Resilience in uncertain times

4 December 2024

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Editorial

RESILIENCE IN UNCERTAIN TIMES

In the past few years, the global economy has demonstrated remarkable resilience despite being subject to major shocks such as the pandemic and an energy crisis. This year, global growth has remained stable, while inflation continued to decline. Despite some easing in labour markets, unemployment rates are still near historical lows in many countries. Global trade has also been recovering.

We project that this resilience will continue, with global GDP increasing by 3.3% in 2025 and 2026, and inflation falling towards central bank targets. However, this robust overall performance masks significant differences across regions and countries, and is surrounded by important downside risks and uncertainties. More specifically, there are increasing risks related to rising trade tensions and protectionism, a possible escalation of geopolitical conflicts, and challenging fiscal policies in some countries.

Trade has been an important engine of global growth, job creation and declining poverty in the past decades. Not everything worked perfectly, and trade benefits were not always equally shared. Still, rising trade tensions and further moves towards protectionism might disrupt supply chains, raise consumer prices, and negatively impact growth. Similarly, an escalation of geopolitical tensions and conflicts risks disrupting trade and energy markets, potentially fuelling rises in energy prices.

Another source of risk comes from the public finances, as public debt remains at elevated levels. Some emerging market economies and low-income countries are now in debt distress or are at high risk of debt distress. Many other countries face mounting fiscal challenges and high debt. Increasing pressures from rising expenditures on defence, ageing populations, and the green and energy transition amplify these challenges. As a result, fiscal positions are strained and may jeopardise governments' ability to respond to future crises.

Policy has a key role to play at the current juncture to manage risks and to unleash the prospects for stronger, resilient and sustainable growth. This requires concerted action on monetary, fiscal, and structural policies.

As inflation pressures decline further, central banks should continue to ease monetary policy. Still, central banks need to tread carefully, taking note of incoming data and thoroughly assessing policy actions. Failing to durably contain inflation would only increase the risks to growth and real incomes.

Governments need to establish credible strategies to rein in public finances. Fiscal prudence is pressing due to elevated public debt levels in many countries and rising spending pressures. The needs and means by which fiscal restraint is exercised differ in every country, but it will be key for governments to balance the reduction in fiscal pressures with the need to preserve economic growth.

In addition, efforts on structural reforms can help reinvigorate medium-term economic growth and overcome fiscal challenges. In this edition of the OECD Economic Outlook, our Special Chapter focuses on an important challenge that many economies are facing: pervasive labour shortages. Labour and skill shortages have been on the rise in the past decade and intensified during the pandemic. Although labour markets are now easing, shortages still affect many sectors of our economies, especially health and long-term care and information technology. Such shortages, particularly in technology-intensive activities, hinder business upscaling as well as firms' ability to capitalise on productivity-enhancing innovations, such as artificial intelligence and robotics.

Significant public and private efforts to upskill and reskill workers, as well as reforms to education and lifelong learning systems, are essential to equip the labour force with the skills needed to address present and future challenges. Labour market policies can be used to boost labour supply and improve labour mobility. Fostering labour force participation among women, as well as among younger and older workers, will be essential to reduce labour shortages and boost potential growth. Promoting healthy ageing, improving working conditions, and investing in affordable childcare will be key to this end. Well-designed immigration policies, supported by robust integration measures, can also help ease labour shortages.

In sum, even though the global economy is expected to remain resilient, risks and uncertainties are high. In this challenging environment, decisive policy actions, including through bold structural reforms, and multilateral dialogue are essential to address these risks and to continue fostering a rise in growth and living standards across the globe.

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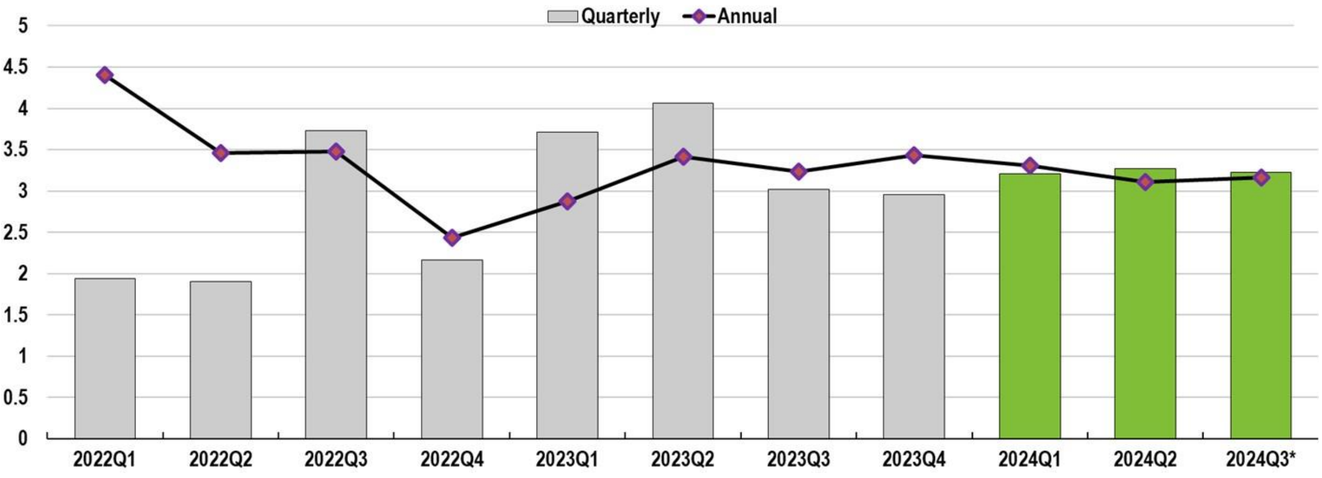
4th December 2024

Alvaro Pereira
OECD Chief Economist

Global growth has remained resilient

Global GDP growth

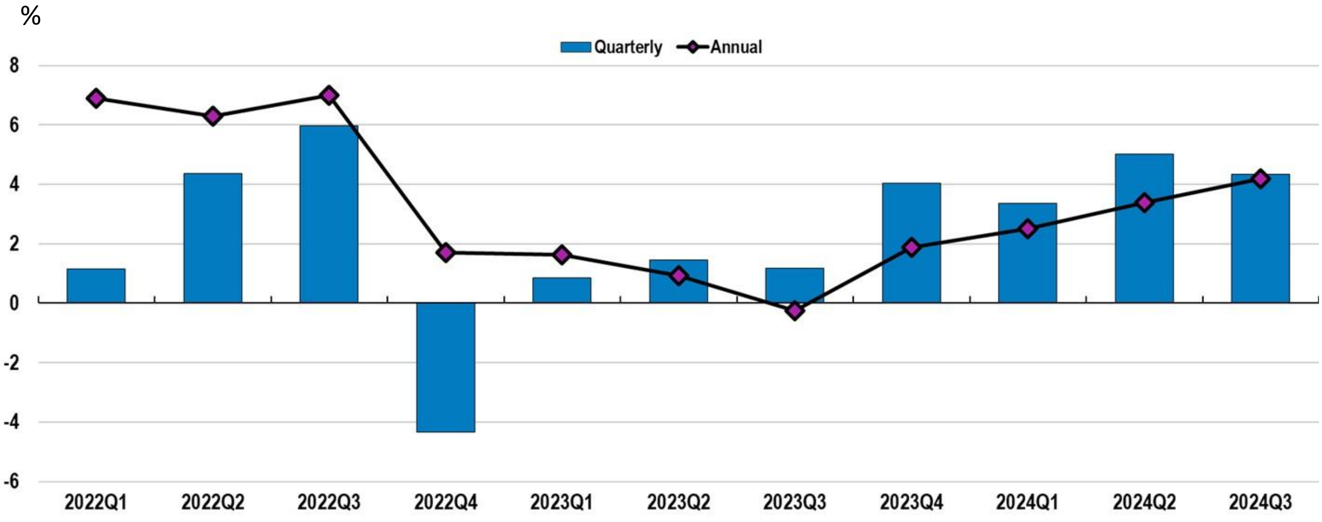


Note: Data for 2024Q3 is an estimate. Annual growth denotes the change over the year to the quarter shown. Quarterly growth denotes quarter-on-quarter growth at an annualised rate.

Source: OECD Economic Outlook 116 database; and OECD calculations.

Trade has been recovering

Global trade volumes growth



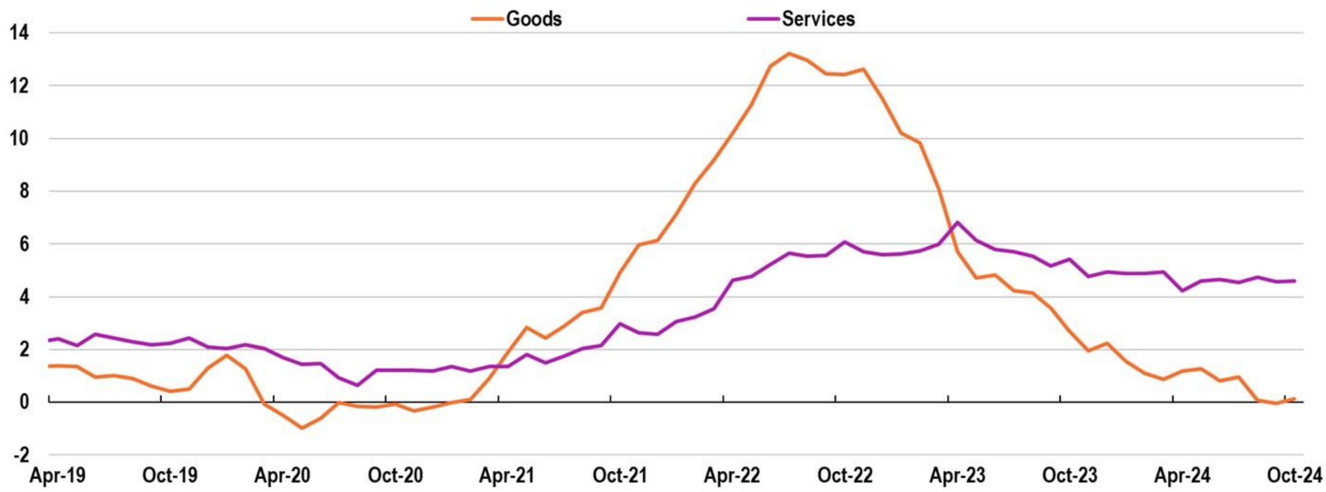
Note: Annual growth denotes the change over the year to the quarter shown. Quarterly growth denotes quarter-on-quarter growth at an annualised rate. Trade volumes are based on average exports and imports volumes.

Source: OECD Economic Outlook 116 database; and OECD calculations.

Inflation has continued to decline, although services inflation is proving persistent

OECD median inflation

%, year-on-year



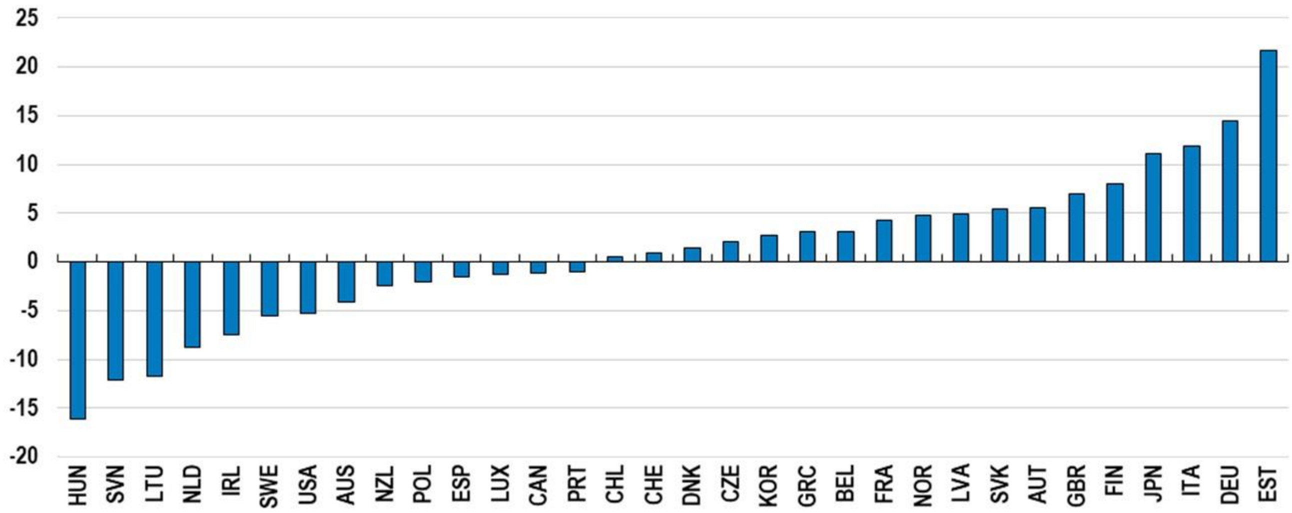
Note: Services inflation data based on harmonised index of consumer prices by COICOP divisions for the euro area member states and GBR, and national consumer price indices by COICOP divisions are used for all other countries. Goods inflation data based on national consumer price indices by COICOP divisions for all countries. The sample includes AUT, CAN, CHE, CRI, CZE, DNK, ESP, FIN, FRA, GBR, GRC, HUN, IRL, ISR, ITA, JPN, KOR, LTU, LUX, LVA, MEX, NLD, POL, PRT, SVK, SVN, and USA. Latest data point is Oct-24 for all countries.

Source: OECD Consumer Price Indices database; and OECD calculations.

Food and energy prices have increased more than household income in many countries

Differences between food and energy price inflation and nominal household disposable income growth

2019Q4 – 2024Q3, percentage points



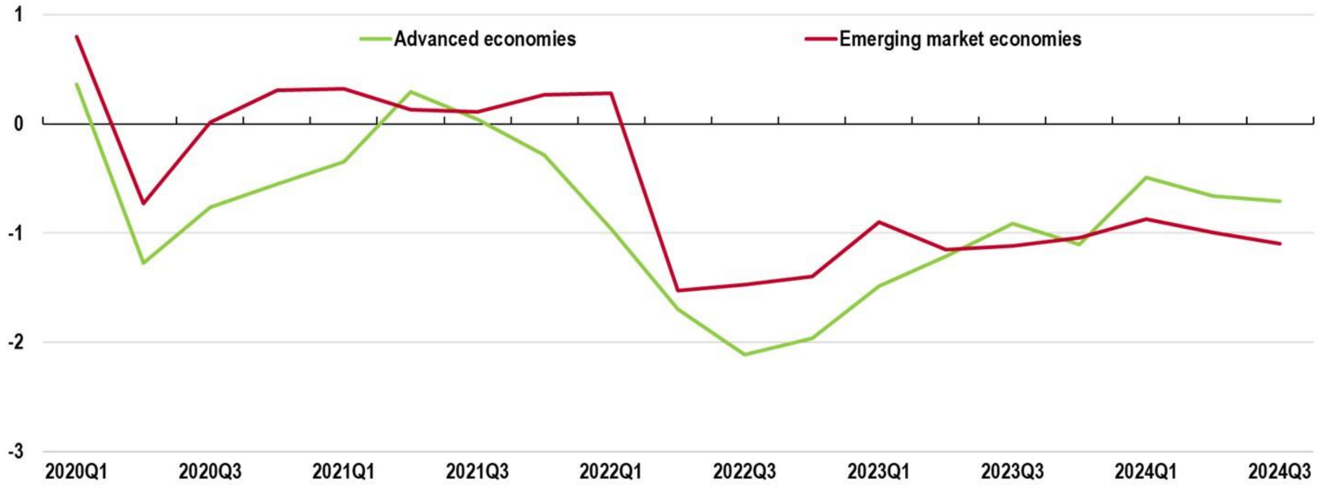
Note: Economic Outlook 116 estimates of household disposable income are used for recent quarters in those countries in which disposable income data are not available from official sources. Energy is defined as the sum of 'Electricity, gas and other fuels' and 'Operation of personal transport equipment'.

Source: OECD Economic Outlook 116 database; OECD Consumer Price database; and OECD calculations.

Consumer confidence remains weak

Consumer confidence

Mean across advanced/emerging economies, long-term average = 0



Note: Data are standardised so that the long-term average and standard deviation are zero and one, respectively. The mean refers to a weighted mean using GDP in PPP as weights. Advanced economies are non-EME OECD economies plus Croatia. Emerging market economies (EMEs) include BGR, BRA, CRI, CHL, CHN, COL, IDN, IND, MEX, ROU, ZAF and TUR.

Source: OECD Consumer Opinion Surveys database; and OECD calculations.

GDP growth projections

Real GDP growth, year-on-year, %

⊕ Upward revision, by 0.3pp or more ⊖ Downward revision, by 0.3pp or more

	2024	2025	2026		2024	2025	2026
World	3.2	3.3	3.3	OECD	1.7	1.9	1.9
Australia	⊖ 1.1	⊖ 1.9	2.5	Argentina	⊖ -3.8	⊕ 3.6	3.8
Canada	1.1	2.0	2.0	Brazil	⊕ 3.2	2.3	1.9
Euro area	0.8	1.3	1.5	China	4.9	4.7	4.4
Germany	0.0	⊖ 0.7	1.2	India	6.8	⊕ 6.9	6.8
France	⊕ 1.1	⊖ 0.9	1.0	Indonesia	5.1	5.2	5.1
Italy	0.5	⊖ 0.9	1.2	Mexico	⊖ 1.4	⊖ 1.2	1.6
Spain	⊕ 3.0	⊕ 2.3	2.0	Russia	⊕ 3.9	1.1	0.9
Japan	⊖ -0.3	⊕ 1.5	0.6	Saudi Arabia	⊕ 1.0	⊖ 3.6	3.8
Korea	⊖ 2.3	2.1	2.1	South Africa	1.0	1.5	1.7
United Kingdom	⊕ 0.9	⊕ 1.7	1.3	Türkiye	3.5	⊖ 2.6	4.0
United States	2.8	⊕ 2.4	2.1				

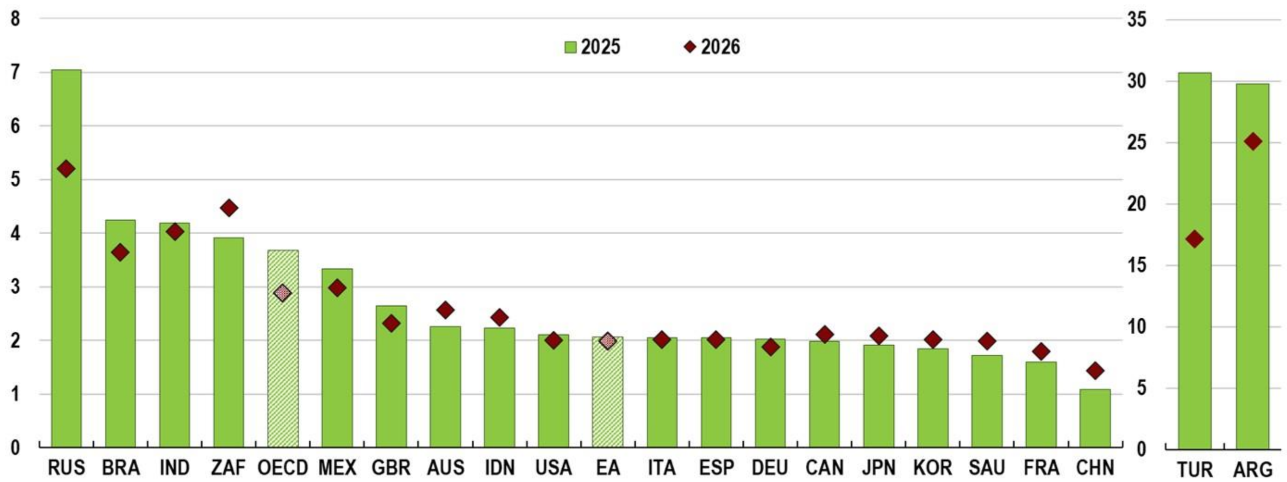
Note: Revisions relative to the latest estimates from the May 2024 Economic Outlook. India projections are based on fiscal years, starting in April. World and OECD aggregates use moving nominal GDP weights at purchasing power parities.

Source: OECD Economic Outlook 116 databases; and OECD Economic Outlook 115 database.

Inflation is projected to continue to come down

Headline inflation

%, G20 economies

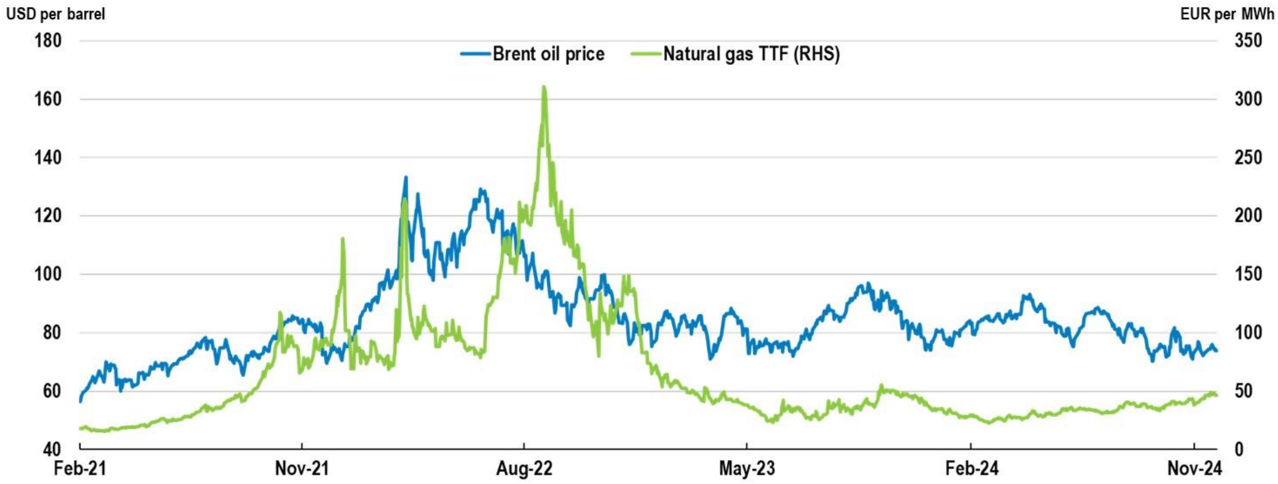


Note: Figure shows personal consumption expenditure price index for the United States, harmonised index of consumer prices for the euro area and its member states and the United Kingdom, and national consumer price index for all other countries. India projections are based on fiscal years, starting in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

Source: OECD Economic Outlook 116 database.

An escalation of conflicts risks disrupting energy markets

Energy prices



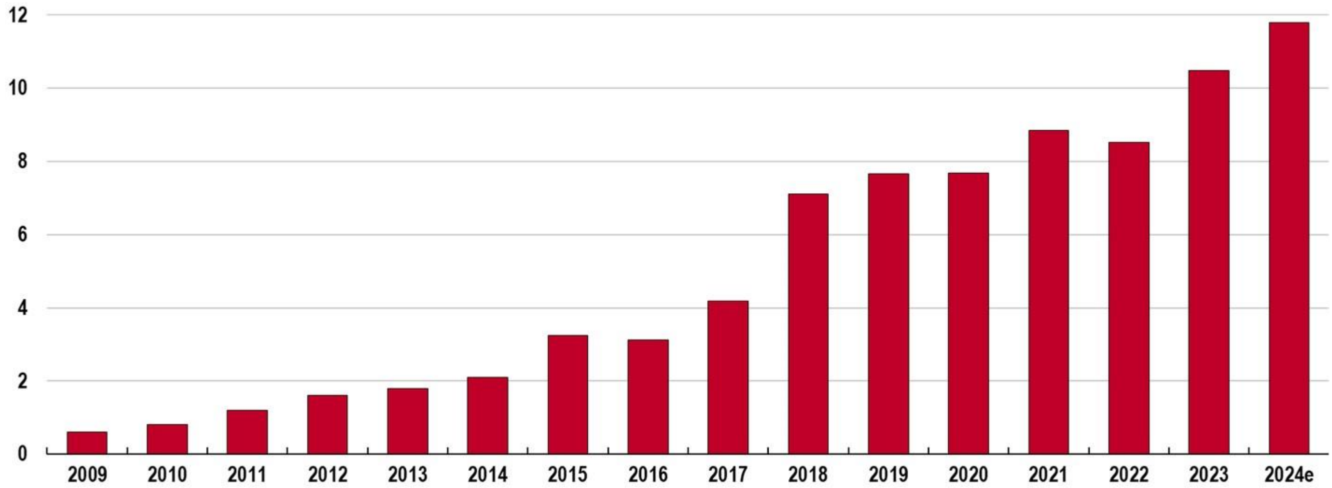
Note: Daily brent oil prices and the Dutch TTF prices (Natural gas TTF). Data up to 28 November 2024.

Source : LSEG and OECD calculations.

Trade tensions have been rising

Import-restrictive measures on goods

% of world merchandise imports



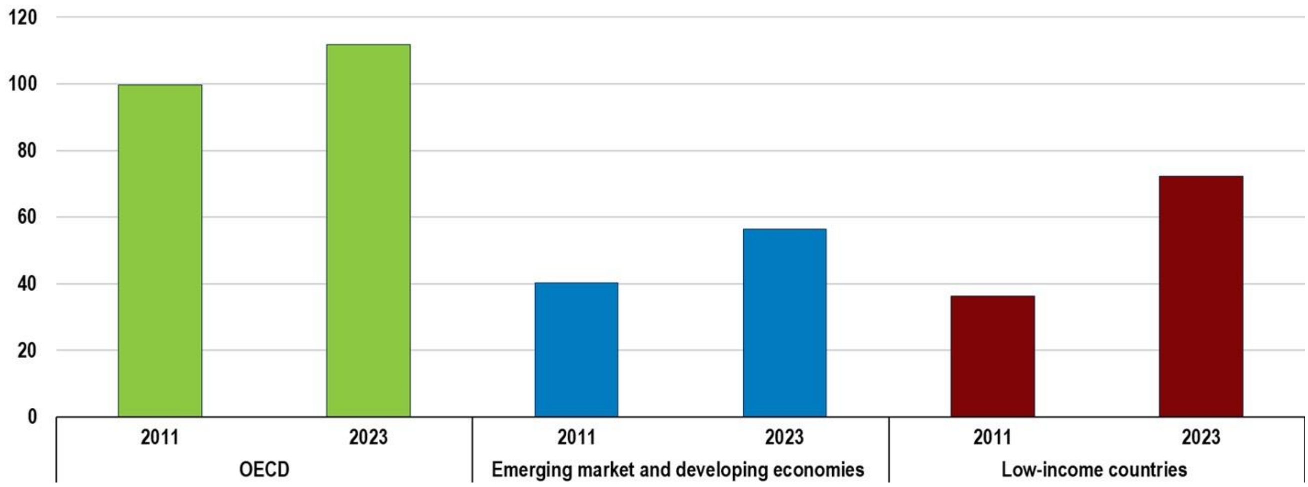
Note: The chart denotes the cumulative trade coverage of import restrictions on goods, i.e., the stockpile of import restrictions, since 2009. The cumulative trade coverage estimated by the WTO Secretariat is based on information available in the WTO Trade Monitoring Database (TMDB) on import measures recorded since 2009 and considered to have a trade-restrictive effect. The estimates include import measures for which Harmonised System codes (HS codes) were available. The figures do not include trade remedy measures and sanctions. The import values were sourced from the UN Comtrade database. The 2024 estimate is based on available data up to 15 October 2024.

Source: WTO November 2024 report.

Public debt ratios have risen

Government debt

% of GDP



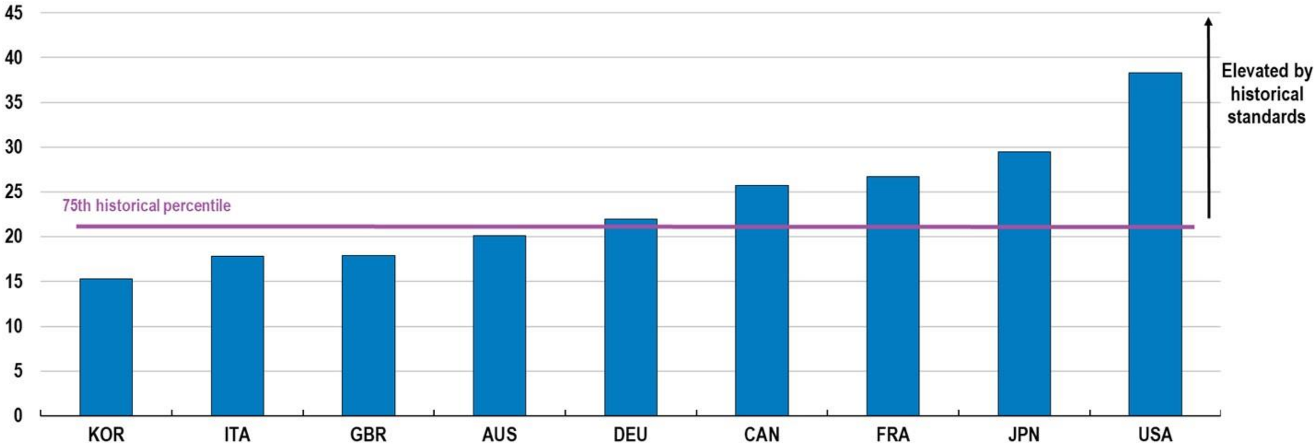
Note: Emerging market and developing economies (EMDEs) excludes low-income countries (LICs). Bars show the unweighted averages. Based on up to 23 LICs and 128 other EMDEs.

Source: IMF; World Bank; and OECD Economic Outlook 116 database.

Asset market valuations remain elevated

Cyclically adjusted price-to-earnings ratios

Share price relative to historical earnings



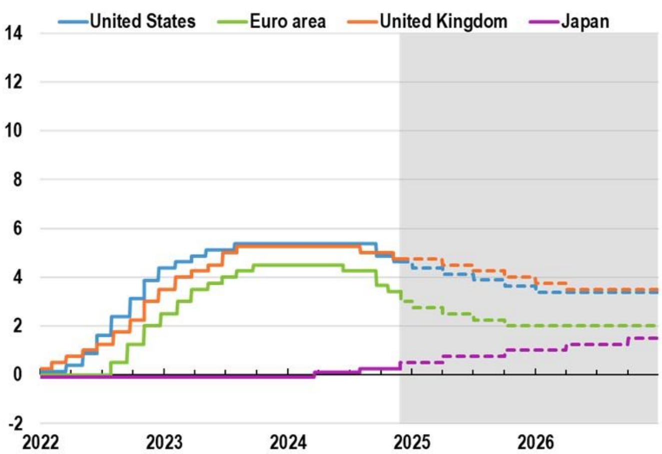
Note: This figure shows cyclically adjusted price-to-earnings (CAPE) ratios in selected G20 economies. Data are as of October 2024. The ratio is calculated by dividing the share price (October 2024) by the 10-year average cyclically-adjusted (i.e. brought to October 2024 prices) earnings. The national consumer price index is used to calculate cyclically-adjusted earnings in each country. All ratios shown are weighted averages computed using companies' market capitalisation as weights. Companies with negative earnings are excluded. The horizontal line shows the 75th percentile of the history of the Shiller ratio for the S&P 500 starting in January 1881.

Source: LSEG; and OECD calculations.

Monetary policy should continue to loosen, but needs to remain prudent

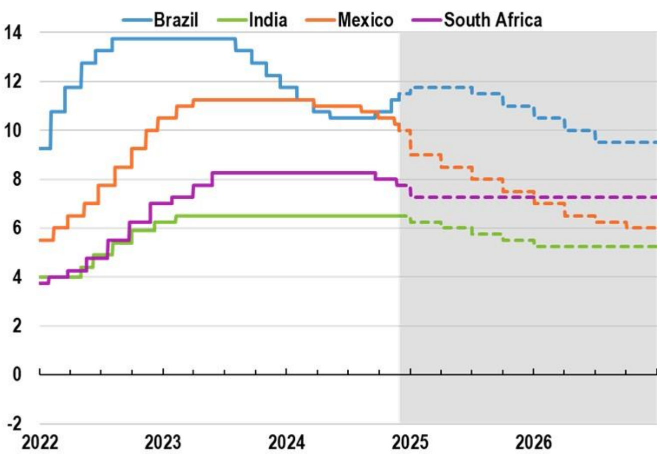
Advanced economies

Policy rates, %



Emerging market economies

Policy rates, %



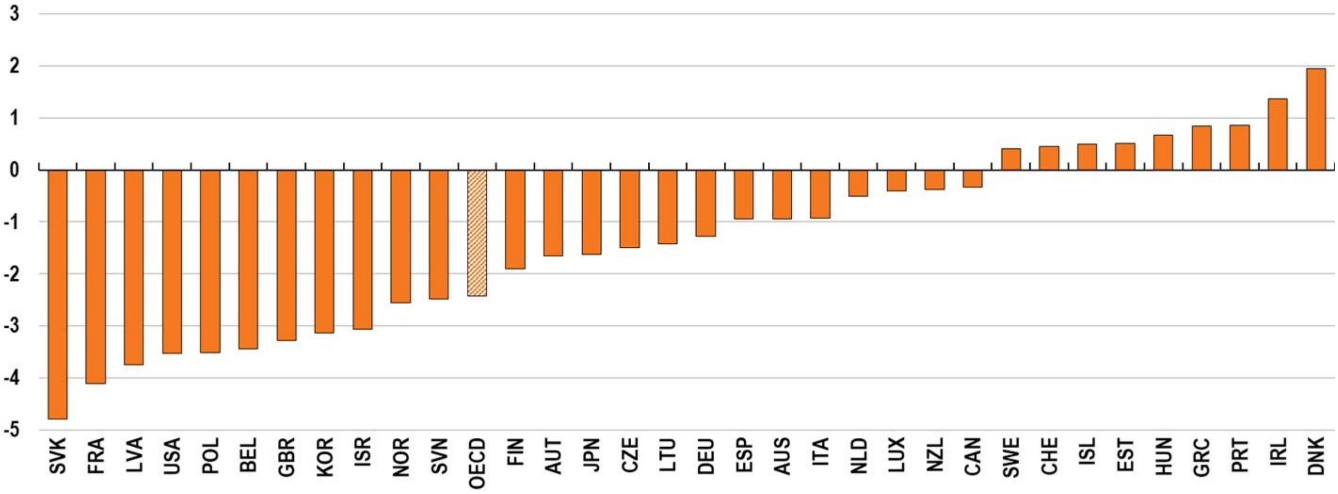
Note: Shaded area refers to OECD projections. For the United States, the policy rate refers to the midpoint of the federal funds rate range. The deposit facility rate is used as the policy rate indicator for the euro area. For Japan, from 21 March 2024 to 31 July 2024, the policy rate refers to the maximum of Bank of Japan's rate range. The assumed path of policy interest rates and unconventional measures represents the most likely outcome, conditional upon the OECD projections of activity and inflation.

Source: OECD Economic Outlook 116 database.

Governments need to step up efforts to consolidate public finances

Estimated underlying government primary balance for 2024

% of potential GDP

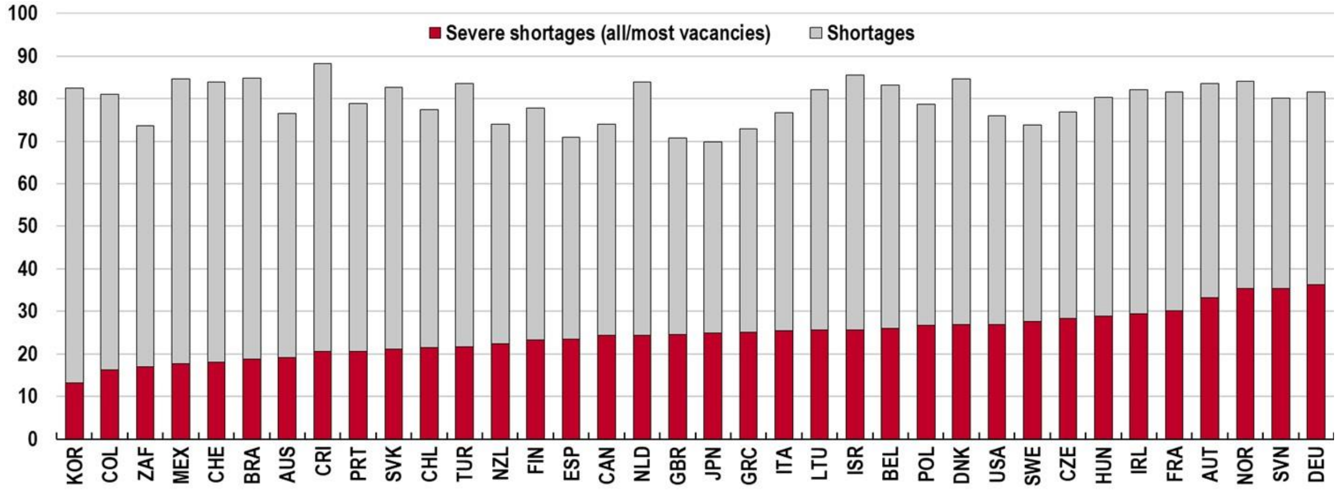


Source: OECD Economic Outlooks 116 databases.

Labour shortages are high

Share of firms reporting labour shortages

%, 2022-2023



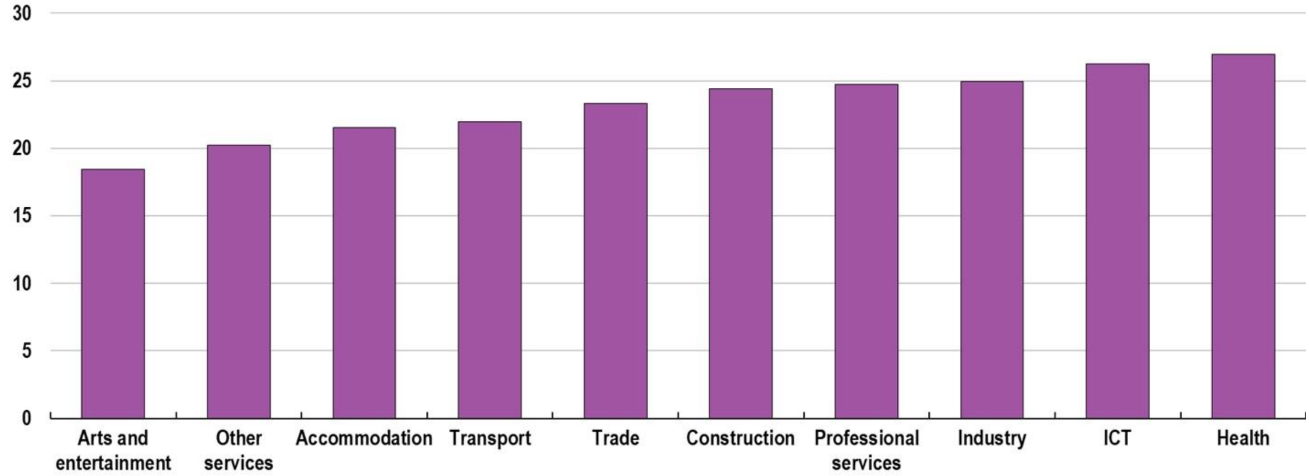
Note: The survey covers firms with 10 or more employees in all sectors of the economy except agriculture, utilities, financial services, public administration, education, household production and activities of extra-territorial entities, in 34 OECD countries (AUS, AUT, BEL, CAN, CHL, COL, CRI, CZE, DNK, FIN, FRA, DEU, GRC, HUN, IRL, ISR, ITA, JPN, KOR, LTU, MEX, NLD, NZL, NOR, POL, PRT, SVK, SVN, ESP, SWE, CHE, TUR, GBR, USA), BRA and ZAF. The Survey was administered in March – August 2024 as an online survey of about 500-1000 entities per country, sampled according to strata that account for the sectoral affiliation of the company and its size category. Labour shortages are defined as whether firms have faced recruitment difficulties in the past 24 months (yes/no). Severe labour shortages are defined as difficulties filling all or most vacancies.

Source: Global Forum on Productivity Employer Survey on labour shortages.

Labour shortages are uneven across sectors

Firms reporting severe labour shortages as share of all firms

%, 2022-2023, 34 selected OECD and 2 non-OECD countries



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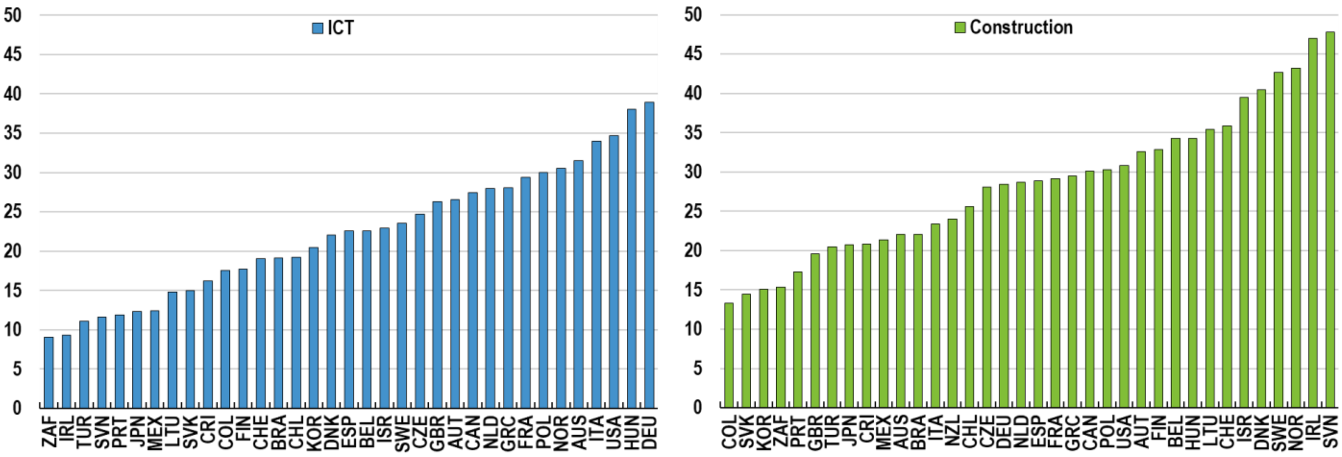
Source: Global Forum on Productivity Employer Survey on labour shortages.

Labour shortages are prevalent across many sectors

Firms reporting severe labour shortages as share of all firms

%, 2022-2023



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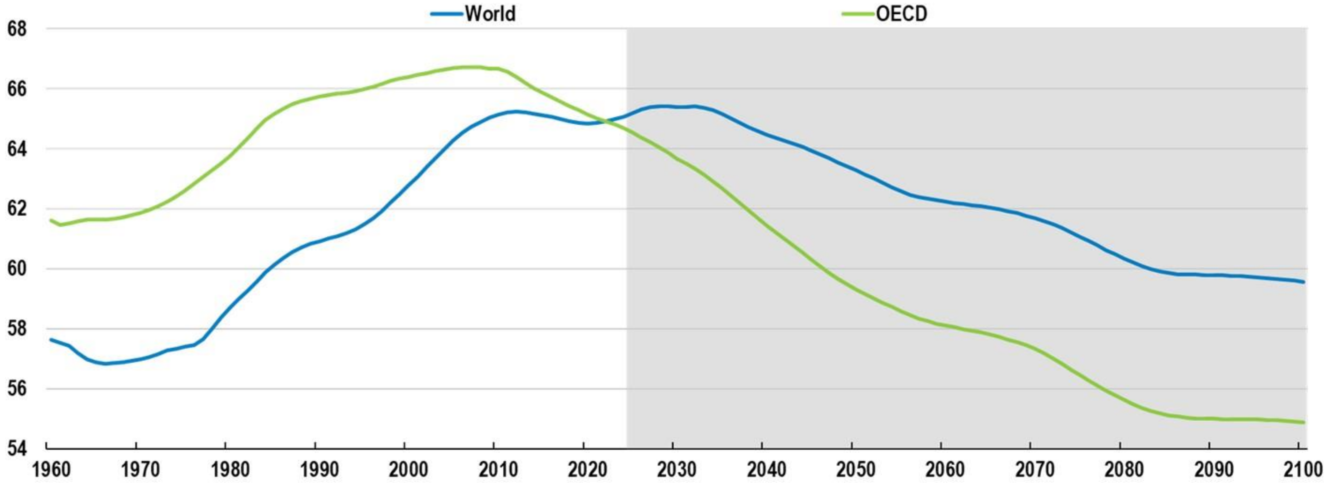
Source: Global Forum on Productivity Employer Survey on labour shortages.

Population ageing is reducing the supply of workers

Working age population (15-64 years old)

% of total population



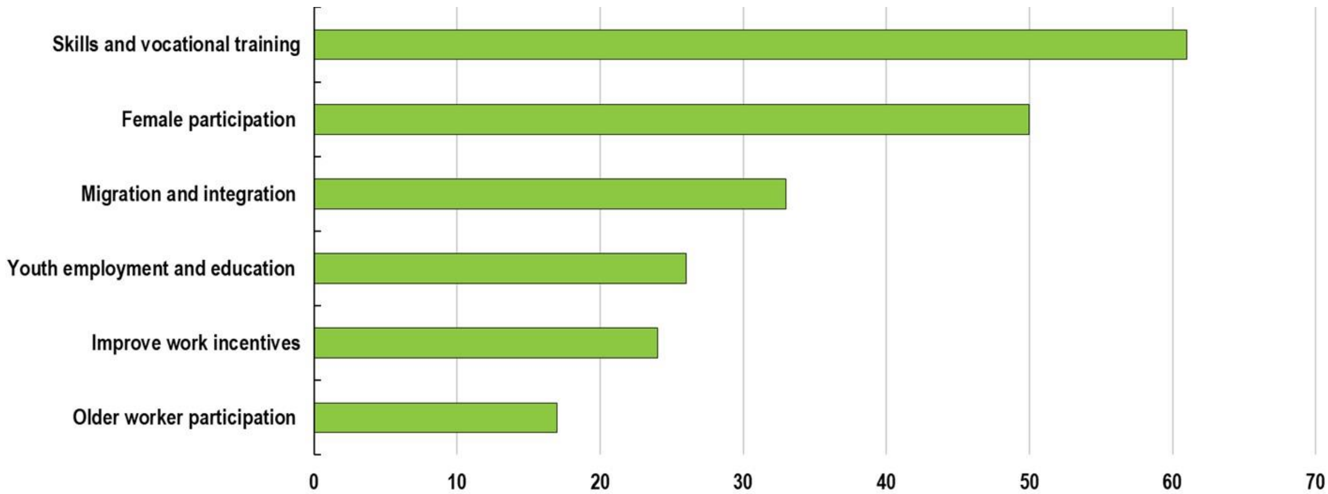
Note: Working age refers to the share of the population between 15-64 years old. The highlighted area refers to the projection period. Projections are based on the "medium variant" population projections from the United Nations.

Source: United Nations World Population Prospects: The 2024 Revision.

Alleviating labour shortages requires a broad policy mix

Shares of countries with policy recommendations in each category

%, OECD and selected non-member countries



Notes: Policy recommendations are taken from the Economic Outlook 116 chapter on developments in individual OECD and selected non-member economies. A total of 54 countries were assessed.

Source: OECD Economic Outlook 116.

Summing up

- Growth is projected to remain stable amid high geopolitical risks and uncertainties
- Monetary policy should continue to ease, but needs to remain prudent and data dependent
- Governments need to step up consolidation efforts to ensure public finance sustainability
- Addressing labour shortages is necessary to unleash future growth potential