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Global Economic Outlook 2021

In a nutshell:

We have upgraded our global growth forecasts following the rapid vaccine roll-out in parts of the world and substantial fiscal stimulus, especially in the US. In addition to the 1.9$ trillion America Rescue plan, we expect a "Build Back Better" Program that should provide a USD2.5trn in additional fiscal stimulus over the next 10 years. This suggests that US real GDP growth should be at 6.9% and 4.7% in 2021 and 2022 respectively. We also expect European growth to exceed market expectations, closing the gap with the US. The UK growth is expected to exceed the Eurozone while Japan will be lagging. In contrast, we have turned more cautious on China where growth should stay high but slow in 2022. That is also broadly the case for the other emerging economies.

We expect a temporary acceleration in inflation and inflation expectations. The persistent labor market slack is expected to prevent a durable acceleration in wage growth. Structural forces such as digitalization and demographics will also limit upside pressures. US inflation should move to 2.5% this year but fall back to 2.2% in 2022. In the Eurozone, we expect 1.7% and 1.4% respectively. UK inflation should gradually converge to 2%. In Japan prices are not expected to grow and even fall temporarily. Except for China, most emerging economies should see their inflation rate fall back in 2022 after a temporary rise this year.

OUR GDP & INFLATION FORECASTS

BNP Paribas Forecasts

GDP Growth %	2019	2020	2021	2022
United States	2.2	-3.5	6.9	4.7
Japan	0.3	-4.8	3	2.3
United Kingdom	1.5	-10.2	6.1	6
Eurozone	**1.3**	**-6.8**	**4.2**	**5**
Germany	0.6	-5.3	3	4.8
France	1.5	-8.2	6.1	4.4
Italy	0.3	-8.9	5	3.9
Emerging				
China	6.1	2.3	9.2	5.3
India*	4.2	-7.2	12.5	4.1
Brazil	1.1	-4.1	2.5	3
Russia	1.3	-4.5	4	3

* Fiscal year
Source: BNP Paribas – 02/04/2021

BNP Paribas Forecasts

CPI Inflation %	2019	2020	2021	2022
United States	1.8	1.2	2.5	2.2
Japan	0.5	0.0	-0.3	0.0
United Kingdom	1.8	0.9	1.4	2.1
Eurozone	**1.2**	**0.3**	**1.7**	**1.4**
Germany	1.4	0.4	2.1	1.5
France	1.3	0.5	1.4	1
Italy	0.6	-0.1	1.5	1.4
Emerging				
China	2.9	2.5	1.8	2.8
India*	4.8	6.2	4.9	4.6
Brazil	3.7	3.2	6.5	4
Russia	4.3	3.4	5.1	4

* Fiscal year
Source: BNP Paribas – 02/04/2021

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US: Reflation, reopening and fiscal stimulus is leading to a strong growth year.

In the US, the 1.9 trillion$ fiscal stimulus to boost the recovery and the 2.5 trillion$ Infrastructure plan "Build Back Better" are likely to boost growth in 2021 and the next years. The infrastructure plan is actually not only about infrastructures but is targeted at helping minorities, unemployed, disabled and elderly people. The allocation would be 621 billion$ for transportation infrastructure, to develop electric vehicles infrastructures, to fix roads and the bridges. 650 billion$ will be allocated to the quality of life at home while remote working on American homes, school buildings, underground water infrastructure and broadband expansion. 400 billion$ are for caregivers for elderly and people with disabilities. 300 billion$ are aimed to research, development and manufacturing. Joe Biden wants to raise the corporate tax rate to 28% and increase the minimum tax on US multinational corporations to 21% to pay for the plan.

The vaccination progress in the US is very important and turbo charged the US economic outlook. More than one third of the population (36%) received at least one dose while 22% of the population is fully vaccinated. More than two third of the elderly (above 65 years old) received at least one dose (78.5%) while 61% of them received the two doses. The progress is very encouraging for the future and we expect the US to achieve herd immunity by the summer.

We expect a peak in growth in Q2 and Q3 with over 5.3 million new jobs created and headline inflation to rise temporarily to 3% y/y. Most of the bounce in inflation is related to transitory forces. These are mainly base effects, higher energy prices and supply-chain constraints. The slack in the job market will take time to reverse and this should prevent an unanchoring of inflationary expectations.

We expect the Fed to remain dovish in 2021. The Fed strongly signalled its intention to look through any near-term strength in growth and inflation and to wait of a sustained rise in inflation and improvements in labour markets before tightening. Financial conditions would stay relatively accommodative and support the recovery.

We believe Fed would start tapering asset purchases in H1 2022 but won't raise hike rates until H2 2023 after four consecutive quarters of above 2% inflation (the target). We recently revised our 12-month target for the 10-year yield on US government bonds to 2% (from 1.4%).

Eurozone: Vaccination is accelerating and full recovery is in sight

Eurozone is catching up and we still expect a strong recovery in from the summer on when herd immunity should be achieved. GDP will likely recover to pre pandemic levels in 1Q22. However, there should be permanent scarring of the Covid-19 crisis but less than previously envisaged. Short-term, the outlook isn't very positive as the vaccination process has been slower than expected during 1Q and sanitary restrictions may last longer and could even be extended until summer. In the second half of the year, we expect a strong recovery with the pent-up demand, fiscal stimulus measures and a very accommodative ECB.

Inflation should rise and temporarily reach 2%. As elsewhere, base effects, higher energy prices, supply disruptions and a release of pent-up demand are likely to be main sources of price increases. Even if this is temporary forces, the gradual return to normal will likely create a favourable policy mix and higher inflation expectations. The structural weakness on the job market should lead to a fall back below inflation during 2022. The full-year forecasts are 1.7% and 1.4% for this and next year respectively.

The ECB will stay dovish for a while. We expect the ECB to have fully exhausted the current 1.85 trillion€ envelope of the PEPP in March 2022. We believe that, after the PEPP, the ECB will add flexibility to its asset purchases under the APP (Asset Purchase Programme) to provide some indication on the pace of purchases as a function of the inflation outlook, while retaining the option to temporarily increase purchases to prevent any unwarranted tightening in monetary conditions. We recently revised our 12-month target for the 10-year yield on German government bonds to 0% (from -0.25).

UK: Herd immunity and economic recovery

Ahead of the Eurozone, the UK vaccinated almost 50% of the population with at least one dose (48.28%). The country has already eased the sanitary restrictions in the first quarter and we can expect a return to a more normal situation during summer. The stage is set for a strong near term recovery, aided by the additional fiscal stimulus announced in the March budget, as well as by the large stock of 'excess' household savings (about 6% of GDP in 3Q20 and probably higher now). Expectations of reopening pushed the Services business survey (PMI) from negative territory to 56.8. Economic growth is expected to very strong, around 6%, both this and next year.

We expect the UK inflation to reach the 2% inflation threshold towards the end of the year. It should move sharply higher in the coming months. We see near-term risks as skewed to the upside, given the extent of pent-up demand. We forecast 1.4% this year and 2.1% next year.

We expect the Bank of England to taper its asset purchases over the second half of this year and to stop net purchases by year end. We also expect new guidance ultimately to provide the central bank with more flexibility to tighten policy through either the balance sheet or rate hikes. That said, while the next move on rates looks set to be a tightening, we think the MPC will move cautiously and we do not expect it to raise the policy rate before H2 2023.

Japan: Recovery but low inflation

We expect activity to return to pre-pandemic levels in at the end of this year. This is sooner than we had previously though, thanks to less defensive consumer behaviour and stronger exports. We think it will take until 4Q22 for the economy to return to the level prevailing before the consumption tax hike in 3Q19.

As elsewhere, base year effects are set to provide a temporary boost to the Q2 inflation rate. We expect 0.5 pp, mostly due to higher energy prices but this is likely to be offset by substantial falls in mobile phone charges, leaving CPI inflation in negative territory.

We envisage a FY2021 extra budget in the order of 2% of GDP, and do not expect a major fiscal cliff before the end of our 2021-22 forecast horizon. In our view, the BoJ will not deepen the negative rate unless the yen appreciates sharply. The chance of this looks to have fallen further as US interest rates have risen.

Emerging market: The momentum could weaken

In China, following the solid post-Covid rebound, we expect growth to settle down to a slower 1.2%-1.5% q/q over the next few quarters. We think risks to this forecast are balanced. On the upside, the release of pent up consumption demand and export resilience might exceed expectations. On the downside, vaccine implementation might disappoint and financial risk control could trigger credit tightening. We expect economic growth at 9.2% and 5.3% this and next year.

The synchronised global recovery has kept driving up commodity prices and, together with risks of supply chain disruptions, has pushed producer prices strongly higher. Although this will be partially reflected in core CPI inflation, we expect that it is likely to be more than offset by lower pork prices. We expect this year's annual CPI rate to be lower than last year and to miss the government target of 3%. Taking producer prices and base effects into consideration, however, consumer price inflation could accelerate above 3% in Q4. We expect consumer price inflation at 1.8% and 2.8% this and next year.

We expect only a marginal slowdown in the broad credit gauge, with total social financing growing by about 11% this year after last year's 13.3%. We expect the policy rate (1y MLF) to remain unchanged at 2.95% until the end of 2022.

In Brazil, the country faces a combination of weak growth and high inflation, while the central bank surprising with the timing and extent of its tightening as it tries to anchor inflation expectations. A strong second Covid-19 wave has started to affect mobility and the economy, exacerbated by the lack of vaccine supply. We expect Brazil to face two quarters of GDP contraction, and our below consensus full year forecast is a rate growth of 2.5% and 3% in 2021 and 2022 respectively.

Our inflation projection for this and next year are 6.5% and 4%. We see a continued risk of inflation expectations becoming unanchored.

Rather than normalising monetary policy in one cycle, the central bank might be able to follow March's 75bp hike with a sequence of hikes to bring the Selic rate to 5.0% by September and then pause, resuming in 2022 to take it to 6.5%.

In Russia, the country will remain committed to a low debt, surplus path setting it apart from other emerging economies. The country has one of the strongest macroeconomic fundamentals in the Emerging world.

Our forecast is for a primary budget deficit of just 1.1% of GDP this year and a 2022 surplus. The balance will likely be a function of soaring crude price revenues rather than spending cuts, which we expect to be delayed until after this September's general election. With domestic consumption constrained, the upside for growth should be limited. We see GDP growth of 4.0% in 2021 before it slows to sluggish pre-Covid trends with 3% in 2022.

Higher inflation is the one weaknesses of Russia. We recently increased our average 2021 CPI forecast to 5.1% well above consensus. In 2022 it should stabilize at 4%. We now expect Russia's policy rate to be increased by 100bp during 2021 overall.

In South Africa, one of the weaker links in the high beta EM world, the country looks to many market participants as especially vulnerable to a less benign global interest rate outlook. However, a number of differentiating factors set it apart from some other EM economies facing more acute pressures to 'normalise' rates this year.

Economic growth is expected at 3% and 1.7% this and next year. Inflation should be at 4% this and next year.

We now expect the first 25bp hike by the central bank in January 2022.

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