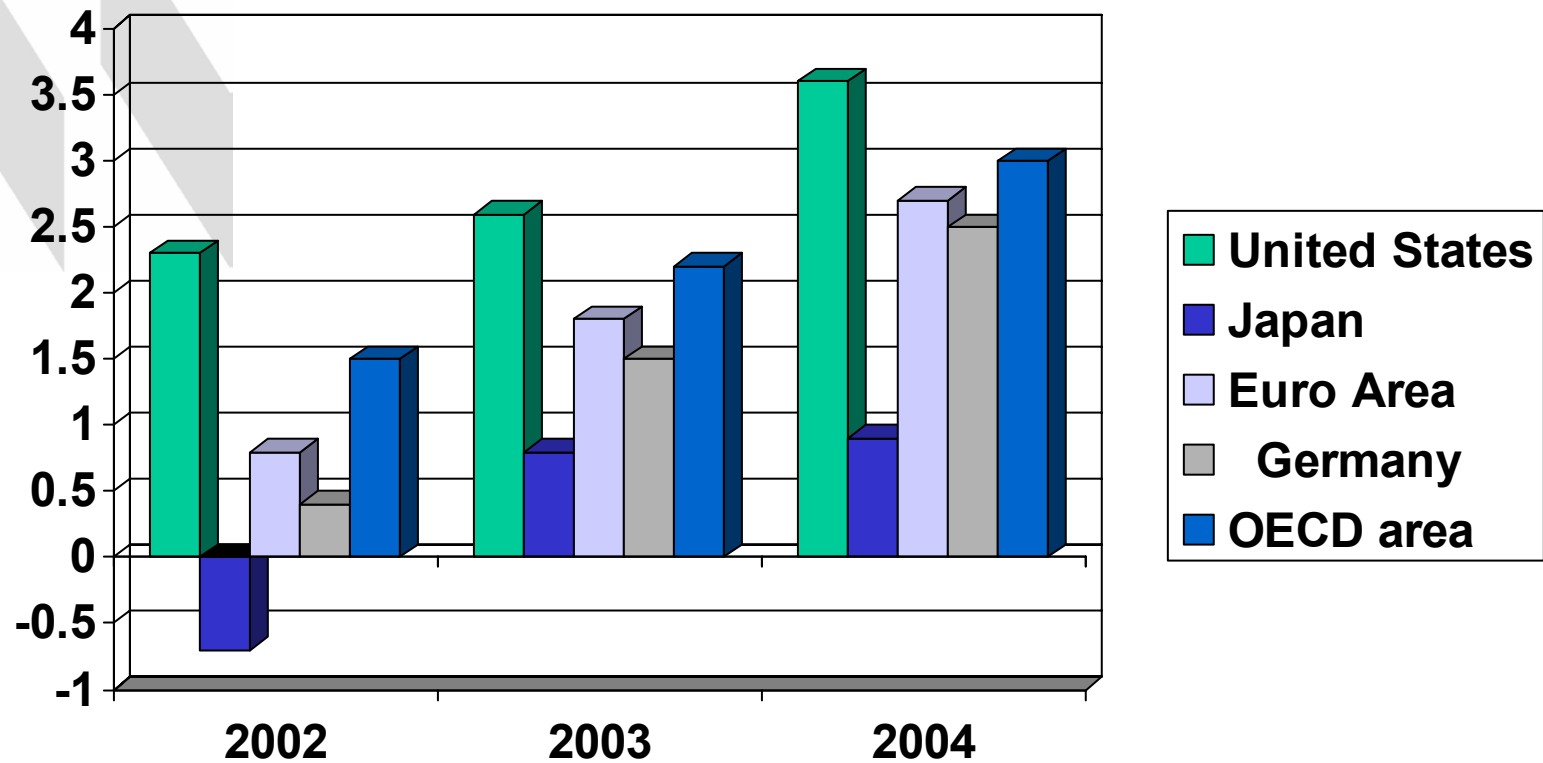




The OECD-area business cycle in early 2003

The OECD Breakfast Series
In partnership with NABE
20 February 2003

OECD GDP growth projections (%) (November 2002)

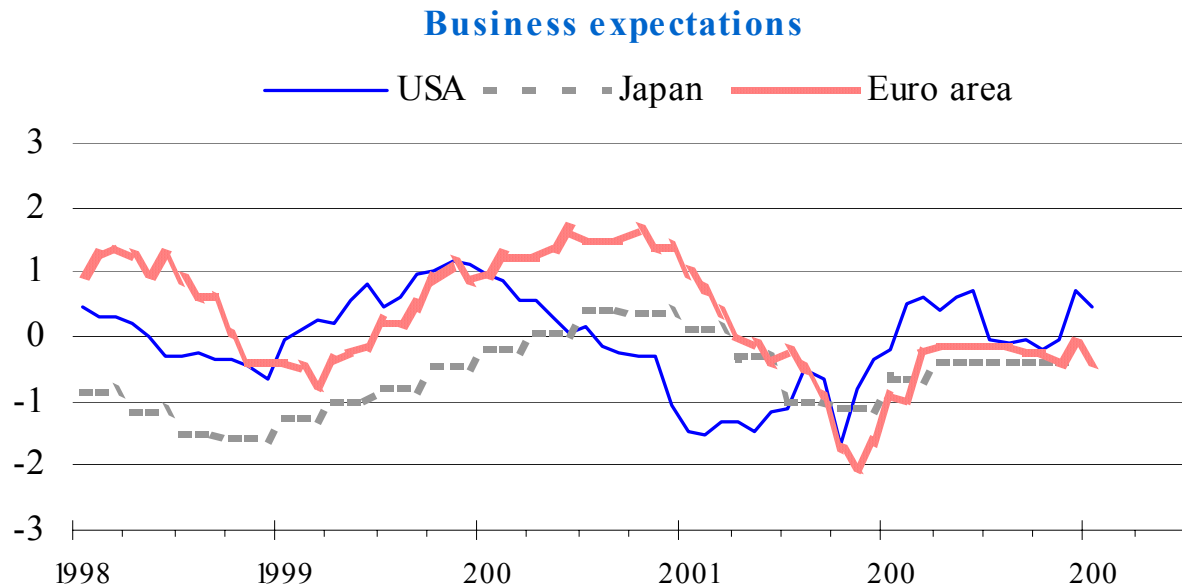




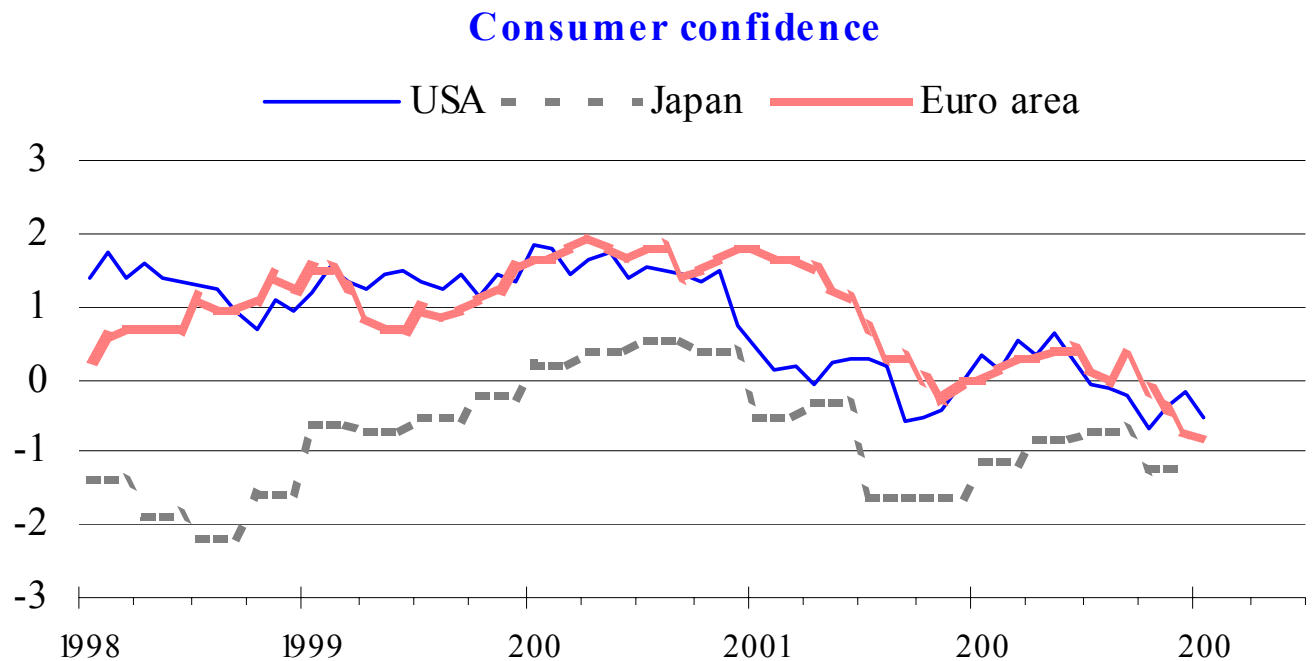
What has happened since the November 2000 Economic Outlook?

- Business and household confidence have remained weak, affected by geopolitical uncertainty
- Oil prices have risen
- The \$ has depreciated substantially against the euro
- Financial headwinds have eased but equity markets have remained unsettled
- World trade momentum has weakened

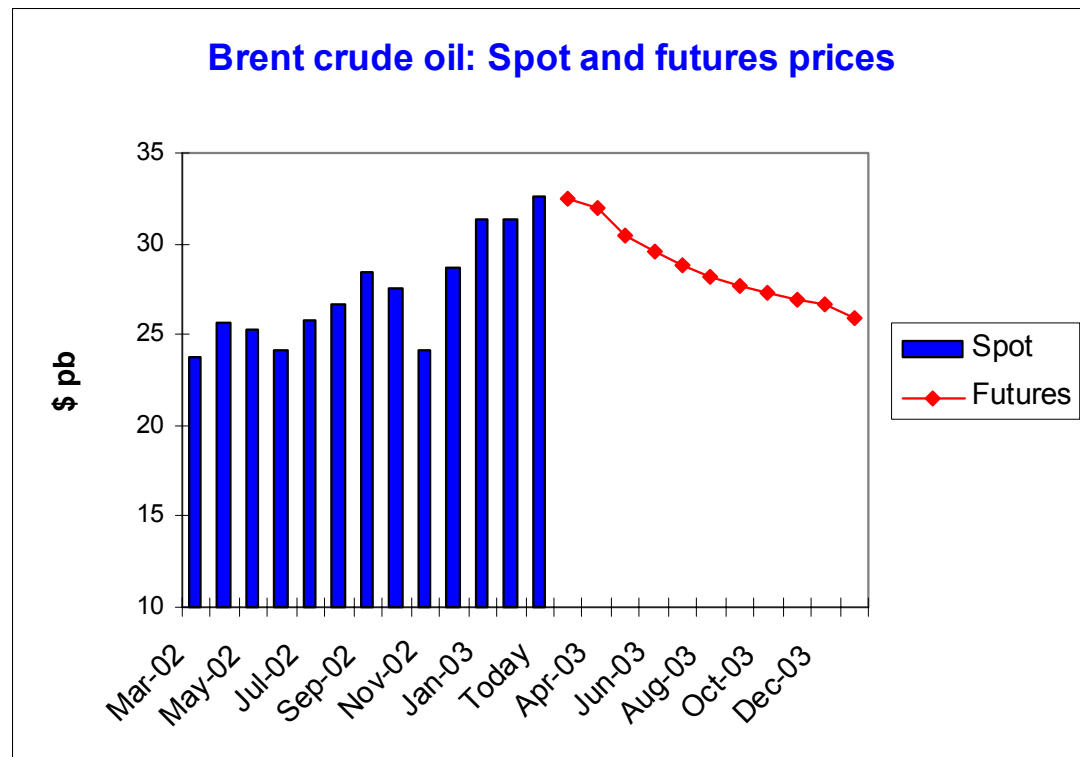
Business expectations have been affected by the US-Iraq stand-off.....



...and household confidence has been deteriorating

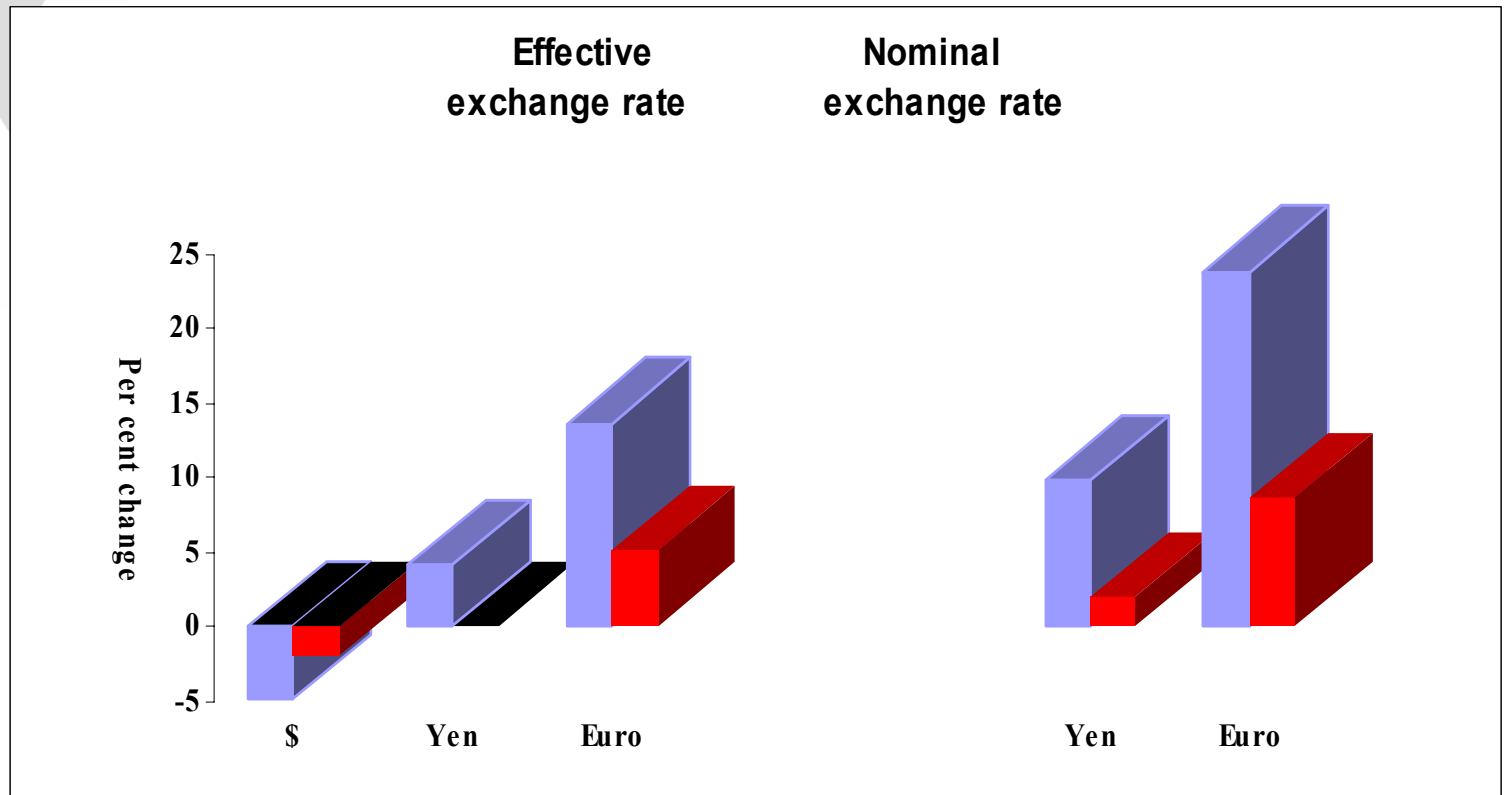



Brent crude prices have increased to \$32



The dollar has weakened significantly vis-à-vis the euro

Since April 2002 and November 2002

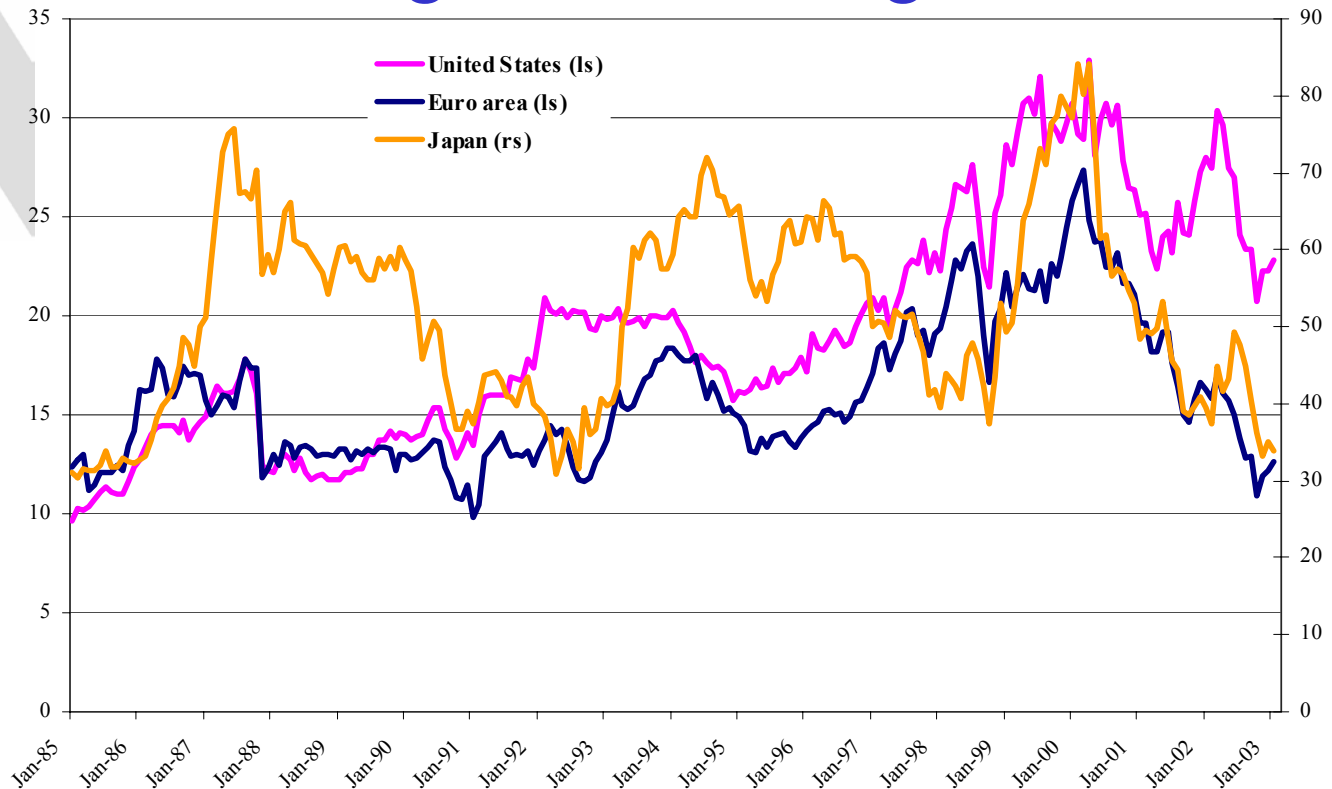




Bond yields have fallen in the euro area and corporate spreads have generally narrowed

- ..in the US from a peak of 3 1/2 percentage points in q 4 2002 to 2 per cent in the current quarter close to the 1997-2001 average..
- .. and in Europe from a peak of 2 1/2 per cent in q4 to just over 1 per cent in the current quarter, the long term average being 0.9..

Equity market weakness has taken price-earnings ratios closer to long term averages





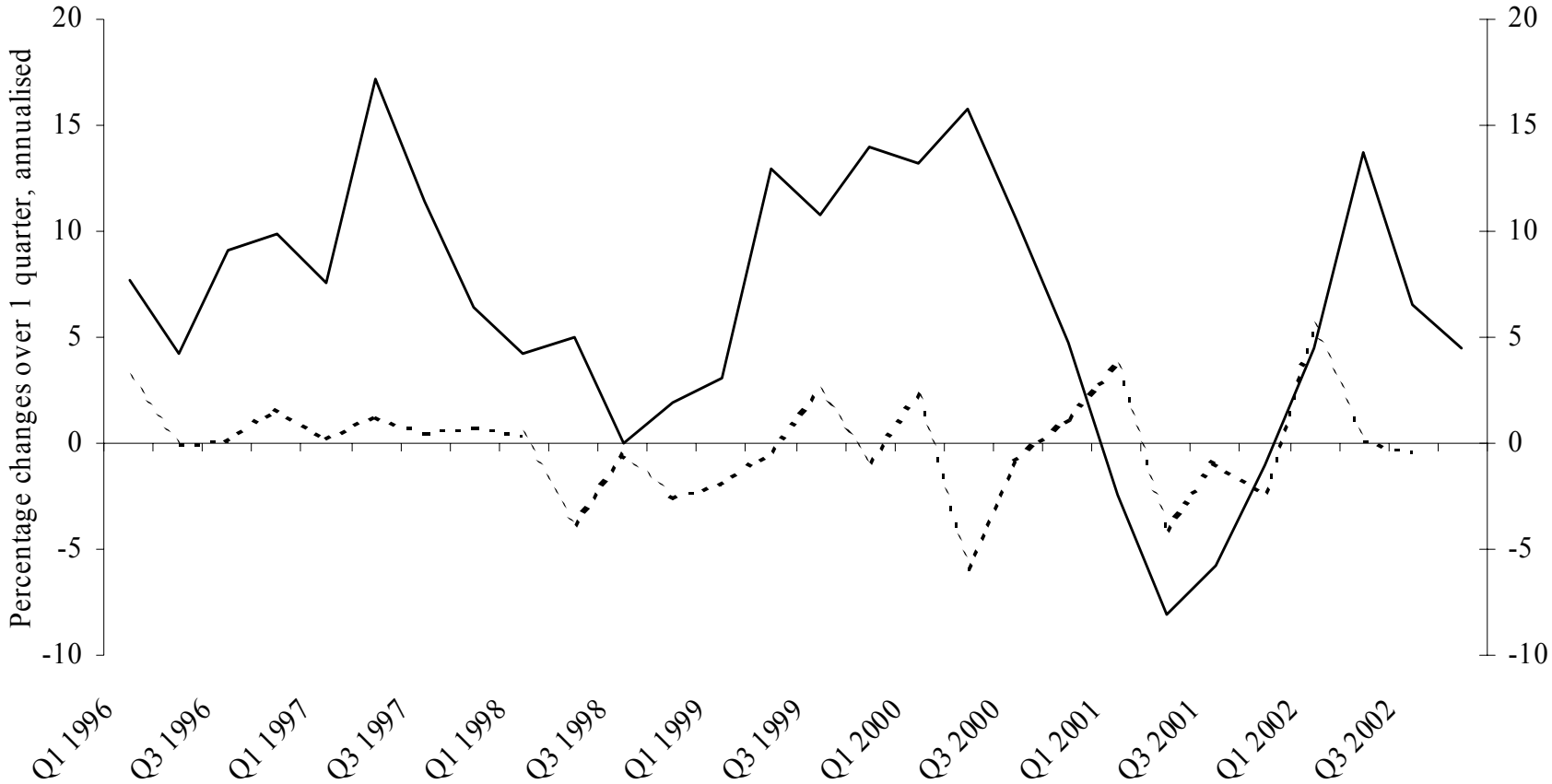
World trade slowed in the 2nd half of 2002

- World trade accelerated sharply in the first half of 2002, growing at double digit rate in the second quarter...
- ..but quarterly growth has clearly lost momentum since mid 2002, advancing at a an estimated 4 per cent pace in 2002Q4

Global trade developments have been weak...

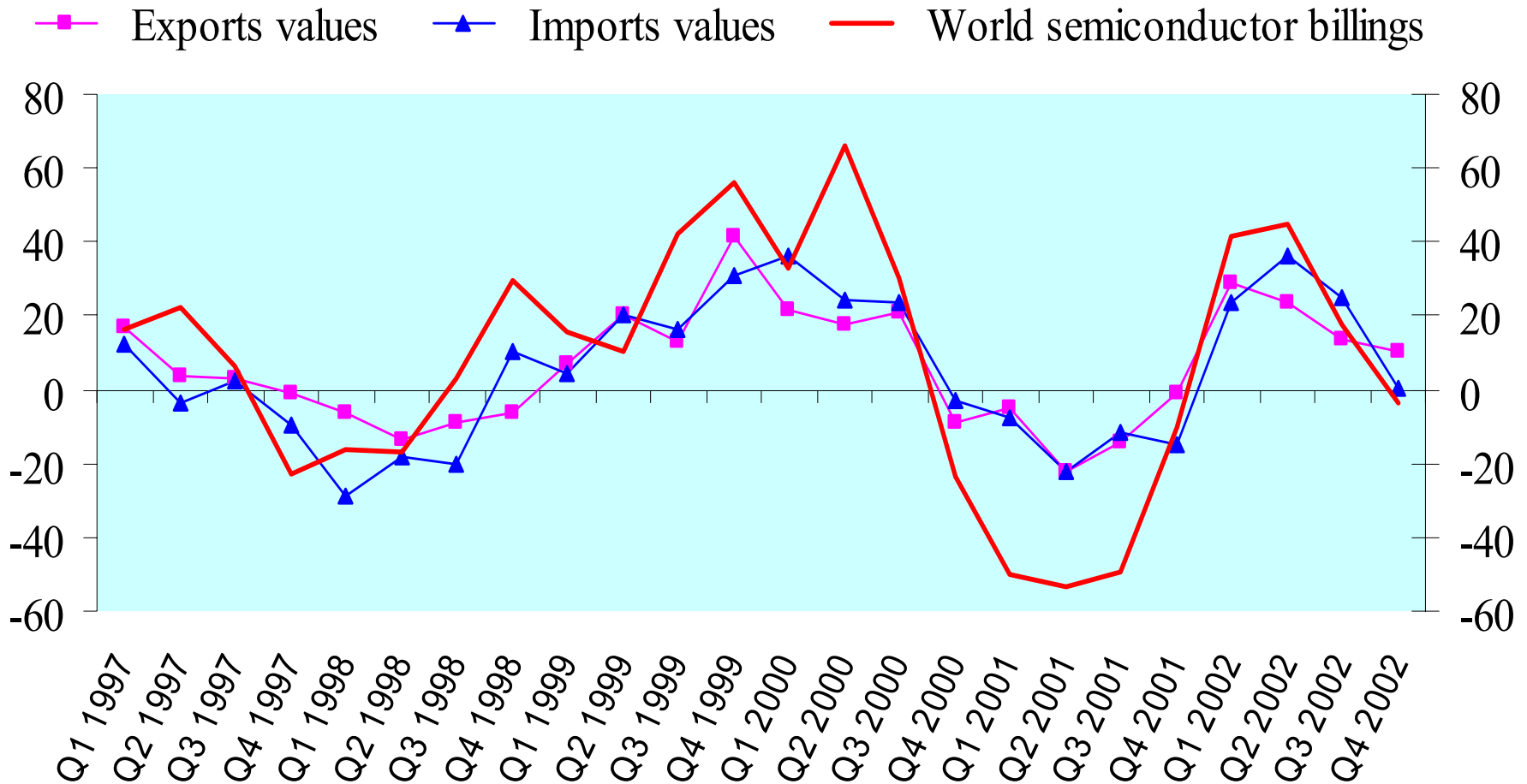
Growth in World Merchandise Trade Volumes (s.a.a.r)

— World trade growth - - - - - Discrepancy, exports-imports growth



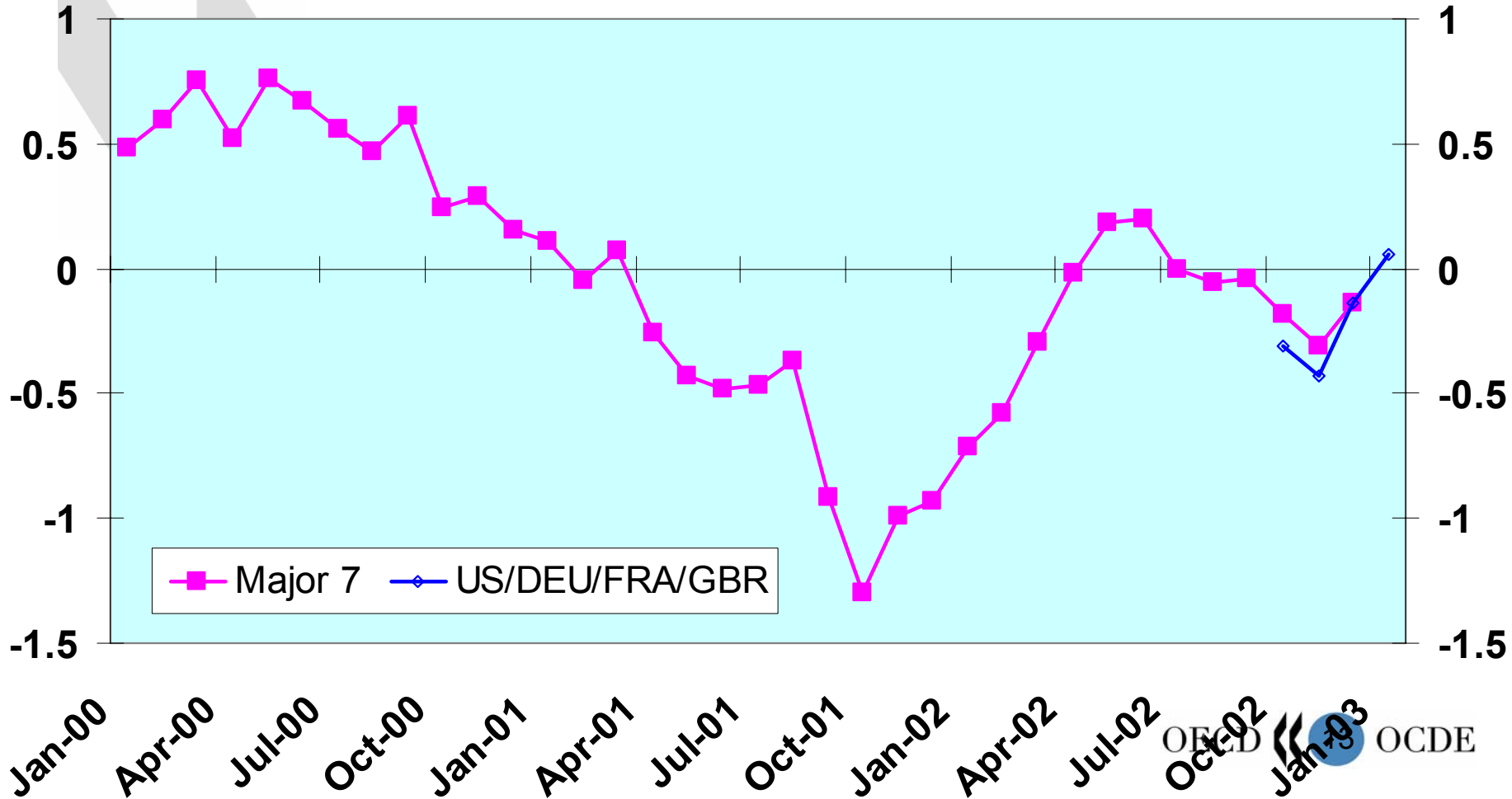
...trade in non-OECD Asia also slowed,
linked to global IT cycle,,,

**Quarterly growth in Asian 8 merchandise trade
and Worldwide Semiconductor billings (% , s.a.q.r)**



but export orders have shown recent stability

Major 7 Export Orders (normalised)



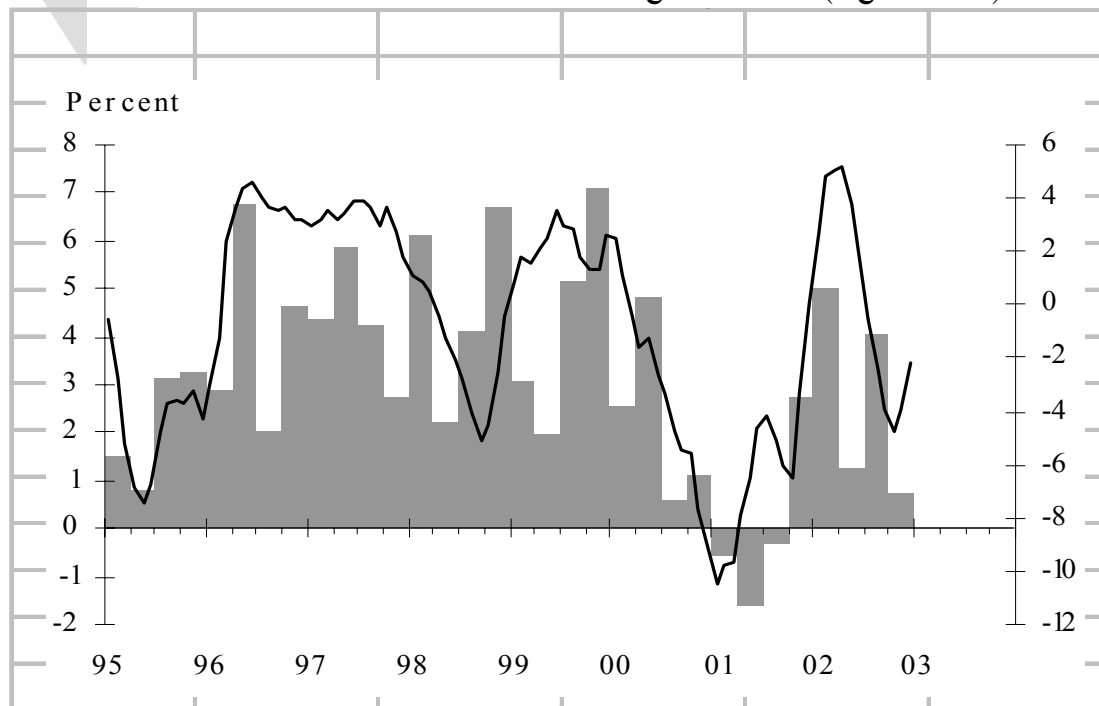


Leading indicators point to a diverging growth pattern across OECD

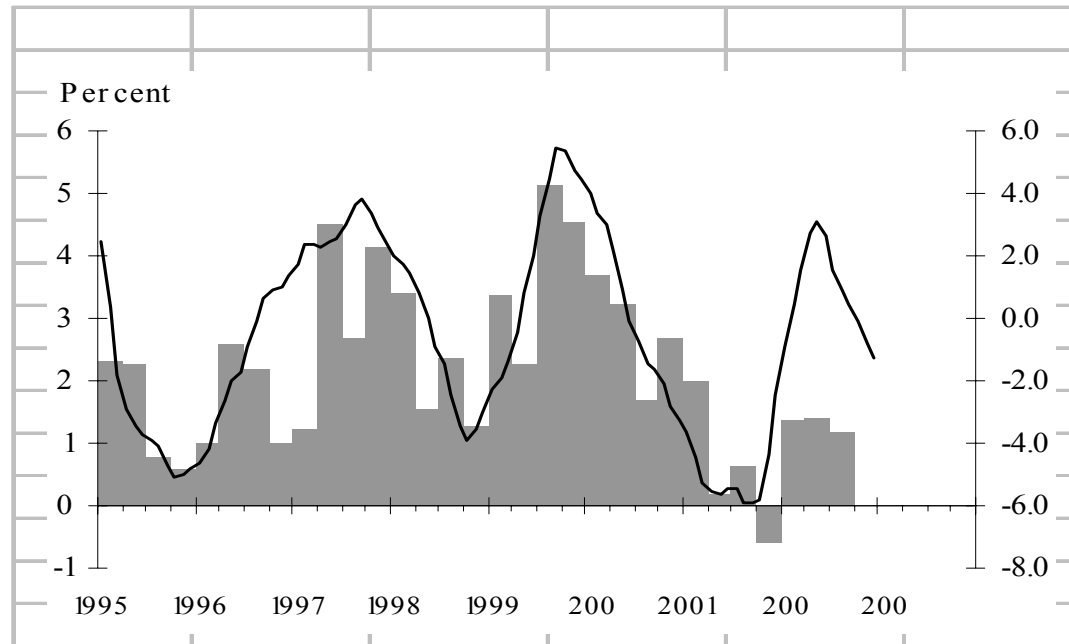
- US growth may stage a moderate rebound in 2003 Q1
- Euro area saw weak growth in 2002 Q4 and may do so in 2003Q1
- Japanese GDP grew unexpectedly in 2002 Q4, but other indicators are weak

The leading indicator has been improving in the US...

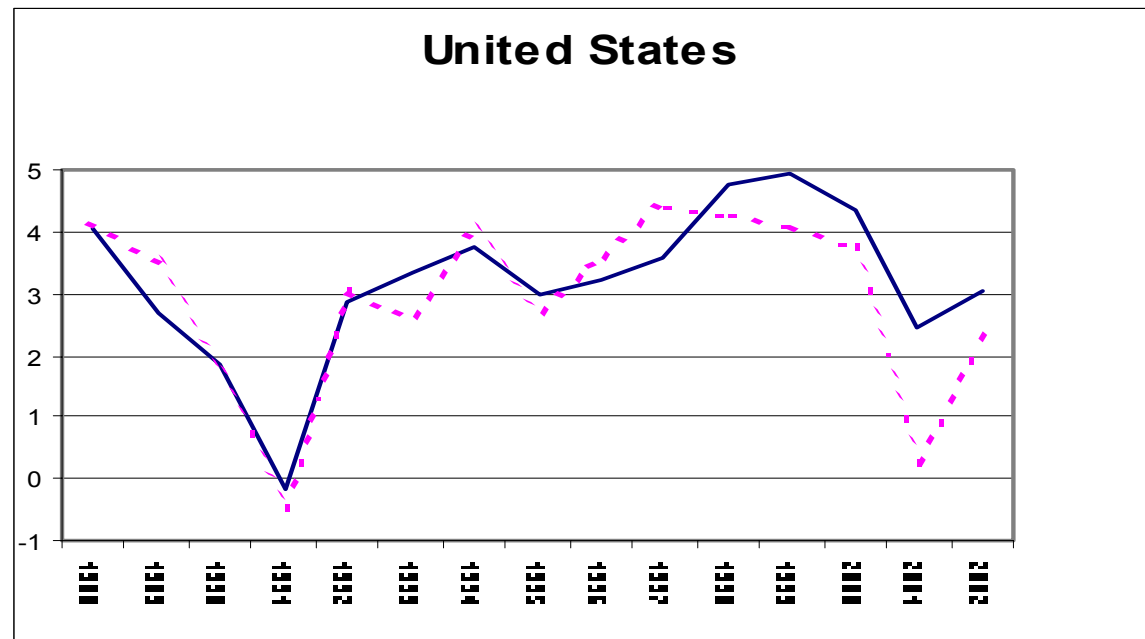
■ GDP growth (left scale)
— OECD leading indicator (right scale)



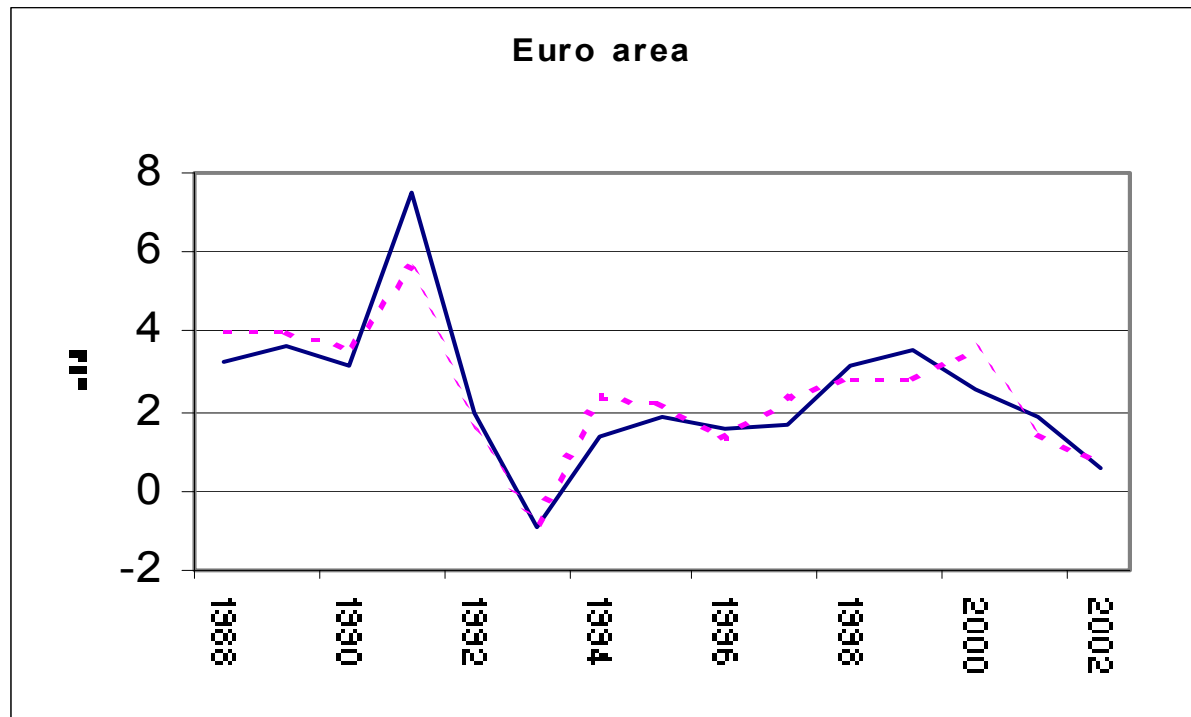
...but not in the euro area



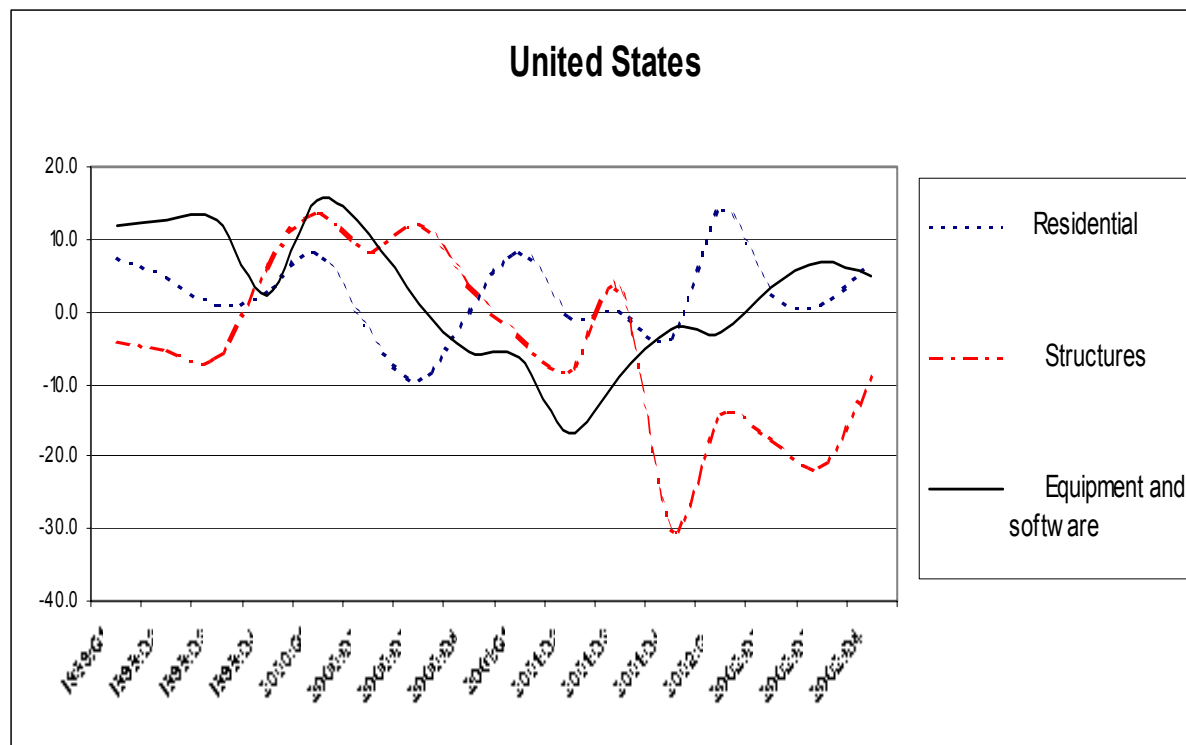
Demand aggregates: Consumption smoothing has been important in the US..



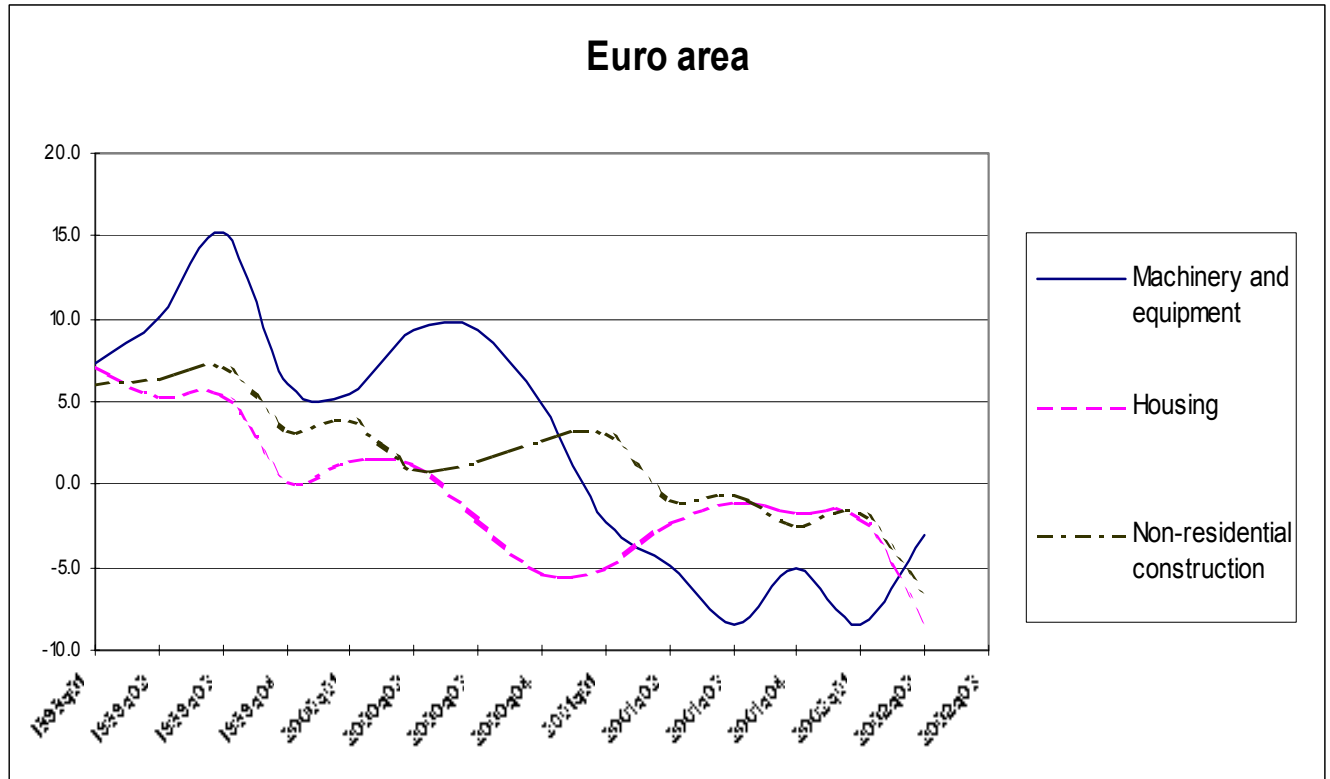
..but not in Europe



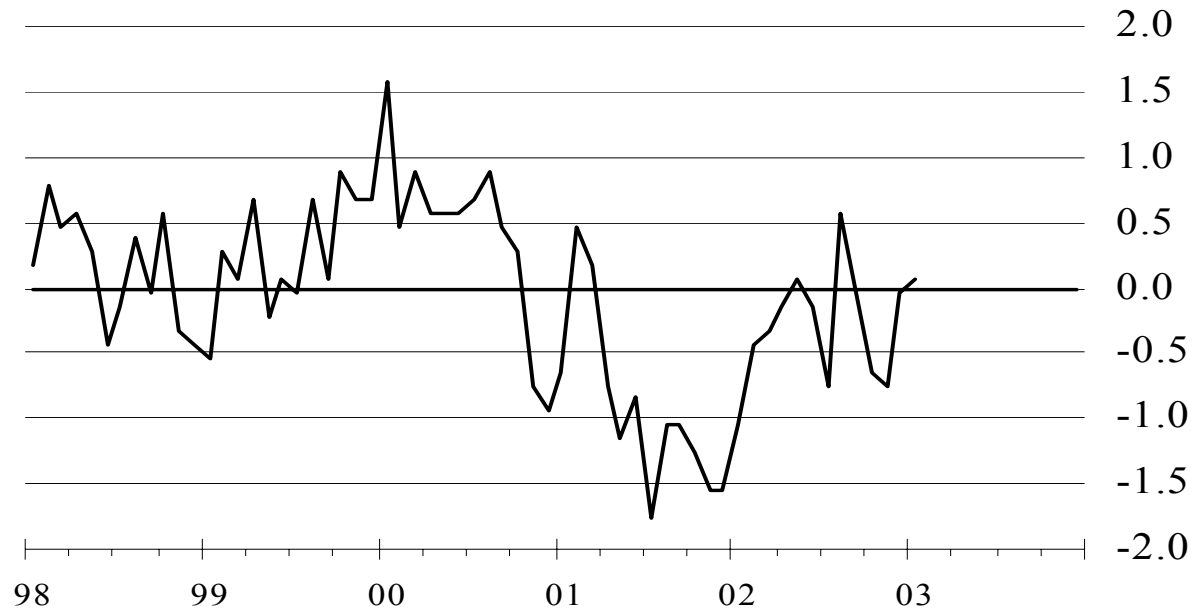
Investment is reviving modestly in the US



..but not in Europe



Stock levels are getting back to normal in the US..



..but they are still
above normal in Europe





Forecasters have become more pessimistic on Europe and Japan

Difference between latest Consensus forecasts and EO72			
Real GDP growth	2002	2003	2004
US	0.1	0	0
Japan	1	-0.4	-0.1
Euro area	0	-0.5	-0.5
France	0	-0.4	-0.6
Germany	-0.2	-0.7	-0.7
United Kingdom	0.2	0	0

Are the risks mainly negative?

- Major uncertainty about Middle east
- Consumption impulse could fade, if house prices weaken or household balance sheets come under strain
- Investment cycle could fail to recover, especially if profits do not improve
- The dollar could be vulnerable to widening current account imbalances.



How much policy flexibility is left?

- US fiscal policy is already very expansionary
- US monetary policy is also highly expansionary
- Limited room for Euro-area and Japanese fiscal policy maneuver
- Euro-area monetary policy is less accommodating and could become more so