What is the near-term global economic outlook?

An interim assessment

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Overview

- The global growth outlook is improving after a weak end to 2012.
- The starting point and pace of improvement are worse for the euro area.
- Financial market advances are outstripping real indicators.
- Confidence is still not strong, especially in the euro area.
  - ✓ Linked to high unemployment in many economies
- Policy action is still needed to support demand.

BETTER POLICIES FOR BETTER LIVES

OECD interim forecasts

Annualised quarter-on-quarter real GDP growth, per cent

	2012 Q3	2012 Q4	2013 Q1	2013 Q2
United States	3.1	0.1	3.5	2.0
Japan	-3.7	0.2	3.2	2.2
Germany	0.9	-2.3	2.3	2.6
France	0.7	-1.2	-0.6	0.5
Italy	-0.8	-3.7	-1.6	-1.0
United Kingdom	3.8	-1.2	0.5	1.4
Canada	0.7	0.6	1.1	1.9
G7	**1.4**	**-0.5**	**2.4**	**1.8**
Euro area 3[1]	*0.4*	*-2.3*	*0.4*	*1.0*

1. Weighted average of Germany, France and Italy.

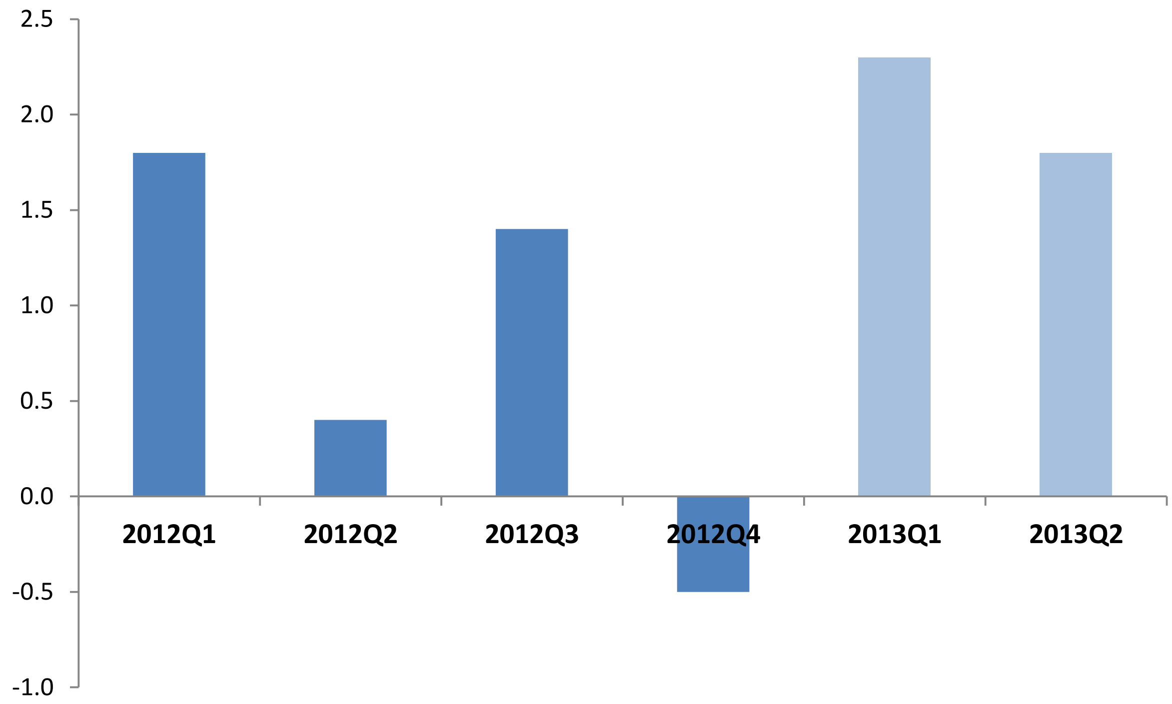
Source: OECD Quarterly National Accounts; and OECD Indicator Model forecasts.

The near-term outlook has improved

Growth projections

G7 real GDP

Annualised quarter-on-quarter change, per cent

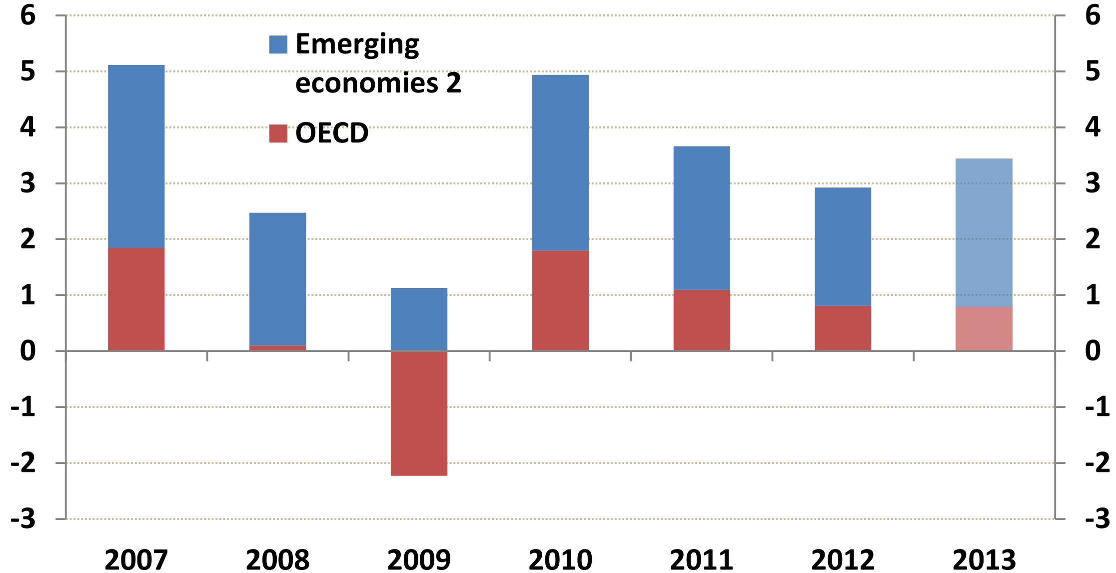


Source: OECD Main Economic Indicators and OECD Indicator Model forecasts.

Emerging economies continue to drive global growth

Contributions to global growth

Contribution to annual world[1] real GDP growth
Percentage points



Note: *Calculated using moving nominal GDP weights, based on national GDP at purchasing power parity. 2013 reflects OECD projections from Economic outlook 92.*

1. World GDP is the sum of OECD and the siz large non-OECD emerging economies.

2. Emerging economies are here Brazil, China, India, Indonesia, Russia and South Africa.

Source: OECD Main Economic Indicators and Economic Outlook 92.

Risks

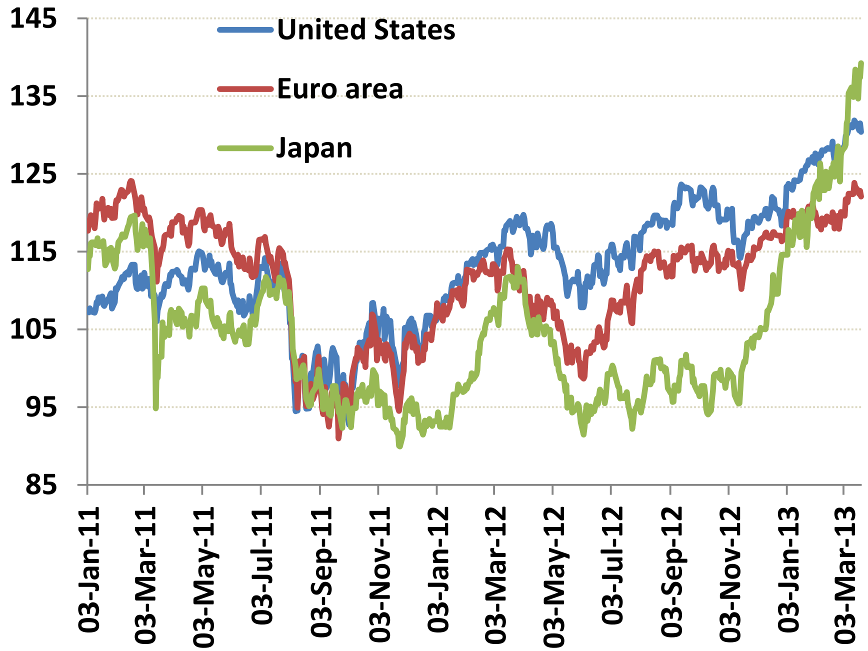
Downside tail risks to growth are less pronounced than 6 months ago thanks to policy action in the major economies. Remaining negative risks include:

- The euro area recession and financial system fragility.
- Fiscal deadlock in the United States, although the short-term risk of disruptive consolidation has receded.
- A widening disconnect between asset prices and real activity signalling excessive risk taking.

Financial markets have advanced strongly

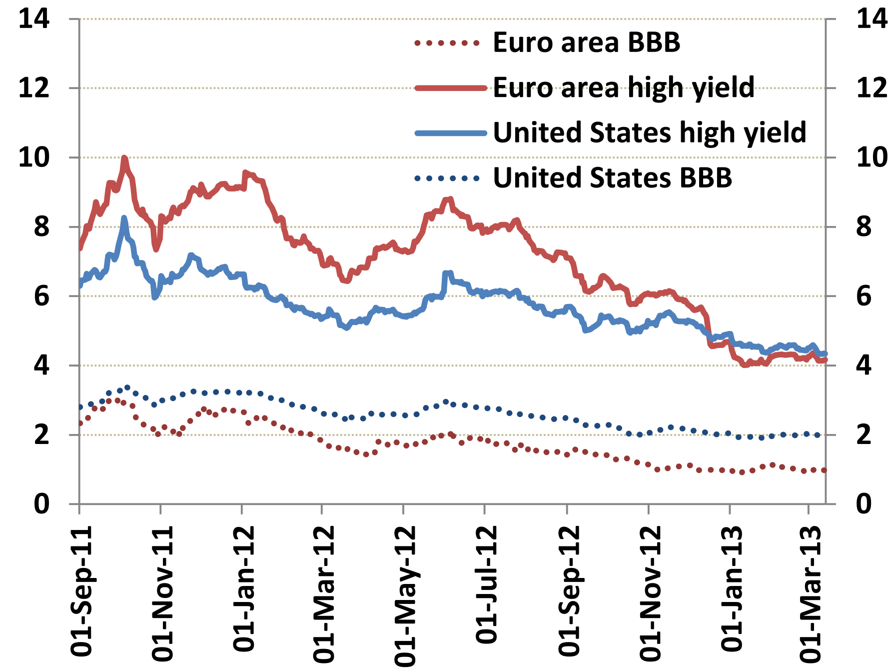
Financial markets

Equity markets
Index, August 2011 = 100



Note: S&P 500 Composite for the United States, Nikkei 225 for Japan, FTSE Eurotop 100 for euro area. Last observation: 21-03-2013.
Source: Datastream.

Corporate bond spreads
Per cent

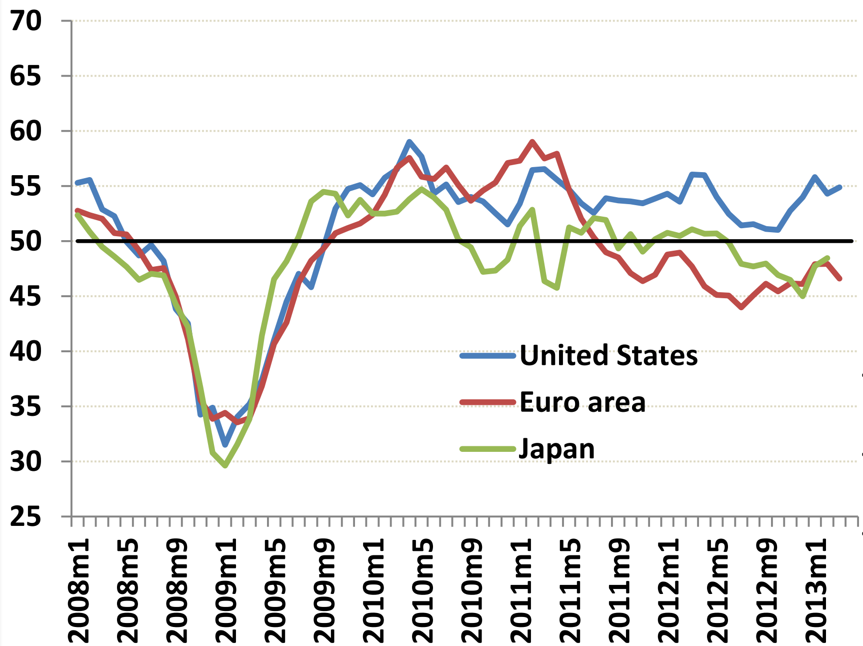


Note: High-yield bonds (Merrill Lynch indices) less government bond yields (10-year benchmark bonds); corporate BBB-rated bond yields (Merrill Lynch - average for 5-7 & 7-10 years) less average government bond yields of same maturities. Last observation: 22-03-2013.
Source: Datastream; OECD calculations.

Confidence indicators are mixed

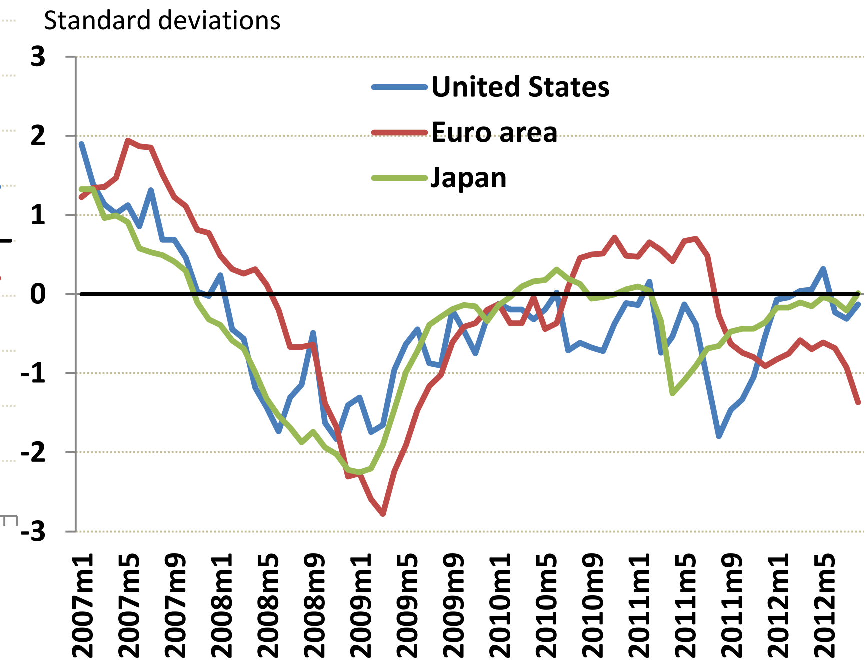
Business confidence

Business confidence
PMI indicators



Source: Markit Economics Limited.

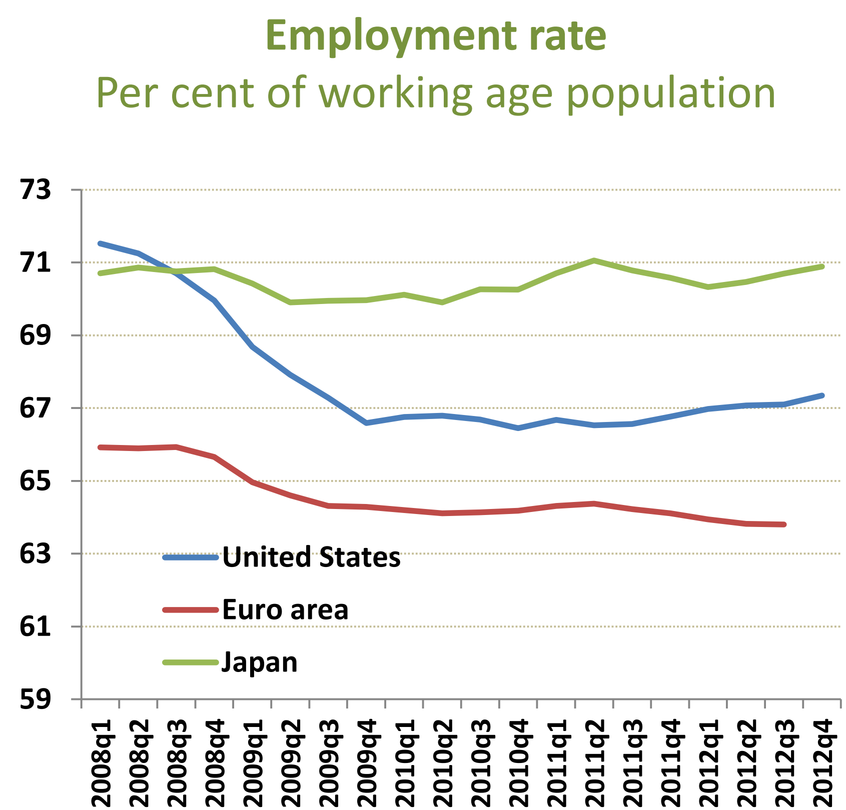
Consumer confidence
Normalised indices



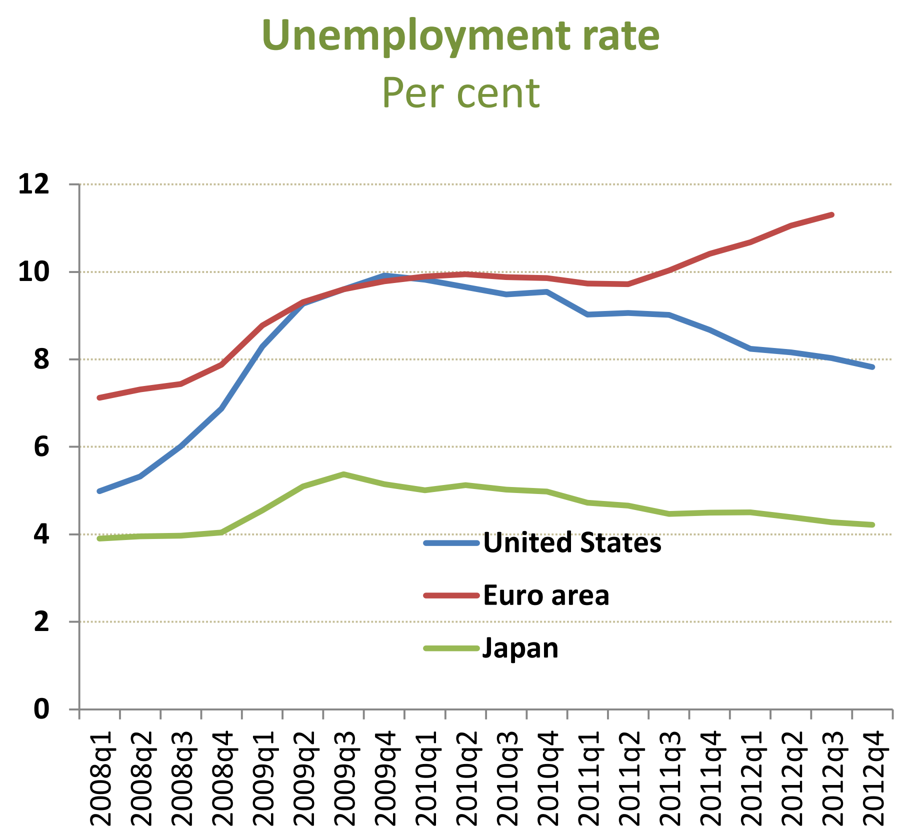
Note: Normalised at period average and presented in units of standard deviation. Values above zero signify levels of consumer confidence above the period average.
Source: OECD Main Economic Indicators.

Employment has yet to rebound strongly, especially in the euro area

Labour market conditions



Source: OECD Main Economic Indicators.

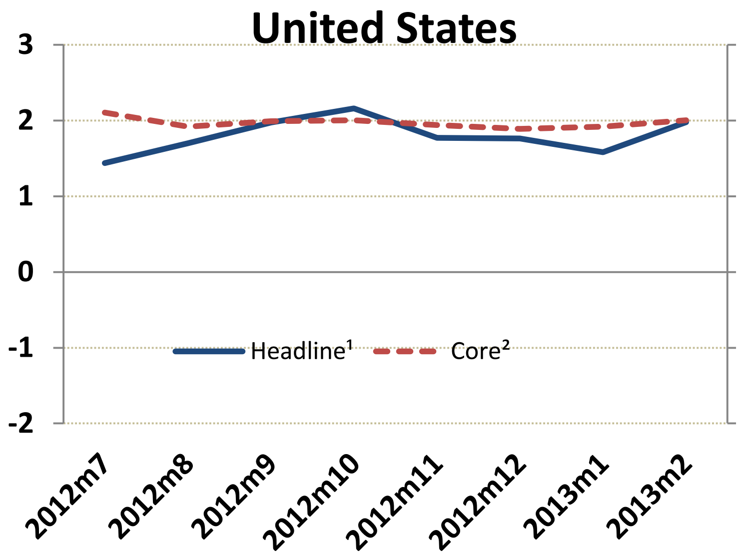


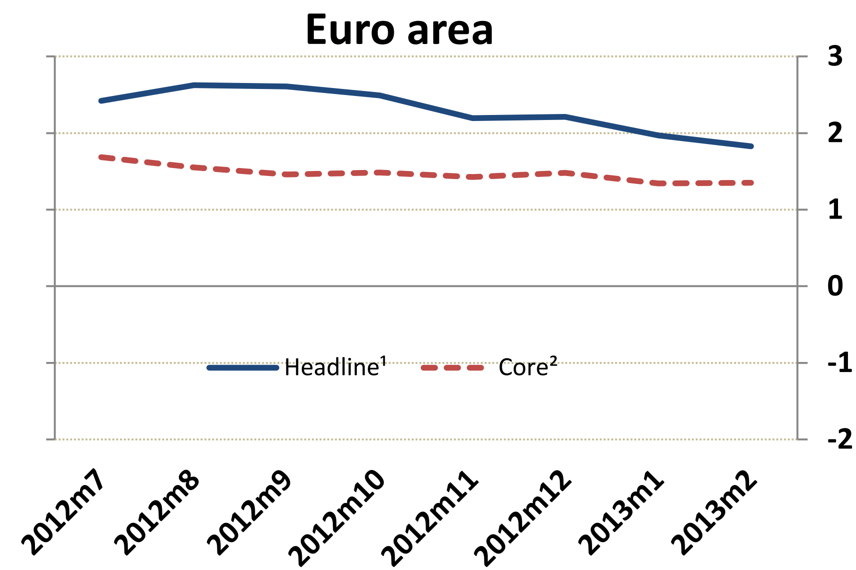
Source: OECD Main Economic Indicators.

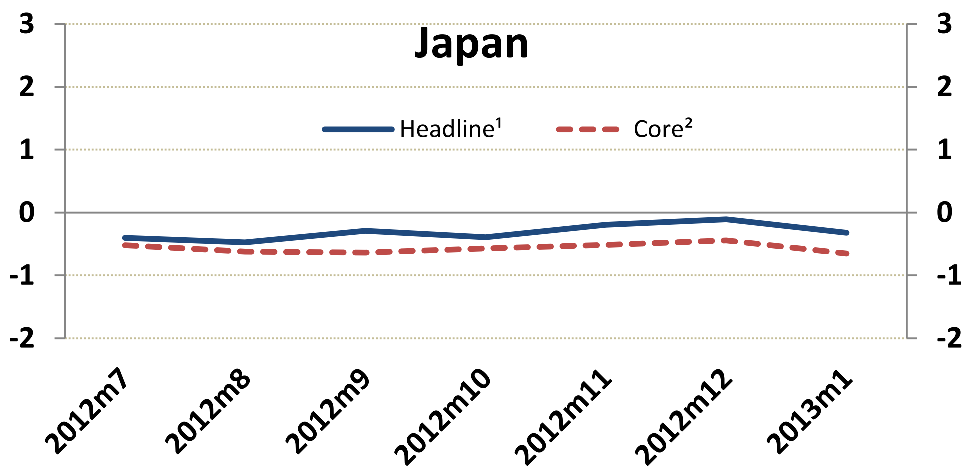
Inflation

Inflation is low

Consumer prices
12-month percentage change







Note:
1. Headline is Headline CPI for the United States and Japan, and Headline HICP for the euro area.
2. Core is CPI excluding food and energy for the United States and Japan, HICP excluding energy, food, alcohol and tobacco for the euro area.

Source: OECD Main Economic Indicators.

Policy action is needed to ensure a self-sustaining recovery

Policy recommendations

- Demand in many countries still faces headwinds.
- Given limited fiscal space, monetary policy remains a key instrument for supporting demand.
- Low inflation gives room for monetary policy action.
- Fiscal consolidation remains necessary in most OECD countries.
- Stronger, more sustainable and fairer growth can be achieved through structural reform.

The United States

Recommendations: United States

- Consumption and housing have picked up, but policy rates should stay low until labour market conditions improve sufficiently and as long as inflation expectations remain well anchored.

- The point where the costs of further quantitative easing (QE) outweigh the benefits may be within sight, but skilful judgement will be required to gauge the speed at which asset purchases can be phased out.

- Fiscal policy should avoid disruptive outcomes in the near term, while agreement is needed on a plan to reduce the deficit over the medium term and address long-term cost pressures on health care and pensions.

Japan

Recommendations: Japan

- The prospect of easier monetary policy has resulted in welcome yen depreciation and surging equity prices. Implementation will require more aggressive QE, with more asset purchases going to long-term government and corporate bonds. An expansionary stance should be maintained until inflation is durably around the 2% target.

- A credible plan to attain the government's long-term fiscal targets is needed. Controlling expenditures is key, particularly for social security.

- Monetary, fiscal and structural policies must be applied in a mutually reinforcing way to tackle the high level of public debt while supporting growth.

The euro area

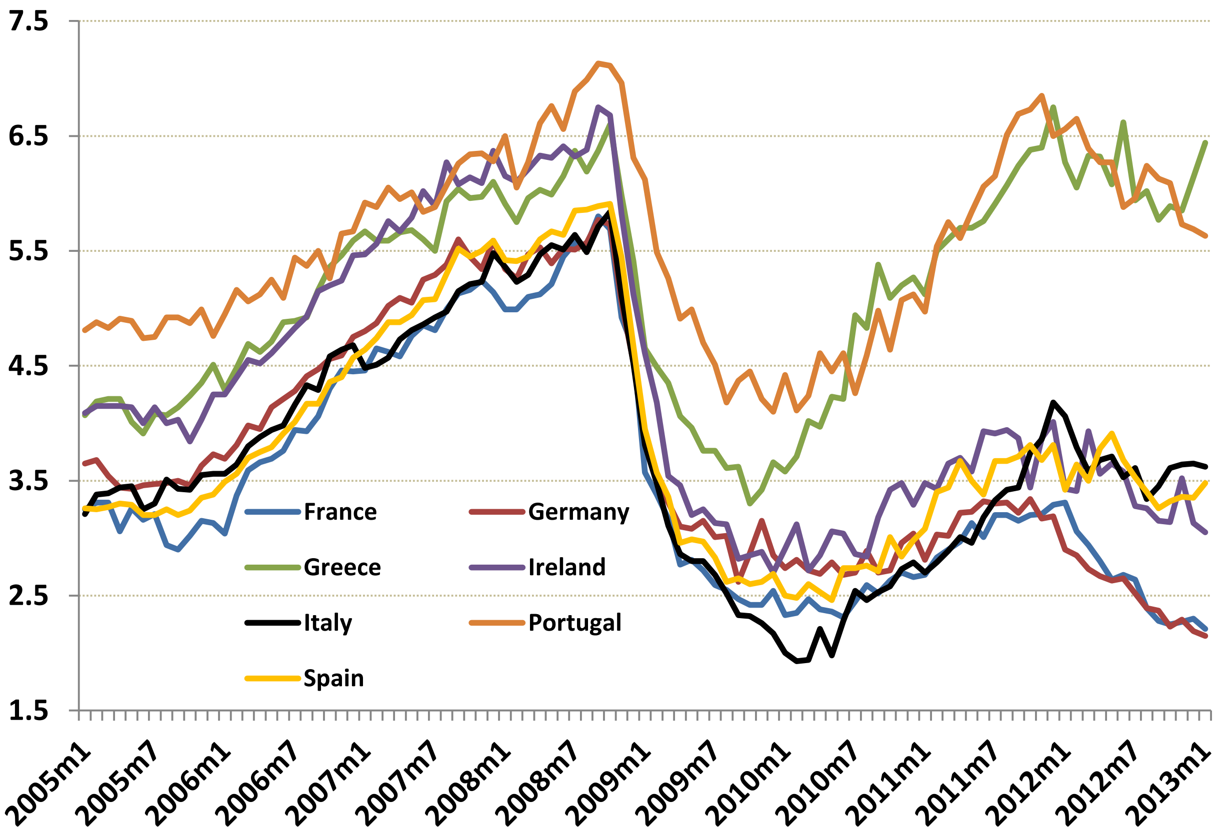
- Monetary policy should be eased, given weak demand and below-target inflation. Policy rates are already low, but can be reduced further, and more specific forward guidance could be given.
- The euro area remains vulnerable to feedback loops between banking system fragility and public debt burdens. Rapid progress must be made on the construction of a fully fledged banking union.
- The Cypriot case, while exceptional, shows the importance of addressing banking crises directly while creating the right institutions at the euro area level to maintain banking system stability.
- Existing commitments to structural budgetary consolidation should be met, while allowing automatic stabilisers to operate fully. This implies that nominal deficit targets are likely to be missed.

The cost of credit still varies widely in the euro area

Euro area credit costs

Bank loan rates for non-financial corporations

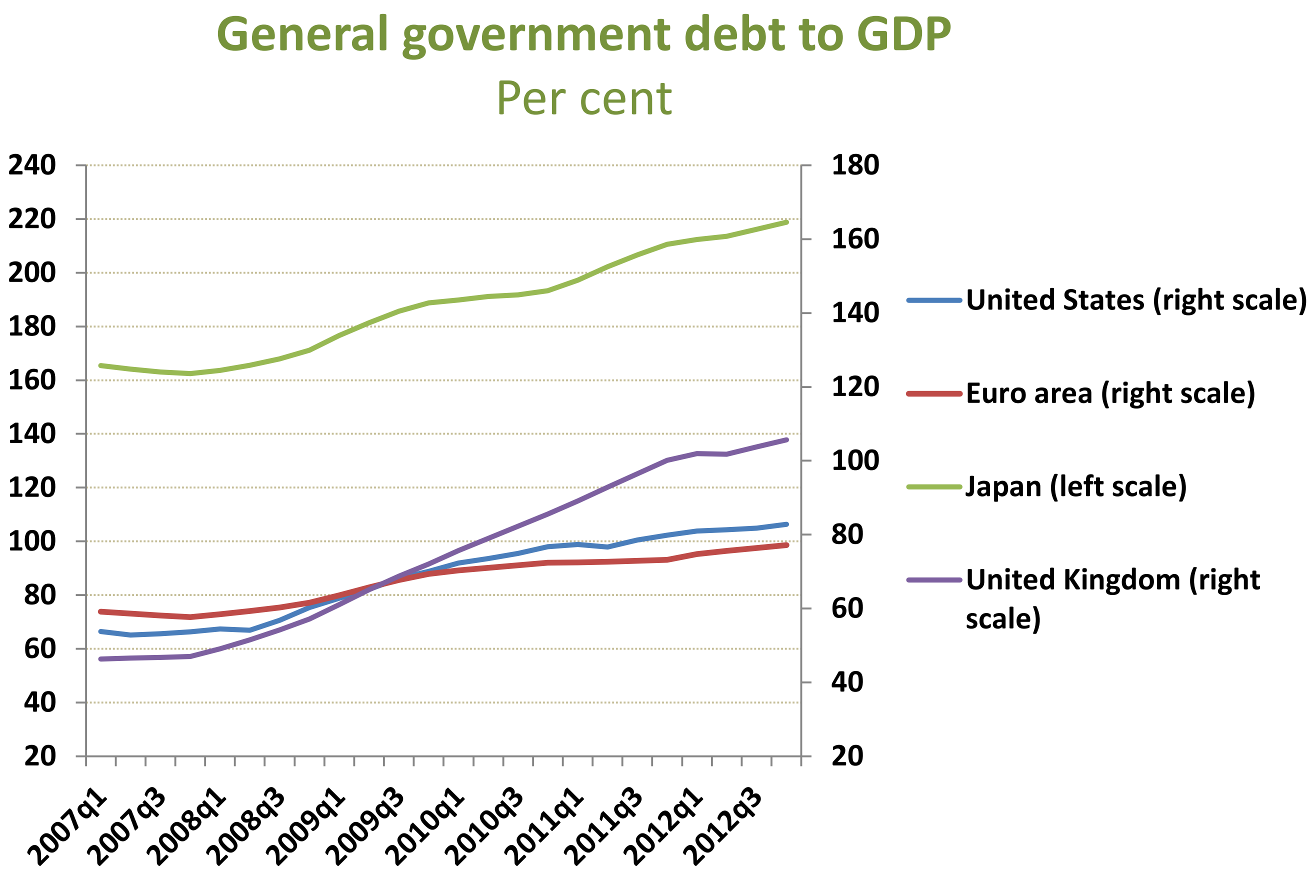
Per cent



Note: Cost of credits is defined as interest rates on new loans to non-financial corporations (all maturities) with the exception of Greece, where it refers to new loans with maturity of up to one year.
Source: European Central Bank.

Euro area government debt to GDP

The level and rise of public debt in the euro area as a whole are not out of line with other major economies



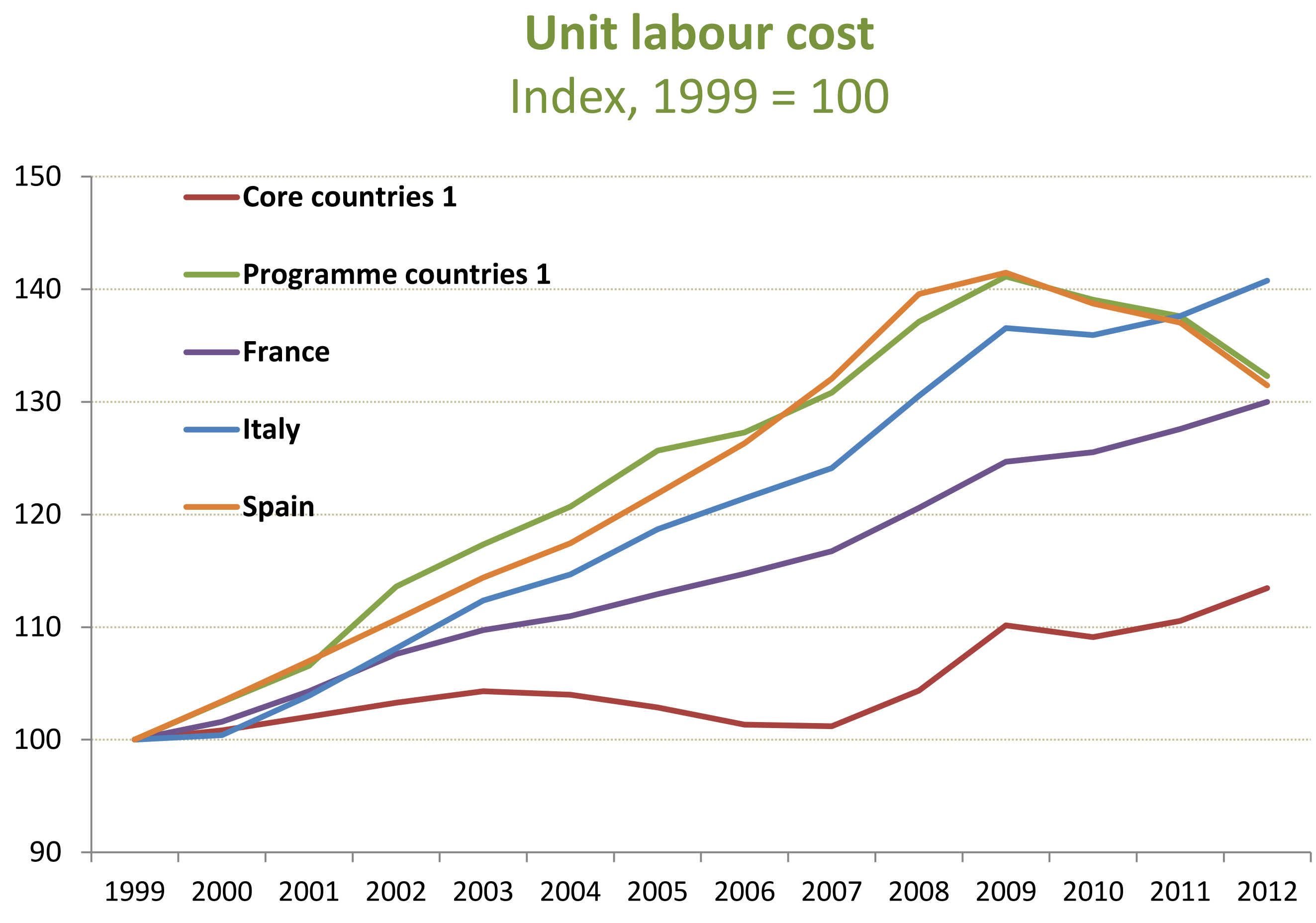
Note: For the euro area, Japan, and United Kingdom, the values from 2012 Q1 onwards are calculated using OECD estimates of gross debt and the actual value of GDP according to national accounts statistics.
Source: OECD National Accounts database and OECD calculations.

Euro area rebalancing

- The underlying rebalancing of the economy is underway, although the process still has some way to go.
- Considerable progress has been made on reducing structural budget deficits, and in most countries the largest part of the fiscal adjustment required after the crisis has already been undertaken.
- Structural reforms, notably in Greece, Ireland, Italy, Portugal and Spain, provide a solid base for a recovery in competitiveness and an increase in employment when demand turns around.
- The short-term costs of these adjustments would be reduced by an improved supply of credit in debtor countries and structural reforms to rebalance activity and demand in surplus economies.

Competitiveness adjustments in the euro area are underway

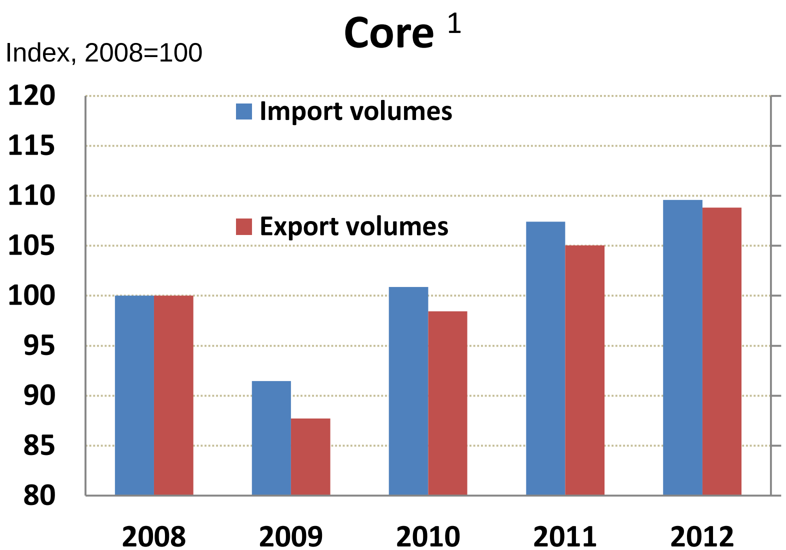
Euro area unit labour costs

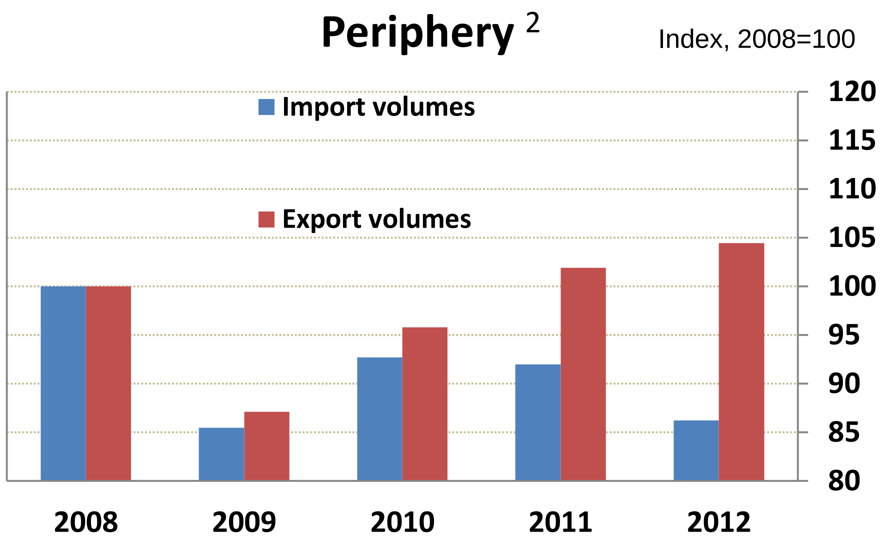


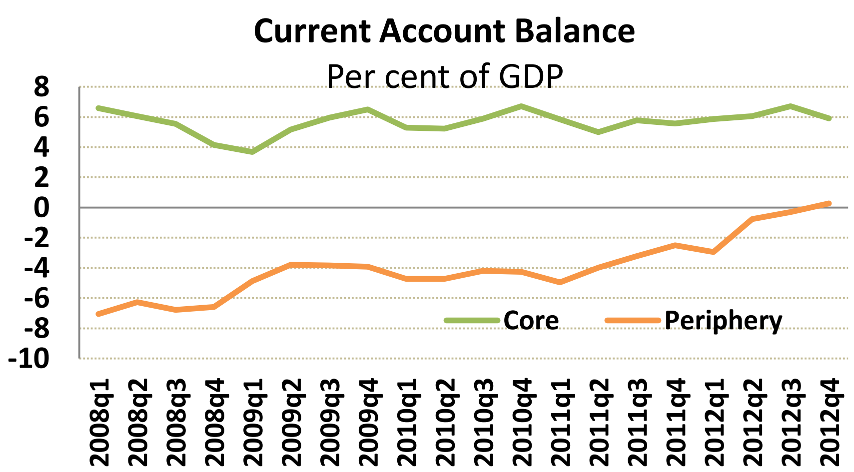
Note: 1. Core countries are here taken to be Germany, the Netherlands, Austria and Finland. Programme countries are Greece, Ireland and Portugal. 2. Economy-wide unit labour costs. 2012 incorporates estimates in the Economic Outlook. Country groupings constructed as a chain-linked aggregates using nominal GDP weights.
Source: OECD Quarterly National Accounts database and Economic Outlook 92 database.

Euro area current account adjustment

Lower periphery imports have been the main adjustment factor so far







Note:

1. The core is here taken as comprising Austria, Finland, Germany and the Netherlands.
2. The periphery is here defined as Greece, Italy, Ireland, Portugal and Spain.
3. Current account balance is the sum of current account balances as a percentage of the combined GDP across the countries.

Source: OECD National Accounts database, Economic Outlook 92 database and OECD calculations.

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