



Confronting the Crisis

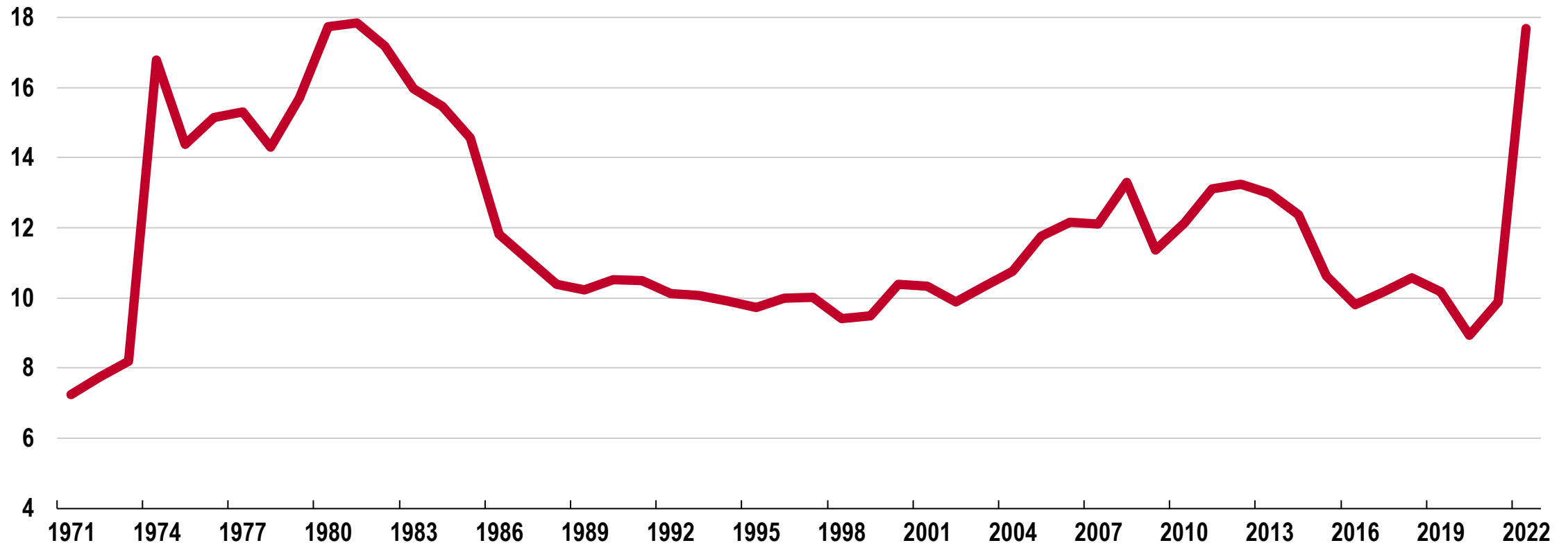
OECD Economic Outlook November 2022

RIETI Webinar, 29 November 2022

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The world is coping with a large energy price shock

Estimated share of OECD GDP spent on energy end-use
% of GDP



Note: Chart shows estimated energy end-use expenditures on coal, oil, natural gas, electricity. Estimates of the level of energy expenditure, computed as end-use prices in local currency multiplied by volumes consumed, are produced at the country level for 29 OECD countries. GDP shares are then aggregated using moving GDP weights in PPP to get the OECD estimate. End-use prices include taxes. Prices are extended to 2022 using the growth rate of reference prices converted in local currency (average of observed 2022 data compared to 2021): Brent for oil, ICE Newcastle futures for coal, and wholesale prices for electricity and natural gas (available for 25 and 27 OECD countries, respectively). For 2022, the volumes consumed correspond to the average of 2019 and 2021.

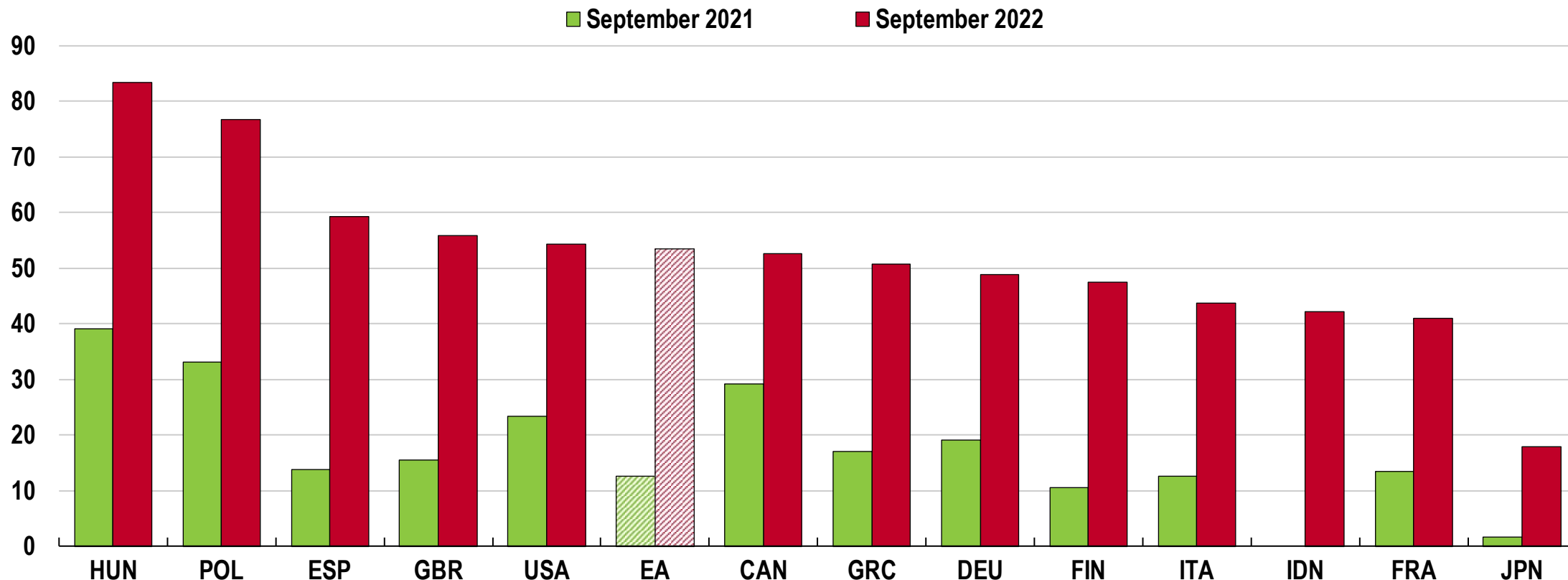
Source: IEA; OECD Economic Outlook 112 database; Refinitiv; US Energy Information Administration; Japanese Power; German Federal Network Agency (SMARD); Korea Electric Power Statistics Information System; Canada Independent Electricity System Operator; and OECD calculations.



Inflationary pressures have intensified and become broad-based

Share of items in the inflation basket with price increases above 6%

%



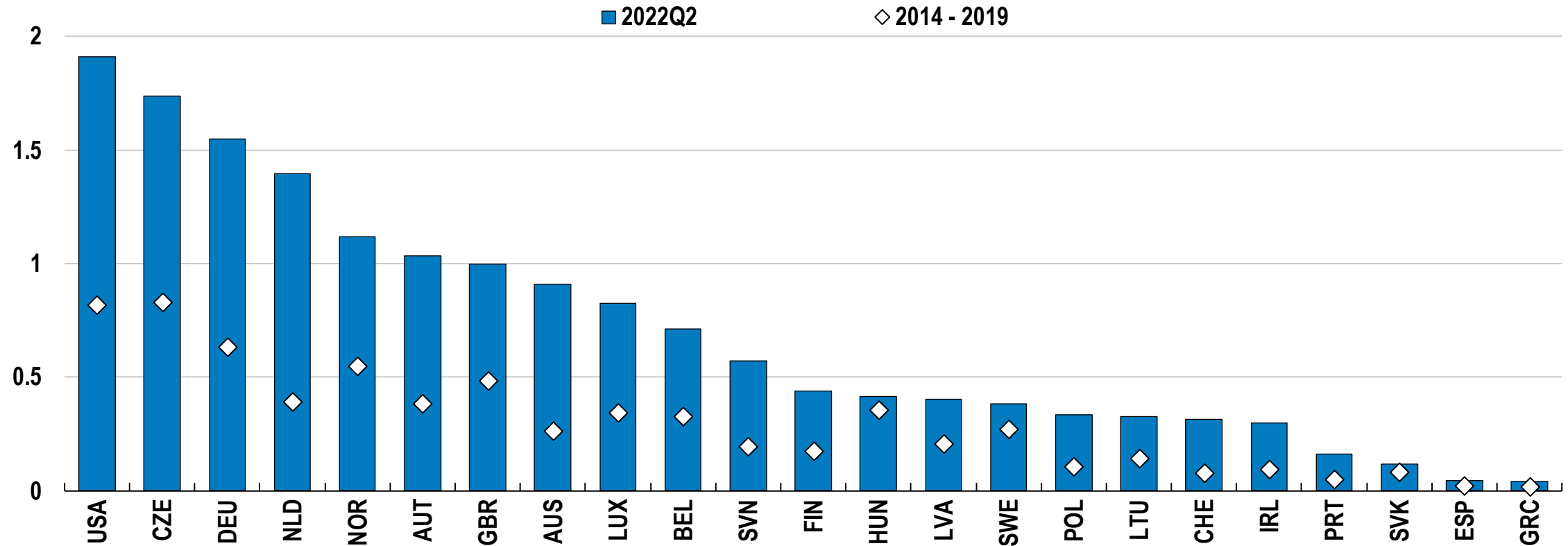
Note: Inflation based on the personal consumption expenditures deflator in the United States, harmonised consumer prices in the euro area, its member countries and the United Kingdom, and national consumer prices elsewhere. The computation uses about 40 sub-indices for Indonesia, 70 for Japan, 150 for Canada, France, Germany, Greece, Italy and Spain, and more than 200 for the remaining countries.

Source: U.S. Bureau of Economic Analysis; Eurostat; Statistics Japan; U.K. Office for National Statistics; Statistics Indonesia; and OECD calculations.



Labour markets remain tight

Vacancies per unemployed



Note: Vacancy per unemployed is the ratio of the number of job vacancies (s.a.) to the unemployed population (s.a.), aged 15 and over, where job vacancy is defined as a paid post that is newly created, unoccupied, or about to become vacant.

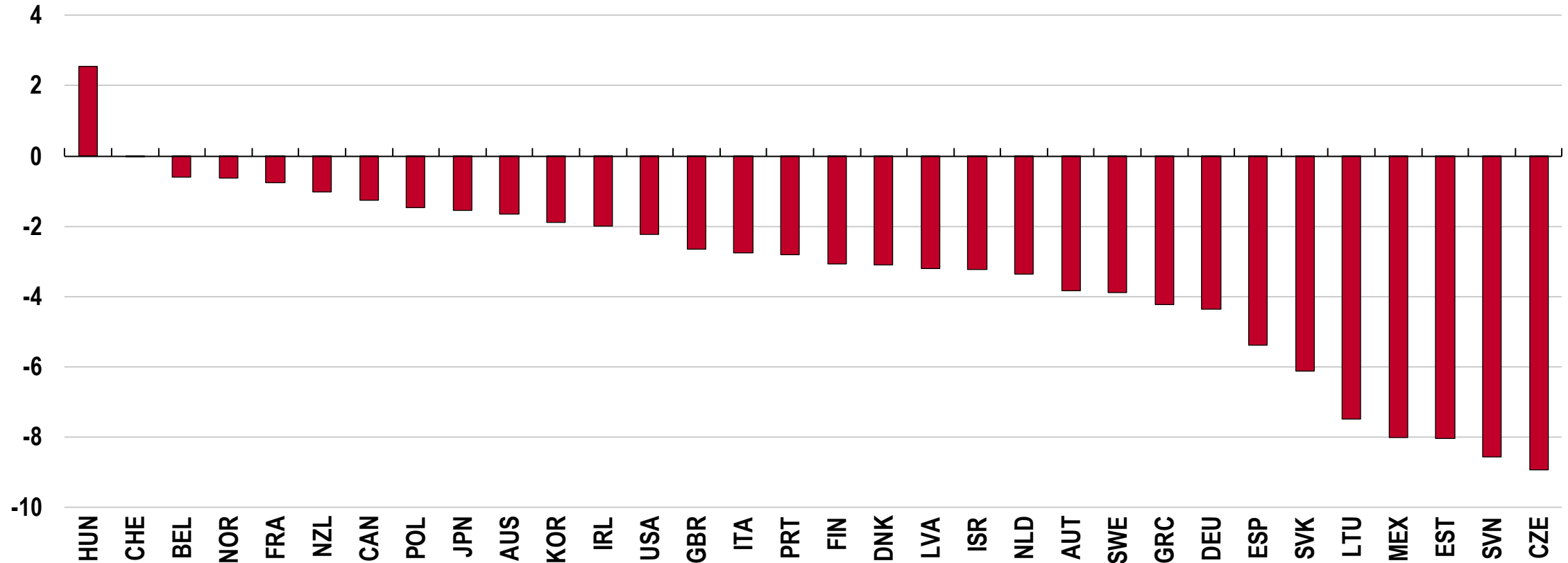
Source: OECD Economic Outlook 112 database; Eurostat; OECD, Labour Force Statistics; and OECD calculations.



Real wages have fallen in most economies

Real compensation per worker

2022Q3, y-o-y % change



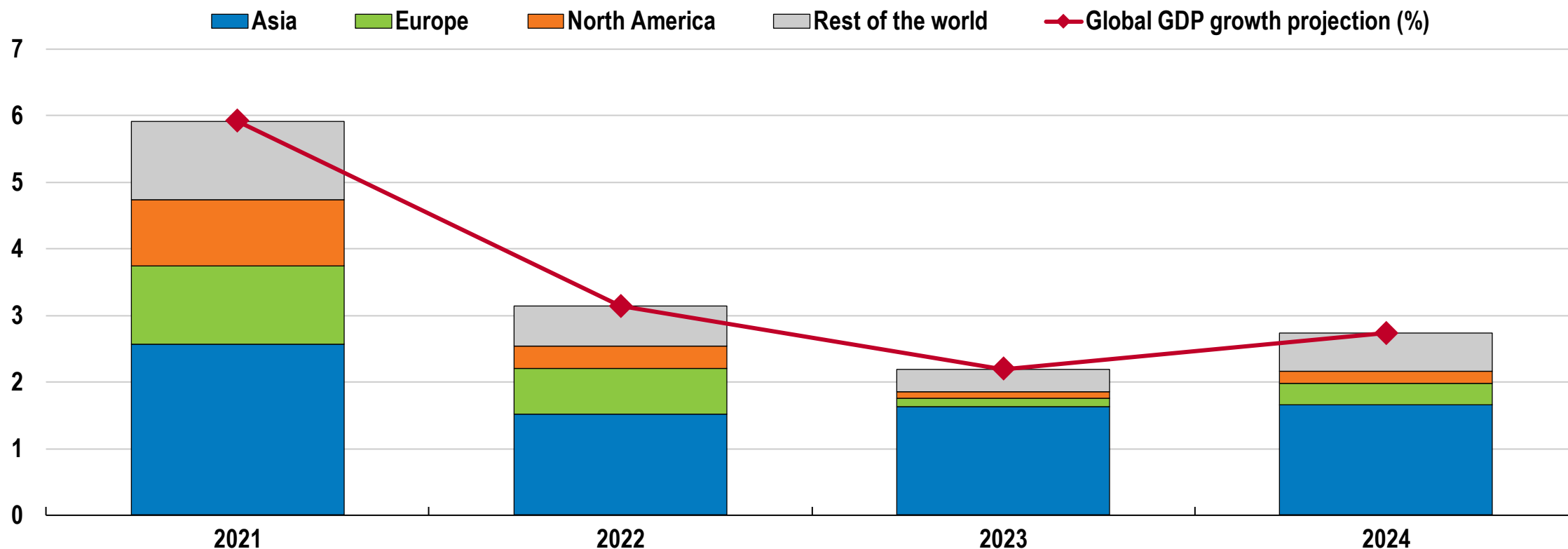
Note: Compensation per employee, total economy, deflated using the personal consumption expenditures deflator.
Source: OECD Economic Outlook 112 database; and OECD calculations.



Global growth is projected to slow

Contributions to global growth

ppts



Note: Asia comprises China, India, Indonesia, the Dynamic Asian Economies and OECD Asia-Pacific countries. Europe refers to OECD Europe countries. Rest of the world includes among others Latin America which comprises Argentina, Brazil, Chile, Colombia, Costa Rica, Mexico and Peru. Contributions calculated moving PPP shares of global GDP.

Source: OECD Economic Outlook 112 database; and OECD calculations.



Real GDP growth projections

G20 economies, %

▲ upward revision, by 0.3pp or more

■ no change or smaller than 0.3pp

▼ downward revision, by 0.3pp or more

		2022	2023	2024		2022	2023	2024	
World	■	3.1	▼ 2.2	2.7	G20	■	3.0	▼ 2.2	2.7
Australia	■	4.0	▼ 1.9	1.6	Argentina	▲	4.4	▼ 0.5	1.8
Canada	▼	3.2	▼ 1.0	1.3	Brazil	▲	2.8	■ 1.2	1.4
Euro area	▲	3.3	▼ 0.5	1.4	China	▼	3.3	▼ 4.6	4.1
Germany	■	1.8	▼ -0.3	1.5	India	▼	6.6	▼ 5.7	6.9
France	■	2.6	▼ 0.6	1.2	Indonesia	▲	5.3	■ 4.7	5.1
Italy	▲	3.7	▼ 0.2	1.0	Mexico	▲	2.5	▼ 1.6	2.1
Spain	▲	4.7	▼ 1.3	1.7	Russia	▲	-3.9	▼ -5.6	-0.2
Japan	■	1.6	■ 1.8	0.9	Saudi Arabia	▲	9.8	▼ 5.0	3.5
Korea	■	2.7	▼ 1.8	1.9	South Africa	■	1.7	■ 1.1	1.6
United Kingdom	▲	4.4	▼ -0.4	0.2	Türkiye	▲	5.3	■ 3.0	3.4
United States	▼	1.8	▼ 0.5	1.0					

Note: Revisions relative to the June 2022 Economic Outlook. India projections are based on fiscal years, starting in April. The European Union is a full member of the G20, but the G20 aggregate only includes countries that are also members in their own right. Spain is a permanent invitee to the G20. World and G20 aggregates use moving nominal GDP weights at purchasing power parities.

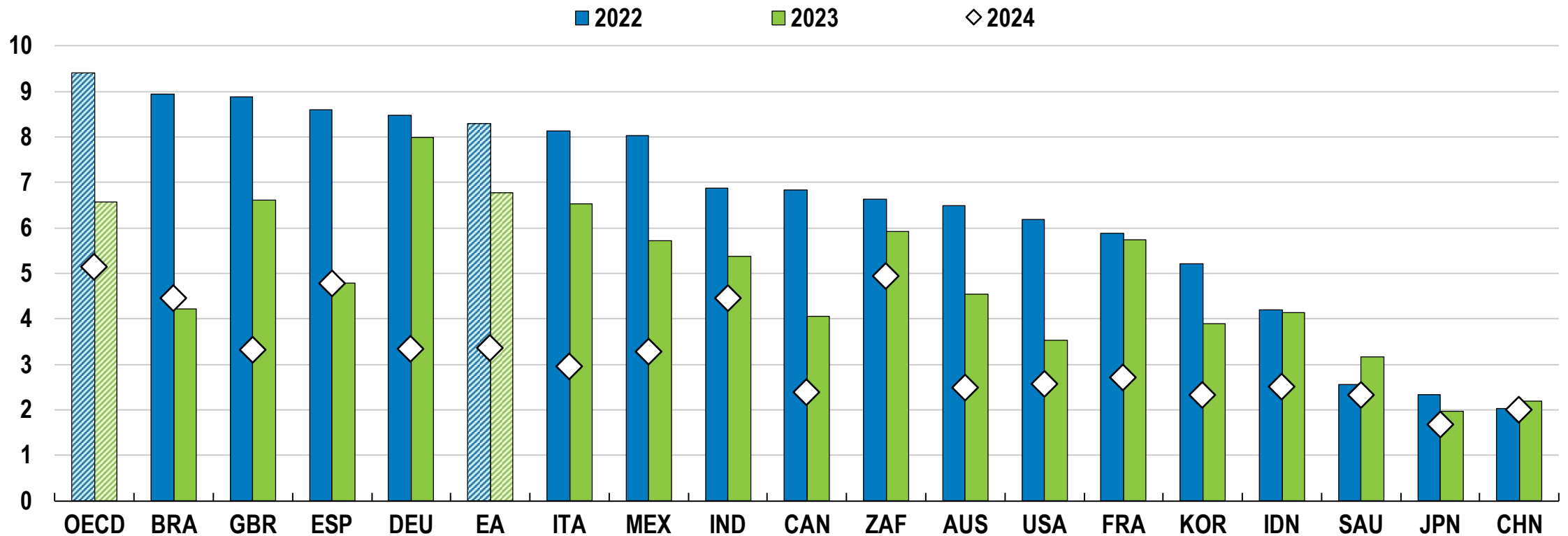
Source: OECD Economic Outlook 112 database; and OECD calculations.



Inflation will remain high in 2023, but will moderate

Inflation projections

G20 economies, %



Note: Inflation projections for Argentina are 92% (2022), 83% (2023) and 60% (2024); for Türkiye are 73.2% (2022), 44.6% (2023) and 42% (2024) and for Russia are 13.9% (2022), 6.7% (2023) and 6.1% (2024). India projections are based on fiscal years, starting in April. The European Union is a full member of the G20, but the G20 aggregate only includes countries that are also members in their own right. Spain is a permanent invitee to the G20.

Source: OECD Economic Outlook 112 database; and OECD calculations.



Risks and vulnerabilities



Key vulnerabilities

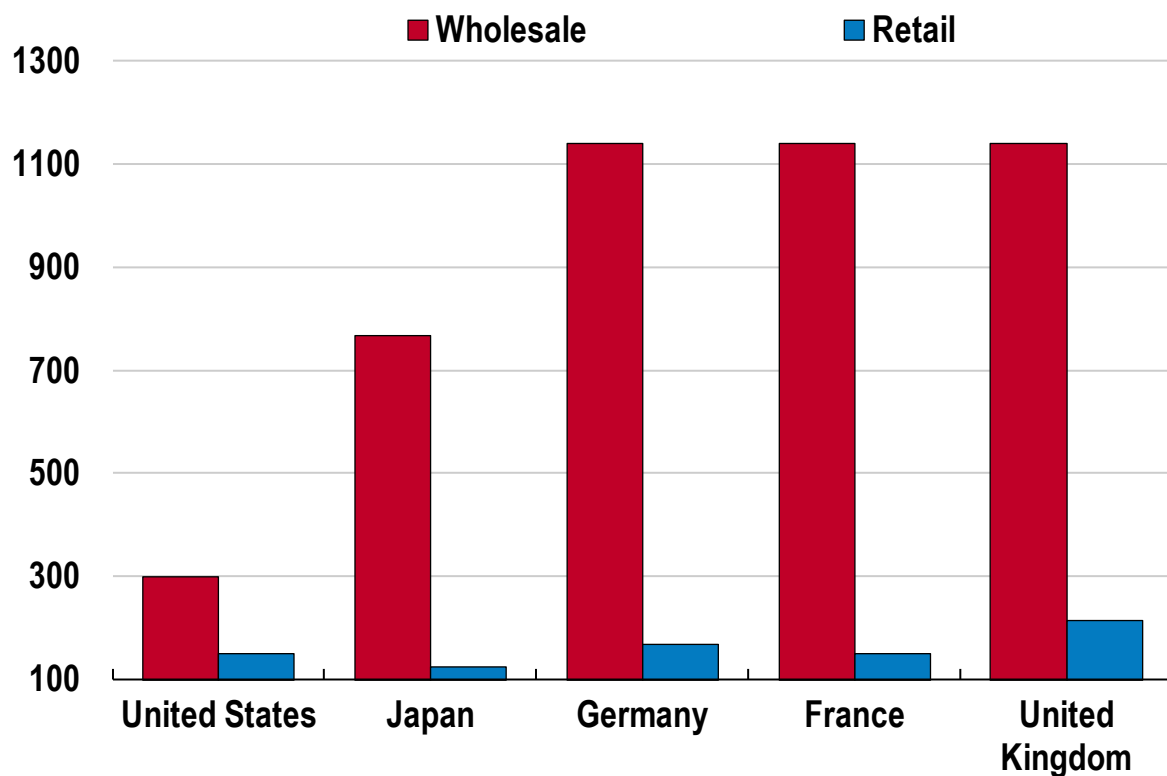
- **Energy markets are volatile**
 - Europe risks energy shortages this winter and next
 - Energy prices paid by households and firms may increase further
 - Many industries are vulnerable to energy price hikes
- **Supply chain bottlenecks have eased but have not disappeared**
- **Higher interest rates will put households, firms and countries under pressure**
 - Households with variable-rate mortgages face rising interest payments
 - Firms are facing rising interest rates
 - Many low-income countries are at high risk of debt distress
- **Food insecurity is a threat in many countries**



Energy prices paid by households and firms may increase further

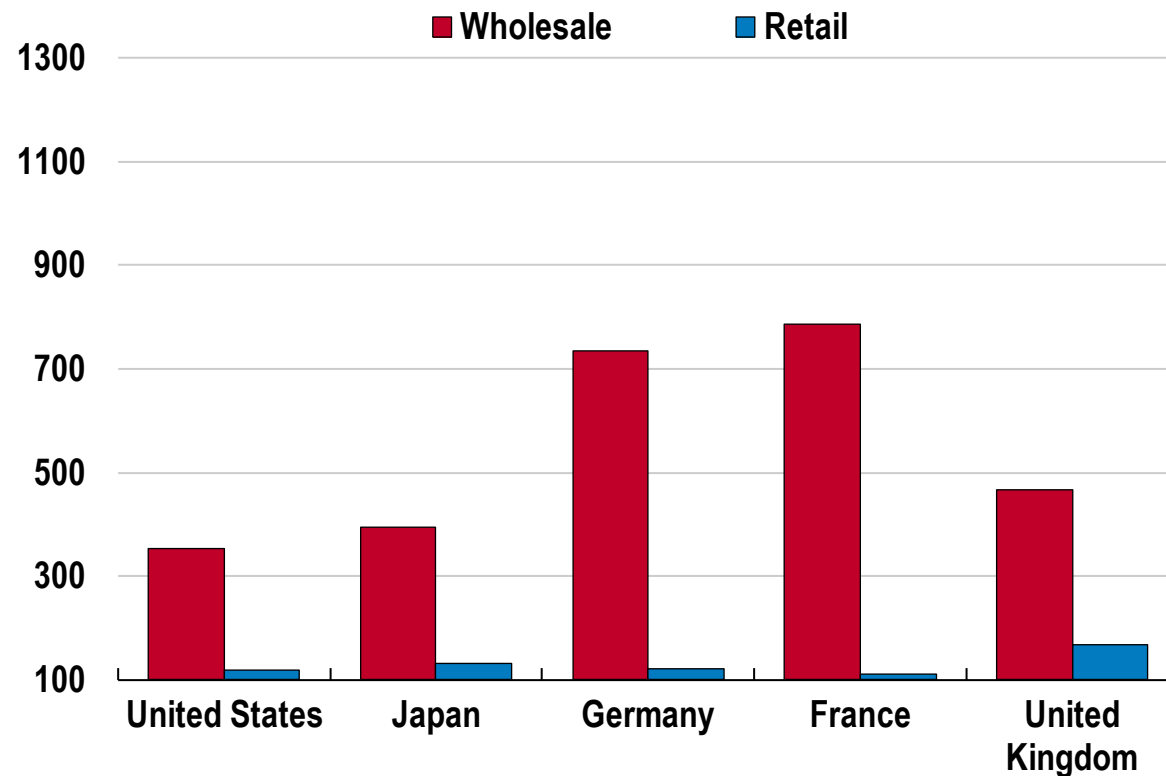
Natural Gas

September 2022, indexed, 100 = March 2021



Electricity

September 2022, indexed, 100 = March 2021



Note: Retail price changes based on the personal consumption expenditures deflator in the United States, harmonised consumer prices in Germany, France and the United Kingdom, and national consumer prices in Japan. Natural gas wholesale prices correspond to the Henry Hub Natural Gas spot price for the United States, to Liquefied Natural Gas price in Asia for Japan, to the Dutch Title Transfer Facility (TTF) for Germany, France and the United Kingdom. Wholesale electricity prices data come from each domestic electricity market. Source: Refinitiv; U.S. Bureau of Economic Analysis; Statistics Japan; Eurostat; U.S. Energy Information Administration; Japanese Power; and OECD calculations.

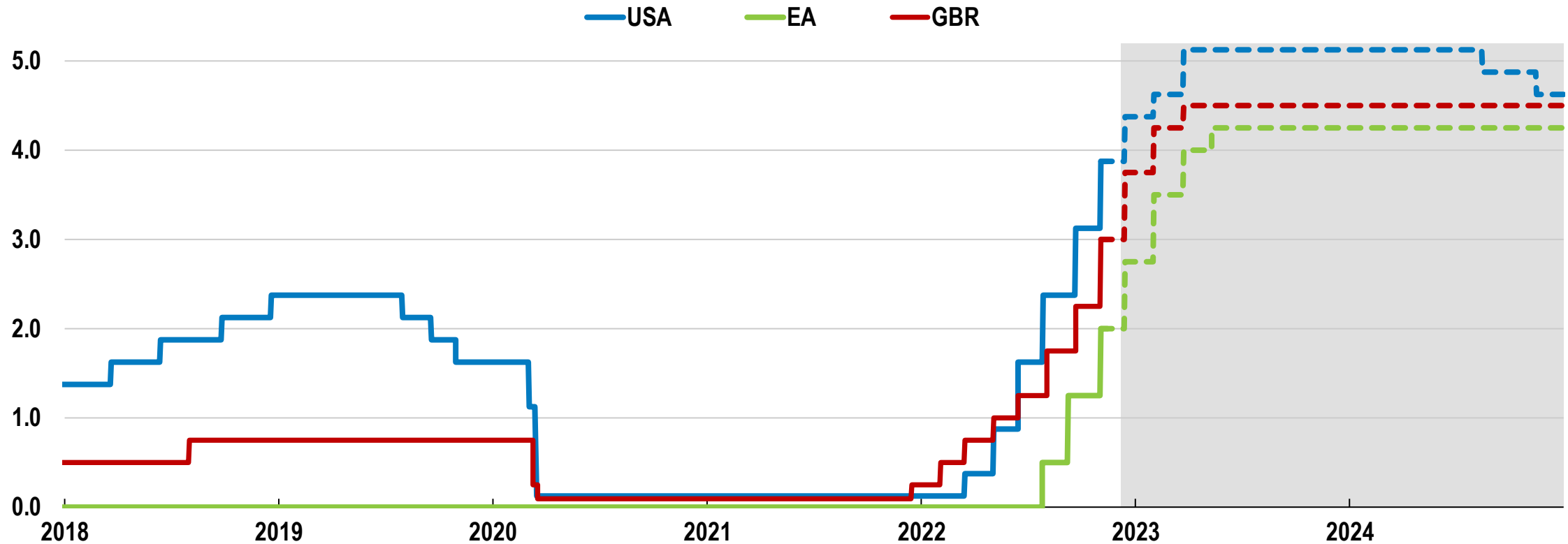


Policies



Monetary policy should continue to tighten

Policy rates %

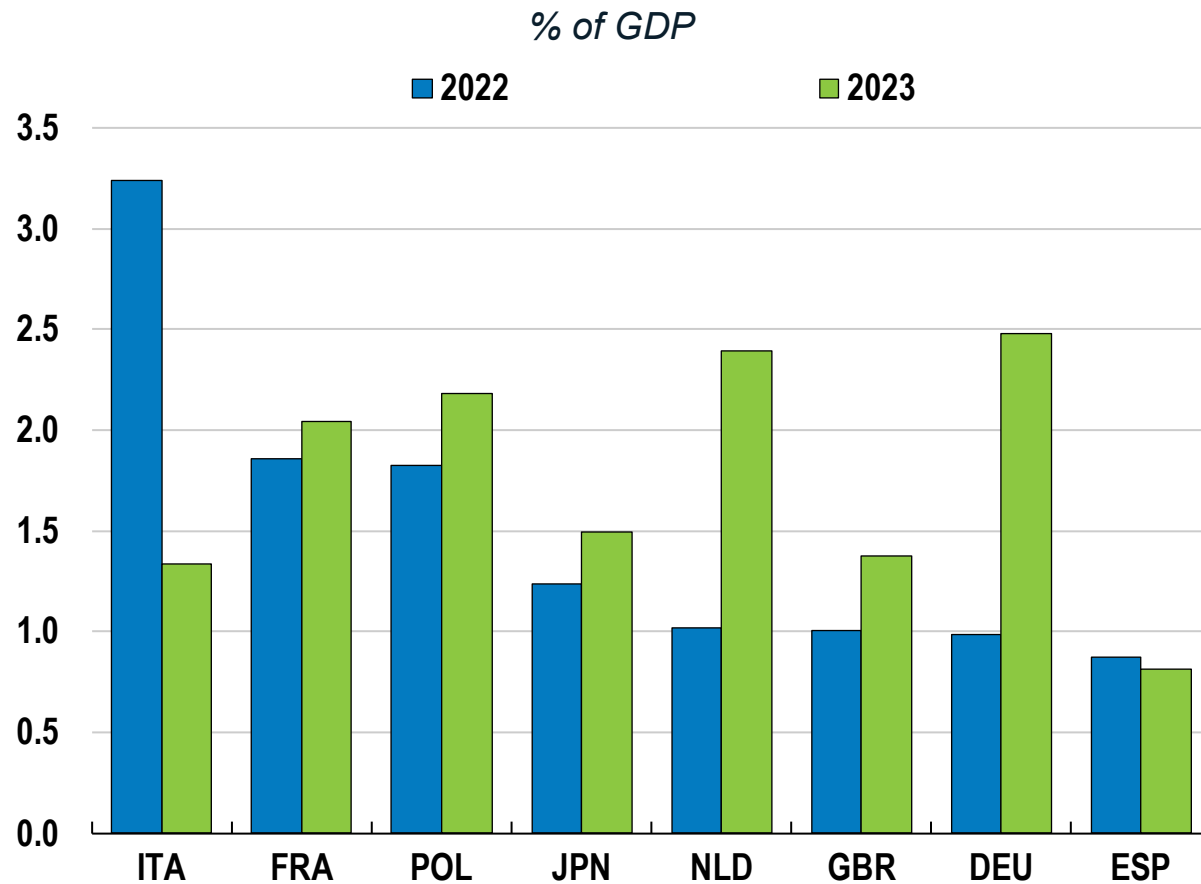


Note: For the United States, the policy rate is the midpoint of the target range set by the Federal Reserve. For the euro area, it is the main refinancing operations rate. Dashed lines and grey area indicate projections.
Source: Refinitiv; OECD Economic Outlook 112 database.

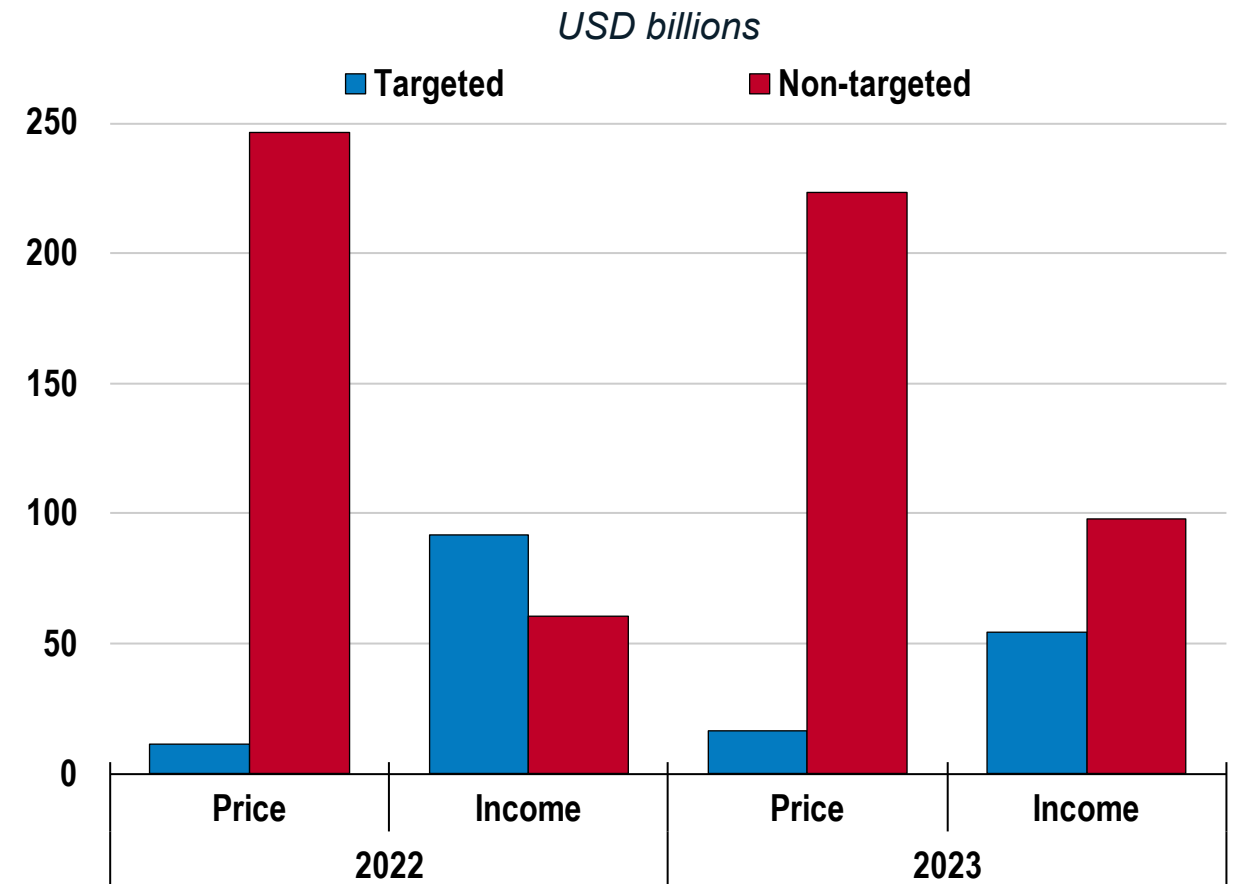


Fiscal sustainability requires more targeted support measures

Cost of energy-related fiscal support in selected economies



Cost of energy-related fiscal support by type of measure



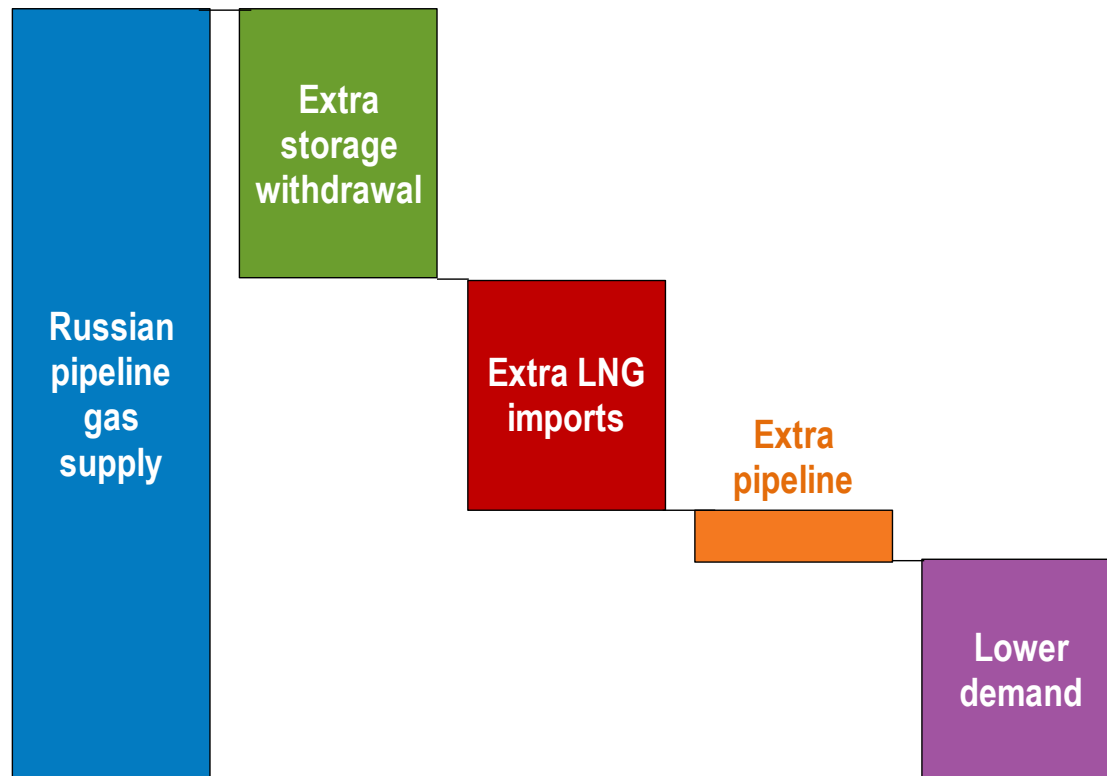
Note: Based on data collected up to 17 November 2022. Support measures are taken in gross terms, i.e., not accounting for the effect of possible accompanying energy-related revenue-increasing measures. Where government plans have been announced but not legislated, they are incorporated if it is deemed clear that they will be implemented in a shape close to that announced. Loans, guarantees, and capital transfers that do not immediately change general government net lending have been excluded. When a given measure spans more than one year, its total fiscal costs are assumed to be uniformly spread across months. Measures with no defined end-date are assumed to stay in place until at least December 2023. Left panel covers 34 OECD countries (all members except Iceland, Lithuania, Switzerland and Türkiye) and 6 non-OECD countries (Brazil, Bulgaria, Croatia, India, Romania and South Africa). Measures classified as income support are those that provide lump-sum transfers to energy consumers to help alleviate energy cost increases. Price support includes all measures that reduce the post-tax energy price. Support classified as targeted is provided to specific groups, such as vulnerable households or businesses. Non-targeted support applies to all consumers with no eligibility conditions. For Canada, Germany, Italy, Japan, the Netherlands, Poland, Spain and the United Kingdom, it has been assumed that some existing measures will be extended into 2023 even though that extension has not been announced yet. Source: OECD calculations based on the OECD Energy Support Measures Tracker and the OECD Economic Outlook 112 database.



Investing in energy security is key

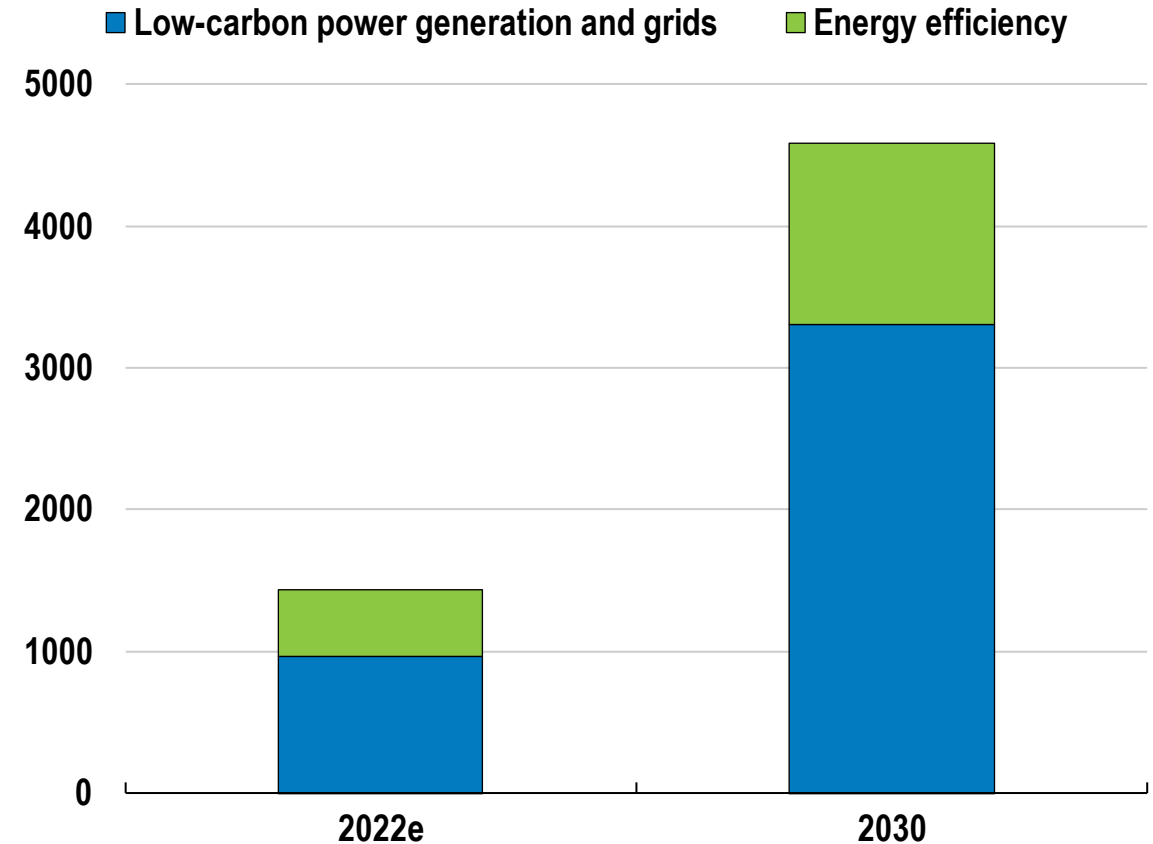
EU & UK options to replace Russian gas supply for winter 2022/23

Compared to winter 2021/22 gas supply



Global annual green energy investment

USD billions, 2021



Note: Figure refers to the 6-month 'winter' gas supply period from 1 October 2022 and 31 March 2023 and considers hypothetical options to replace Russian pipeline gas assuming it went to zero on 1 October 2022. Russian pipeline gas supply is approximately 55bcm.
Source: World Energy Outlook, 2022, IEA.

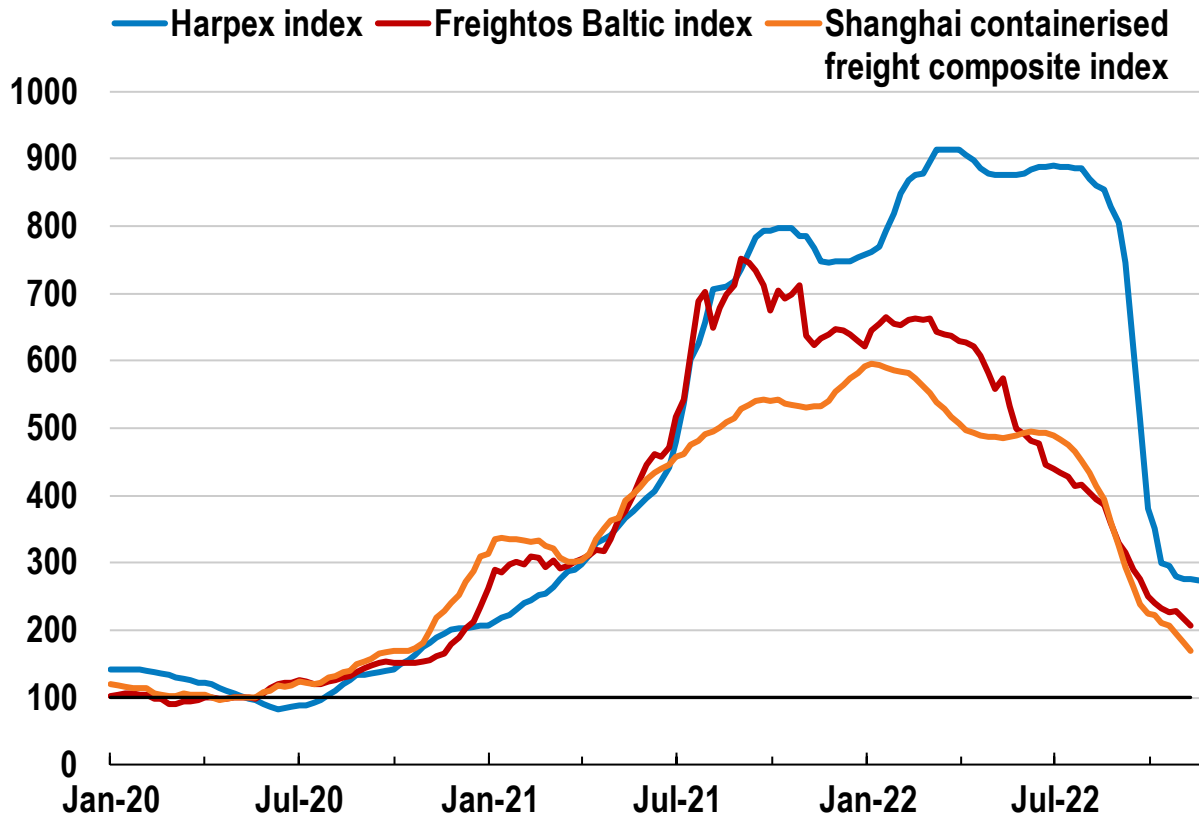
Note: The figures projected for 2030 are based on the Net Zero Scenario (NZE). NZE summarises the spending required to get the global energy sector to net zero by mid-century. The category low-carbon power generation and grids includes electric vehicles, battery storage and low carbon power (hydro, nuclear, wind, solar, geothermal and tidal power), low-carbon fuels and CCUS. Energy efficiency also includes other end uses. 2022e figures are estimations.
Source: IEA; and OECD calculations.



Keeping markets open will help restore growth

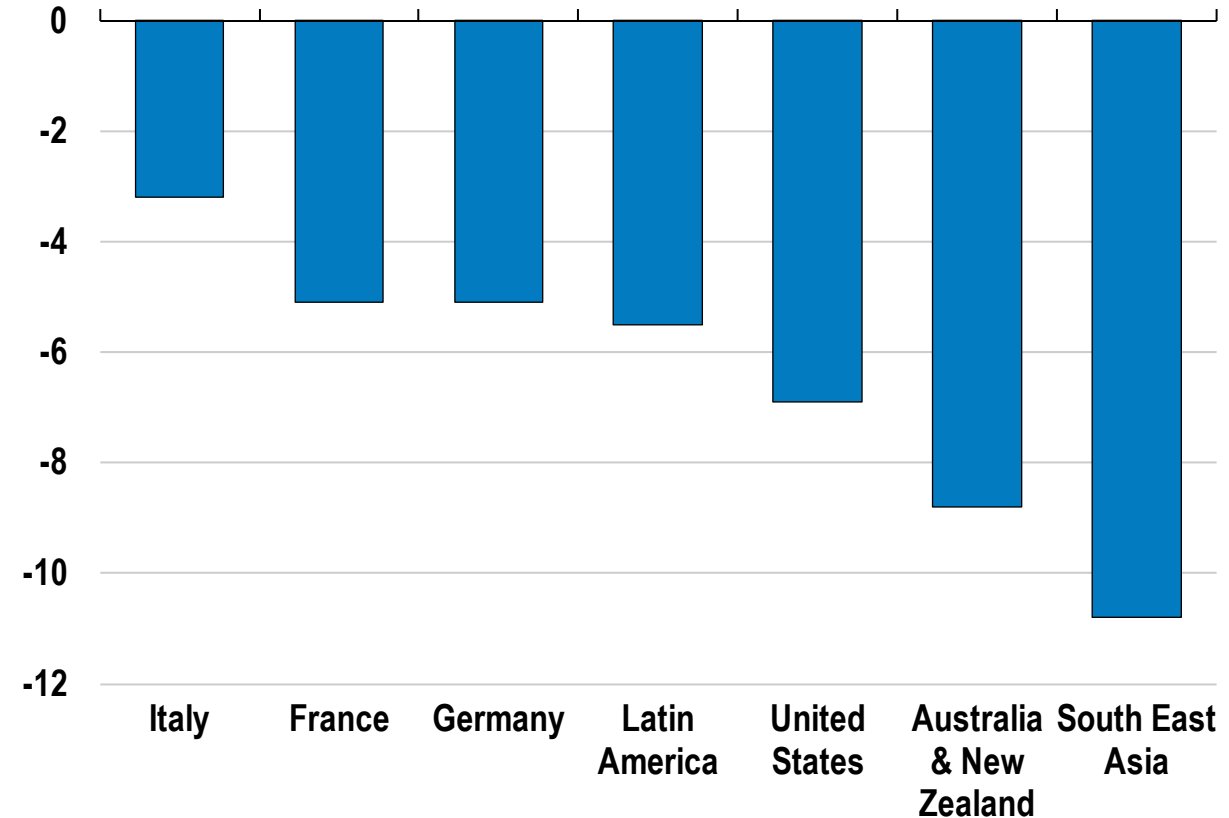
Shipping costs have been decreasing

Indexed, 100 = May 2020



Output loss with increased trade restrictions

Stylised long-term % change of real GDP



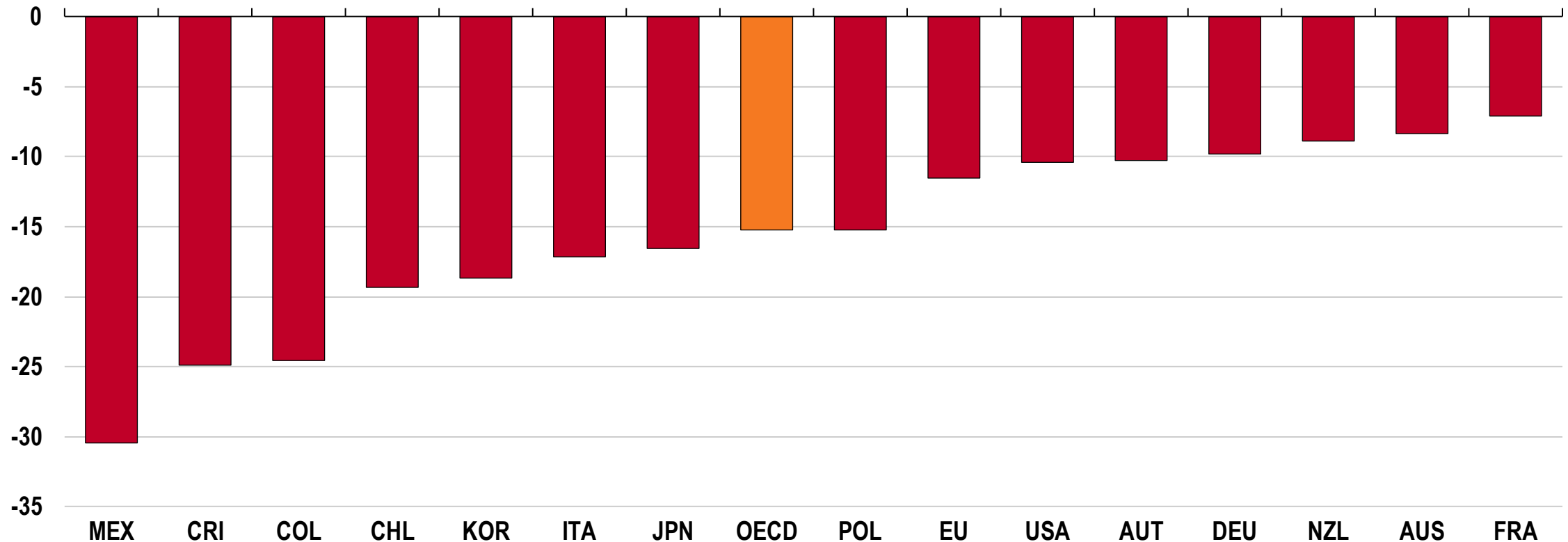
Source: Refinitiv; and OECD calculations.

Note: Chart shows the decrease of real GDP when shifting from an interconnected regime (definition: standard GVC production fragmentation) to a localised regime (assumptions: global rise in import tariffs on all traded products to 25%, national value-added subsidies of 1% of GDP directed to labour and capital in domestic non-services sectors and more constrained switching between different sources of inputs). South East Asia includes Brunei Darussalam, Cambodia, Malaysia, Philippines, Singapore, Thailand and Viet Nam. Latin America includes Chile, Colombia, Peru and Costa Rica. Source: Global value chains: Efficiency and risks in the context of COVID-19, 2021, OECD.

Decreasing gender gaps will boost potential growth

Difference between female and male employment rates

Latest available data, pts



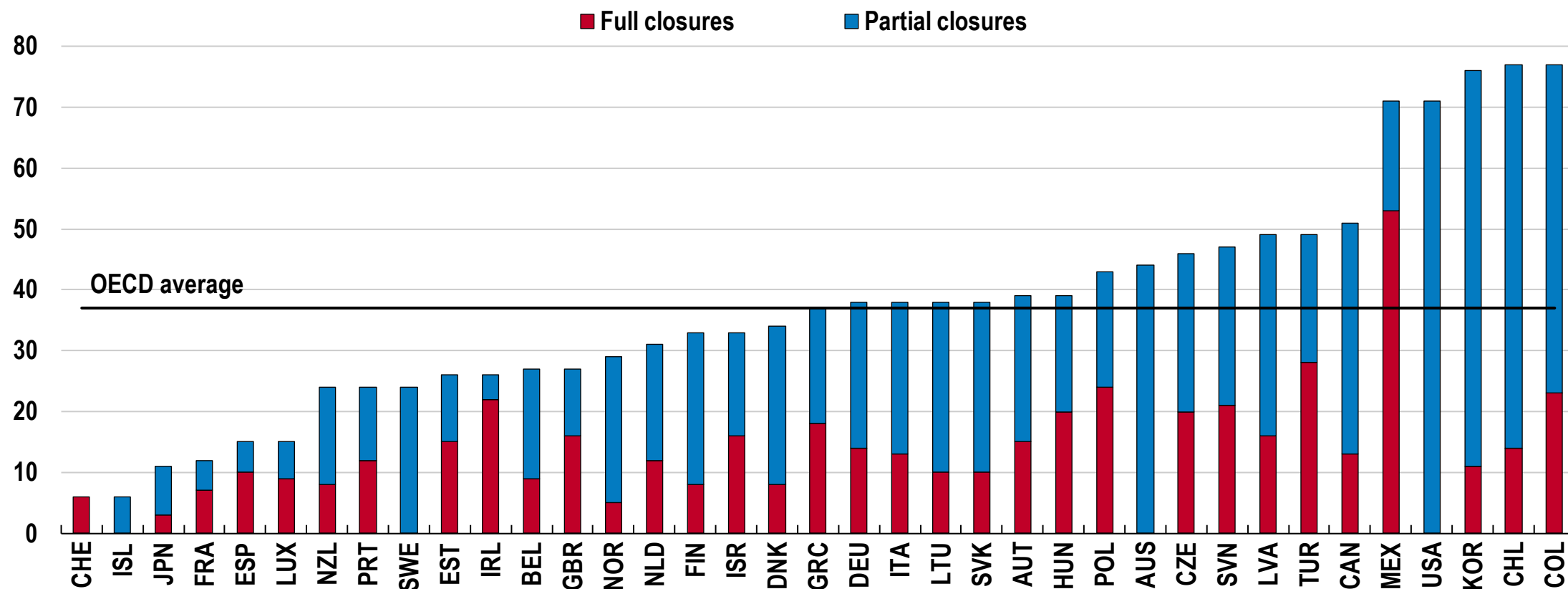
Note: Figure shows the difference between seasonally adjusted employment rates of females and males aged 15 and over. Data up to 2022Q3.
Source: OECD Short-term Labour Statistics; and OECD calculations.



Investing in skills will mitigate the long-term costs of the pandemic

Duration of school closures between March 2020 and October 2021

Count of weeks



Note: Full school closures refer to situations where all schools were closed nation-wide due to COVID-19. Partial school closures refer to school closures in some regions or for some grades, or with reduced in-person instruction. Total closures are defined as the simple unweighted sum of these two aggregates.
Source: UNESCO.



Summing up

- **Monetary policy should continue to tighten** to fight inflation
- **Fiscal policy support needs to be better targeted** to ensure fiscal sustainability
- Managing the energy crisis and ensuring energy security requires:
 - **Energy savings and supply diversification**, especially in the short term
 - Accelerated **investments in clean technologies and energy efficiency**
- Structural policies to prioritise:
 - **Keep international trade open**
 - **Boost female labour market participation**
 - **Invest in skills** to minimise the long-term costs of the pandemic

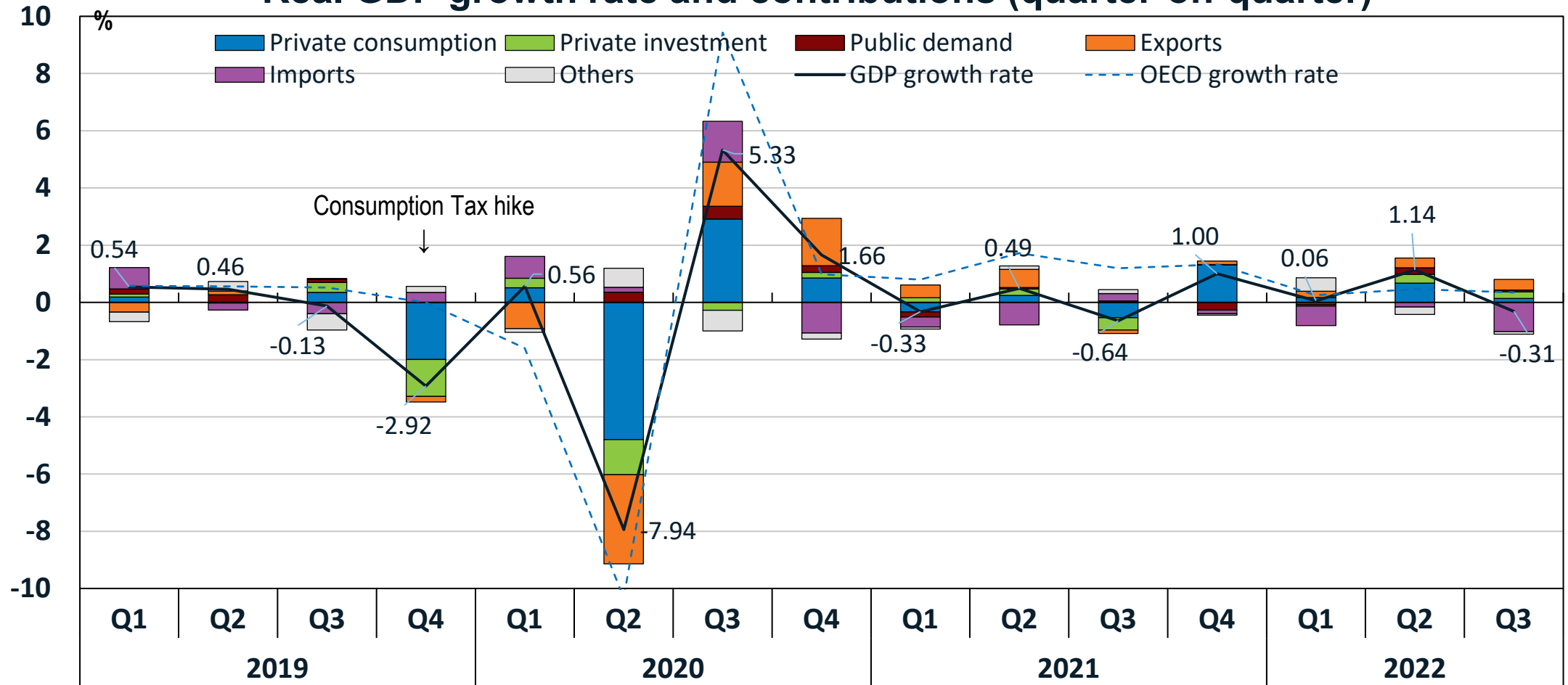


Japan outlook



Japan: GDP recovered slowly but firmly

Real GDP growth rate and contributions (quarter-on-quarter)





Yen depreciation and high energy prices increased the trade deficit



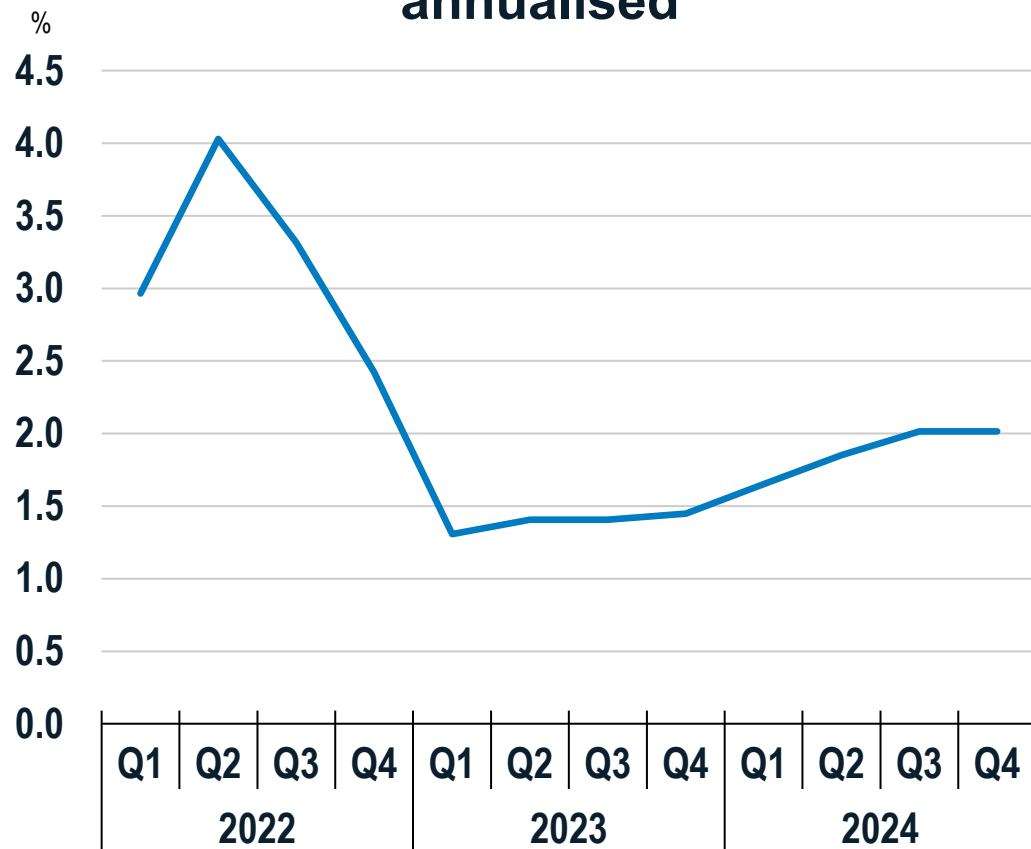
1. The trade deficit in January 2020 was JPY 0.06 trillion.

Source: Bank of Japan; OECD Economic Outlook 112 database; Ministry of Finance; and OECD calculations.



Japan Outlook: Assumptions and projections

CPI growth from the previous quarter, annualised



Labour markets :

- The unemployment rate will continue to fall.
- Wage growth will be lagged in short-term, but gain momentum.

Prices:

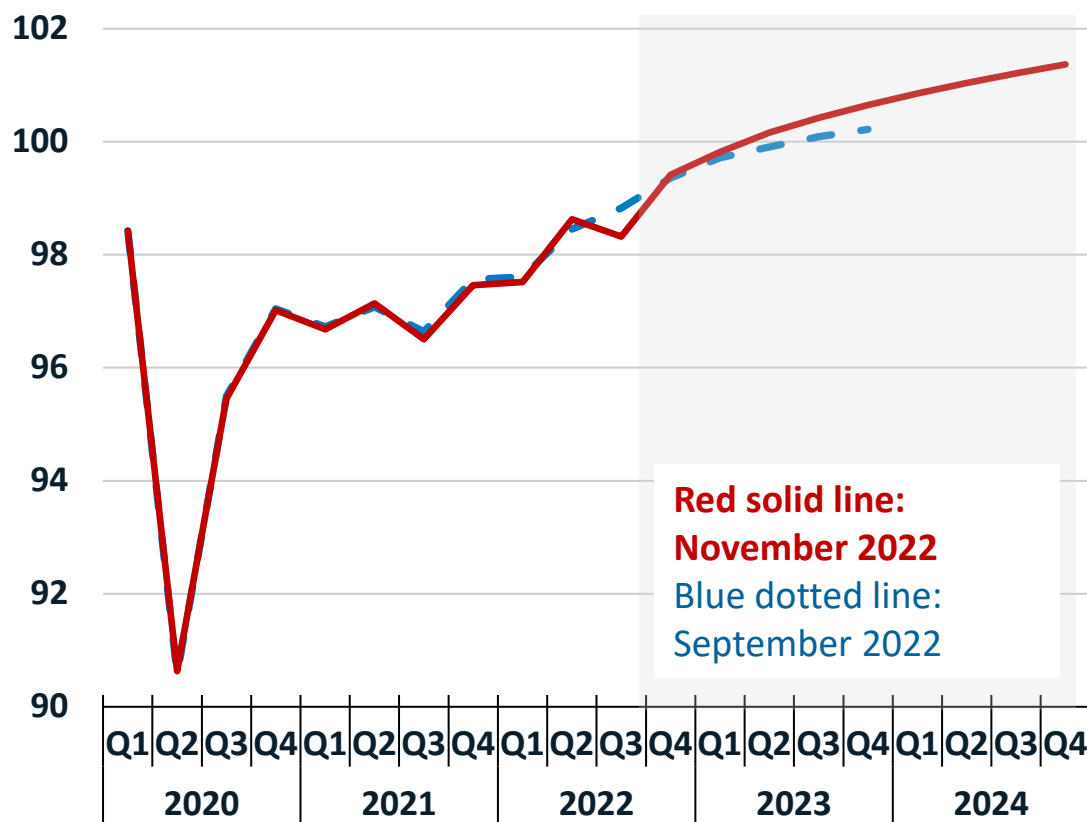
- Energy prices will continue to rise until early 2023, and remain constant thereafter.
- The exchange rate is kept constant throughout the projection period.
- Energy subsidies will continue, but gradually decline in 2024.

As the output gap closes, inflation is projected to increase to the 2% target at the end of 2024.



Japan Outlook: Policy assumptions and risks

Real GDP (2019=100)



Fiscal policy:

Includes the new economic policy package and the related supplementary budget, but assumes that R&D and investment subsidies will be implemented in multiple years.

Monetary policy:

- Continues to be accommodative.
- When inflation and wage growth meets Bank of Japan's criteria, the yield curve control will start to be eased by allowing steeper slope without changing the short-term rate.

Risks:

- (-) Further inflation.
- (-) Weaker external demand and supply chain disruptions
- (+) Stronger external demand, including inbound tourism.

Note: The shaded area refers to EO112 projections.

Source: OECD Economic Outlook 112 database and Interim Report (September 2022).



Japan Outlook: Projections

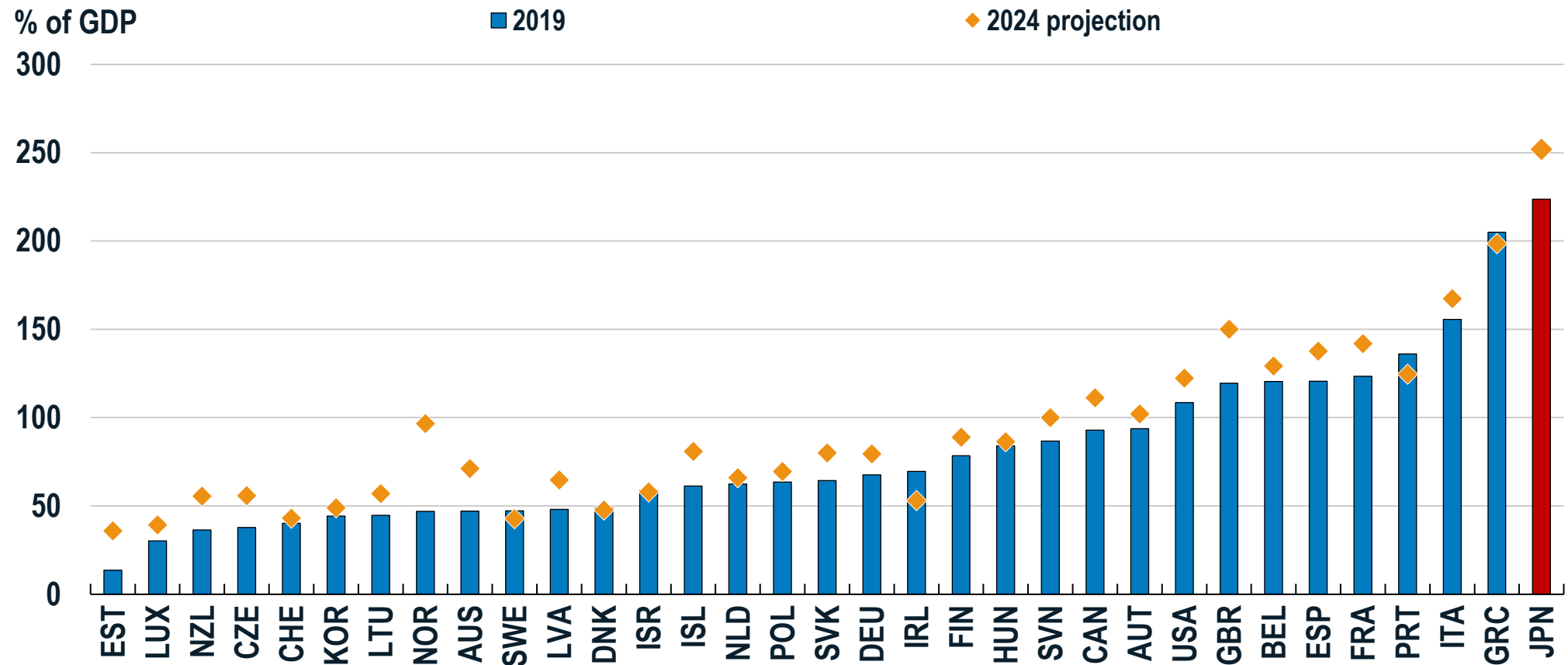
Annual percentage changes

	2021	2022	2023	2024
Gross domestic product	1.6	1.6	1.8	0.9
Unemployment rate (% of labour force)	2.8	2.6	2.5	2.4
Consumer price index	-0.2	2.3	2.0	1.7
Core consumer price index	-0.7	0.3	1.6	1.7
Current account balance (% of GDP)	4.0	1.8	1.1	0.9



The government debt-to-GDP ratio will reach unprecedented levels

General government debt



Source: OECD Economic Outlook 112 database.



Recommendations for Japan

Accelerating structural reforms will be critical to boost productivity and wages.

- Ensure that further fiscal measures to support households and businesses are temporary and more targeted.
- Secure and reallocate employment, global supply chains and energy sources.
- Continue “work-style” reforms, expand social security coverage for non-standard workers and enhance vocational training and education
- Lower barriers to foreign workers and foreign direct investment.
- Speed up reforms to support the digital and green transformation.

Higher permanent government expenditures without additional revenues will worsen fiscal sustainability and threaten sustainable growth.

- Set out a clearer roadmap to achieve the fiscal consolidation target by FY 2025 or reconsider the earlier plan and define a new credible target underpinned by a specific set of measures.
- Resume fiscal consolidation efforts on both the expenditure and the revenue side, as the recovery strengthens.

Further rapid changes in economic conditions might trigger a revision to the monetary policy framework.

- Continue to communicate current and future monetary stance clearly and in a timely manner.



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