Strengthening investment key to improving world economy's B-minus grade, says OECD

[Watch the presentation given by Angel Gurría, OECD Secretary-General](#)

[Watch the press briefing given by Catherine L. Mann, OECD Chief Economist](#)

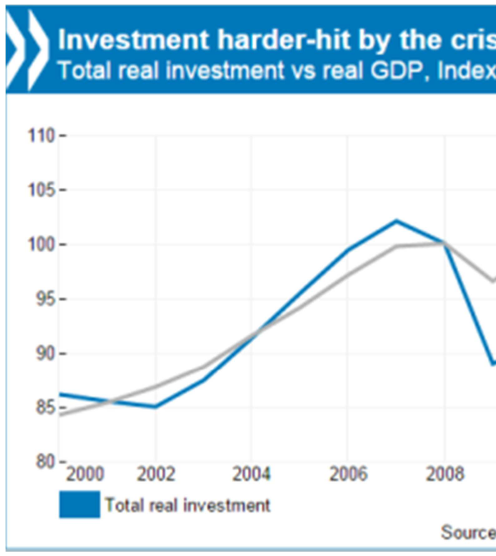
3/06/2015 - Global growth will gradually strengthen towards its pre-crisis trend rate by late 2016 as activity becomes more evenly shared across the major economies and overall external imbalances are less marked than in the run-up to 2007, according to the OECD's latest Economic Outlook.

Labour markets are gradually healing in the advanced economies and risks of deflation have receded.

But the global economy can be characterised as only achieving a muddling-through "B-minus " grade. Global growth in the first quarter of 2015 was weaker than in any quarter since the crisis. And although this softness is seen as transitory, productivity growth continues to disappoint, reflecting in part tepid business investment which has weakened the spread of new technologies.

Weak investment in many economies is hindering an increase in consumption, job creation and wage rises, and eroding the prospects for long-term sustainable growth.

"The global economy is projected to strengthen, but the pace of recovery remains weak and investment has yet to take off" OECD Secretary-General Angel Gurría said. "The failure to trigger strong, sustainable growth has had very real costs in terms of lost jobs, stagnant living standards in advanced economies, less vigorous development in some emerging economies, and rising inequality nearly everywhere." (read full speech)



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The Outlook says increases in capital spending are needed to push economies onto a higher growth path. For policy makers, translating investment into sustained growth also requires paying attention to low-wage workers, as well as tackling the consequences of rising inequality for education, a key factor undermining growth in the longer term.

The OECD sees global growth at 3.1% in 2015, rising to 3.8% in 2016. This is less than the 3.6% and 3.9% foreseen in the previous Outlook in November 2014, largely on account of the unexpected weakness seen in the first quarter of 2015. Global growth is expected to pick up through 2015 and 2016 thanks to low oil prices, widespread monetary easing and a reduction in the drag from fiscal consolidation in the major economies.

US GDP growth is projected to be 2.0% in 2015 and 2.8% in 2016, a downward revision from the November 2014 forecast of 3.1% this year and 3.0% in 2016. While the stronger dollar and adverse weather weighed on growth in early 2015, unemployment continues to fall. Supportive monetary policy and lower oil prices should continue boosting demand.

Output in the Euro area is expected to rise by 1.4% this year and 2.1% in 2016, more than forecasted in the previous Outlook, when the projections were 1.1% for 2015 and 1.7% for 2016. Bolder-than-expected monetary easing by the ECB has been accompanied by substantial depreciation of the euro, which should reinforce the positive demand effect of a pause in fiscal consolidation and the drop in oil prices.

Japanese growth is projected at 0.7% in 2015 (compared with 0.8% in the previous Outlook) and 1.4% in 2016 (1.0% previously). Lower oil prices, stronger exports reflecting the weaker yen and real wage gains are among the factors driving the recovery.

In China, the 2015 GDP growth forecast has been revised down to 6.8%, from 7.1% in the November Outlook, and to 6.7% from 6.9% for 2016. The deceleration reflects the restructuring underway in the Chinese economy as services replace manufacturing and real estate investment as the main driver of growth.

Growth in India is expected to remain strong and stable in 2015 (at 7.3%) and 2016 (7.4%). The recessions in Russia and Brazil are projected to give way to low but positive growth in 2016.

"To move from a "B-minus" grade to an "A" means boosting investment in order to create jobs and stimulate consumption", said OECD Chief Economist Catherine Mann. "It means putting in place structural policies to raise productivity and encourage competitive markets as part of a package combining monetary and fiscal policies that deliver adequate demand growth and reduce policy uncertainty."

Further information about the Economic Outlook is available here or from the OECD's Media Division (tel: +33 1 4524 9700). A online read-only version is also available.

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