

The global economic outlook

Itinerari Previdenziali Year End Conference

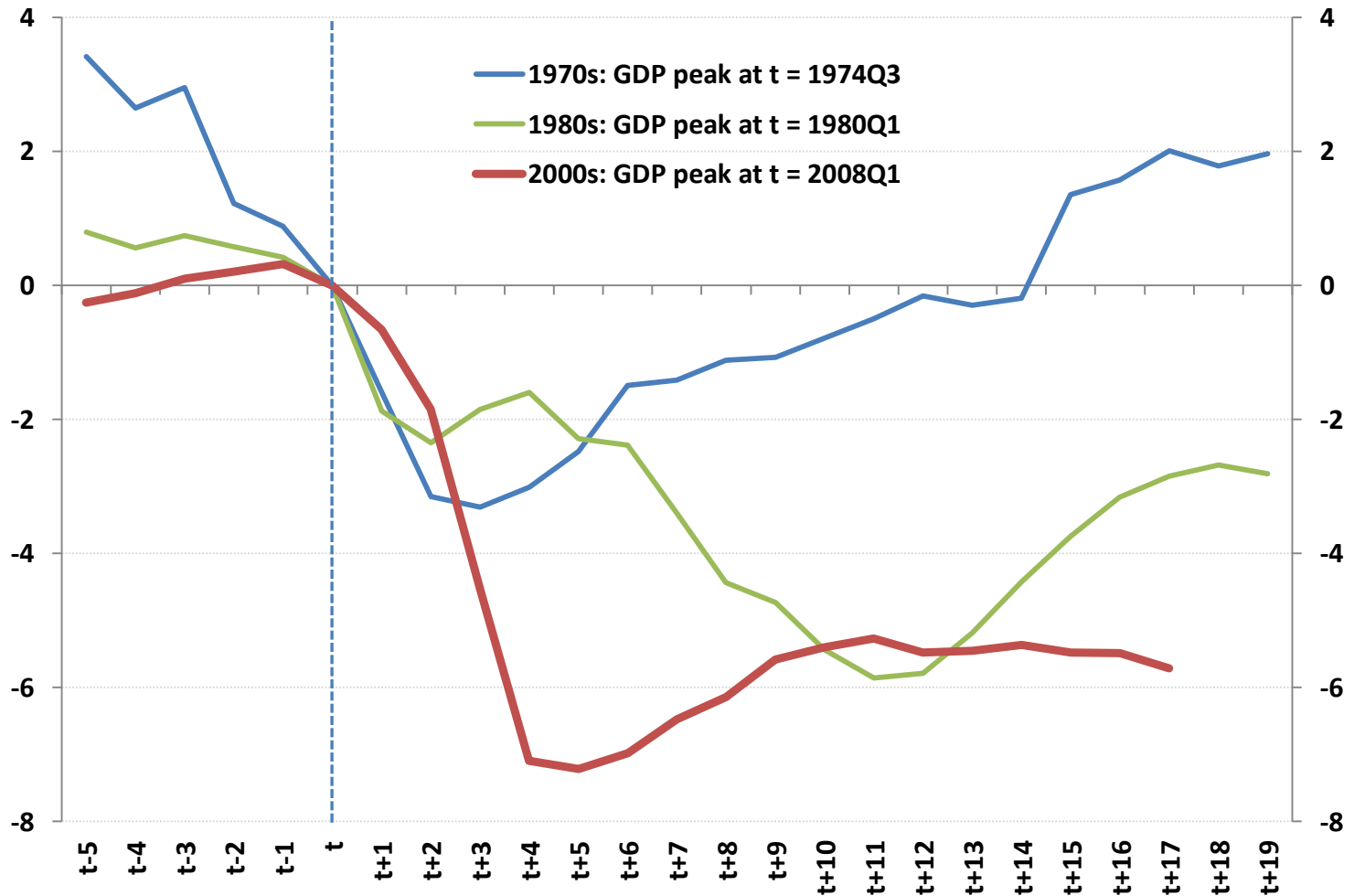
Rome, 28 November 2012

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Recoveries compared

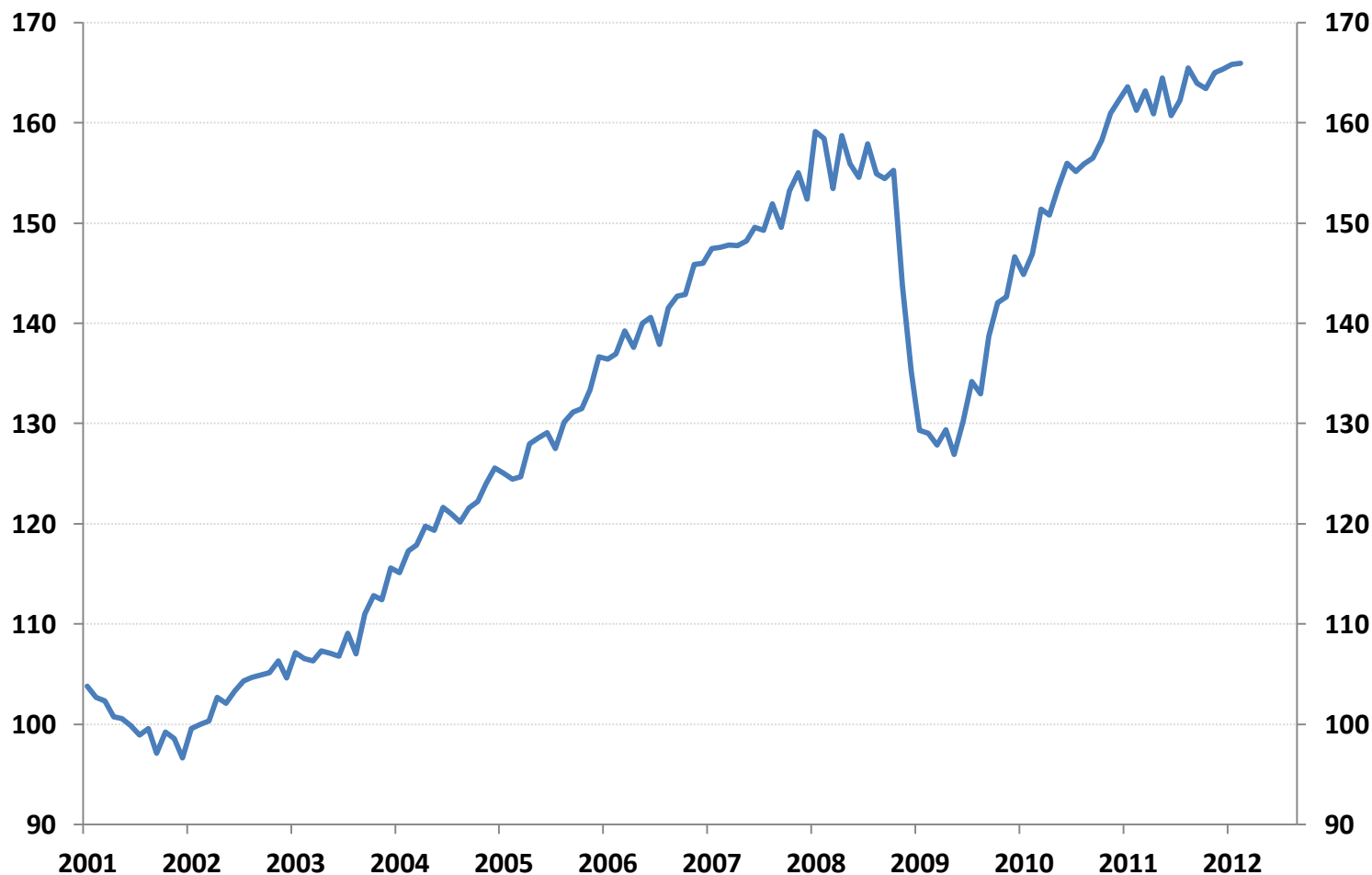
Cumulative change in OECD-wide output gap from quarter t



Source: OECD Economic Outlook 92 database.

World trade has slowed

CPB indicator of world merchandise trade, 2001 = 100



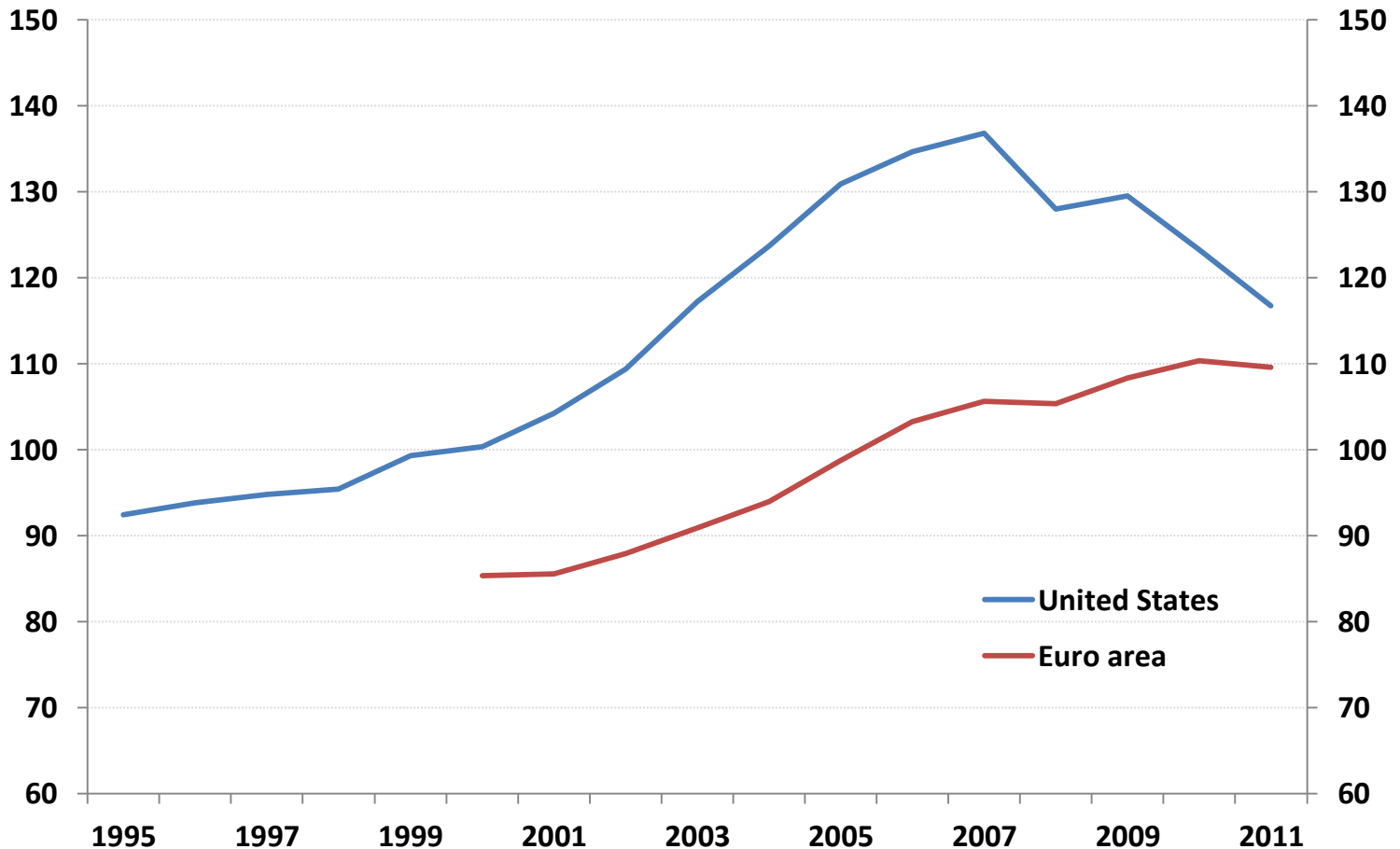
Source: CPB.

Reasons for the slow recovery

- **Private sector deleveraging :**
 - More advanced in the US, less in the euro area.
- **Fiscal consolidation :**
 - Fiscal consolidation, while necessary, has affected growth.
- **Euro area crisis :**
 - Crisis has dragged on longer than necessary due to insufficient and delayed policy action.
- **EMEs slowdown :**
 - Domestic factors and only partly induced by euro area crisis.

Deleveraging is progressing in the US

Household gross debt, percentage of net disposable income

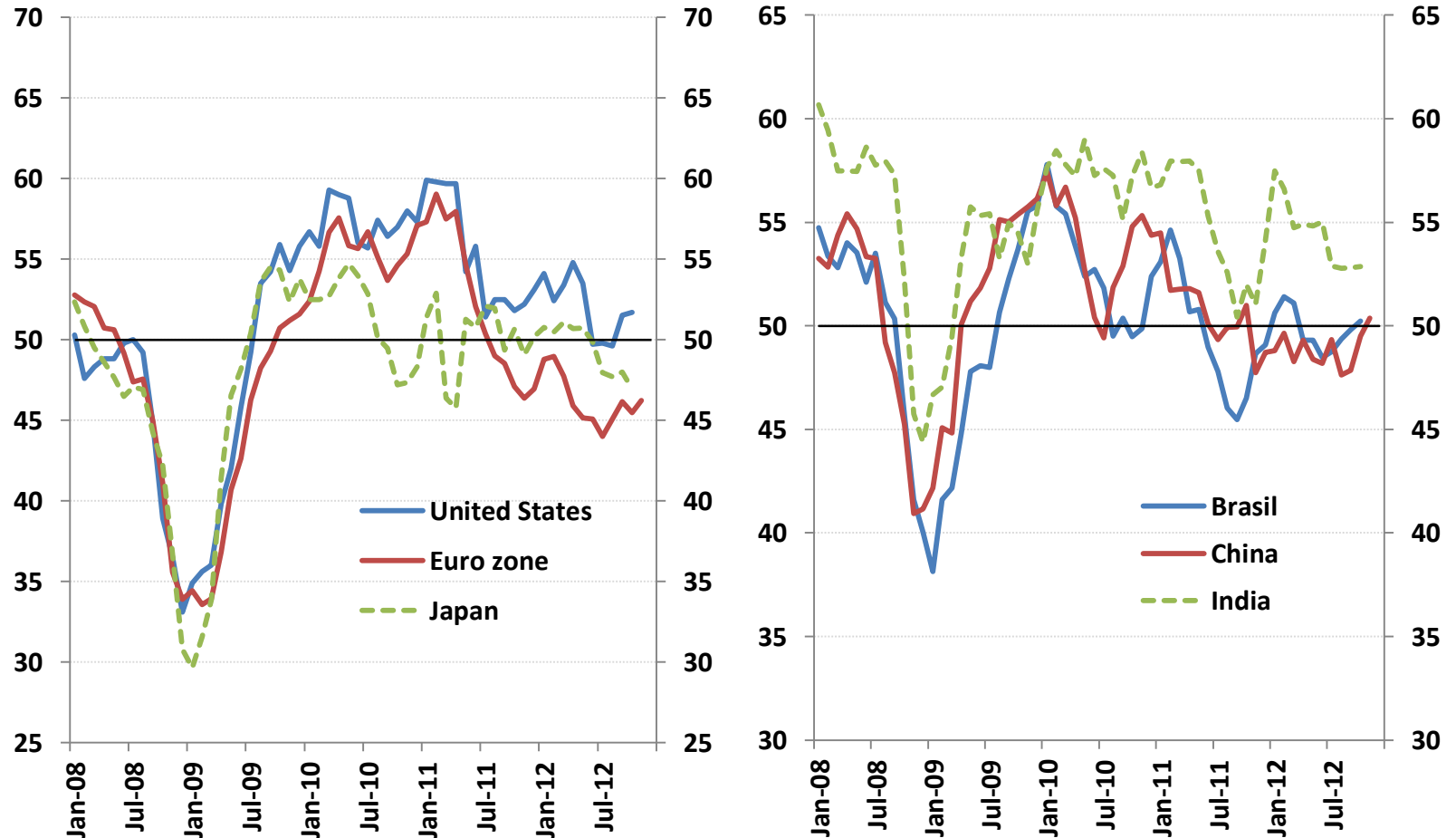


Note: Data for USA and Japan are not consolidated. For Japan, net disposable income for the year 2011 is an estimate from the OECD Economic Outlook 92 database.

Source: OECD Annual National Accounts and OECD Economic Outlook 92 database.

Business sentiment is stabilising

Purchasing Managers Index (PMI) for manufacturing



Source: Markit.

The outlook

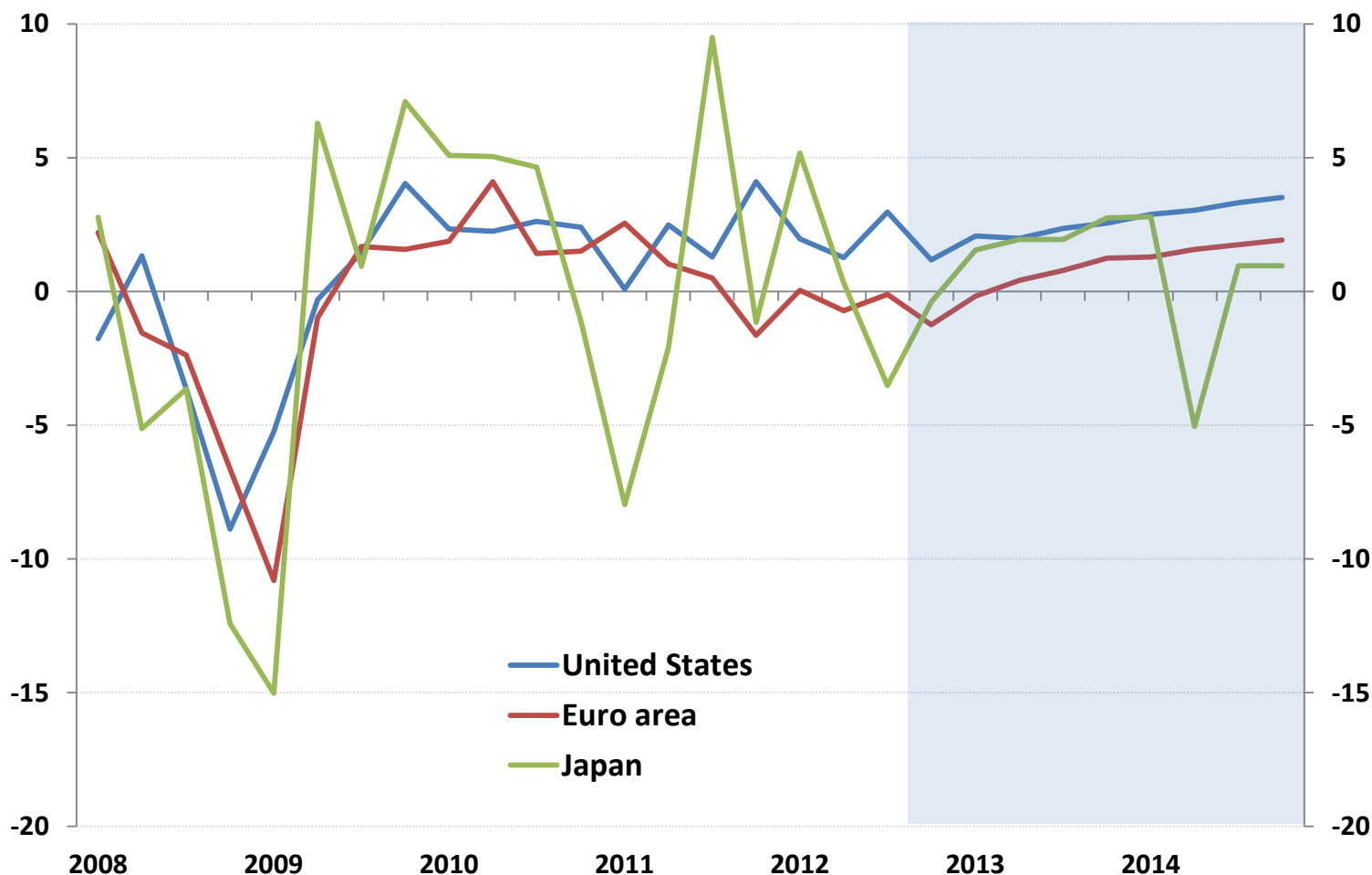
Real GDP growth, in per cent

	2011	2012	2013	2014
United States	1.8	2.2	2.0	2.8
Euro area	1.5	-0.4	-0.1	1.3
Japan	-0.7	1.6	0.7	0.8
Total OECD	1.8	1.4	1.4	2.3
Brazil	2.7	1.5	4.0	4.1
China	9.3	7.5	8.5	8.9
India	7.8	4.5	5.9	7.0
Indonesia	6.5	6.2	6.3	6.5
Russian Federation	4.3	3.4	3.8	4.1
South Africa	3.1	2.6	3.3	4.0

Source: OECD Economic Outlook 92 database.

Projections - OECD Big 3

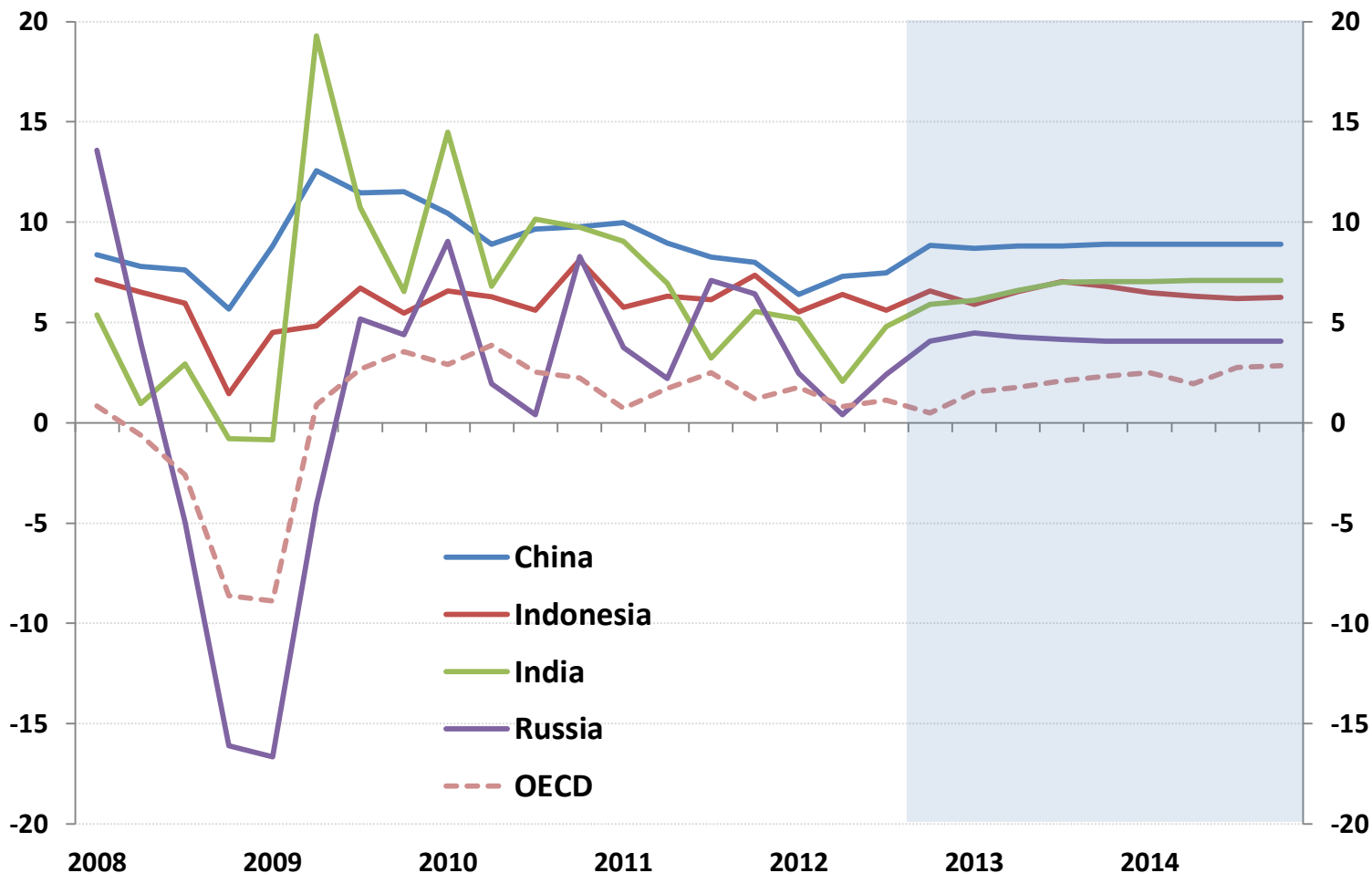
Annualised quarterly real GDP growth, in per cent



Source: OECD Economic Outlook 92 database.

Projections - EMEs

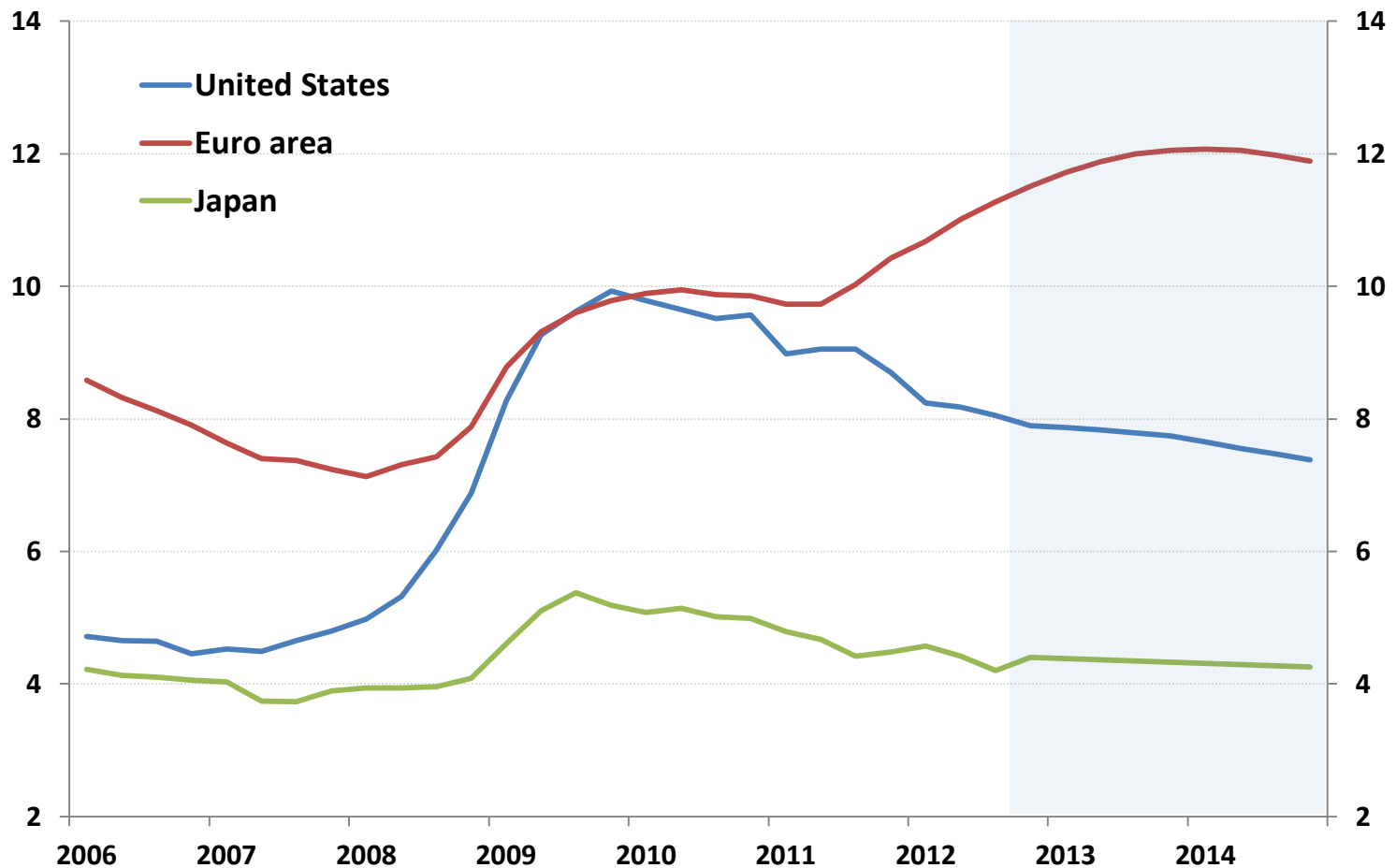
Annualised quarterly real GDP growth, in per cent



Source: OECD Economic Outlook 92 database.

Unemployment rates diverging

Percentage of labour force



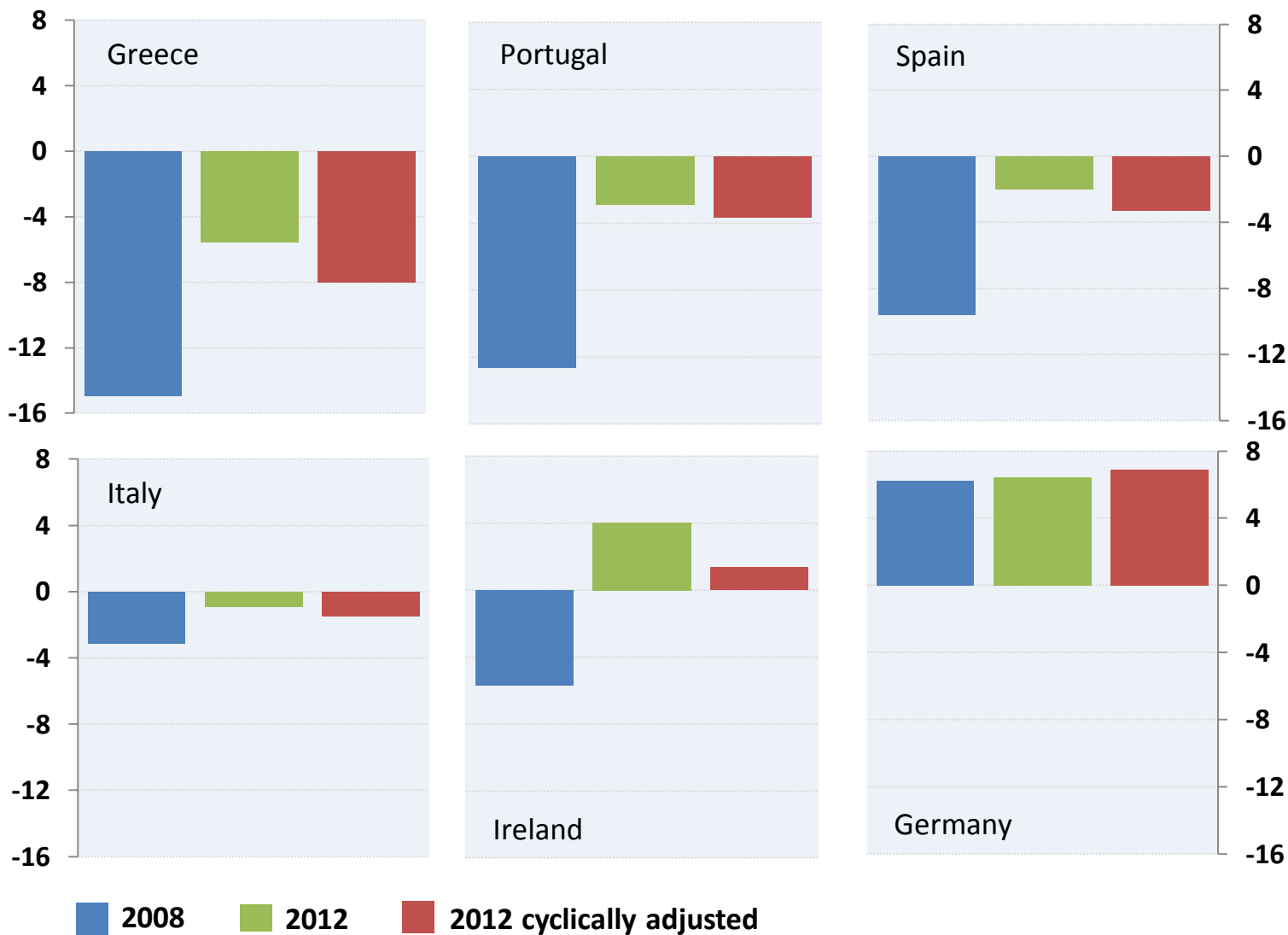
Source: OECD Economic Outlook 92 database.

Downside risks to the outlook

- **Euro area crisis is the largest downside risk :**
 - Policy measures (OMT, ESM) have dampened market pressures but risks of further flare ups remain.
 - Negative financial feed-back loops still operational.
 - Underlying rebalancing still in progress.
- **Excessive budgetary tightening in the US (the “fiscal cliff”)**
- **Geopolitical risk to oil prices**
- **EMEs transition to domestic sources of growth**

Rebalancing in the euro area

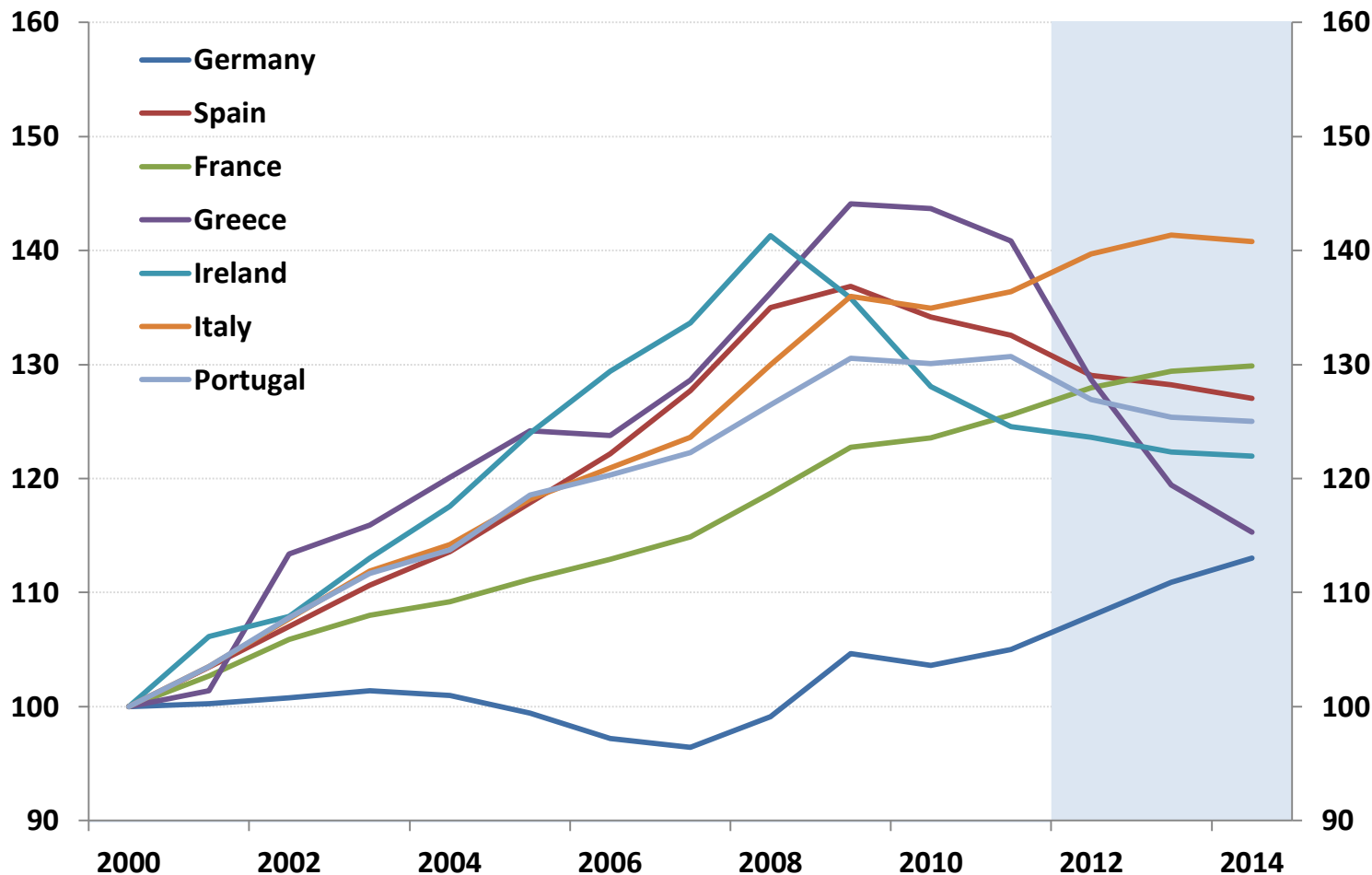
Current account balances, in per cent of GDP



Source: OECD Economic Outlook 92 database and OECD calculations.

Euro area unit labour costs

Index 2000 = 100



Note: The figures shown are for whole economy unit labour costs. If wage developments in the public sector diverge from those in the rest of the economy, changes in private sector costs may differ from those shown. This may mean that economy-wide labour costs are falling more sharply than private sector costs in the EU/IMF programme countries. *Source:* OECD Economic Outlook 92 database.

Policies for the euro area

- **Break feedback loop between banks and governments :**
 - Strengthen capital position of banks.
 - Banking union (single supervisor, bank resolution, common deposit insurance, common fiscal backstop).
- **Break feedback loop between exit risk and government bonds :**
 - Commitment to reforms and ESM/OMT.
- **Break feedback loop between bond yields and debt sustainability :**
 - Fiscal Compact.
 - Deal with legacy debt.
- **Boost growth :**
 - Structural reforms and Single Market.

Monetary policy

- **Further easing required in Japan, euro area and some EMEs. US should keep current stance**
- **If downside risks materialise, a stronger response would be warranted :**
 - Including further quantitative easing, and forward guidance.
- **Caveats associated with extreme monetary policy:**
 - Creating conditions for high leverage and bubbles.
 - Misallocation of credit as forbearance and ever-greening is cheap.

- **Multipliers are likely to be high at the current juncture :**
 - Significant weight on expenditure cuts.
 - Limited room for monetary easing and impaired financial system.
 - Simultaneous consolidations across countries.
- **General recommendations :**
 - Choose an appropriate pace of consolidation.
 - Let automatic stabilizers play around structural consolidation path.
 - Countries with space should ease if downside materialises.
- **United States : link fiscal cliff resolution to medium term consolidation**
- **Euro area : more effectiveness by coordinated action**

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