OECD INTERIM ECONOMIC OUTLOOK
Puzzles and uncertainties

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http://www.oecd.org/economy/economicoutlook.htm

BETTER POLICIES FOR BETTER LIVES

Key messages

Recent indications of activity
- Recovery progressing slowly in advanced economies
- Slowdown for many EMEs, especially those exporting commodities and/or trading intensively with China

Looking forward
- 2015: Global growth will remain sub-par
- 2016: Some strengthening expected; doubts about potential growth

Puzzles and uncertainties
- Sharper slowdown in China
- Intensification of centrifugal forces in Europe
- Multiple EME vulnerabilities
- Steeper path of rising US interest rates

Interim Outlook: global growth still sub-par

Real GDP[1]

Percentage change

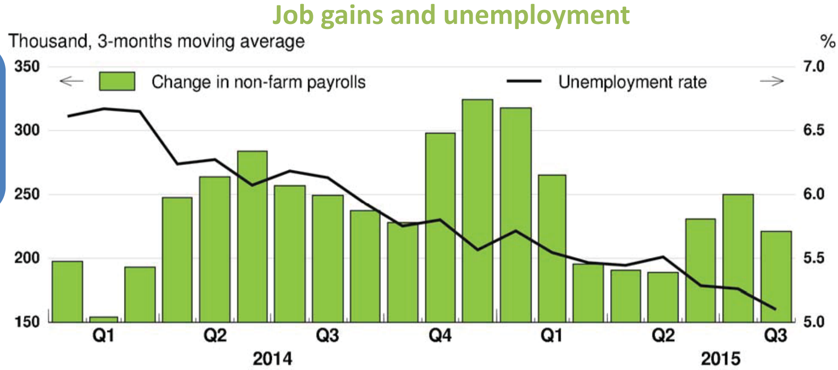
	2014	2015		2016	
		September 2015 Interim Projections	difference from June Economic Outlook *(percentage points)*	September 2015 Interim Projections	difference from June Economic Outlook *(percentage points)*
United States	2.4	2.4	0.4	2.6	-0.2
Euro area	0.9	1.6	0.1	1.9	-0.2
Japan	-0.1	0.6	-0.1	1.2	-0.2
Germany	1.6	1.6	0.0	2.0	-0.4
France	0.2	1.0	-0.1	1.4	-0.3
Italy	-0.4	0.7	0.1	1.3	-0.2
United Kingdom	3.0	2.4	0.0	2.3	0.0
Canada	2.4	1.1	-0.4	2.1	-0.2
China	7.4	6.7	-0.1	6.5	-0.2
India[2]	7.2	7.2	-0.1	7.3	-0.1
Brazil	0.2	-2.8	-2.0	-0.7	-1.8
Rest of the world[3]	2.8	2.3	-0.2	3.3	-0.3
World	3.3	3.0	-0.1	3.6	-0.2

1. GDP at market prices adjusted for working days. In the case of Germany, this differs from the "headline" measure, which does not include the working day adjustment. The unadjusted number for Germany would be higher by 0.2 percentage points in 2015 and no different in 2016.
2. Data refer to fiscal years starting in April.
3. Estimated based on revisions to the June 2015 Economic Outlook projections on the basis of changes to external forecasts since June.

Growth remains solid in the United States

Steady job growth has brought down unemployment

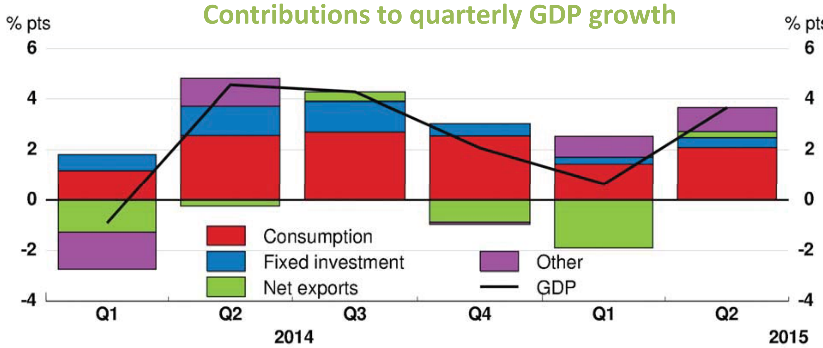
Job gains and unemployment



Source: U.S. Bureau of Labor Statistics

This underpins steady consumption growth… but investment continues to disappoint

Contributions to quarterly GDP growth

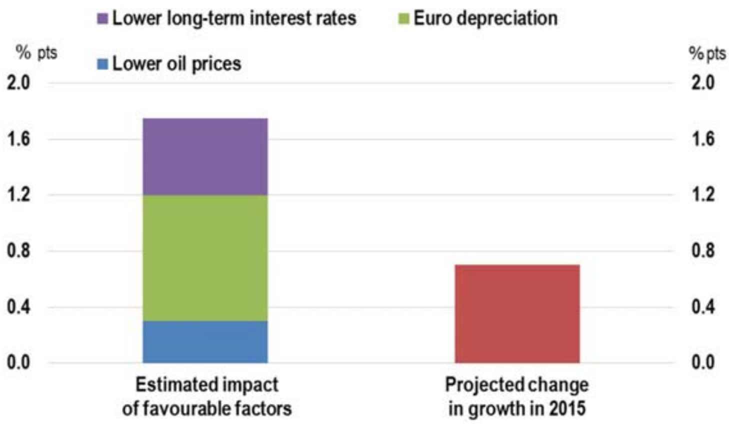


Source: OECD National Accounts Database

Growth in the euro area is improving, but not as fast as might be expected

Given tailwinds, euro area growth should be increasing faster

Projected change in GDP growth rate in 2015 compared to estimated impact of favourable factors



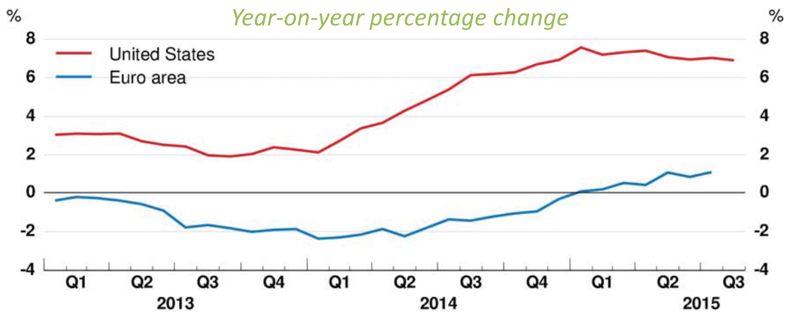
Note: Estimated impact of favourable factors calculated using the NiGEM model.
Source: OECD National Accounts Database; OECD calculations

A still-impaired credit channel is one factor impeding a faster euro area recovery

Euro area credit growth has finally turned positive, but remains anaemic

Bank credit to non-financial corporations

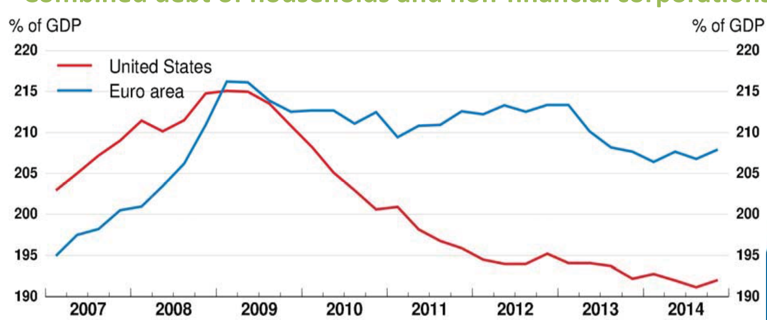
Year-on-year percentage change



Source: ECB; Datastream

Deleveraging proceeded faster and further in the United States than in the euro area

Combined debt of households and non-financial corporations



Source: Eurostat; OECD Main Statistical Database; OECD National Accounts

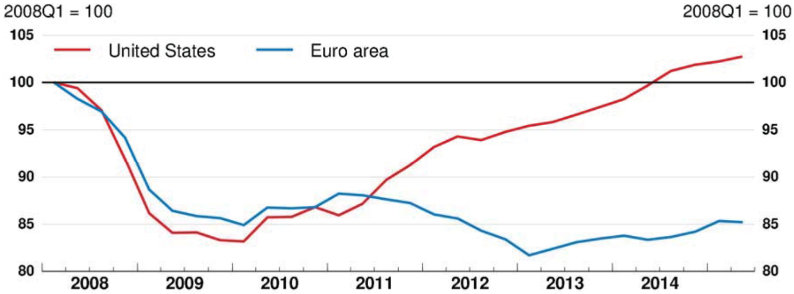
Euro area domestic demand has failed to rebound strongly

The recent improvement in euro area investment has been minimal relative to the fall since 2008

Consumption has held up better, with a smaller gap vis-à-vis the United States

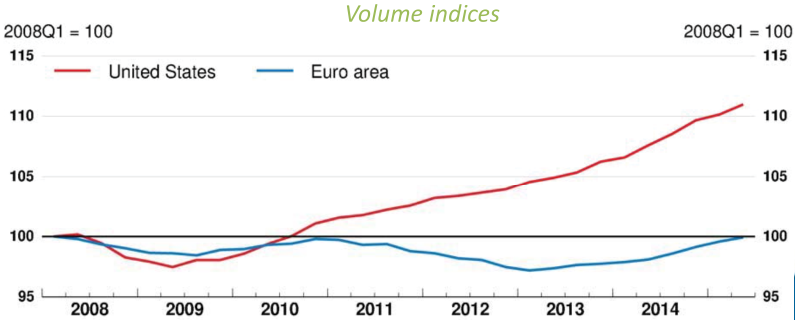
US and euro area fixed investment

Volume indices



US and euro area consumption

Volume indices



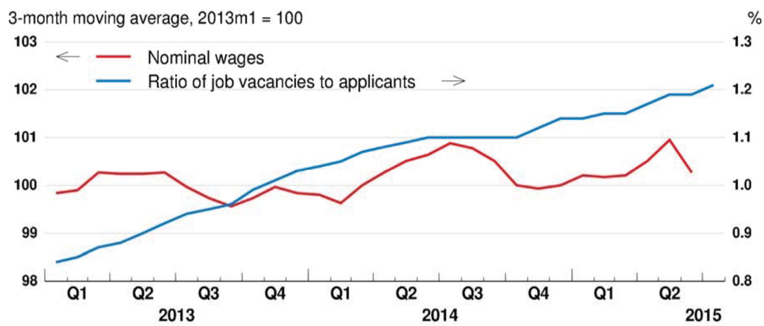
Source: OECD National Accounts Database

Japanese growth, though erratic, is on an improving path

Tightening labour markets should feed through into higher wages and consumption... but haven't yet

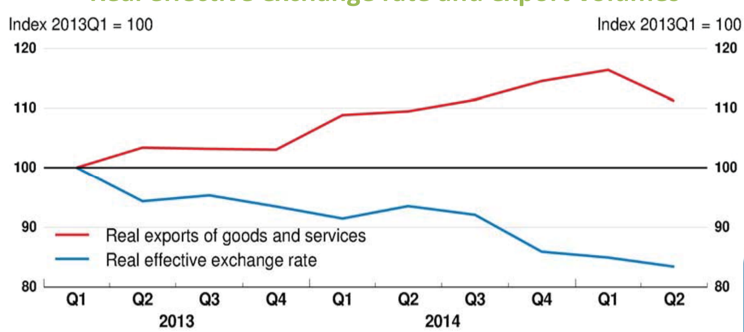
Yen depreciation was delivering stronger exports, at least until Q2 2015

Vacancy-to-applicant ratio and nominal wages



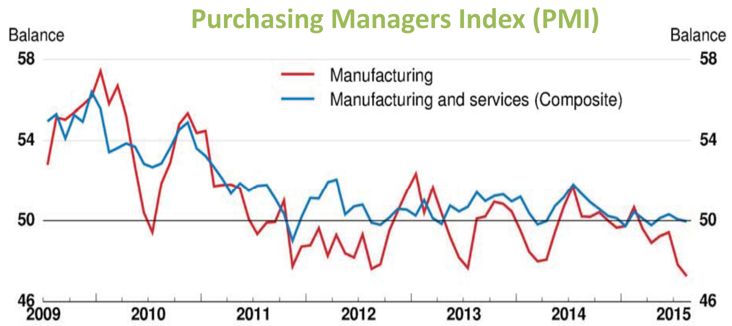
Source: Japan Ministry of Health, Labour and Welfare

Real effective exchange rate and export volumes



The main puzzle concerning global growth centres on China

Recorded GDP growth has held up well, but some indicators point to a marked slowdown

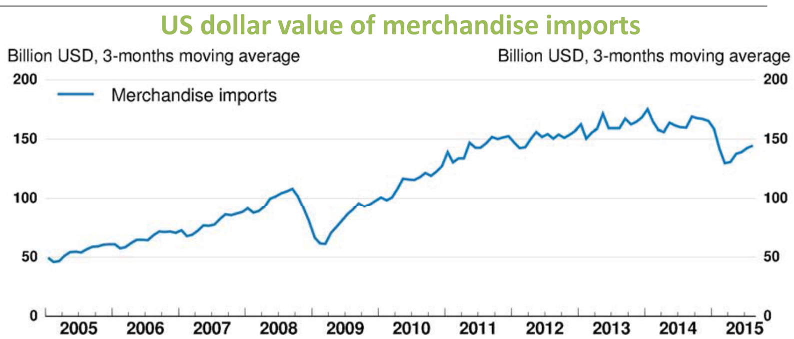


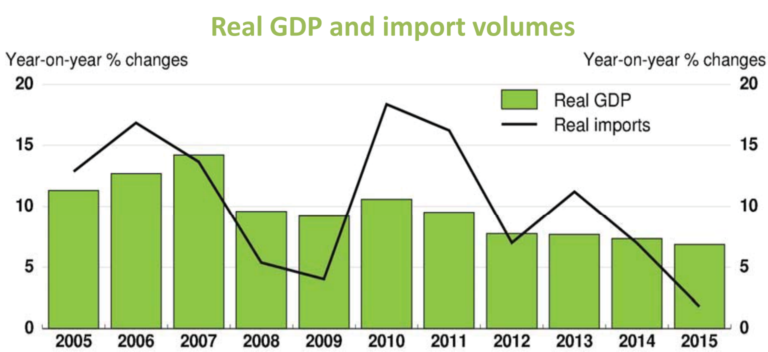
Source: Markit

Note: The CPI is used as a deflator.
Source: China National Bureau of Statistics

China's import growth has faltered

Weakening Chinese import growth helps to explain the global trade slowdown and the fall in commodity prices



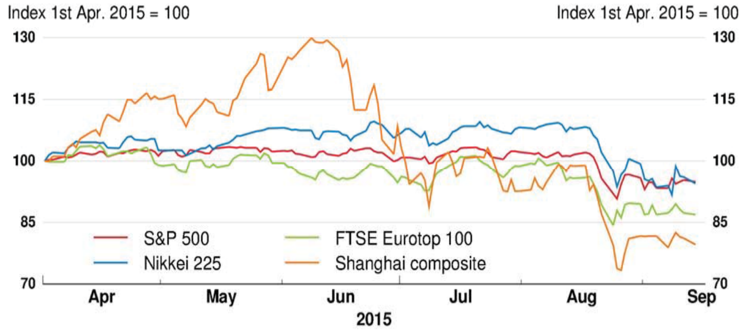


Note: 2015 is year-on-year change in the first half.
Source: OECD National Accounts Database

Financial turmoil in China has caused waves elsewhere

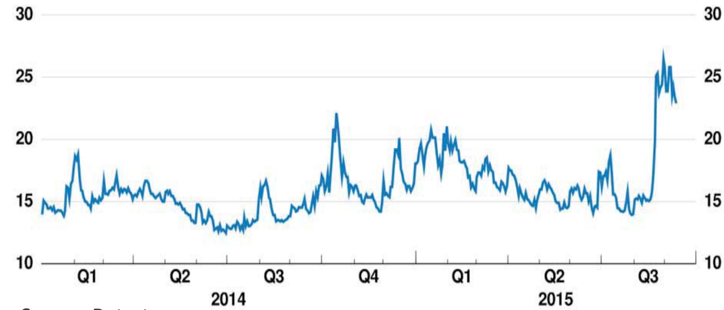
Chinese share prices have fallen sharply since June

Share prices in major markets



This has been reflected in a spike in equity market volatility worldwide

Chicago Board Options Exchange SPX Volatility Index (VIX)



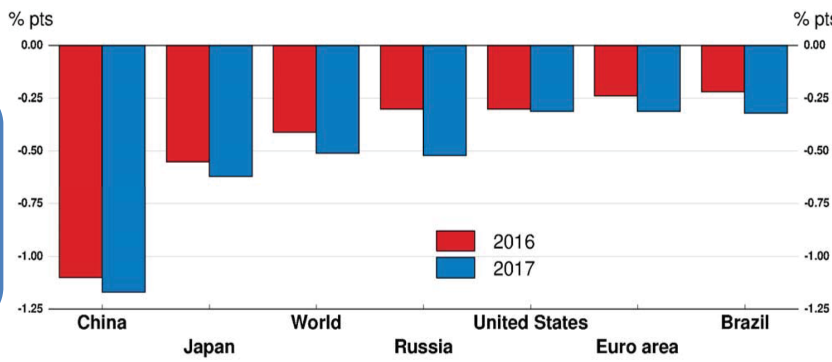
Source: Datastream

A sharp slowdown in China combined with financial turmoil would hit global growth

A simulation of weaker Chinese demand growth and financial turmoil is illustrative of risks for the world economy

GDP growth impact of a domestic demand shock in China

Two percentage point decline in the growth rate for two years



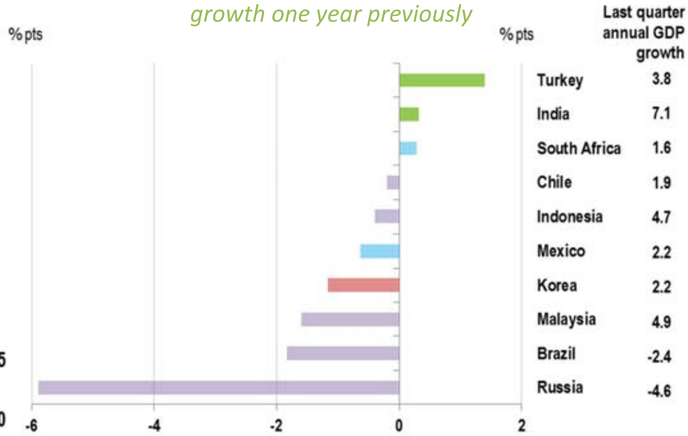
Note: Also assumes a reduction of 10% in global equity prices and a 20 basis point increase in the equity risk premium in all countries.
Source: OECD Economic Outlook database; OECD calculations

Growth has slowed in most major EMEs

The slowdown has been sharpest in countries with close trade links to China and/or dependent on commodities

Change in GDP growth

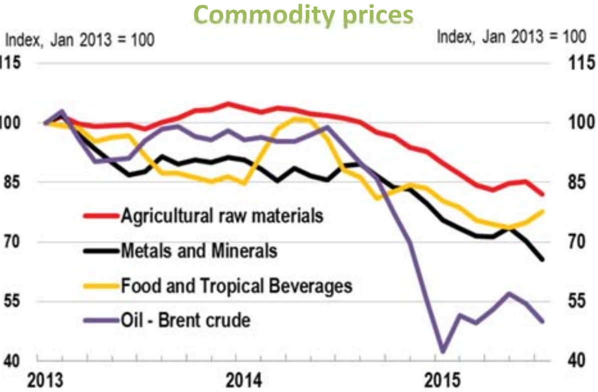
Year-on-year growth in latest quarter minus year-on-year growth one year previously



Note: Purple indicates both intensive trade with China and commodity intensive exports; Red indicates just intensive trade with China; Blue indicates just commodity intensive exports; and Green indicates neither.

Source: OECD National Accounts Database

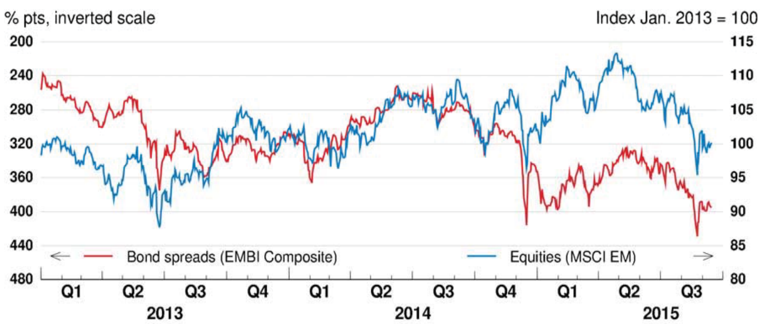
Commodity prices



Source: Datastream

Financial conditions in EMEs have deteriorated

EMEs sovereign bond spreads and equity prices



Nominal effective exchange rates

Source: Datastream

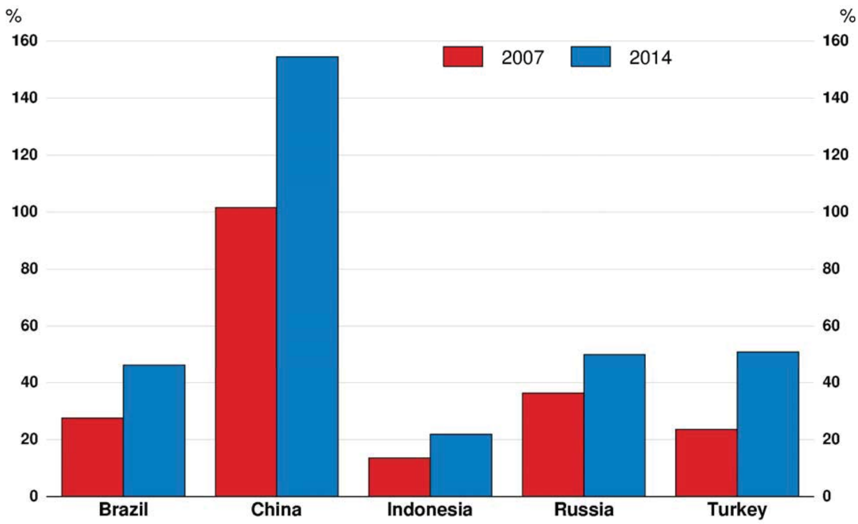
Further asset price falls combined with exchange rate swings would create financial distress for many EME corporates

A rise in world interest rates would pose additional challenges

A number of EMEs have had a rapid increase in corporate debt

Non-financial corporate debt exposures in EMEs

Per cent of GDP

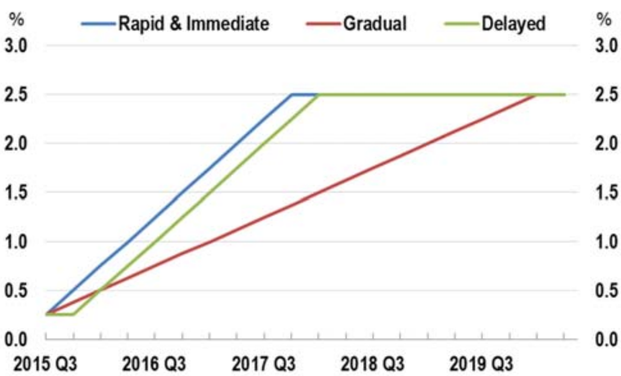


Source: BIS; OECD National Accounts Database

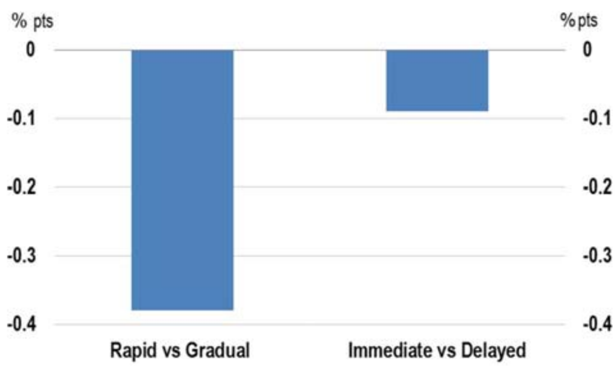
The timing of the first US rate rise is less important than the pace

Simulation of rapid vs gradual rate rises and immediate vs delayed first increase

US Federal Funds rate, top of target band



Estimated impact on US GDP in 2017



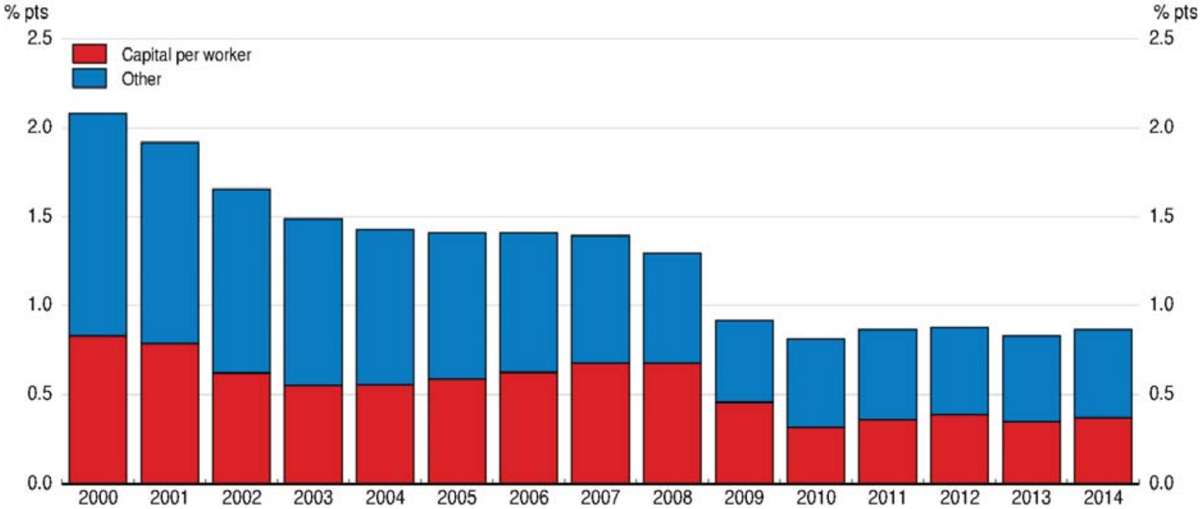
Note: "Rapid" rise scenario roughly corresponds to the most recent 'dot plot' forecasts published by FOMC members, while the "Gradual" rise scenario approximates to current market expectations for the US Federal Funds rate. "Immediate" scenario has the first interest rate rise in September 2015, while in the "Delayed" scenario the first increase is in January 2016.

Source: OECD Main Statistical Database; OECD National Accounts Database; Datastream; OECD calculations

The potential growth slowdown in advanced countries is an ongoing concern

Decomposition of the growth rate of OECD potential output per capita

Contribution to potential per capita growth



Source: OECD National Accounts Database; OECD calculations

Near-term policy recommendations

In the United States, shrinking slack warrants an upward interest rate path, but a very gradual one

The euro area needs to repair credit channels through improved financial structures

China's authorities should provide policy stimulus to avoid a sharp slowdown. Beyond fiscal and monetary policy, a range of other measures would help, including expanded social expenditures.

Emerging economies should prepare for volatile capital markets