

Soaring oil 'hits world economy'

The soaring cost of oil has hit global economic growth, although world's major economies should weather the storm of price rises, according to the OECD.

In its latest bi-annual report, the OECD cut its growth predictions for the world's main industrialised regions. US growth would reach 4.4% in 2004, but fall to 3.3% next year from a previous estimate of 3.7%, the OECD said. However, the Paris-based economics think tank said it believed the global economy could still regain momentum.

Forecasts for Japanese growth were also scaled back to 4.0% from 4.4% this year and 2.1% from 2.8% in 2005. But the outlook was worst for the 12-member eurozone bloc, with already sluggish growth forecasts slipping to 1.8% from 2.0% this year and 1.9% from 2.4% in 2005, the OECD said. Overall, the report forecast total growth of 3.6% in 2004 for the 30 member countries of the OECD, slipping to 2.9% next year before recovering to 3.1% in 2006. "There are nonetheless good reasons to believe that despite recent oil price turbulence the world economy will regain momentum in a not-too-distant future," said Jean-Philippe Cotis, the OECD's chief economist. The price of crude is about 50% higher than it was at the start of 2004, but down on the record high of \$55.67 set in late October.

A dip in oil prices and improving jobs prospects would improve consumer confidence and spending, the OECD said. "The oil shock is not enormous by historical standards - we have seen worse in the seventies. If the oil price does not rise any further, then we think the shock can be absorbed within the next few quarters," Vincent Koen, a senior economist with the OECD, told the BBC's World Business Report. "The recovery that was underway, and has been interrupted a bit by the oil shock this year, would then regain momentum in the course of 2005." China's booming economy and a

"spectacular comeback" in Japan - albeit one that has faltered in recent months - would help world economic recovery, the OECD said. "Supported by strong balance sheets and high profits, the recovery of business investment should continue in North America and start in earnest in Europe," it added. However, the report warned: "It remains to be seen whether continental Europe will play a strong supportive role through a marked upswing of final domestic demand." The OECD highlighted current depressed household expenditure in Germany and the eurozone's over-reliance on export-led growth.