

Foundation for Fiscal Studies
Dublin, 25 May 2011

OECD Economic Outlook
2011-12

On the Road to Durable Recovery?

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A Durable Recovery in the OECD?



Key features of OECD projections for 2011-12

- Global recovery becoming self sustained.
- Advanced countries have less speed than emerging ones.
- Unemployment to remain high across most of OECD
- Headline inflation has risen but is expected to ease in advanced countries.
- In non-OECD economies, inflationary pressures prompting policy restraint that could slow the recovery.



Positive forces prevail over negative forces, but there are downside risks

- Negative forces: rising oil and commodity prices; disruptions caused by earthquake in Japan and its aftermath; housing markets; vital fiscal consolidation.
- Positive forces: strong rebound in emerging countries; fast growth of world trade; easier financial conditions; supportive monetary policy; low long-term interest rates.
- Downside risks: political instability in Middle East and North Africa; market concerns about public debt sustainability in some OECD countries; stability of banking system.



Macroeconomic policies in advanced OECD countries

- In most advanced economies, fiscal consolidation is desirable to arrest the increase in public debt and put it on a downward trend.
- Monetary policy will eventually have to return gradually to a more neutral configuration.
- Structural reforms have a role to play to boost growth, e.g. with labour-market activation, global rebalancing, support to innovation and product-market competition.



Macroeconomic policies in emerging countries

- In emerging economies, monetary policy should tighten more to curb inflation, but this option risks being constrained by inducing stronger capital inflows.
- Structural reforms could make growth more sustainable and inclusive, while contributing to global rebalancing.

Key projections

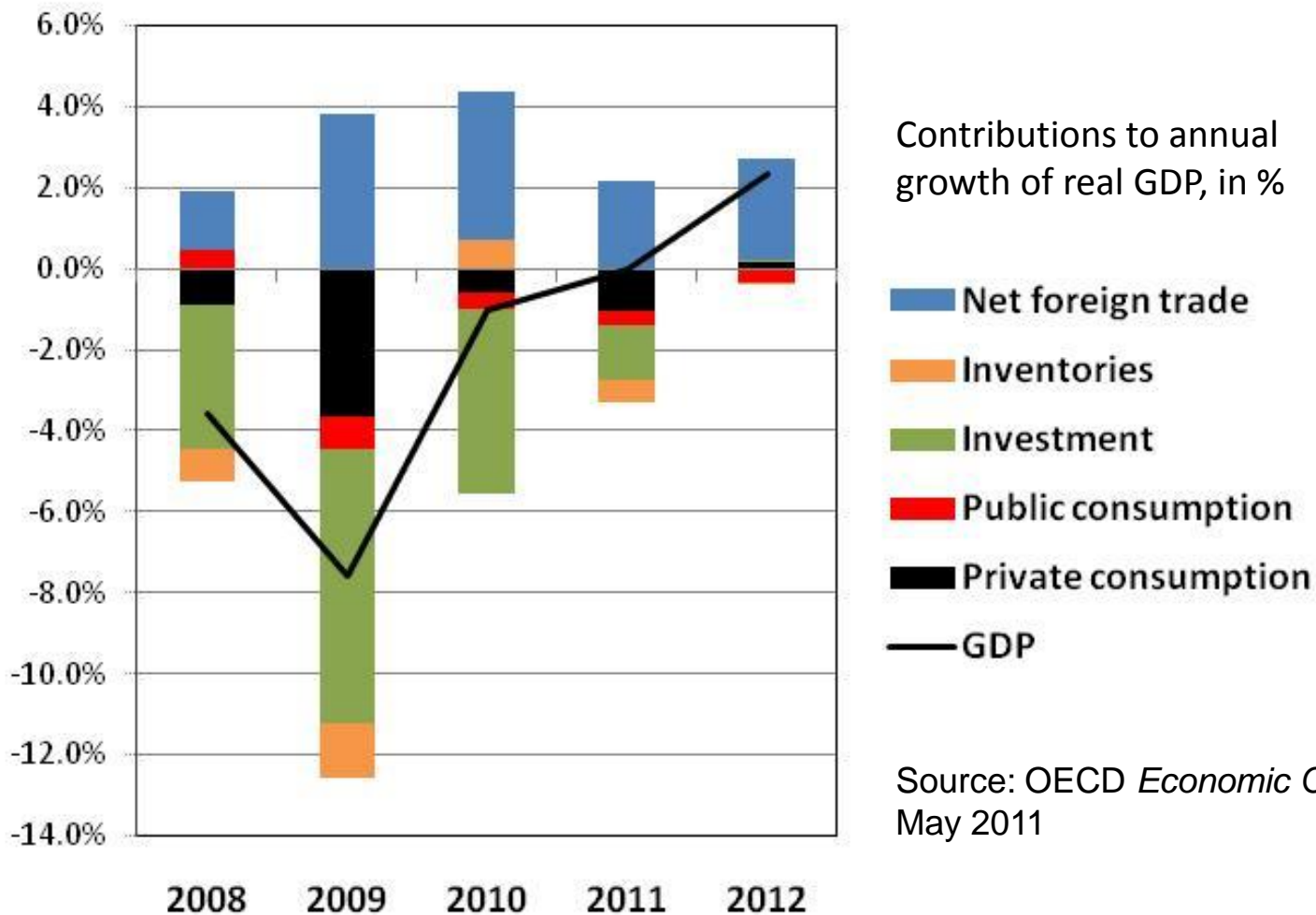
	2010	2011	2012
Real GDP growth			
USA	2.9	2.6	3.1
Euro area	1.7	2.0	2.0
Japan	4.0	-0.9	2.0
Total OECD	2.9	2.3	2.8
World GDP	4.9	4.2	4.6
Inflation			
USA	1.7	1.9	1.3
Euro area	1.6	2.6	1.6
Japan	-0.7	0.3	-0.2
Total OECD	1.8	2.3	1.7
World trade growth	12.5	8.1	8.4

Source: OECD *Economic Outlook*, May 2011



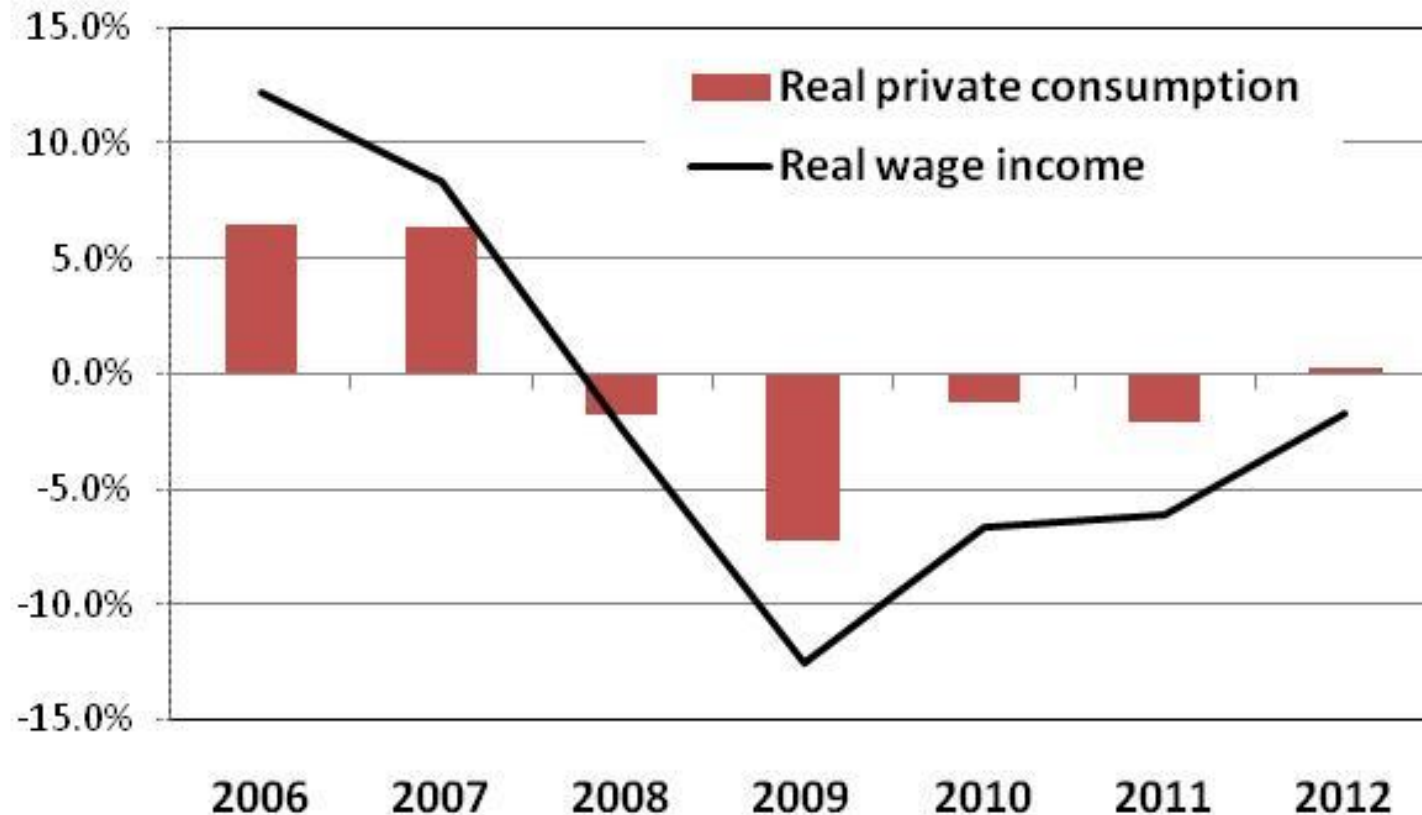
Ireland: Gradual Exit from the Crisis

Ireland's prospects 2011-12: export-led recovery



Source: OECD *Economic Outlook*, May 2011

Weak real wage income weighs down on private consumption

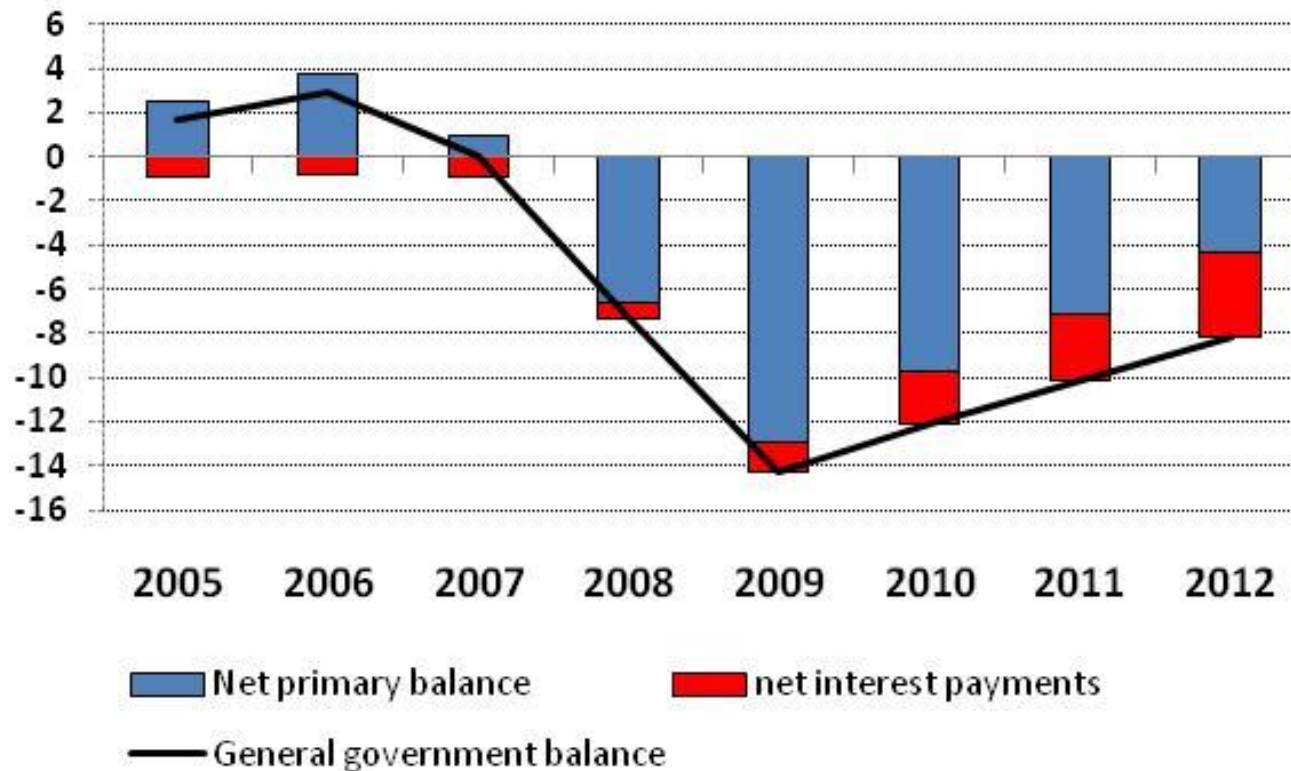


Annual percentage change of private consumption and real wage income (real wage * employment)

Source: OECD *Economic Outlook*, May 2011

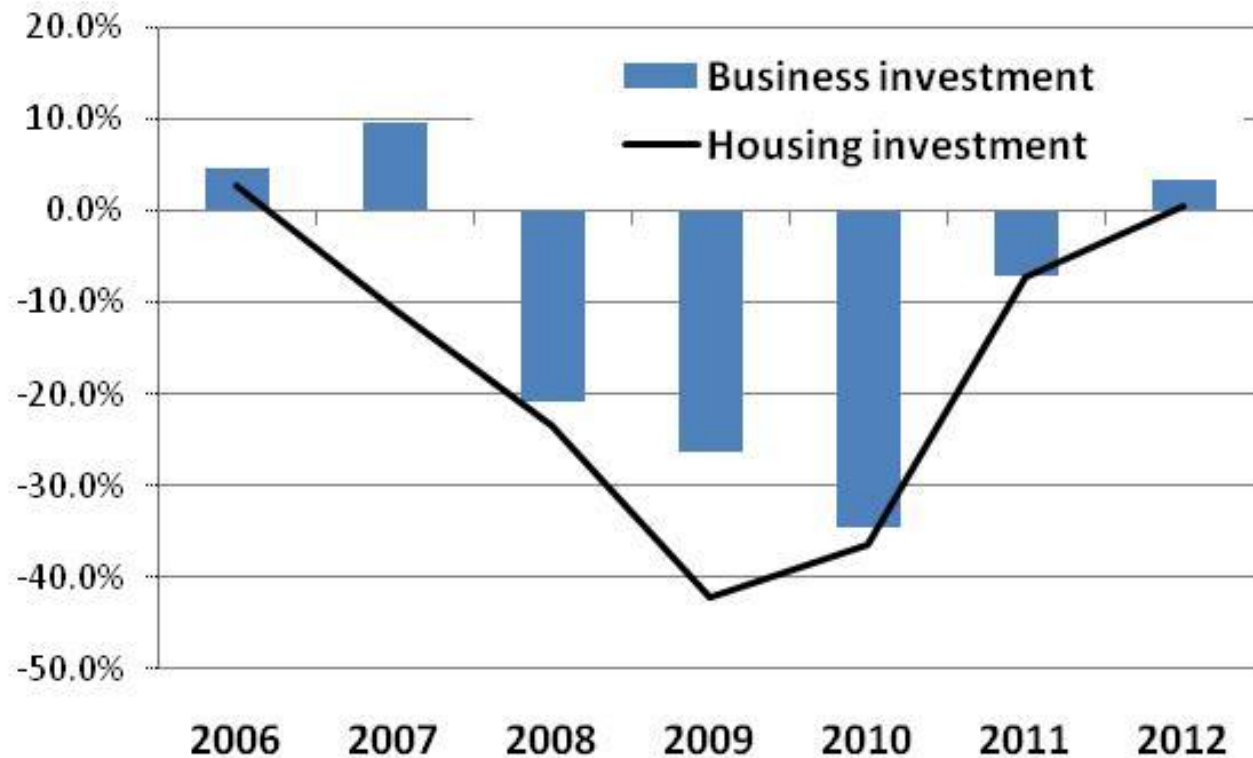
Fiscal consolidation exerts a drag on aggregate demand

General government balance, excluding bank recapitalization, in % of GDP



Source: OECD *Economic Outlook*, May 2011

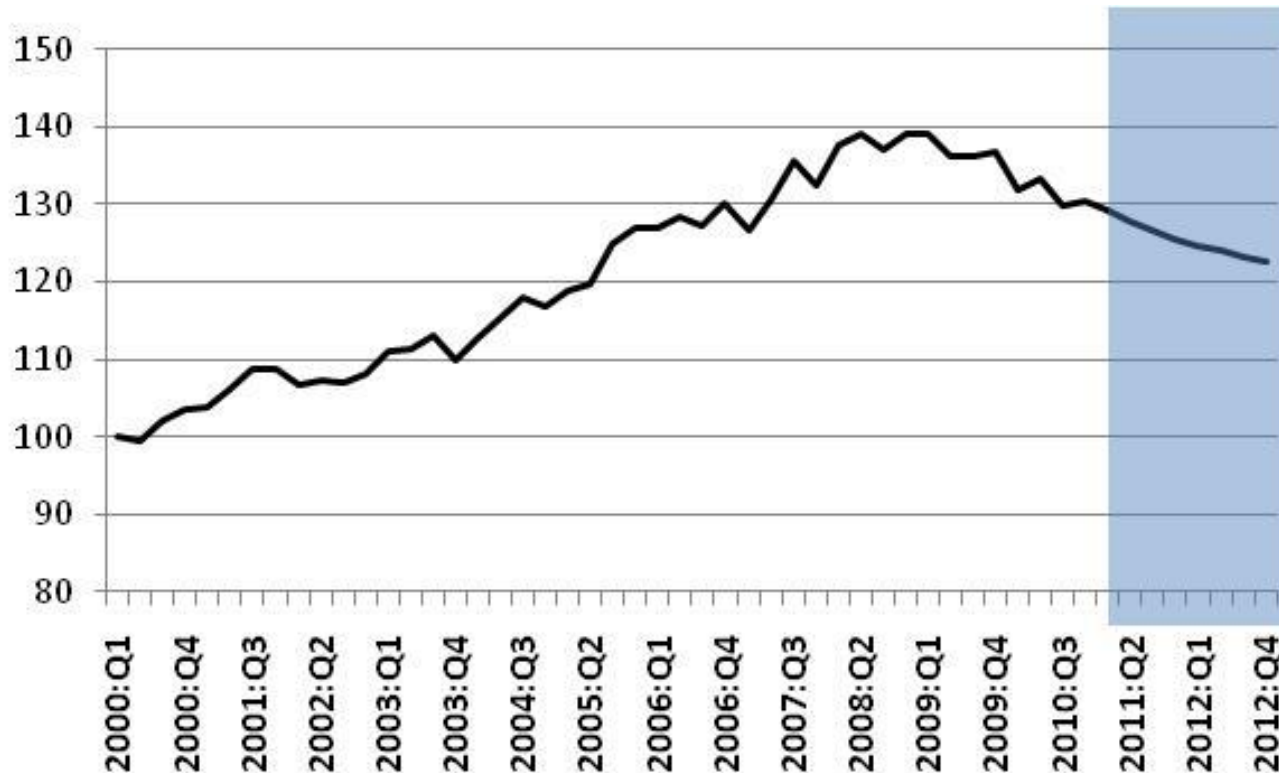
The contractionary effect of investment will fade out



Annual percentage change at constant prices

Source: OECD *Economic Outlook*, May 2011

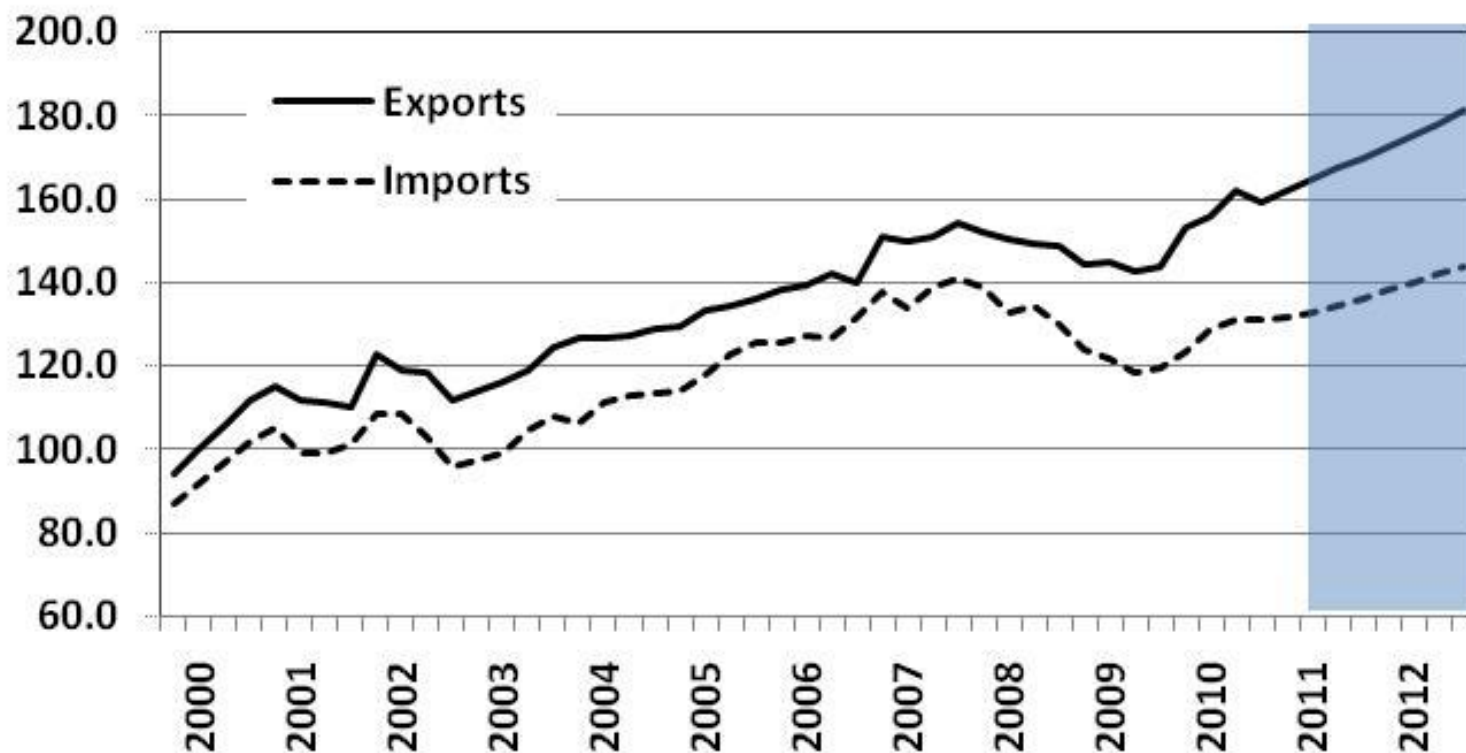
Wage restraint and higher productivity raise competitiveness



Unit labour costs, 2000Q1=100

Source: OECD *Economic Outlook*, May 2011

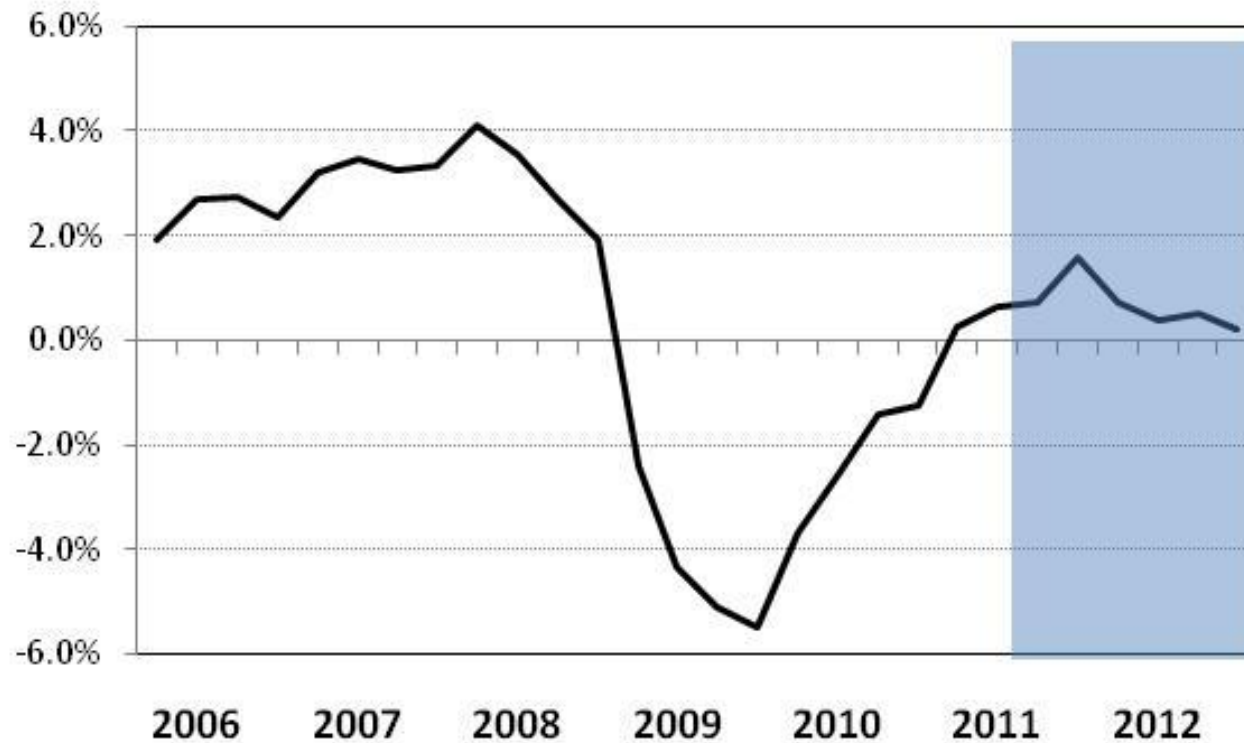
Exports are recovering



Exports and imports of goods and services in billions of euros,
2008 prices, annualised and seasonally adjusted.

Source: OECD *Economic Outlook*, May 2011

Inflation expected to stay in mildly positive territory



Annual change of private consumption deflator

Source: OECD *Economic Outlook*, May 2011



Summary of OECD projections for Ireland

	2010	2011	2012
GDP (OECD)	-1.0	0.0	2.3
GDP (consensus forecast May 2011)*	-1.0	0.0	1.6
Private consumption	-1.2	-2.1	0.3
Total investment	-27.7	-11.0	0.8
Exports	9.4	5.3	6.6
Imports	6.5	4.0	5.3
Consumer prices	-2.2	0.8	0.5
General government balance**	-32.4	-10.1	-8.2
Employment	-3.8	-2.4	-0.6
Unemployment rate***	13.5	14.7	14.6

* Mean of 11 private-sector forecasts collected by Consensus Economics.

** % of GDP *** % of the labour force

Source: OECD *Economic Outlook*, May 2011

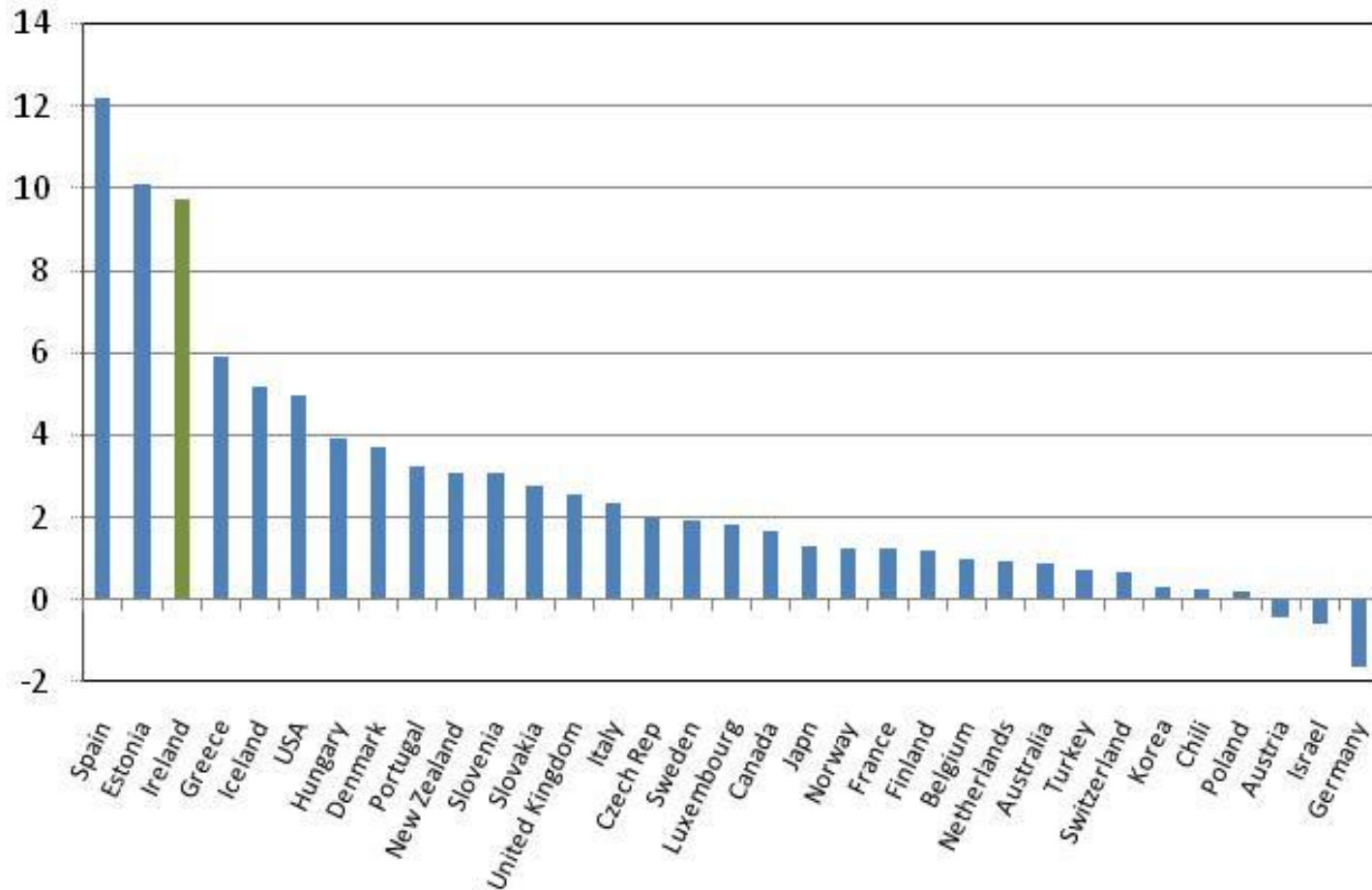


OECD macroeconomic recommendations for Ireland

- Adhere to economic adjustment programme supported by EU/IMF/ECB.
- In particular, lower the budget deficit to below 3% of GDP by 2015.
- Cover soon the recapitalization needs of banking system revealed by stress tests.
- Further improve competitiveness through wage restraint and structural reforms.

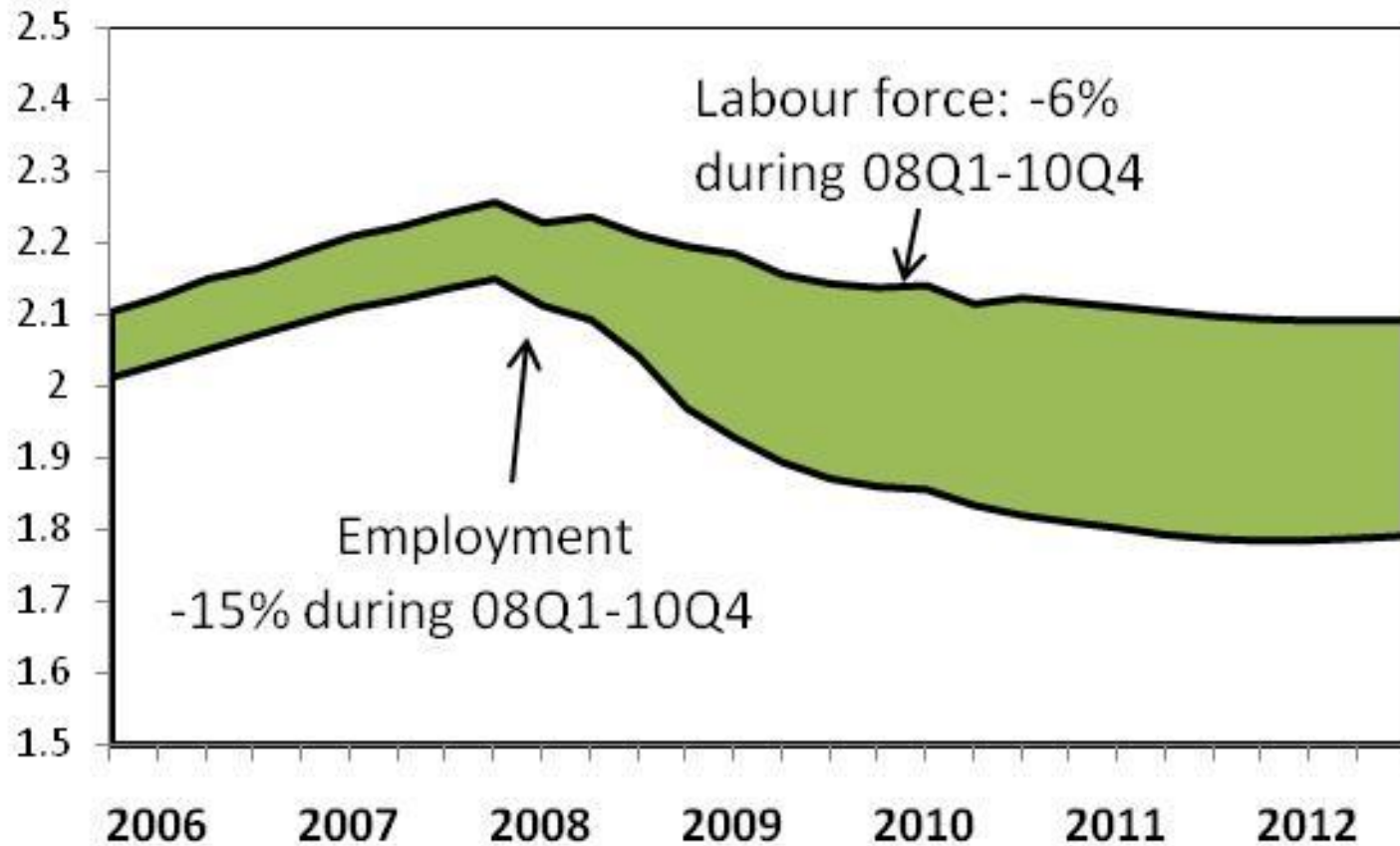
**High unemployment :
What are the risks of persistence?
What can be done?**

Risk of unemployment persistence major concern in many OECD countries



Change of unemployment rate in percentage points during 2007Q3-2010Q4.

Ireland's employment has fallen more than its labour force



Source: OECD *Economic Outlook*, May 2011
In millions of persons, seasonally adjusted.

Large hit to jobs

Sectoral employment changes

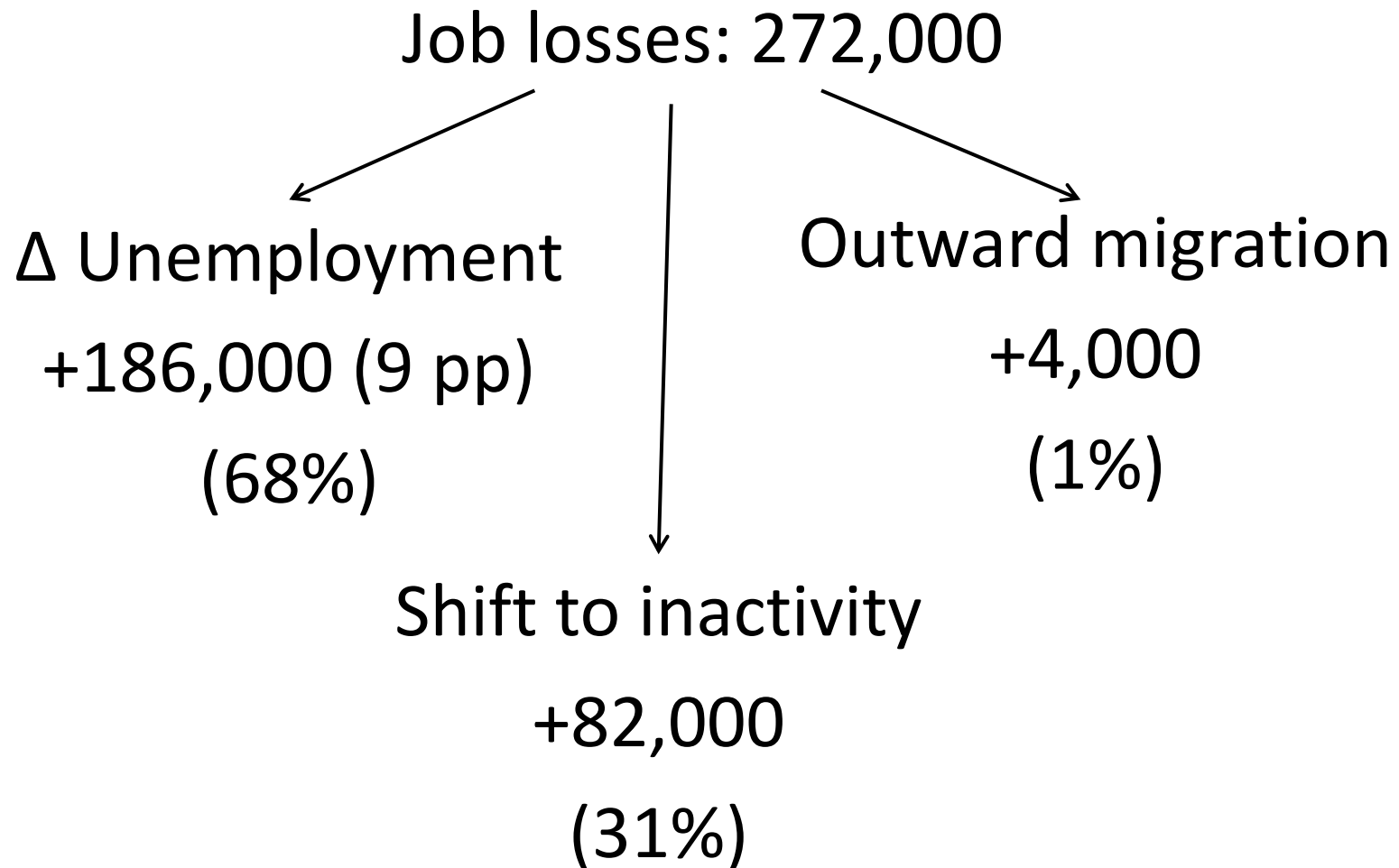
Employment growth between average in 2008 and 2010Q2

	Manufac- turing	Construction	Wholesale and retail trade	Financial intermediation	Other services¹	Total
Ireland	-16.8	-47.3	-11.7	0.6	-7.4	-16.9
Spain	-19.4	-30.7	-10.3	-5.7	-5.6	-13.3
Denmark	-12.7	-24.9	-7.9	3.7	0.5	-7.8
Netherlands	-9.6	-11.7	-5.7	-4.1	-6.2	-7.0
Portugal	-5.8	-13.9	-3.2	-11.5	-2.3	-6.0
United States	-10.2	-13.4	-4.2	-8.4	-3.5	-6.0
United Kingdom	-14.2	-16.1	-6.7	-8.5	3.0	-5.6
Greece	-10.4	-16.5	-3.3	-2.7	-3.3	-4.6
Italy	-8.6	-0.6	-4.9	-2.9	0.8	-3.1
Austria	-3.9	-7.3	-4.9	5.6	1.3	-2.4
Germany	-5.4	-1.6	0.2	-0.7	2.7	-1.1
France	-8.4	0.9	1.3	3.6	-0.6	-0.8
Canada	-10.2	3.9	2.4	6.2	3.0	2.3

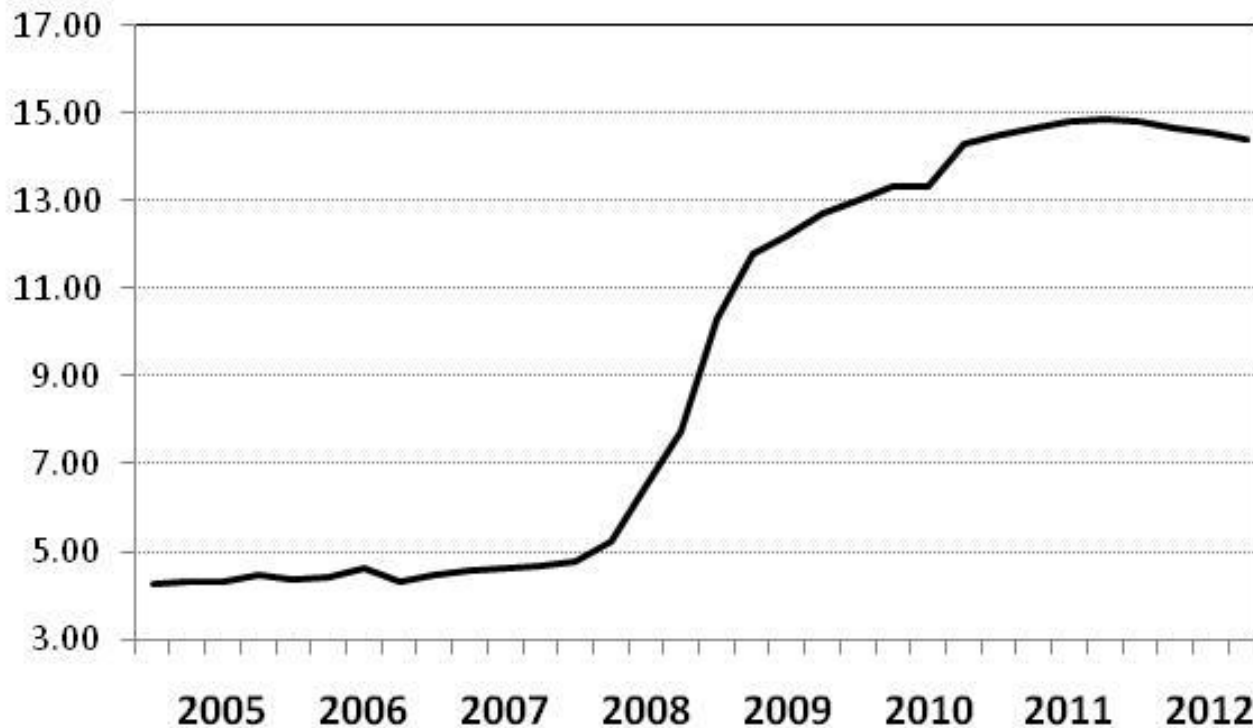
1. Hotels and restaurants, Transport & communication, Real estate and business services.

Source: Eurostat, US Bureau of Labour Statistics and Statistics Canada.

Effects of job losses during 2007-2010



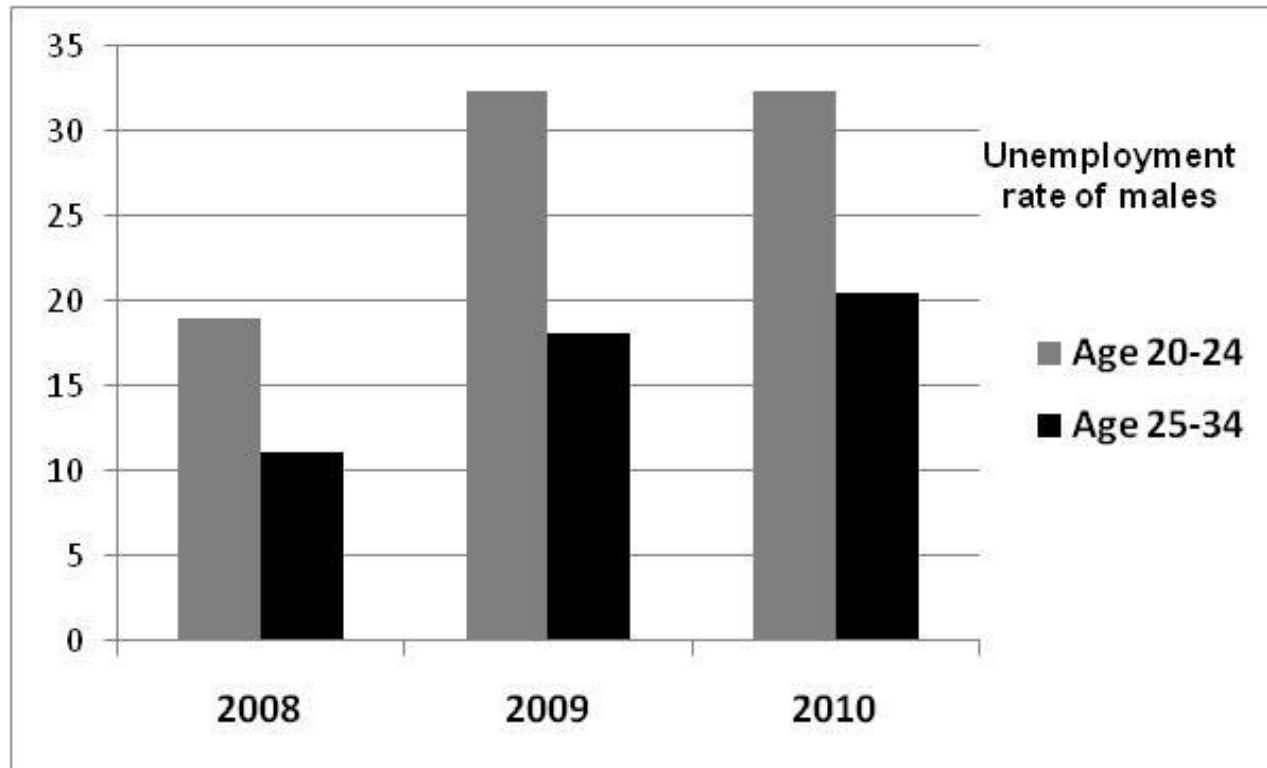
Unemployment has stabilized, but will stay high



Unemployment in % of the labour force

Source: OECD *Economic Outlook*, May 2011

Young men are out of work in increasingly large numbers



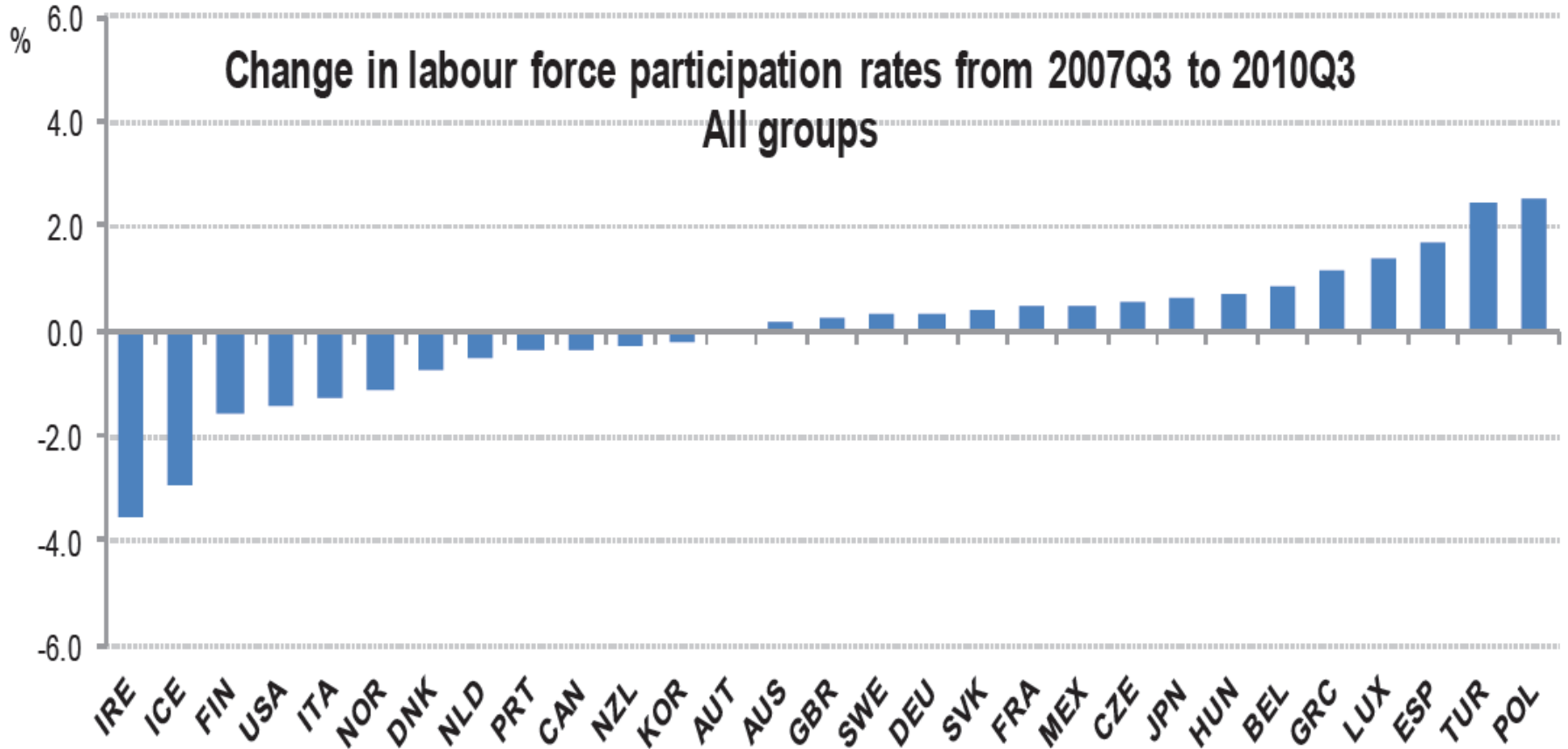
Unemployment rate in % of the labour force in the fourth quarter of the year, Source: CSO.

Increase of unemployment by age 07Q4-10Q4

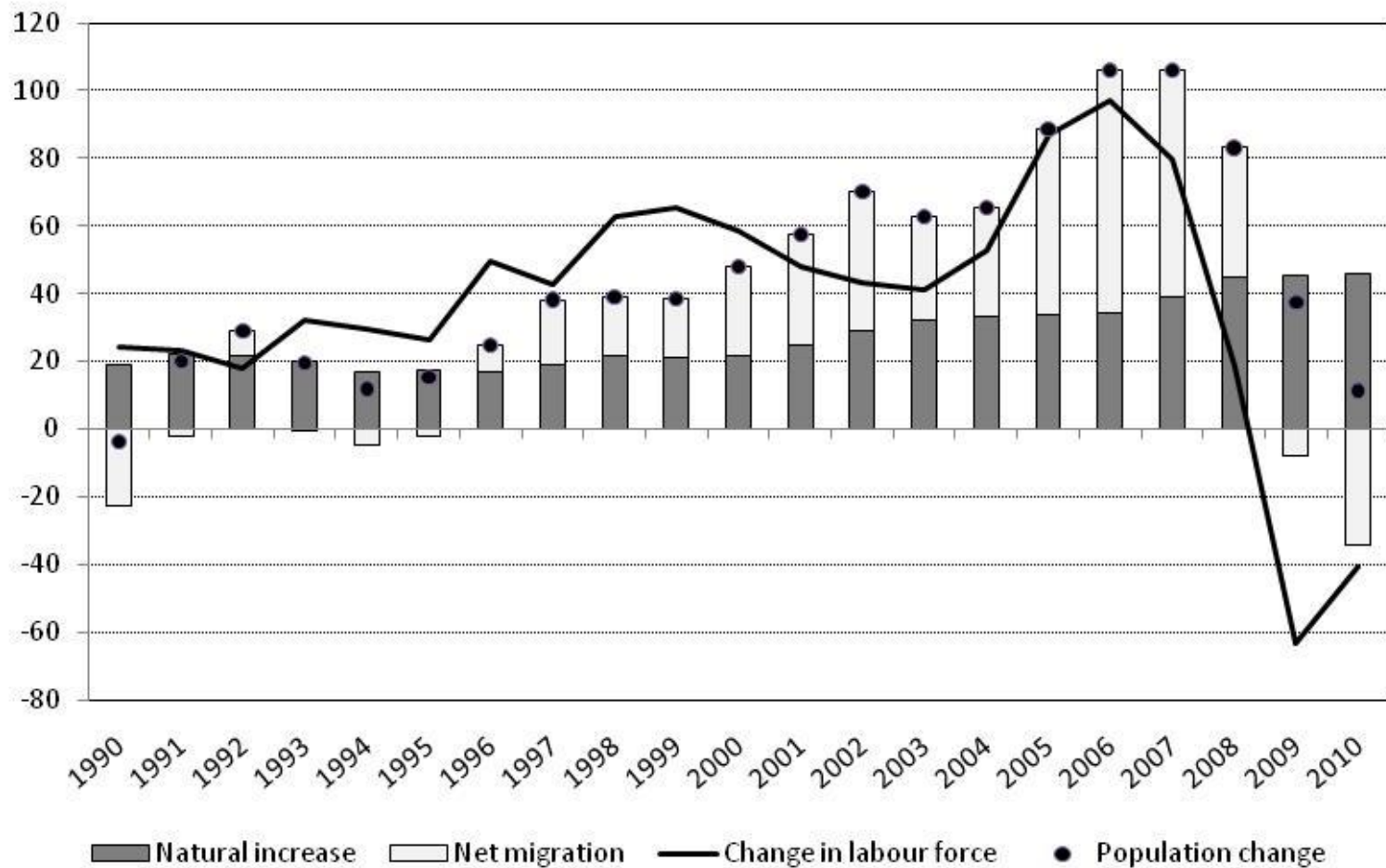
Total increase	198	
Male	138	70%
15 - 19 years	5	2%
20 - 24 years	16	8%
25 - 34 years	46	23%
35 - 44 years	35	17%
45 - 54 years	23	11%
55 - 59 years	8	4%
60 - 64 years	7	3%
Female	59	30%
15 - 19 years	4	2%
20 - 24 years	11	5%
25 - 34 years	19	10%
35 - 44 years	14	7%
45 - 54 years	8	4%
55 - 59 years	3	2%
60 - 64 years		0%

Source:
CSO
household
Survey,
thousands
of persons.

Large increase in inactivity relative to other countries



Outward migration is increasing



Source: CSO. Preliminary figures for 2007 to 2010. In thousand persons.



What are the risks associated with high unemployment?

- Jobseekers remaining unemployed for long periods lose their human and social capital, become discouraged and withdraw from the labour market.
- Discouraged jobseekers tend to move into long-term welfare schemes.



Unemployment benefits

In December 2010:

- 299,000 unemployed (14.1% of LF) (QNHS)
- 440,000 on live register (20.6% of LF)

Ratio of 1.56 of claimants to unemployed.



Policies to avoid persistent unemployment

Support income and promote return to work

- Promote private-sector job creation.
- Support income of the unemployed, without reducing work incentives.
- Focus limited training resources on activation.
- Improve matching of jobs and jobseekers.



Promote job creation

- Restraint in compensation supports competitiveness gains and promote exports.
- In addition, measures to reduce labour costs through **targeted labour tax cuts** can be effective.
- Measures targeted at new recruits are the most cost-effective, especially if they avoid “gaming”.
- Halving of PSRI on jobs below wage ceiling goes in the right direction.
- In general, **move tax away from labour** towards residential properties and pollution sources.



Unemployment benefits (UB): support income without reducing work incentives

- UB (JA and JB) prevent jobseekers from falling into poverty.
- But their design implies high replacement rates and work disincentives for low-skilled workers, especially when combined with secondary benefits.
- **In due time, review UB level to reduce risk of unemployment persistence and reduce fiscal cost.**
- Best practices: allow benefits to decline with duration; increase monetary incentives to take up work offers.
- **Return to work is best protection against poverty.**



Target limited training resources on activation

- Limited training resources should be focused on the young and low-skilled jobseekers, e.g. with **vocational training**.
- Target resources on areas where activation is likely to be successful: **stop subsidizing apprenticeship in the construction sector**.
- Redeploy training resources **where skill shortages are emerging** e.g. online sales and marketing, energy efficiency, life science, export-oriented manufacturing.



Matching jobs and jobseekers

- **Ireland's activation measures have been ineffective** (Grubb et al 2009, McGuinness et al 2011).
- Evidence of low level interaction between FÁS and jobseekers. Also evidence of **ineffective interaction**.
- Elsewhere in Europe, payment of UB is **conditional** to participation in activation plans.
- Approach of **mutual obligation**.



Go raibh maith
agaibh!

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