



**What is the economic outlook
for OECD countries?**

An interim assessment

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1. La tempête sur les marchés de capitaux, le repli des marchés immobiliers et la cherté des matières premières continuent de peser sur la croissance mondiale tout en évoluant rapidement :

- Les banques semblent avoir enregistré à leur bilan l'essentiel des pertes liées aux titres adossés à des prêts immobiliers à haut risque. Les perturbations financières persistantes semblent de plus en plus refléter des signes de faiblesse de l'économie réelle, faiblesse elle-même en partie induite par la diminution de l'offre de crédit et la baisse du prix des actifs. La profondeur et l'ampleur définitives de la crise financière sont cependant encore incertaines, le risque éventuel de nouvelles pertes sur les opérations de financement du logement et de la construction restant préoccupant.
- Le repli des marchés du logement se poursuit, la réduction de l'offre de crédit accentuant sans doute les pressions en ce sens. Aux États-Unis, le prix des logements continue de baisser, ce qui fait planer la menace de défaillances et de confiscations supplémentaires qui risquent elles-mêmes de peser sur les prix et d'amplifier les pertes sur prêts. En ce qui concerne la construction cependant on perçoit quelques signes de stabilisation, les permis de construire et les ventes de logements neufs ayant cessé de baisser et le parc de logements invendus diminuant. En Europe, le recul des prix et de l'activité dans le secteur de la construction semble gagner le Danemark, l'Irlande, l'Espagne et le Royaume-Uni, tandis que la décline sensible des volumes de transaction semble annoncer des reculs ailleurs.
- Le prix du pétrole s'est inscrit en baisse par rapport aux pics atteints vers le milieu de l'année, et ce sous l'effet d'un ralentissement de la demande et d'une production record des pays de l'OPEP. Sur le front de l'offre de pétrole, la situation reste cependant tendue, ce qui contribue à l'instabilité des prix. Les prix des autres produits de base, notamment de l'alimentation, semblent plus stables tout en se situant à des niveaux élevés. Les prix des denrées alimentaires vont sans doute connaître une détente dans la période qui vient, la sécheresse se terminant dans certains pays exportateurs et la production commençant à se redresser dans le secteur de l'alimentation.

2. S'appuyant sur des indicateurs conjoncturels, les modèles de projection à court terme de l'OCDE laissent entrevoir une phase de faiblesse de l'activité jusqu'à la fin de cette année. Toutefois, l'expérience limitée que l'on a de certains des principaux déterminants de la conjoncture actuelle, ainsi que les incertitudes entourant certaines influences spécifiques, contribue à donner une image particulièrement floue de la situation. Aux États-Unis, l'incertitude relative à la gravité de cette phase de faiblesse touche en particulier à la vitesse à laquelle les effets des mesures temporaires de stimulation budgétaire vont se dissiper. Dans la zone euro et dans ses trois principales économies ainsi qu'au Royaume-Uni, l'activité devrait globalement stagner. Au Japon enfin, on ne s'attend qu'à un rebond partiel après la baisse du PIB enregistrée au 2^e trimestre.

3. Les fortes hausses des prix de l'énergie et de l'alimentation ont relancé l'inflation globale et rogné sur les revenus réels des consommateurs dans toute la zone de l'OCDE. Les mesures statistiques de l'inflation sous-jacente se sont aussi orientées à la hausse dans la plupart des grandes économies de l'OCDE, reflétant en partie la diffusion de prix plus élevés des matières premières. Jusqu'ici, les augmentations de salaires semblent avoir été globalement maîtrisées. Si les prix des matières premières demeurent à leurs niveaux récents, en repli dans le cas du pétrole, on peut s'attendre à une certaine modération de l'inflation tant globale que sous-jacente.

4. Les économies du G-7 présentent des conditions différentes au regard de l'action des pouvoirs publics. Aux États-Unis, l'inflation sous-jacente est forte mais semble ne plus accélérer et le phénomène grandissant de sous-emploi des capacités constituera un facteur de désinflation. Compte tenu des conditions défavorables induites par les contraintes financières, cela semble légitimer les mesures actuelles d'expansion. L'inflation sous-jacente augmente régulièrement dans la zone euro depuis un certain temps, ce qui indique qu'il faut réduire les tensions sur les capacités. En conséquence, pour le moment, il ne paraît guère utile de changer les orientations actuelles de politiques économiques. Si la nécessité d'assouplir ou de durcir les conditions macroéconomiques venait à se faire jour, c'est la politique monétaire qui devrait constituer l'instrument privilégié à cet effet. Au Japon, différents indicateurs de l'inflation sous-jacente diffusent des signaux contrastés, tandis que la détérioration du moral des chefs d'entreprises ainsi que la nécessité de se prémunir contre le risque de déflation plaident en faveur d'un maintien du statu-quo monétaire.

1. Financial market turmoil, housing market downturns and high commodity prices continue to bear down on global growth while at the same time evolving rapidly:

- Banks appear to have recognized most of the losses and write-downs related to sub-prime based securities. Continued financial turmoil appears to reflect increasingly signs of weakness in the real economy, itself partly a product of lower credit supply and asset prices. The eventual depth and extent of financial disruption is still uncertain, however, with potential further losses on housing and construction finance being one source of concern.
- The downturn in housing markets is still unfolding, with reduced credit supply likely adding to pressures. US house prices continue to fall, threatening further defaults and foreclosures that may again depress prices and boost credit losses. As regards construction, however, there are some hints of eventual stabilisation with permits and sales of new homes having ceased to fall and inventories of unsold houses coming down. In Europe, downturns in prices and construction activity appear to be spreading beyond Denmark, Ireland, Spain and the United Kingdom, with sharply lower transaction volumes likely a precursor of downturns elsewhere.
- The price of oil has fallen from peaks reached around the middle of the year in response to slower demand growth and record production from OPEC. Oil supply conditions remain tight, however, contributing to volatile prices. Prices of other commodities - notably food - appear to have steadied at high levels. Food commodity prices may ease in the period ahead as droughts end in some food-exporting countries and as higher food production comes on stream.

2. Based on incoming high-frequency indicators, OECD short-term forecasting models point to weak activity through the end of the year. However, limited experience with some of the main drivers of the current conjuncture as well as uncertainty about some specific influences make for a particularly unclear picture. In the United States, uncertainty as to the extent of weakness hinges importantly on how rapidly the effects of temporary fiscal stimulus will fade. In the euro area and its three largest economies, as well as in the United Kingdom, activity is foreseen to remain broadly flat. And in Japan only a partial bounce-back from the 2nd quarter fall in GDP is expected.

3. Sharp increases in energy and food prices have boosted headline inflation and sapped real incomes of consumers across the OECD area. Statistical measures of underlying inflation have also drifted up in most large OECD economies, partly reflecting the ongoing feed through of higher commodity prices. So far, wage increases appear to have been broadly contained. If commodity prices are sustained at their recent, and in cases such as oil, lower levels some moderation of both headline and underlying inflation is to be expected.

4. The G7 economies face different policy environments. In the United States, underlying inflation is high but appears not to have drifted up further and widening slack will be a disinflationary force. With headwinds from financial constraints, this appears to vindicate existing expansionary policies. Underlying inflation has been rising steadily in the euro area for some time, suggesting that capacity pressures need to be reduced. Hence, at this moment, there is little need to change existing policy stances. Should a need to tighten or loosen the macro policy stance become apparent, monetary policy would be the preferred instrument. In Japan, different indicators of underlying inflation send mixed signals and deteriorating business sentiment, as well as the need for a buffer against the risk of deflation, argue for keeping monetary policy on hold.

GDP growth in the G7 economies ¹
in %

	Annualised quarter-on-quarter growth						Year-average growth in 2008	
	07Q3	07Q4	08Q1	08Q2	08Q3	08Q4	EO83 projection ²	Revised projection ³
United States ⁴	4.8	-0.2	0.9	3.3	[0.9 (+/-1.7)]	[0.7 (+/-2.2)]	1.2	1.8
Japan	1.0	2.4	3.2	-2.4	2.4 (+/-2.8)	1.4 (+/-2.8)	1.7	1.2
Euro Area	2.5	1.4	2.9	-0.8	0.4 (+/-1.3)	0.8 (+/-1.6)	1.7	1.3
Germany	2.4	1.4	5.2	-2.0	0 (+/-2.1)	0.1 (+/-2.3)	1.9	1.5
France	2.7	1.5	1.6	-1.2	0.2 (+/-1.4)	0.6 (+/-1.8)	1.8	1.0
Italy	0.6	-1.7	2.0	-1.1	0 (+/-1.7)	0.6 (+/-2)	0.5	0.1
UK ⁵	2.3	2.2	1.1	0.2	[-0.3 (+/-1.2)]	[-0.4 (+/-1.2)]	1.8	1.2
Canada	2.3	0.8	-0.8	0.3	0.8 (+/-1.6)	2 (+/-1.9)	1.2	0.8
G7	3.2	0.6	1.8	0.8	0.8 (+/-1.8)	0.7 (+/-2)	1.4	1.4

1. Based on GDP releases and high-frequency indicators published by 29 August 2008. Figures shown are seasonally, and in some cases also working-day, adjusted annualised GDP growth rates. Associated standards error range are in parentheses.

2. Finalised in June 2008.

3. The revised projection is calculated by mechanically extending the outturn data for GDP in the first 2 quarters with the indicator model

4. The US fiscal package and financial turmoil make the evolution of the US economy difficult to evaluate at this juncture. In particular, the model dynamics may not appropriately capture the effects of the fiscal package.

5. The UK model has been revised to include the impact of residential property prices which are believed to play an important role in the current juncture. However, inclusion of property prices comes at the cost of somewhat weaker tracking performance over the past.

Underpinnings and status of the interim forecast

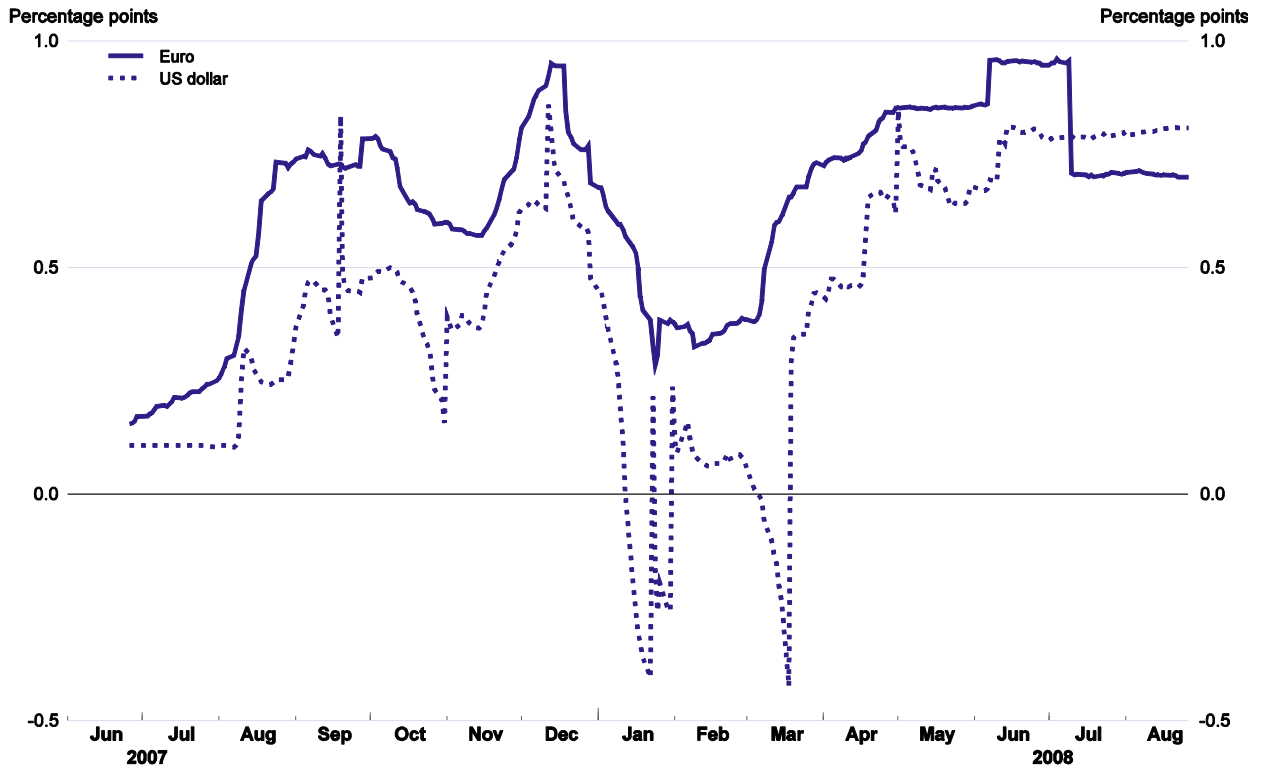
Since March 2003, the OECD has presented a brief overview of the near-term prospects in the major OECD economies between each issue of the *Economic Outlook*.^{*} This interim assessment should not be seen as a full update of the biannual *Economic Outlook* projections, since it rests on a more limited information set, has a shorter horizon and covers a much smaller number of economic variables and countries. However, it helps evaluate to what extent the latest *Economic Outlook* projections for the larger economies are still on track.

In this context, the main tool is a suite of indicator-based models that serve to forecast real GDP for each of the G7 economies.^{**} These models are run up to and including the following quarter, meaning that they cover the two quarters following the last one for which official data have been published. They use a small, country-specific selection of monthly variables, hard (*e.g.* industrial production, retail sales) and/or soft (*e.g.* business confidence). These models have been shown to outperform a range of other models relying solely on published quarterly data, as regards both forecast-error size and directional accuracy. The weight of the different models varies across countries and over time, according to observed forecasting performance. The models used for the US and the UK economies have been modified to better capture the influence of developments in the housing sector, with the inclusion of various forward-looking housing indicators. However, they do not fully incorporate the impact of recent financial market turbulence.

^{*} In the case of the euro area, some of the aggregate data cover only the 12 countries that are currently OECD members, but these account for 99.4% of the euro area's total GDP.

^{**} See Pain, N. and F. Sédillot, "Indicator models of real GDP growth in the major OECD economies", *OECD Economic Studies*, No. 40, 2005 and Mourougane, A., "Forecasting monthly GDP for Canada", *OECD Economics Department Working Paper*, No. 515, 2006.

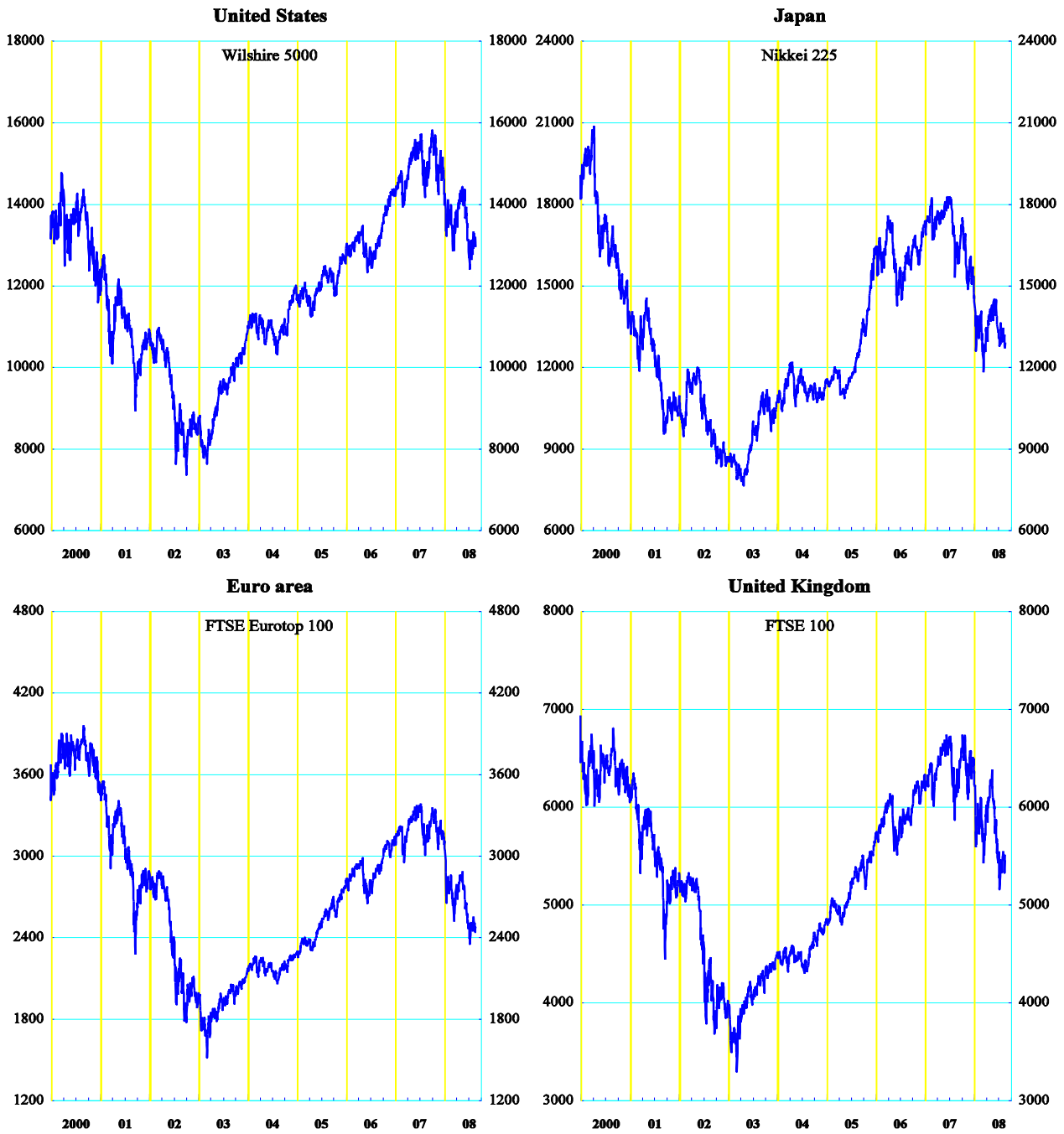
Spreads in short-term interbank markets remain wide



Note: Spread between three-month interbank rate and the policy rate

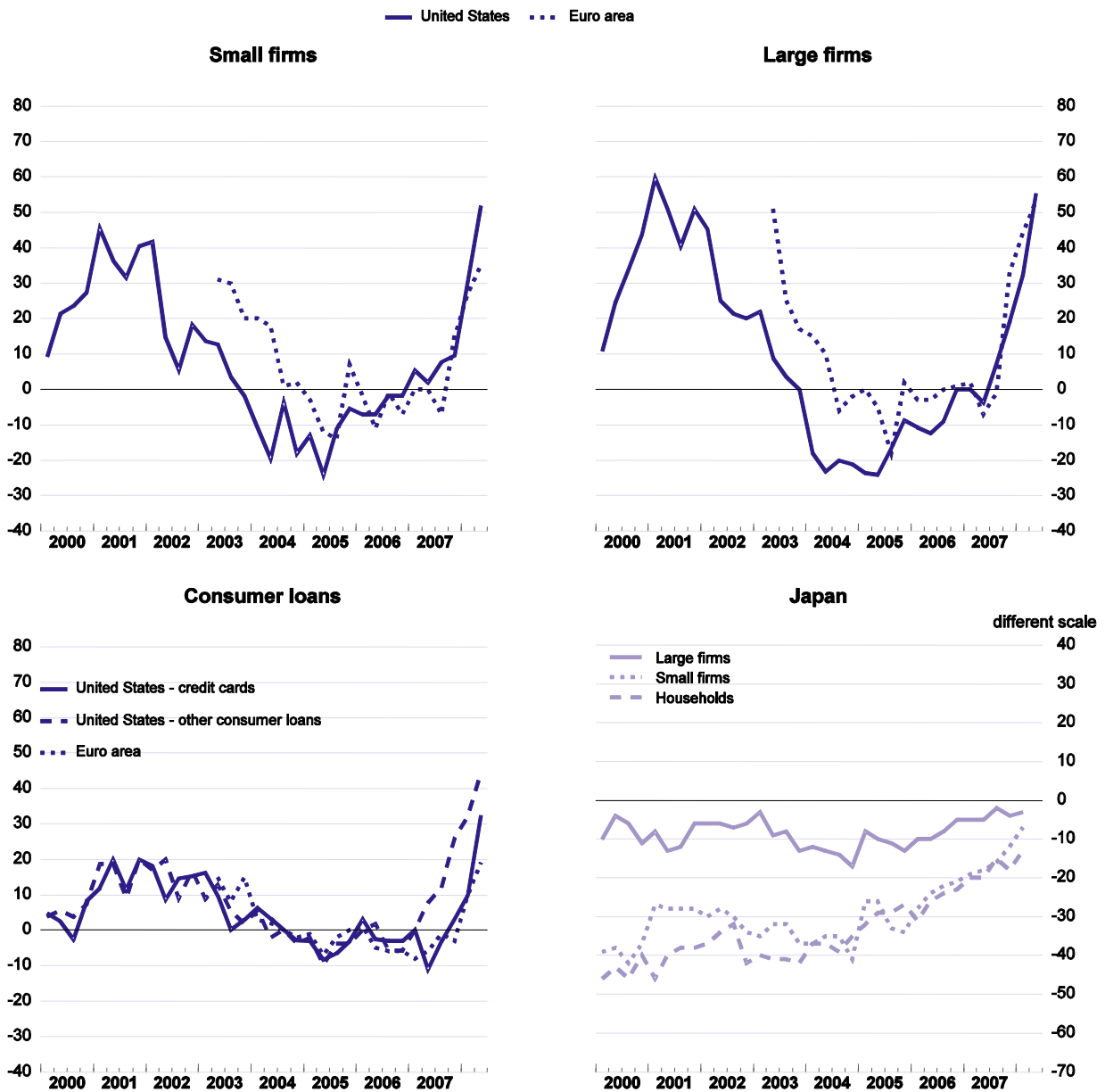
Source: Datastream.

Share prices are lower



Source: Datastream.

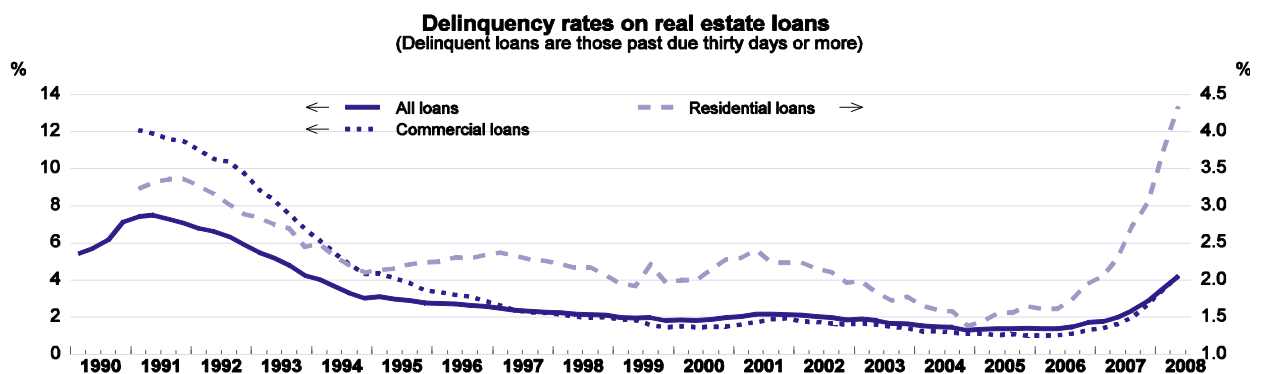
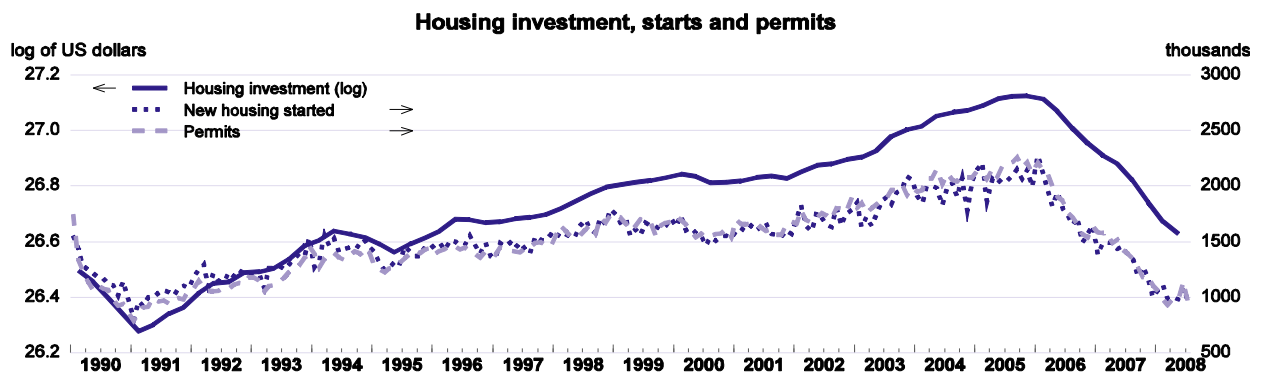
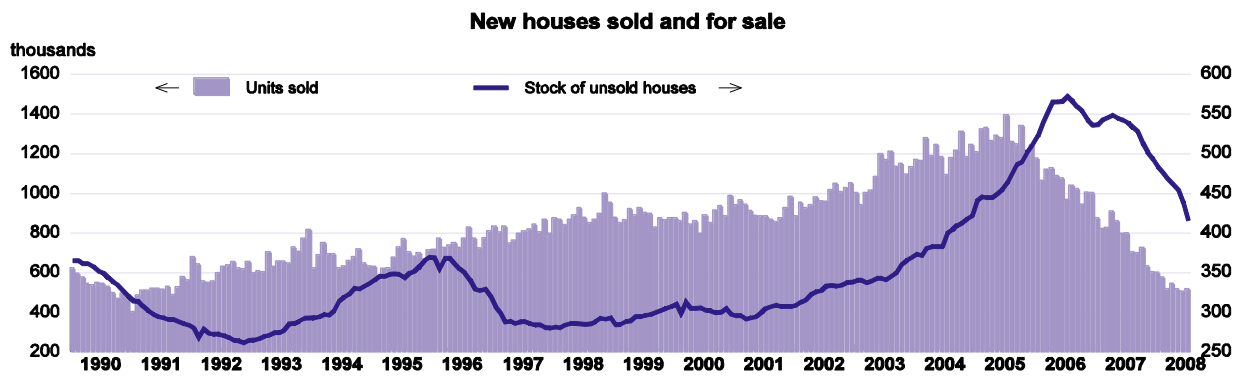
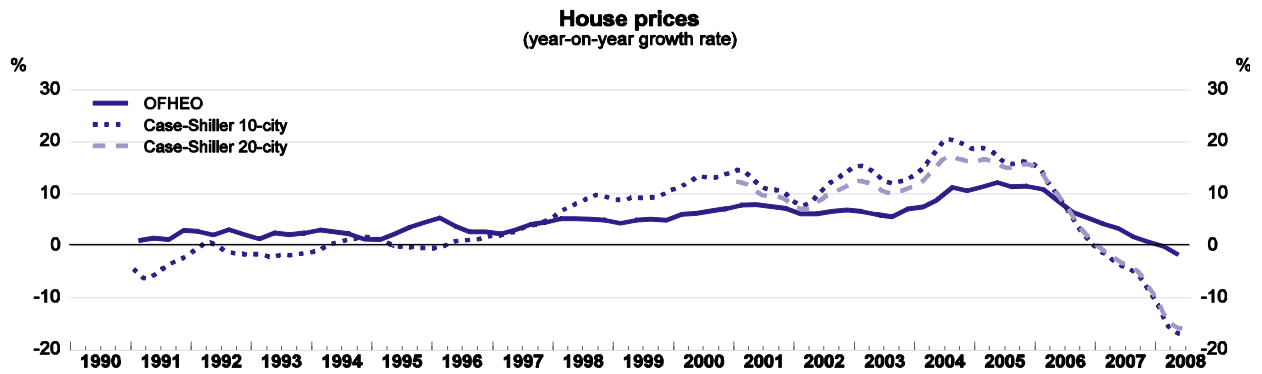
Banks are tightening lending standards
 Net percentage of banks tightening credit



Note: The Bank of Japan publishes a diffusion index of 'accommodative' minus 'severe'. The data have then been transformed to show the net percentage of banks tightening credit, as for the United States and the euro area.

Source: US Federal Reserve, Senior Loan Officer Survey; ECB, The euro area bank lending survey; and Bank of Japan, Senior Loan Officer Opinion Survey.

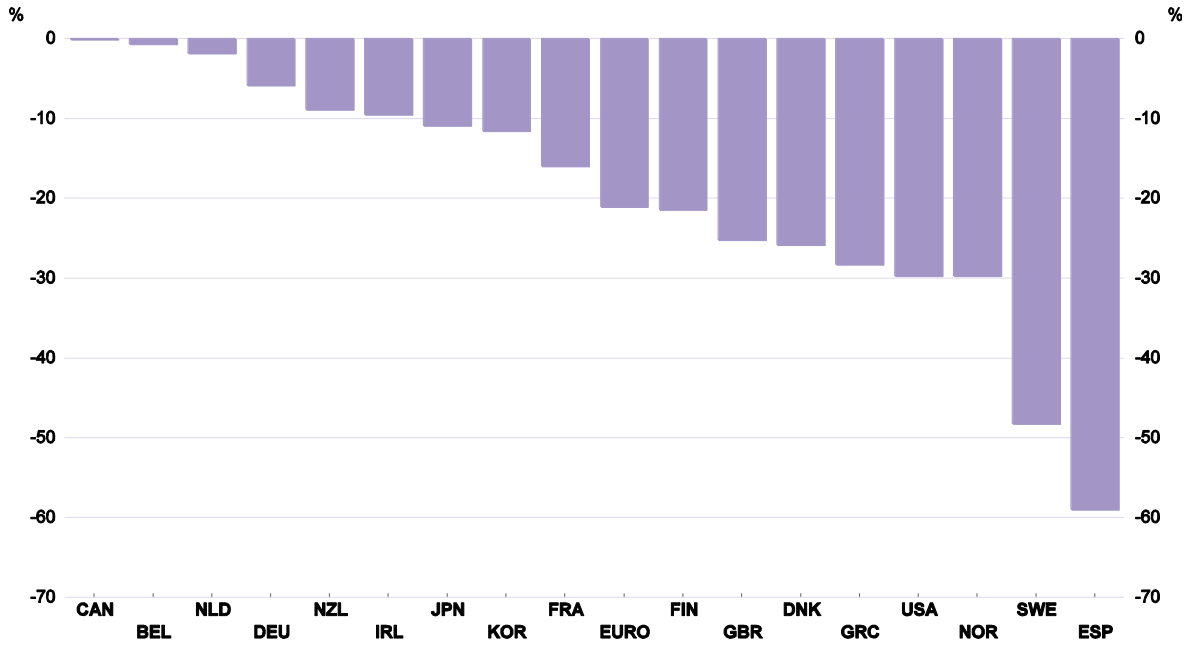
United States: housing market



Source: Datastream; OECD Economic Outlook 83 database; and OECD, Main Economic Indicator database.

Residential construction permits are falling sharply in most countries

Latest data, year-on-year growth rate¹

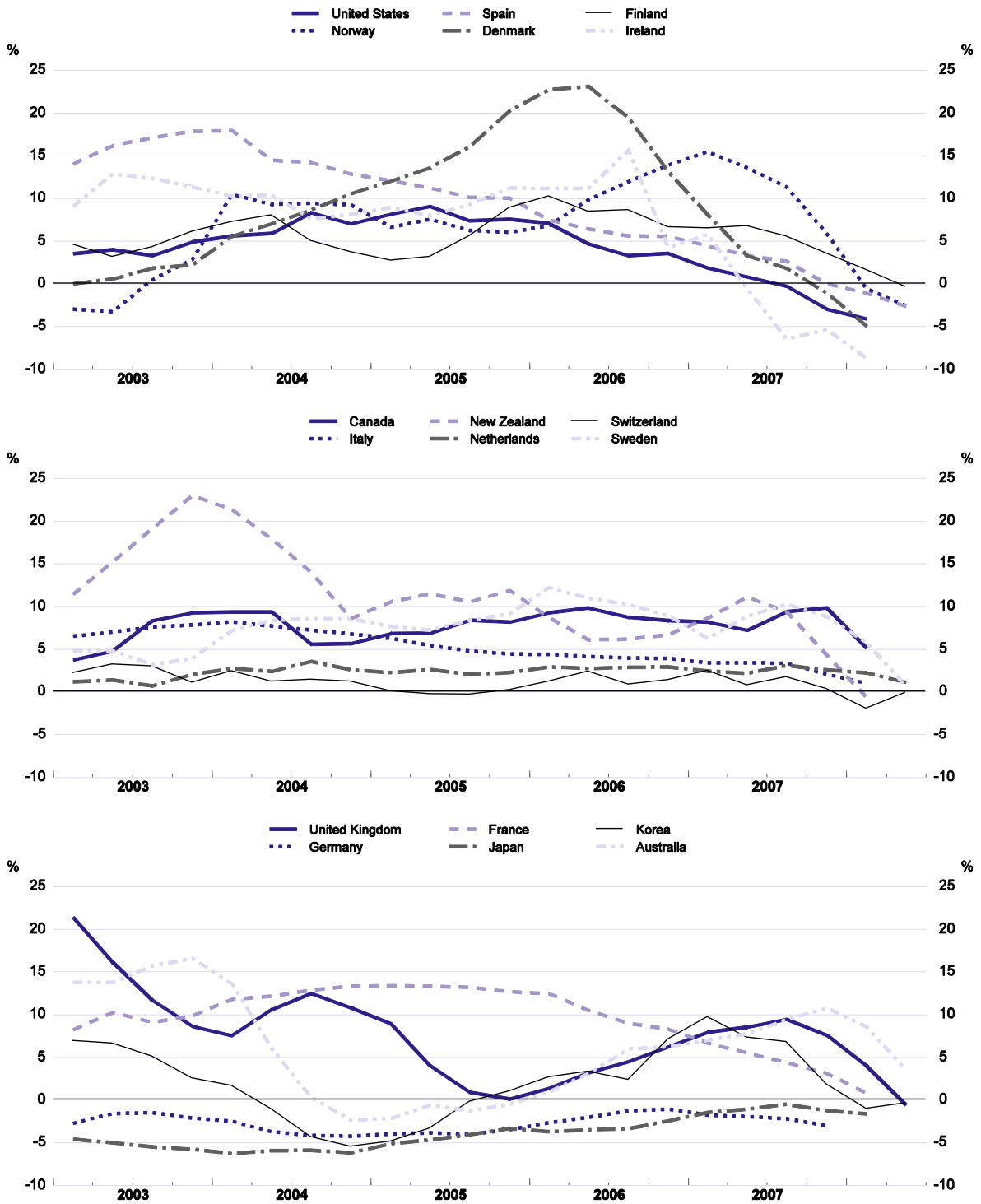


1. Monthly data mostly ending between March 2008 and July 2008; three-month average over the same three-month average in the previous year.

Source: Eurostat; and OECD, Main Economic Indicators database.

Real house prices are decelerating nearly everywhere and falling in some countries

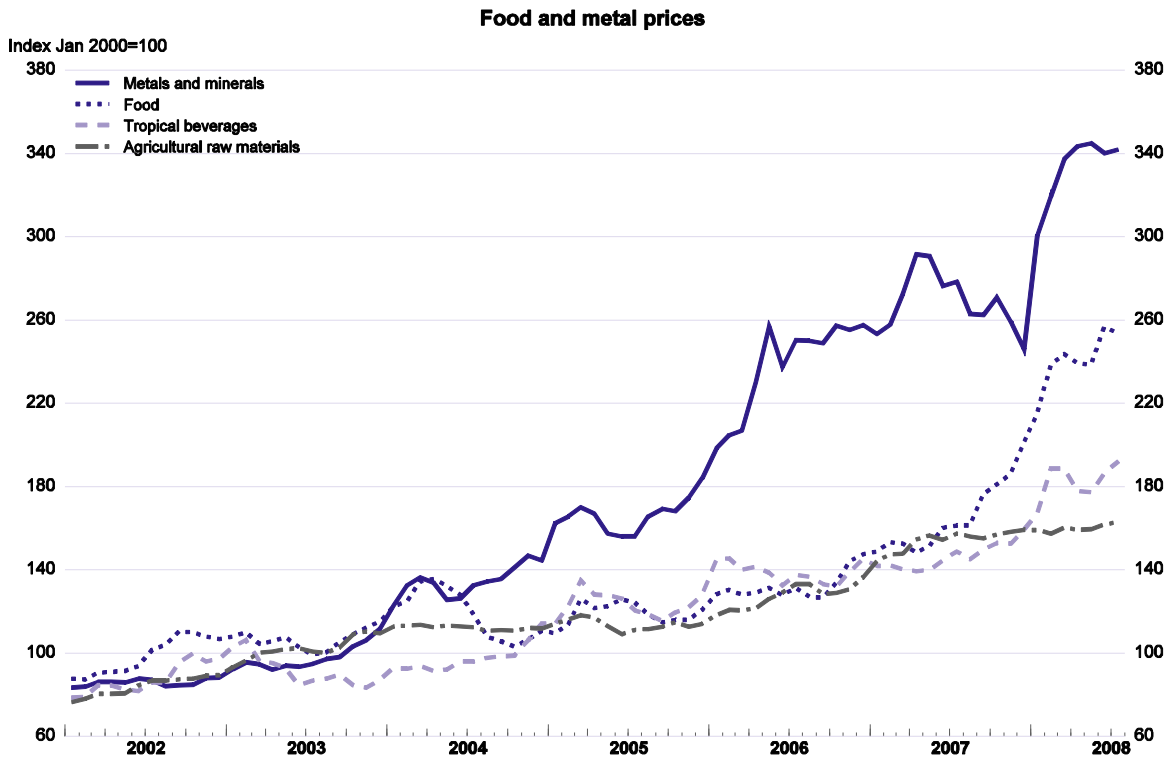
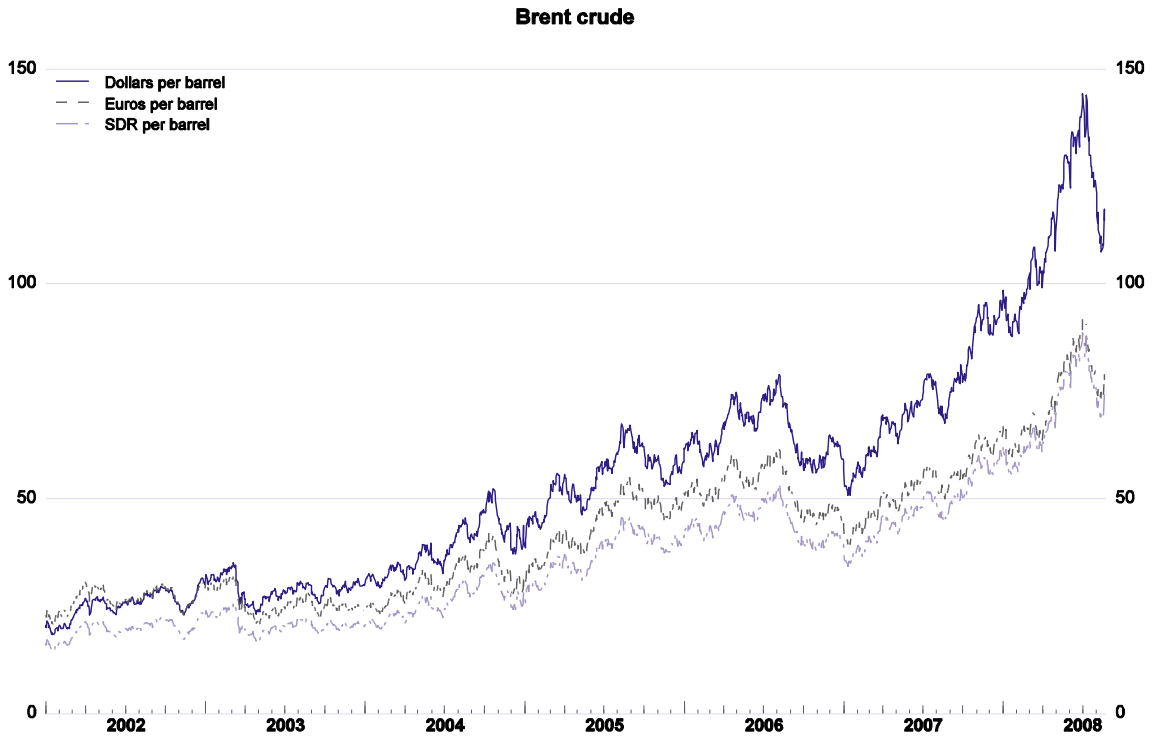
Year-on-year percentage change



Note: House prices deflated by the Consumer Price Index.

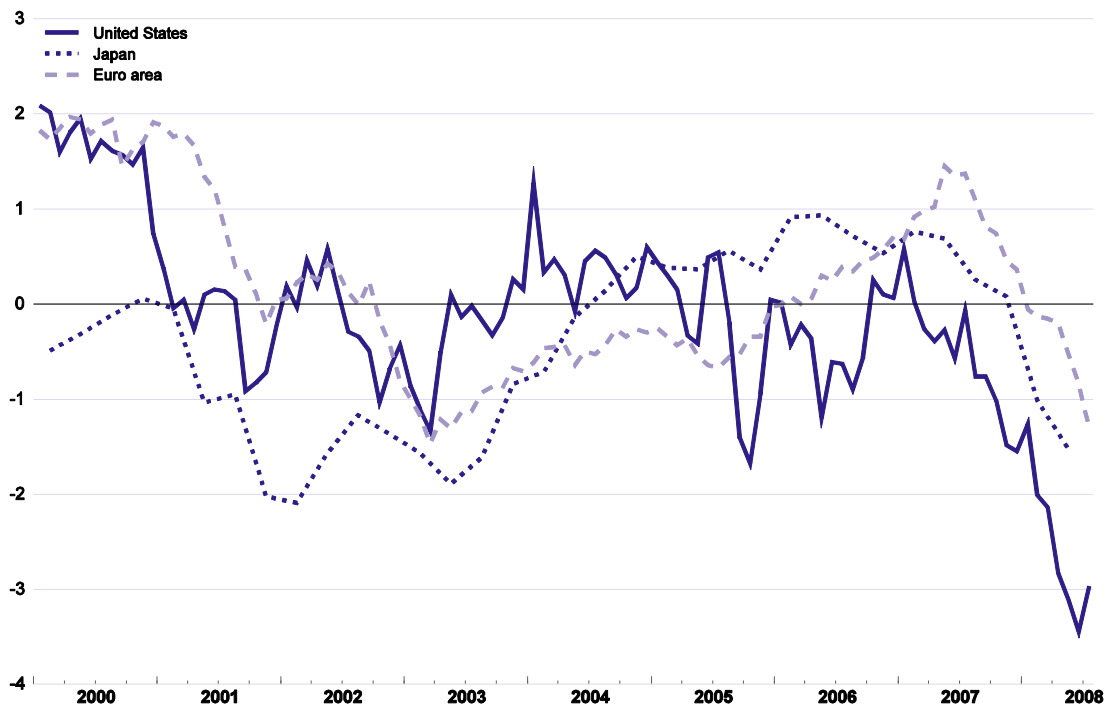
Source: National sources.

Commodity prices have recently ceased rising



Source: Datastream; HWWI; IMF, Exchange Rates data; OECD Economic Outlook 83 database.

Consumer confidence indicators have dropped markedly ¹

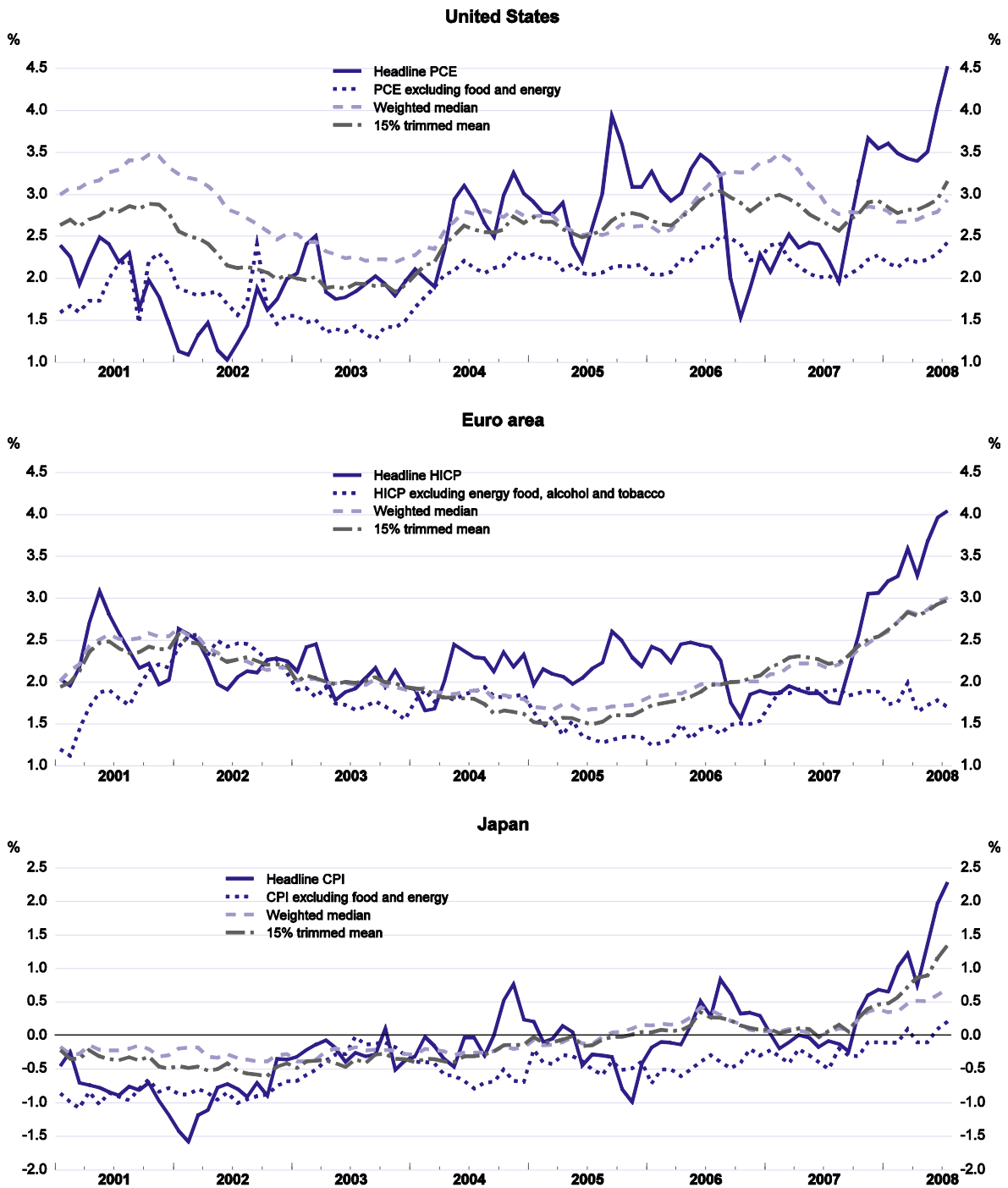


Note: Consumer confidence indicators have been normalised at the average for the period starting in 1985 and are presented in units of standard deviation. Monthly data, seasonally adjusted except Japan (quarterly, s.a.).

1. United States: Consumer Confidence Survey - Expected Economic Situation (University of Michigan); Japan: Consumer Confidence Index; Euro area: Consumer Opinion Surveys - Expected Economic Situation.

Source: OECD Main Economic Indicators; OECD calculations.

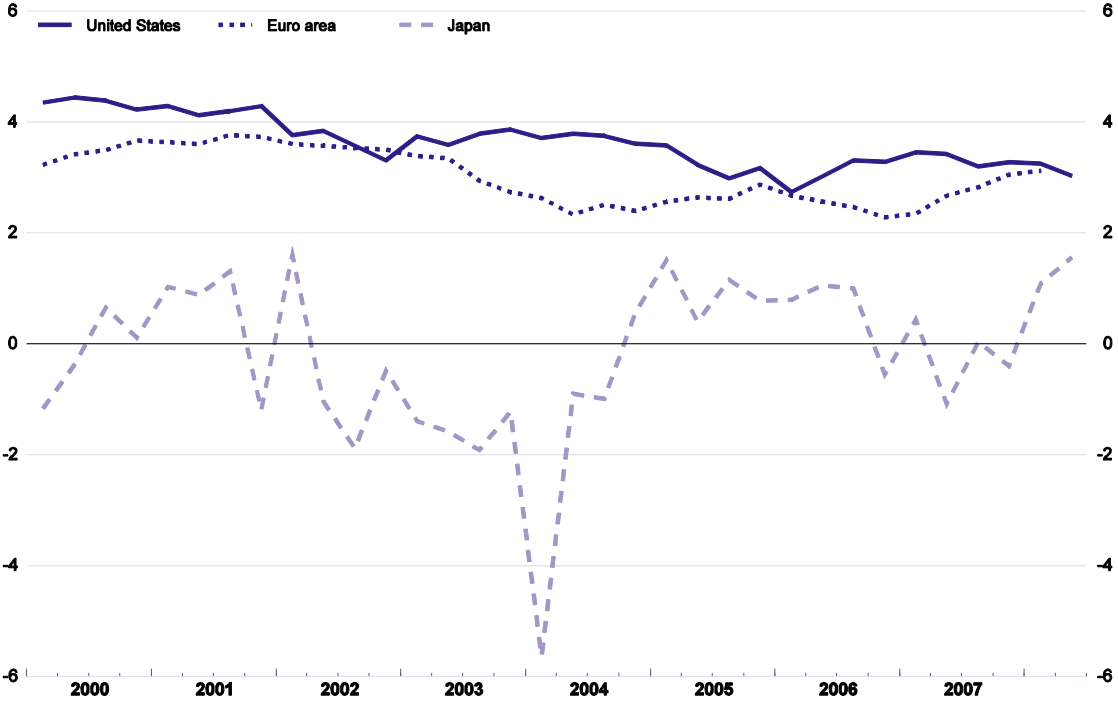
Headline and in some cases underlying inflation has surged
12-month percentage change



Note: PCE refers to personal consumption expenditures, HICP to harmonised index of consumer prices and CPI to consumer price index.

Source: OECD, Main Economic Indicators database; and OECD calculations.

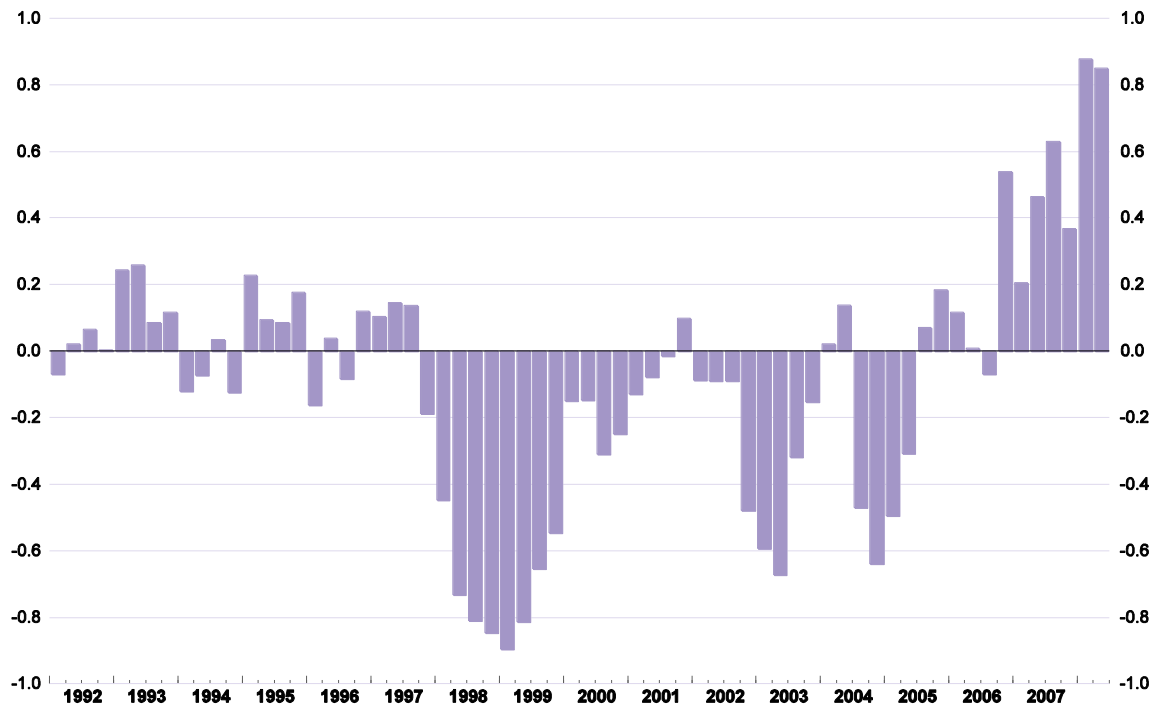
Employment costs have so far remained contained
 year-on-year percentage change



Source: Bureau of Labour Statistics (Employment Cost Index - compensation, civilian, all workers), Eurostat (Labour Cost Index - industry and service, excl public admin) and OECD Quarterly national accounts (OECD calculations of hourly compensation for Japan).

The contribution of net exports to G7 growth is unusually large

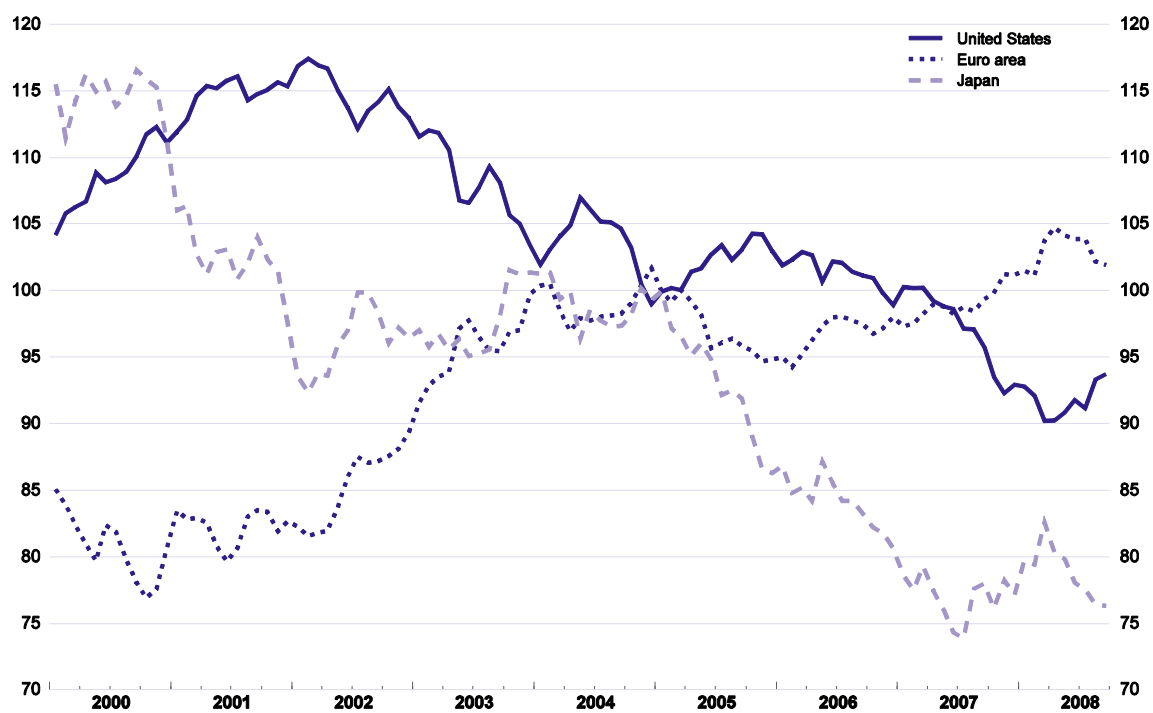
Net export contribution to year-on-year G7 GDP growth (% points)



Source: OECD, Quarterly National Accounts database.

Real effective exchange rates have been adjusting

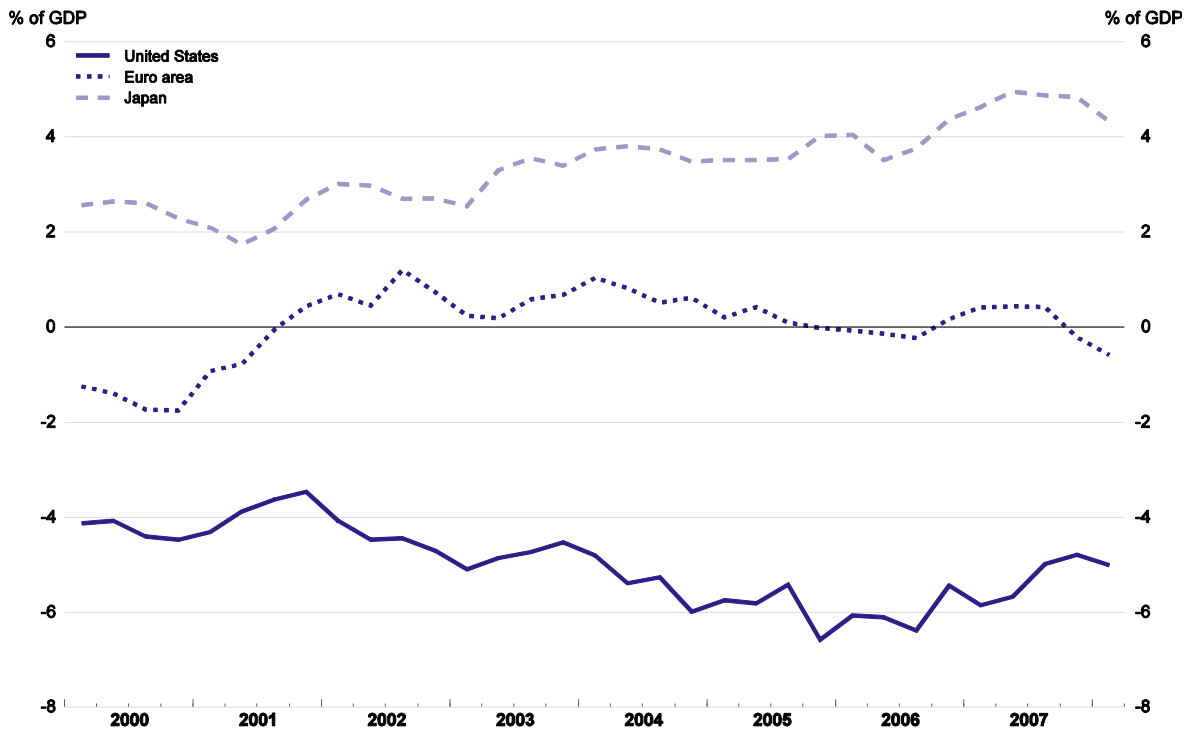
January 2005 = 100



Note: Competitiveness-weighted effective exchange rate indices. Competitiveness weights are based on a double-weighting principle, taking into account the structure of competition in both export and import markets of the manufacturing sector of 42 countries. An increase of the index indicates a real effective appreciation and a corresponding deterioration of the competitive position.

Source: OECD, Main Economic Indicators database; and OECD, Quarterly National Account database.

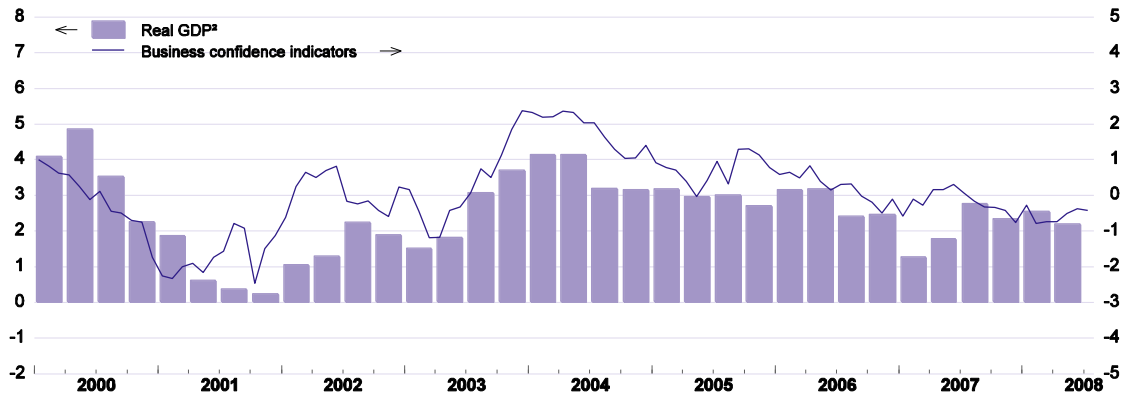
The US current account deficit has declined



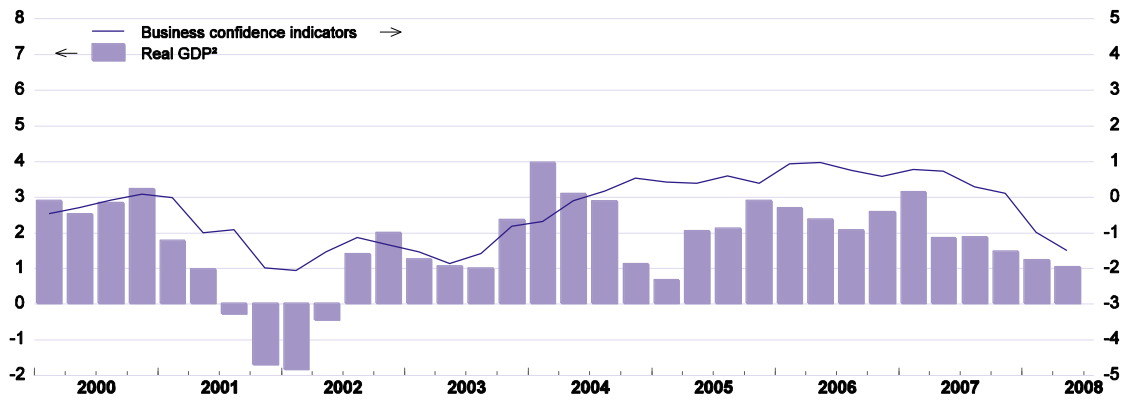
Source: OECD, Main Economic Indicators database; and OECD, Quarterly National Account database.

Business confidence indicators are below their long-term averages¹

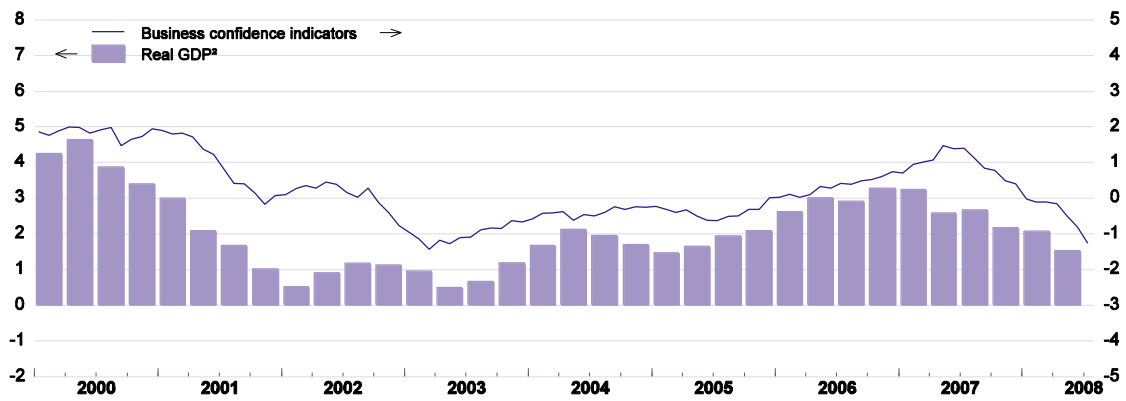
United States



Japan



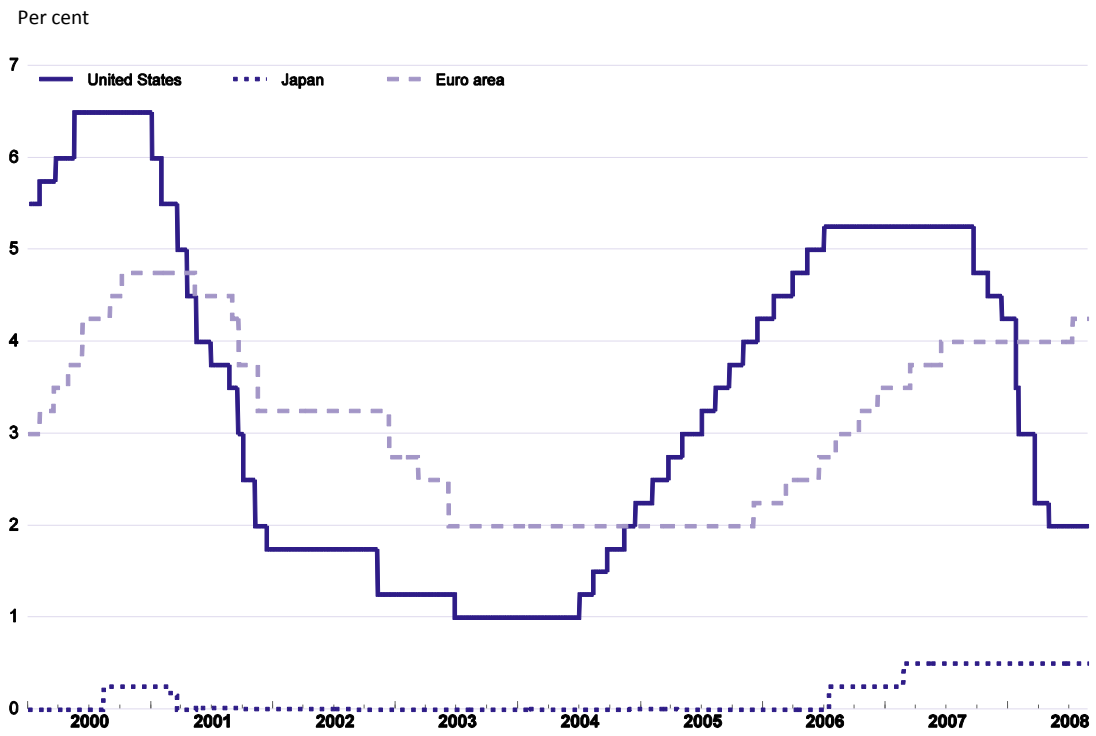
Euro area



Note: Business confidence indicators have been normalised at the average for the period starting in 1985 and are presented in units of standard deviation. Monthly data, seasonally adjusted except Japan (quarterly, s.a.).

1. United States: Purchasing Manager Index: Production Tendency (Institute for Supply Management); Japan: Business Survey (manufacturing): Prospects; Euro area: Business Survey (manufacturing): Future Production Tendency.
2. Year-on-year growth rates

Monetary policy reaction is different across countries



Note: US: Federal funds target rate, euro area: main refinancing operations minimum bid rate, Japan: overnight uncollateralised call rate.

Source: US Federal Reserve; Bank of Japan; European Central Bank.