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

<table>
<thead>
<tr>
<th>Country</th>
<th>2014</th>
<th>September 2015 Interim Projections</th>
<th>Percentage change</th>
<th>September 2015 Interim Projections</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>2.4</td>
<td>2.4</td>
<td>0.4</td>
<td>2.6</td>
<td>-0.2</td>
</tr>
<tr>
<td>Euro area</td>
<td>0.9</td>
<td>1.6</td>
<td>-0.1</td>
<td>1.9</td>
<td>-0.2</td>
</tr>
<tr>
<td>Japan</td>
<td>-0.1</td>
<td>0.6</td>
<td>-0.1</td>
<td>1.2</td>
<td>-0.2</td>
</tr>
<tr>
<td>Germany</td>
<td>1.6</td>
<td>1.6</td>
<td>0.0</td>
<td>2.0</td>
<td>-0.4</td>
</tr>
<tr>
<td>France</td>
<td>0.2</td>
<td>1.0</td>
<td>-0.1</td>
<td>1.4</td>
<td>-0.3</td>
</tr>
<tr>
<td>Italy</td>
<td>-0.4</td>
<td>0.7</td>
<td>0.1</td>
<td>1.3</td>
<td>-0.2</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>3.0</td>
<td>2.4</td>
<td>0.0</td>
<td>2.3</td>
<td>0.0</td>
</tr>
<tr>
<td>Canada</td>
<td>2.4</td>
<td>1.1</td>
<td>-0.4</td>
<td>2.1</td>
<td>-0.2</td>
</tr>
<tr>
<td>China</td>
<td>7.4</td>
<td>6.7</td>
<td>-0.1</td>
<td>6.5</td>
<td>-0.2</td>
</tr>
<tr>
<td>India²</td>
<td>7.2</td>
<td>7.2</td>
<td>-0.1</td>
<td>7.3</td>
<td>-0.1</td>
</tr>
<tr>
<td>Brazil</td>
<td>0.2</td>
<td>-2.8</td>
<td>-2.0</td>
<td>-0.7</td>
<td>-1.8</td>
</tr>
<tr>
<td>Rest of the world³</td>
<td>2.8</td>
<td>2.3</td>
<td>-0.2</td>
<td>3.3</td>
<td>-0.3</td>
</tr>
<tr>
<td>World</td>
<td>3.3</td>
<td>3.0</td>
<td>-0.1</td>
<td>3.6</td>
<td>-0.2</td>
</tr>
</tbody>
</table>

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

This underpins steady consumption growth... but investment continues to disappoint
Growth in the euro area is improving, but not as fast as might be expected.

Given tailwinds, euro area growth should be increasing faster.

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.

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

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.
The main puzzle concerning global growth centres on China

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

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

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

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

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.

Financial conditions in EMEs have deteriorated

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

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
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

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.