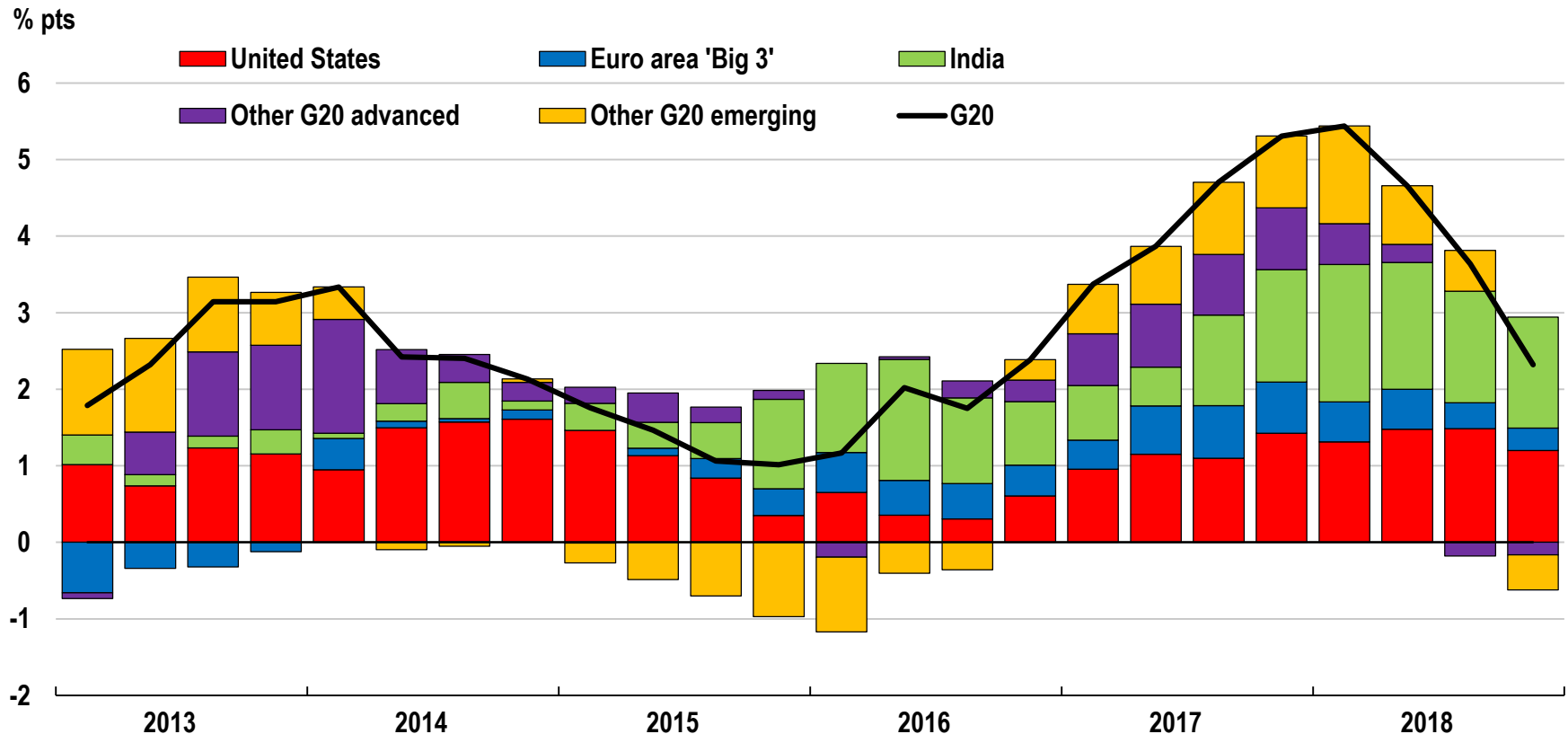
KEY RISKS: TRADE TENSIONS, CHINA SLOWDOWN, HIGH DEBT



Uncertainty is bringing down investment

G20 fixed investment

Contributions to % change, year-on-year, excluding China and Saudi Arabia



Note: China and Saudi Arabia are not included due to lack of quarterly national accounts data. The euro area aggregate includes only Germany, France and Italy.

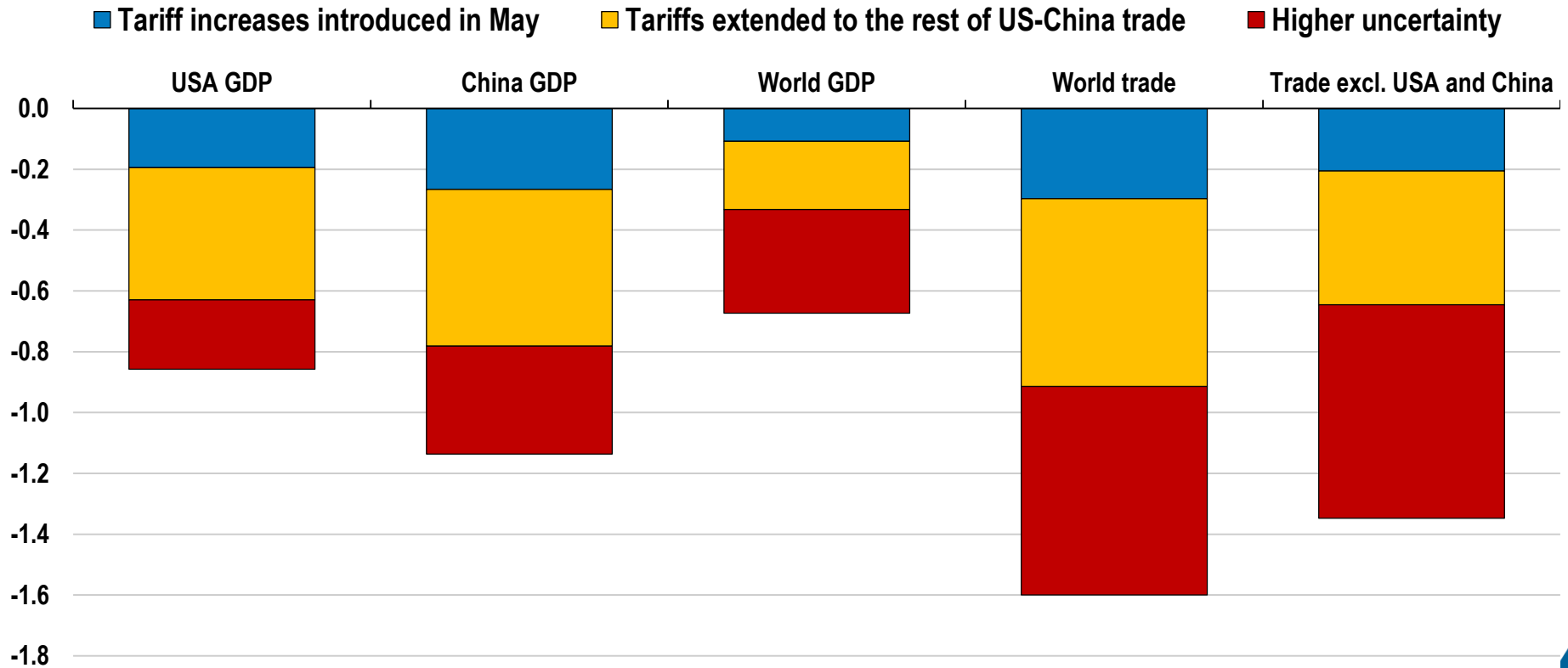
Source: OECD Economic Outlook database; and OECD calculations.



Higher tariffs on US-China trade could hit growth further

Impact on the level of GDP and trade by 2021-22

% difference from baseline



Note: The first scenario shows the impact of the United States raising tariffs on \$200 billion of imports from China from 10% to 25% from mid-May 2019 (with reciprocal action by China on \$60 billion of imports from the United States). The second scenario shows the additional impact if tariffs of 25% are imposed on all remaining bilateral non-commodity trade between China and the United States from July 2019. The final scenario adds in the impact from 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.

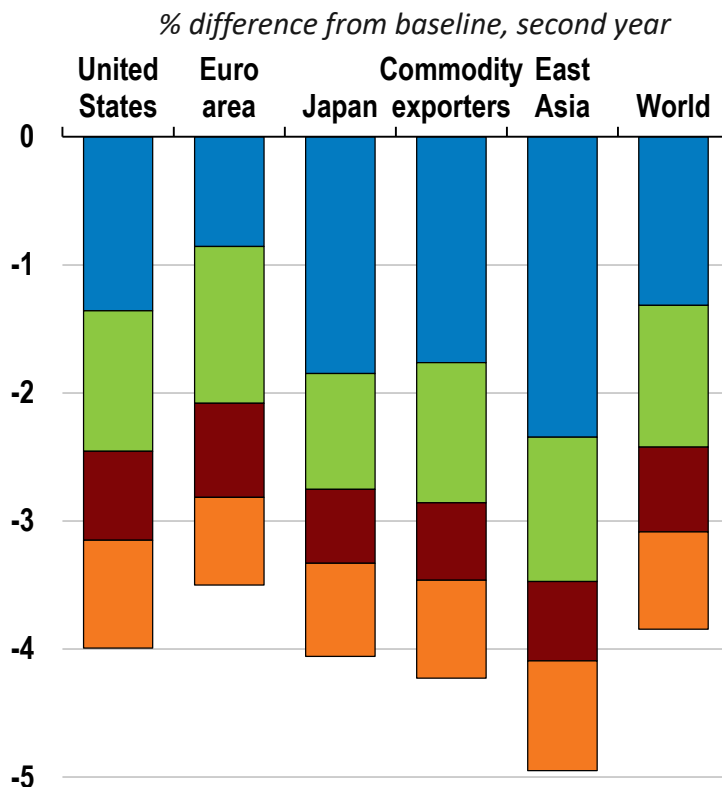
Source: OECD calculations.



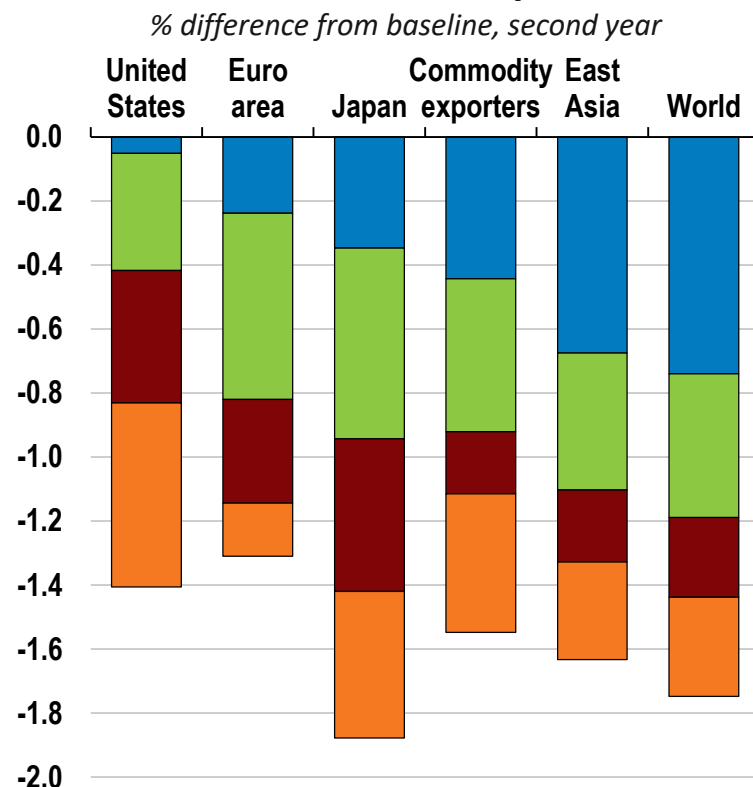
China is key to a fragile economic growth

Effect of weaker demand growth in China

Export volumes



GDP at constant prices



- Trade
- Uncertainty
- Equity prices
- Exogenous monetary policy

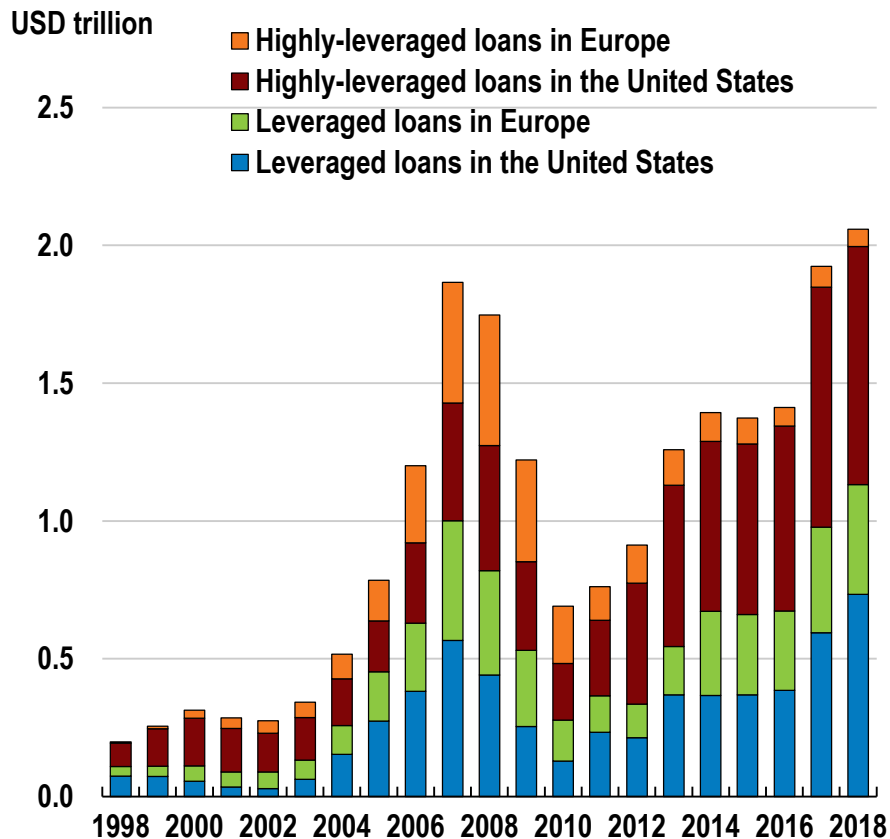
Note: Simulated impact of a two-year decline of 2 percentage points per annum in domestic demand growth in China, and a rise of 50 basis points in investment risk premia and decline of 10% in equity prices in all economies. The blue bars show the contribution from the direct slowdown in trade; the green bars show the additional contribution from adding higher uncertainty; the brown bars show the contribution from lower equity prices; and the orange bars show the additional effects if monetary policy is not able to act. Commodity exporting economies include Argentina, Brazil, Chile, Indonesia, Russia, South Africa and other non-OECD oil-producing economies. East Asia includes Korea and the Dynamic Asian Economies.

Source: OECD calculations using NiGEM.



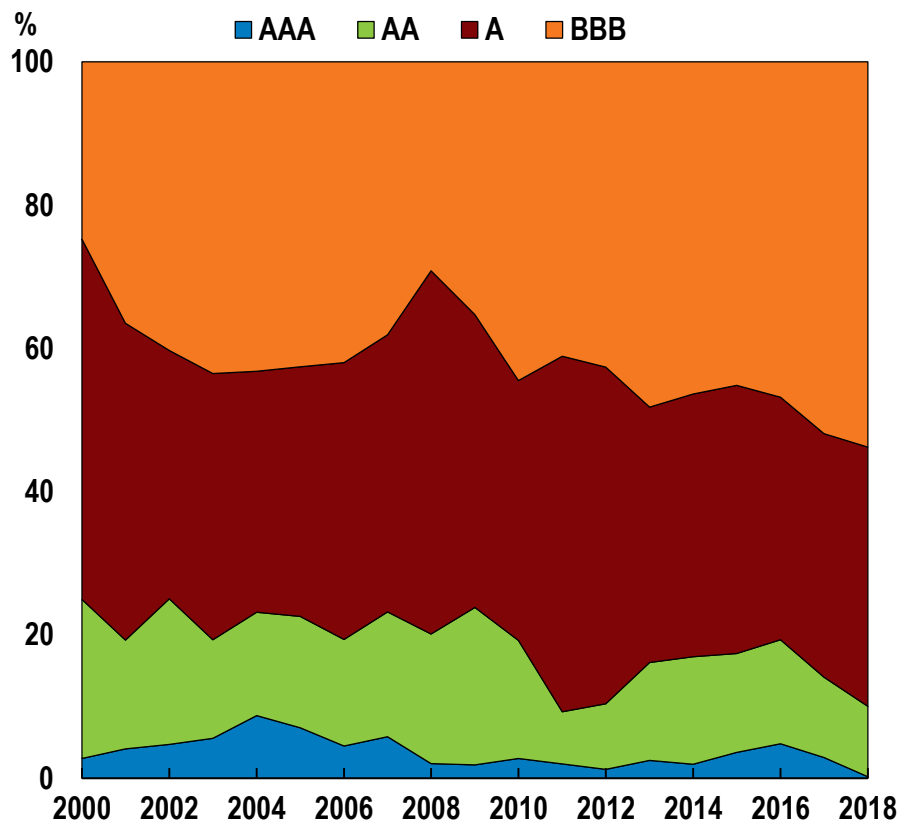
The return of excess finance

Leveraged loans outstanding



Investment-grade corporate bonds

% share of bond issuance, by rating



Note: LHS panel: The outstanding amount is calculated based on 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).

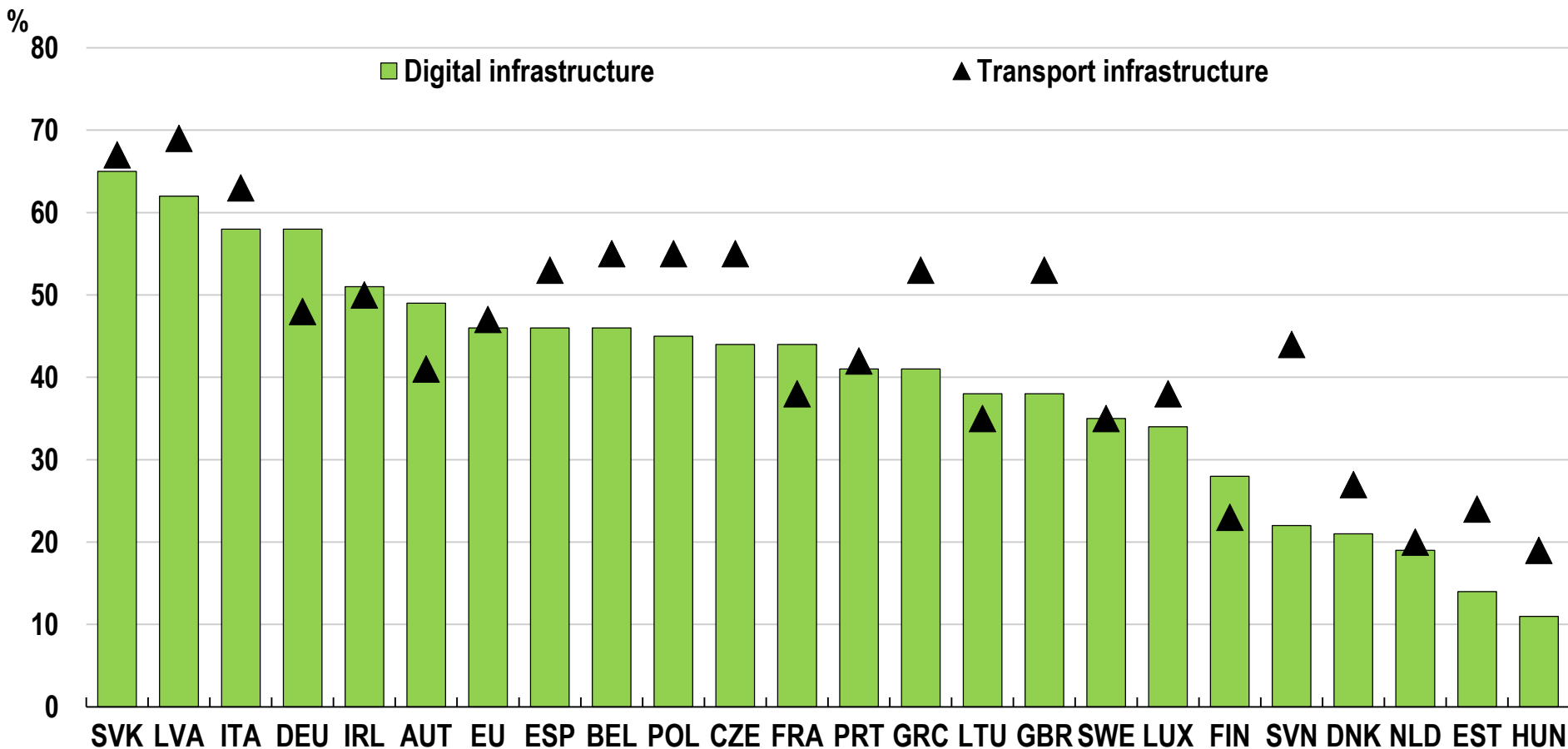


GOVERNMENTS MUST ACT
URGENTLY
TO REINVIGORATE GROWTH
THAT BENEFITS ALL



Insufficient infrastructure is holding back private investment

% of firms naming insufficient infrastructure as an obstacle to investment in Europe

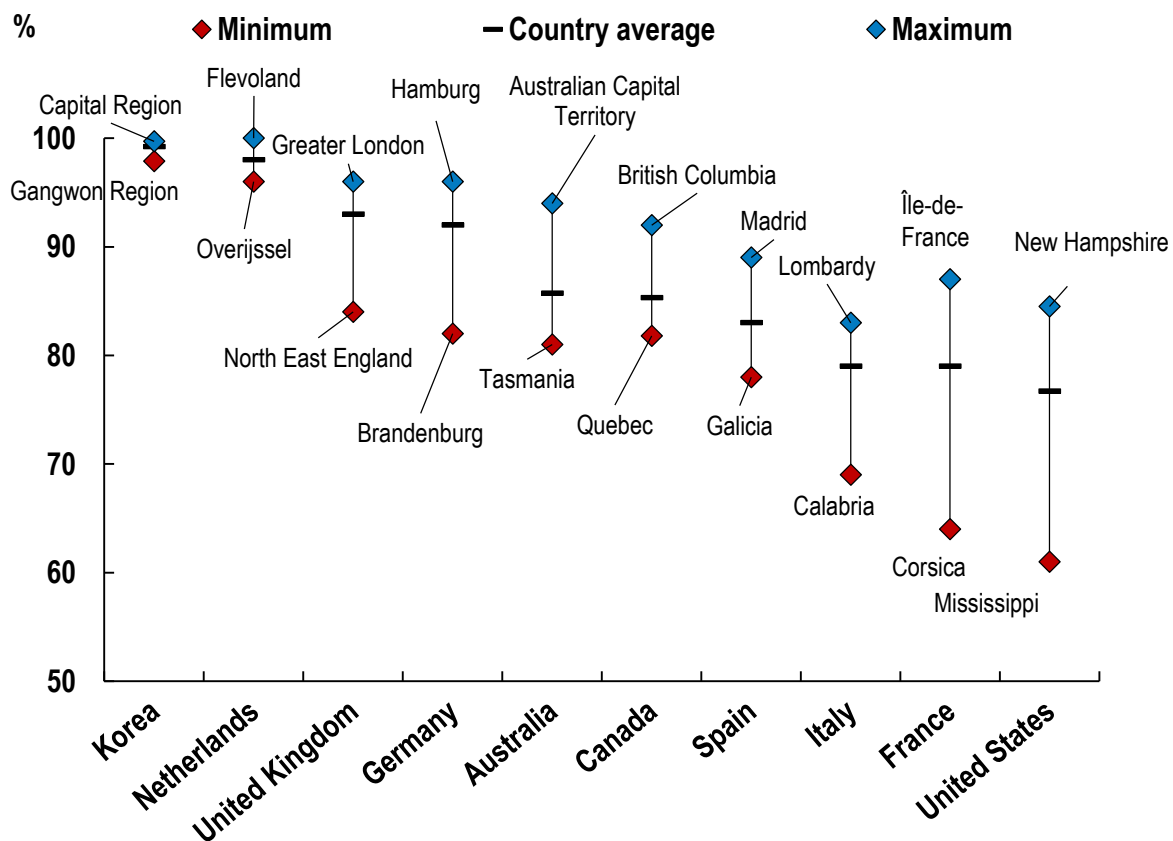




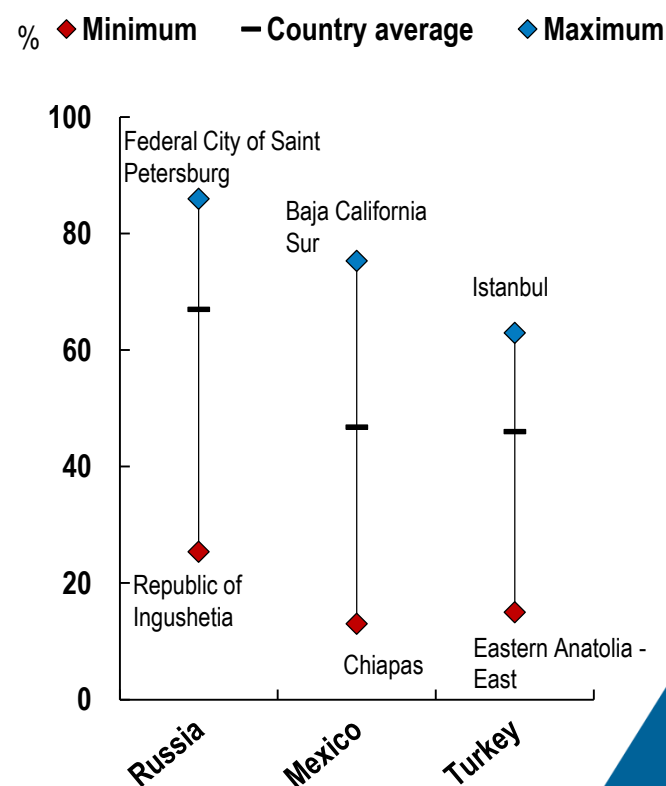
Better digital infrastructure is needed to boost competitiveness and bridge regional divides

Share of households with internet broadband access % of total households

Advanced economies



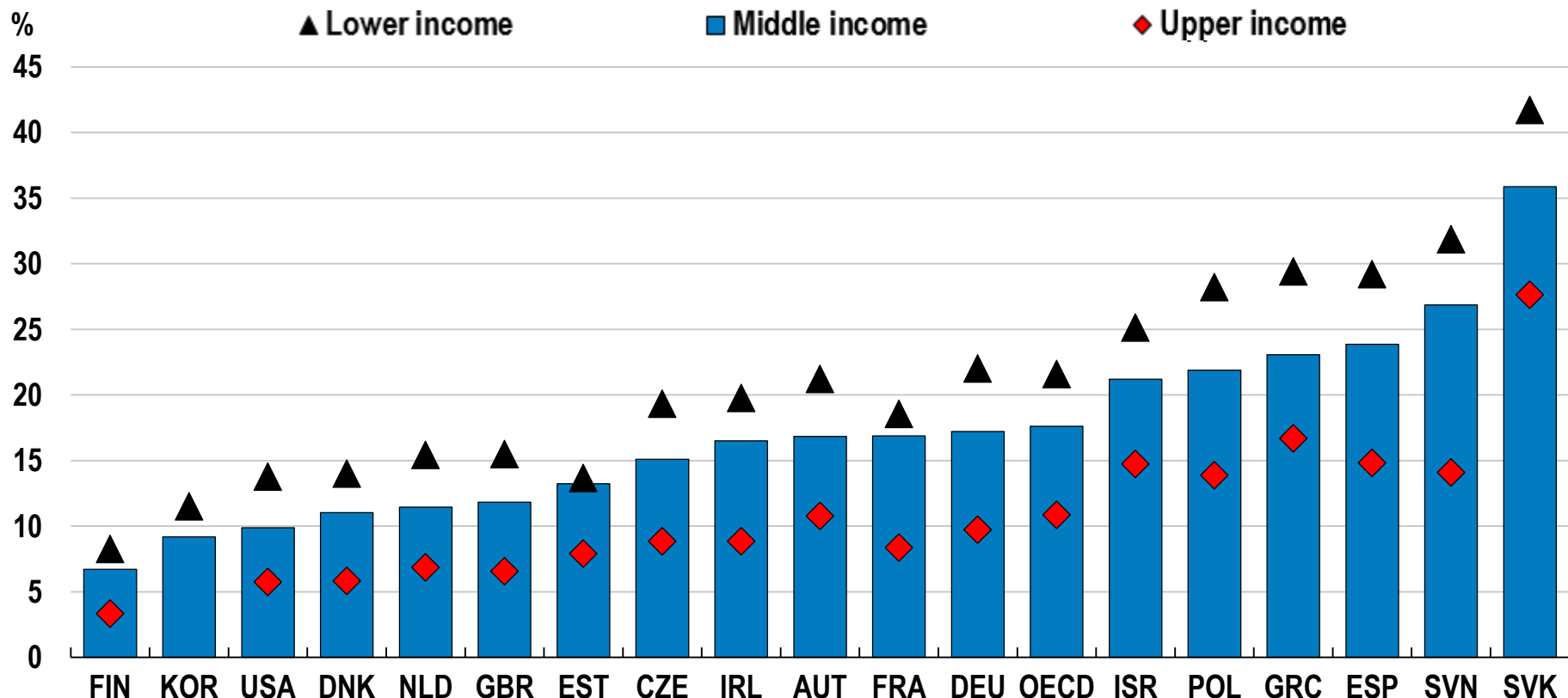
Emerging-market economies





People need investments in skills to prepare for the future

Share of workers in occupations at high risk of automation by income class



Note: “Lower income” households defined as those with income below 75% of the national median. “Middle income” households are households with income between 75% and twice the national median. “Upper income” households are households with income over twice the national median. The risk of automation is calculated as the average of the risks of automation by occupation, weighted by the share of each occupation in the income class.

Source: OECD calculations based on LIS and PIAAC.



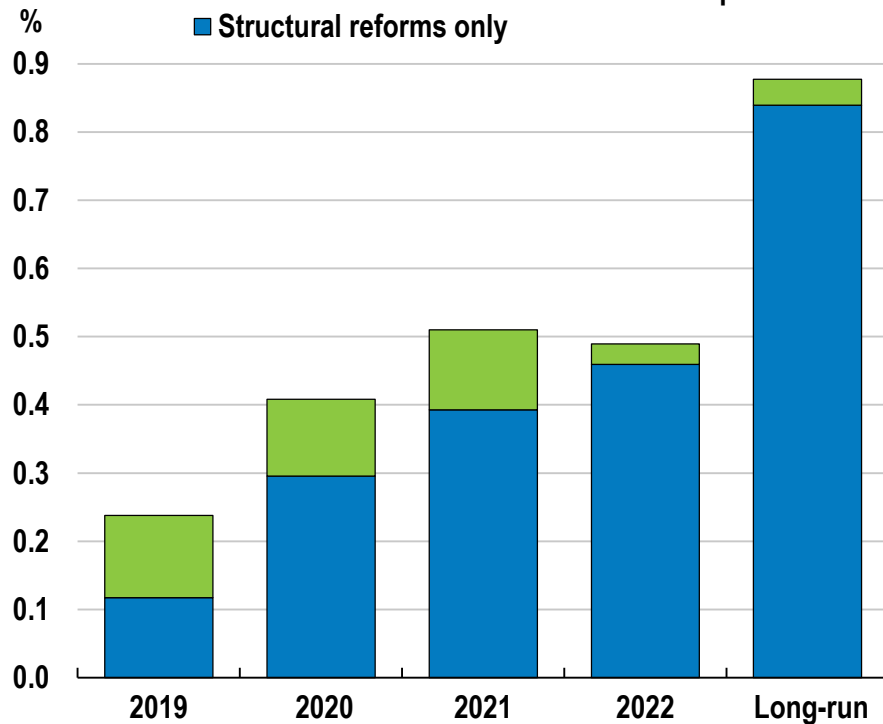
Euro area: combine structural with fiscal action to improve growth and living standards

Combined impact of structural reforms and a 3-year fiscal stimulus in countries with fiscal space

Real GDP

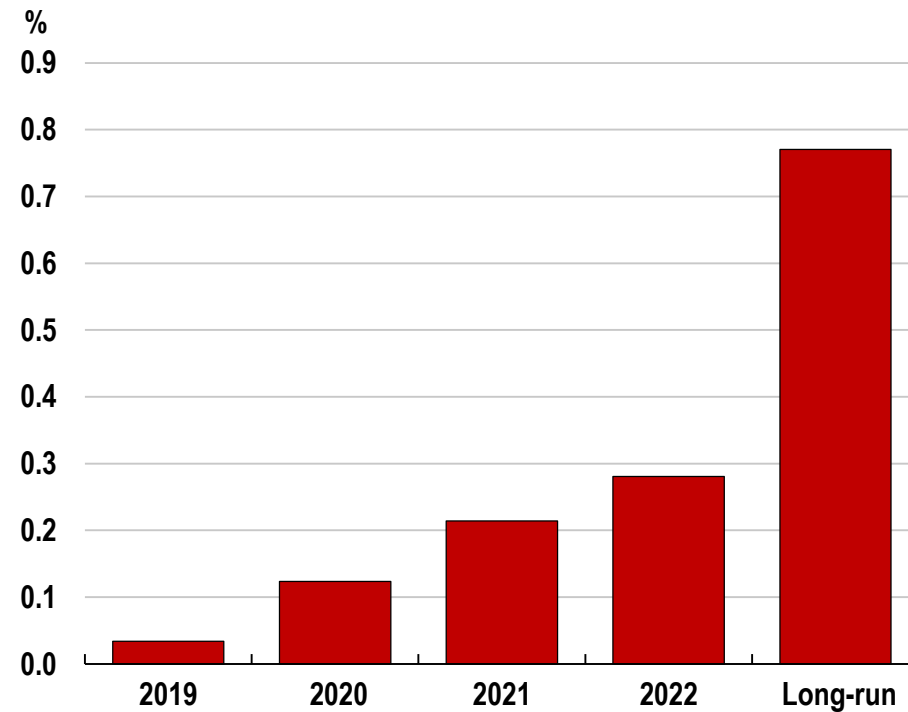
Difference from baseline

■ Fiscal stimulus in countries with fiscal space
■ Structural reforms only



Real wages per employee

Difference from baseline



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 per annum 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 and the Netherlands.

Source: OECD calculations.

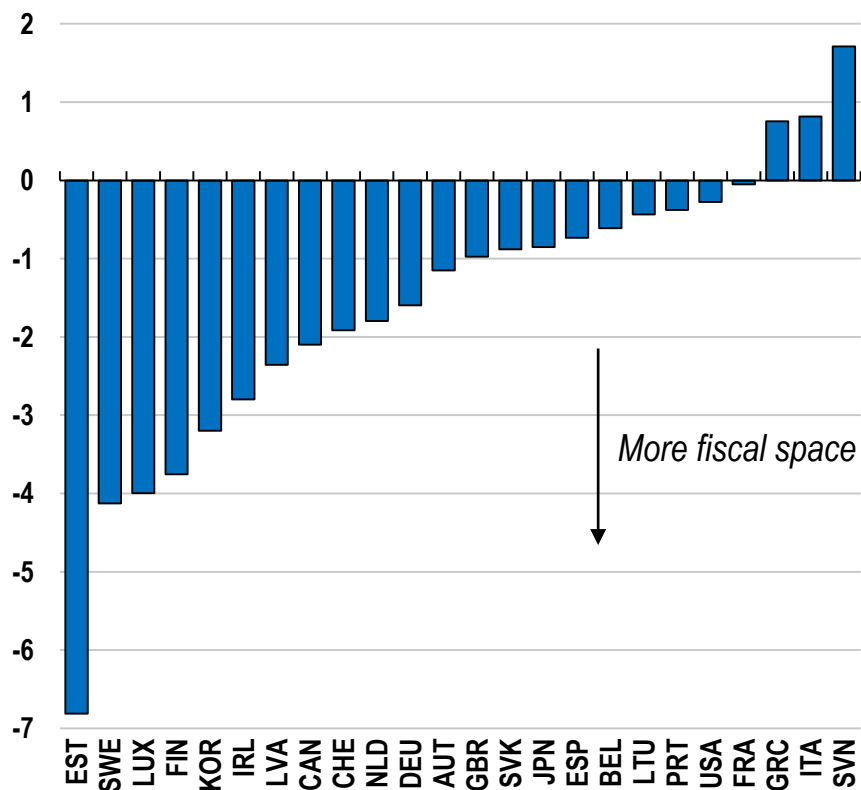


Some countries have fiscal space and insufficient investment

Interest rate minus GDP growth (r-g)

% pts

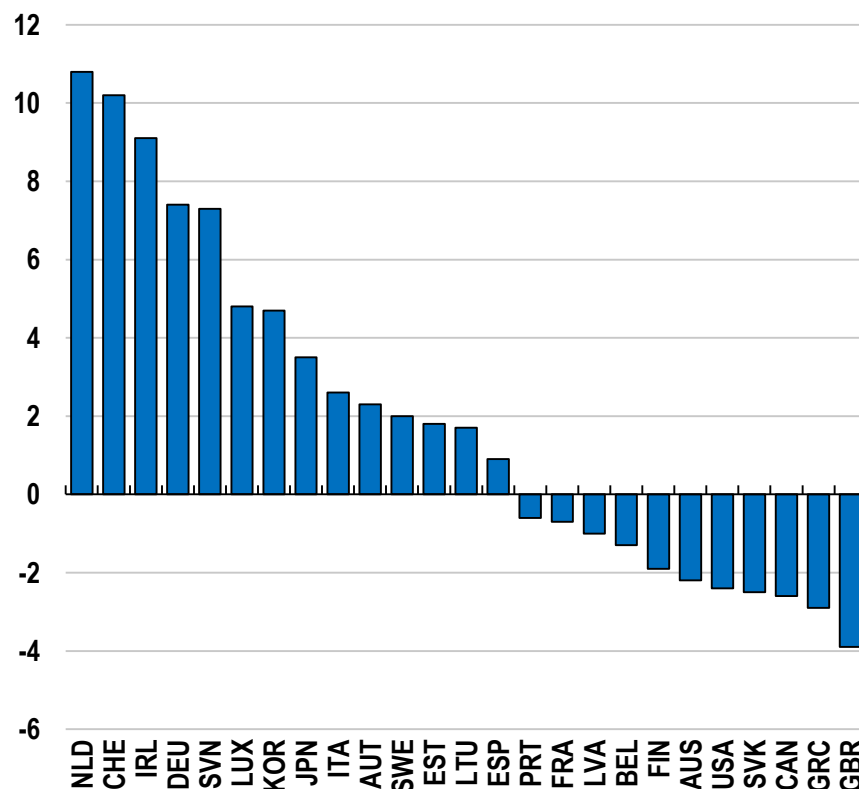
2016-2018



Current account balance

% of GDP

2018



Note: r-g is the difference between the effective interest rate paid on net debt (r) and nominal GDP growth (g) for 2016-2018. r is the weighted difference between the implied interest rate paid on government financial liabilities and the implied interest rate earned on government financial assets, where the weights are the share of financial liabilities and assets in net debt, respectively.

Source: OECD Economic Outlook database; and OECD calculations.



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