OECD Economic Outlook

May 2024

OECD ECONOMIC OUTLOOK

115

MAY 2024

OECD
BETTER POLICIES FOR BETTER LIVES

Please cite this publication as:
OECD (2024), *OECD Economic Outlook, Volume 2024 Issue 1*, No. 115, OECD Publishing, Paris, https://doi.org/10.1787/69a0c310-en.

ISBN 978-92-64-98896-5 (print)
ISBN 978-92-64-96770-0 (PDF)
ISBN 978-92-64-97491-3 (HTML)
ISBN 978-92-64-79510-5 (epub)

OECD Economic Outlook
ISSN 0474-5574 (print)
ISSN 1609-7408 (online)

Photo credits: Cover © beanimages/Shutterstock.com.

Corrigenda to OECD publications may be found on line at: www.oecd.org/about/publishing/corrigenda.htm.

Table of contents

FIGURES

TABLE

Acknowledgements

This edition of the OECD Economic Outlook was produced by the OECD Economics Department. The global outlook and the overall report were prepared under the general supervision of Clare Lombardelli, Álvaro Pereira, Luiz De Mello, Isabell Koske and Alain de Serres, and managed by Nigel Pain. The United Kingdom projection and assessment was supervised by Álvaro Pereira, Luiz De Mello, Isabell Koske and Alain de Serres. Clare Lombardelli was not involved in, and did not supervise, the UK projection and assessment.

Chapter 1 was prepared in the Macroeconomic Policy Division and supervised by Nigel Pain, with Geoff Barnard, Catherine MacLeod and Álvaro Pina as principal authors; and Ben Conigrave, Patrice Ollivaud, Nobukazu Ono, Lucia Quaglietti, Caroline Roulet and Elena Rusticelli, providing substantive contributions.

Chapter 2 was prepared by the Country Studies Branch, with contributions from Jens Arnold, Müge Adalet McGowan, Hansjörg Blöchliger, Martin Borowiecki, Jesse Bricker, Tim Bulman, Ben Conigrave, Boris Cournède, Lilas Demmou Charles Dennery, Federica De Pace, Abdenbi El Ansary, Falilou Fall, Priscilla Fialho, Erik Frohm, Paula Garda, Claude Giorno, Daniela Glocker, Andrea Goldstein, Nicolas Gonne, Antoine Goujard, Robert Grundke, David Haugh, Philip Hemmings, Hyunjeong Hwang, Yosuke Jin, Nikki Kergozou, Caroline Klein, Michael Koelle, Kyongjun Kwak, Timo Leidecker, Gabriel Machlica, Alessandro Maravalle, Dimitris Mavridis, Margit Molnar, Hermes Morgavi, Ken Nibayashi, Alberto González Pandiella, Jon Pareliussen, Pierre-Alain Pionnier, Bertrand Pluyaud, Axel Purwin, Claudia Ramirez Bulos, Adolfo Rodriguez-Vargas, Oliver Röhn, Simone Romano, Cyrille Schwellnus, Patrizio Sicari, Zuzana Smidova, Donal Smith, Jonathan Smith, Jan Strasky, Enes Sunel, Srdan Tatomir, Sébastien Turban, Elena Vidal, Ben Westmore, Yoonyoung Yang, Tetsuya Yoshioka, Paul Yu and Volker Ziemann. The preparation of the country notes was supervised by Jens Arnold, Sebastian Barnes, Aida Caldera Sanchez, Mame Fatou Diagne, Philip Hemmings, and Vincent Koen.

Overall coordination and key editorial and statistical support was provided by Isabelle Fakih and Jérôme Brézillon.

Statistical support was given by Damien Azzopardi, Corinne Chanteloup, Ane Kathrine Christensen, Lutécia Daniel, Véronique Gindrey, Federico Giovannelli, Béatrice Guérard, Mauricio Hitschfeld, Tony Huang, Eun Jung Kim, Seung-Hee Koh, Natia Mosiashvili, Axel Purwin, Monica Quinza Armenta, and Mafalda Trincão. Editorial support for the country notes was provided by Jean-Rémi Bertrand, Emily Derry, Laura Fortin, Robin Houng Lee, Gemma Martinez, Sisse Nielsen and Michelle Ortiz.

Background analysis and database management was provided by the Macroeconomic Analysis Division, with contributions from Esther Bolton, Thomas Chalaux, Marnix Dek, Yvan Guillemette, Jeroen Meyer and Gil Parola, under the supervision of David Turner.

An initial draft of the report was discussed by the OECD Economic Policy Committee. This report is published under the responsibility of the Secretary-General of the OECD.

Editorial

An unfolding recovery

Cautious optimism has begun to take hold in the global economy, despite modest growth and the persistent shadow of geopolitical risks. Inflation is easing faster than expected, labour markets remain strong with unemployment at or near record lows. Private-sector confidence is improving. Yet the impacts of tighter monetary conditions are being felt, especially in housing and credit markets.

This recovery is unfolding differently across regions. The United States and a number of large emerging markets continue to exhibit strong growth, in contrast to European economies. The mixed macroeconomic landscape is expected to persist, with inflation and interest rates declining at differing paces, and differing needs for fiscal consolidation.

Despite a more balanced risk outlook, substantial concerns remain. High geopolitical tensions, particularly in the Middle East, could disrupt energy and financial markets, causing inflation to spike and growth to falter. Debt-service burdens are already significant, and could rise further as low-yielding debt is rolled over or fixed-term borrowing rates are renegotiated. Expectations that inflation will continue to decline steadily might also prove misplaced.

In the medium and longer term, the fiscal position is worrying. Governments must address mounting debt and rising expenditure demands due to ageing populations, climate change mitigation, and defence needs. Increasing debt-service costs further worsen fiscal sustainability. There is never an attractive time to do this, but conditions enable this rebuilding to begin now. A robust medium-term approach to containing spending, building revenues, and focusing policy efforts on growth-enhancing structural reforms are all needed.

Disappointing growth underscores the case for strengthening global trade and productivity. Trade and industrial policies should aim for resilient global value chains through diversification without undermining the benefits of open trade. At the same time, accelerating decarbonisation requires bold policy measures, such as investing in green and digital infrastructure, enhancing carbon pricing, and promoting technology transfer. The developments in Artificial Intelligence (AI) provide a welcome and much needed opportunity to raise productivity. Ensuring the benefits materialise and are broadly shared requires investments in education and training and strong and internationally consistent competition policy.

2 May 2024

Clare Lombardelli

OECD Chief Economist

1. General assessment of the macroeconomic situation

Introduction

There are some signs that the global outlook has started to brighten, even though growth remains modest. The impact of tighter monetary conditions continues, especially in housing and credit markets, but global activity is proving relatively resilient, inflation is falling faster than initially projected and private sector confidence is now improving. Supply and demand imbalances in labour markets are easing, with unemployment remaining at or close to record lows, real incomes have begun to turn up as inflation moderates, and trade growth has turned positive. However, developments continue to diverge across countries, with softer outcomes in Europe and most low-income countries, offset by strong growth in the United States and many large emerging-market economies.

Global GDP growth is projected to be 3.1% in 2024, unchanged from 2023, before edging up to 3.2% in 2025 helped by stronger real income growth and lower policy interest rates (Table 1.1). The overall macroeconomic policy mix is nonetheless expected to remain restrictive in most economies, with real interest rates declining only gradually and mild fiscal consolidation in most countries over the next two years. China is an important exception, with low interest rates and significant additional fiscal support now appearing likely in 2024 and 2025. The divergence across economies is expected to persist in the near term but fade as the recovery in Europe becomes more firmly based, and growth moderates in the United States, India and several other emerging-market economies. Annual consumer price inflation in the G20 economies is projected to ease gradually, helped by fading cost pressures, declining to 3.6% in 2025 from 5.9% in 2024. By the end of 2025, inflation is projected to be back on target in most major economies.

The overall risks around the outlook are becoming better balanced, but substantial uncertainty remains. High geopolitical tensions remain a significant near-term adverse risk, particularly if the evolving conflicts in the Middle East were to intensify and disrupt energy and financial markets, pushing up inflation and reducing growth. Further reductions in inflation may also be slower than expected if cost pressures and margins remain elevated, particularly in services. This could result in slower-than-expected reductions in policy interest rates, exposing financial vulnerabilities and potentially generating a sharper slowdown in labour markets. Another key downside risk is that the future impact of higher real interest rates proves stronger than anticipated. Debt-service burdens are already high and could rise further as low-yielding debt is rolled over, or as fixed-term borrowing rates are renegotiated. Some sectors, particularly commercial real estate, remain hard pressed, and corporate bankruptcies and defaults are now above pre-pandemic levels in several countries, posing risks to financial stability. Growth could also disappoint in China, either due to the persistent weakness in property markets or smaller-than-anticipated fiscal support over the next two years, although activity could be stronger than expected if fiscal support is extensive or well-targeted. On the upside, demand growth could prove stronger than expected, especially in advanced economies if households and corporates draw more fully on the savings accumulated during the pandemic. Continued strong labour force growth in many countries might also enable inflation to fall more quickly than anticipated.

Against this backdrop, the key policy priorities are to ensure a durable reduction in inflation, establish a fiscal path that will address rising pressures, and undertake reforms to raise sustainable and inclusive growth in the medium term.

- Monetary policy needs to remain prudent to ensure that underlying inflationary pressures are durably contained. Scope exists to lower nominal policy interest rates this year and next as inflation declines, but the policy stance should remain restrictive in most major economies for some time. With real interest rates currently high, policy interest rates will need to move towards neutral levels as inflation returns to target to ensure that growth does not weaken excessively and inflation does not undershoot. In Japan, a gradual increase in policy interest rates would be appropriate in 2024-25 provided inflation settles at 2%, as projected. Easier global financial conditions enhance policy space in emerging-market economies, but the pace of rate reductions will need to remain cautious to maintain anchored inflation expectations and avoid disruptive capital outflows as yield differentials narrow with the advanced economies.

- Governments face mounting fiscal challenges from rising debt and sizeable additional spending pressures from ageing populations, climate change mitigation and adaptation, defence and the need to finance new reforms. Debt-service costs are also increasing as low-yielding debt matures and is replaced by new issuance. Without action, future debt burdens will rise significantly. Few countries appear likely to achieve a sustained primary budget surplus in the near term, making it challenging to stabilise debt. Stronger efforts to contain spending, enhance revenues, and increase growth would improve debt sustainability and resilience, and preserve the resources needed to support climate and distributional goals.

- The foundations for future output and productivity growth need to be strengthened. Ambitious structural policy reforms are required to improve educational outcomes, enhance skills development and innovation, and reduce the constraints in labour and product markets that impede investment and labour force participation. Strengthening skills, removing obstacles to the entry and expansion of new firms, and well-designed science and technology policies are all essential to help countries strengthen their innovative capacity and to maximise the benefits gained from adopting technologies and ideas developed elsewhere. New general-purpose technologies, such as artificial intelligence, can enhance the productivity of capital.

- In an interconnected world, enhanced multilateral co-operation is needed to help knowledge and innovation spread, strengthen global trade, ensure faster and better co-ordinated progress towards decarbonisation, and help reduce debt burdens in lower-income countries. Trade and industrial policy choices should strive for more resilient global value chains without eroding the potential benefits for efficiency and innovation, or overlooking the income gains from lowering other trade barriers, especially in services and digital sectors. Faster progress towards decarbonisation is also essential. Innovation is one essential pillar of policy efforts, helping to lower the cost of new technologies. Increasing green and digital infrastructure investment, strengthening standards to enable a reduction in emissions, and raising the scope and level of carbon pricing are other key areas for policy action.

Table 1.1. Global GDP growth is projected to remain steady this year and next

	Average 2013-2019	2022	2023	2024	2025	2023 Q4	2024 Q4	2025 Q4
				Per cent				
Real GDP growth[1]								
World[2]	3.4	3.4	3.1	3.1	3.2	3.3	3.1	3.2
G20[2]	3.5	3.1	3.4	3.1	3.1	3.6	3.0	3.1
OECD[2]	2.3	3.0	1.7	1.7	1.8	1.7	1.7	1.9
United States	2.5	1.9	2.5	2.6	1.8	3.1	1.8	1.9
Euro area	1.9	3.5	0.5	0.7	1.5	0.0	1.2	1.6
Japan	0.8	1.0	1.9	0.5	1.1	1.3	1.0	1.0
Non-OECD[2]	4.4	3.7	4.4	4.2	4.3	4.7	4.3	4.2
China	6.8	3.0	5.2	4.9	4.5	5.6	4.7	4.5
India[3]	6.8	7.0	7.8	6.6	6.6			
Brazil	-0.4	3.1	2.9	1.9	2.1			
OECD unemployment rate[4]	6.5	5.0	4.8	5.0	5.0	4.9	5.1	5.0
Inflation[1]								
G20[2,5]	3.0	7.9	6.3	5.9	3.6	5.3	4.5	3.1
OECD[6]	1.6	9.4	7.1	4.8	3.5	5.7	4.1	3.1
United States[7]	1.3	6.5	3.7	2.4	2.0	2.8	2.5	1.9
Euro area[8]	0.9	8.4	5.4	2.3	2.2	2.7	2.3	2.0
Japan[9]	0.9	2.5	3.3	2.1	2.0	2.9	1.6	2.0
OECD fiscal balance[10]	-3.2	-3.3	-4.8	-4.5	-4.1			
World real trade growth[1]	3.4	5.3	1.0	2.3	3.3	1.9	2.5	3.5

1. Per cent; last three columns show the change over a year earlier.
2. Moving nominal GDP weights, using purchasing power parities.
3. Fiscal year.
4. Per cent of labour force.
5. Headline inflation.
6. Moving nominal private consumption weights, using purchasing power parities.
7. Personal consumption expenditures deflator.
8. Harmonised consumer price index.
9. National consumer price index.
10. Per cent of GDP.

Source: OECD Economic Outlook 115 database.

StatLink https://stat.link/bavhzq

Recent Developments

Global activity has proved surprisingly resilient so far

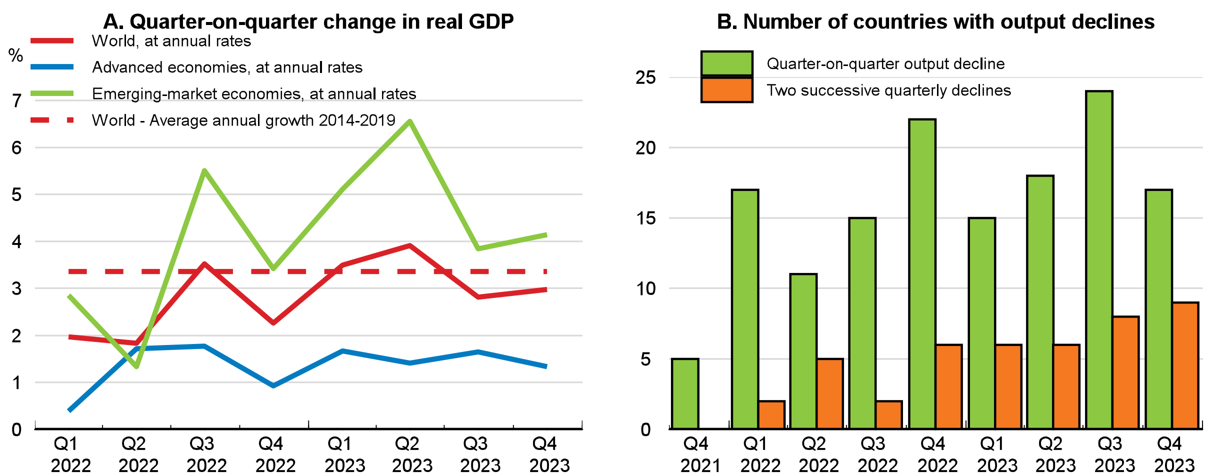
Global growth in 2023 continued at an annual rate of a little over 3% despite the drag exerted by tighter financial conditions and other adverse factors, including the ongoing war in Ukraine and the evolving conflicts in the Middle East (Figure 1.1, Panel A). This was similar to the rate prevailing in the immediate pre-pandemic period and considerably better than projected a year ago.[1] Still, the resilience of the global economy has not been universal. Growth was robust in the United States, driven by strong household consumption and unexpectedly expansionary fiscal policy, and in many large emerging-market economies, but weakened in many other advanced economies, especially in Europe, and in low-income countries as a group. A rising number of economies experienced a technical recession in 2023, with two or more

[1] Global growth in per capita terms in 2023 was slightly above the pre-pandemic pace, reflecting slower global population growth than on average per annum over the 2010s.

consecutive quarterly output declines (Figure 1.1, Panel B). Output declined in 12 OECD economies over the year to the fourth quarter, including Germany and the United Kingdom, and stagnated in the euro area. This weakness in Europe reflects the lingering effects from the large energy price shock in 2022 and the slowdown in credit growth in economies with a relatively high dependence on bank-based financing. Growth was resilient in Japan in 2023, helped by still-accommodative monetary policy and a mildly expansionary fiscal stance, but slowed in the latter half of the year.

Amongst major emerging-market economies, (expenditure-based) GDP growth was buoyant in India, helped by strong public investment, and Indonesia, and surprised on the upside in Brazil, Mexico and Türkiye, despite tighter financial conditions. Growth also strengthened in China in the first quarter of 2024, with policy stimulus measures helping to offset continued weakness in property markets. In contrast, outcomes have remained weaker in several vulnerable countries, amidst restrictive financial conditions and growing signs of adverse effects from climate disruptions. Although the strong El Niño event that began in mid-2023 yielded a string of global temperature records, making 2023 the warmest year in modern history, it did not have much effect on global agricultural output or commodity prices. Regional effects have, however, been large in some cases. Severe drought in Southern Africa has sharply reduced grain harvests and resulted in water shortages and power cuts. This is one factor in the disappointing growth of low-income countries as a group in 2023.

Figure 1.1. Global growth held up in 2023, but some economies experienced a recession



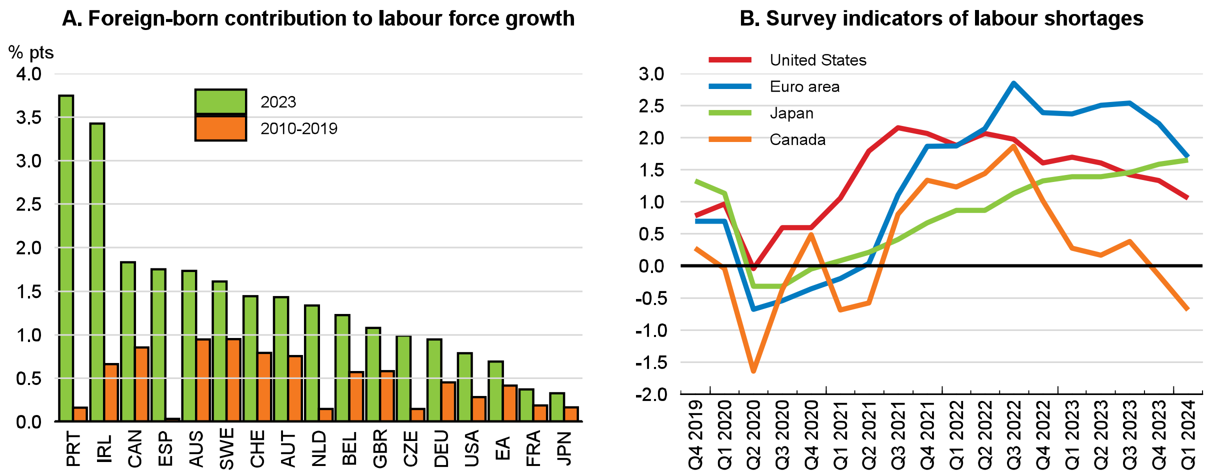
Note: In Panel A, the global, advanced economy and emerging-market economy aggregates are derived using moving PPP weights. Panel B count based on 58 advanced and emerging-market economies.
Source: OECD Economic Outlook 115 database; and OECD calculations.

StatLink https://stat.link/89tobs

Positive supply-side developments in many advanced economies have also helped to underpin growth. 2023 was a year of exceptionally large migration inflows in some OECD economies, including the United States, the United Kingdom, Canada, Spain and Australia. This had positive effects on the availability of workers, boosting overall GDP growth (Figure 1.2, Panel A). However, per capita GDP growth rates were much lower, and in some cases negative.[2] Output per worker also declined in 2023 in all of these economies, with the exception of the United States.

[2] Canada, Colombia, the Netherlands, New Zealand, Poland and the United Kingdom all had positive real GDP growth in 2023 but a decline in real GDP per capita.

Figure 1.2. Strong immigration has boosted the labour force in some countries, and labour shortages have generally eased



Note: In Panel A, the figure shows the contribution of the growth of the foreign-born labour force to total labour force growth. Annual average contribution for 2010-19. The labour force corresponds to the population aged 15 and over either in or seeking employment. In Panel B, the data are standardised national survey indicators: the percentage of small firms with at least one hard-to-fill job (United States); the inverse of the employment conditions diffusion index in the Tankan survey for all firms in all industries (Japan); the share of firms reporting labour as a factor limiting their production (euro area); and the percentage of firms reporting labour shortages (Canada). For the euro area the answers for services and industries have been aggregated using their respective share in gross output. The standardisation is constructed to yield an average of zero and a standard deviation of 1 over the period 2003-2023. A decline represents an easing in labour shortages.
Source: Australian Bureau of Statistics; Bank of Canada; Bank of Japan; Statistics Canada; Eurostat; European Commission; UK Office of National Statistics; US Bureau of Labor Statistics; US National Federation of Independent Businesses; and OECD calculations.

StatLink https://stat.link/h31csk

Strong labour force growth, and labour participation rates rising to a record high in the OECD as a whole in 2023, have helped supply and demand conditions in labour markets become better balanced, although conditions still remain relatively tight. Employment growth has slowed, the number of vacancies has declined, and total hours worked have eased in some countries, but unemployment rates generally remain close to historical lows. Vacancy-unemployment ratios are also still above pre-pandemic norms in many countries, including the United States, the Netherlands, Norway and Belgium.[3] Survey evidence suggests that firms now have fewer pressing labour shortages (Figure 1.2, Panel B), although earlier difficulties in recruiting workers with suitable skills may encourage companies to retain workers unless demand weakens substantially.

Nominal wage growth is now moderating in most countries as inflation declines, Japan being one exception, with the outcome of the spring wage round pointing to sizeable base pay gains of over 3½ per cent for union employees over the next year. Even so, with productivity growth remaining weak in many countries, the growth of unit labour costs often remains above levels compatible with inflation settling durably at 2%. Over the year to the fourth quarter of 2023, based on the OECD countries with available data, unit labour costs are estimated to have risen by 6.7% in the median economy. By contrast, unit profits

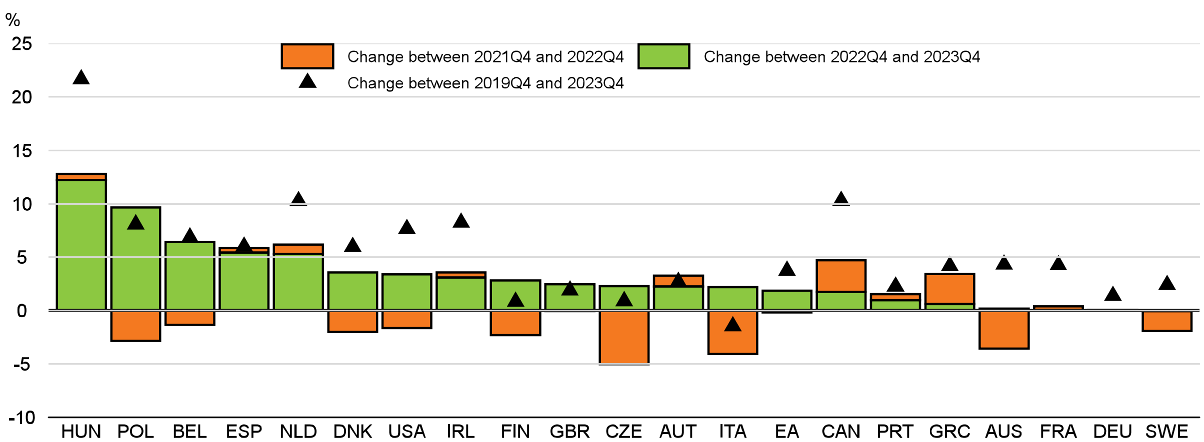
[3] There is a question of whether migration flows have been fully reflected in labour market data. For example, recent estimates from the Congressional Budget Office of net migration to the United States are well above those of the Census Bureau, used by the Bureau of Labor Statistics in its employment reports (Edelberg and Watson, 2024). An inability of surveys to fully capture new additions to the labour force may help to explain why wage growth has tended to moderate even as recorded unemployment rates remain low.

fell by 0.2% in the median OECD economy in the same period. This decline in unit profits comes after the strong rise of 8.8% in unit profits in 2022.

Continuing employment growth, high nominal wage growth and falling inflation have recently generated a recovery in real household disposable incomes in many OECD economies. Nonetheless, the situation varies across countries, with real income stagnation in Australia, France, Germany and Sweden over the year to the fourth quarter of 2023 (Figure 1.3). The gradual revival of real incomes has helped to underpin consumers' expenditure. Even so, private consumption growth in 2023 was modest in all major OECD economies with the exception of the United States, where the stock of excess household savings continued to fall (OECD, 2024a), delivering robust spending growth. Amongst the emerging-market economies, consumer spending growth was also robust in Brazil, Costa Rica, India, Indonesia and Türkiye.

Figure 1.3. Real income growth has started to recover in many countries

Growth of real household disposable income



Note: Gross nominal household disposable income deflated by the private consumption deflator. For Austria, Belgium, Czechia, Greece, Ireland, the Netherlands and Poland, data for 2023Q4 are OECD Economic Outlook projections. Countries shown are ones with data available up to at least 2023 Q3.
Source: OECD Economic Outlook 115 database; OECD Quarterly non-Financial Accounts by Institutional Sector database; Eurostat; and OECD calculations.

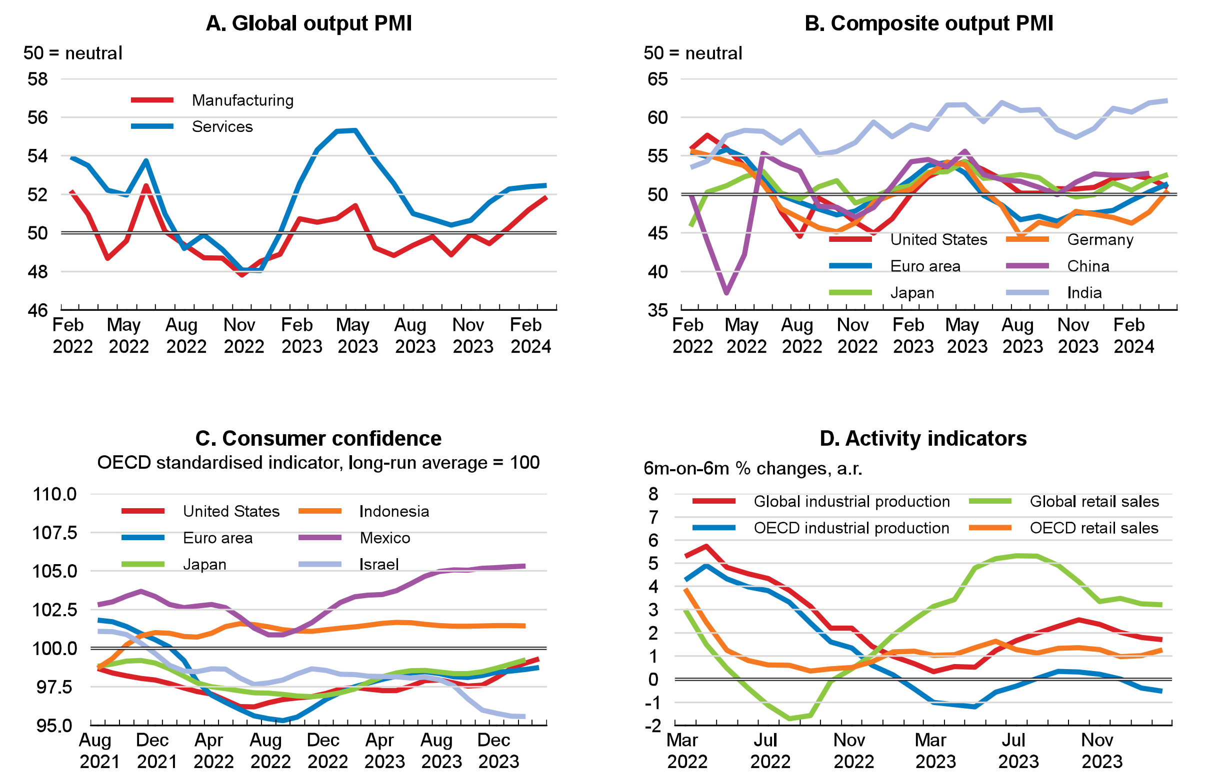
StatLink https://stat.link/zf254k

The rise in interest rates over the past two years has hit activity in the housing market. Between the first quarter of 2022 and the last quarter of 2023, residential investment fell by close to 6½ per cent in the median OECD economy, with even larger declines in some G7 economies, including the United States. The rise in mortgage rates has also been reflected in falling real house prices in many countries, and a drop in nominal prices in a few, including Denmark, Finland, Germany, Korea, New Zealand and Sweden. Even where prices have remained near their peaks, the volume of transactions has often contracted sharply (OECD, 2024a), with many sellers preferring to keep properties off the market rather than accept a lower price. In several European economies, including Türkiye, as well as Korea and China, the volume of transactions has declined by between 20-30% since the start of 2022.

Business investment has generally held up better since interest rates began to increase, but by the second half of last year there were increasing signs of weakness: three-quarters of OECD economies with available data had falling private non-residential fixed investment by the last quarter of 2023. Corporate profit levels continued to be supported by resilient global growth in 2023, but the strong upturn seen in 2022 has at least partially reversed in many countries. Subdued credit growth, rising debt-service payments, and a decline in business dynamism are all factors that could moderate business investment growth for some time.

Recent monthly indicators have been mixed across countries, but collectively suggest that the moderation in global growth around the turn of the year has bottomed out. Business surveys point to improving activity in both manufacturing and services, helped by strong momentum in India and signs of stronger outcomes in China and most major advanced economies (Figure 1.4, Panels A and B). Consumer confidence is improving, but remains subdued relative to long-term norms in most major advanced economies, as well as in China (Figure 1.4, Panel C). There has also been a recent sharp downturn in Israel. But confidence has held up better in many emerging-market economies where growth has remained resilient, including Indonesia and Mexico. High-frequency indicators of consumer spending moderated a little in recent months, though they generally remained resilient. In contrast, industrial production growth generally remained soft outside of China (Figure 1.4, Panel D).

Figure 1.4. Recent activity indicators point to improved confidence but modest growth momentum



Note: In Panels A and B, values below 50 indicate that a balance of firms reports a contraction in output. The global and OECD aggregates in Panel D are PPP-weighted measures. The retail sales measure uses monthly household expenditure for the United States, the monthly real consumption activity indicator for Japan, and retail sales volumes in other countries.

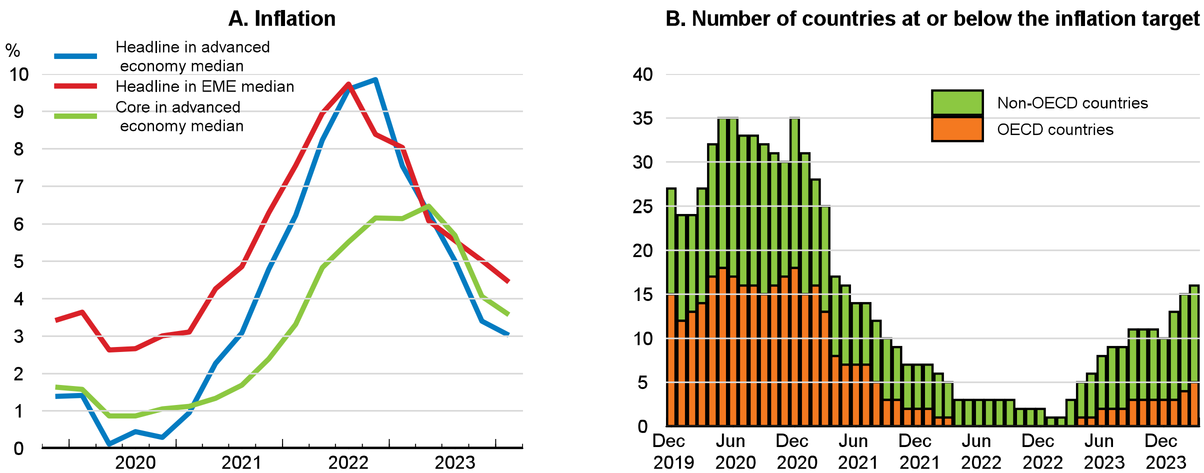
Source: OECD Economic Outlook 115 database; S&P Global; OECD Main Economic Indicators database; Bank of Japan; and OECD calculations.

StatLink https://stat.link/d9v582

Inflation has fallen towards targets, but some pressures persist

Headline inflation fell rapidly in most economies during 2023 (Figure 1.5, Panel A), helped by generally restrictive monetary policy settings, lower energy prices and continued easing of supply chain pressures. Food price inflation also came down sharply in most countries, as good harvests for key crops such as wheat and corn resulted in prices falling rapidly from highs reached after the start of the war in Ukraine. Average inflation in the median advanced economy fell from 9.9% in the last quarter of 2022 to 3% in the first quarter of 2024. Annual inflation was also generally easing among emerging-market economies except for Argentina and Türkiye, where inflation has risen further into 2024. However, recent month-on-month increases in these countries have begun to moderate. Inflation in China has remained very low, standing at 0.1% in March. Headline inflation is now at or below target in about a third of economies worldwide (Figure 1.5, Panel B).

Figure 1.5. Inflation pressures continue to ease



Note: In Panel A, advanced economy median and emerging-market economies (EME) median denote the median inflation rate in the advanced economies and the emerging-market economies respectively. Based on 34 advanced economies and 16 emerging-market economies. Panel B covers 22 OECD economies (the euro area is included but no individual euro area member countries) and 25 non-OECD countries. For central banks targeting a range, the mid-point was used.
Source: OECD Economic Outlook 115 database; OECD Consumer Price database; Eurostat; various Central Banks; and OECD calculations.

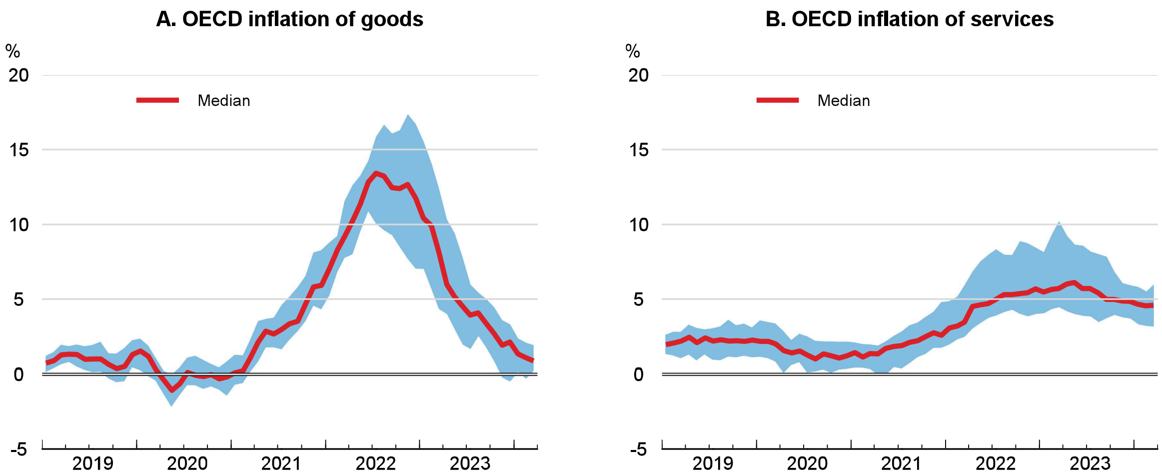
StatLink https://stat.link/1rb0xn

Measures of underlying inflation, including core inflation (excluding food and energy), trimmed means and median inflation, have also moved down over the past year, but more slowly than headline inflation. Core goods price inflation has generally fallen steadily, but services price inflation has been stickier, remaining well above pre-pandemic averages in most OECD countries (Figure 1.6). In part this reflects the greater weight of unit labour costs in many services, as well as higher unit profits in some sectors. As of March, annual services price inflation remained at 4% in the United States (based on the PCE) and the euro area, and over 6% in several countries in Central and Eastern Europe.

One widely used approach to assess the contributions to inflation from supply and demand factors (Shapiro, 2022; OECD, 2024a) suggests that both supply-driven and demand-driven price changes continued to make positive contributions to inflation up to the fourth quarter of 2023 in a range of advanced economies. However, relative to a year earlier, when annual inflation was higher, the contributions of supply-driven items have fallen by more than the demand-driven contributions (Figure 1.7). These estimates suggest that in most of these economies, the bulk of the disinflation seen over the past year corresponds to an easing of supply-driven inflation. In part, this may reflect the inflation measure being used for the analysis (private consumption deflators in the national accounts) as these include food and energy where supply factors are particularly important. At the same time, analyses of core inflation in the United States (Konczal, 2023) and the euro area (Bańbura et al, 2024) find that disinflation in core prices (excluding food and energy) has also been primarily supply-driven. Such findings do not mean that the tightening of monetary policy since early 2022 has had little effect, not least because softer demand will have contributed to the easing of some supply-side pressures on inflation, but may suggest that the disinflationary effect of squeezed demand has yet to be fully felt.[4]

Figure 1.6. Goods price inflation is back to normal levels, but services price inflation is still high

OECD median and inter-quartile range



Note: Based on national consumer price index data for 28 OECD countries. The blue shaded areas show the range between the 1st quartile and the 3rd quartile.
Source: OECD Consumer Prices database; and OECD calculations.

StatLink https://stat.link/6mnxrg

[4] It could also have been that, in the absence of a tightening of monetary policy, the contribution of demand-driven factors would have increased.