Global economy

OECD sees slower global growth outlook

- Global GDP to rise 3.1% in 2013, 4.0% in 2014
- Growth revised down for all major countries except Japan
- Eurozone in deeper than previously thought downturn

A gloomy OECD has trimmed its global growth forecast once again. The organisation now expects the global economy to grow by just 3.1% this year, down from 3.4% in its last twice-yearly forecast and down from 4.2% a year ago. Growth was revised down for the US, UK and China, while the Eurozone is set to experience a deeper than previously thought downturn. Of the world’s major economies, only Japan saw an upgrading to its growth outlook.

The downgraded global outlook is no surprise. With the global PMI sinking to a six-month low in April, worldwide business conditions are improving at a much reduced pace compared with earlier in the year, and there remains a risk of growth stalling altogether. Worryingly, the scale of the downward revision also highlights how robust economic growth has failed to materialise despite huge central bank stimulus efforts around the world. Downbeat, lowered forecasts for global growth in 2014 suggest that the world will also remain in a sub-par growth phase for the foreseeable future. Five years on from the onset of the financial crisis and the OECD sees the need for further aggressive central bank action to sustain even modest growth.

Europe’s ‘dire situation’

The eurozone clearly remains global economy’s Achilles heel, forecast to contract 0.6% this year, contrasting with growth of 1.9% and 1.6% in the US and Japan respectively. Although Germany is expected to eke out growth of 0.4% this year, Spain is set to contract by 1.7%, Italy by 1.8% and France by 0.3%. All major eurozone member states therefore have gloomier outlooks than six months ago, the most notable perhaps being France, where the OECD has previously expected 0.3% growth to be managed this year.
In the words of the OECD, “Europe remains in a dire situation”, requiring more policy action to revive growth in the Eurozone. In particular, the OECD recommends US- and UK-style quantitative easing. In the past, the ECB has experimented with bond-buying, but has “sterilised” these purchases by withdrawing money from elsewhere in the financial system to avoid an increase in inflation. However, with inflation running at just 1.2% across the region compared to the ECB’s target of just below 2.0%, the risk seems to be tilted towards Japanese style deflation, suggesting extra stimulus can be accommodated without inflation worries. The OECD also recommended the ECB consider charging banks to park deposits at the central bank and to consider ways to boost SME lending.

Japan’s improved outlook, with growth for this year revised up from 0.7% to 1.6%, is attributed to the country’s huge stimulus policies, though even more stimulus may be required to meet the government’s aim of defeating deflation.

Not all countries need to boost stimulus, however, as the markets are already all-too aware. The OECD notes how the United States might need to start tapering its $85bn per month asset purchases soon, though the organisation is mindful of the fact that any such scaling back of policy may have a dramatic effect on equity markets, damaging recovery prospects. The OECD rather obviously suggests any such changes to the Fed’s asset buying programme would have to be carefully orchestrated.

The outlook for China was also downgraded, with growth of 7.8% expected this year compared with the prior forecasts of 8.5%. That would be the same as the expansion seen last year, which had been the weakest for 13 years. Reforms to boost the service sector were recommended.

Still subdued in 2014

Beyond this year, the outlook improves for 2014, albeit to a lesser extent than hoped for six months ago. Global growth is expected to pick up to 4.0%, down from a previously-expected 4.2%. The US is expected to grow by 2.8% next year, posting its best performance since 2005, while Japan and the UK are expected to grow by a still-modest 1.4% and 1.5% respectively. Even the eurozone is set to expand, growing 1.1%, led by a 1.9% expansion in Germany. Spain, Italy and France are all anticipated to enjoy modest growth. China’s growth rate should accelerate to 8.4%, accompanied by similar upturns in other major emerging markets.

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