OECD cuts estimate for global growth

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The Organisation for Economic Cooperation and Development (OECD) warned Monday of a "dramatic slowdown in global trade growth" in its latest survey of the world economy, in which the organization cut its growth forecast for the second time in three months.

Speaking at the release of the report, OECD chief economist Catherine Mann pointed to the significance of the trade downturn. "World trade has been a bellwether for global output. The growth rates of global trade observed so far in 2015 have, in the past, been associated with global recession," she said.

Trade growth is expected to be only 2 percent this year, compared with 3.4 percent in 2014 and far higher in the period before the global financial crisis of 2008.

The Paris-based OECD, which covers the major economies, reduced its growth forecast for the world economy to 2.9 percent this year and 3.3 percent in 2016. This compares with earlier forecasts of 3 percent and 3.6 percent respectively. The downgrade follows a similar move by the International Monetary Fund, which last month said global growth would be at its lowest level since the financial crisis of 2008–2009.

In his presentation of the report, OECD secretary-general Angel Gurría said growth prospects have "dimmed again." He added, "since the crisis, we have become used to a familiar pattern: spring-time optimism followed by downgrades in growth forecasts as the year progresses. 2015 is no different."

According to the report: "The key risk to global growth is a larger than expected slowdown in China. Combined with financial turmoil, potentially exacerbated by the first tightening step in US monetary policy, this would have serious repercussions on the global economy."

The US Federal Reserve will consider lifting its base interest rate at its meeting next month, amid fears that even a 0.25 percent rise and the expectation that further increases could follow, will trigger a financial crisis in so-called emerging markets which have large dollar-denominated debts. The IMF considers that these countries have over-borrowed to the extent of around $3 trillion.

Highlighting the significance of the trade data, Gurría said growth, which was slowing over the past few years, now appears to have stagnated, "with the weakness increasingly centred on emerging markets, particularly China."

"This is deeply concerning," he continued, "as robust trade and global growth go hand in hand.… Over the past five decades there have only been five other years in which trade growth has been 2 percent or less, all of which have coincided with a marked downturn of global growth."

Gurría said business investment, a key driver of the economy, remained subdued, rising by an "anaemic" 3.3 percent over 2015-16 in the OECD economies, with credit availability remaining "subpar," particularly in the euro area.

The secretary-general did not expand on this point but it underscores the complete failure of the various "quantitative easing" policies of the world's major central banks so far as the real economy is concerned.

The provision of money at near-zero interest rates has not provided a boost to productive investment and economic growth, but has instead been poured into the stock and bond markets and other forms of speculation. In fact there is considerable evidence that the cheap money regime has actually led to a cut in real investment because firms that undertake expansion, rather than engage in share buy backs and other forms of financial manipulation, have their share values cut.

From the present "very weak beginnings," Gurría said the OECD expected global growth to "strengthen gradually" and reach 3.6 percent by 2017. However this was conditional on supportive government policies, a pick-up in investment, continued low commodity prices and a “steady improvement in the labour market.” Apart from low commodity prices – which themselves impact heavily on growth rates in emerging markets – none of these conditions can be expected to apply.

The OECD’s forecasts for specific areas of the world economy reflected the overall trend. While it increased its forecast for euro zone growth to 1.6 percent from 1.5 percent it said that Germany, Europe’s key economy, would grow by 2 percent this year, a cut of 0.4 percentage points from its prediction of three months ago.

The report pointed out that the euro zone was expanding by about one percentage point less than could be expected given lower oil prices and the accommodative monetary policy of the European Central Bank.

It predicted that growth in the US should reach 2.4 percent this year and 2.5 percent next year, down from the earlier forecast for 2016 of 2.6 percent, and then decline to 2.4 percent the year after.

US growth, low as it is by post-war standards, is nevertheless regarded as something of a “bright spot” for the world economy. But it has not been accompanied by any increase in pay levels, which could impact on the world economy as whole, prompting a warning from Catherine Mann, who said, “Without wage growth, the recovery will lose steam and prospects for the US to support the rebound in global trade and growth will come into question.”

Like other international economic organisations, the OECD has buried the notion that the so-called BRICs economies could provide a new platform for global expansion. It forecast that Brazil’s economy would contract by 3.1 percent this year and 1.2 percent next year, a downgrade from earlier predictions of contraction of 2.8 percent and 0.7 percent. The Russian economy is set to contract by 4 percent this year and 0.4 percent next year.

The Chinese growth rate is expected to be 6.8 percent this year falling to 6.5 percent in 2016. These figures, however, may be overestimates, with many analysts insisting that the real growth rate of the Chinese economy is closer to 4 percent.

To complete the picture, Gurría said that the outlook for emerging market economies “was a particular source of global uncertainty, given their large contribution to global trade and GDP growth in the last few years.” Many had now been hit by lower commodity prices and weak export demand while others had seen a rapid increase in corporate debt in recent years which could be much more difficult to service in conditions of volatile capital flows.

Gurría concluded his remarks with what amounted to a pro forma reference to the need of the G-20 leaders meeting in Antalya, Turkey, later this month to “renew their efforts to secure, strong, sustainable and balanced growth.”

But as he, and countless other economic officials know, the G-20 meeting will no more produce a solution to the deepening global economic breakdown than have any of the other summit meetings since the financial crisis erupted seven years ago.