Economic Outlook
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Press Conference

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Secretary-General
&
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For a video link to the press conference and related material:
www.oecd.org/OECDEconomicOutlook

Summary of projections

	2013	2014	2015	2013		2014				2015				2013	2014	2015
				Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q4 / Q4		
								Per cent								
Real GDP growth																
United States	1.9	2.6	3.5	4.1	2.6	0.1	3.9	3.5	3.4	3.4	3.6	3.7	3.7	2.6	2.7	3.6
Euro area	-0.4	1.2	1.7	0.6	1.0	1.3	1.3	1.4	1.6	1.7	1.7	1.8	1.9	0.5	1.4	1.8
Japan	1.5	1.2	1.2	0.9	0.7	3.9	-3.1	1.8	1.5	1.6	2.1	2.4	-2.4	2.5	1.0	0.9
Total OECD	1.3	2.2	2.8	2.6	1.9	1.6	2.3	2.8	2.8	2.8	2.9	3.0	2.5	2.0	2.4	2.8
China	7.7	7.4	7.3											7.6	7.4	7.2
Inflation[1]								year-on-year								
United States	1.1	1.3	1.6	1.1	1.0	1.1	1.4	1.3	1.4	1.5	1.6	1.7	1.8			
Euro area	1.3	0.7	1.1	1.3	0.8	0.7	0.8	0.6	0.8	1.0	1.1	1.2	1.2			
Japan	0.4	2.6	2.0	0.9	1.4	1.4	3.4	2.8	2.6	2.9	1.1	1.2	2.7			
Total OECD	1.4	1.6	1.9	1.4	1.3	1.3	1.8	1.7	1.8	1.9	1.7	1.8	2.0			
China	2.6	2.4	3.0	2.7	2.9	2.3	2.4	2.4	2.5	2.9	3.0	3.0	3.0			
Unemployment rate[2]																
United States	7.4	6.5	6.0	7.3	7.0	6.7	6.6	6.5	6.3	6.2	6.1	6.0	5.9			
Euro area	11.9	11.7	11.4	11.9	11.8	11.8	11.8	11.7	11.7	11.6	11.4	11.3	11.2			
Japan	4.0	3.8	3.7	4.0	3.9	3.7	3.8	3.8	3.7	3.7	3.7	3.7	3.7			
Total OECD	7.9	7.5	7.2	7.9	7.7	7.6	7.6	7.5	7.4	7.3	7.3	7.2	7.1			
World trade growth	3.0	4.4	6.1	2.7	5.1	2.6	5.4	5.7	6.0	6.3	6.3	6.4	6.5	4.0	4.9	6.4
Current account balance[3]																
United States	-2.3	-2.5	-2.9													
Euro area	2.8	3.1	3.2													
Japan	0.7	0.2	0.7													
Total OECD	-0.1	0.0	0.0													
China	2.0	1.2	1.5													
Fiscal balance[3]																
United States	-6.4	-5.8	-4.6													
Euro area	-3.0	-2.5	-1.8													
Japan	-9.3	-8.4	-6.7													
Total OECD	-4.6	-3.9	-3.2													
China	-0.7	-1.2	-1.2													
Policy interest rate																
United States	0.3	0.3	0.7	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.5	0.8	1.1			
Euro area	0.5	0.1	0.0	0.5	0.4	0.3	0.1	0.0	0.0	0.0	0.0	0.0	0.0			
Japan	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1			

Note: Real GDP growth and world trade growth (the arithmetic average of world merchandise import and export volumes) are seasonally and working-day adjusted annualised rates. Inflation is measured by the increase in the consumer price index or private consumption deflator for the United States and total OECD. The "fourth quarter" columns are expressed in year-on-year growth rates where appropriate and in levels otherwise. Interest rates are for the United States: the upper bound of the target Federal Funds rate; Japan: the Bank of Japan uncollateralised overnight call rate; euro area: the ECB main refinancing rate.

The cut-off date for information used in the compilation of the projections is 30 April 2014.

1. United States; price index for personal consumption expenditure, Japan and China; consumer price index and the euro area; harmonised index of consumer prices.
2. Per cent of the labour force.
3. Per cent of GDP.

Source: OECD Economic Outlook 95 database.

EDITORIAL

Achieving a Resilient Recovery

The recovery from the Great Recession has been slow and arduous, and has at times threatened to derail altogether. The major advanced economies are finally gaining momentum. Private-sector confidence is rebuilding. After years of weakness, investment and trade have started to rebound. While unemployment remains unacceptably high, the labour market situation is improving in most countries and has stopped deteriorating virtually throughout the advanced economies.

On the other hand, the pace of growth in the major emerging market economies has slowed. Part of this deceleration is benign, reflecting cyclical slowdowns from overheated starting positions - the growth rates now seen in China are undoubtedly more sustainable from both economic and environmental perspectives than the double-digit pace of a few years ago. However, managing the credit slowdown and the risks that built up during the period of easy global monetary conditions could be a major challenge.

The likelihood of some of the most worrisome events that have preoccupied markets and policymakers in recent years has diminished. Risks are overall better balanced although still tilted to the downside. Financial tensions in emerging markets are one risk that could blow the global recovery off course and have bigger spillovers than anticipated. It is not the only one. Falling inflation in the euro area could turn into deflation. Geopolitical risks have also increased since the start of the year.

Policy focus can now switch from avoiding disaster to fostering a stronger and more resilient recovery. The legacy of the crisis still needs to be addressed. The crisis has left scars in the labour market, notably higher unemployment and lower participation of the more vulnerable groups. Growth prospects are weaker than in the pre-crisis era. Moreover, one of the key lessons of the crisis is the need to make our economies and societies more resilient – more robust to shocks – and more inclusive, with the welfare gains from stronger growth better shared across the population. While steps have been taken in both areas, much more needs to be done.

After difficult years of low growth and fiscal stringency, policymakers are facing these challenges with depleted political capital. But they need to seize the opportunity to set global growth on a stronger and more sustainable footing. This is key to supporting confidence and has to be backed by macroeconomic and structural policy actions, including the promotion of institutional frameworks that support the implementation of reforms.

Given persisting downside risks, high unemployment, below-target inflation, and high levels of government debt, monetary policies need to remain accommodative in the main OECD areas. In particular, we call on the European Central Bank (ECB) to take new policy actions to move inflation more decisively towards target and to be ready for additional non-conventional stimulus if inflation were to show no clear sign of returning there.

The high levels of government debt in all major advanced economies mean that there is little room for fiscal accommodation. Nevertheless, following significant progress in stabilising their public finances, most OECD countries can nonetheless afford the planned slowdown in structural budget improvement. This is not the case of Japan where consolidation needs remain very large. Given its high level of public debt, a credible medium-term fiscal consolidation plan is essential.

In most countries, reducing public debt to more prudent levels and managing future pension and health spending pressures will be a challenge and requires fiscal reforms to ensure the sustainability of public finances without compromising the quality of public services.

It is now time to speed up the pace of structural reforms. Such reforms, while often facing resistance from vested interests, can offer a win-win by raising growth potential and allowing many of the poorest to achieve higher living standards. These policies are critical to the success of Abenomics in Japan, as well as to rebalance of the euro area and foster the convergence to higher incomes by emerging economies.

While impressive reform efforts have been made by crisis countries, there remains substantial scope to boost productivity and create jobs through policies to remove barriers to domestic and international competition in both advanced and emerging economies. This would increase innovation and help get the most out of global value chains, as well as boost investment in the near term and support resilience.

As unemployment starts receding, measures to tackle long-term unemployment and make sure it does not become entrenched are a high priority that requires reforms to remove obstacles to more robust job creation and strengthen and redesign active labour market policies.

6 May 2014

Rintaro Tamaki
Deputy Secretary-General and Acting Chief Economist

SUMMARY

- Global growth and trade are projected to strengthen at a moderate pace through 2014 and 2015.

- Activity in the OECD economies will be boosted by accommodative monetary policies, supportive financial conditions and a fading drag from fiscal consolidation. However, unemployment is likely to decline only modestly, with 11¼ million extra people unemployed at end-2015 than at the onset of the crisis, and inflationary pressures will be muted.

- Growth in many of the large emerging market economies (EMEs) is expected to remain modest relative to past norms, with tighter financial and credit conditions and past policy tightening taking effect and supply-side constraints also damping potential output growth.

- The recovery in the United States should gain pace, lowering unemployment and reducing economic slack, with inflation rising close to target. A more modest upturn is likely in the euro area, with unemployment remaining high and disinflationary pressures ebbing only slowly. Stronger fiscal consolidation will check growth momentum in Japan, but core inflation could continue to rise, although, abstracting from indirect tax effects, still remain below its target.

- Normal demand-side accelerator-type mechanisms, healthier corporate balance sheets and reduced uncertainty should help business investment to strengthen gradually, and thereby push up trade intensity.

- Monetary policy needs to remain accommodative, especially in the euro area, where a further interest rate reduction is merited given low inflation developments, and in Japan, where asset purchases should be continued as planned. In the United States, where the recovery is more firmly based, asset purchases should be ended in 2014 and policy rates should start to be raised during 2015. In China, monetary policy will need to be eased if growth were to slow sharply.

- The planned slowing in the pace of fiscal consolidation in the United States and some euro area countries is warranted given past efforts, but strong consolidation should proceed steadily in Japan given high government indebtedness.

- Structural reforms in all economies remain essential to enhance resilience and inclusiveness, strengthen growth and job prospects, and ease both external imbalances and long-term fiscal burdens.

- Significant risks remain to the baseline projection. These are still tilted to the downside despite the improving outlook.

- The extent of the slowdown and the fragility of the banking system in China are uncertain. Risks also remain from the possible interaction of financial vulnerabilities in some EMEs

and prospective monetary policy normalisation in the United States. Events in Ukraine have also raised geopolitical uncertainty.

- In the euro area, there is a risk that inflation could weaken further if growth disappoints, or the euro appreciates further, or inflation expectations become unanchored. With financial fragilities persisting, it is also urgent to improve the health of the banking sector, complete the establishment of a fully-fledged banking union and sustain reform momentum. The comprehensive assessment of euro area banks must provide reliable estimates of capital needs and be followed by swift recapitalisations or, if necessary, resolutions.

- Output and investment growth could surprise on the upside if pent-up demand and increasing household formation rates were to boost US activity more quickly than projected, and if a positive outcome from the comprehensive assessment of euro area banks improved confidence and eased financial fragmentation.

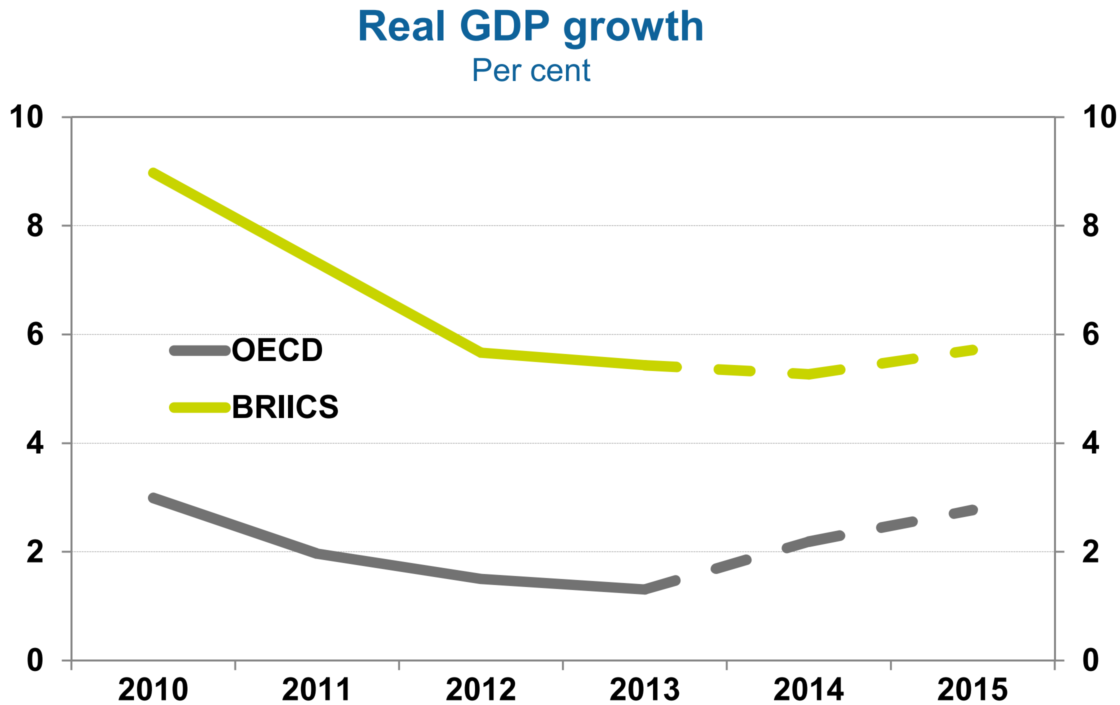
WHAT IS THE GLOBAL ECONOMIC OUTLOOK?

OECD FORUM 2014

Paris, 6 May 2014

Angel Gurría, Secretary-General and Rintaro Tamaki, Deputy Secretary-General and Acting Chief Economist

Growth in advanced economies is rebounding…



Source: OECD May 2014 Economic Outlook database.

… driving a strengthening of global growth

Real GDP growth
Per cent

	2011	2012	2013	2014	2015
World[1]	**3.7**	**3.0**	**2.8**	**3.4**	**3.9**
OECD[1]	**2.0**	**1.5**	**1.3**	**2.2**	**2.8**
BRIICS[1,2]	**7.3**	**5.7**	**5.4**	**5.3**	**5.7**
United States	1.8	2.8	1.9	2.6	3.5
Euro area	1.6	-0.6	-0.4	1.2	1.7
Japan	-0.5	1.4	1.5	1.2	1.2
China	9.3	7.7	7.7	7.4	7.3

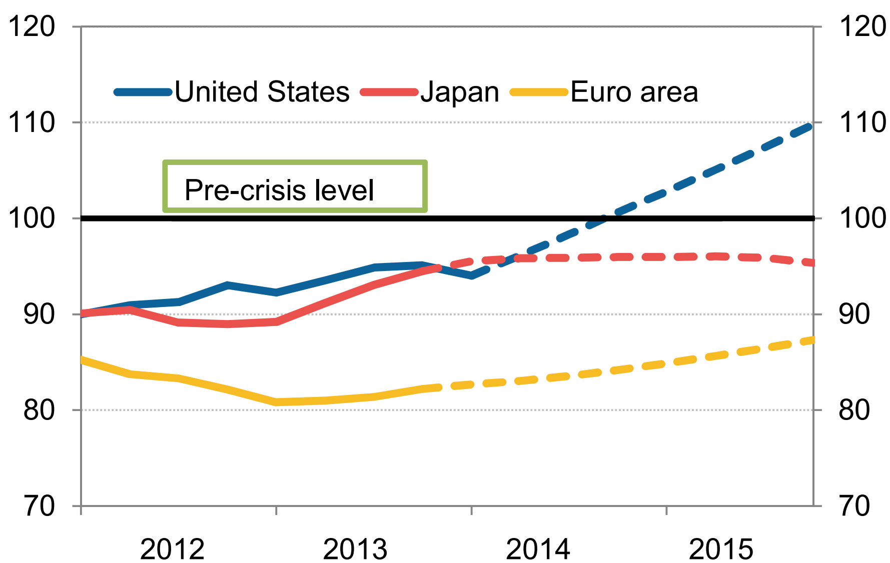
1. Moving nominal GDP weights, using purchasing power parities.

2. Brazil, Russia, India, Indonesia, China and South Africa.

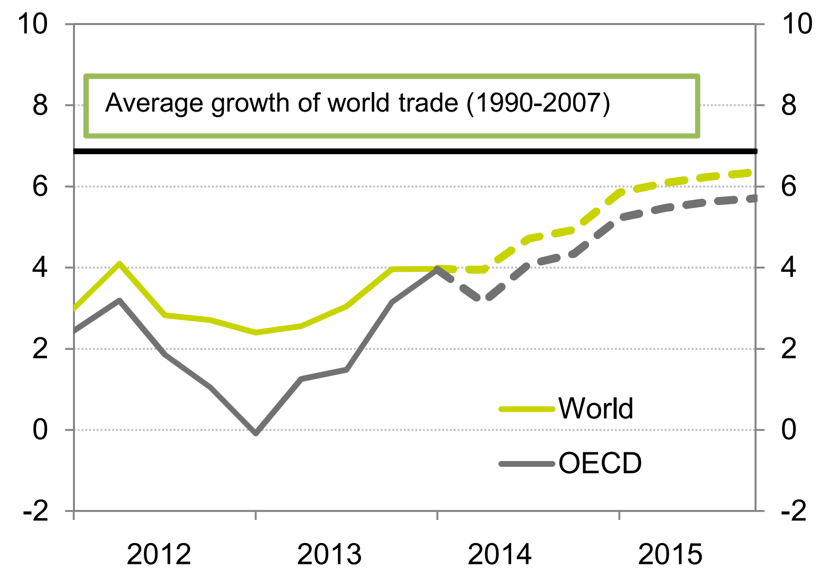
Source: OECD May 2014 Economic Outlook database.

Some of the stalled cylinders of growth are starting to fire again

Fixed investment
Volume index, 2007 = 100



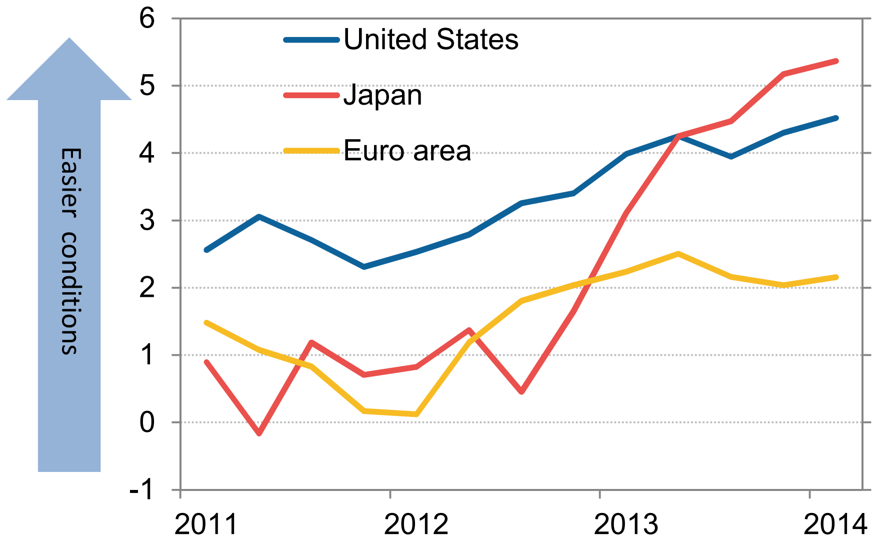
Trade in goods and services
Volume, year-on-year percentage change



Source: OECD May 2014 Economic Outlook database.

Financial conditions are facilitating faster growth

OECD Financial Conditions Index (FCI)[1]

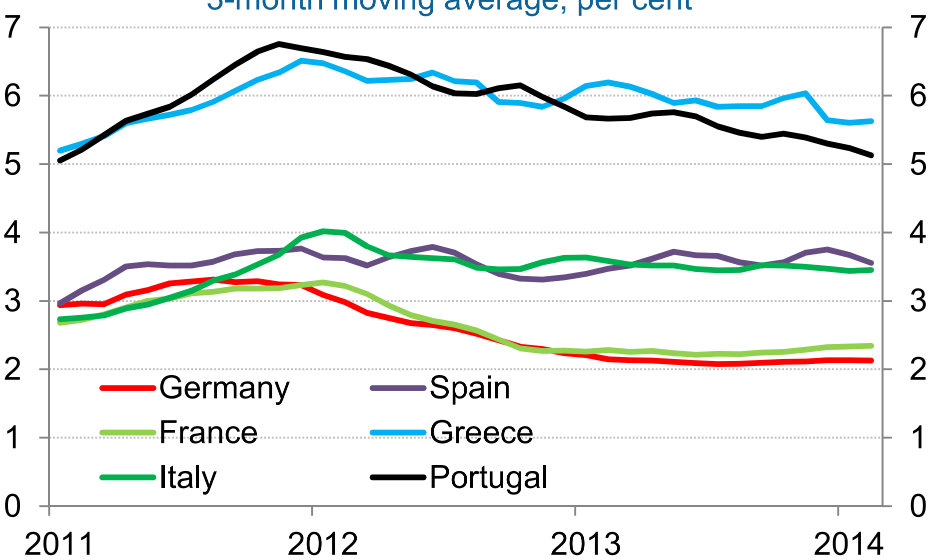


1. The FCI takes into account interest and exchange rates, credit condition surveys and household wealth. A unit increase raises GDP by ½ to 1% after 4-6 quarters.

Source: OECD May 2014 Economic Outlook database; OECD calculations

Bank lending rates for European companies[1]

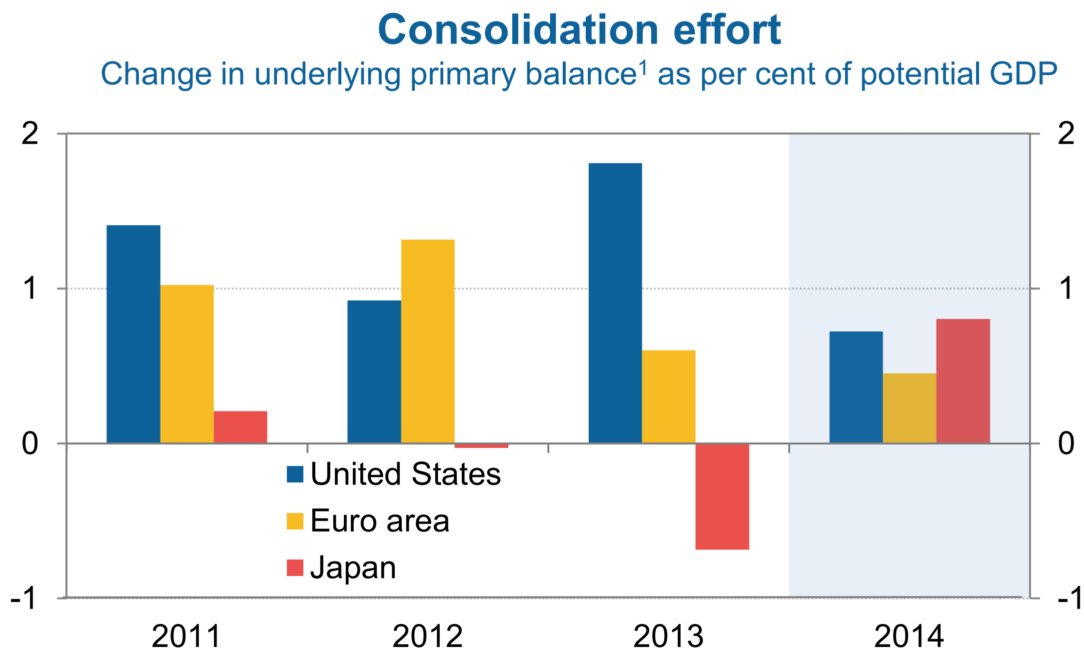
3-month moving average, per cent



1. Rate on new loans to non-financial corporations (all maturities), except for Greece (up to one year).

Source: ECB MFI interest rates.

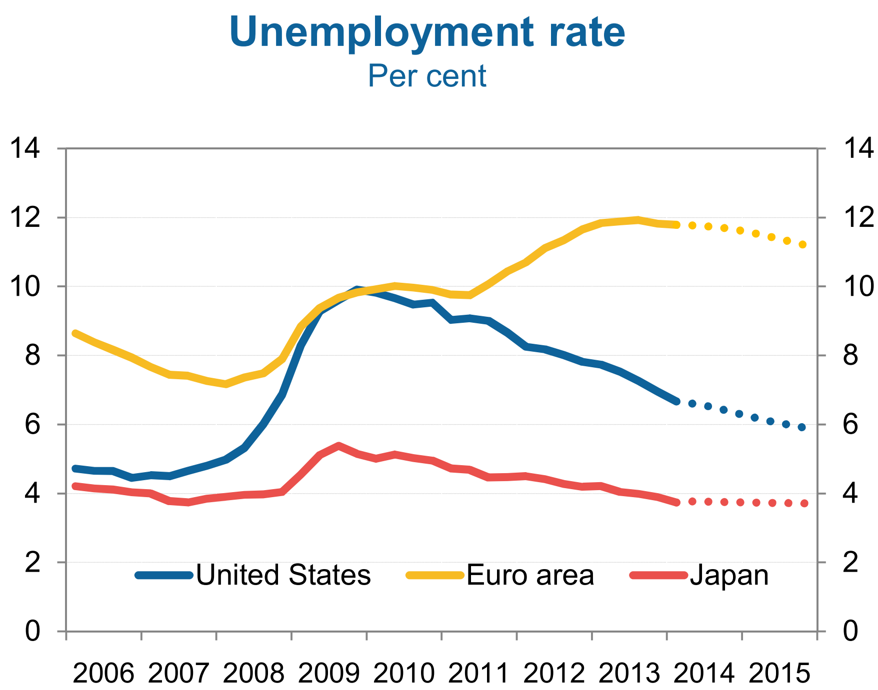
Drag from fiscal consolidation in the United States and the euro area is diminishing

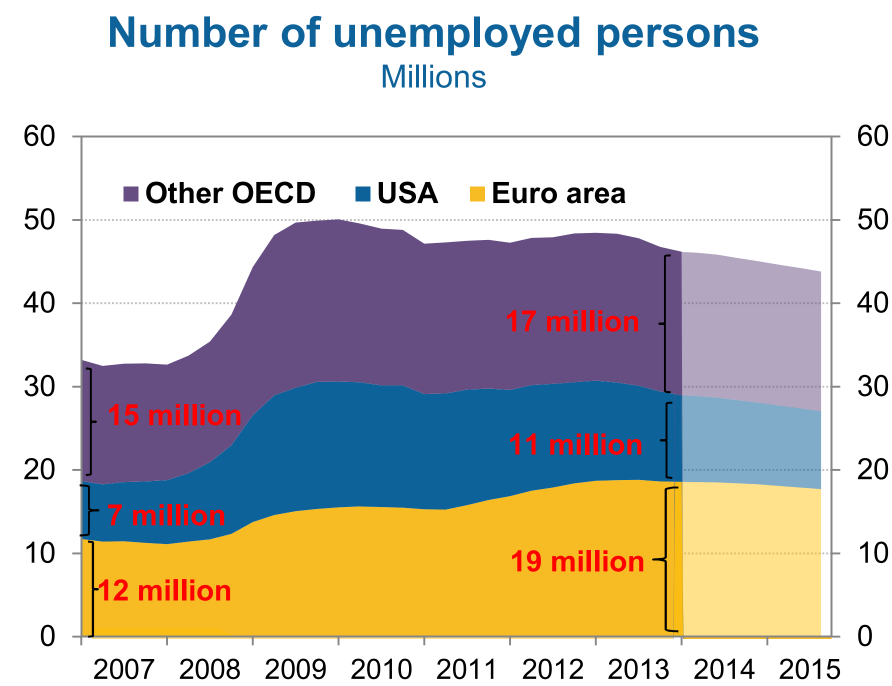


1. Budget balance excluding interest payments and adjusted for the economic cycle.

Source: OECD May 2014 Economic Outlook database.

Unemployment is falling, but from high levels, and the euro area is lagging





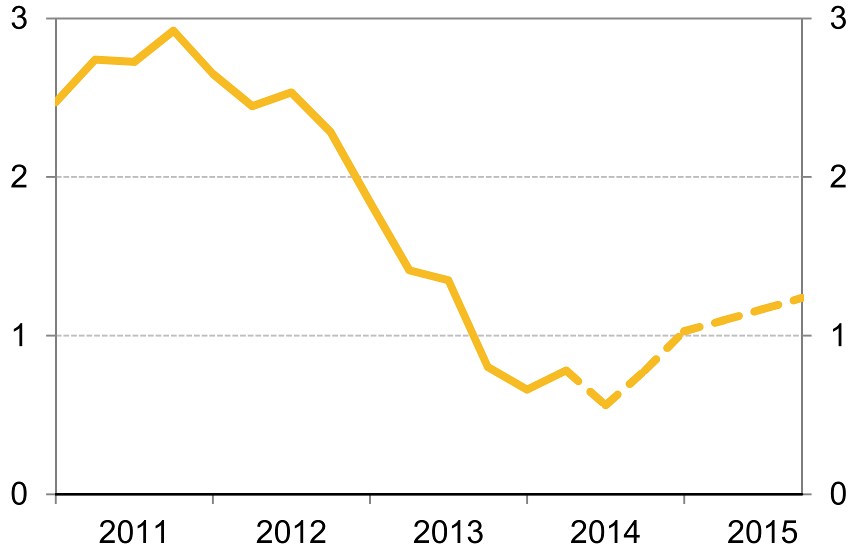
Source: OECD May 2014 Economic Outlook database.

RISKS

Falling inflation in the euro area points to increased deflation risks

Euro area headline inflation[1]

Per cent



1. Year-on-year change of harmonised index of consumer prices.

Source: OECD May 2014 Economic Outlook database.

Inflation expectations in the euro area

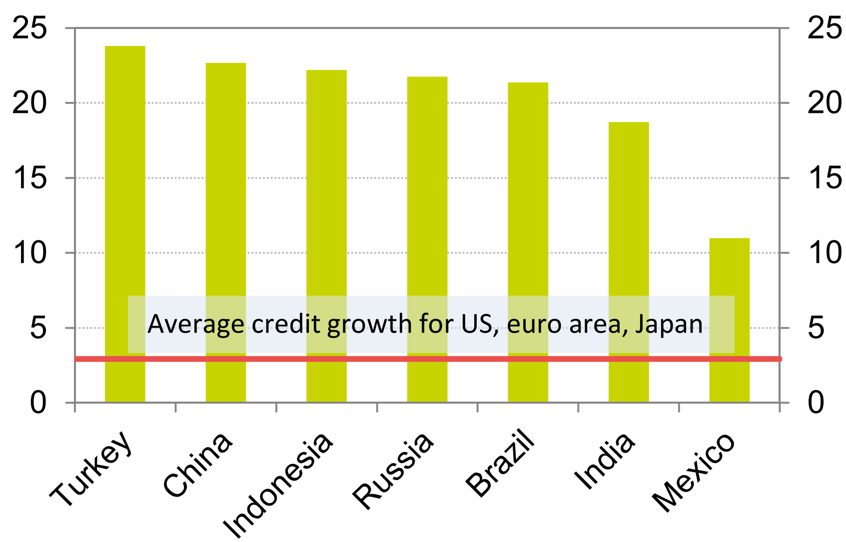
From inflation swaps; 10-day moving average, in per cent

Source: Datastream; OECD calculations.

Credit has grown quickly in some EMEs, increasing financial vulnerabilities

Credit growth to the private sector[1]

Per cent

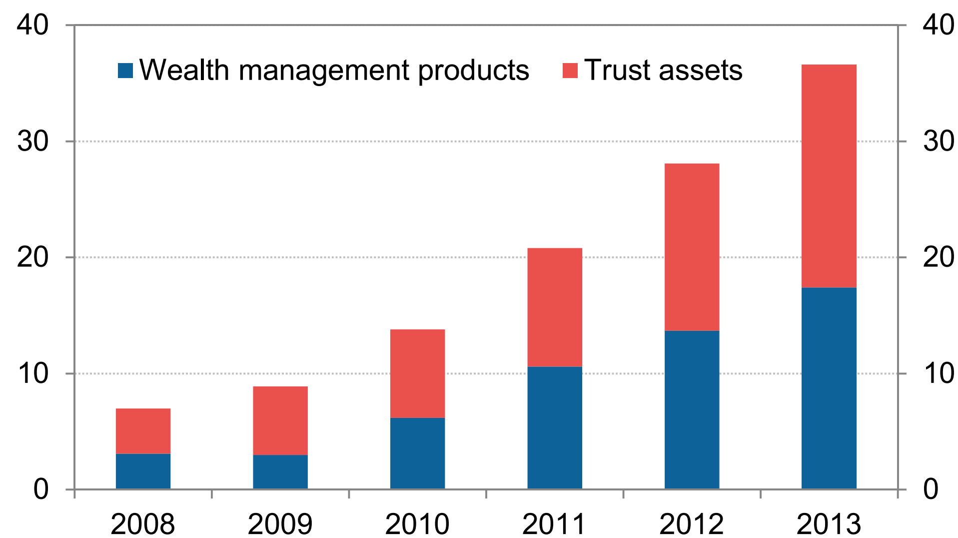


1. Average annual growth between end-December 2006 and end-September 2013.

Source: BIS; OECD calculations.

Selected shadow banking products in China

Per cent of GDP



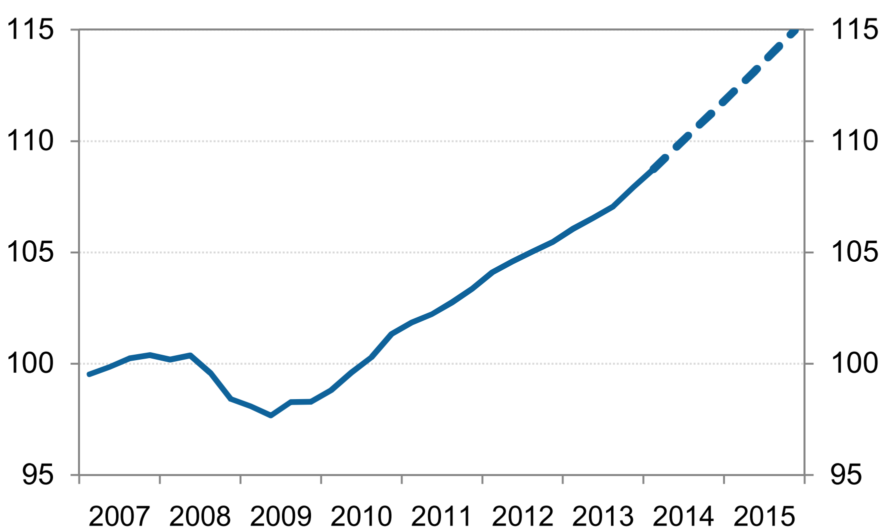
Source: CBRC; Kwan (2014); National Bureau of Statistics of China; and China Trustee Association.

POLICY REQUIREMENTS

United States: gradually reduce monetary stimulus, strengthen active labour market policies

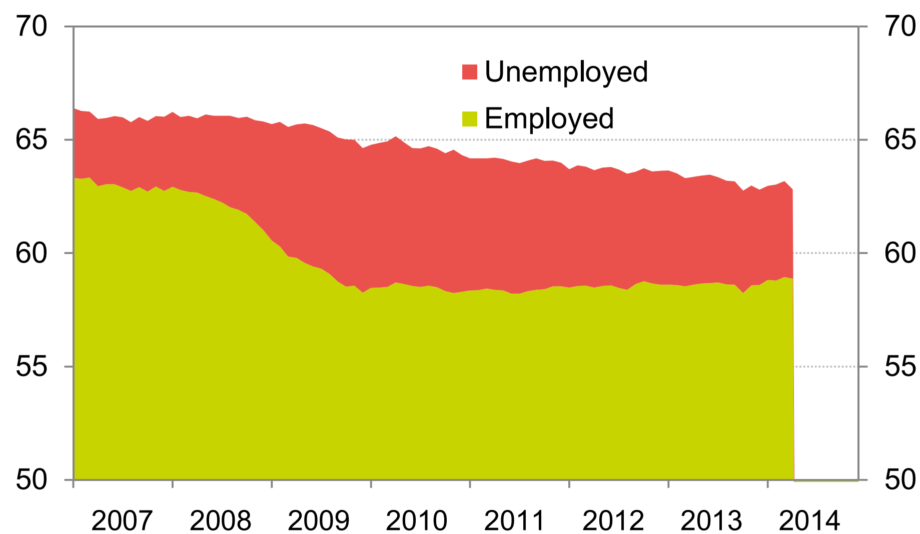
Household consumption

Volume index, 2007=100



Employment and labour force participation

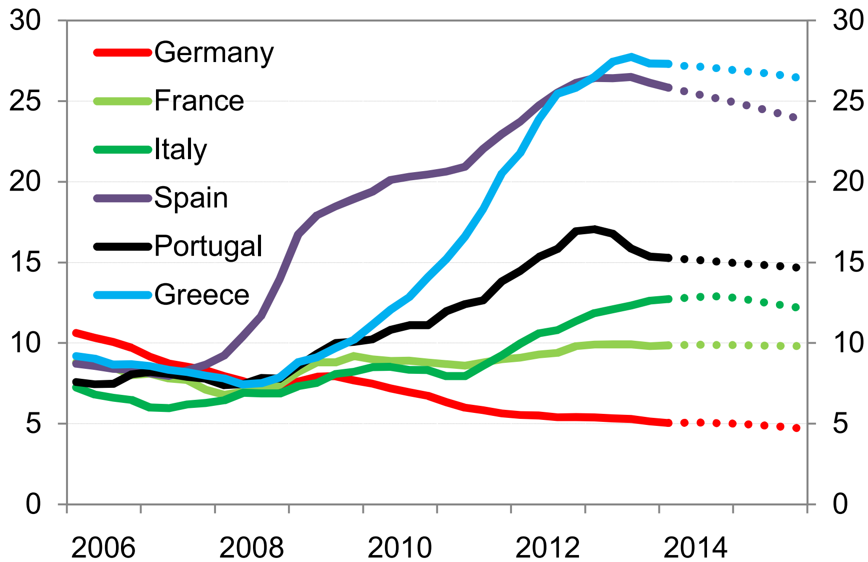
Per cent of working age population



Source: OECD May 2014 Economic Outlook database.

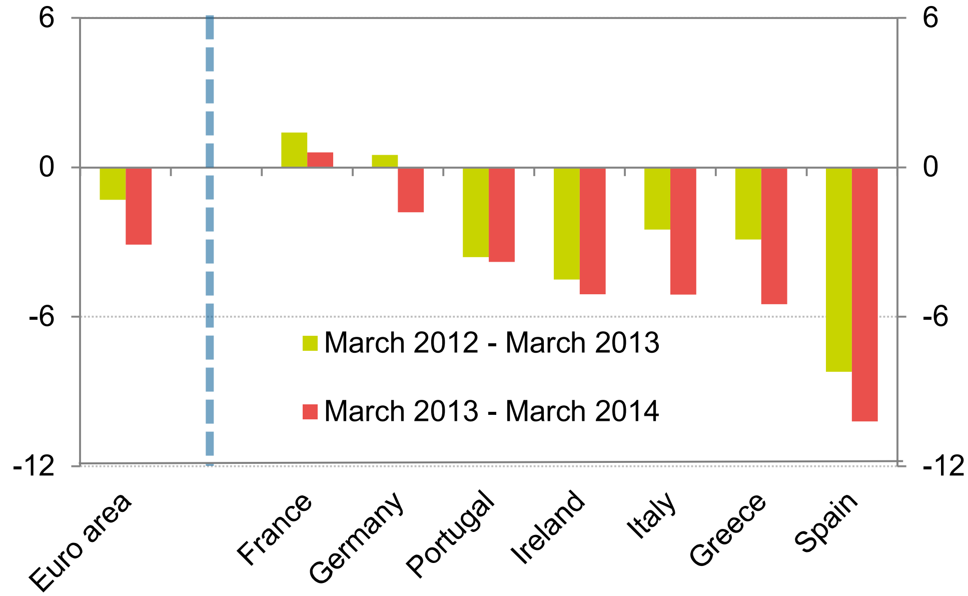
Euro area: monetary stimulus needed alongside banking system repair

Unemployment rate
Per cent



Source: OECD May 2014 Economic Outlook database.

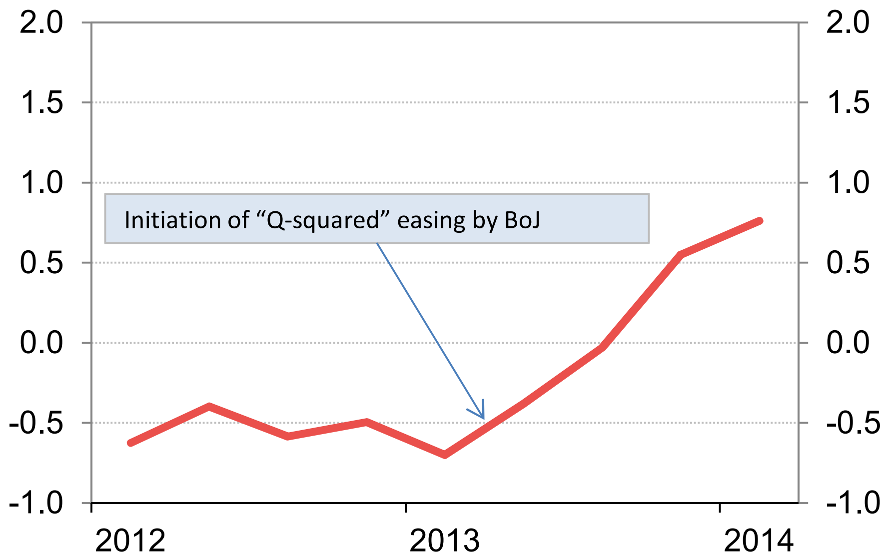
Bank credit to non-financial private corporations
Percentage change[1]



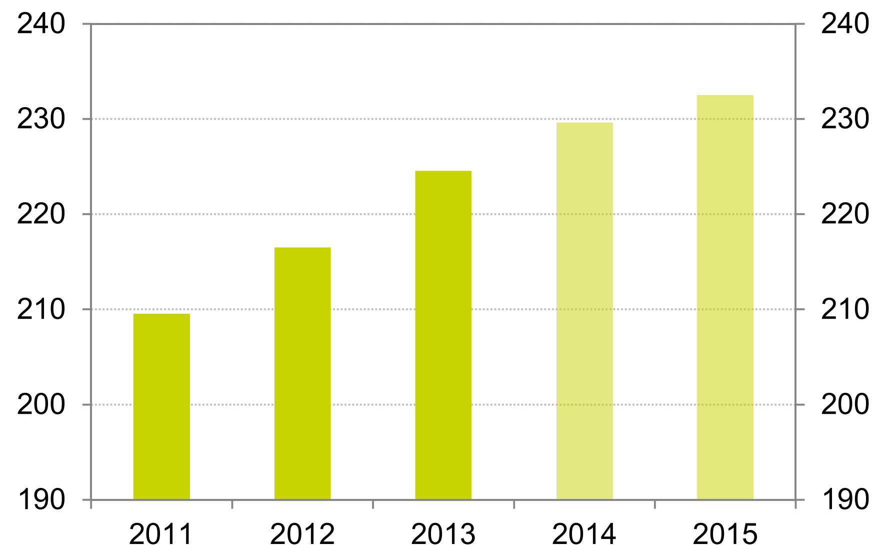
Note: February to February for Italy.
1. Adjusted for loan sales and securitisation.
Source: OECD May 2014 Economic Outlook database.

Japan: continue with monetary easing and fiscal consolidation, launch 3rd arrow (structural reform)

Core inflation[1]
Per cent



Gross government debt
Per cent of GDP

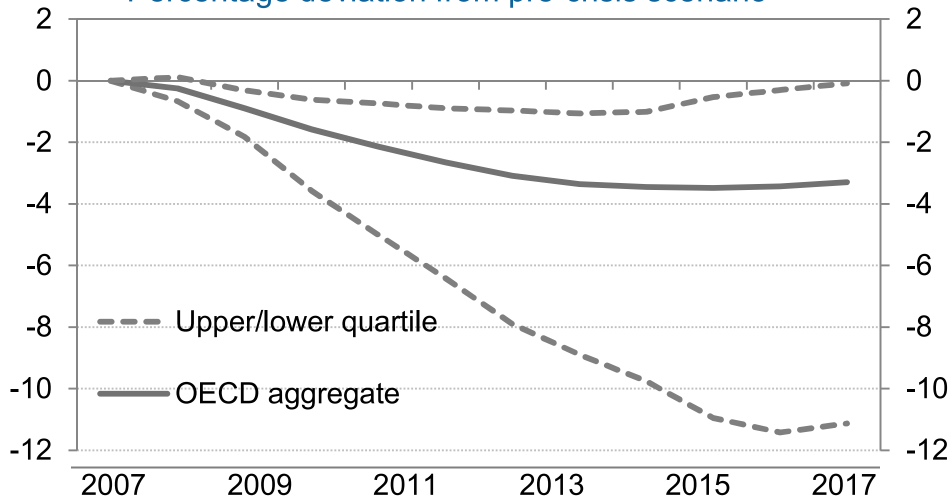


1. Excluding food and energy.

Source: OECD May 2014 Economic Outlook database.

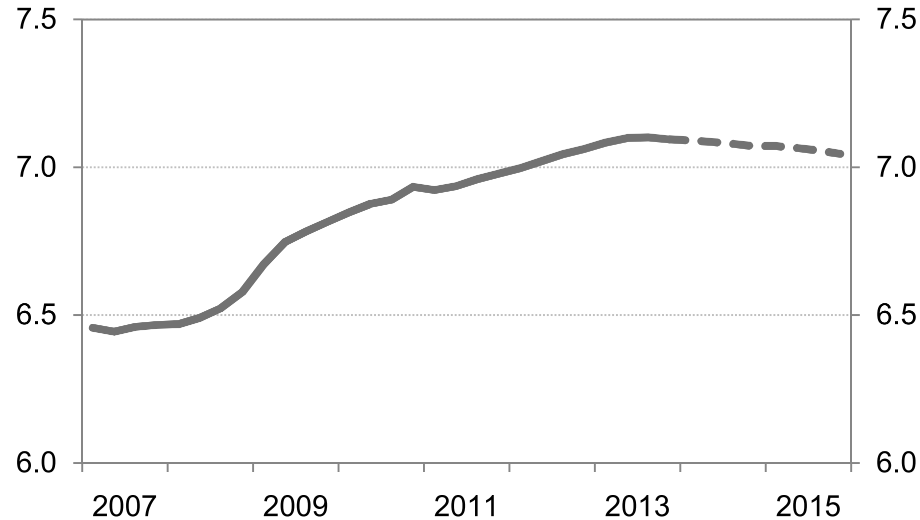
Reforms are needed to address the scars from the crisis and boost growth

Estimated effects of the crisis on potential per capita output of OECD countries
Percentage deviation from pre-crisis scenario[1]



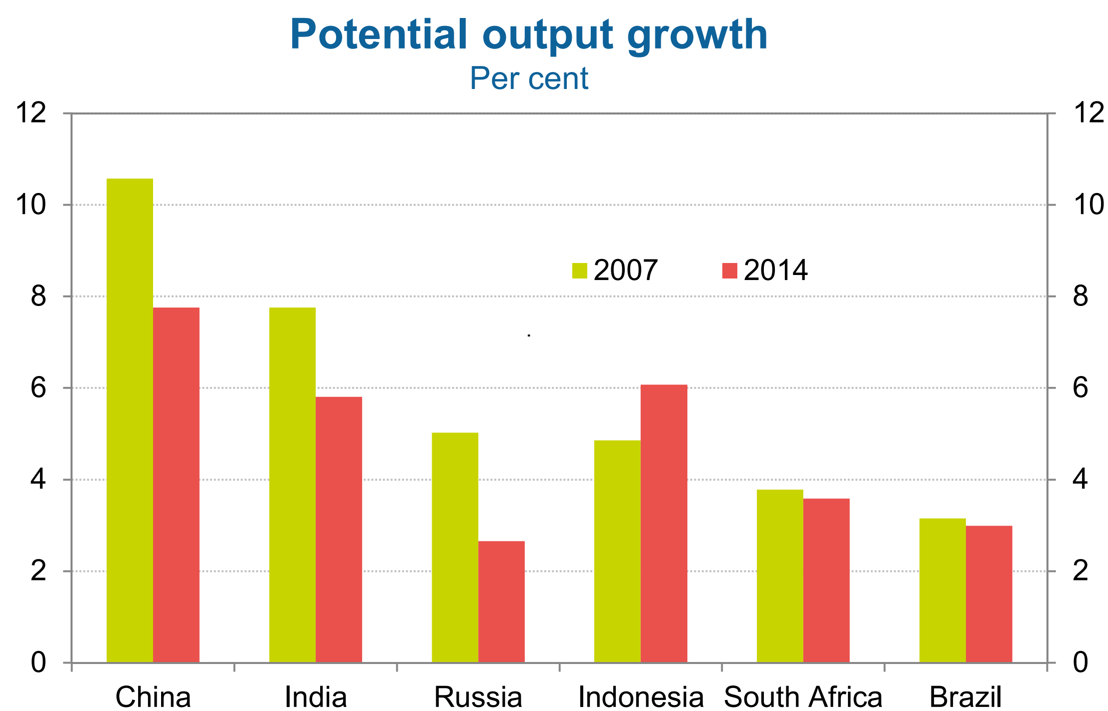
1. In the counter-factual baseline, productivity growth continues at its 2000-07 rate and structural unemployment and participation rates remain at their 2007 levels.

OECD structural unemployment
Per cent of labour force



Source: OECD May 2014 Economic Outlook database; OECD calculations.

A faster pace of structural reform is needed in the BRIICS also, given the slowdown in potential growth



Source: OECD May 2014 Economic Outlook database.

Key messages

- Major advanced economies are building momentum, driving the pick-up in global growth.

- Nevertheless, risks remain that could blow the recovery off course.

- More ambitious structural reforms are needed to create jobs and sustain stronger growth.