OECD INTERIM ECONOMIC OUTLOOK

Warning: low growth ahead

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http://www.oecd.org/economy/outlook/
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BETTER POLICIES FOR BETTER LIVES

Key messages

The global economic outlook continues to darken

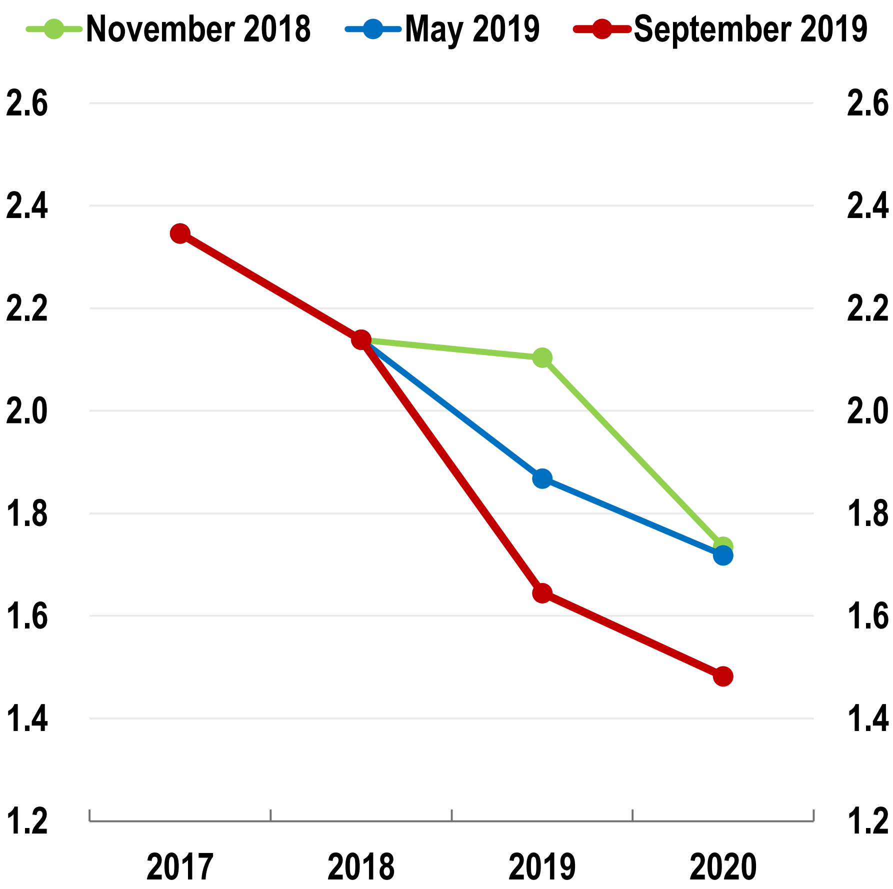
Trade and political tensions fuel risks of persistent low growth

Governments can reverse the spiralling costs of uncertainty and invest more

Global growth is weakening

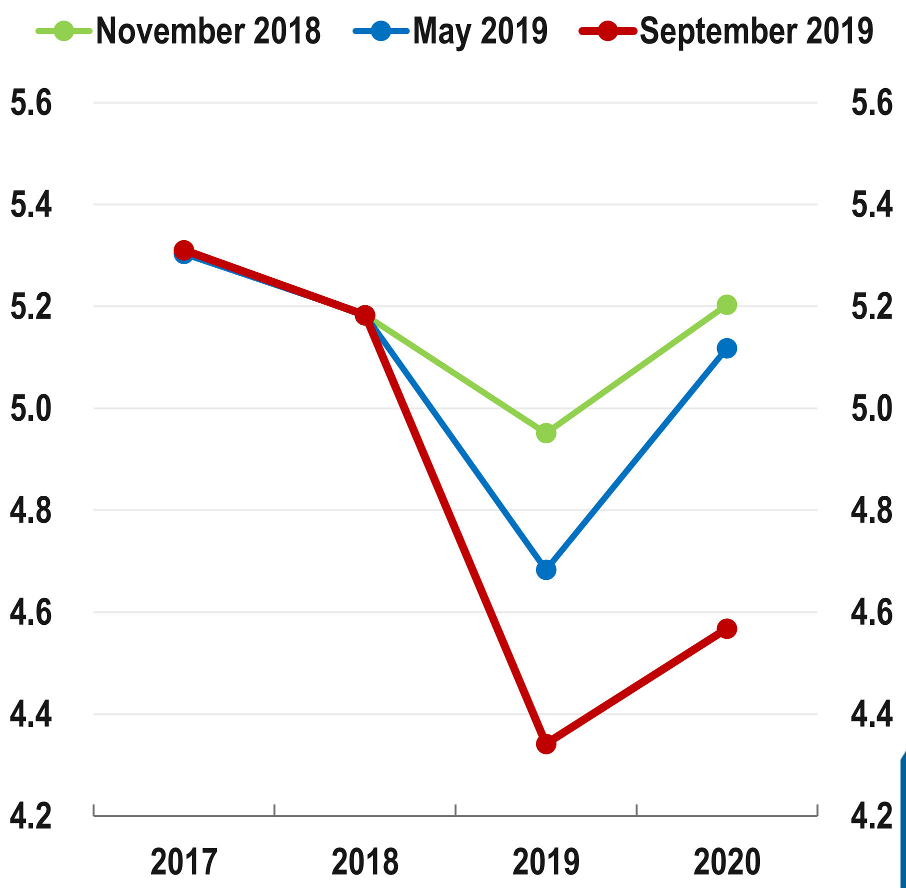
G20 Advanced

GDP projections, %, year-on-year



G20 Emerging

GDP projections, %, year-on-year



Note: G20 advanced economies are Australia, Canada, France, Germany, Italy, Japan, Korea, the United Kingdom and the United States.
G20 emerging economies are Argentina, Brazil, China, India, Indonesia, Mexico, Russia, Saudi Arabia, South Africa and Turkey.
Source: OECD Economic Outlook database; and OECD calculations.

GDP growth projections downgraded

OECD Interim Economic Outlook projections

%, year-on-year. Arrows indicate the direction of revisions since May 2019.

downward by 0.6 pp and more | downward by 0.3 to 0.6 pp | downward by less than 0.3 pp | no revision | upward

	2018	2019	2020		2018	2019	2020
World	3.6	2.9	3.0	**G20**	3.8	3.1	3.2
Australia	2.7	1.7	2.0	**Argentina**	-2.5	-2.7	-1.8
Canada	1.9	1.5	1.6	**Brazil**	1.1	0.8	1.7
Euro area	1.9	1.1	1.0	**China**	6.6	6.1	5.7
Germany	1.5	0.5	0.6	**India**[1]	6.8	5.9	6.3
France	1.7	1.3	1.2	**Indonesia**	5.2	5.0	5.0
Italy	0.7	0.0	0.4	**Mexico**	2.0	0.5	1.5
Japan	0.8	1.0	0.6	**Russia**	2.3	0.9	1.6
Korea	2.7	2.1	2.3	**Saudi Arabia**	2.2	1.5	1.5
United Kingdom	1.4	1.0	0.9	**South Africa**	0.8	0.5	1.1
United States	2.9	2.4	2.0	**Turkey**	2.8	-0.3	1.6

Note: Difference in percentage points based on rounded figures. 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.

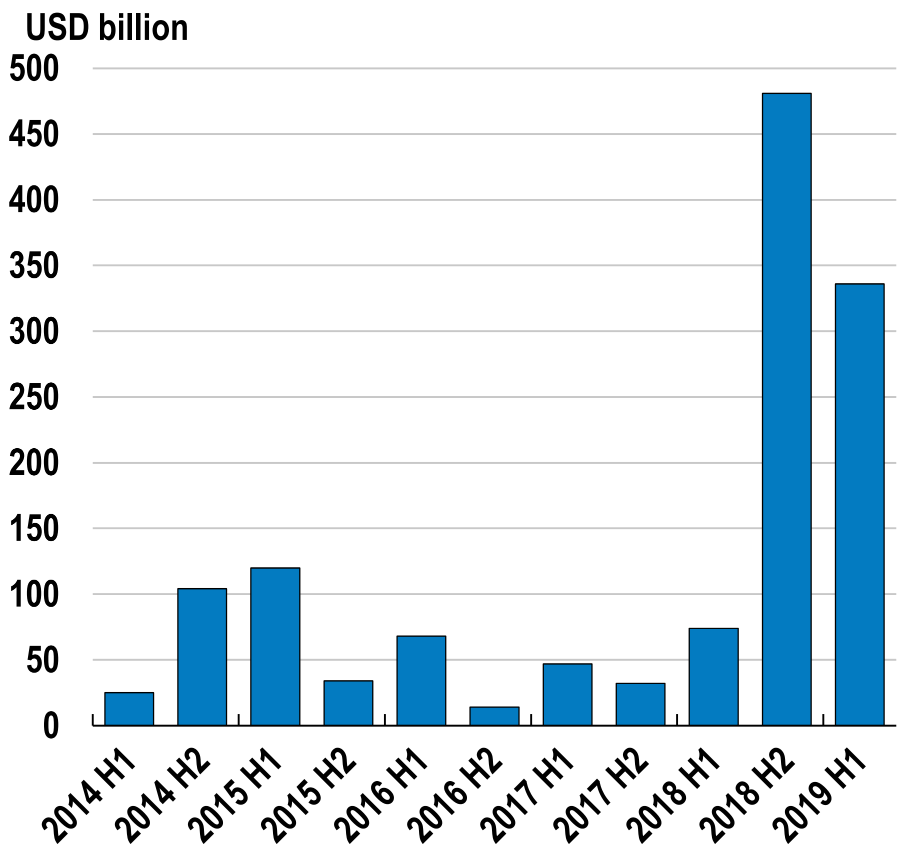
1. Fiscal years starting in April.

Source: OECD Economic Outlook database; and OECD calculations.

Trade growth is stalling as restrictions bite

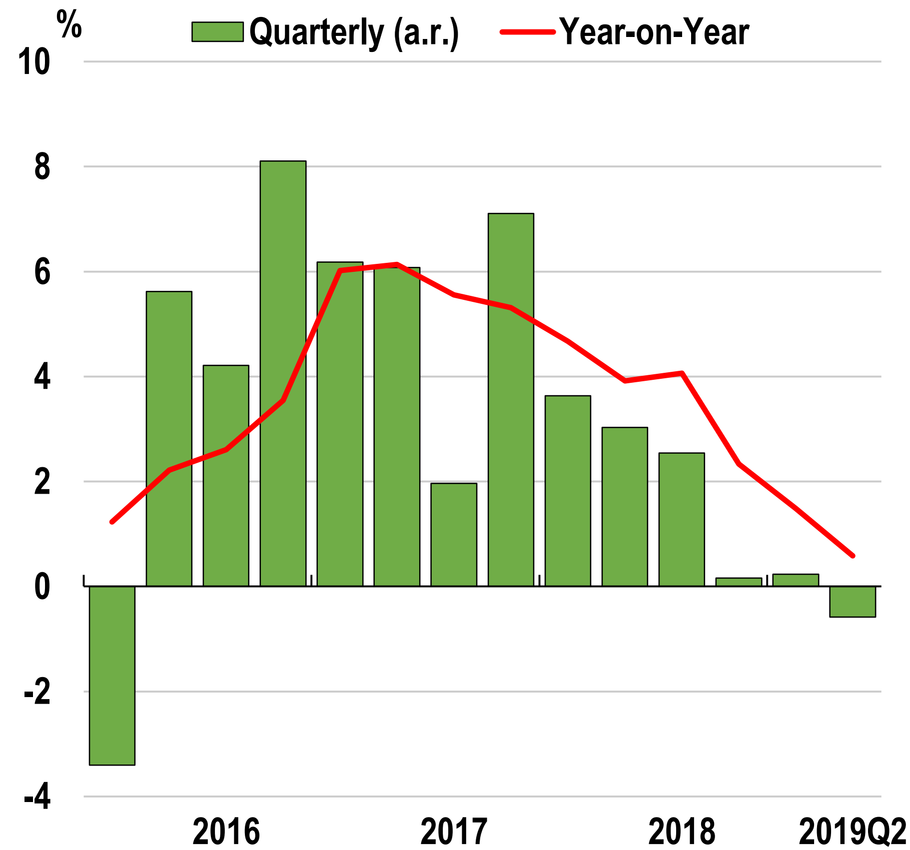
New trade restrictions in the G20

Trade coverage of measures introduced in each period



World trade growth

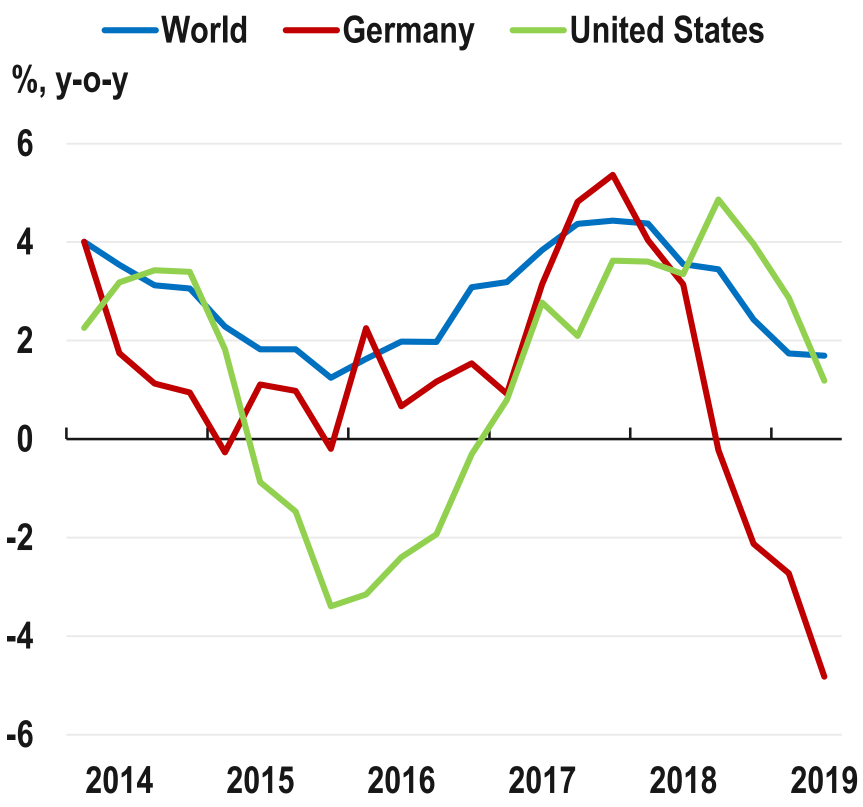
Goods and services, volumes



Note: Left: These figures are estimates and represent the trade coverage of the measures (i.e. annual imports of the products concerned in economies affected by the measures) introduced since the last date and not the cumulative impact of the trade measures.
Source: OECD Economic Outlook database; OECD-UNCTAD-WTO report on G20 trade and investment measures; and OECD calculations.

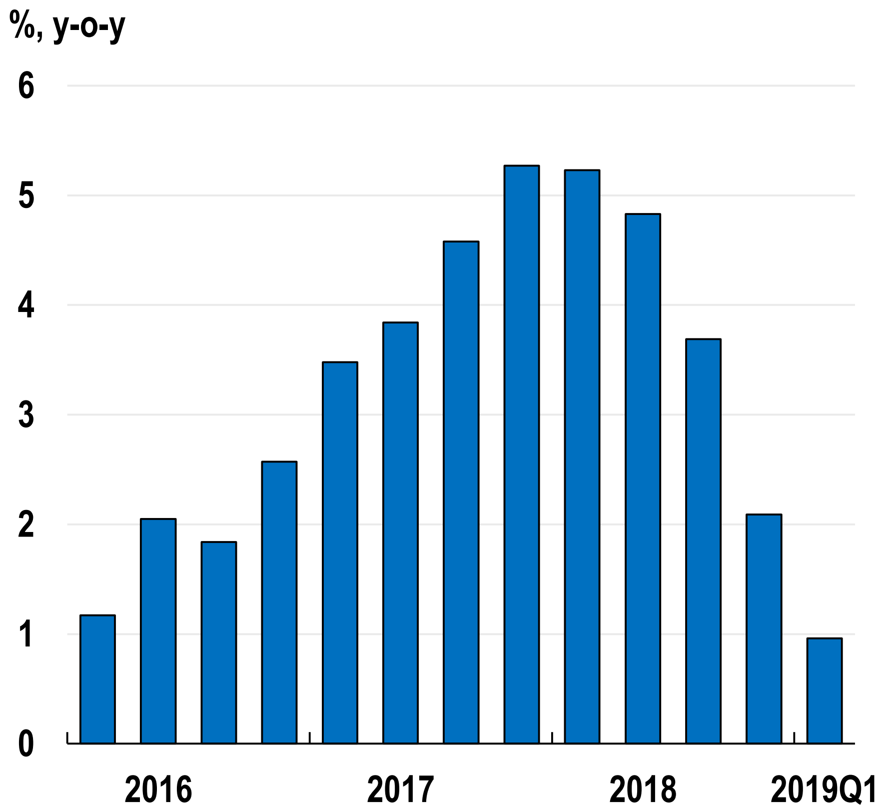
Uncertainty is dragging down manufacturing and investment

Industrial production



Investment growth

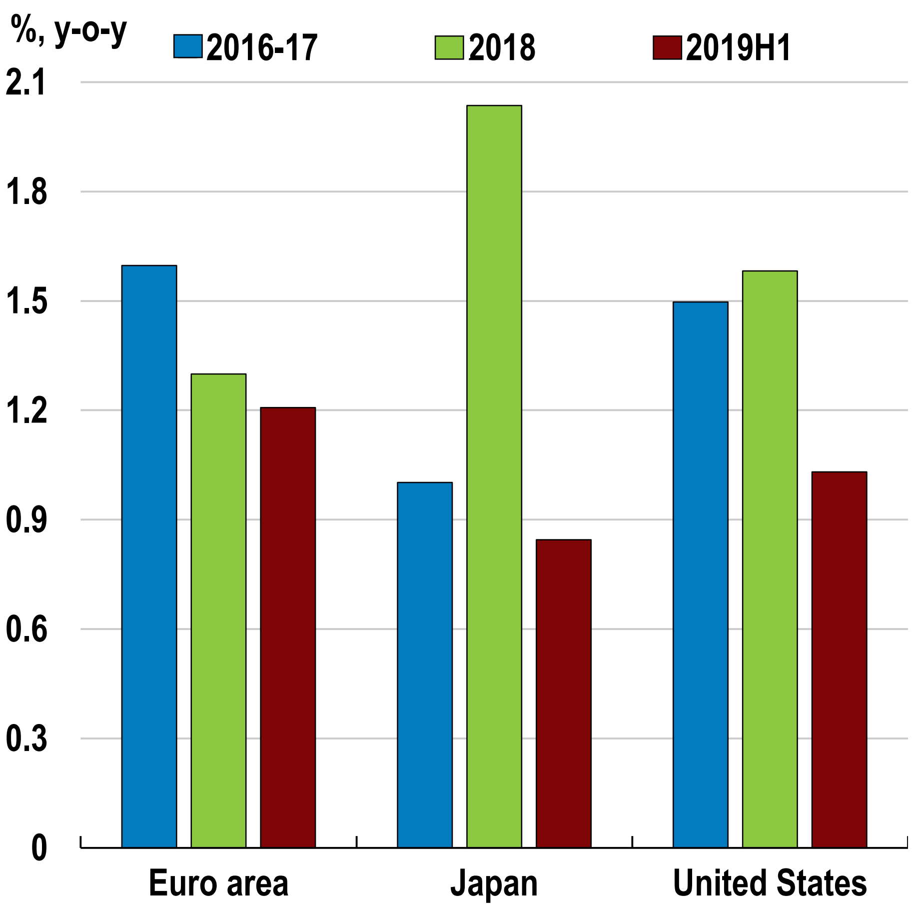
G20 fixed investment



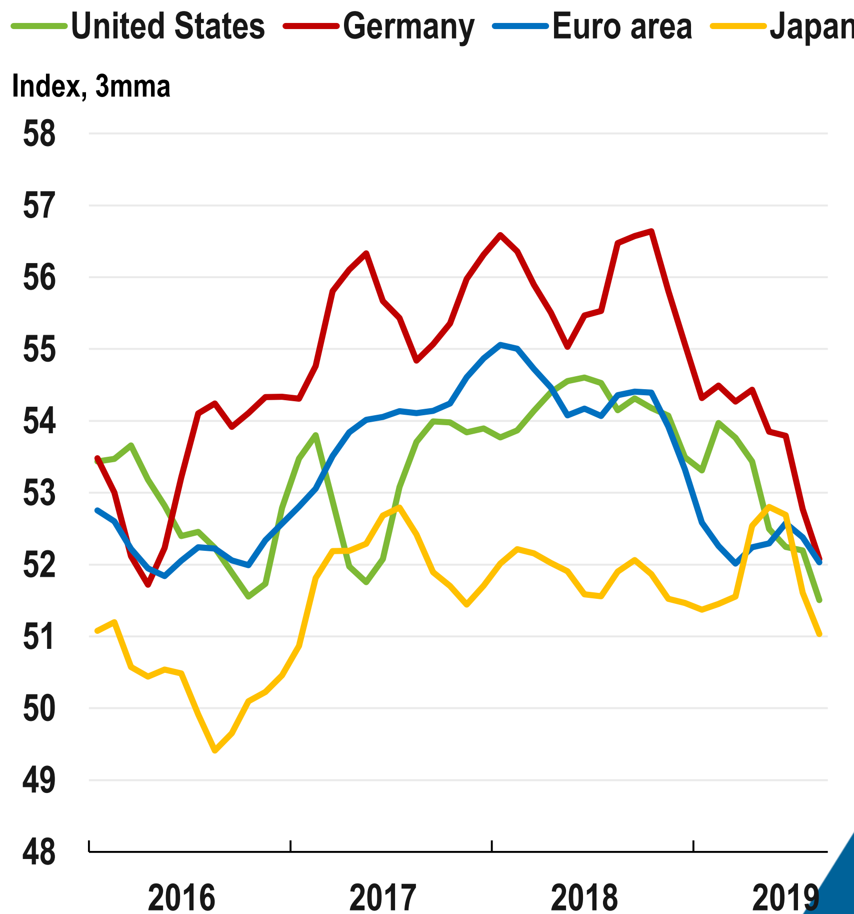
Note: Left: Industrial production aggregation uses PPP weights. Right: China and Saudi Arabia not included due to unavailability of quarterly data.
Source: OECD Economic Outlook database; US Federal Reserve; Eurostat; Ministry and Trade and Industry, Japan; KOSIS; and OECD calculations.

Job creation is slowing

Employment growth



Hiring intentions



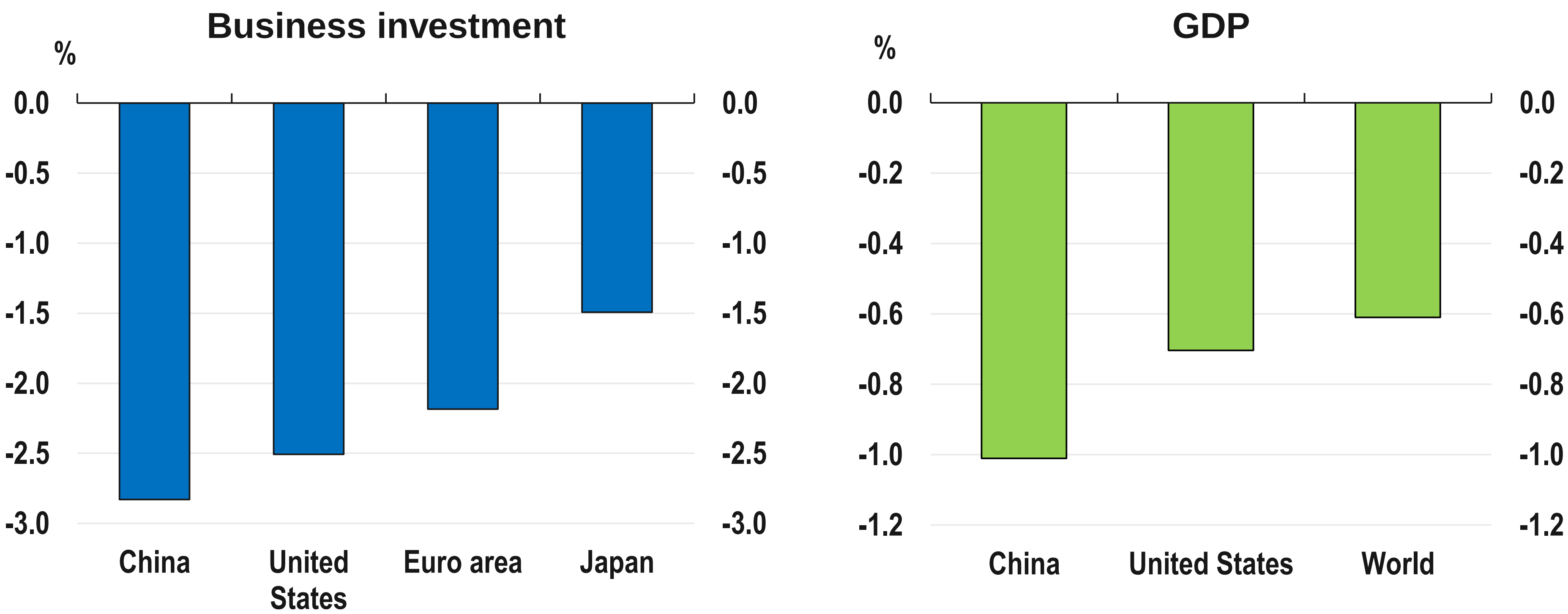
Note: Left: 2019H1 is annualised. Right: PMI for employment in manufacturing and services.
Source: OECD Economic Outlook database; Markit; and OECD calculations.

TRADE AND POLITICAL TENSIONS FUEL RISKS OF PERSISTENT LOW GROWTH

Trade conflicts are entrenching uncertainty and risk long-lasting harm to investment

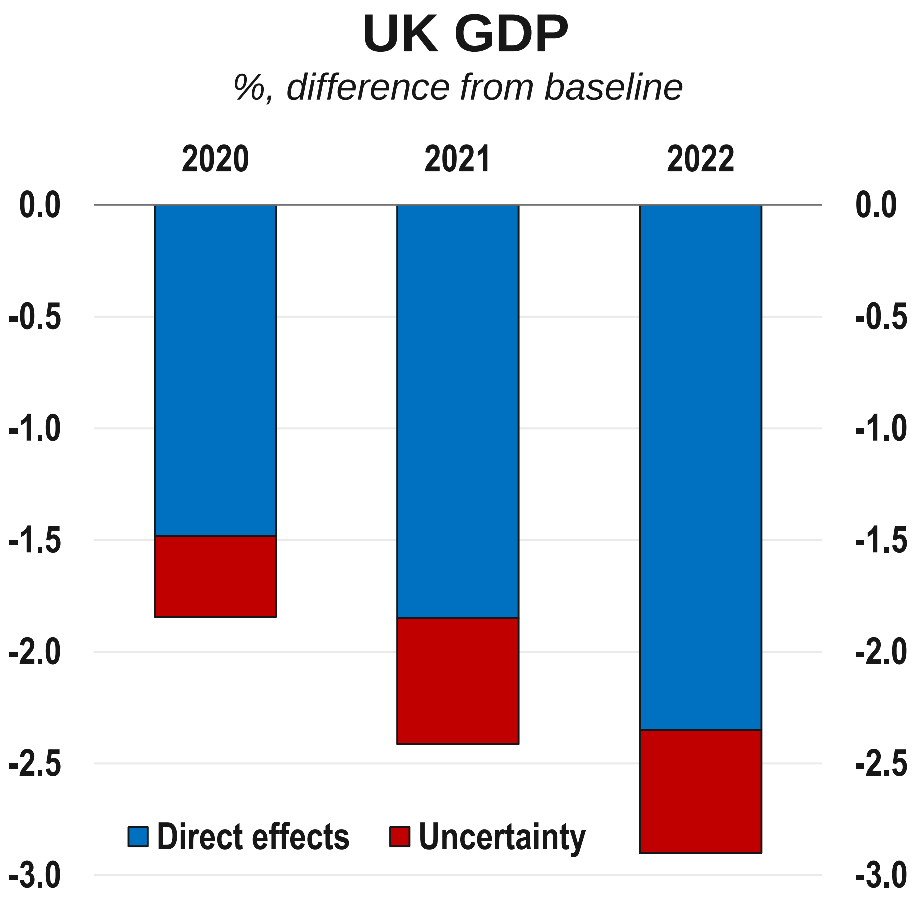
Impact of 2019 US-China trade restrictions

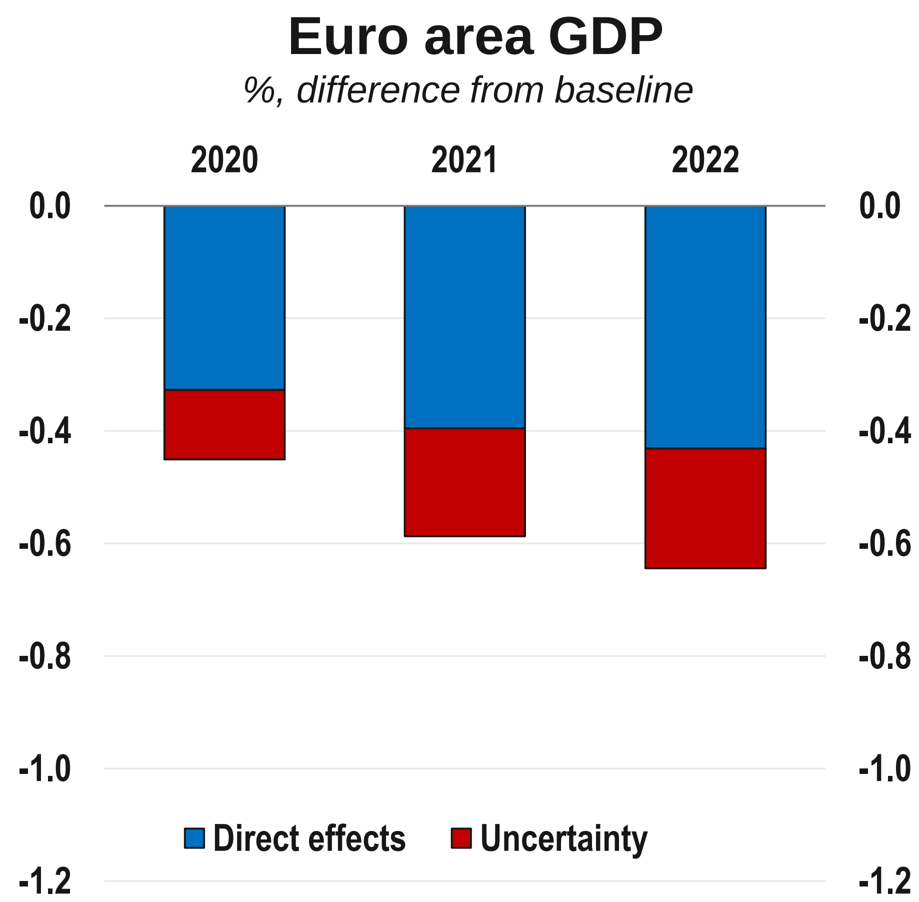
Difference from baseline after 2 to 3 years



Note: Total investment for China. The scenario shows the impact of: the United States raising tariffs on USD 200 billion of imports from China from 10% to 25% from mid-May 2019 (with reciprocal action by China on USD 60 billion of imports from the United States); the US further raising tariffs to 30% on USD 200 billion of imports to China in October and implementing tariffs of 15% on USD 110 billion and USD 160 billion of remaining imports from China in September and December 2019 respectively, with China assumed to react proportionately to these changes by raising tariffs on imports from the United States; and 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.

A no-deal Brexit would have large costs



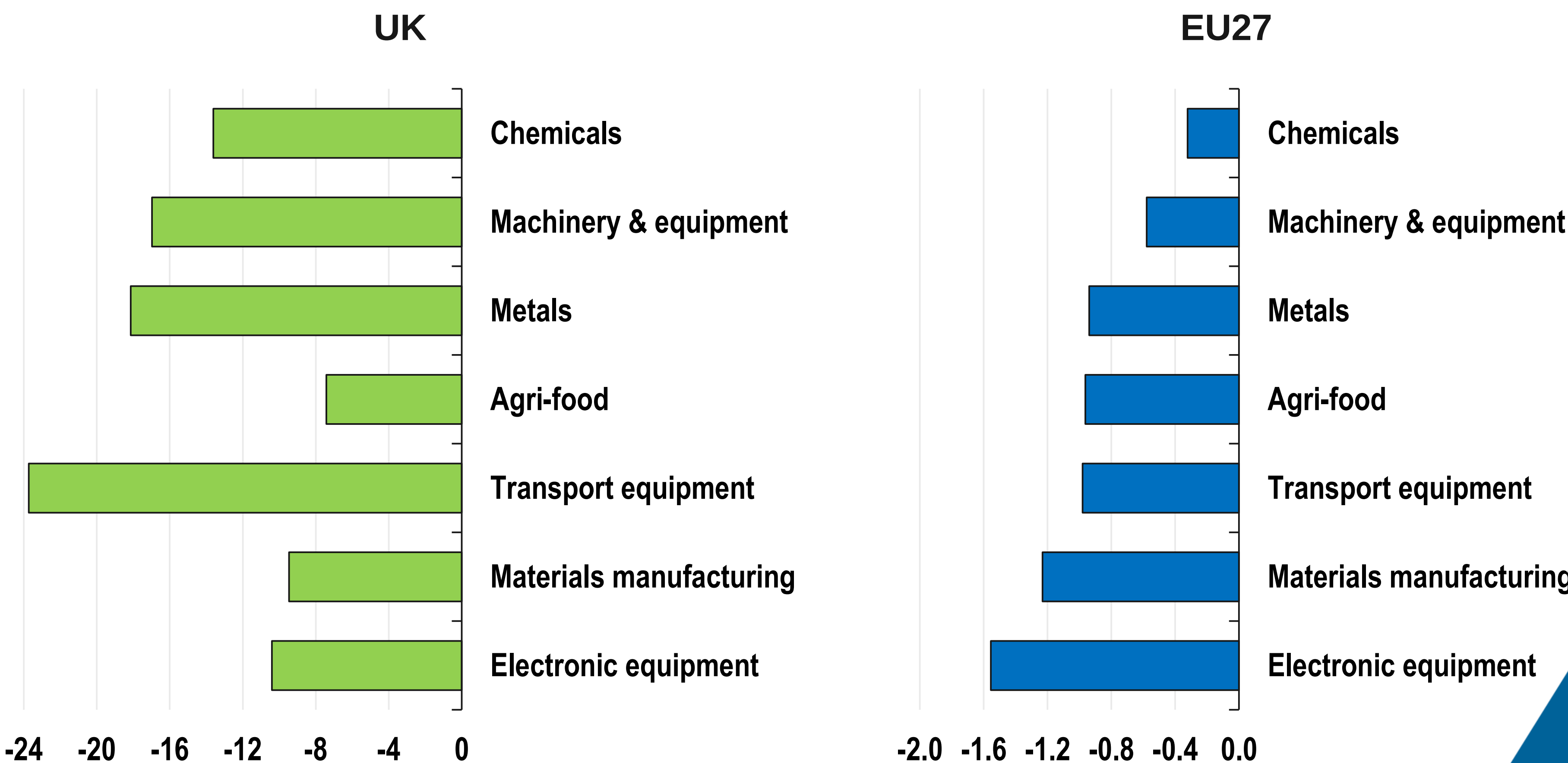


Note: The direct effects include a decline in UK export volumes, declines in EU countries' exports with the impact on individual countries dependent on the extent of their direct trade with the UK, a depreciation of the sterling upon exit, a decline in labour-augmenting technical progress due to lower trade openness and a decline in net inward migration. The uncertainty effect captures a rise in investment risk premia. No monetary and fiscal policy response is assumed beyond already announced measures, which are incorporated in the baseline.
Source: OECD calculations, using the NiGEM global macroeconomic model.

A no-deal Brexit would lead to sectoral disruptions in European economies

Impact of a no-deal on production by sector, medium to long term

%, difference from baseline

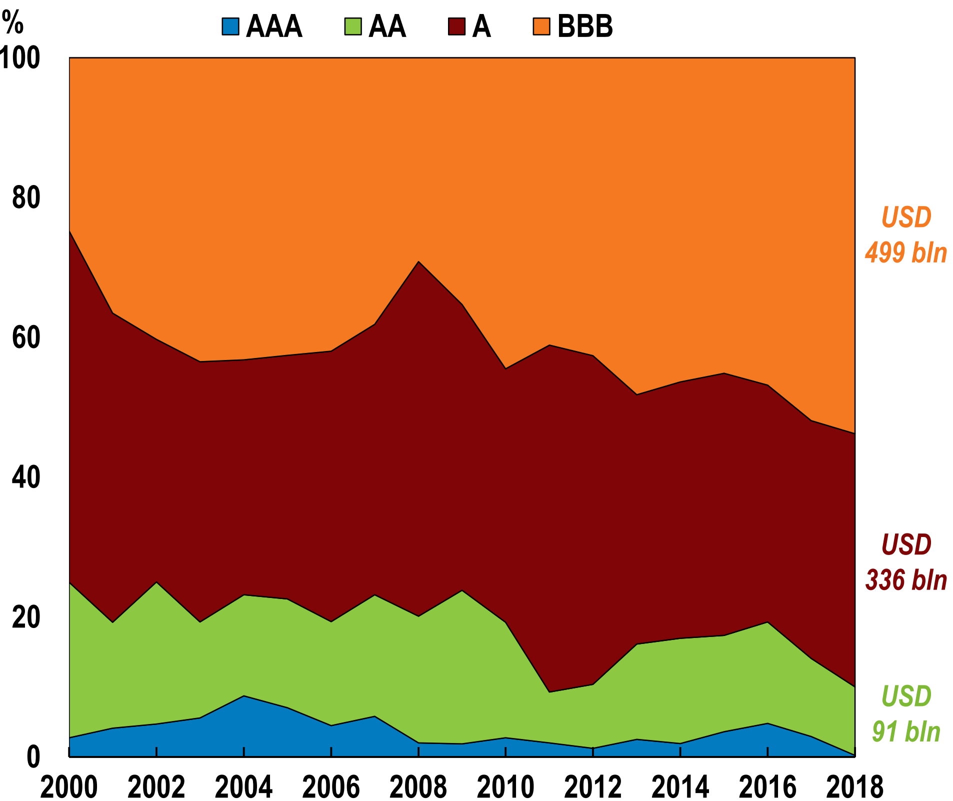


Note: Production in volume.
Source: OECD calculations using the OECD METRO model.

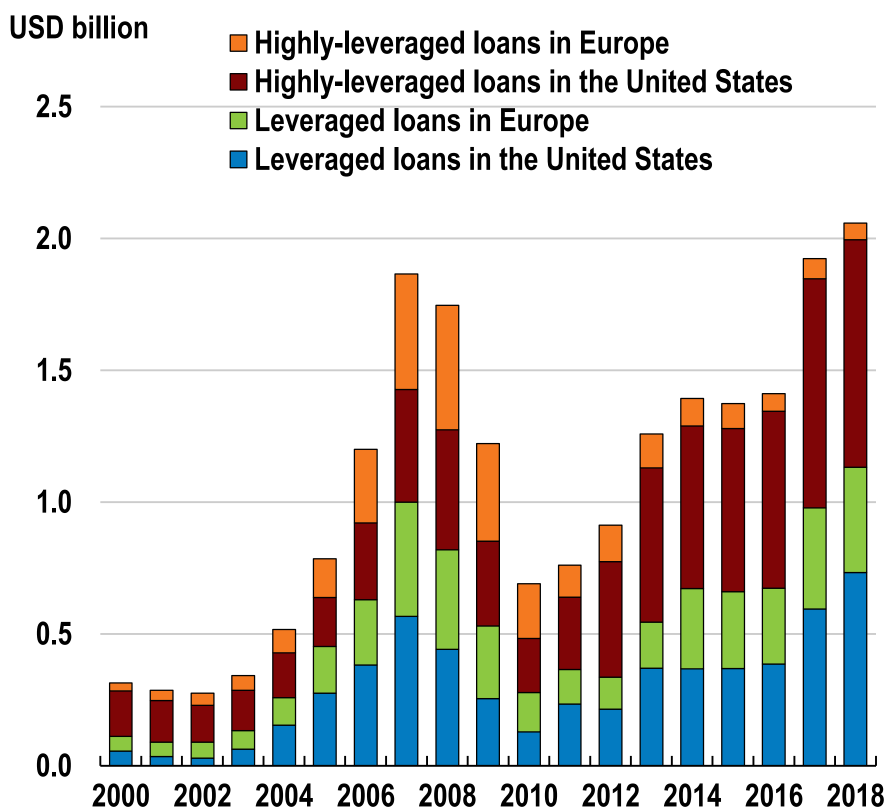
Investors hold massive amounts of risky debt

Investment-grade corporate bonds

% share of bond issuance, by rating

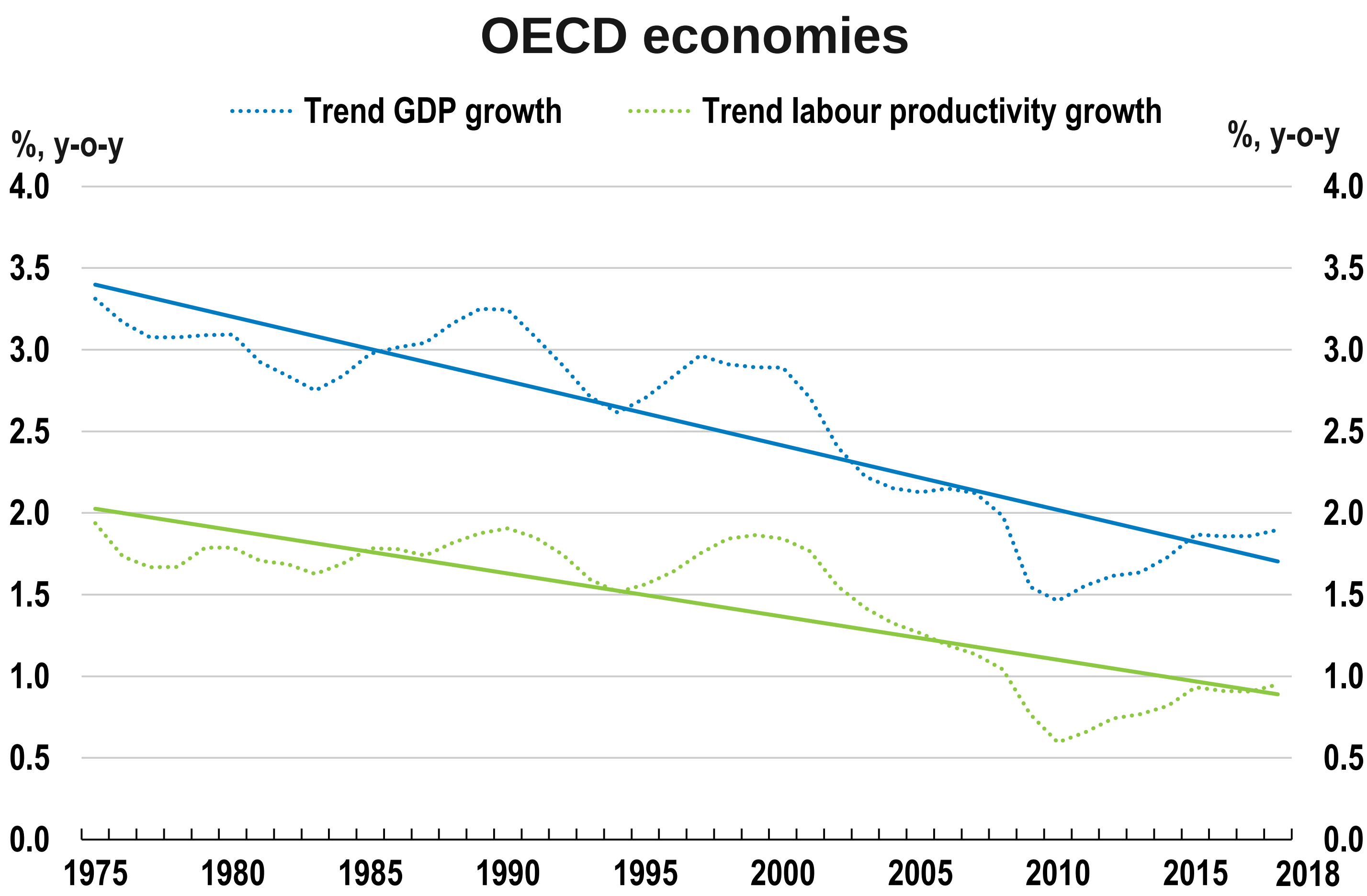


Corporate leveraged loans outstanding



Note: Left: Only non-financial companies rated by S&P, Fitch and/or Moody's. Right: The outstanding amount is calculated based on non-financial corporate 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).

The long-term decline in trend growth could persist

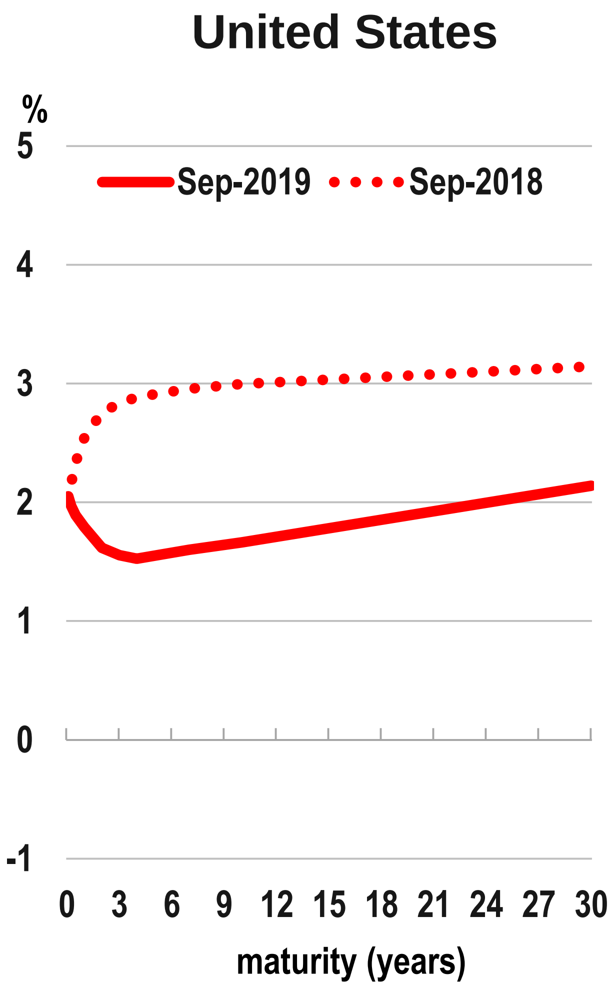


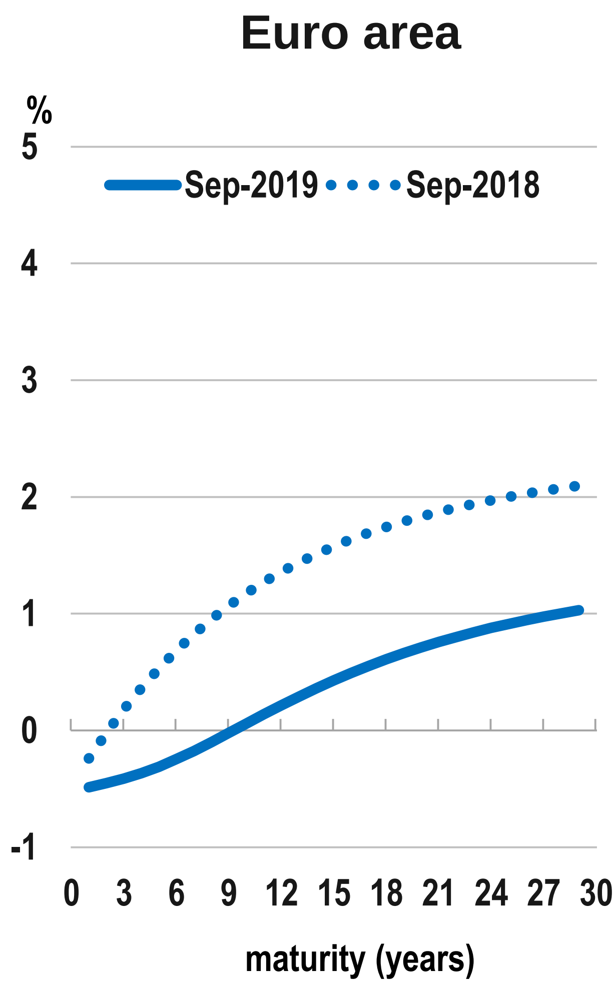
Note: Solid lines are linear projections. Trend GDP growth is the growth rate of potential output.
Source: OECD Economic Outlook database.

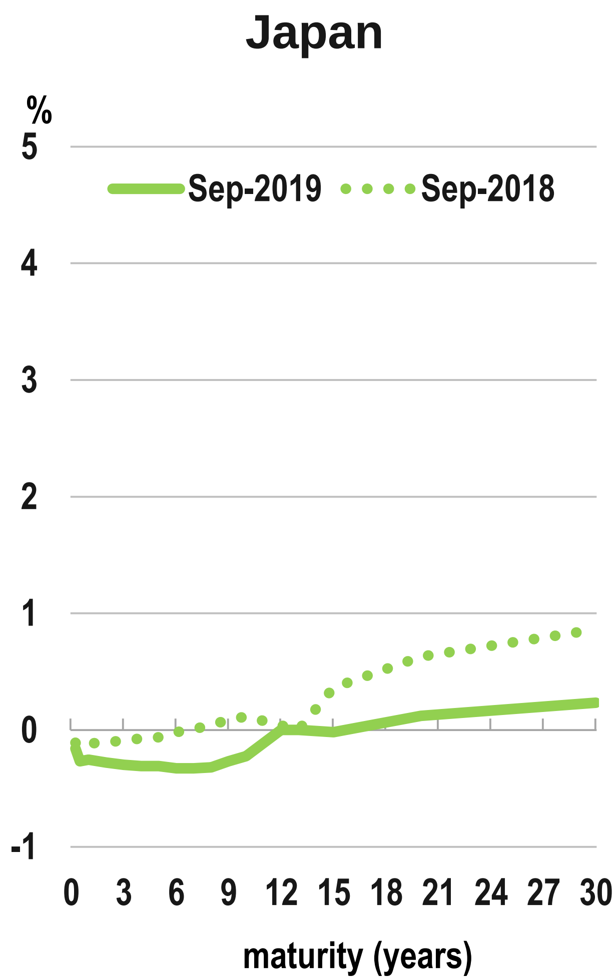
GOVERNMENTS CAN REVERSE THE SPIRALING COSTS OF UNCERTAINTY AND INVEST MORE

Monetary policy: little room for manoeuvre in advanced economies

Yield curves on government bonds



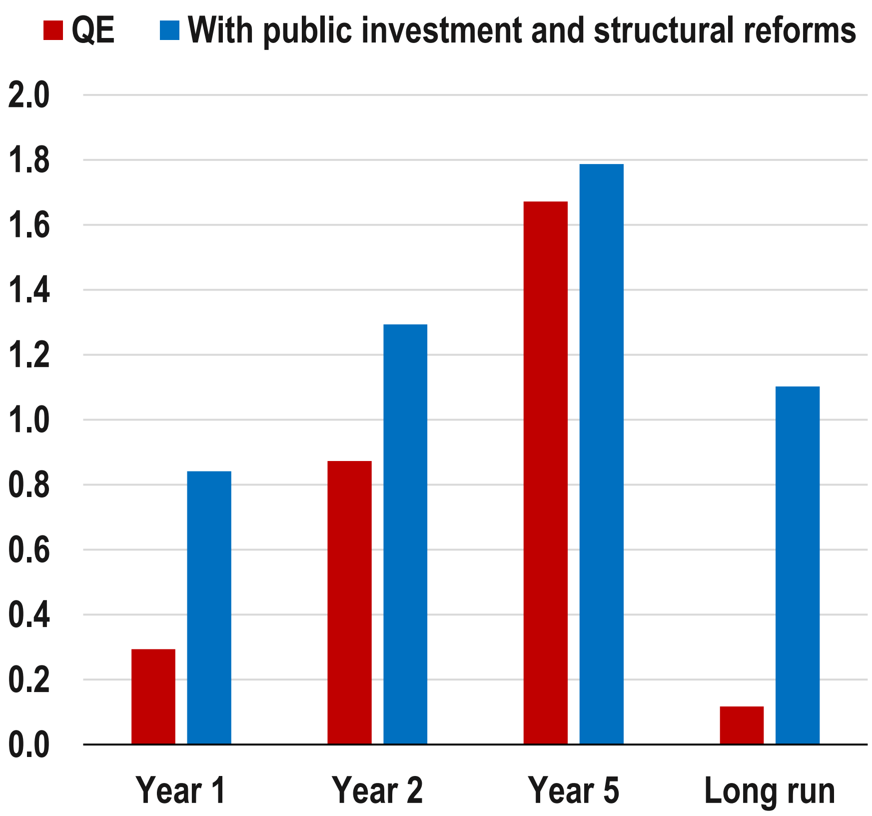




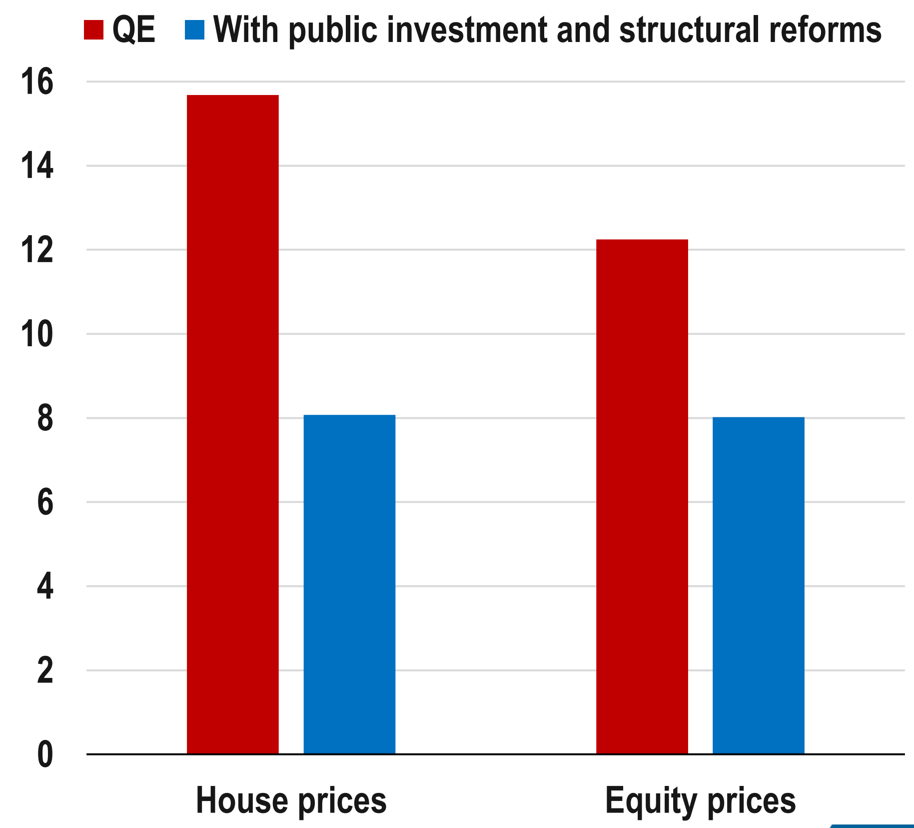
Note: Yield curves on benchmark government bonds as of 16 September 2019.
Source: Refinitiv; and ECB.

Fiscal and structural policies should accompany central bank efforts in the Euro area

Real GDP, euro area
%, difference from baseline

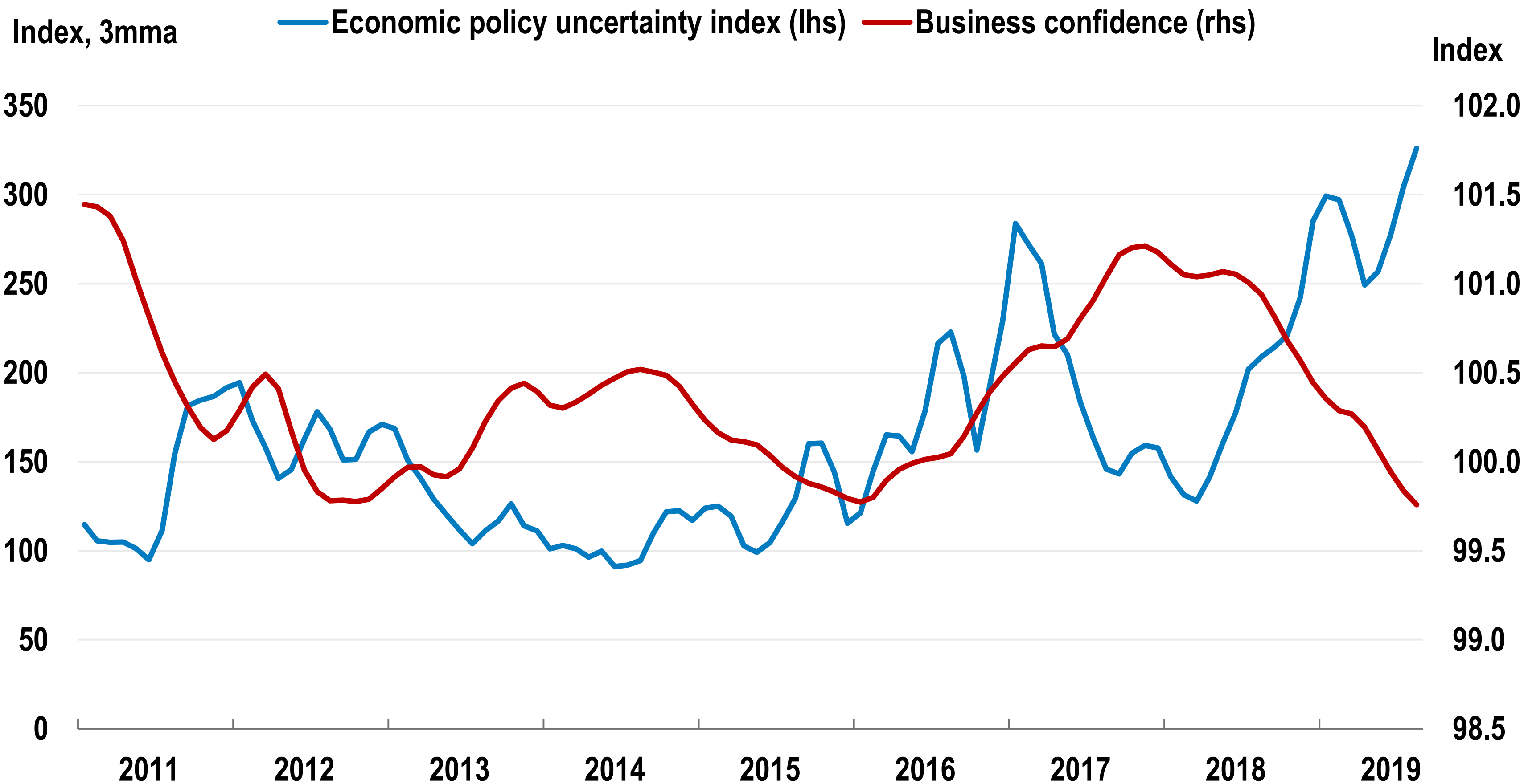


Asset prices after five years
%, difference from baseline



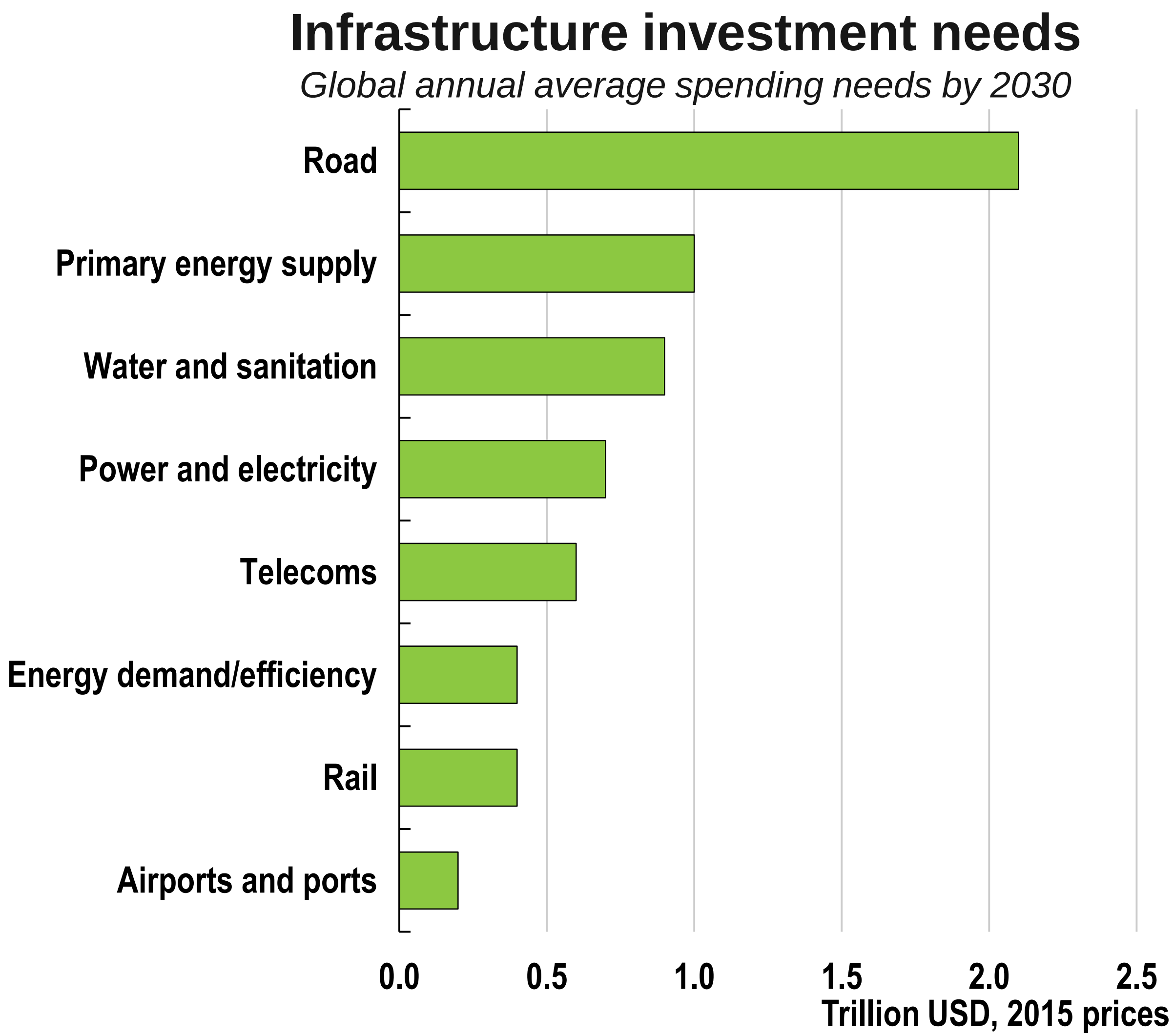
Note: The QE scenario is calibrated to the measures introduced by the ECB in 2015. The scenario with public investment and structural reforms includes a rise in public investment by ¾ percent of GDP for five years, productivity-enhancing structural reforms that rise total factor productivity growth by 0.2 percentage points each year for five years, and a fifty percent smaller QE programme.
Source: OECD calculations, using the NiGEM global macroeconomic model.

Restoring business confidence would revive investment



Note: The last data point is August 2019. Both series are global.
Source: policyuncertainty.org; Markit; and OECD calculations.

Meeting infrastructure investment needs would help escape the risk of persistent low growth



Note: The scenario does not include the additional investments needed to meet carbon emissions targets.
Source: OECD Technical note on estimates of infrastructure investment needs, 2017.

Key messages

The global outlook continues to darken

- Growth continues to slow in advanced and emerging economies
- Investment is taking a hit as high policy uncertainty feeds a collapse in trade growth and a manufacturing slump
- Consumption is holding up but is threatened by slowing job growth

Trade and political tensions fuel risks of persistent low growth

- Escalating trade restrictions are entrenching uncertainty, endangering future growth
- A no-deal Brexit would hurt an already weak UK economy and create disruptions across Europe
- High private debt of deteriorating quality could amplify the effects of shocks

Governments can reverse the spiraling costs of uncertainty and invest more

- Halt the surge in trade-distorting tariffs and subsidies and restore predictable rules for business
- Limit the reliance on overstretched monetary policy, think fiscal and structural
- Escape the trap of persistent weak growth: undertake public investment