



# Forint70-OECD20-Bruegel10 Conference

*Weak Trade, Financial Distortions:  
Global economy in a low-growth trap*

**Budapest**

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[www.oecd.org/economy/economicoutlook.htm](http://www.oecd.org/economy/economicoutlook.htm)  
ECOSCOPE blog: [oecdoscope.wordpress.com/](http://oecdoscope.wordpress.com/)



# Key messages

## The global economy is stuck in a low-growth trap

- Growth in advanced economies is low and has declined in many EMEs
- Global trade growth has slowed dramatically and sluggish investment continues

## Exceptionally low interest rates lead to financial distortions and risks

- Valuations are high despite weak growth prospects and ongoing uncertainties
- Risks of volatility and sharp reversals across asset markets

## Productivity growth has slowed and inequality has risen

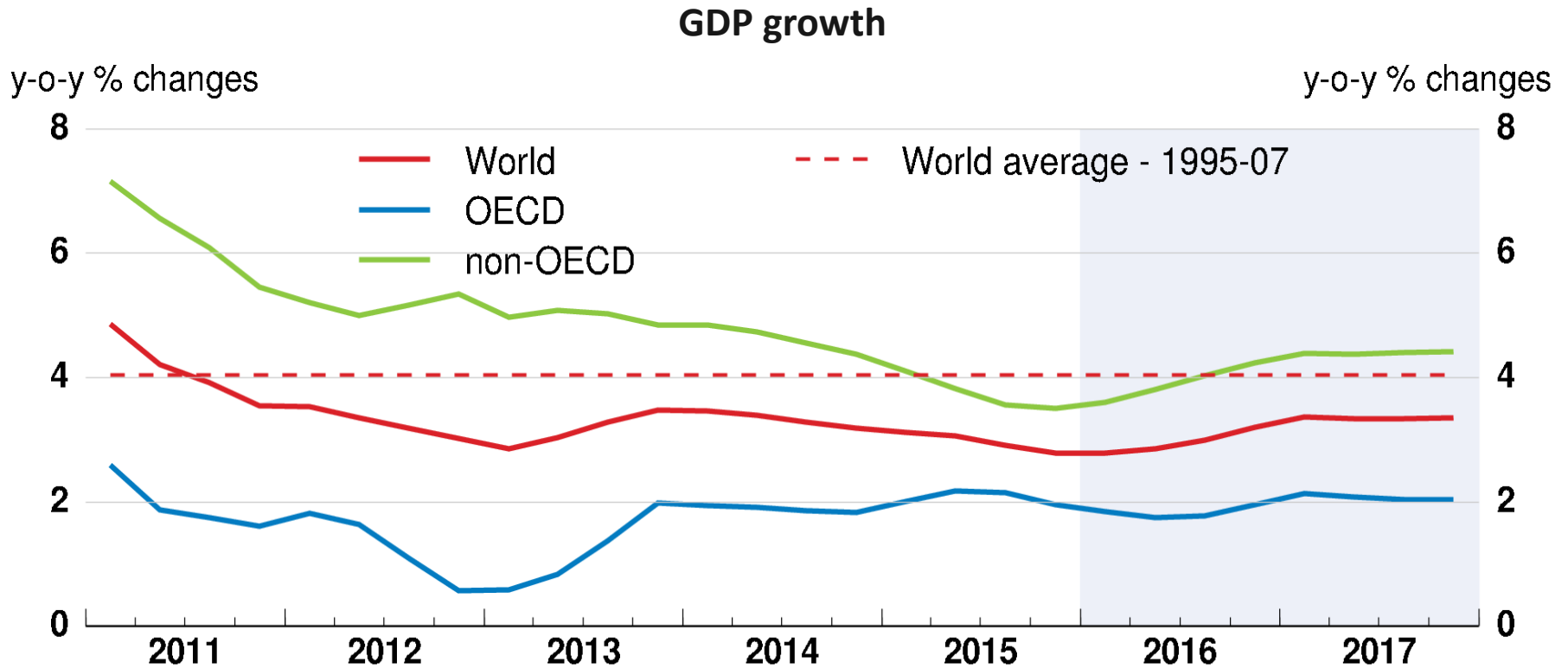
- Prolonged demand weakness is damaging long-term growth prospects
- Productivity gains are not being widely shared and wage growth is even slower

## Stronger fiscal, structural and trade policy action is required

- Overburdened monetary policy raises financial risks
- Use fiscal space to catalyse private activity now and boost long-term growth
- Structural reform packages needed to boost productivity, wages and equality



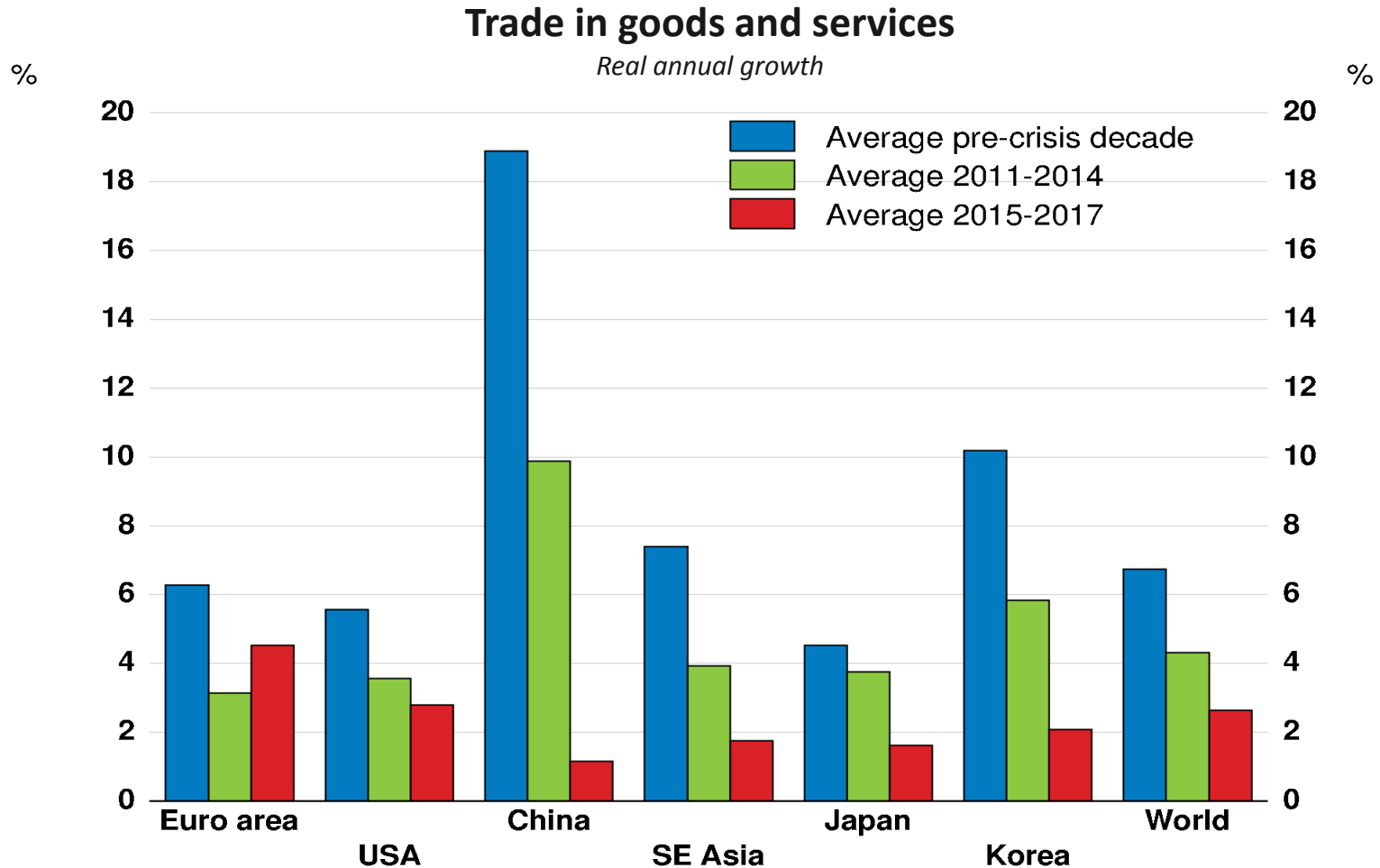
# Global GDP growth is low



Source: OECD June 2016 Economic Outlook database.



# Global trade growth is weak, particularly in Asia

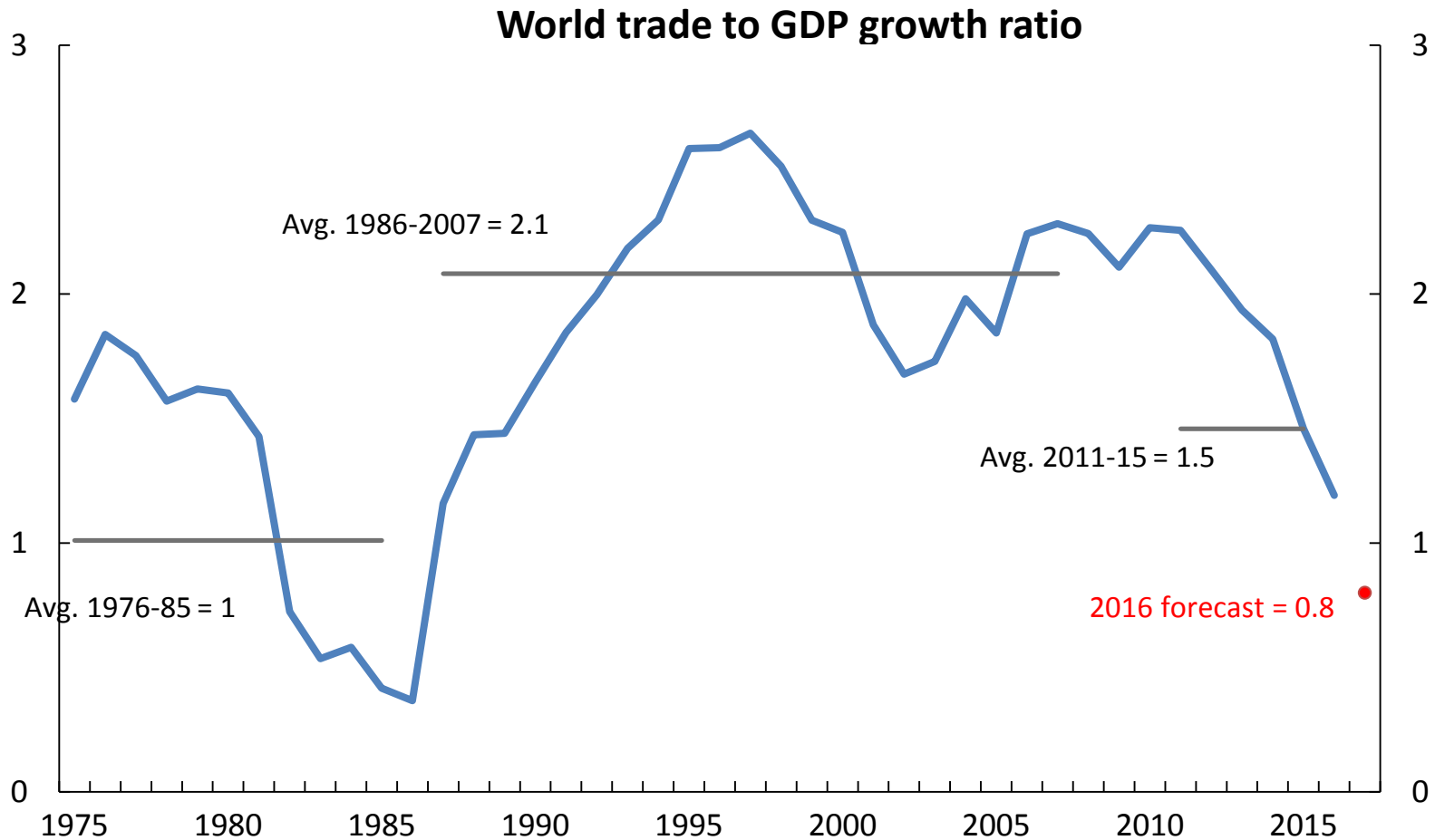


Note: SE Asia includes Chinese Taipei, Hong Kong, Malaysia, the Philippines, Singapore, Thailand and Vietnam. Euro area and SE Asia include intra-regional trade.

Source: OECD June 2016 Economic Outlook database; OECD calculations.



# World trade has slowed dramatically relative to GDP growth

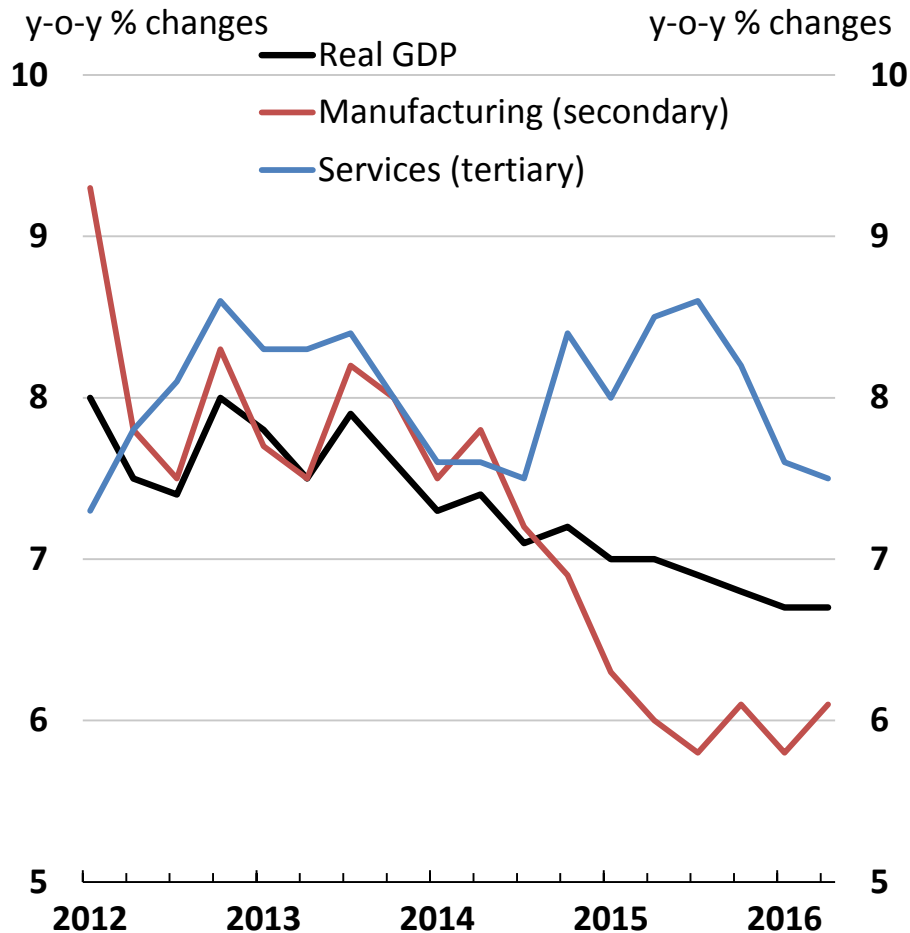


Note: World trade is goods plus services trade volumes measured at market exchange rates in US dollars.  
World GDP volumes measured at market exchange rates in US dollars.  
Source: OECD Economic Outlook databases.

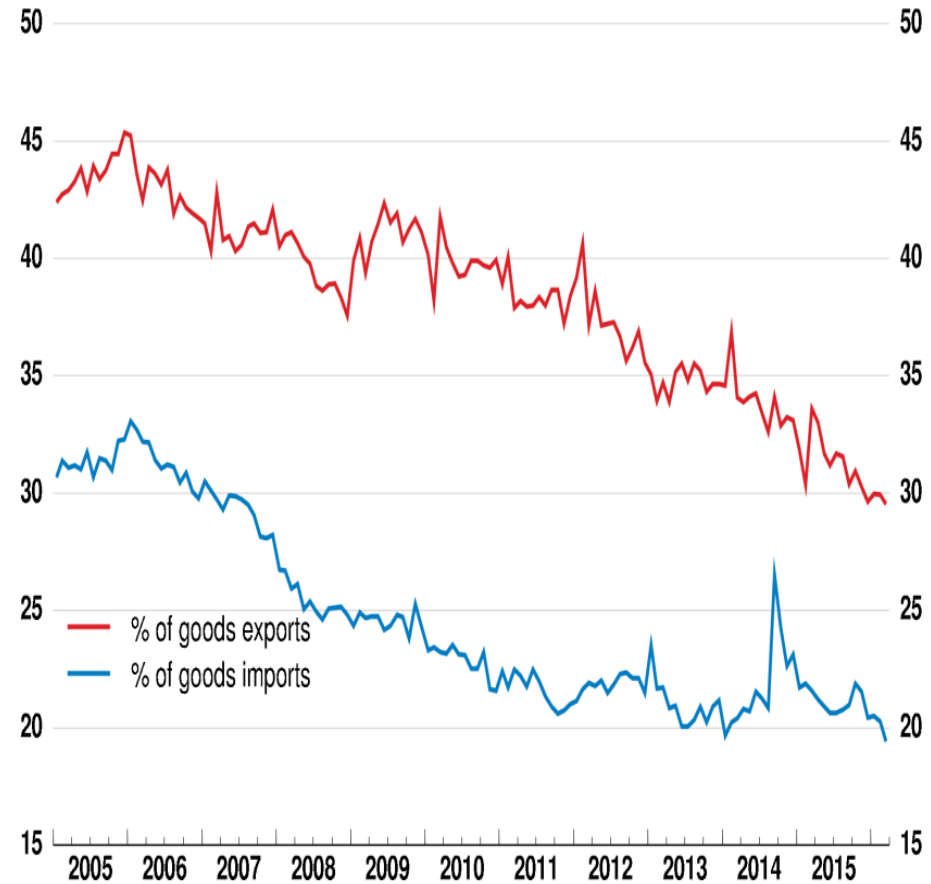


# Rebalancing and on-shoring in China has contributed to weak trade growth

## Composition of growth in China



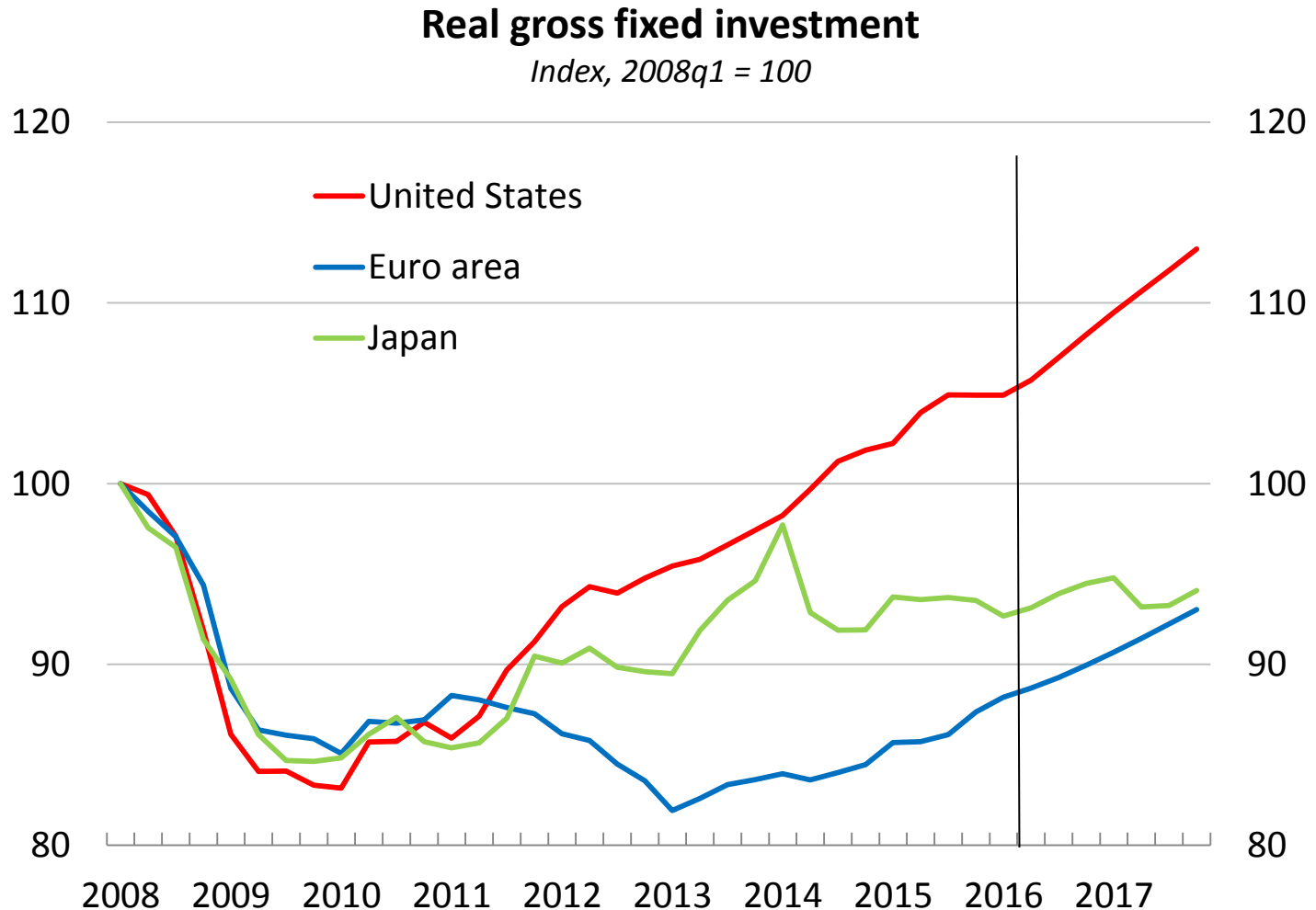
## The share of China's processing trade is declining



Note: Manufacturing (secondary) includes construction and utilities.  
Source: National Bureau of Statistics; General Administration of Customs.



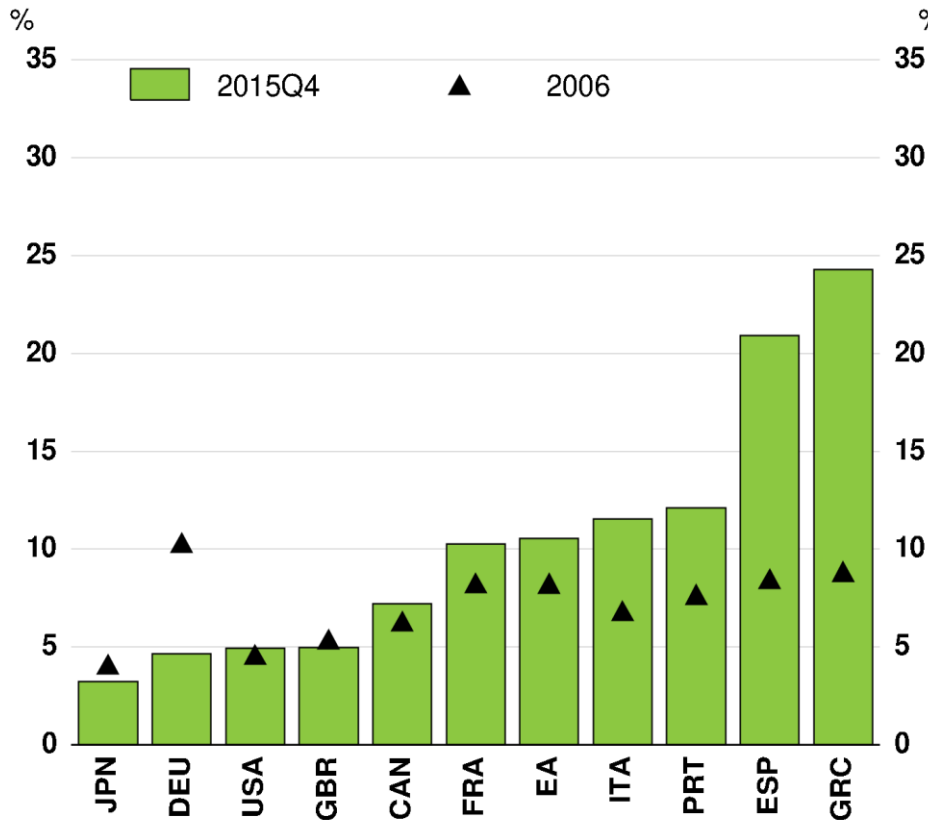
# Global investment, which is trade intensive, remains sluggish



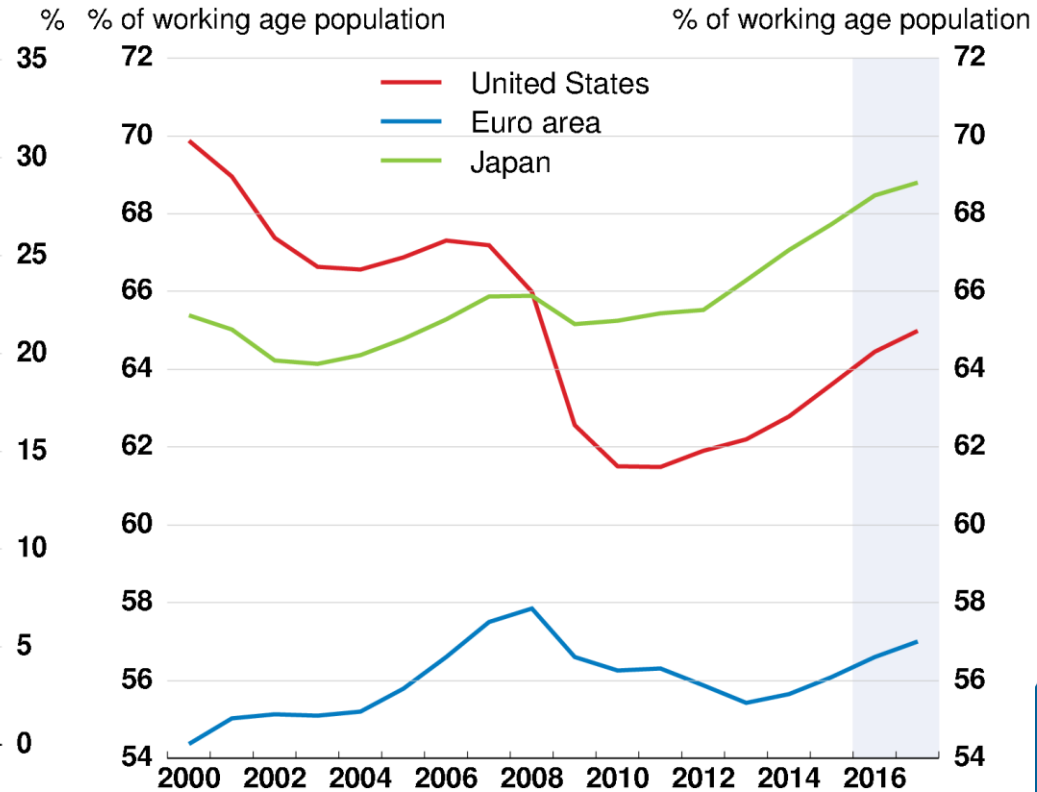


# Labour markets are healing only slowly

## Unemployment rate



## Employment rate



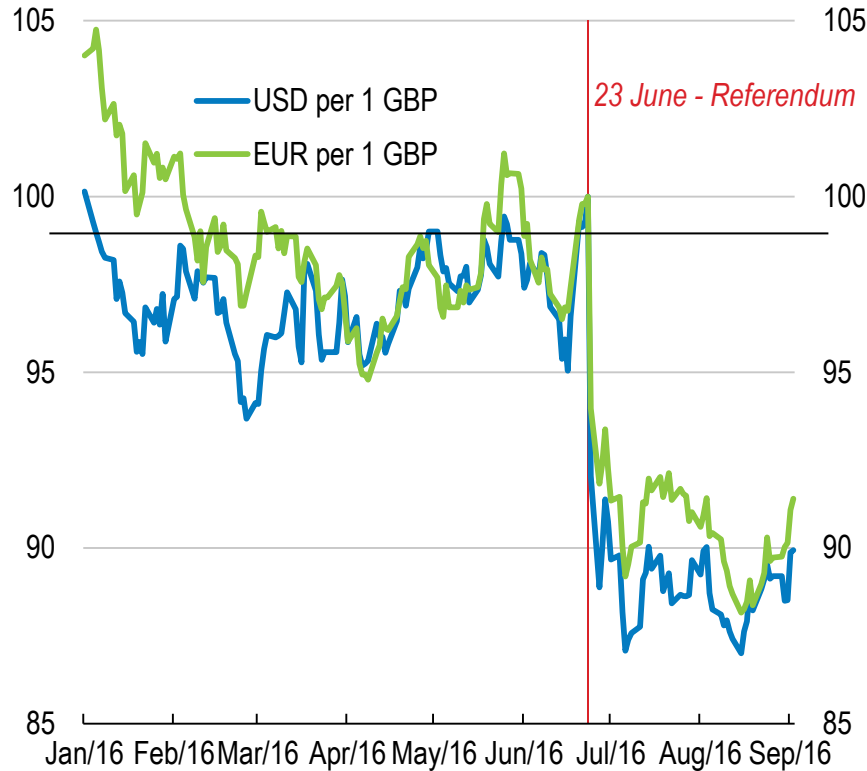




# UK growth has slowed following the EU referendum and risks are to the downside

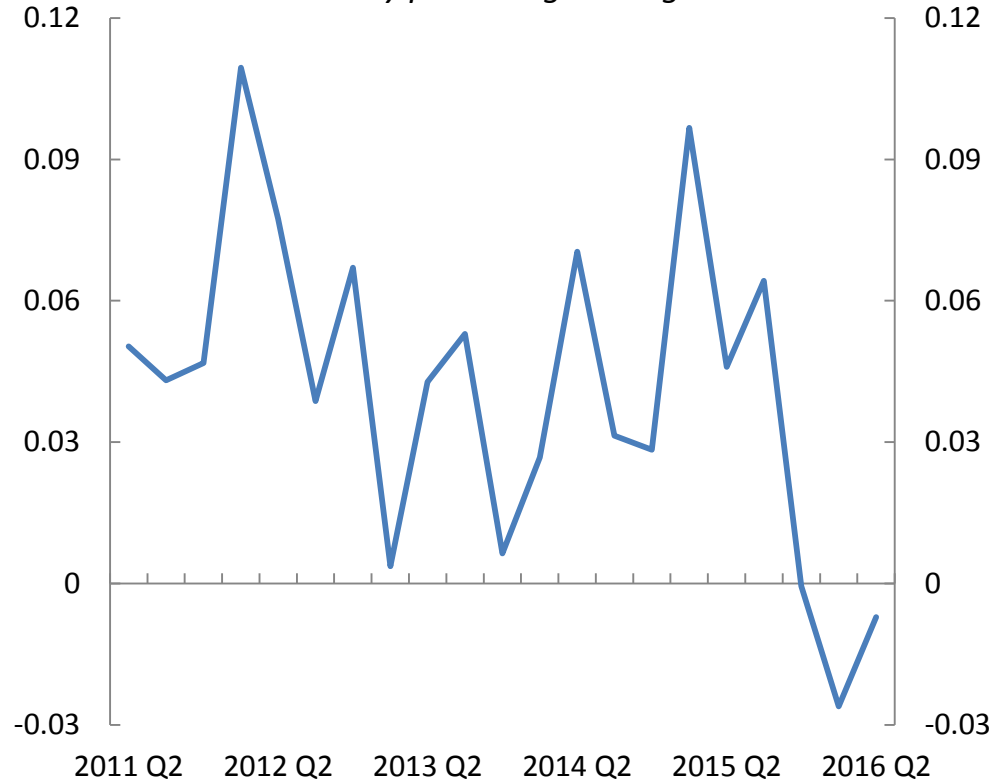
## Sterling has weakened significantly

Index, 23 June 2016 = 100



## Business investment declined in the first half of the year

Y-o-y percentage changes





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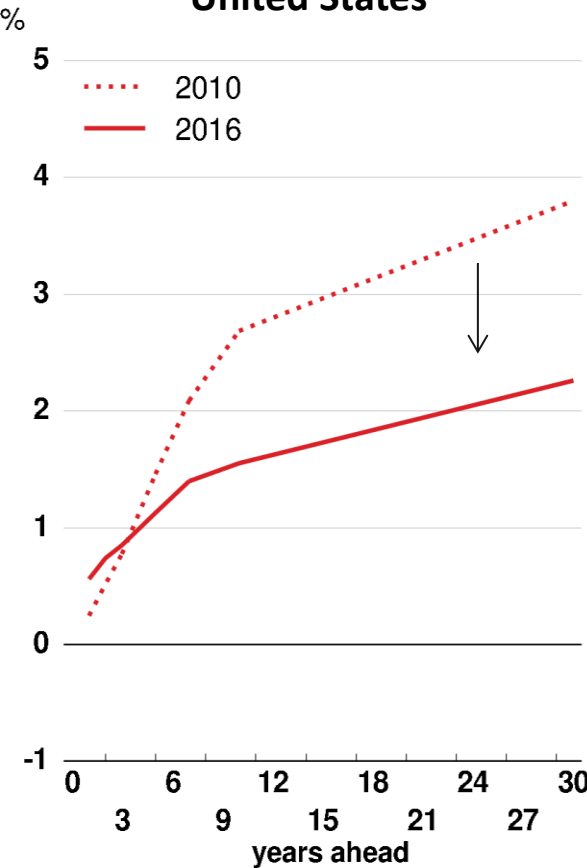
**Exceptionally low interest rates  
distort financial markets and  
raise risks**



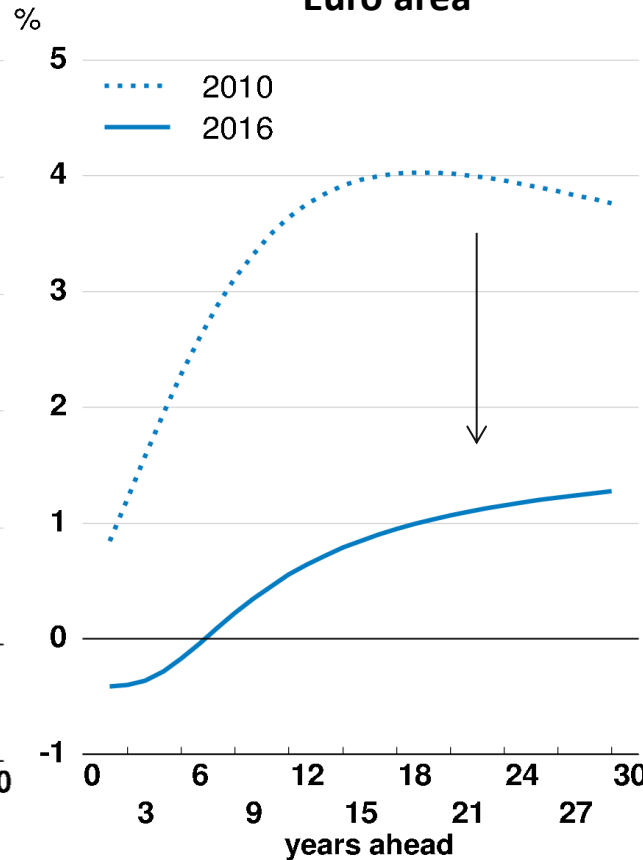
# Low and negative interest rates on long-term sovereign bonds

## Yield curves for government bonds have fallen and flattened

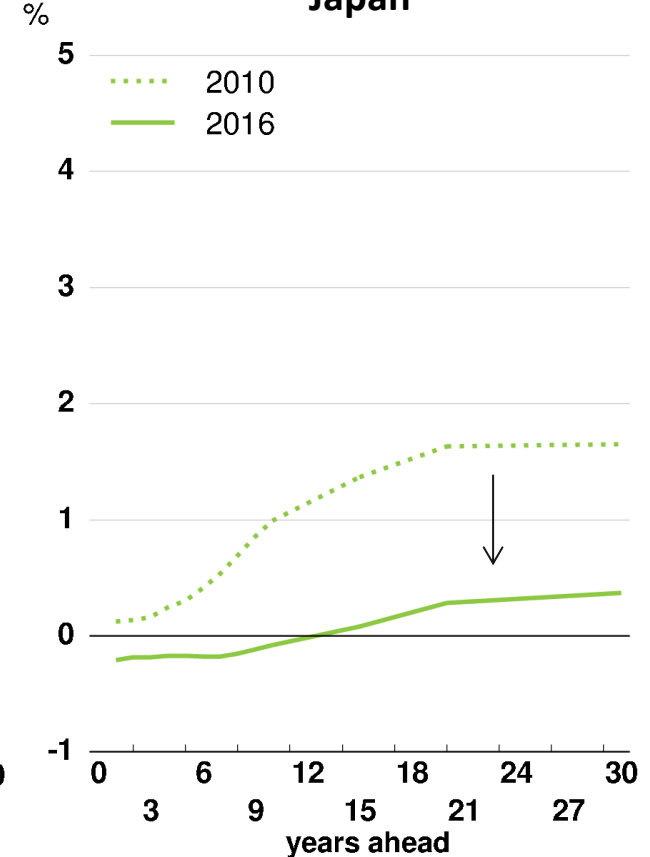
### United States



### Euro area



### Japan

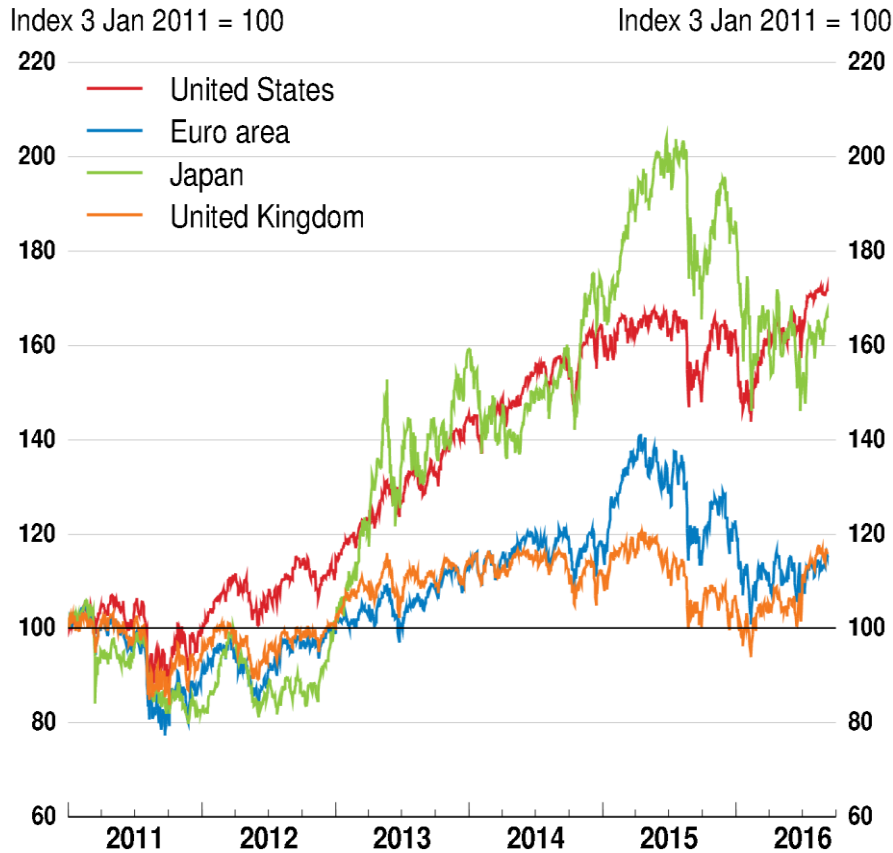


Note: Bond yields are for the average in August.  
Source: Bloomberg.

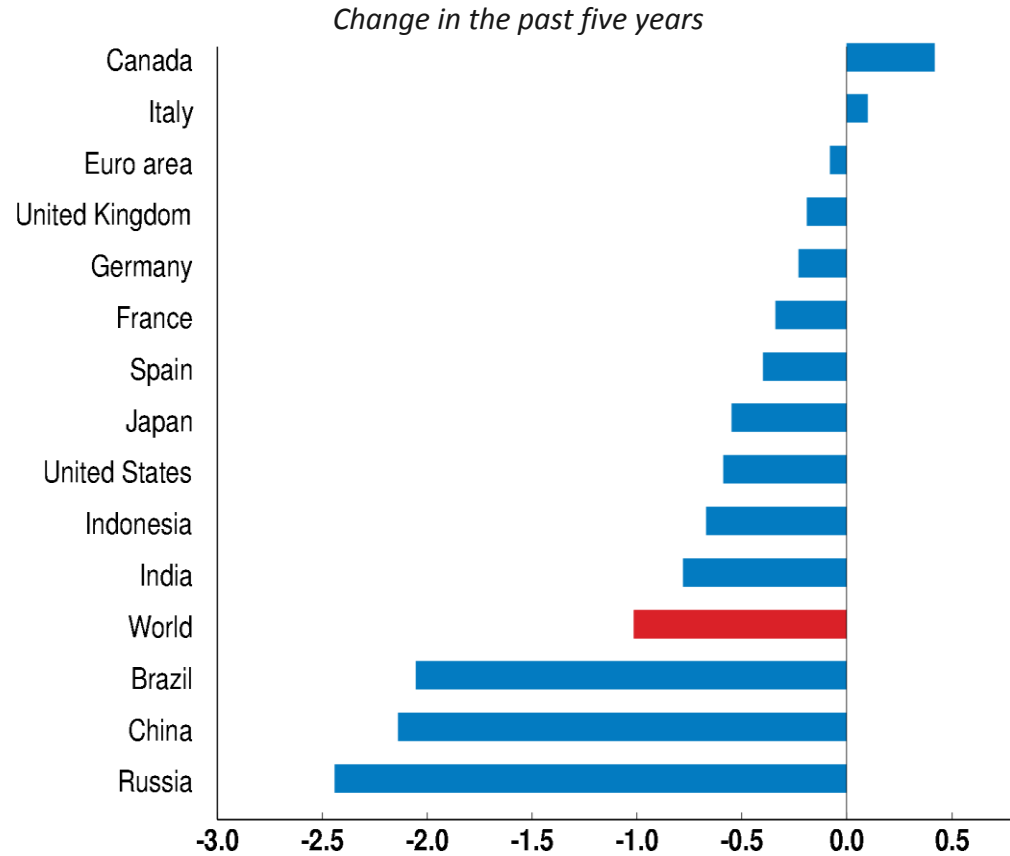


# Asset price inflation contrasts with lower long-term growth prospects

## Equity prices



## Long-term GDP growth expectations



Note: Difference between April 2011 projections of average annual GDP growth over 2012-2021 and April 2016 projections of average annual GDP growth over 2017-2026. OECD and World estimates based on weighted average of countries shown, using 2015 PPP shares.

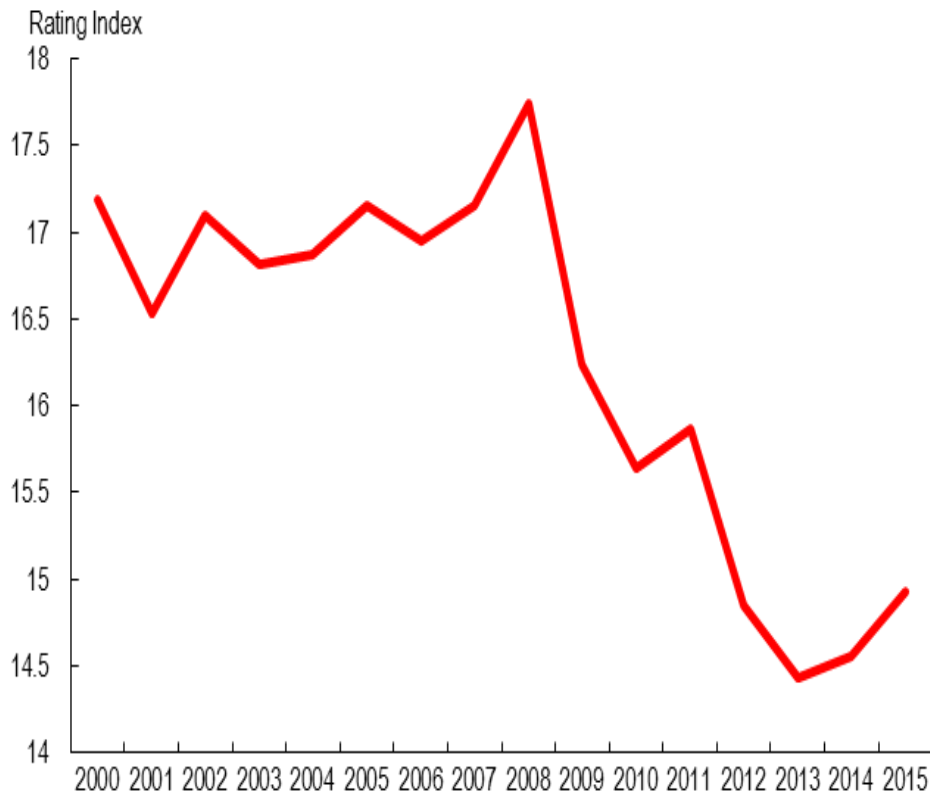
Source: Consensus Forecasts; Thomson Reuters; and OECD calculations.



# Search for yield in some markets add to risks

## Quality of corporate bonds has declined

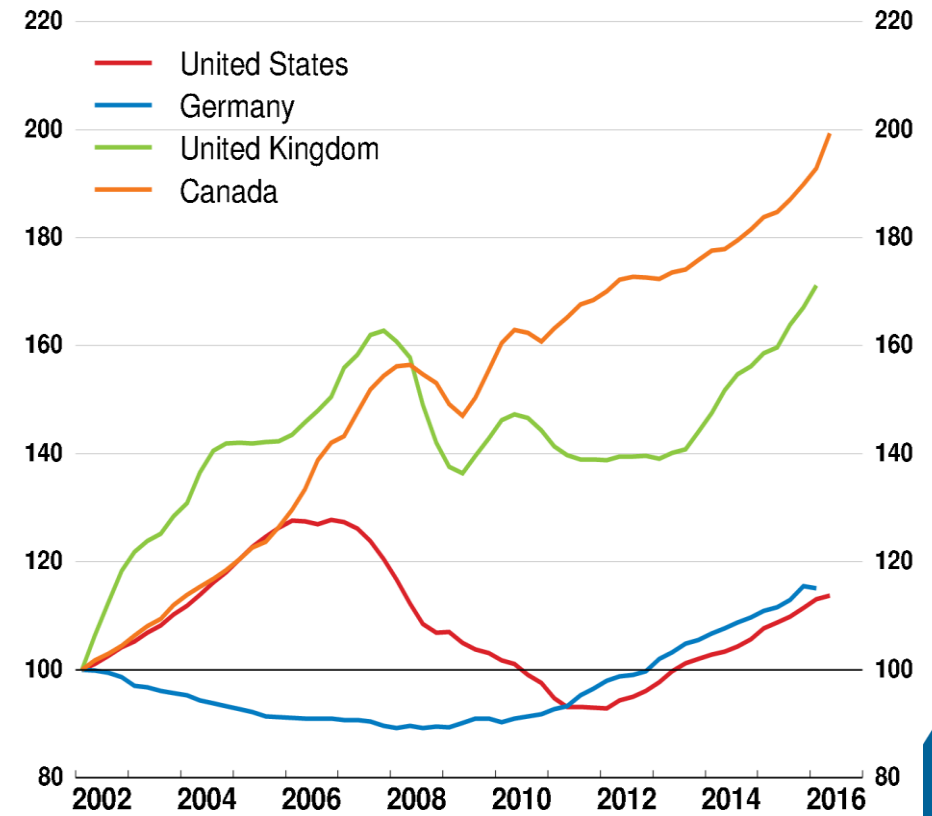
*Average rating of newly issued bonds*



## Real house prices

Index 2002q1 = 100

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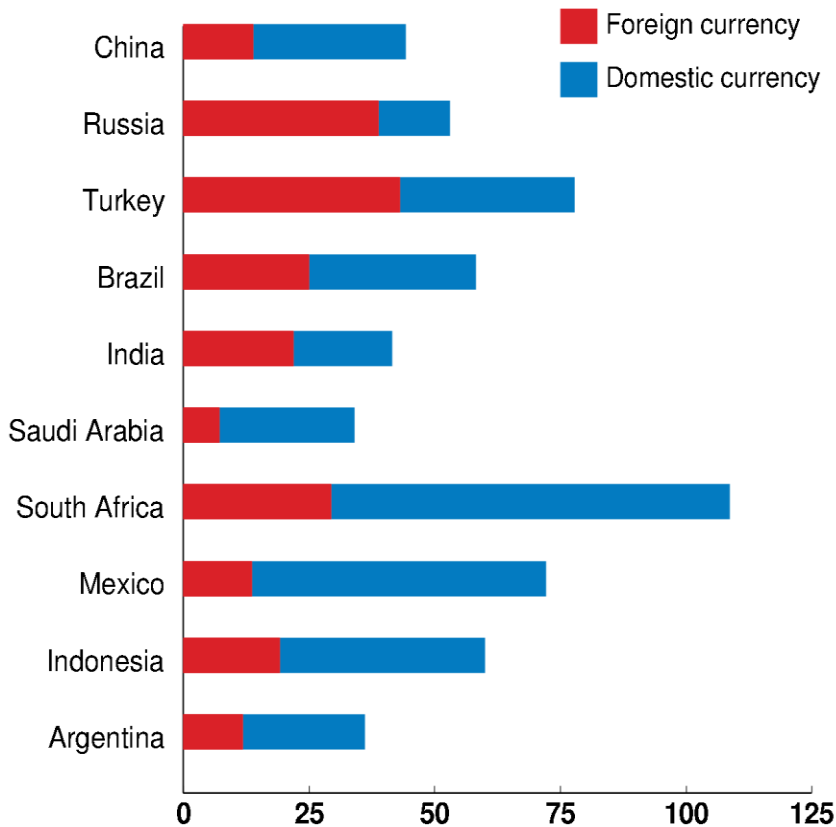




# Some EMEs are vulnerable to exchange rate shocks and high domestic debt

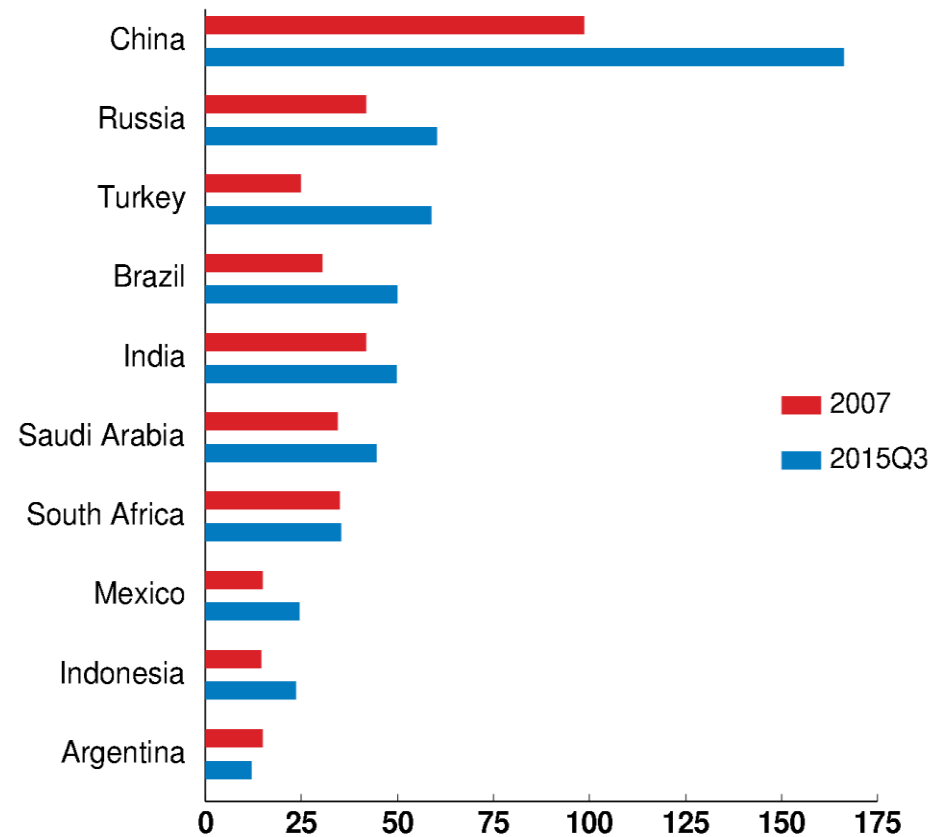
## External liabilities

Per cent of GDP, 2015 Q3 or latest available



## Credit to corporations has increased

Per cent of GDP



Note: Credit to non-financial corporations. For South Africa, 2008 Q1 instead of 2007.  
Source: OECD June 2016 Economic Outlook database; BIS; IMF; and OECD calculations.

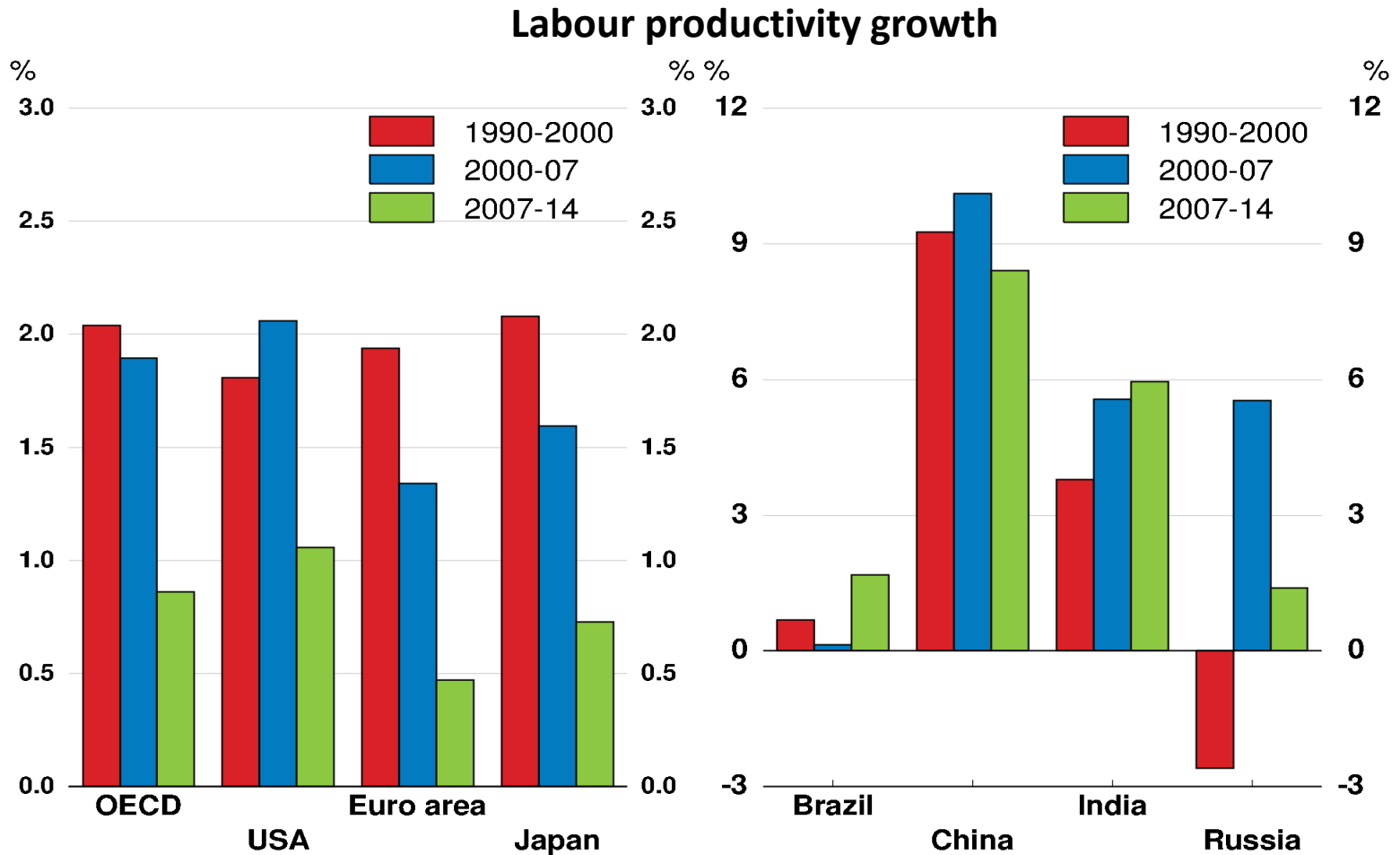


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**Slowing productivity growth  
and rising inequality  
present significant challenges**



# Declining productivity growth is widespread in advanced economies and some EMEs



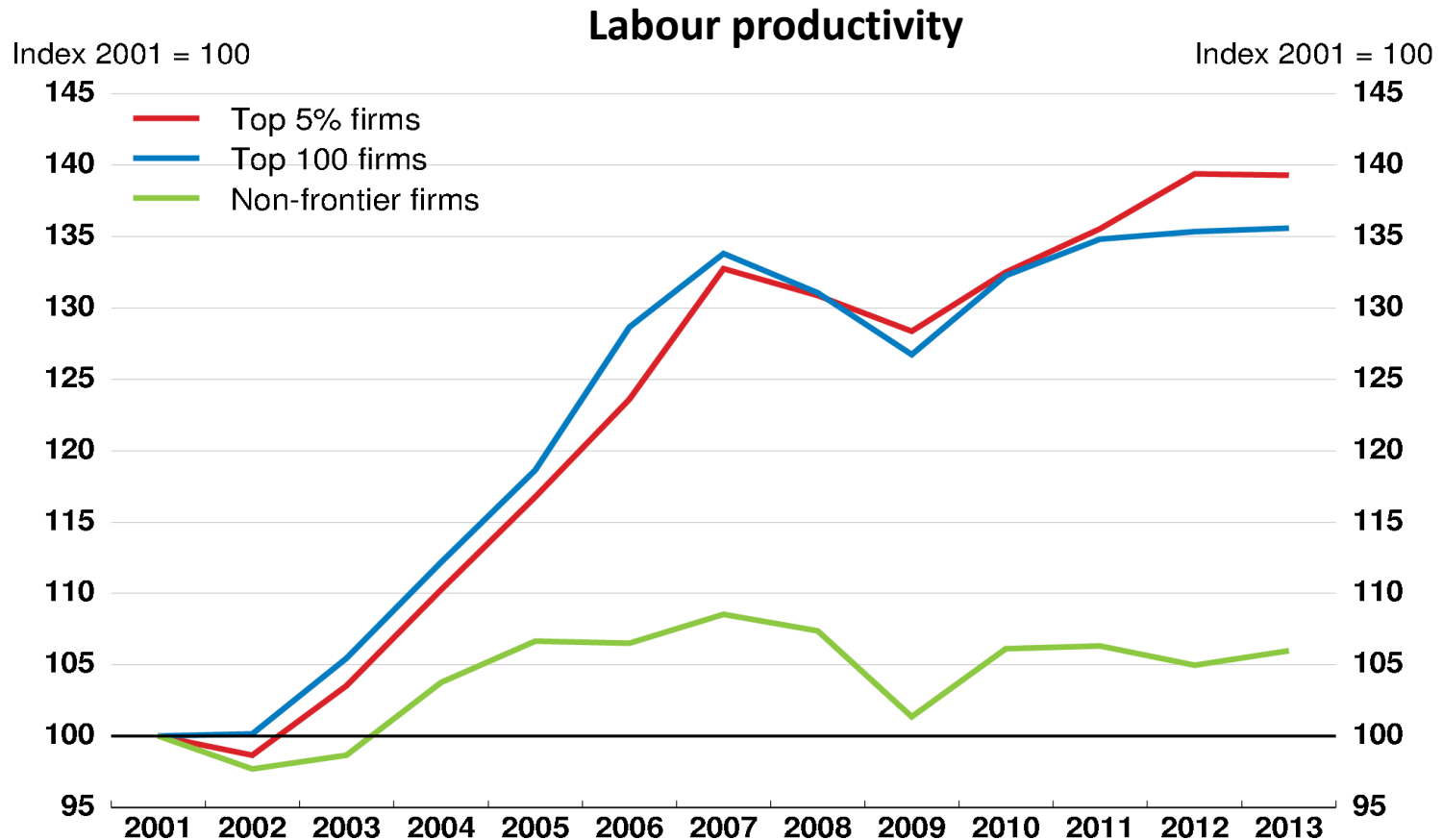
Note: Annualised rate. Output per hour worked for OECD economies. For non-OECD economies, measured as output per worker. Brazil is for 1991-2000.

Source: OECD National Accounts database; OECD Productivity database.





# Innovation and diffusion have slowed



Note: Each line shows the average labour productivity (value added per worker). The “Top 5%” and “Top 100” are the globally most productive firms in each two-digit industry. “Non-frontier firms” is the average of all firms, excluding the Top 5%. Included industries are manufacturing and business services, excluding the financial sector. The coverage of firms in the dataset varies across the 24 countries in the sample and is restricted to firms with at least 20 employees.

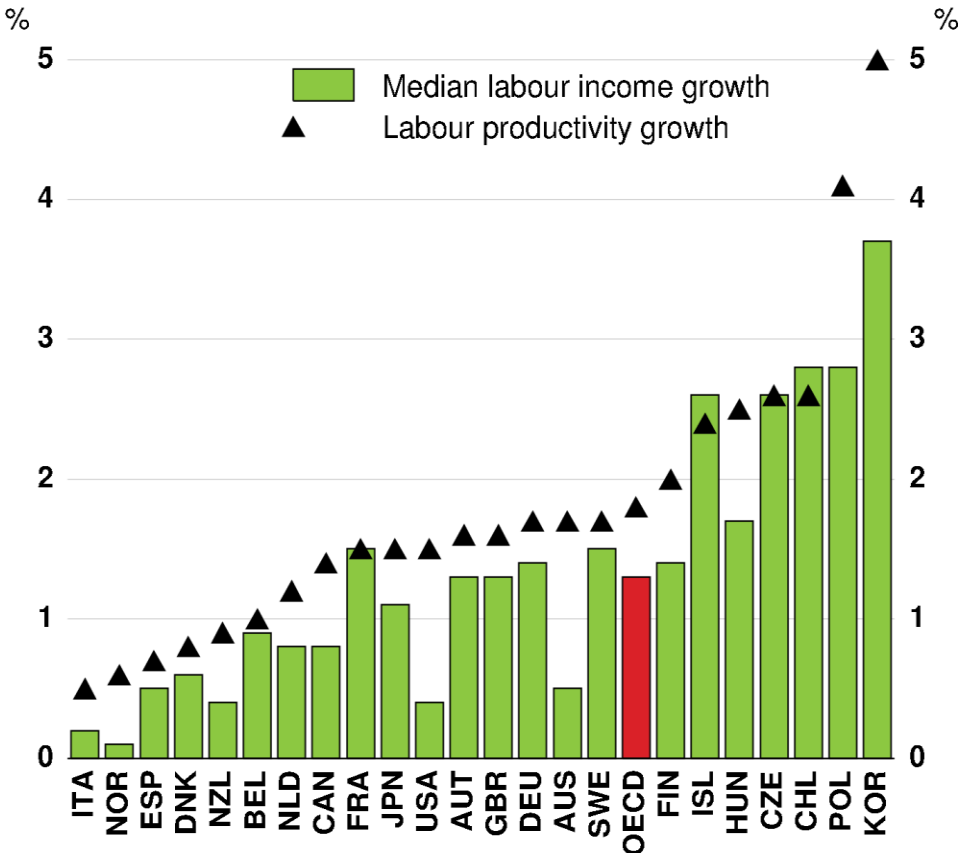
Source: OECD preliminary results based on Andrews, D., C. Criscuolo and P. Gal (2016), “Mind the Gap: Productivity Divergence between the Global Frontier and Laggard Firms”, OECD Productivity Working Papers, forthcoming; Orbis data of Bureau van Dijk.



# Incomes are rising very slowly for most workers, increasing inequality

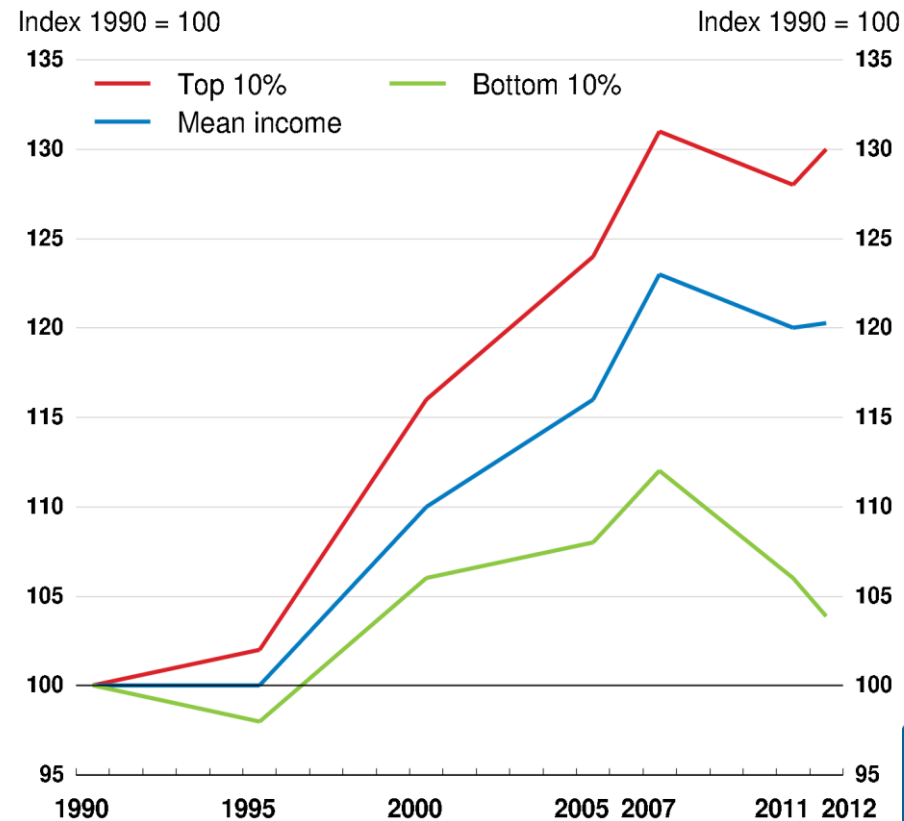
## Wages growing less than productivity

Annualised real growth rates, per hour worked, 1990-2013



## Inequality in income is rising in the OECD

Real household disposable income, total population



Note: OECD is the unweighted average of the countries for which data are available.

Source: OECD estimations based on Kappeler et al. (2016), "Decoupling of Productivity and Median Wage Growth: Macro-Level Evidence", OECD Economics Department Working Papers, forthcoming; OECD National Accounts database; OECD Earnings database; OECD Income Distribution database; OECD calculations.



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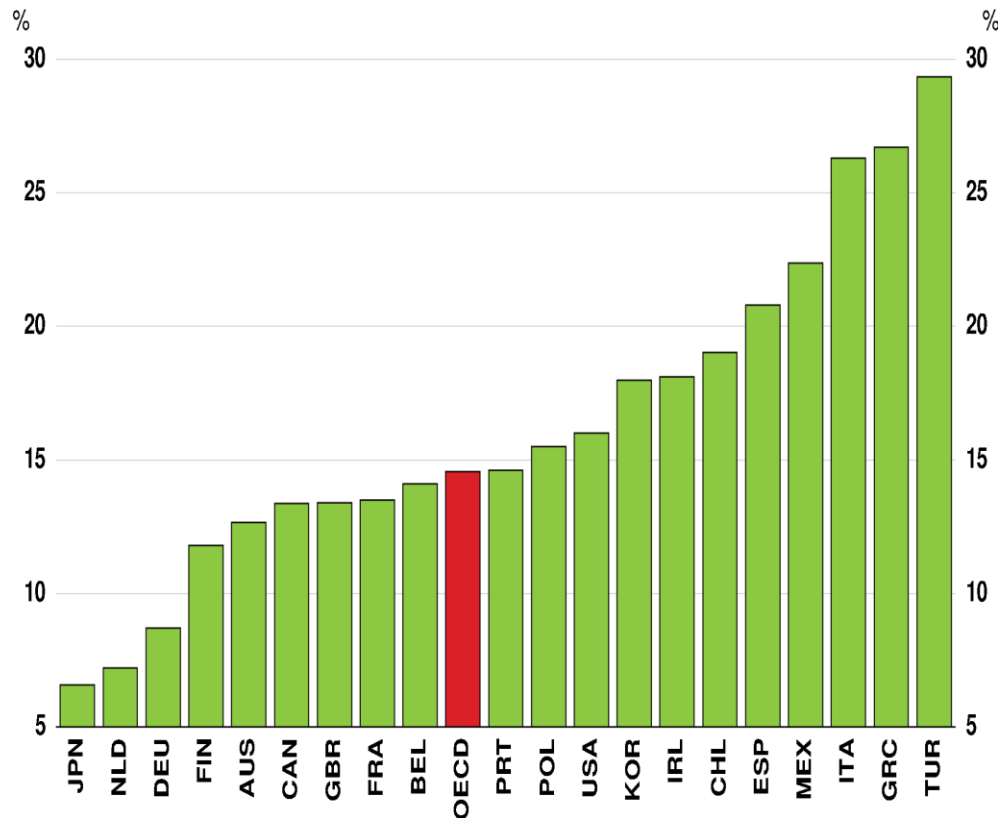
**Stronger collective  
fiscal and structural  
policy action is needed  
to deliver on promises**



# Failure to get out of the low-growth trap means broken promises to the youth

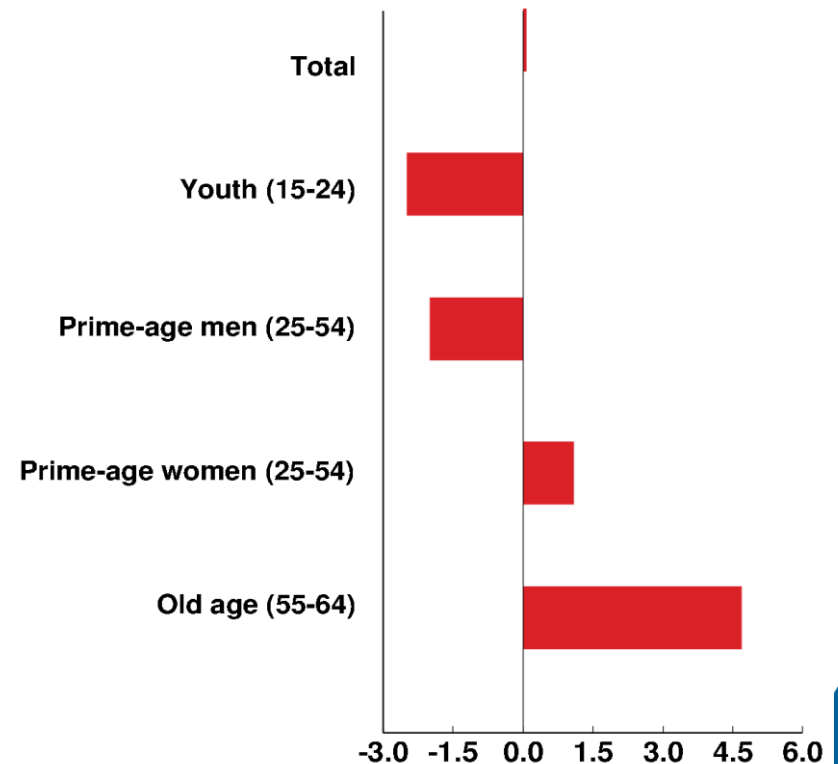
## Inactive and unemployed youth

Share of all youth (15-29 years old)



## Change in OECD employment rate

From Q4 2007 to Q4 2015, % pts



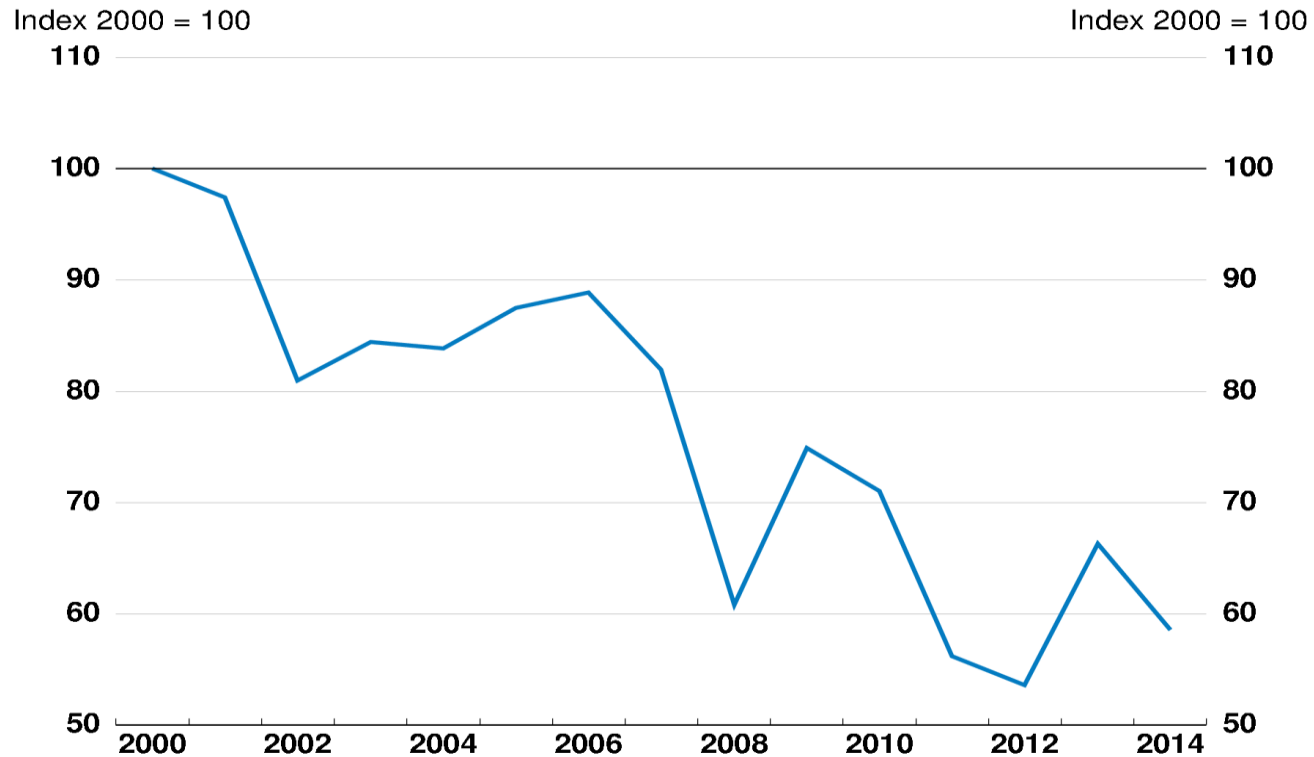
Note: For LHS, OECD is the unweighted average of 34 OECD countries. 2013 for Chile and the United States. Youth aged 15-24 for Japan.

Source: OECD calculations based on national labour force surveys; OECD Short-Term Labour Market Statistics database.



# Keeping promises to older people is more difficult with low returns and low growth

## Falling retirement income for a given contribution



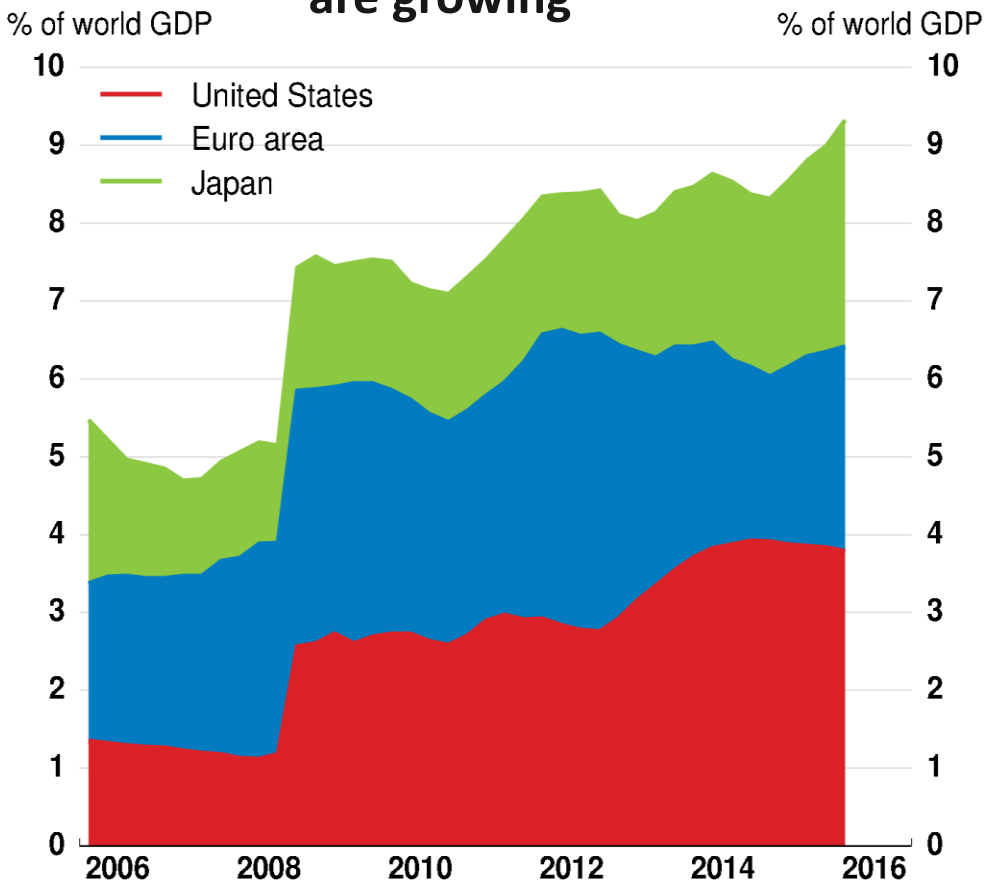
Note: The chart shows the impact of falling interest rates on real incomes in retirement for a defined contribution scheme. Annuity payments calculated for the same hypothetical individual contributing 10% of wages over a 40 year period. The assets are invested in a portfolio comprising 60% of variable income (fixed return of 4.5%) and 40% of fixed income (historical 10 year government bonds yields, kept to maturity) and used at retirement to buy an annuity with a life expectancy of 20 years at age 65 using actual government bond yields for calculating the annuity premium. Constant annual inflation of 2 per cent and productivity growth of 1.5 per cent are assumed.

Source: OECD Business and Finance Outlook 2015.

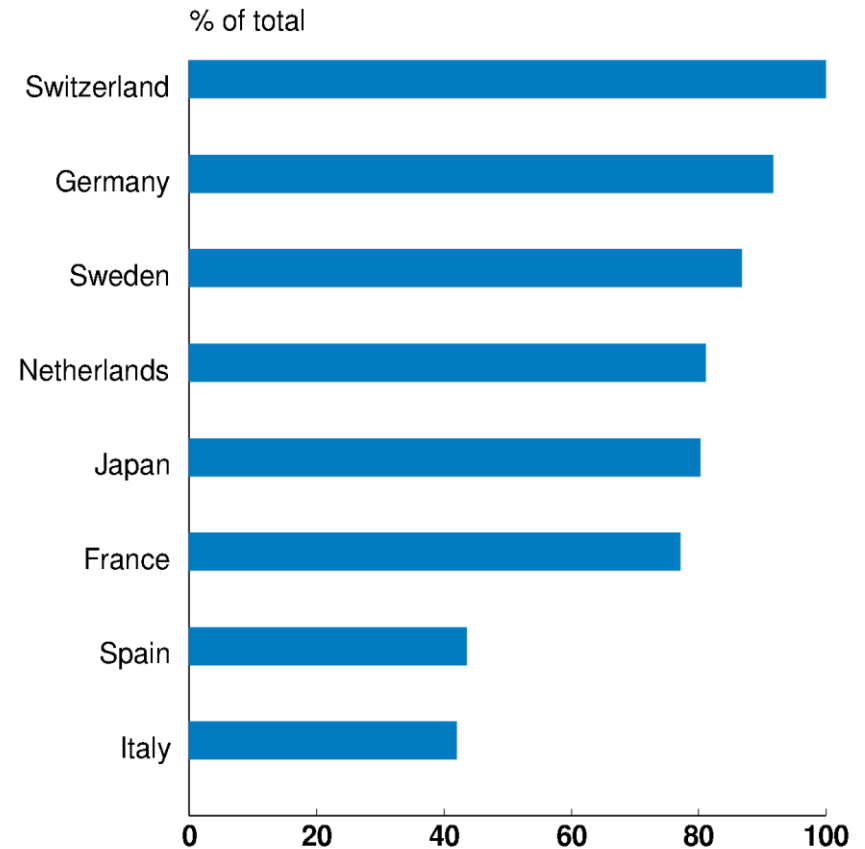


# Monetary policy support has become overburdened and creates risks

## Central Bank balance sheets are growing



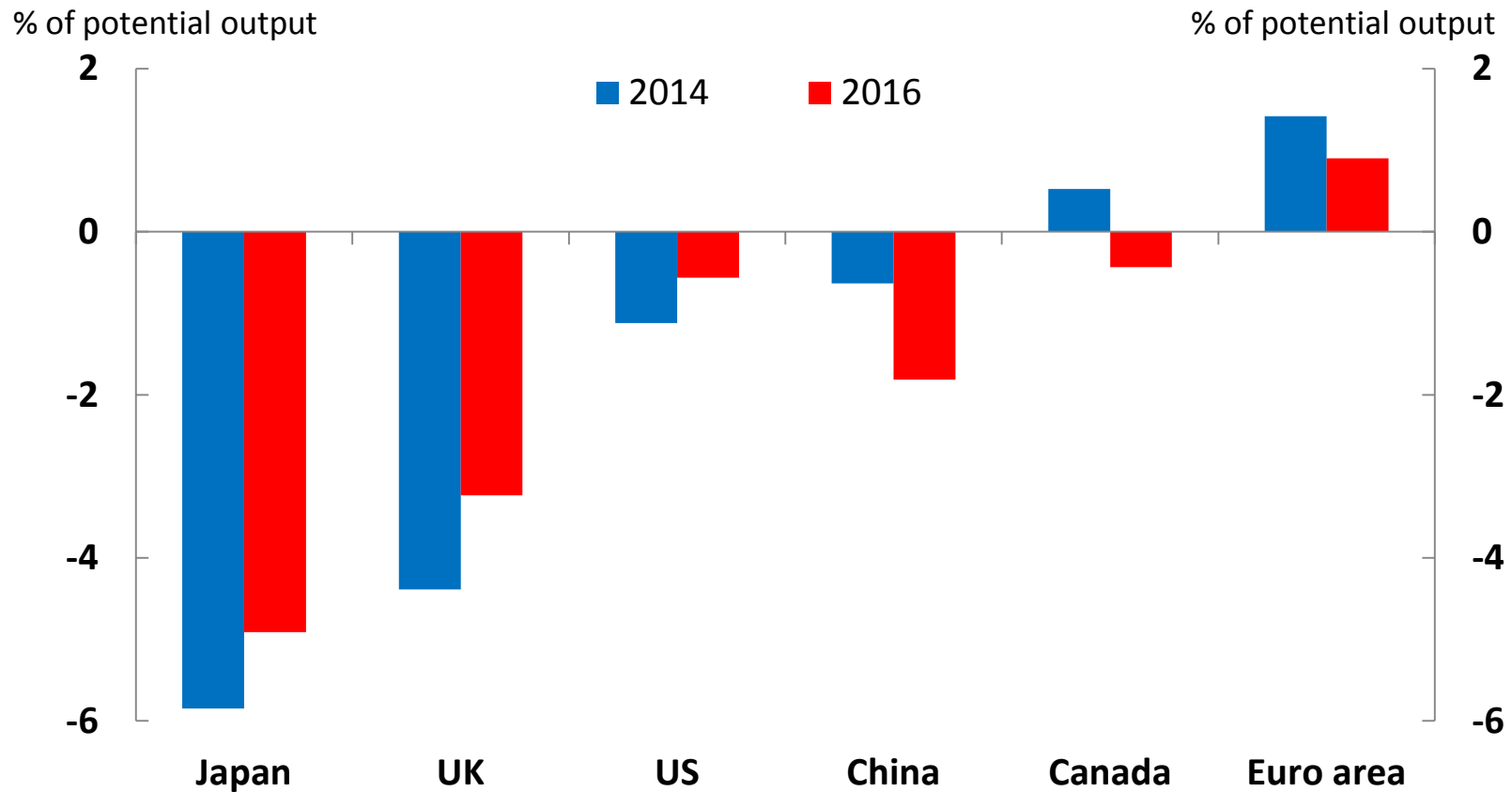
## A high share of government debt is trading at negative yields





# Fiscal stance is contractionary in some major economies

## Underlying primary balance



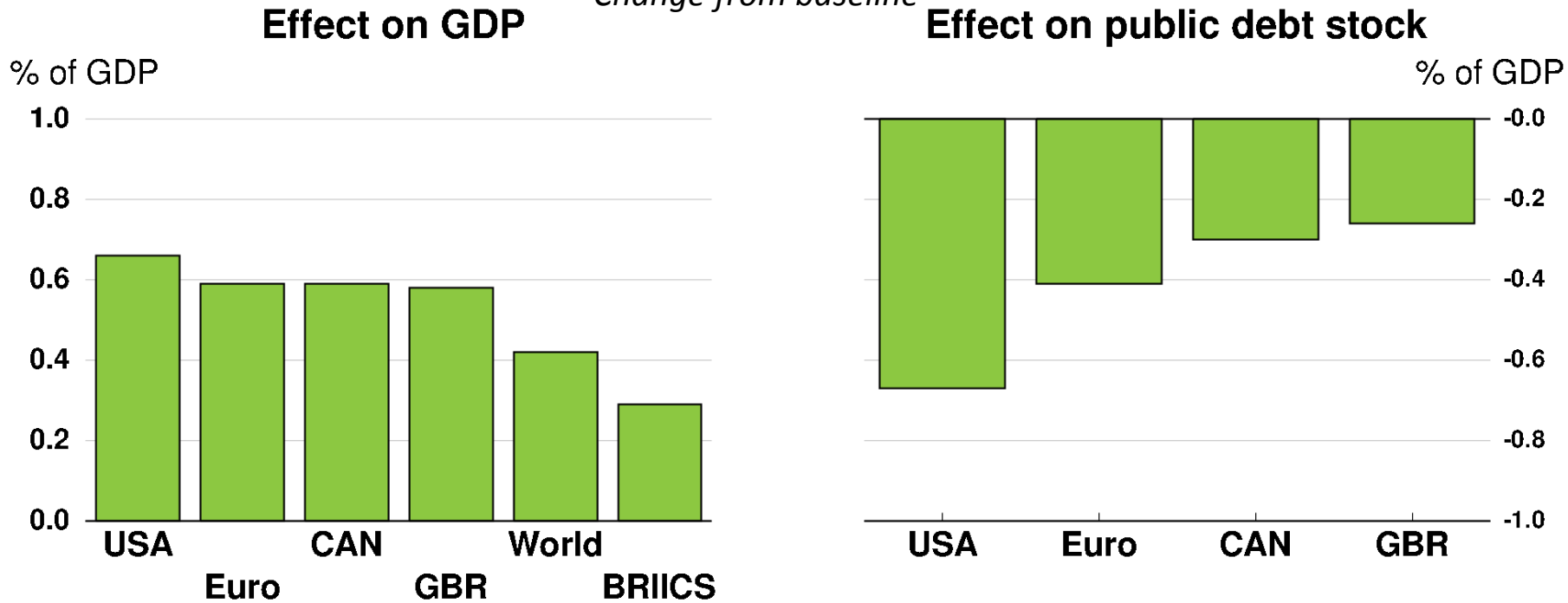
Note: For China, general government balance as a per cent of GDP.  
Source: OECD June 2016 Economic Outlook database.



# Use fiscal space provided by low interest rates to boost growth

1st year effects of a ½ per cent of GDP public investment increase by all OECD economies

*Change from baseline*



Collective action should focus on quality public investment and pro-growth and pro-equity structural policies

Note: Simulation using the NiGEM model, based on a two-year increase in the level of government investment equivalent to ½ per cent of GDP per annum in all OECD countries. The euro area figures are a weighted average of Germany, France and Italy.

Source: OECD June 2016 Economic Outlook database; OECD calculations.

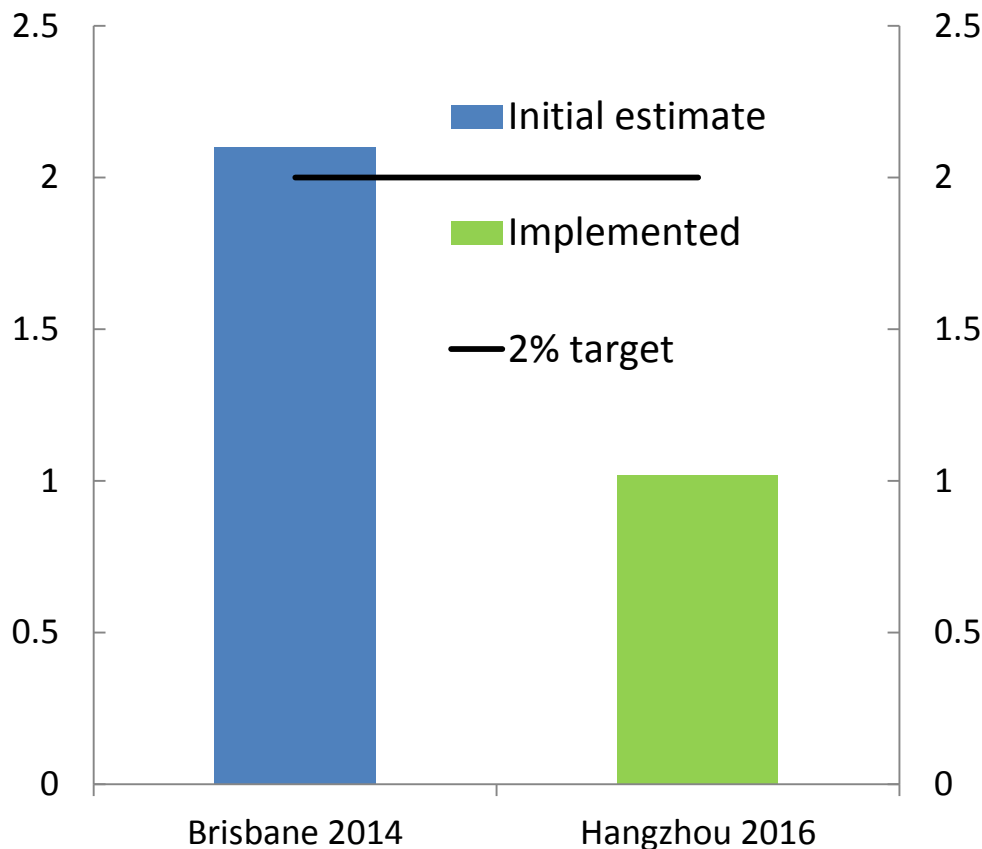




# More ambition is needed to increase the pace of pro-growth and inclusive growth reforms

## Impact of G20 structural reforms

*G20 GDP by 2018, per cent deviation from baseline*



Source: OECD and IMF.

## Unique package for each country:

Shift the composition of public spending to investment

Encourage firm entry and investment in service sectors

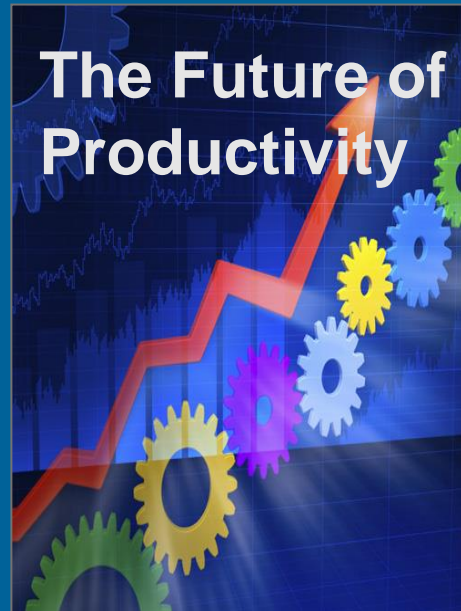
Reduce barriers to geographic and jobs mobility

Package simultaneous labour and product market reforms

Improve function of financial system and access to credit



# THANK YOU!



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Prepared by William Witheridge.