# Short-term momentum: Will it be sustained?

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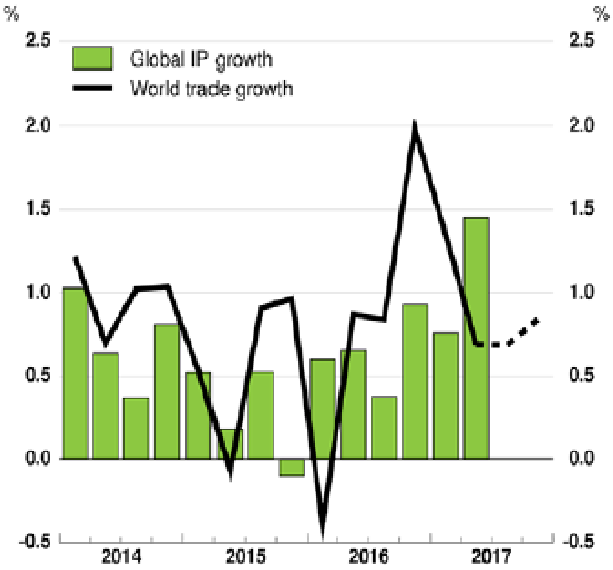
Global growth is projected to increase to around 3.5% in 2017 and 3.7% in 2018 from 3% in 2016 in our latest Interim Economic Outlook. The forecast has slightly improved since the OECD June 2017 Economic Outlook, with the upturn becoming more synchronised across the world. Activity has picked up more than anticipated in the first half of the year in some of the largest economies – the euro area, Japan, China. Short-term momentum is reflected in a rebound in industrial production, consumer spending and investment since the second half of 2016, while trade growth has recovered from the slump in late 2015 and early 2016. Business and consumer confidence have strengthened. However, short-term momentum is no guarantee of medium-term sustainable growth. While the signs of recovery in business investment and trade are encouraging, they have not gathered sufficient pace to sustain healthy productivity growth. Wages have largely failed to pick up despite rising employment, limiting gains in household disposable incomes, especially for the bottom 10%.

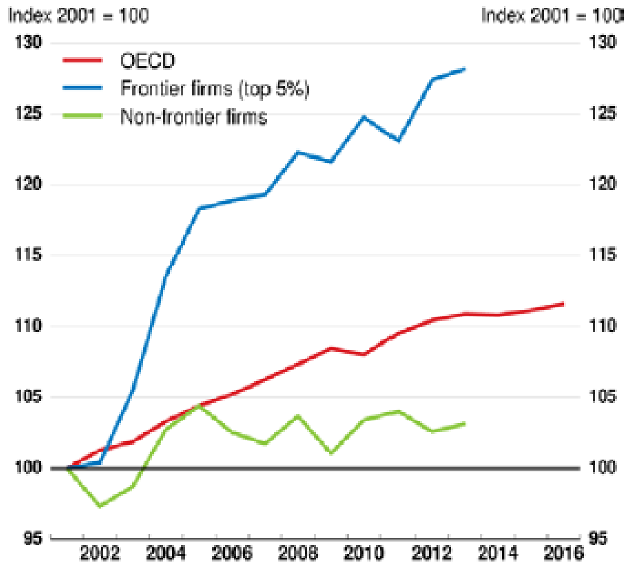
**Industrial production and trade growth**

*Quarterly growth, volumes*




**Real wage growth**

*Real compensation per worker*




Notes: On the left-hand side, trade growth is based on goods and services trade volumes. The dotted line shows June 2017 forecasts. On the right-hand side, real wages are measured as labour compensation per employee adjusted for the GDP deflator. OECD real wages are a weighted average for 24 countries.
Source: OECD Economic Outlook database; Orbis data of Bureau van Dijk; OECD Employment database; and OECD calculations.

Lifting medium-term global growth requires a durable strengthening of growth in emerging market economies – but GDP growth has slowed overall in these countries since the 2000s, and the ability of "catching up" economies to grow faster than advanced economies has been mixed. Deeper reform to enhance capital deepening and productivity gains will be needed to overcome the headwinds of rapid demographic developments in some countries, as well as a further moderation of growth in China.

Policy must not be complacent in the face of stronger short-term momentum. As the upturn has broadened, policy support for inclusive growth should be continued but further rebalanced from monetary policy towards fiscal and structural initiatives, while managing risks.

Monetary policymakers face a delicate balancing challenge. Monetary support remains necessary to ensure that the recovery is sustained and that inflation increases towards its target levels. Yet as the long period of low interest rates has boosted asset price valuations and encouraged riskier asset exposures, financial stability vulnerabilities persist and create uncertainties.

On the fiscal side, policymakers need to deliver fiscal initiatives focused on inclusive and sustainable growth. Underlying primary balances in many OECD countries are expected to ease under current plans in 2017-18, reflecting use of fiscal space – including through savings realised on government borrowing costs. Governments should ensure that fiscal easing is delivered, while making a better use of the mix of tax and spending policies. Priority should be given to public spending that yields the highest benefits for growth, inclusiveness and long-run supply. Education, hard and soft infrastructure, family benefits and health investments are the types of quality public spending that should be prioritised according to specific conditions in each country.

Stronger structural reform ambition should aim to address the missing engines of the current global upturn – private investment, trade, and productivity gains. More can be done to ease barriers to product-market entry and competition, both domestically and through a renewed commitment to trade and foreign direct investment openness. Improved competition would help revive the stalled diffusion of innovation between frontier firms and the rest of the economy, and address the growing productivity and wage dispersion. In many countries, there is significant scope to reform insolvency regimes, thus redirecting resources trapped in “zombie” firms towards productive investment.

Coherent packages of structural reforms can enhance their overall effectiveness. Reforms to reduce barriers to product market competition, trade and investment should be accompanied by labour-market measures to help vulnerable workers transition to new jobs. Integrated policy packages would help reap the benefits from innovation and globalisation while dealing with the job losses that are concentrated in specific industries or regions.

This period of short-term momentum in the global economy, along with the fiscal room created by the current monetary environment, gives policymakers space to address the structural impediments that hold back productivity growth and leave citizens behind. Sustained and inclusive growth depends on policymakers following through to meet the expectations of their citizens.

**References**

OECD Interim Economic Outlook, September 2017.