



Better, but not good enough

OECD ECONOMIC OUTLOOK *including perspective on Australia*

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13 June 2017

Canberra, Australia

www.oecd.org/economy/economicoutlook.htm
ECOSCOPE blog: oecdecoscope.wordpress.com



Key messages

Global growth expected to pick-up modestly with upside risks.

But, productivity and wage growth remain subdued and financial stability risks persist

The gains from structural trends and trade are widely distributed, but the costs are concentrated, esp. by regions

An integrated policy approach to make good on promises to citizens, including making globalisation work for all



Outline

- Cyclical vs potential growth and promises
- Persistent financial risks
- Diagnosing globalization backlash
- Responsive policy



Global GDP growth should pick up modestly but remains below historical norms



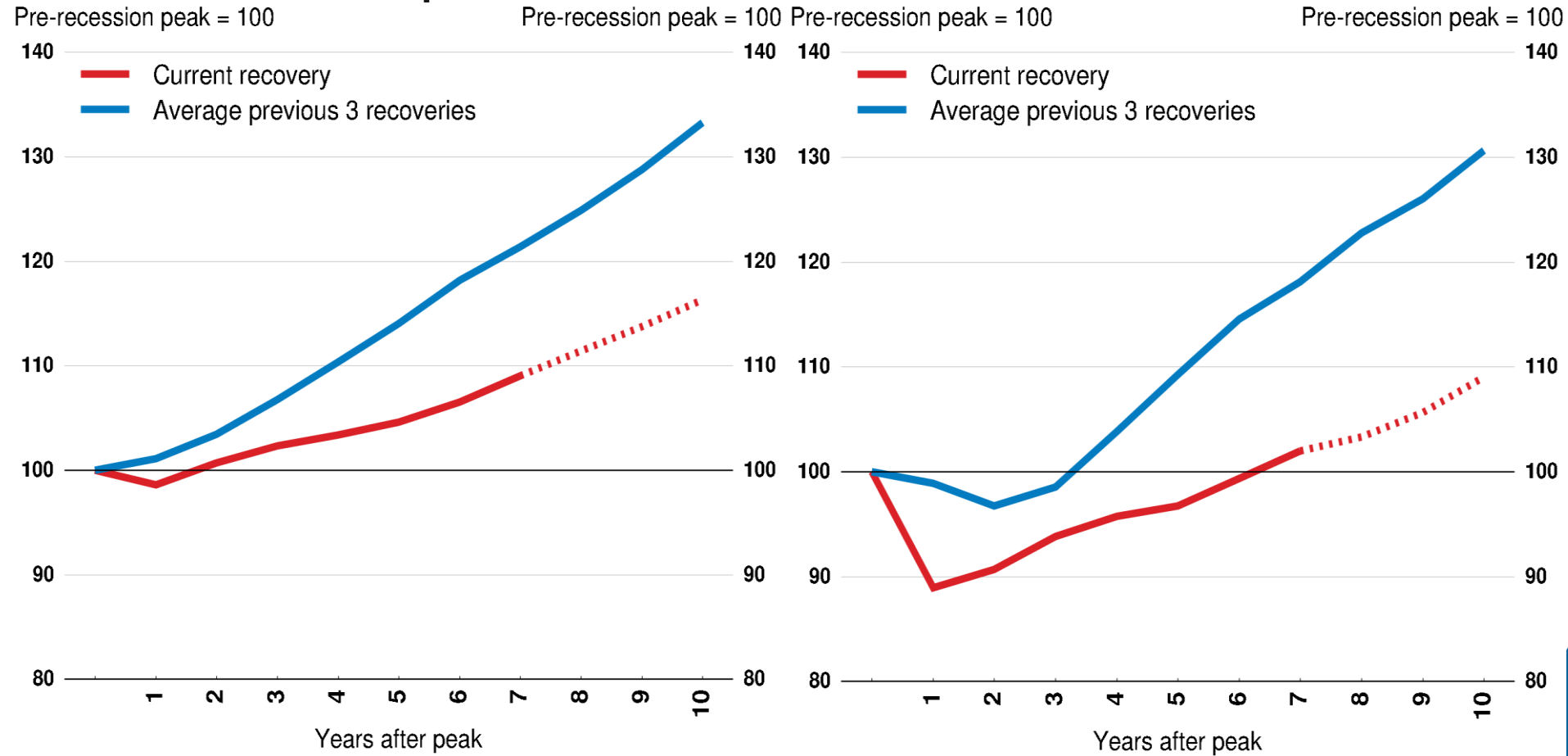
Source: OECD June 2017 Economic Outlook database.



Is growth in consumption and investment still sluggish relative to previous recoveries?

Consumption

Investment



Note: OECD shown. Current recovery shows since 2008Q1 including the forecasts in the dotted line. Previous 3 recoveries pre-recession peak in 1973Q4, 1980Q1 and 1990Q3. Consumption is real total consumers' expenditure and investment is real total gross fixed capital formation.

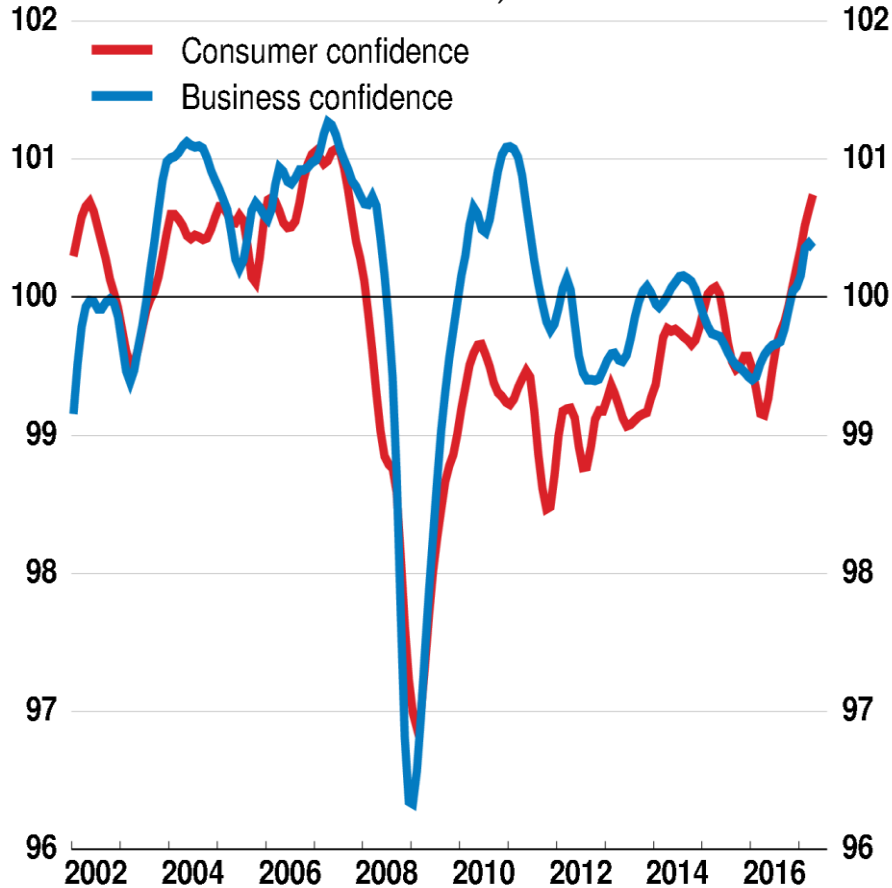
Source: OECD November 2016 Economic Outlook database.



Confidence indicators point to pick-up, but they have become less reliable

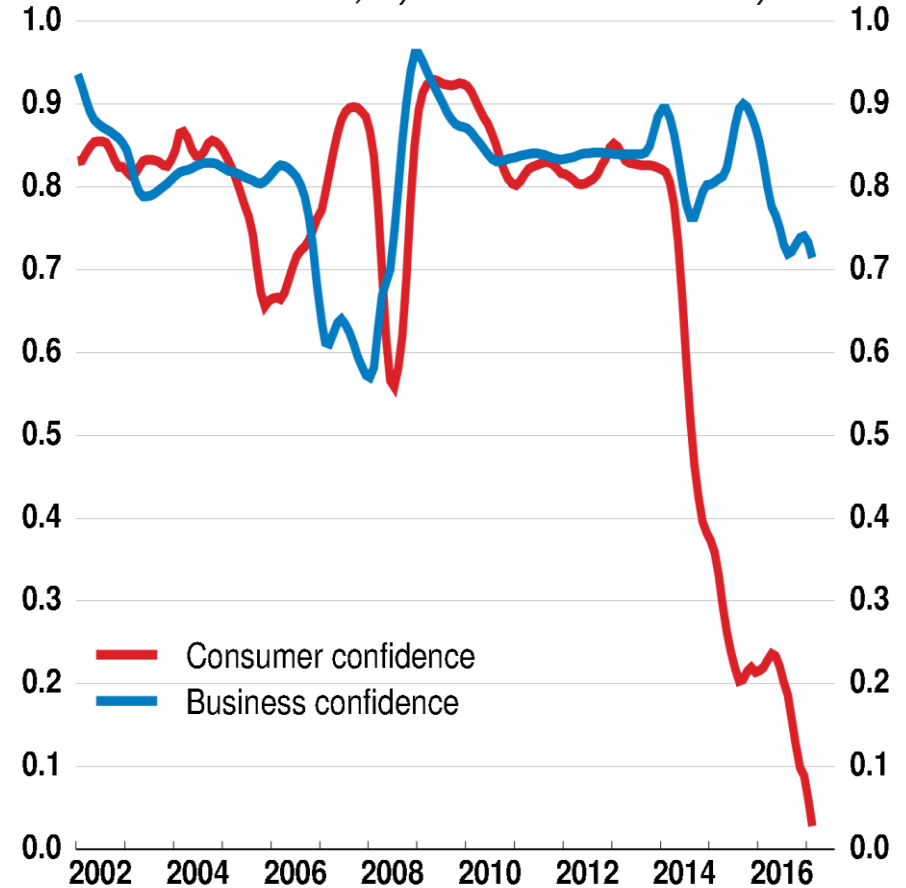
Consumer and business confidence

OECD and BRIICS, Index



Performance of confidence indicators

OECD and BRIICS, 5-year correlation with activity



Note: Confidence indices are GDP PPP weighted averages of individual country standardised series where long-term average = 100. Consumer confidence correlation with global retail sales growth and business confidence with global industrial production growth.

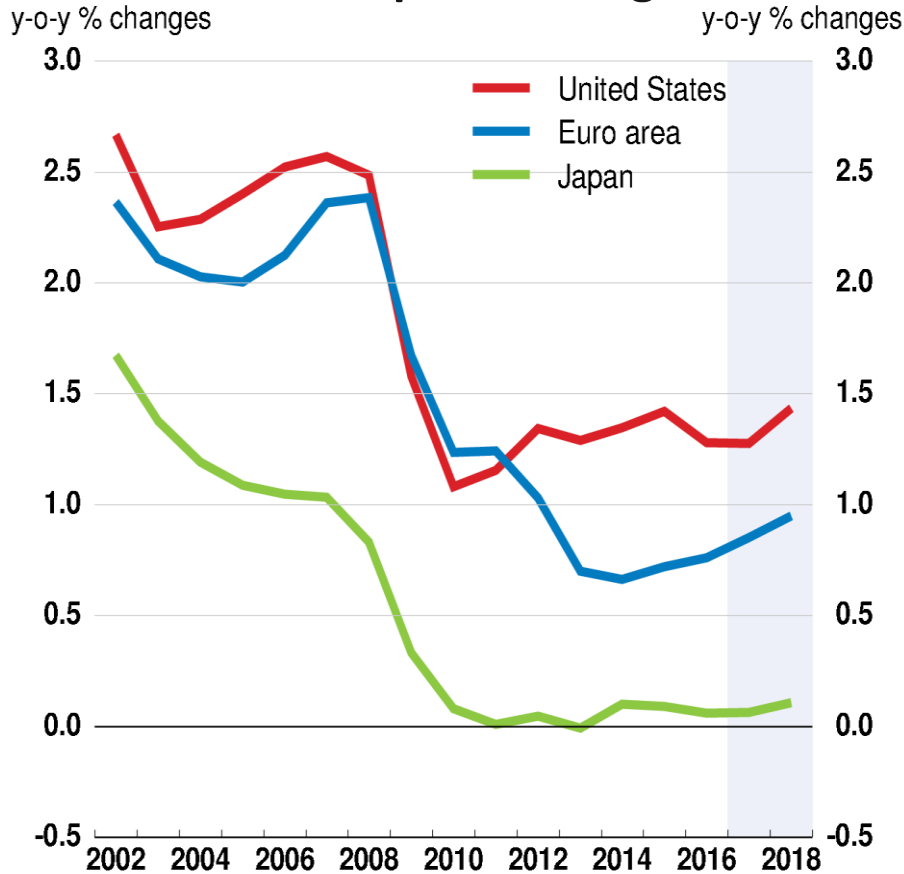
Source: OECD Main Economic Indicators database; and OECD calculations.



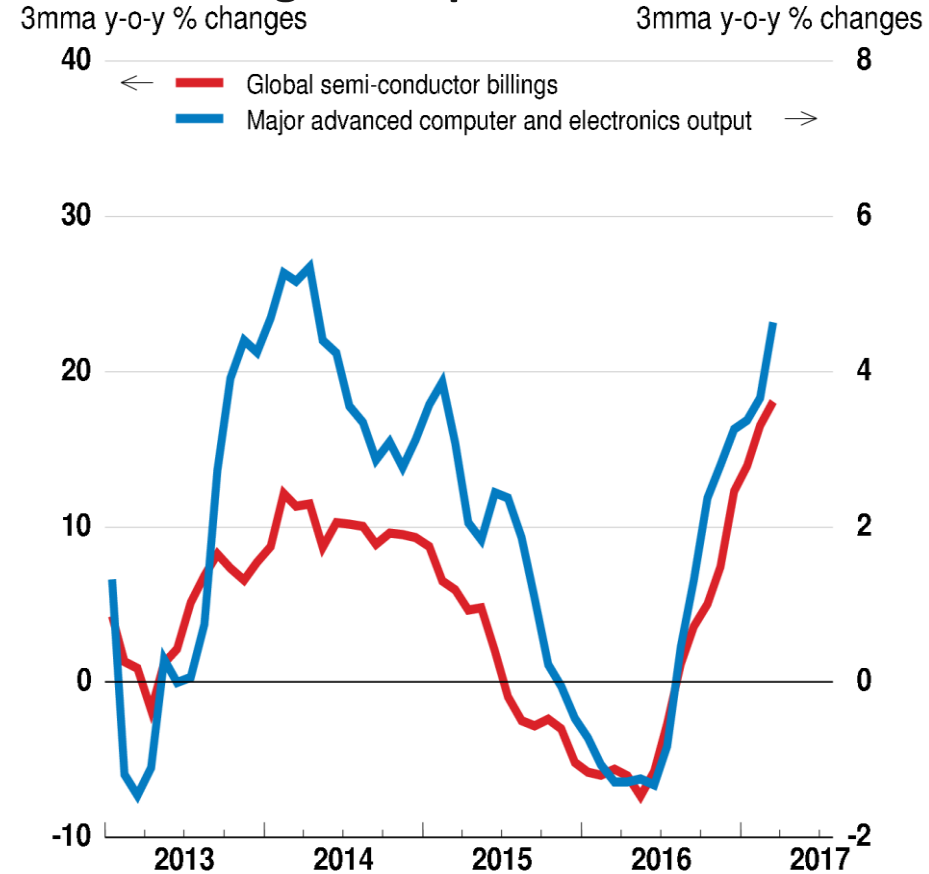
Investment is increasing but capital stock is old

Potential upside from technology upgrading

Productive capital stock growth



High tech products



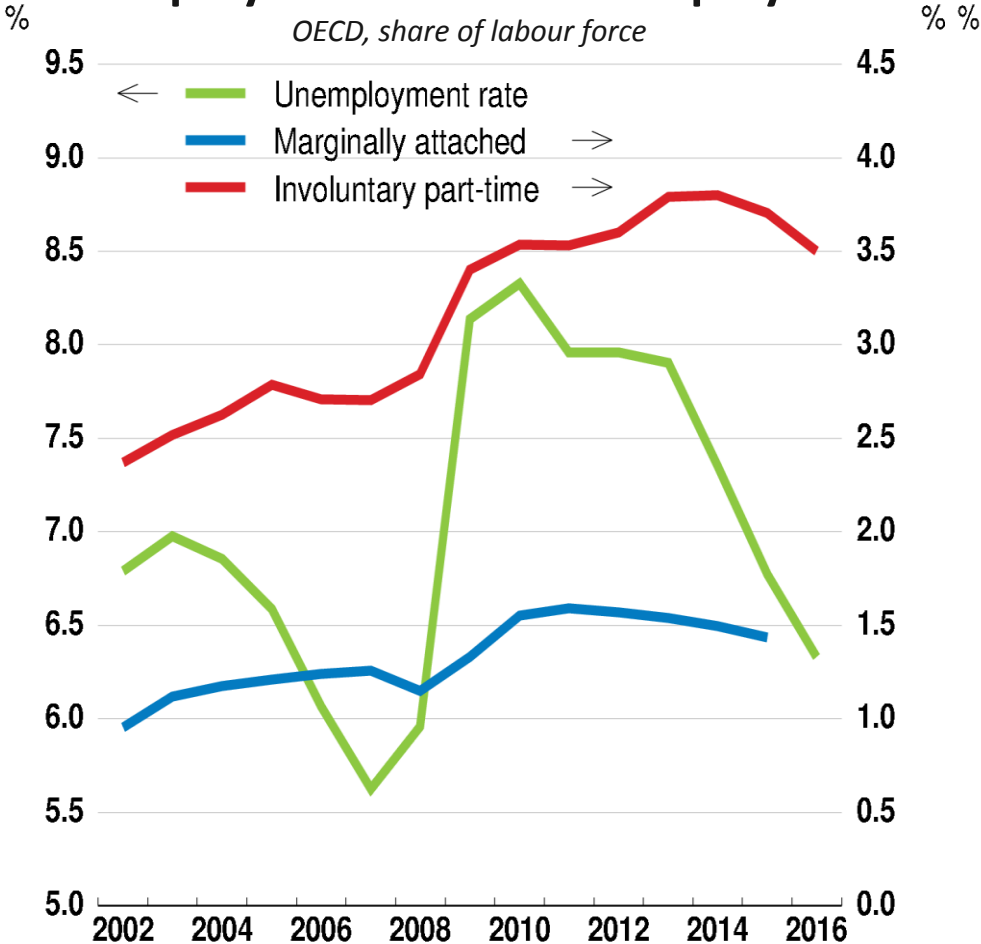
Note: Global semi-conductor billings in nominal US dollars. Major advanced computer and electronics output is a weighted average of production of computer and electronic products for the United States, output of computer, electronic and optical products for Germany, and production of information and communications electronics equipment plus electronic parts and devices for Japan.

Source: OECD June 2017 Economic Outlook database; World Semi-Conductor Statistics; Eurostat; Board of Governors of the Federal Reserve System; Japan Ministry of Economy, Trade and Industry; and OECD calculations.

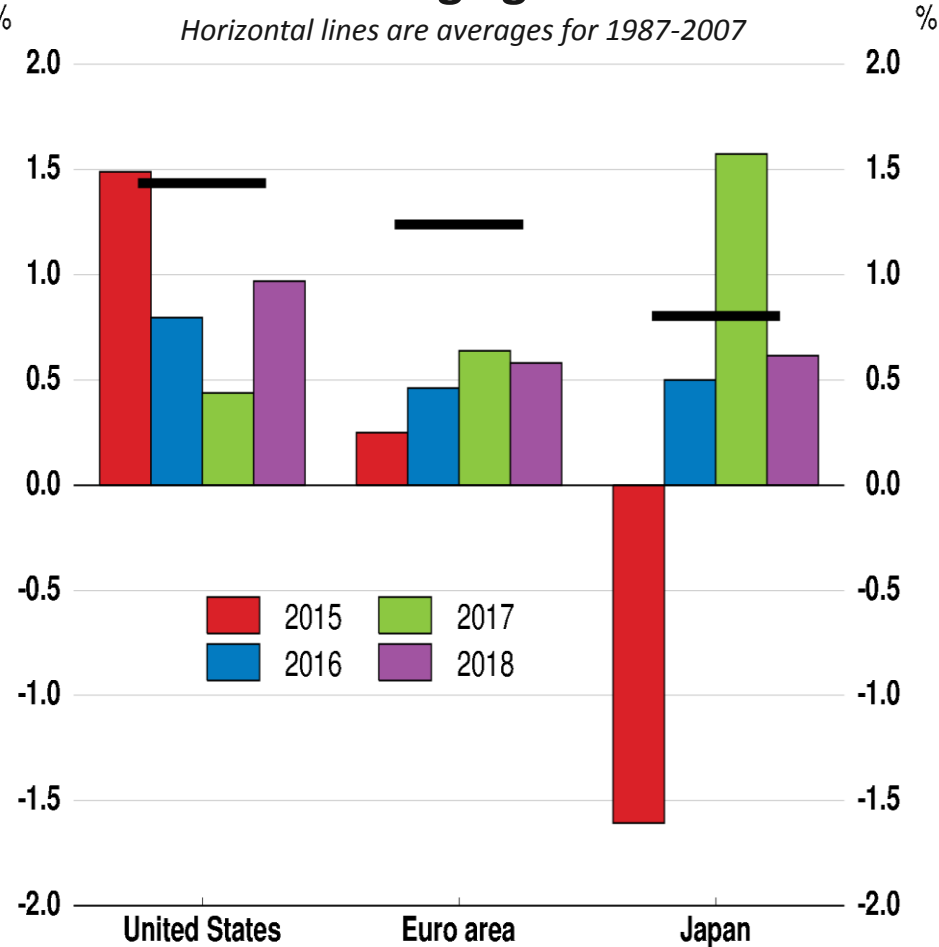


Labour market recovery is incomplete and real wage growth remains sluggish

Unemployment and underemployment



Real wage growth



Note: Real wages measured as labour compensation per employee adjusted for the GDP deflator.

Source: OECD June 2017 Economic Outlook database; OECD Employment database; US Bureau of Labor Statistics; Eurostat; and Japan Statistics Bureau.

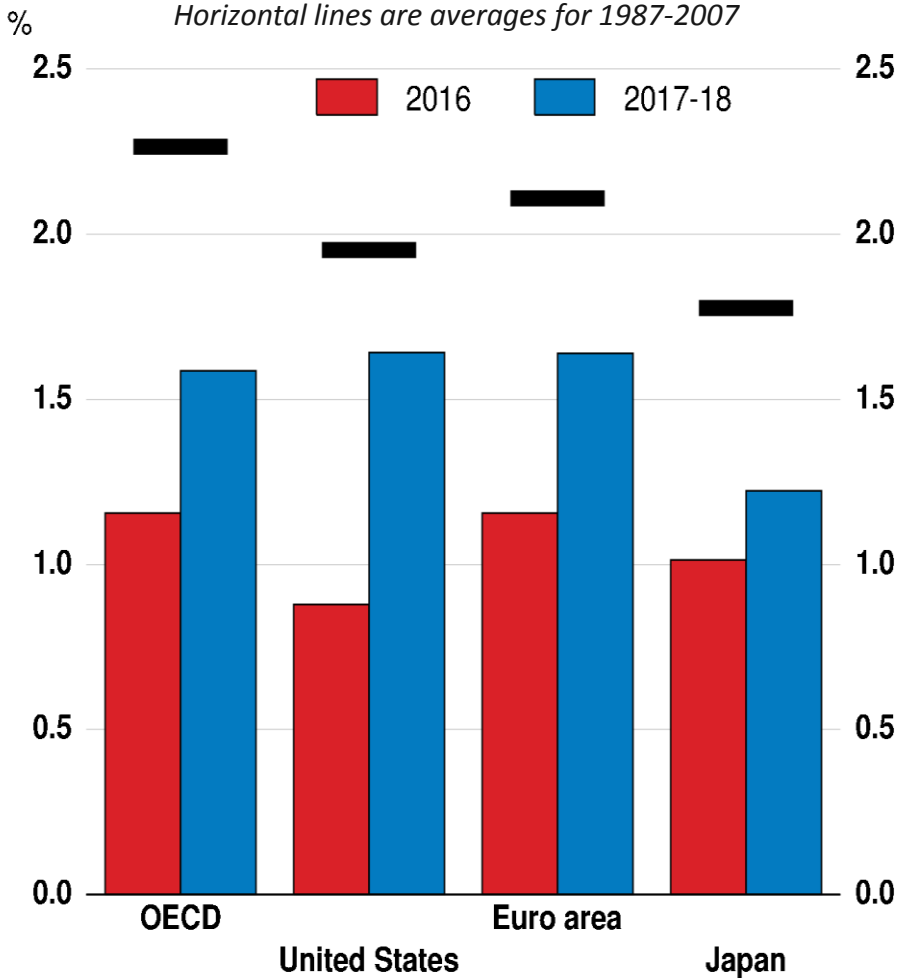


Better, but not good enough

GDP growth per person, income inequality

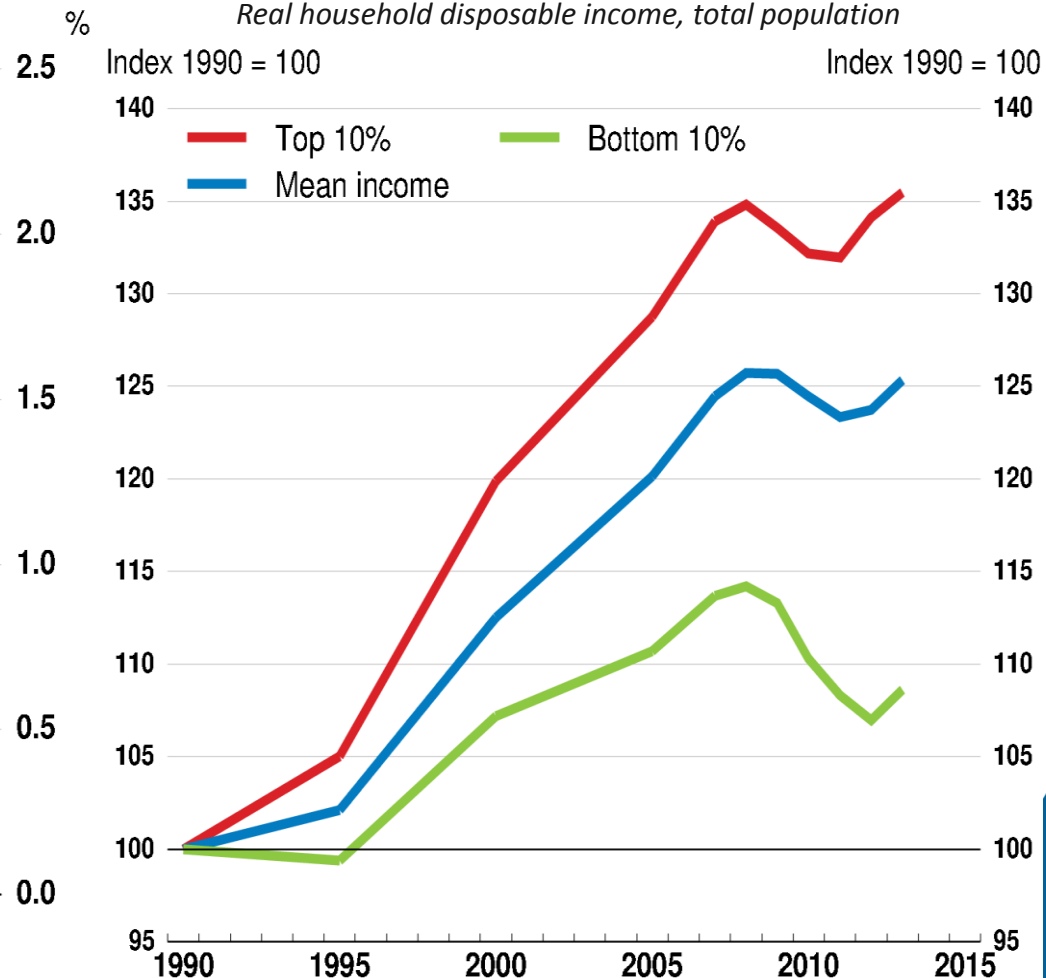
GDP growth per person

Horizontal lines are averages for 1987-2007



Income inequality is rising in the OECD

Real household disposable income, total population



Note: RHS is the unweighted average of 17 OECD countries.

Source: OECD June 2017 Economic Outlook database; and OECD Income Distribution database.



Better, but not good enough

Sobering views: current situation vs future

In many advanced nations, strong economies not enough to convince publics of bright future

	Current economic situation is good	Children will be better off financially	Diff
	%	%	
Netherlands	87	35	-52
Germany	86	36	-50
Sweden	84	44	-40
Australia	60	24	-36
Canada	59	24	-35
UK	51	24	-27
Senegal	76	54	-22
Japan	41	19	-22
U.S.	58	37	-21
Philippines	78	61	-17
Poland	64	48	-16
Israel	62	50	-12
France	21	9	-12

Ghana	46	63	+17
Greece	2	21	+19
South Korea	15	34	+19
Venezuela	20	40	+20
Argentina	23	45	+22
Chile	45	69	+24
Nigeria	41	72	+31
Brazil	15	56	+41

Note: Only double digit differences shown.

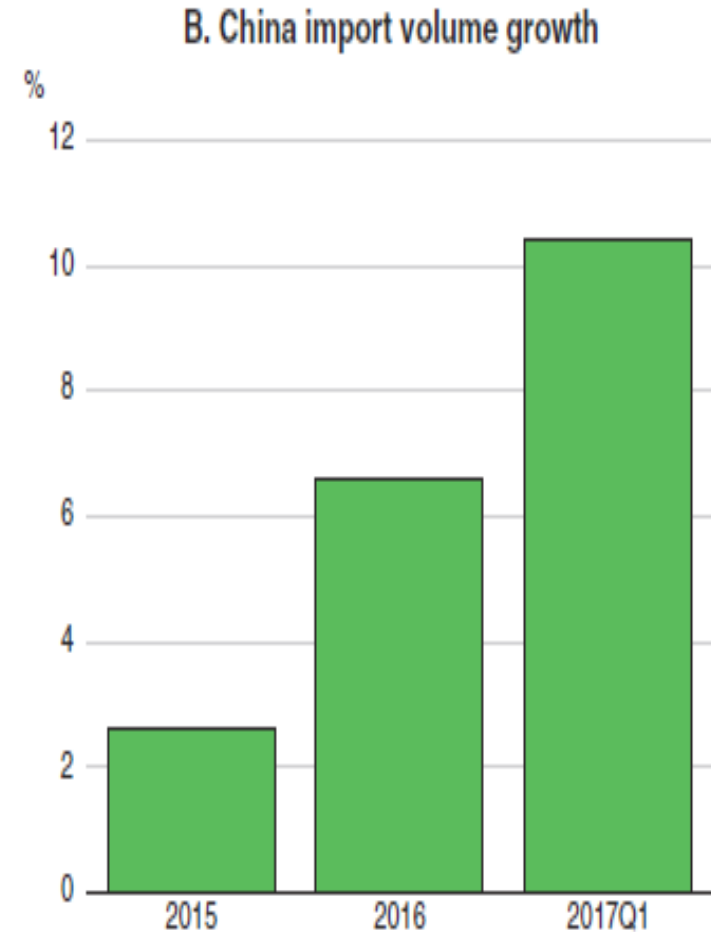
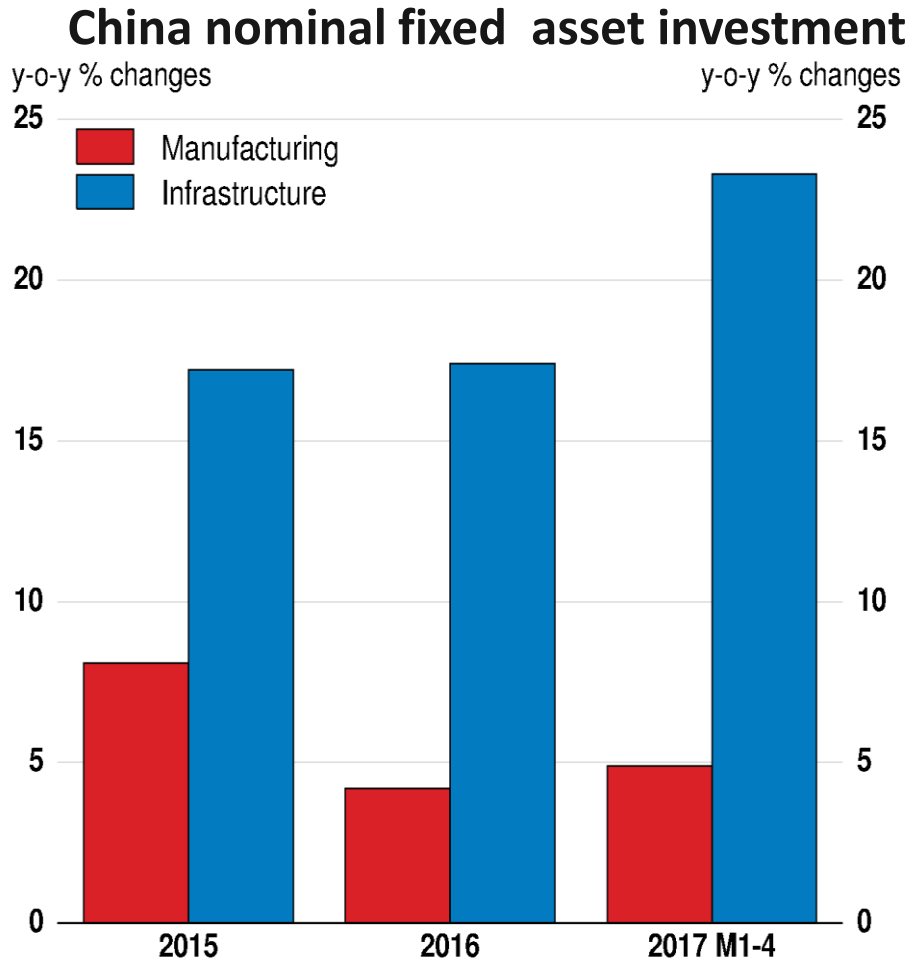
Source: Spring 2017 Global Attitudes Survey, Q5 & Q8.

PEW RESEARCH CENTER

<http://www.pewglobal.org/2017/06/05/global-publics-more-upbeat-about-the-economy/>



China role in global economy (1) stimulus reflected in import growth



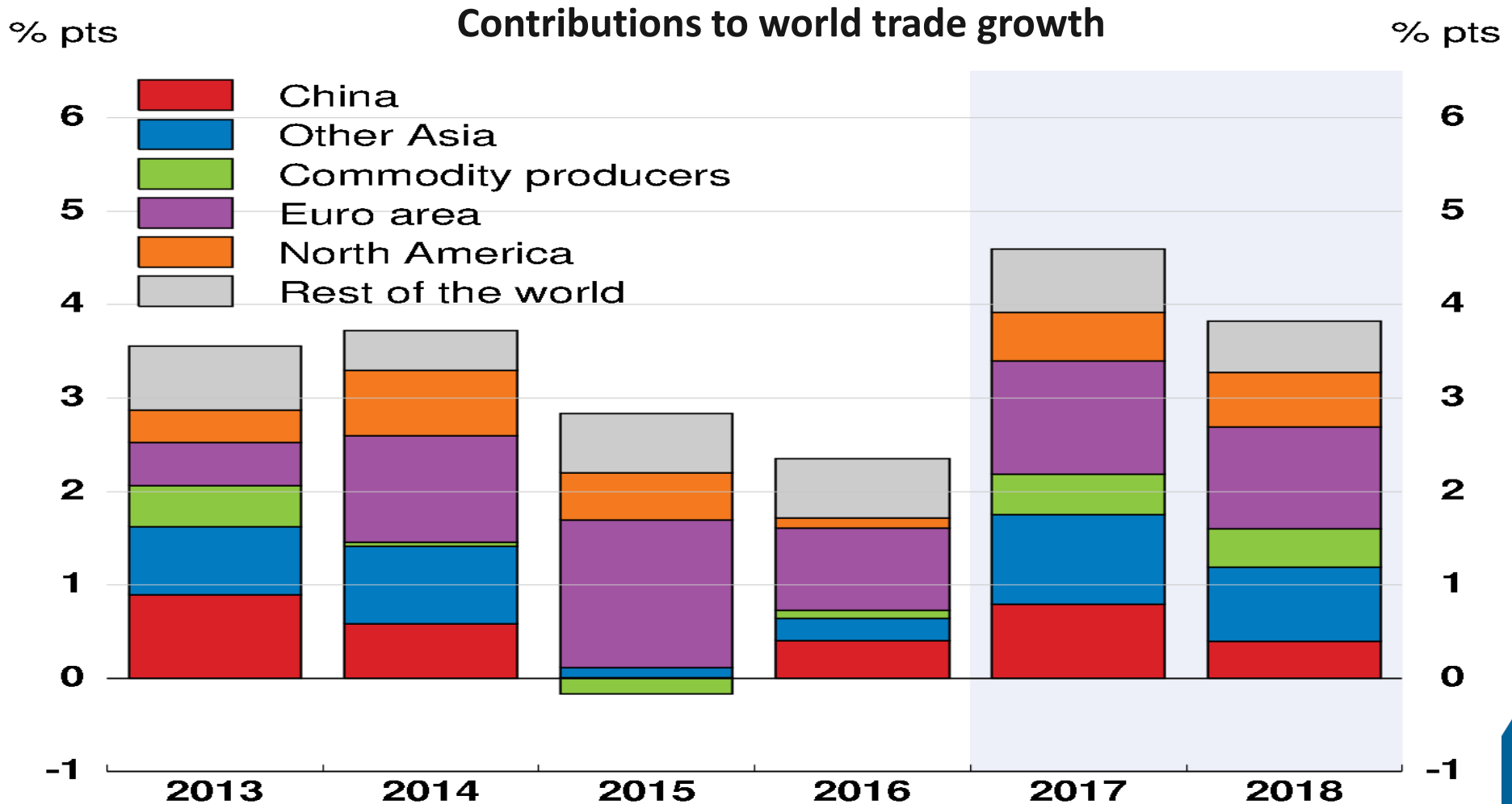
Note: Commodity producers includes Argentina, Australia, Brazil, Chile, Colombia, Norway, New Zealand, Russia, Saudi Arabia, South Africa and other oil producing countries.

Source: OECD June 2017 Economic Outlook database; and National Bureau of Statistics of China.



China's role in the global economy (2)

Recovery in global trade, in part, from China



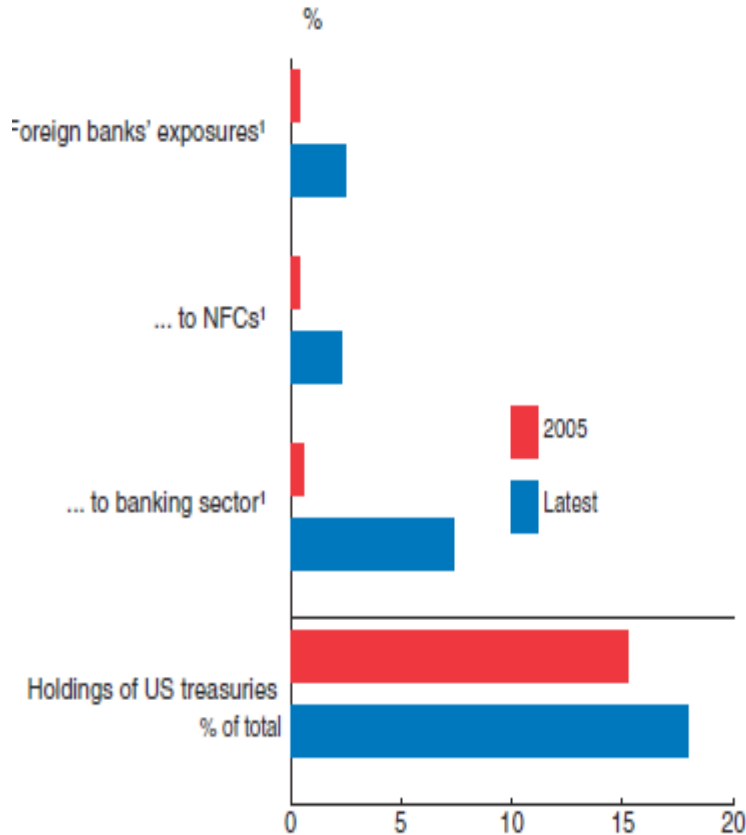
Note: Commodity producers includes Argentina, Australia, Brazil, Chile, Colombia, Norway, New Zealand, Russia, Saudi Arabia, South Africa and other oil producing countries.

Source: OECD June 2017 Economic Outlook database; and National Bureau of Statistics of China.



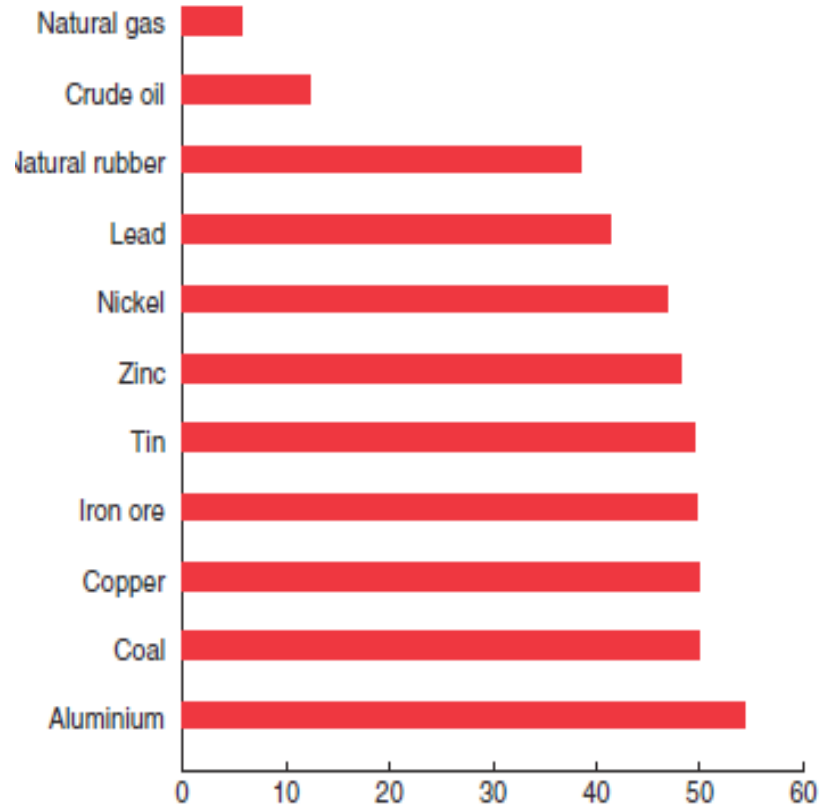
China's role in the global economy (3) commodity and financial markets

B. China's financial linkages



1. Share of loans to China in total foreign loans of all BIS reporting banks, on an ultimate risk basis.

D. China's share in commodities demand
2016 or latest available, in %



Note: Commodity producers includes Argentina, Australia, Brazil, Chile, Colombia, Norway, New Zealand, Russia, Saudi Arabia, South Africa and other oil producing countries.

Source: OECD June 2017 Economic Outlook database; and National Bureau of Statistics of China.



OECD Economic Outlook Projections

	Real GDP growth			
	<i>Year-on-year, %</i>			
	2015	2016	2017	2018
World¹	3.1	3.0	3.5	3.6
Australia	2.4	2.4	2.6	2.9
United States	2.6	1.6	2.1	2.4
Euro area¹	1.5	1.7	1.8	1.8
Germany	1.5	1.8	2.0	2.0
France	1.2	1.1	1.3	1.5
Italy	0.7	1.0	1.0	0.8
Japan	1.1	1.0	1.4	1.0
Canada	0.9	1.4	2.8	2.3
United Kingdom	2.2	1.8	1.6	1.0
China	6.9	6.7	6.6	6.4
India²	7.9	7.1	7.3	7.7
Brazil	-3.8	-3.6	0.7	1.6

Note: Difference in percentage points based on rounded figures.

1. With growth in Ireland in 2015 computed using gross value added at constant prices excluding foreign-owned multinational enterprise dominated sectors.

2. Fiscal years starting in April.

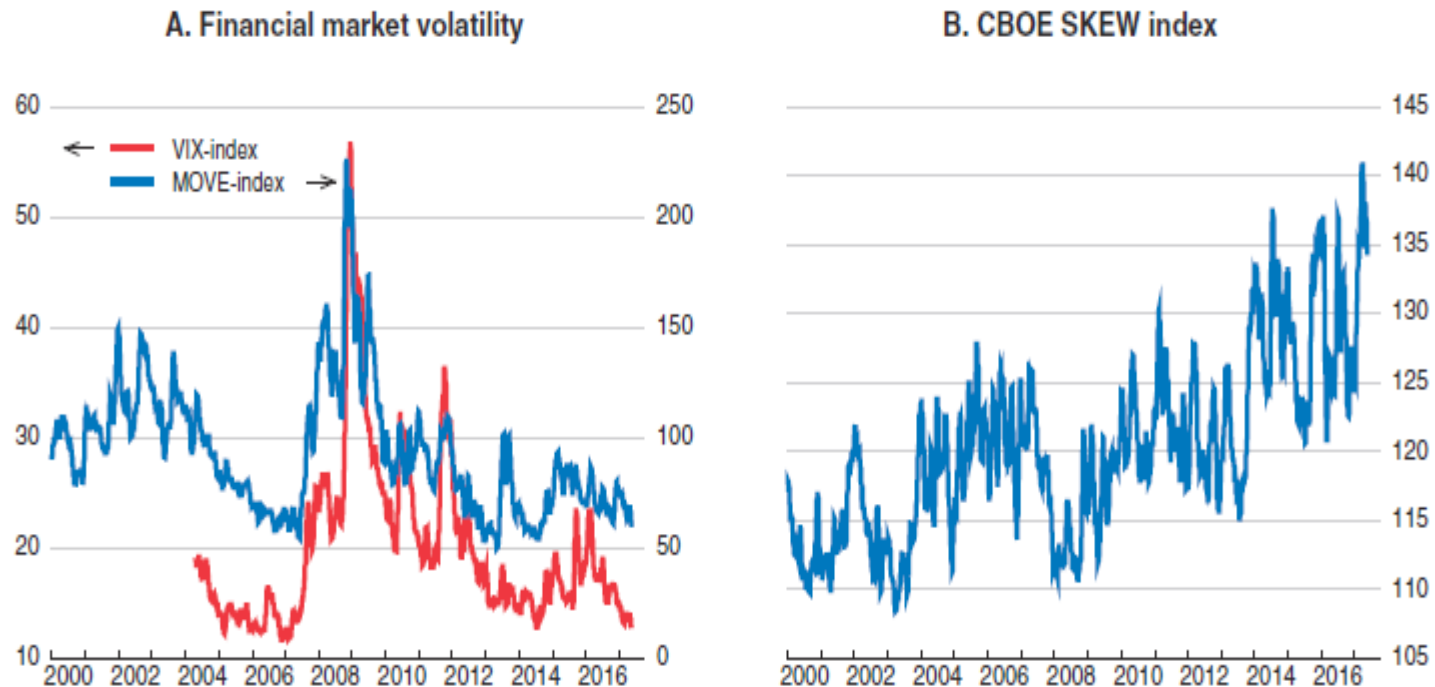


Financial Risks Persist




Low volatility measures, but high risk of large equity price decline in US

20-day moving average



Note: The VIX measures an expected symmetric range of movements in the S&P500 index over next 30 days. It is derived from options. The Merrill Lynch Option Volatility Estimate (MOVE) index is an equivalent of the VIX index for US treasuries. The Chicago Board Options Exchange (CBOE) SKEW is an option-based measure of the perceived risk of 30-day ahead large (two or more standard deviations) changes in returns of the S&P500. Numbers above 100 indicate a negative skew in the distribution (i.e. negative tail risk). Since the standard deviation varies over time, so does the size of expected equity price declines.

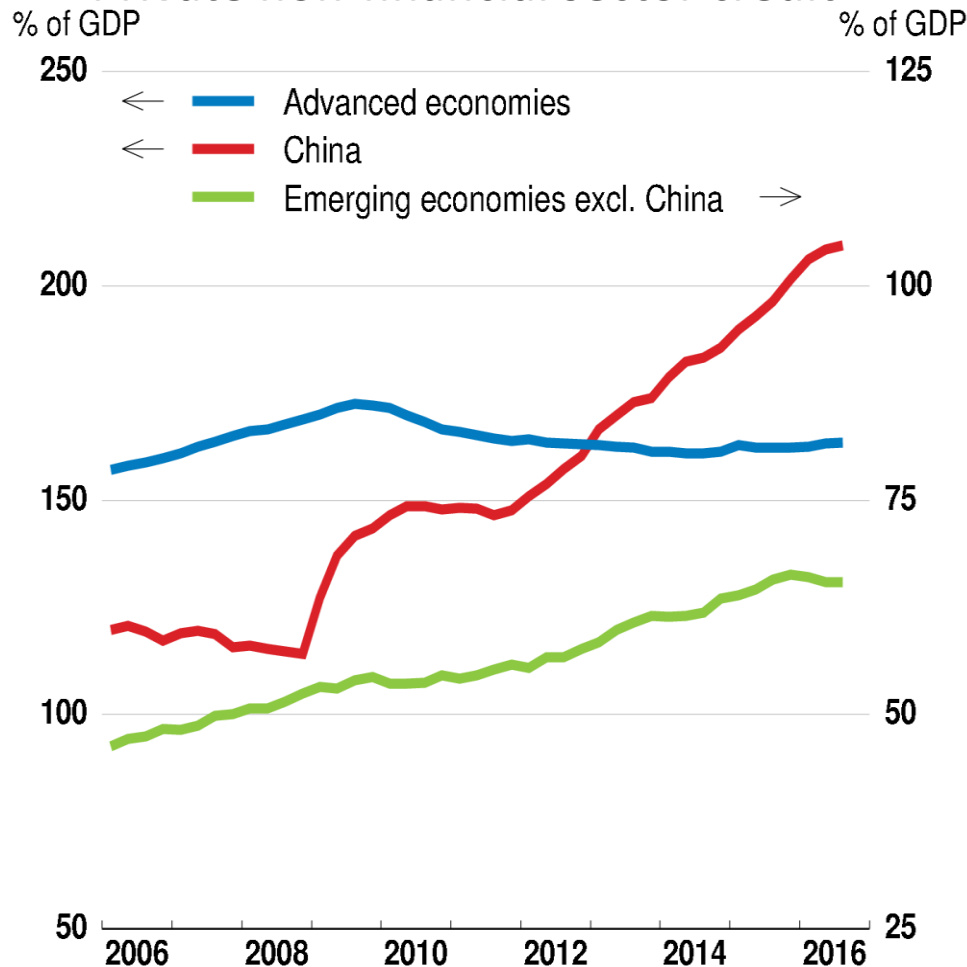
Source: Thomson Reuters.

StatLink  <http://dx.doi.org/10.1787/888933502047>

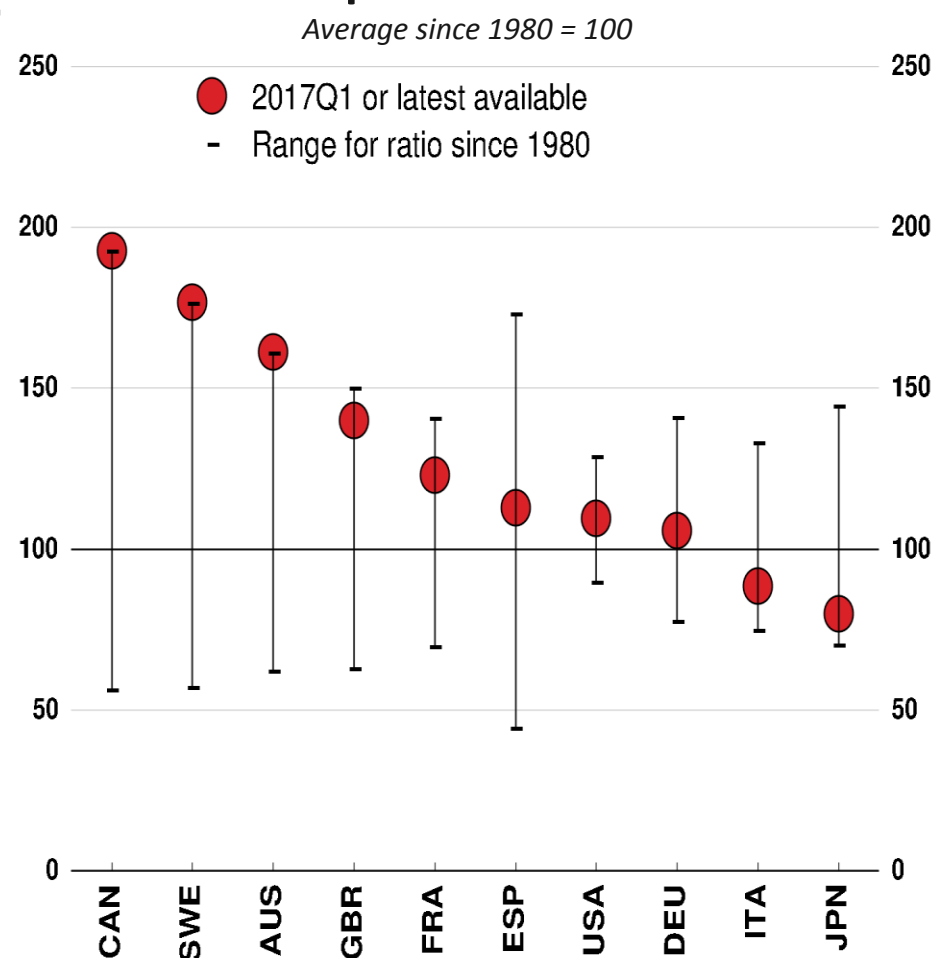


Rising private credit in EMEs and housing market risks in advanced economies

Private non-financial sector credit



House price-to-rent ratio

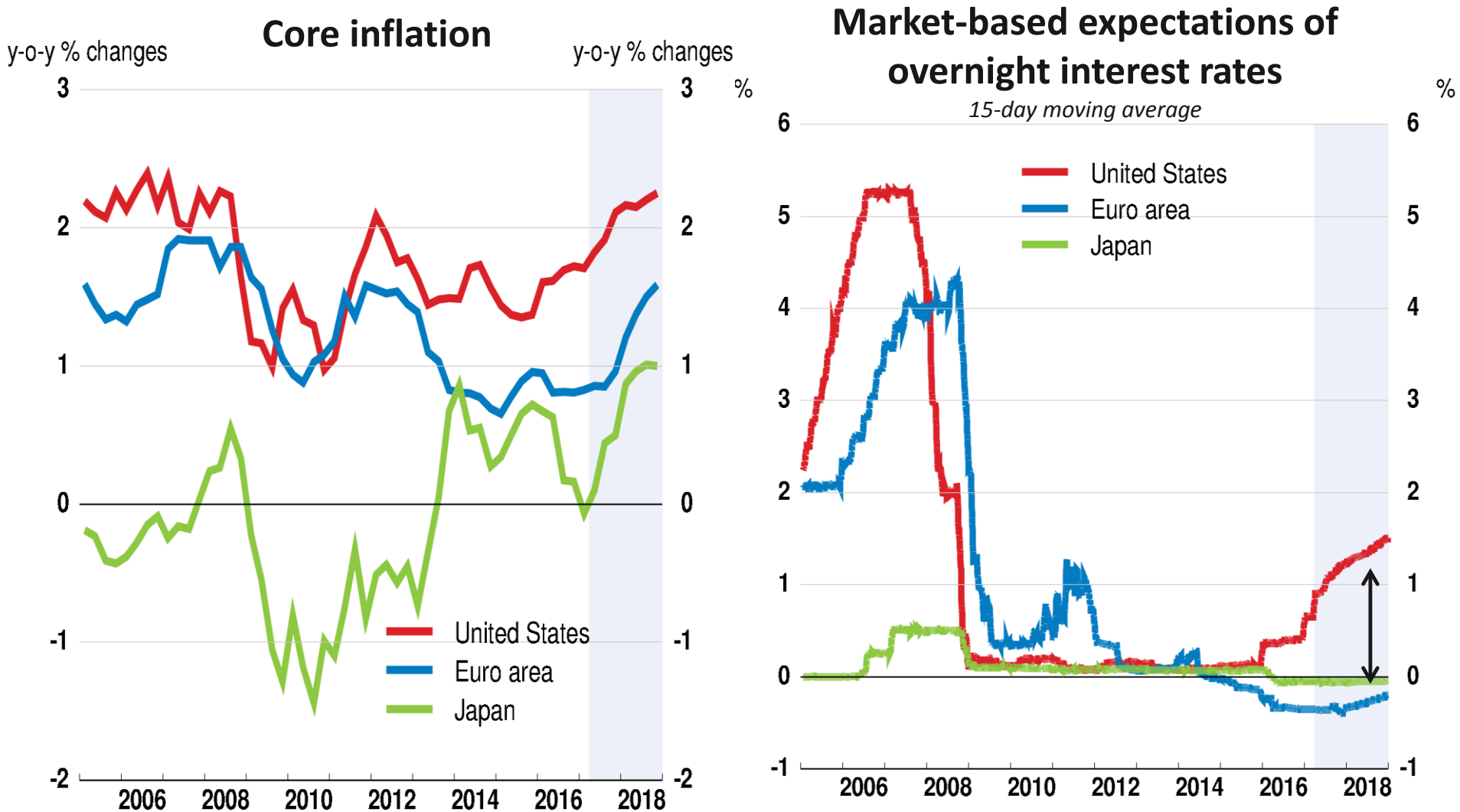


Note: EMEs excluding China is an unweighted average of ratios for Argentina, Brazil, Colombia, India, Indonesia, Mexico, Russia, Malaysia, South Africa and Turkey.

Source: BIS; OECD Analytical House Price database; and OECD calculations.



Inflation generally below objectives; potential interest rate divergence creates financial risks



Note: Core inflation for Japan adjusted for the impact of consumption tax increases.

Source: OECD June 2017 Economic Outlook database; Bloomberg; and OECD calculations.



Diagnosing globalization backlash or the challenge of structural trends

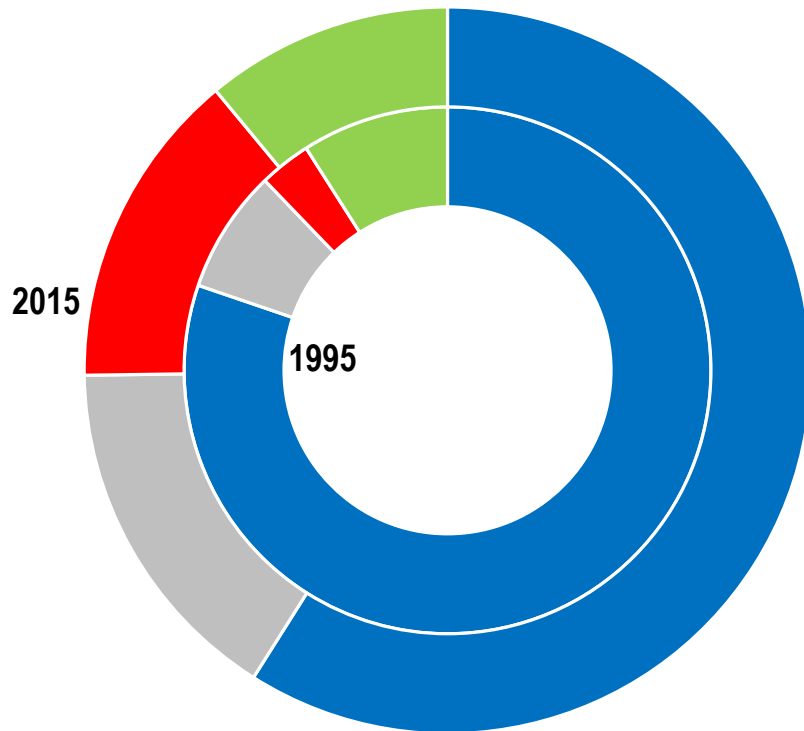


Trade specialisation and patterns have shifted

World goods trade

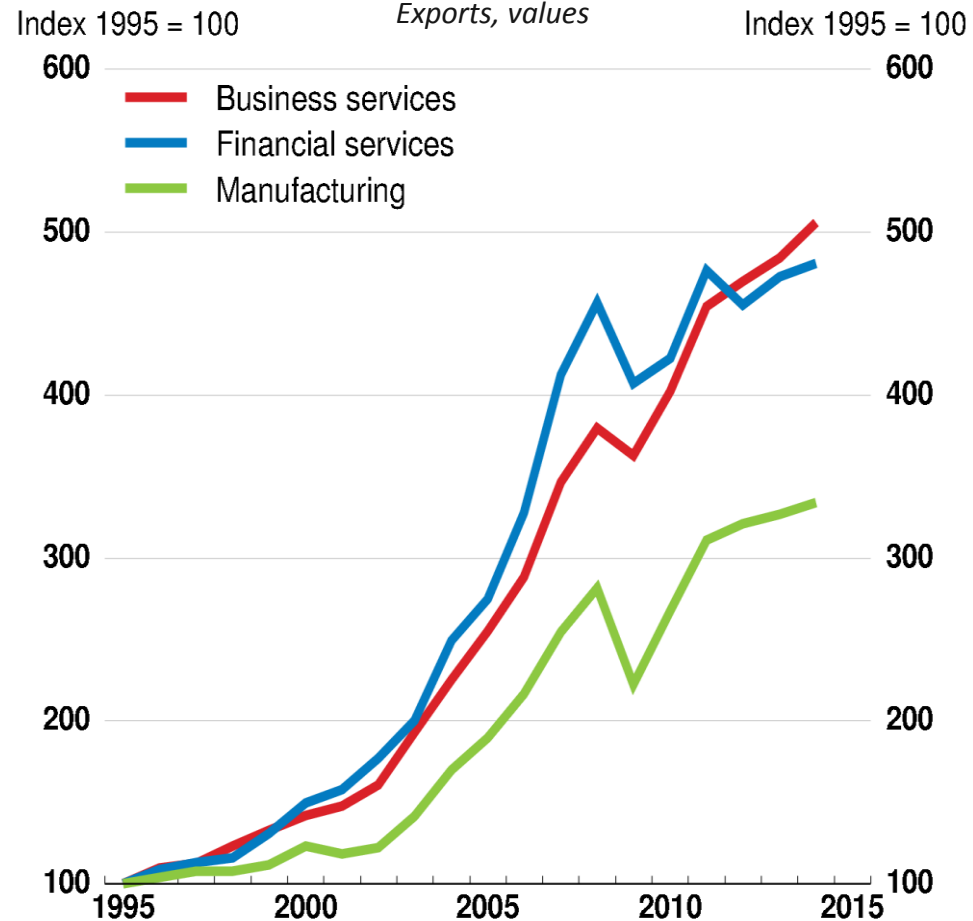
Share of world goods exports, volumes

- OECD
- Rest of the World
- China
- Dynamic Asian Economies



World trade by type

Exports, values

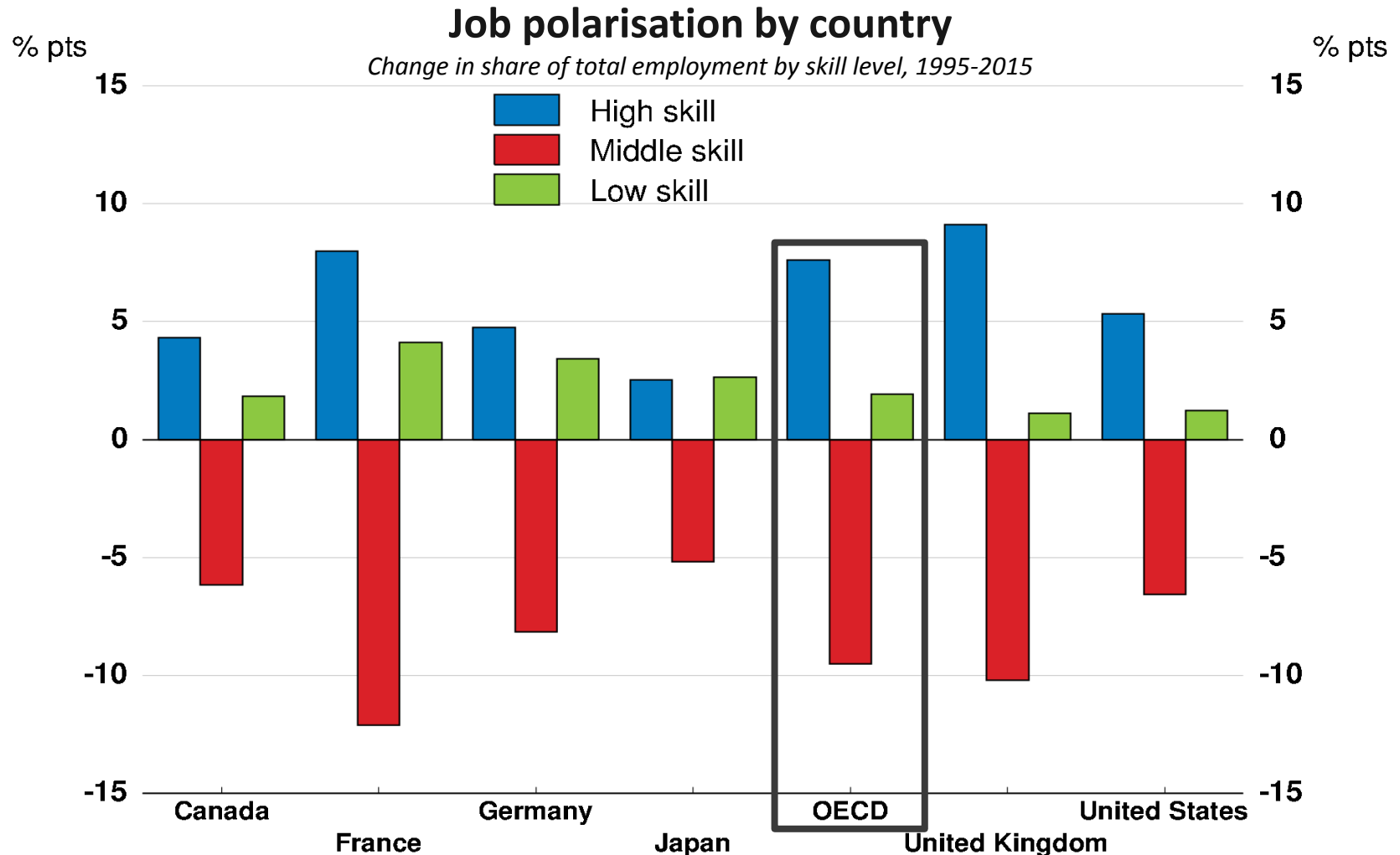


Note: LHS – Dynamic Asian Economies includes Malaysia, the Philippines, Singapore, Thailand, Vietnam, Chinese Taipei and Hong Kong.
 RHS – Business services includes R&D, ICT, real estate and other business activities. Financial services includes financial intermediation, insurance, pension funding and other financial activities.

Source: OECD-WTO Trade in Value Added (TiVA) database; UN Comtrade database; and OECD calculations.



Job losses have centred on people with mid-level skills



Note: OECD is the unweighted average of 24 countries. For Japan 1995-2010.

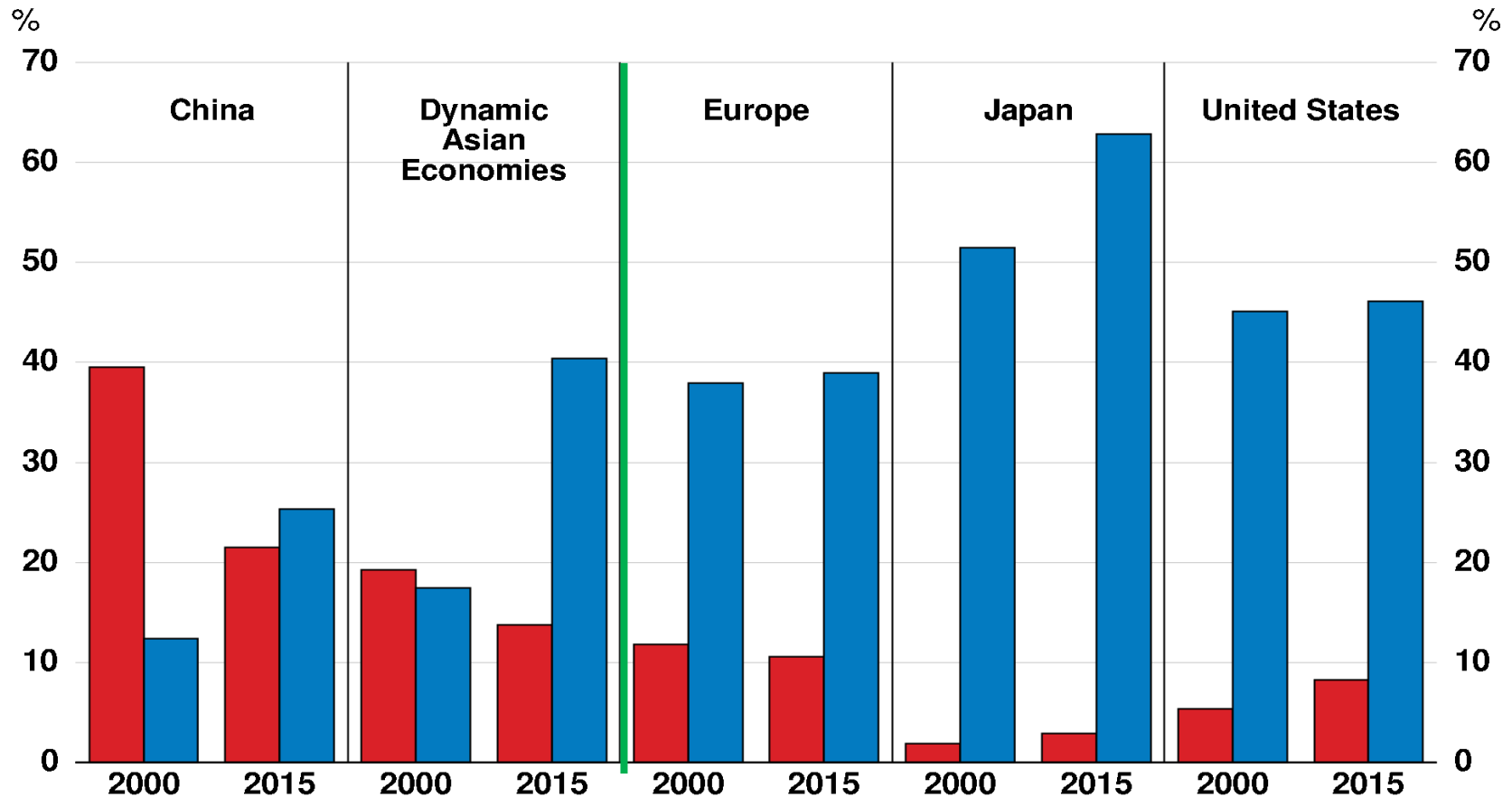
Source: OECD Employment Outlook 2017; European Union Labour Force Survey; Labour force surveys for Canada, Japan and the United States; and OECD calculations.



Advanced economies have moved up the value chain, but EMEs are moving up too

Share of export goods by complexity

■ Least complex ■ Most complex



Note: In nominal terms. Least complex is the 1st quartile of products by complexity (e.g. crayons), most complex is the 4th quartile (e.g. medical equipment), excluding major commodities. Dynamic Asian Economies includes Malaysia, the Philippines, Singapore, Thailand, Vietnam, Chinese Taipei and Hong Kong. Europe is the unweighted average of the Czech Republic, France, Germany, Ireland, Italy, Poland, Portugal and the UK.

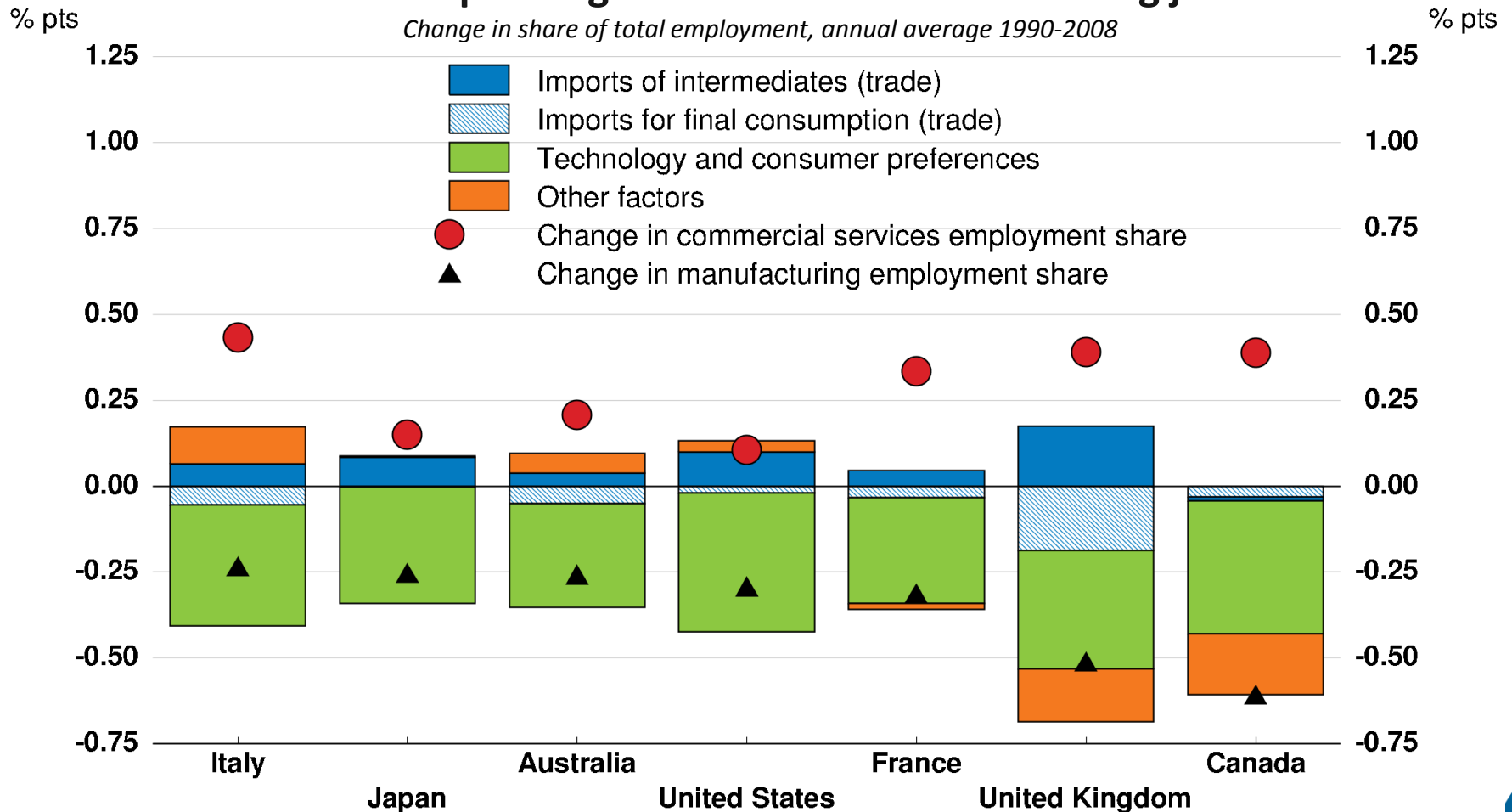
Source: UN Comtrade database; and OECD calculations.



Manufacturing job losses and role for Technology & Consumer Preferences vs Trade

Factors explaining the decline in manufacturing jobs

Change in share of total employment, annual average 1990-2008

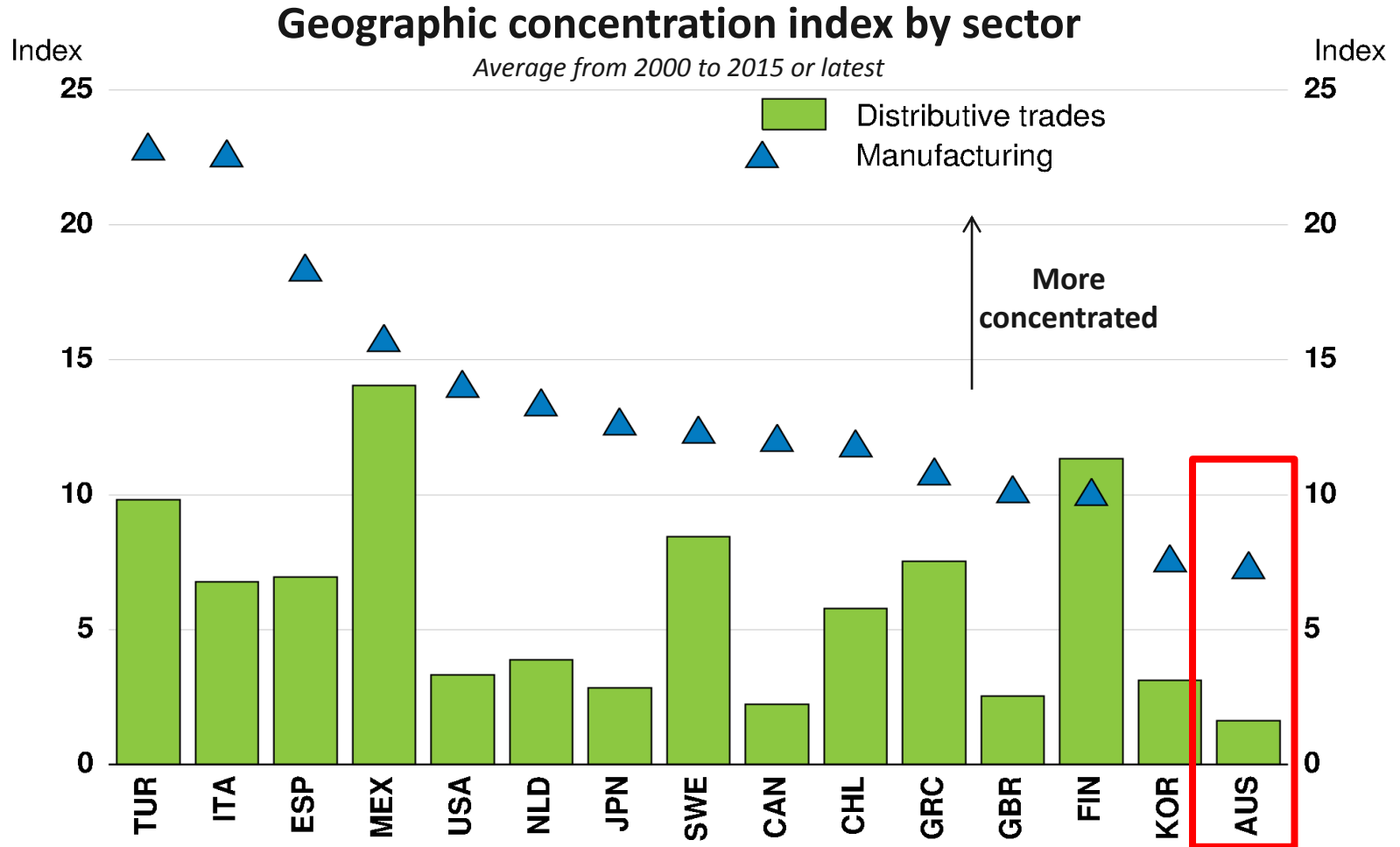


Note: Decomposition based on regression estimation. Each factor is based on the change over the period. Technology and consumer preferences include ICT and machinery investment, changes in the manufacturing consumption share and time specific effects.

Source: OECD Economic Outlook database; STAN database; and OECD calculations.



Decline in manufacturing matters because activity is regionally concentrated



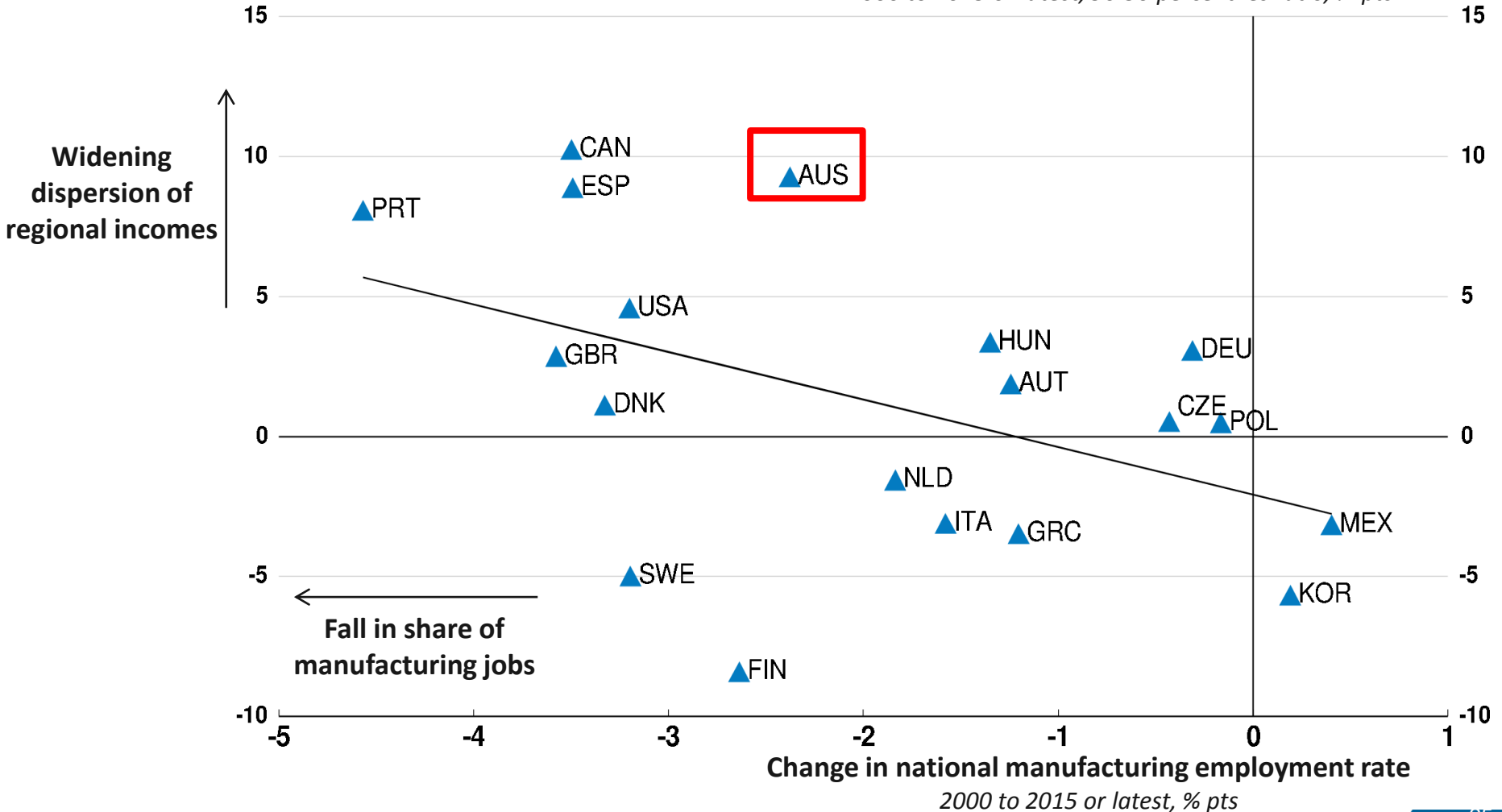
Note: “Distributive trades” includes distributive trade, repairs, transportation and storage, accommodation and food service activities. Index measures the extent to which employment is concentrated in particular regions, varying between 0 (no concentration, where all regions of a country have the same manufacturing employment rate) and 100 (maximum concentration, where all manufacturing employment is concentrated in the smallest region). The index incorporates the size of the region and is based on OECD (2003) “Geographic Concentration and Territorial Disparity in OECD Countries”.

Source: OECD Regional database; and OECD calculations.



Countries with larger falls in manufacturing jobs have increased regional inequality

Change in average income inequality across regions
2000 to 2015 or latest, 90:50 percentiles ratio, % pts



Source: OECD Regional database; and OECD calculations.



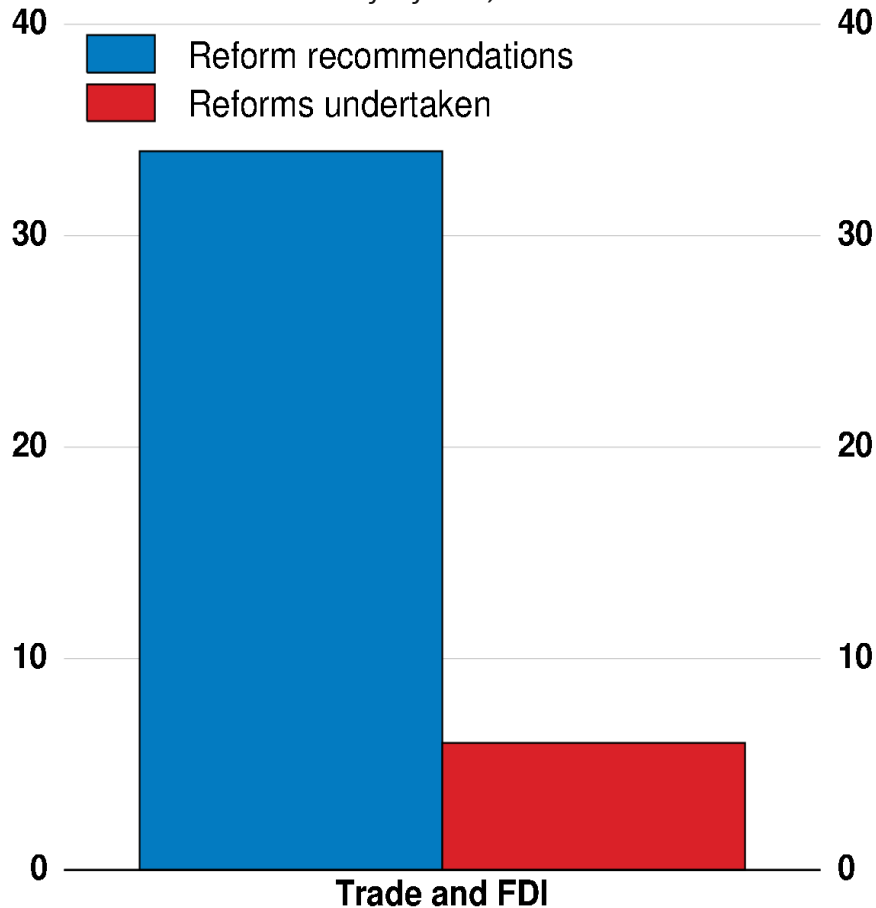
**An integrated policy approach
is needed
to respond to structural trends
and make good on promises**



Make the international system work better, and create a more level playing field

Actions in response to OECD *Going for Growth* recommendations

Number of reforms, 2015-16



Note: includes all OECD and BRIICS countries, the EU and Colombia.

Source: OECD *Going for Growth* 2017

Actions to improve the international environment:

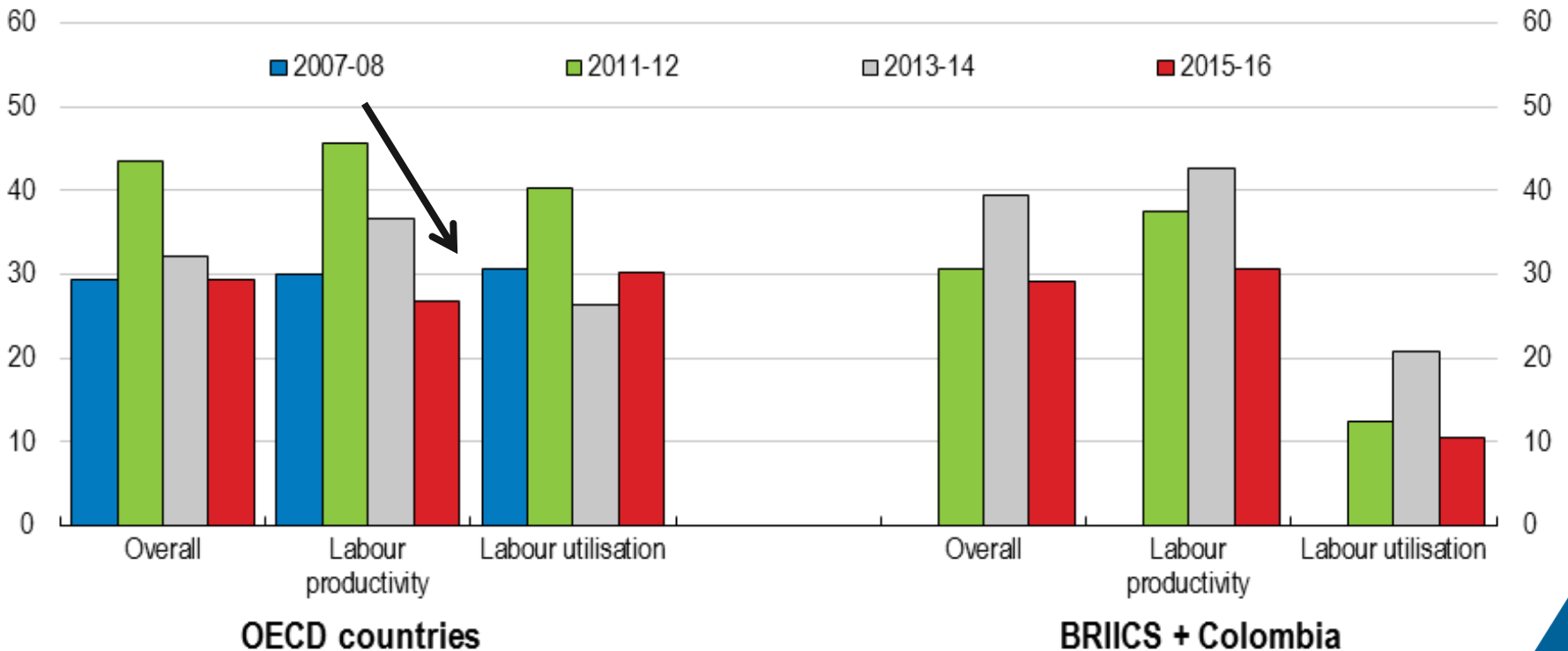
- Pursue open markets for cross-border trade and investment
- Preserve institutions and standards, such as for labour and environmental protection
- Promote multilateral cooperation, e.g. on tax base erosion and profit shifting and competition policy
- Combat corruption, illicit trade and counterfeiting



Strengthen ambition on structural reform: Particularly productivity-enhancing reforms

Indicator of number of actions taken in response to OECD Going for Growth recommendations

Responsiveness rate



Source: Going for Growth 2017



Help people to adapt, take new opportunities thru ALMPs, heightened business competition

Figure 1.35. Low entry barriers in product markets improve the effectiveness of ALMP spending
Impact of a 0.1% of GDP increase in ALMP spending on the re-employment probability of workers displaced due to firm exit



Note: The bars show the percentage point impact on the re-employment probability of a 0.1% increase in spending on ALMPs (as a share of GDP) for three levels of entry barriers: i) the level corresponding to the average of the two best performing countries over the sample period; ii) the average level observed over the sample period; and iii) the level corresponding to the average of the two worst performing countries over the sample period.

Source: Andrews and Saia (2017), "Coping with Creative Destruction: Reducing the Costs of Firm Exit", OECD Economics Department Working Papers, No. 1353, OECD Publishing, Paris.

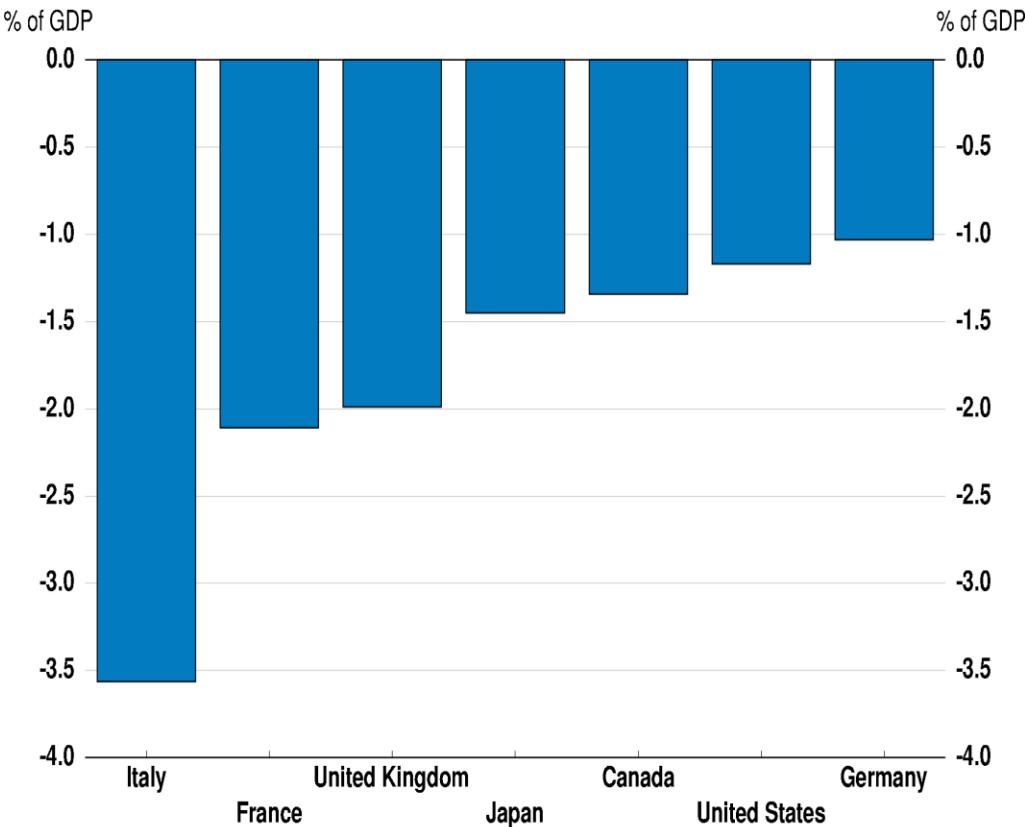
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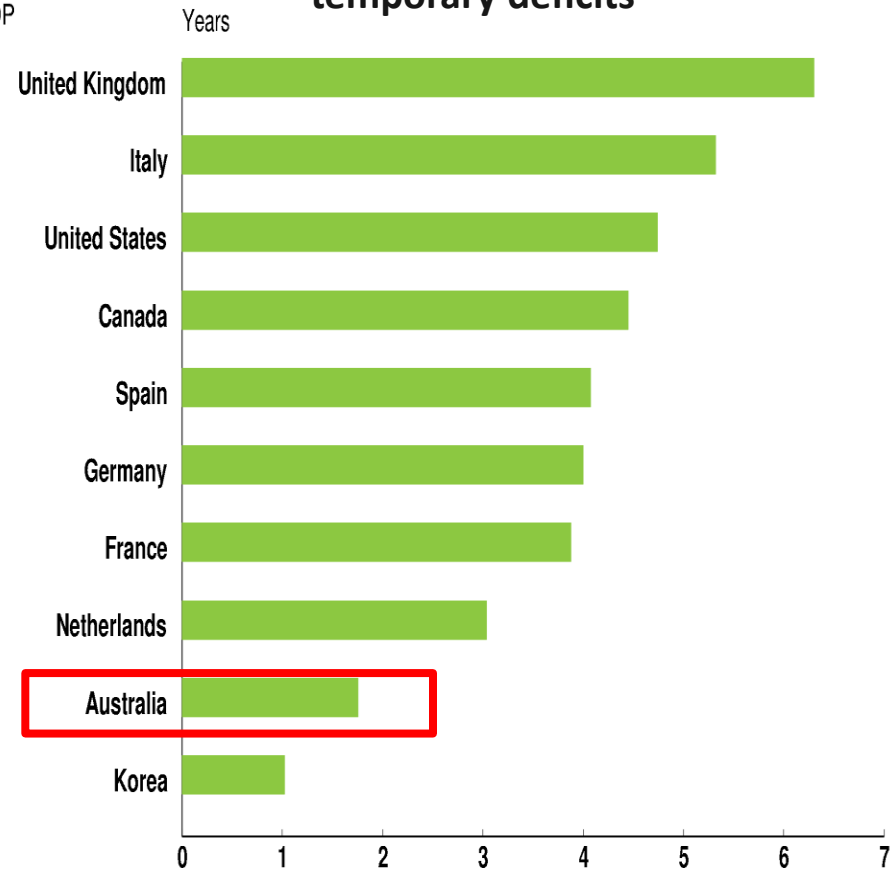
Fiscal initiatives using the window of opportunity of low interest rates

Fall in government interest payments

Estimated budget gains over 2015-17 due to lower interest rates



Number of years a permanent investment increase of 0.5% of GDP can be funded with temporary deficits



Note: Budget gains calculated based on general government debt at the end of 2014, assuming that 25% of this initial debt stock matures each year, comparing the interest rate on 10-year government bonds in 2014 with the interest rate for 2015 and the 2016 average to August for 2016 and 2017.

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



Many countries are exploiting fiscal space, but some (esp in Europe) could do more

OECD recommends more expansionary policy than projected

Recommended fiscal stance for 2017

Contractionary Mildly contractionary Broadly neutral Mildly expansionary Expansionary

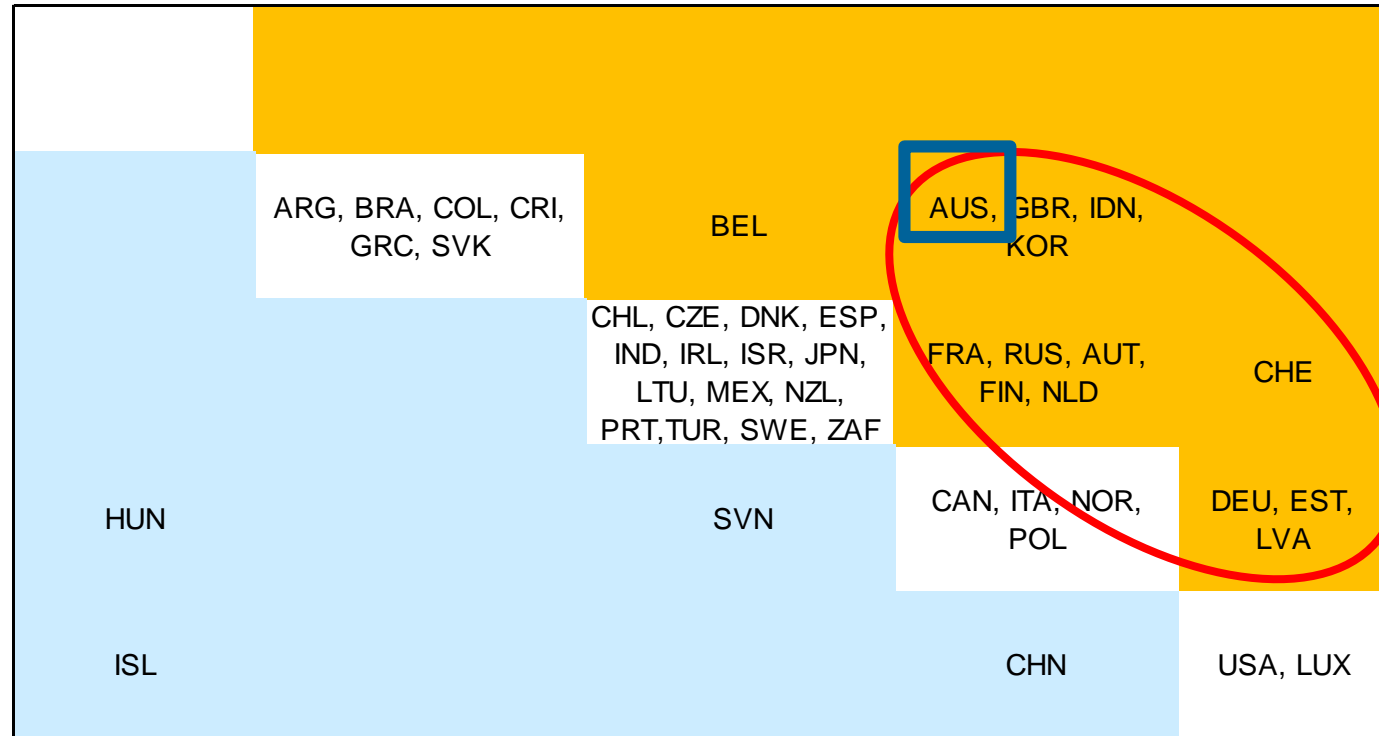
Contractionary

Mildly contractionary

Broadly neutral

Mildly expansionary

Expansionary



OECD recommends less expansionary policy than projected

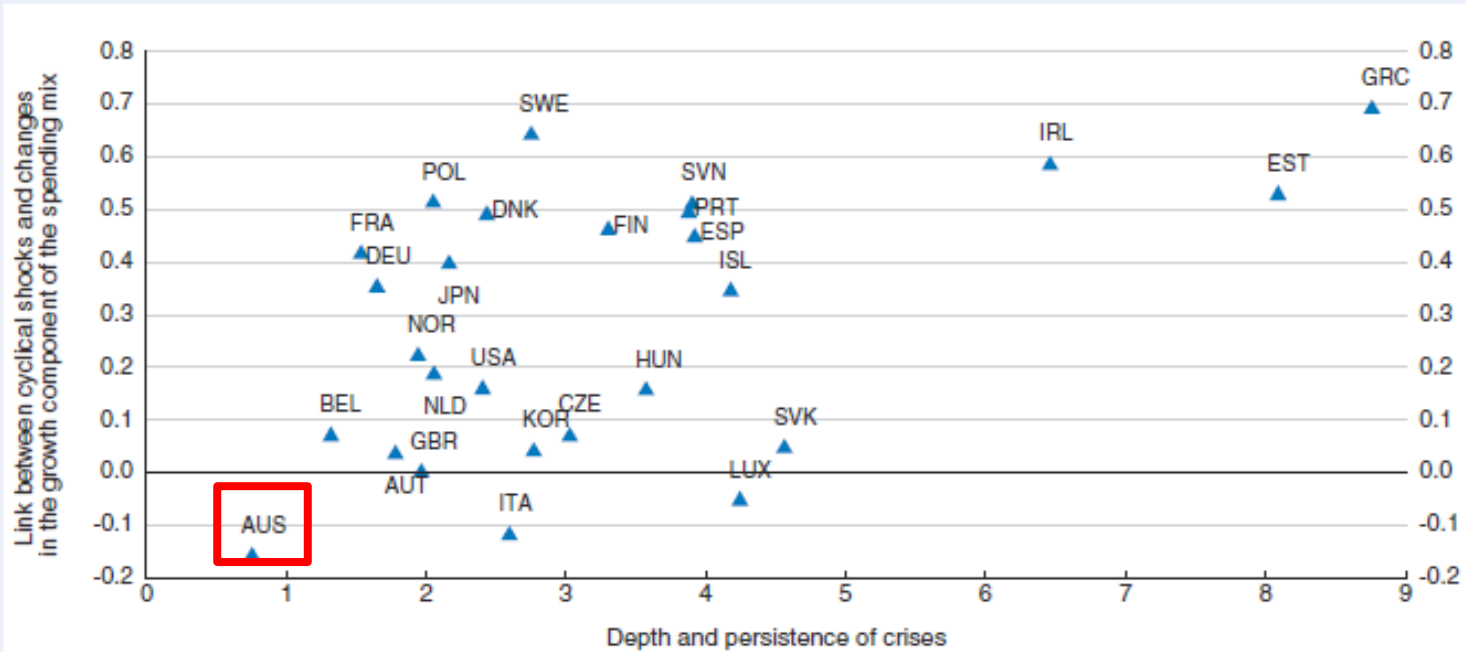
Projected fiscal stance for 2017

Source: OECD November 2016 Economic Outlook database; and OECD November 2016 Economic Outlook Special Chapter, "Using fiscal levers to escape the low growth trap".




Unlike most others, Australia makes effective budget choices, so can use fiscal space

Spending mix changes typically amplify demand shocks



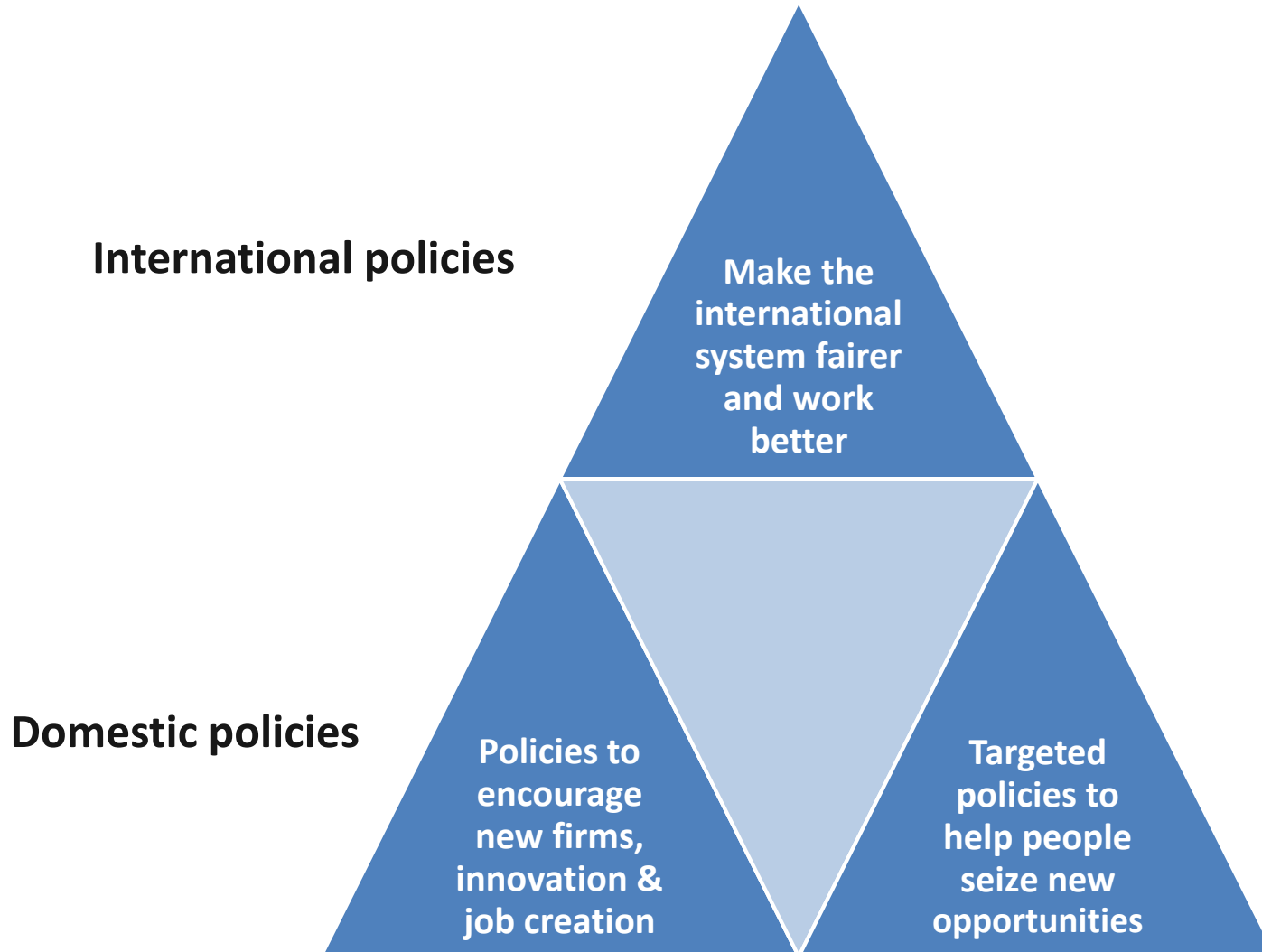
Note: The link between cyclical shocks and the growth component of the spending mix is measured by the correlation between the change in the country-specific output gap estimated by the OECD and the change in the indicator component. The size and persistence of crises is measured by the standard deviation of the country-specific output gap.

Source: Bloch and Fournier (2017), "The Deterioration of Public Spending Quality during the Global Financial Crisis: Insights from New Indicators", OECD Economics Department Working Papers, forthcoming, OECD Publishing, Paris.

StatLink  <http://dx.doi.org/10.1787/888933501629>



Act to strengthen inclusive growth and make globalisation work for all





Key messages

Global growth expected to pick-up modestly with upside risks

- Confidence is increasing and investment and trade are picking up from low levels
- Growth is broad based; recovery in commodity producers helps the modest global upturn
- Signs of rising demand for high-tech goods and investment to upgrade capital

Productivity and wage growth remain subdued; financial stability risks persist

- Headline employment indicators are improving but labour markets have not recovered
- Financial risks from high and rising credit growth, house price increases, interest rate gaps

More needs to be done to share the gains from structural trends and trade

- Changes to technology, consumer preferences and trade are occurring simultaneously
- Job losses from shifts in activity are concentrated in manufacturing and specific regions

An integrated policy approach is needed to make good on promises

- A more level playing field for the international system
- Domestic reforms to boost competition, job creation, skills and innovation
- Targeted policies to help people who are left behind seize new opportunities