OECD cuts global growth forecast

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The Organisation for Economic Cooperation and Development, a grouping of 38 economies, has significantly cut its forecast for global growth because of the uncertainty created by the trade and tariff war being waged by US President Trump.

It said the world economy was heading for its weakest period of growth since it was hit by the COVID-19 pandemic in 2020.

Global growth, it forecast, would be just 2.9 percent in 2025 and 2026, compared to growth of 3.3 percent in 2024, after it had exceeded 3 percent in every year since 2020.

Warning of the impact of the Trump tariffs, it said the "significant increase in trade barriers as well as in economic and trade policy uncertainty" had "negatively impacted business and consumer confidence and is set to hold back trade and investment."

"Weakened economic prospects will be felt around the world, with almost no exception. Lower growth and less trade will hit income and slow job growth," the editorial introducing the report said.

It said risks had risen "considerably" and could increase even further, and that additional trade barriers might be introduced. According to our simulations, additional tariffs would further reduce global growth prospects and fuel inflation, dampening global growth even more."

It also warned that rising government debt posed financial risks and that "historically elevated equity valuations also increase the vulnerability to negative shocks in financial markets."

It said "by far" the most important policy priority was to ease trade tensions and lower tariffs to revive growth and avoid rising prices. But as if to emphasize there is absolutely no chance of this taking place, Trump signed an executive order yesterday, lifting the tariffs on steel and aluminum from 25 percent to 50 percent, to come into effect today.

In what amounted to a desperate and fearful plea for a reversal of the trade war, the OECD's chief economist Álvaro Pereira said countries need to make deals to lower trade barriers. "Otherwise, the growth impact is going to be quite significant. This has massive repercussions for everyone."

The report noted that boosting investment was necessary to promote economic revival and that it had been too low since the global financial crisis of 2008. One of the reasons is that financial parasitism and speculation have assumed an ever-increasing role in profit accumulation.

"Despite rising profits, firms have shied away from fixed-capital investment in favor of accumulating financial assets and returning funds to shareholders," it said.

The report pointed to a significant downturn in US growth. It would fall from 2.8 percent in 2024 to 1.6 percent in 2025 and 1.5 percent in 2026. The OECD had previously forecast US growth for this year at 2.2 percent. At the same time, inflation would increase, preventing the Federal Reserve from cutting interest rates to provide a boost to the economy.

Predictably, the downgrade in US growth prospects brought denunciations from the White House, with Trump's spokesperson Kush Desai declaring that the OECD "joins a growing list of doomsayers that are untethered to reality."

But the report is very much in line with other assessments.

The chief international economist for the financial firm ING, James Knightley, said the OECD downgrade "adds more credibility to the private sector view that the US economy will feel a cold wind until we start getting clarity on the trade and tax environment that businesses and households will face."

Goldman Sachs has said it expects US growth of only 1.7 percent this year, and the Fed has downgraded its forecast from 2.1 percent to 1.7 percent.

These forecasts are being backed up by data. The ISM survey of purchasing managers in the manufacturing sector came in at 48.5 for May, below the level of 50 that is the boundary between expansion and contraction.

The result was below expectations, lower than the previous month, and the fourth consecutive monthly fall in the index.

The chief economist at the tax and consulting firm RSM US, Joe Brusuelas, told the *Financial Times*: "The confusion of trade policies is making it nearly impossible for supply managers to source goods efficiently. This tells me that we may run into bottlenecks in terms of production leading to shortages."

The downgrade for the US economy was replicated across the board, with the OECD cutting its forecasts for three-quarters of the G20 group of economies from the predictions it made in March.

Chinese growth would slow from 5 percent last year to 4.7 percent in 2025 and 4.3 percent in 2026. The eurozone will grow by only 1 percent this year and 1.2 percent in 2026. Japan will grow by anemic 0.7 percent this year and 0.4 percent in 2026. The figures for the UK are 1.3 percent this year and 1 percent next year.

Global trade is expected to grow at an already historically low level of 2.8 percent this year and then fall further to 2.2 percent in 2026. And given that the Trump tariff hikes have yet to come fully into effect, the fall could be even sharper.

The social implications of the lower growth rate were set out, albeit indirectly, in the warnings over the rising levels of government debt contained in the report.

It said that "restoring fiscal discipline is key for countries to avoid fiscal sustainability problems and build buffers for future shocks" and given the already high debt levels, countries had to ensure that public debt is on a sustainable path with the development of credible plans to show "how countries intend to ease pressures on public finances."

Translated from the economic jargon in which such reports are written, this means major attacks on social spending, as well as job cuts resulting from lower growth, which will be intensified by the increases in military spending being undertaken by governments around the world.