

An unfolding recovery

OECD Economic Outlook



2 May 2024

Mathias Cormann, OECD Secretary-General

Clare Lombardelli, OECD Chief Economist

Editorial

AN UNFOLDING RECOVERY

Cautious optimism has begun to take hold in the global economy, despite modest growth and the persistent shadow of geopolitical risks. Inflation is easing faster than expected, labour markets remain strong with unemployment at or near record lows. Private-sector confidence is improving. Yet the impacts of tighter monetary conditions are being felt, especially in housing and credit markets.

This recovery is unfolding differently across regions. The United States and a number of large emerging markets continue to exhibit strong growth, in contrast to European economies. The mixed macroeconomic landscape is expected to persist, with inflation and interest rates declining at differing paces, and differing needs for fiscal consolidation.

Despite a more balanced risk outlook, substantial concerns remain. High geopolitical tensions, particularly in the Middle East, could disrupt energy and financial markets, causing inflation to spike and growth to falter. Debt service burdens are already significant, and could rise further as low-yielding debt is rolled over or fixed-term borrowing rates are renegotiated. Expectations that inflation will continue to decline steadily might also prove misplaced.

In the medium and longer term, the fiscal position is worrying. Governments must address mounting debt and rising expenditure demands due to ageing populations, climate change mitigation, and defence needs. Increasing debt-service costs further worsen fiscal sustainability. There is never an attractive time to do this, but conditions enable this rebuilding to begin now. A robust medium-term approach to containing spending, building revenues, and focusing policy efforts on growth enhancing structural reforms are all needed.

Disappointing growth underscores the case for strengthening global trade and productivity. Trade and industrial policies should aim for resilient global value chains through diversification without undermining the benefits of open trade. At the same time, accelerating decarbonisation requires bold policy measures, such as investing in green and digital infrastructure, enhancing carbon pricing, and promoting technology transfer. The developments in Artificial Intelligence (AI) provide a welcome and much needed opportunity to raise productivity. Ensuring the benefits materialise and are broadly shared requires investments in education and training and strong and internationally consistent competition policy.

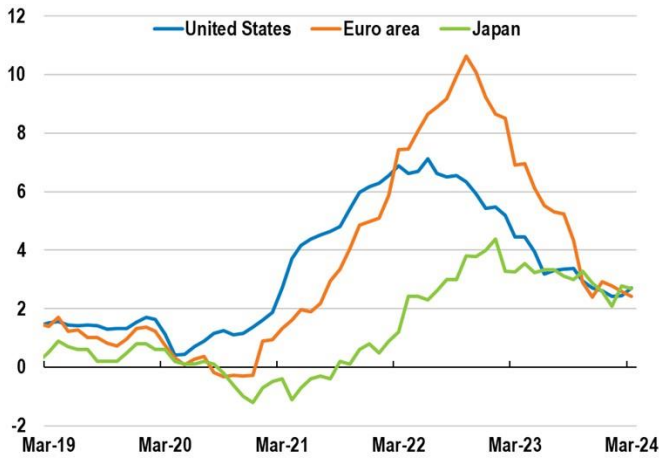
2nd May 2024



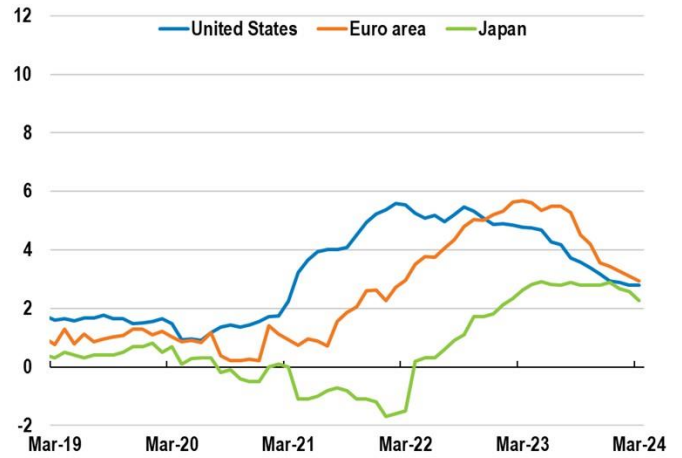
Clare Lombardelli
OECD Chief Economist

Disinflation continues

Headline inflation
%, year-on-year



Core inflation
%, year-on-year

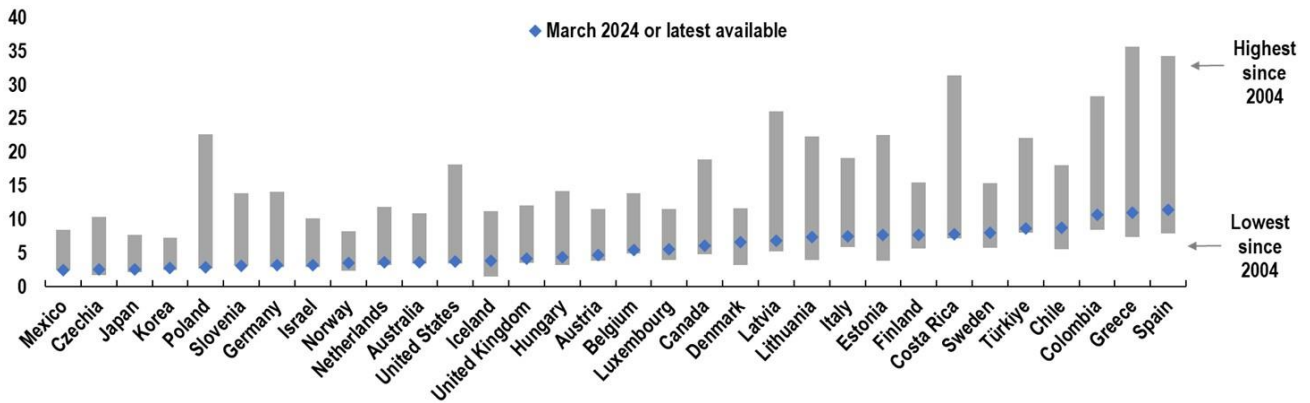


Note: The chart refers to the harmonised index of consumer prices for the euro area, personal consumption expenditure price index for the United States, and national consumer price index for Japan. Core inflation excludes prices of energy and food and differs from the domestic definition of Japan.

Source: OECD Short Term Indicators database; Eurostat; and OECD calculations.

Labour markets are easing but remain tight

OECD unemployment rate
%

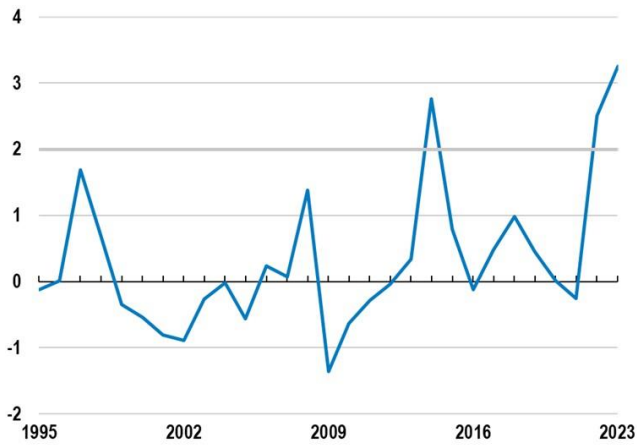


Note: Earliest available data is 2005 for Türkiye, 2007 for Columbia, 2010 for Costa Rica, 2012 for Israel. Latest available data is January 2024 for Chile, Costa Rica, Iceland, United Kingdom, March 2024 for Canada, Korea, and the United States, and February 2024 for the other economies.

Source: OECD Short-term Labour Market Statistics database; and OECD calculations.

Japan has raised interest rates

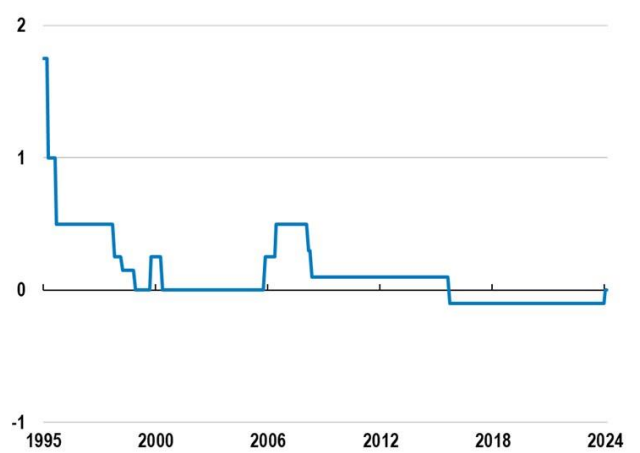
Inflation
%, year-on-year



Note: The chart refers to the national consumer price index.

Source: OECD Short Term Indicators database; and OECD calculations.

Policy rate
%

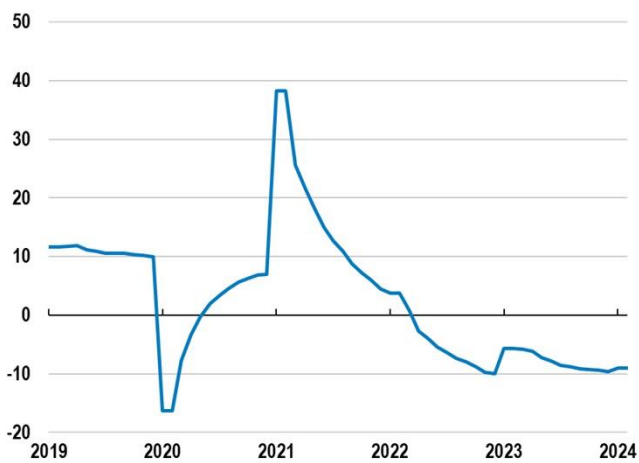


Note: From March 2024, the policy rate refers to the minimum of Bank of Japan's rate range.

Source: OECD Economic Outlook 115 database.

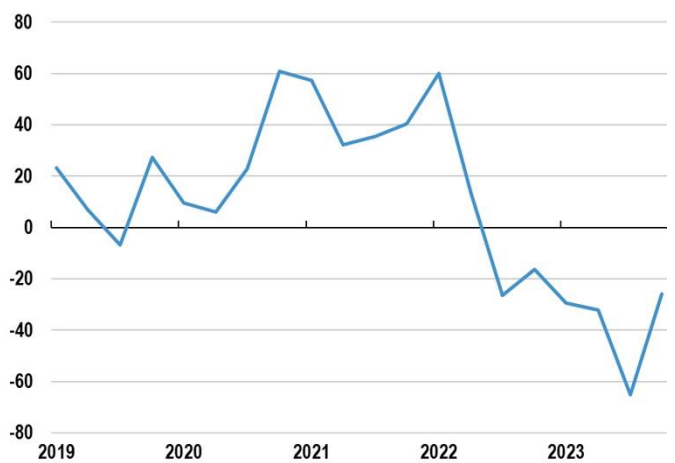
China faces challenges and risks

Real estate investment
%, year-on-year



Source: CEIC.

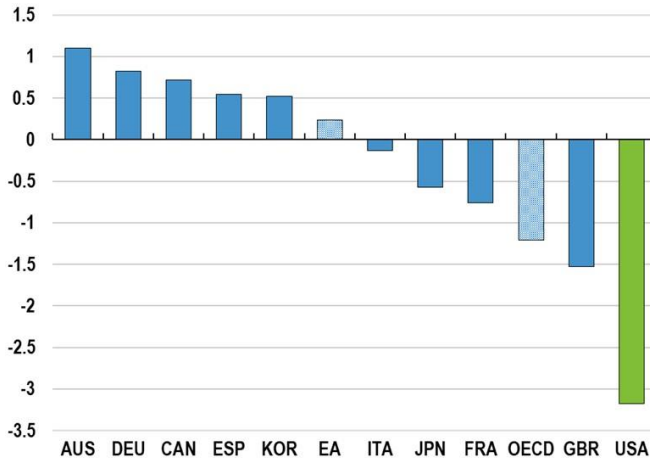
Inward foreign direct investment
Billion USD



Fiscal policy and consumption supported growth in the United States

Change in underlying primary balance

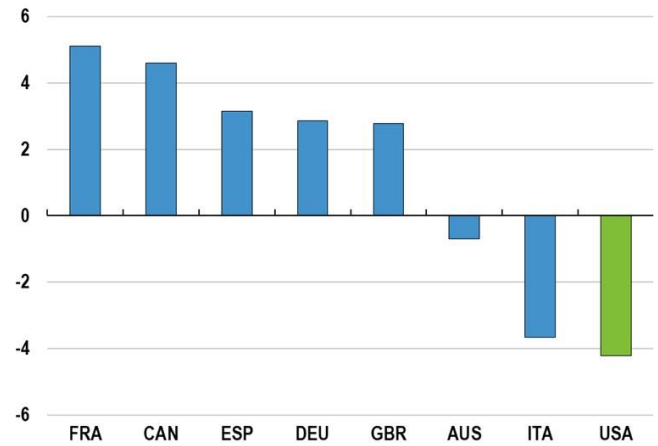
% of potential GDP, 2022-23



Source: OECD Economic Outlook 115 database; and OECD calculations.

Change in estimated excess savings over the last two years to 2023Q4

% pts of disposable income



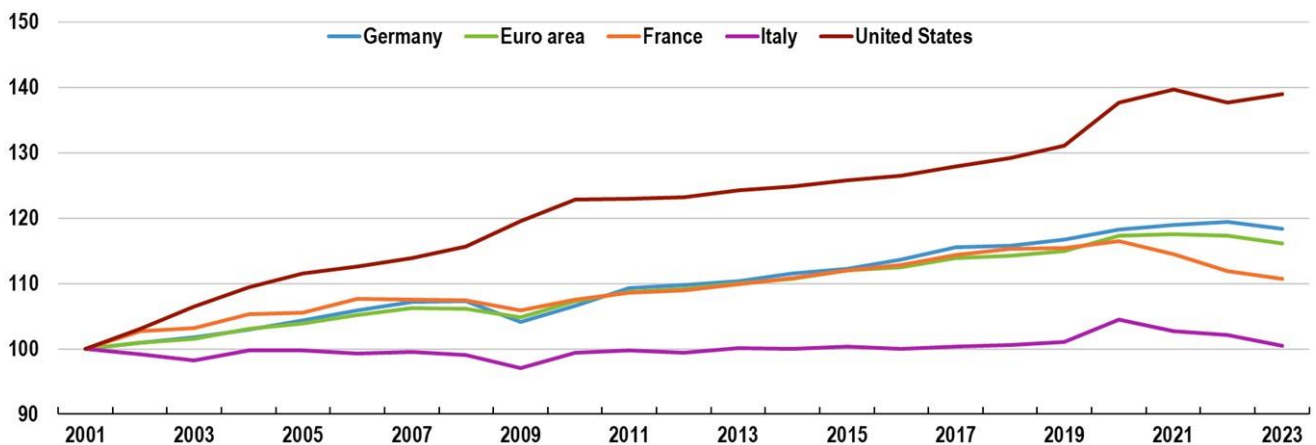
Note: Excess savings are the cumulative sum of quarterly saving flows since 2020Q1 relative to the levels that would have occurred if the saving rate had been equal to the 2015-19 average.

Source: OECD Economic Outlook 115 database; OECD Quarterly National Accounts database; and OECD calculations.

Productivity has grown less in Europe than in the United States

Labour productivity

Index 2001 = 100



Note: Labour productivity is real GDP per hours worked.

Source: OECD Economic Outlook 115 database; and OECD calculations.

GDP growth projections

%, G20 economies

▲ upward revision, by 0.3pp or more ▬ no change or smaller than 0.3pp ▼ downward revision, by 0.3pp or more

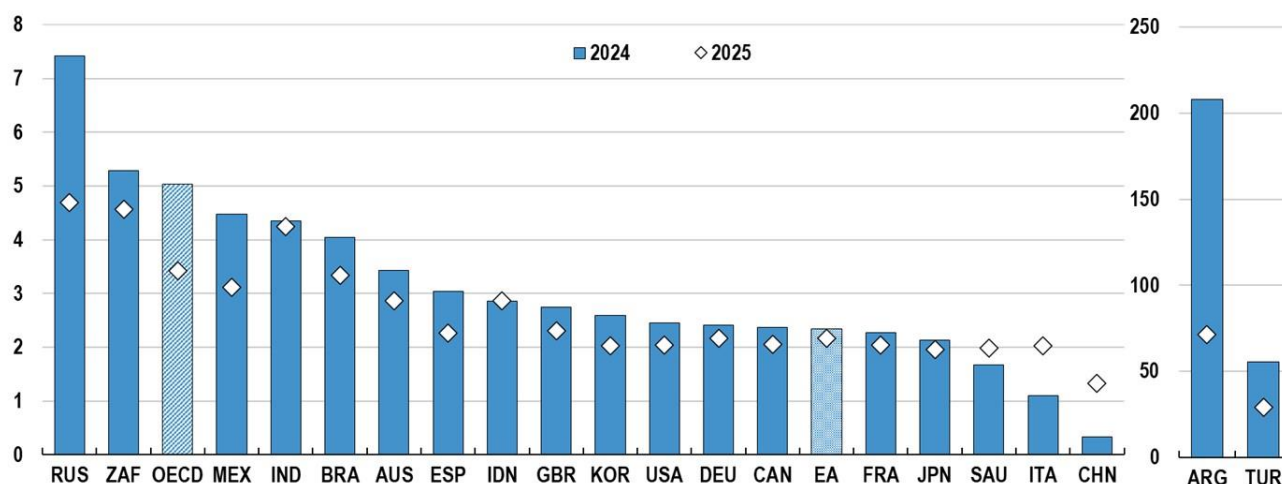
	2023	2024	2025		2023	2024	2025	
World	3.1	3.1	3.2					
OECD	1.7	1.7	1.8					
				G20	3.4	3.1	3.1	
Australia	2.0	1.5	2.2		Argentina	-1.6	-3.3	2.7
Canada	1.1	1.0	1.8		Brazil	2.9	1.9	2.1
Euro area	0.5	0.7	1.5		China	5.2	4.9	4.5
Germany	-0.1	0.2	1.1		India	7.8	6.6	6.6
France	0.9	0.7	1.3		Indonesia	5.0	5.1	5.2
Italy	1.0	0.7	1.2		Mexico	3.2	2.2	2.0
Spain	2.5	1.8	2.0		Russia	3.6	2.6	1.0
Japan	1.9	0.5	1.1		Saudi Arabia	-0.7	-0.2	4.1
Korea	1.3	2.6	2.2		South Africa	0.6	1.0	1.4
United Kingdom	0.1	0.4	1.0		Türkiye	4.5	3.4	3.2
United States	2.5	2.6	1.8					

Note: Revisions relative to the latest estimates from the November 2023 Economic Outlook. India projections are based on fiscal years, starting in April. The European Union is a full member of the G20, but the G20 aggregate only includes countries that are also members in their own right. Spain is a permanent invitee to the G20. World and G20 aggregates use moving nominal GDP weights at purchasing power parities.

Source: OECD Economic Outlook 115 database; OECD Economic Outlook 114 database; and OECD calculations.

Inflation projections

Consumer price inflation, %, G20 economies



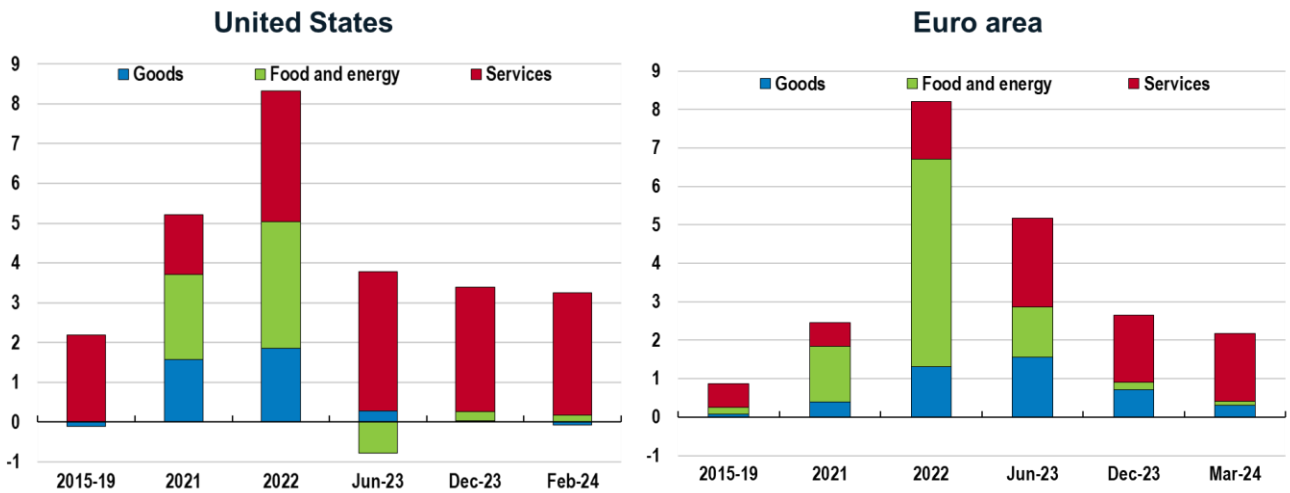
Note: Figure shows personal consumption expenditure price index for the United States, harmonised index of consumer prices for the euro area and its member states and the United Kingdom, and national consumer price index for all other countries. India projections are based on fiscal years, starting in April. Spain is a permanent invitee to the G20.

Source: OECD Economic Outlook 115 database; and OECD calculations.

Inflation may stay higher for longer

Contribution to inflation

%, year-on-year



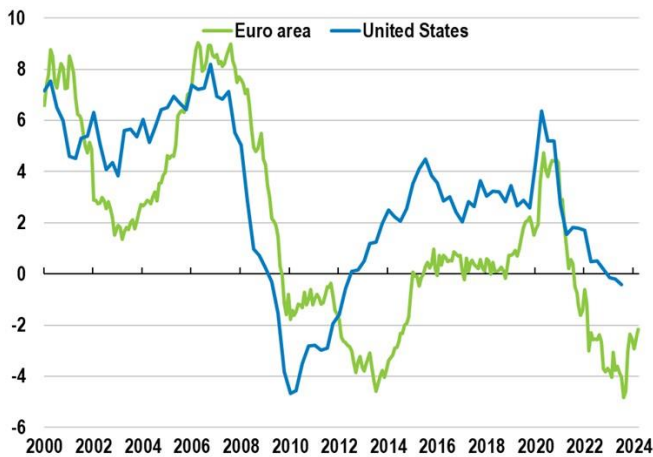
Note: Simple averages for the years. For the United States, figure shows the Consumer Price Index.

Source: Bureau of Labour Statistics; Eurostat; and OECD calculations; based on Amatyakul et al. 2024. "Sectoral price dynamics in the last mile of post-Covid-19 disinflation," BIS Quarterly Review, Bank for International Settlements, March.

Monetary policy is still working its way through the economy

Real growth in private sector credit

%, year-on-year

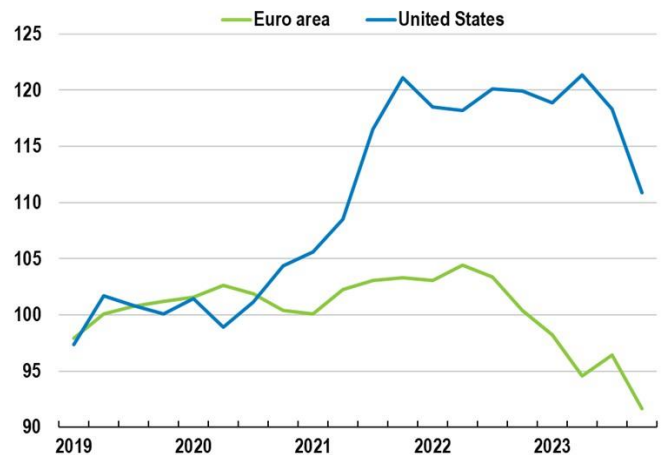


Note: For the Euro area, the data is based on consolidated balance sheet statistics reported by credit institutions and money market funds. For the United States, the data is based on credit growth for private non-financial corporations. Data is deflated using headline inflation rate as deflator.

Source: ECB; FRED; and OECD calculations.

Commercial property prices

Index 2019 = 100

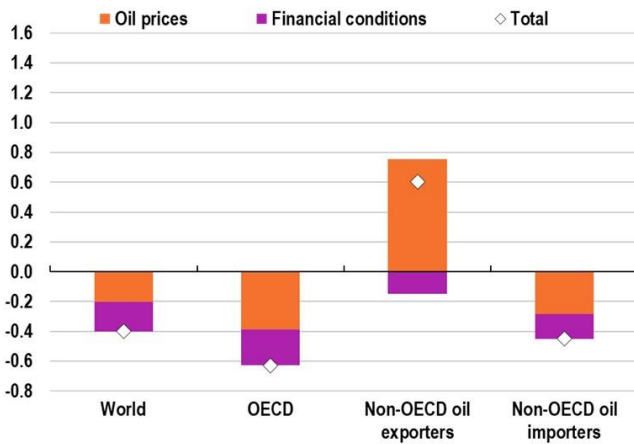


Note: Non-seasonally adjusted data.

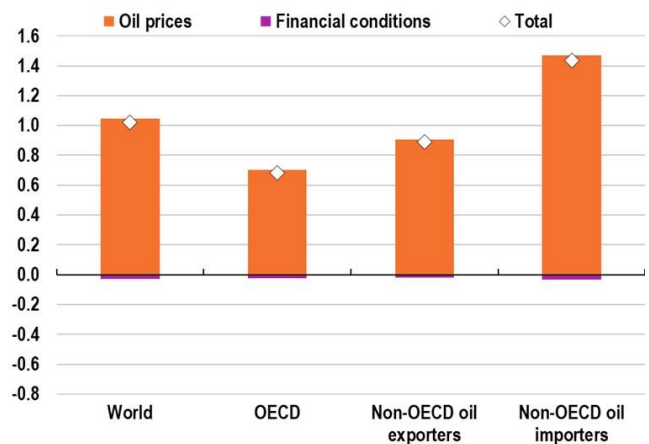
Source: Bank for International Settlements (BIS).

Geopolitical tensions put the recovery at risk

Effect on growth from oil price shock
% pts difference from baseline



Effect on inflation from oil price shock
% pts difference from baseline

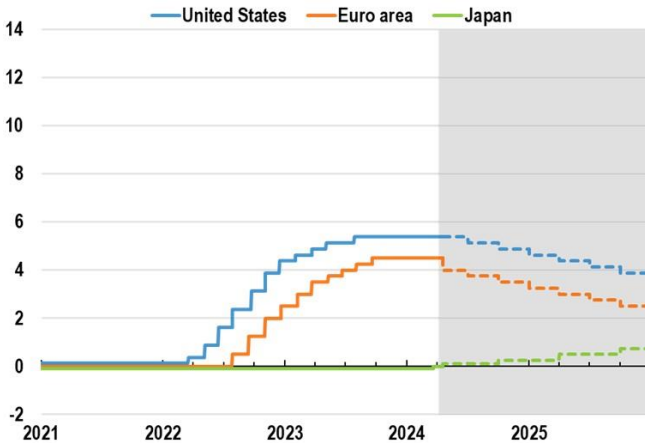


Note: Simulated impact of an unanticipated first year rise of 25% in oil prices with an initial spike of 40% in the first quarter, an increase of 50 basis points in global investment risk premia and an average decline of 10% in equity prices in all countries. The orange bar shows the direct impact from higher oil prices, the purple bar shows the additional impact of higher risk premia and lower equity prices.

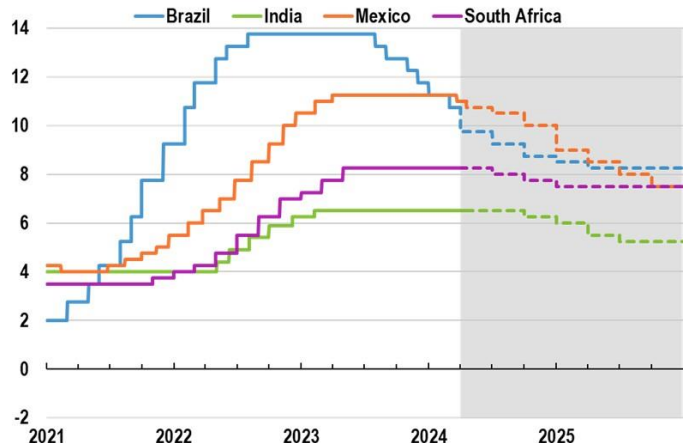
Source: OECD calculations using the NiGEM macroeconomic model.

Interest rates will fall but monetary policy should remain prudent

Advanced economies
Policy rates, %



Emerging market economies
Policy rates, %



Note: Shaded area refers to OECD projections. For the United States, the policy rate refers to the midpoint of the federal funds rate range. The deposit facility rate is used as the policy rate indicator for the euro area. For Japan, from 21 March 2024 up to OECD projections start, the policy rate refers to the minimum of Bank of Japan's rate range.

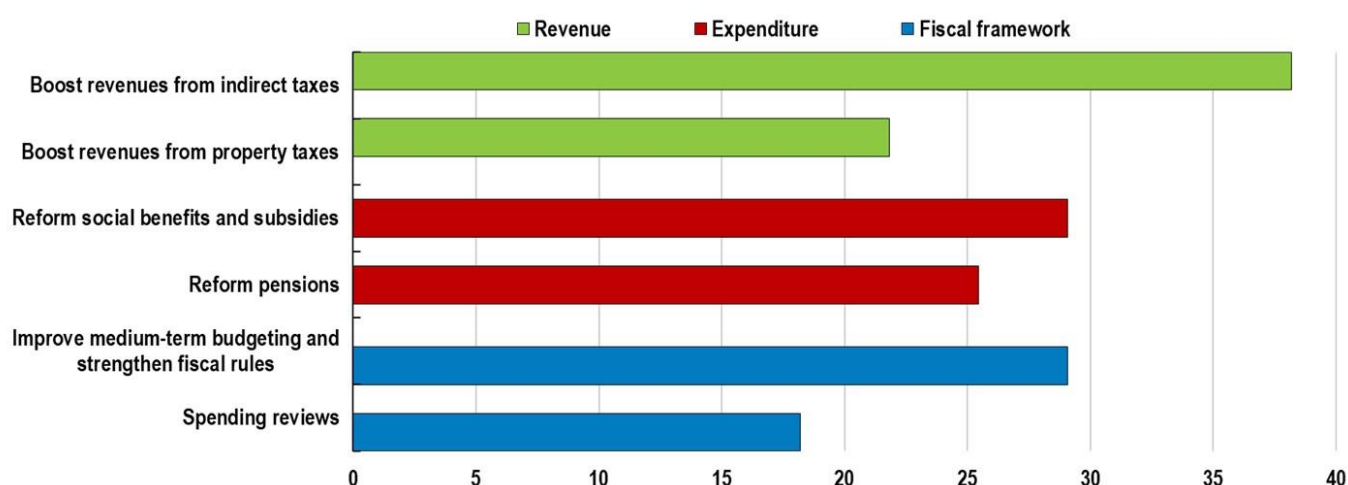
Source: OECD Economic Outlook 115 database.

Source: OECD Economic Outlook 115 database.

Decisive policy action is needed to rebuild fiscal space

Ways to improve fiscal space

% of countries for which a given OECD recommendation is cited as a priority



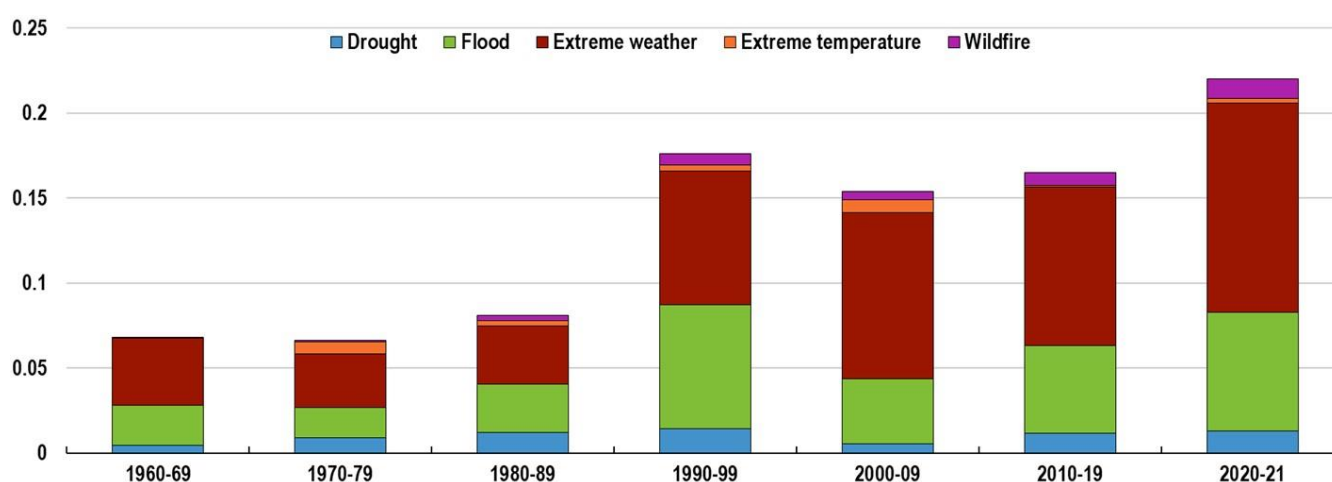
Note: The figure reports the share of 55 countries for which a given recommendation is made in this Economic Outlook. “Indirect taxes” includes consumption and environmental taxes, such as fuel or carbon taxes. Reforms boosting revenues from one tax category may be offset, at least in part, by parallel reforms that lower revenues from other taxes. This would reduce the total direct effect on budget balances, although efficient tax mix switches can increase national income relative to public debt in the longer term.

Source: OECD Economic Outlook 115 database; and OECD calculations.

Policy action is needed to accelerate climate mitigation and adaptation

Global economic damages from climate-related natural disasters

% of global GDP, average effect per year



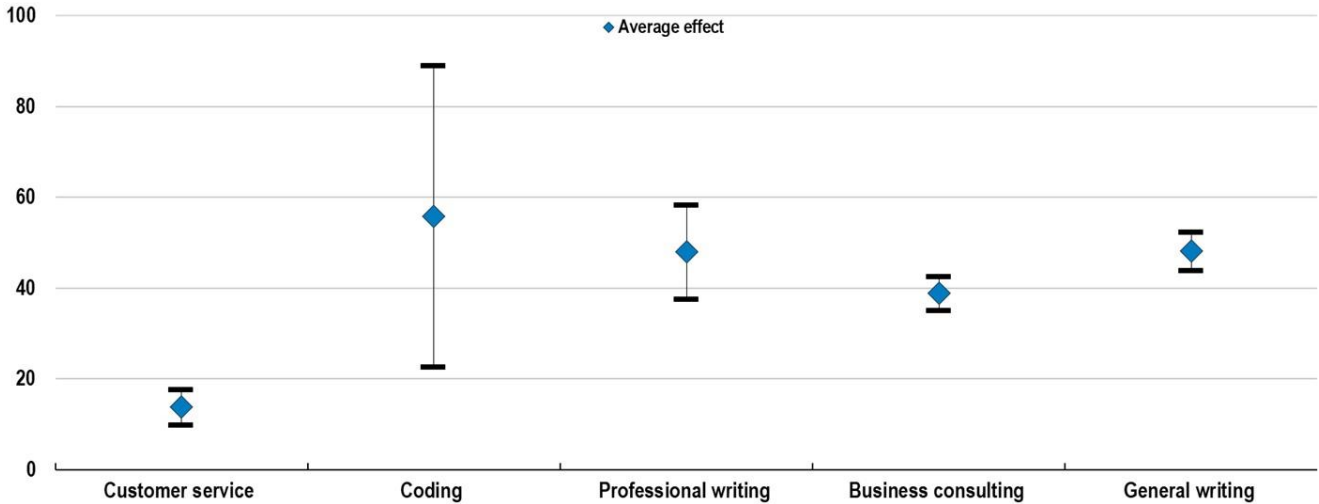
Note: Flood includes the category “Glacial lake outburst” which refers to a flood that occurs when water dammed by a glacier or moraine is suddenly released. Extreme weather refers to hurricanes, typhoons, cyclones, and tornadoes.

Source: EM-DAT, CRED / UCLouvain (2024); multiple sources compiled by World Bank (2023); Our World in Data; and OECD calculations.

Artificial intelligence (AI) can yield large performance gains

Initial evidence on worker-level impact of Generative AI

% Effect on workers' performance on specific tasks, 95% confidence interval, 2023 or latest available



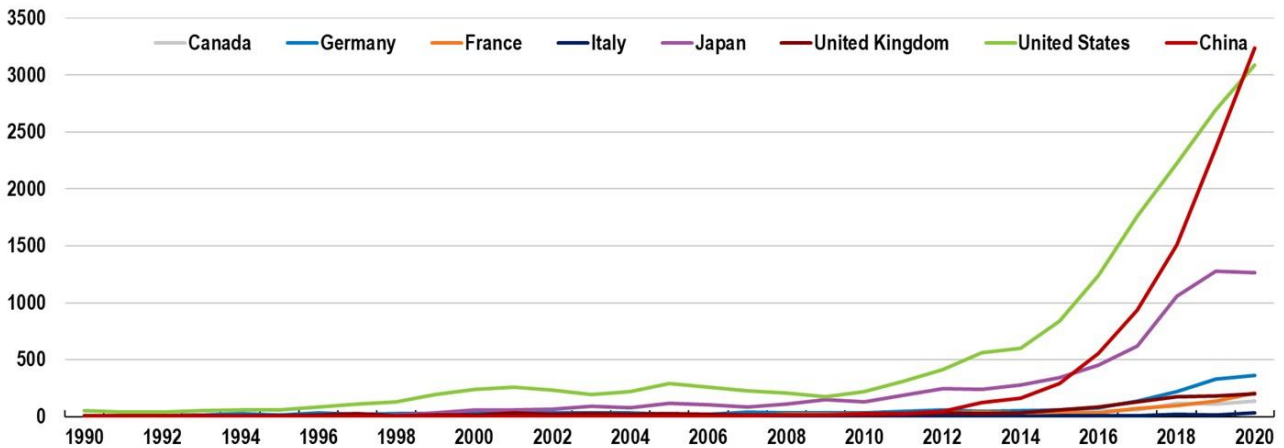
Note: Initial evidence refers to authors' calculations of the impact of AI on productivity based on existing empirical work. Different standards of worker performance are used throughout the literature including revenue per worker, sales, value added per worker, completed cases per hour, and number of tasks completed. Data for coding and professional writing is from 2022. Data for customer service is from 2020-21.

Source: Filippucci et al (2024).

AI poses challenges to competition

AI-related patents

Number of AI-related PCT patent applications



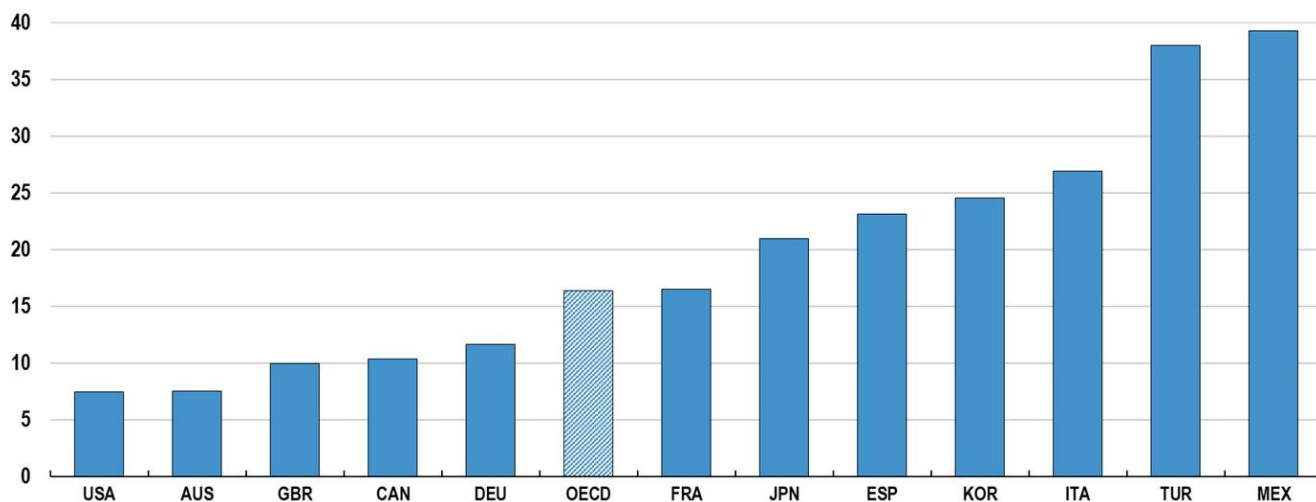
Note: Number of PCT patent applications in AI-related technologies. Data refer to patent applications filed under the Patent Cooperation Treaty (PCT), according to the filing date and the applicant's location, using fractional counts. AI-related patents are identified according to the methodology described in (Baruffaldi et al., 2020).

Source: Filippucci et al (2024).

Action is needed to increase and update skills

Share of adults with low ICT skills

%, 2018 or latest available



Note: The chart shows the percentage of adults aged 16-65 whose technology-rich environments proficiency levels are in “no computer experience” or “failed ICT core”.

Source: OECD (2019), Skills Matter Additional results from the survey of Adult skills.

GDP growth projections

%, non-G20 economies

▲ upward revision, by 0.3pp or more

▬ no change or smaller than 0.3pp

▼ downward revision, by 0.3pp or more

	2023	2024	2025		2023	2024	2025	
Austria	-0.7	0.2	1.5	▼	Israel	1.8	1.9	4.6
Belgium	1.5	1.3	1.4	▬	Latvia	-0.3	1.8	2.9
Chile	0.3	2.3	2.5	▲	Lithuania	-0.3	1.7	3.1
Colombia	0.6	1.2	3.3	▲	Luxembourg	-1.1	1.4	2.6
Costa Rica	5.1	3.6	3.9	▲	Netherlands	0.2	0.7	1.3
Czechia	-0.2	1.1	2.4	▲	New Zealand	0.6	0.8	1.9
Denmark	1.9	2.3	1.5	▬	Norway	0.5	0.8	1.8
Estonia	-3.1	-0.4	2.6	▬	Poland	0.1	2.9	3.4
Finland	-1.0	-0.4	1.9	▬	Portugal	2.3	1.6	2.0
Greece	2.0	2.0	2.5	▬	Slovak Republic	1.6	2.1	2.7
Hungary	-0.9	2.1	2.8	▬	Slovenia	1.6	2.3	2.7
Iceland	4.1	1.9	2.8	▲	Sweden	0.0	0.6	2.6
Ireland	-3.3	0.9	2.9	▬	Switzerland	0.8	1.1	1.4

Note: Revisions relative to the latest estimates from the November 2023 Economic Outlook.

Source: OECD Economic Outlook 115 database; OECD Economic Outlook 114 database; and OECD calculations.

Inflation projections

%, G20 economies

	2023	2024	2025		2023	2024	2025
OECD	6.9	5.0	3.4				
Australia	5.6	3.4	2.9	Argentina	134.5	208.1	71.2
Canada	3.9	2.4	2.1	Brazil	4.6	4.0	3.3
Euro area	5.4	2.3	2.2	China	0.3	0.3	1.3
Germany	6.0	2.4	2.2	India	5.3	4.3	4.2
France	5.7	2.3	2.0	Indonesia	3.7	2.9	2.9
Italy	5.9	1.1	2.0	Mexico	5.5	4.5	3.1
Spain	3.4	3.0	2.3	Russia	7.4	7.4	4.7
Japan	3.3	2.1	2.0	Saudi Arabia	2.3	1.7	2.0
Korea	3.6	2.6	2.0	South Africa	5.9	5.3	4.6
United Kingdom	7.3	2.7	2.3	Türkiye	53.9	55.5	28.9
United States	3.7	2.5	2.0				

Note: Table shows personal consumption expenditure price index for the United States, harmonised index of consumer prices for the euro area and its member states and the United Kingdom, and national consumer price index for all other countries. India projections are based on fiscal years, starting in April. Spain is a permanent invitee to the G20.

Source: OECD Economic Outlook 115 database; and OECD calculations.

Inflation projections

%, non-G20 economies

	2023	2024	2025		2023	2024	2025
Austria	7.7	3.7	2.9	Israel	4.2	2.5	2.5
Belgium	2.3	3.6	1.9	Latvia	9.1	1.7	2.4
Chile	7.6	3.9	3.3	Lithuania	8.7	1.8	2.6
Colombia	11.7	6.5	4.3	Luxembourg	2.9	2.3	3.0
Costa Rica	0.5	0.4	2.2	Netherlands	4.1	2.8	2.3
Czechia	10.7	2.4	2.1	New Zealand	5.7	3.2	2.4
Denmark	3.3	2.1	2.4	Norway	5.5	3.9	2.8
Estonia	9.1	3.9	2.1	Poland	11.5	3.9	4.5
Finland	4.3	1.1	1.8	Portugal	5.3	2.4	2.0
Greece	4.2	3.0	2.3	Slovak Republic	11.0	2.9	3.3
Hungary	17.1	4.0	3.9	Slovenia	7.2	3.3	3.5
Iceland	8.7	5.6	3.3	Sweden	8.5	3.6	2.1
Ireland	5.2	2.0	2.0	Switzerland	2.1	1.5	1.4

Source: OECD Economic Outlook 115 database; and OECD calculations.