OECD cuts global growth forecast

By Nick Beams
23 November 2019

The Organisation for Economic Cooperation and Development (OECD) has cut its forecast for global growth for both this year and next year, warning that a low-growth trend could set in unless governments take urgent action to lift their economies.

The 36-member organisation of the world's major economies made the warning in its latest update on the state of the global economy issued on Thursday. It said companies were holding back on investment in buildings and machinery as well as new technology due to economic uncertainty and trade tensions and that growth was at its lowest level since the global financial crisis.

Speaking on the report, OECD chief economist Laurence Boone said, "Things are not really moving. What we are seeing is investment stalling, paving the way for growth to stay at this very low level." She warned that if the "sluggish performance" continued there was a danger it could become "entrenched."

Boone said the rise on financial markets suggested that investors believed the worst of the downturn was over. But buoyant markets "do not mean we are reversing the tide."

The organisation forecast global growth of 2.9 percent this year and the same next year, with only a marginal pick-up to 3.1 percent in 2021. This represents a significant reduction from its forecast of 3.5 percent made just a year ago.

The OECD said investment had weakened as a result of the trade war between the US and China and the "erosion of a rules-based global trading system."

In a separate report, the World Trade Organisation (WTO) indicated that this deterioration goes beyond the US and China. It found that members of the G20, comprising more than 80 percent of the world economy, had continued to impose restrictions on imports in the six months to October, with more than $460 billion worth of goods affected. This is the second highest figure for a six-month period on record.

The WTO's director-general Roberto Azevedo said, "We need to see strong leadership from G20 economies if we want to avoid increased uncertainty, lower investment and even weaker trade growth."

The OECD called for a priority to be placed on international cooperation, predictability in trade policy and an end to the "surge in trade-restricting measures" in order to revive growth. Boone said countries should develop national investment funds to promote more spending on new technology and the shift to green energy.

"The lack of policy direction to address climate change issues weighs down investment," she said, and without the necessary public investment "businesses will put off investment decisions, with dire consequences for growth and employment."

Boone told the *Wall Street Journal* that while an interim trade deal between the US and China would be welcome, it was just the "tip of the iceberg" and would not resolve the deeper problems—a reference to US demands for greater protection for intellectual property by Beijing and the cutting back of subsidies to state-owned enterprises, the issues at the heart of the conflict.

Former International Monetary Fund Director Christine Lagarde also addressed the issue of global growth in her first major speech as president of the European Central Bank (ECB). Speaking at a banking conference in Frankfurt on Friday, she called on European governments to boost public investment to shift the euro zone's orientation away from exports towards domestic demand.

Continuing the commitment of her predecessor Mario Draghi to the financial markets, Lagarde said that the ECB would "continue to support the economy and respond to future risks," but she repeated Draghi's insistence that monetary policy "cannot and should not be the only game in town."

She noted that euro zone public investment remained "some way below pre-crisis levels." The share of what she called "productive investment," which, in addition to infrastructure included spending on research and development and education, had fallen in nearly all euro zone economies since the financial crisis.

Lagarde began her remarks on the future of the euro economy by pointing to the "challenge" posed by the shifts in international trade. "Ongoing trade tensions and geopolitical uncertainties are contributing to a slowdown in world trade growth, which has more than halved since last year," she said. "This has in turn depressed global growth to its lowest level since the great financial crisis."

This had impacted the euro area, where growth is expected to be just 1.1 percent this year, some 0.7 percentage points below the level expected a year ago.

Besides the trade conflicts, there were structural changes at work, with emerging market economies shifting away from investment and manufacturing. This suggested that the "high rates of trade growth that we are used to seeing are no longer an absolute certainty."

Another significant structural change was in the advanced economies, which "are in the midst of a long-term deceleration in growth rates, which have roughly halved since the late 1980s," with labour productivity growth falling "by almost two-thirds in advanced economies since the early 1990s."

The former chair of the US Federal Reserve, Janet Yellen, speaking at the World Business Forum in New York on Thursday, described the US economy as in "excellent" shape, but then went on to note a number of developments that pointed in the opposite direction.

The US-China tariff war was having a detrimental impact on both businesses and consumers, she said. While she thought there would not be a recession in the coming year, she added that "the odds of a recession are higher than normal and at a level that I am not comfortable with."

This was under conditions where, because of the Fed's three interest rate cuts this year, there was "not as much scope as I would like to see for the Fed to be able to respond to that. So there is good reason to worry."

In her remarks, Yellen pointed to the growing fears in ruling circles as to the social and political consequences—with or without a recession—of the growth of social inequality. She noted a "very worrisome long-term [trend] in which you have a very substantial share of the US workforce feeling like they're not getting ahead. It's true, they're not getting ahead."

This is a serious economic and social problem because it "leaves people with the feeling that the economy is not working for them, a sense of social discontent that is extremely disruptive."