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Global Economic Outlook 2021

In a nutshell:

Globally our views remain unchanged, with a sharp acceleration of economic activity from the second quarter 2021 onwards.

Economic growth will be driven by government expenditure supporting improvements in consumer and business sentiment. Indeed, this should lead to a gradual rise in private consumption and a sharp rebound in business investment. Pent-up demand and the rebuilding of inventories will also be supportive. Monetary policy will keep both interest rates and bond yields low for the foreseeable future.

We keep our economic growth outlook for 2020 broadly unchanged compared with our previous outlook.

For 2021, we have upgraded the outlook for the US while revising it down for the eurozone, UK and Japan. In industrialised countries, 2022 growth should be higher than in 2021. This should not be the case in emerging economies.

Our inflation forecasts remain broadly unchanged for 2020 and 2021. The inflation rate is assumed to be only marginally higher in 2022.

The expanding fiscal policy is likely to push long-term nominal bond yields higher mainly via inflation expectations. Central banks will however cap any surge.

We keep our 12-month government bond yield forecast of -0.25% for Germany and 1.40% for the US.

HEADING OF THE CHART

	BNP Paribas Forecasts			
GDP Growth %	**2019**	**2020**	**2021**	**2022**
United States	2.2	-3,6	4,2	4,1
Japan	0,3	-5,3	1,1	3
United Kingdom	1,5	-11,1	4	8,6
Eurozone	**1.3**	**-7,3**	**3,8**	**5,5**
Germany	0,6	-5,6	2,7	5,1
France	1,5	-9	5,5	4,7
Italy	0.3	-9	4,5	4,4
Emerging				
China	6,1	2,3	9,5	5,3
India*	4,2	-11,4	11,6	5
Brazil	1,1	-4,5	3	3
Russia	1,3	-4,5	3,8	3

* Fiscal year
Source: Refinitiv - BNP Paribas 15/01/2020

	BNP Paribas Forecasts			
CPI Inflation %	**2019**	**2020**	**2021**	**2022**
United States	1,8	1,3	1,9	1,9
Japan	0,5	0,0	-0,4	-0,3
United Kingdom	1,8	0,9	1,5	2,1
Eurozone	**1,2**	**0,2**	**0,8**	**1,3**
Germany	1,4	0,4	1,3	1,2
France	1,3	0,5	0,6	1,2
Italy	0,6	-0,2	0,5	1,3
Emerging				
China	2.9	2,6	2,3	2,8
India*	4,8	5,8	4,3	3,8
Brazil	3,7	3,1	4	4
Russia	4,3	3,4	3,5	3,5

* Fiscal year
Source: Refinitiv - BNP Paribas 15/01/2020

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US: Positioning for strong rebound over 2021

Even with the arrival of a vaccine, it will still take some months for the US to overcome the shock of the Covid-19 pandemic. Recent developments have highlighted the challenges associated with the implementation and effectiveness of large-scale vaccine deployment. Large urban areas remain heavily affected. After months of improvement, the mobility indices provided by Google and Apple show a downturn in activity. The manufacturing sector has however benefited from the recovery of international trade, particularly with Asia. In addition, residential construction has benefited from extremely favourable credit conditions. The recovery in Asia and the fact that most factories are operating close to full capacity during the current lockdown will limit the negative impact on economic growth in the last quarter of 2020. The personal services sectors, such as hospitality, education, leisure and transport, continue to suffer and depend on the improvement on the pandemic front. The key for our optimistic scenario is the assumption of a bigger fiscal stimulus in the US following the final election result in Georgia. With positive signals from the earlier stimulus programmes coming in, both consumer and business confidence should improve and lead to a gradual recovery in consumer demand and business investment. This should generate so-called “multiplier effects”. Further support will come from the expansionary monetary policy that will maintain both short- and long-term rates extremely low. Long-term nominal bond yields should move a bit higher via higher inflation expectations. Central banks will however cap any surge. We keep our 12-month bond yield target of 1.40% for the yield on the benchmark 10-year government bond. We see GDP contracting by -3.6% this year before firmly rebounding by 4.2% (3.7% previously) in 2021 and 4.1% in 2022. US inflation will remain low, broadly in line with our previous outlook. Our inflation forecasts remain unchanged with 1.3% in 2020 followed by 1.9% this and next year. The main short-term risk is that the more contagious variants of the virus spread faster than the speed of the vaccination campaign. This implies more lockdowns compared with the current base case. This should however be limited over time. Looking forward, the expanding fiscal policy is likely to push long-term nominal bond yields moderately higher mainly via inflation expectations. Central banks will however cap any surge, in our view. We keep our 12-month government bond yield forecast of -0.25% for Germany and 1.40% for the US.

Eurozone: Vaccine as a way out of the crisis

In the Eurozone, the pandemic has led to a deeper fall in economic activity. As in the US, the second lockdown was less severe in that regard. Indeed, the recovery in Asia and the fact that most factories operated at high capacity support manufacturing activity. Services suffered relatively more. The effects of the government expenditure programmes will be seen with an 8-12-month delay which suggests that a gradual improvement should become visible in the data around the second quarter of 2021 with the same beneficial multiplier effects as described for the US. We see GDP growth at -7.3% in 2020 (-7.5% in our previous outlook) and then rebounding by 3.8% in 2021 (5.6% before). Growth is expected to rise further to 5.5%.

The Covid-19 pandemic has caused inflation to fall and, in most eurozone countries, has increased differences in inflation between sectors. Inflation should start rising in 2021, very gradually with a full year figure of 0.8% and reaching 1.3% in 2022. Based on these figures, the European Central Bank will have little reason to change its policy stance and will remain exceptionally accommodative throughout our forecast horizon. As for the US, monetary policy will thus limit the rise in bond yields. We keep our 12-month bond yield target of -0.25% for the yield on the 10-year government bond.

UK: Some Improvements after the Brexit deal

The news of a Brexit deal has reduced the uncertainty surrounding the UK economy, and supported our forecasts for a sustained recovery over 2021 and 2022. There are however many challenges on the horizon regarding the impact of the change in the UK’s trading relationship with the EU. The UK looks set to recover less than its peers given its large services sector and the more restrictive and longer lockdown. We expect a GDP contraction of -11.1% (-11.5% before) in 2020 followed by growth of 4% (6.4% before) this year and 8.6% in 2022. UK inflation is likely to remain positive but still subdued through Q1. We expect inflation to accelerate to 1.5% in 2021 and to 2.1% in 2022. The BoE kept rates on hold, at 0.10%, at its December meeting with the target QE amount of GBP 895bn (including GBP 20bn of corporate bonds). It did not give any further indications of the possibility of lowering rates into negative territory. It extended the TFSME (cheap funding scheme with a four-year maturity for banks which lend to small businesses) by six months. With the Brexit deal, we think the BoE will not need to loosen its policy. The policy rate is likely to remain unchanged for the foreseeable future.

Japan: a slow recovery

The economic shock caused by the Covid-19 pandemic will take a long time to disappear. In spite of less stringent health measures than elsewhere, the fall in Japanese GDP in 2020 will be historic. The expected rebound could be limited. Indeed, consumer confidence and business activity indicators are stagnating, sending mixed signals about domestic demand. Japanese inflation is expected to remain quite low. Its economy should, however, be a beneficiary of the rebound in global growth and trade expected in 2021. Economic policies will remain expansionist, and the resignation of Prime Minister Shinzo Abe is not expected to lead to major changes. These expansionary policies are being implemented in a context of low inflation. We expect negative growth of -5.3% (-5.4% before) in 2020 followed by a limited rebound of 1.1% (1.5% before) in 2021 and a strong rebound in 2022 with 3%. Deflation remains a key concern for the country's future. We now expect 0% and -0.4% in 2020 and 2021 respectively. This would not be very different in 2022 with -0.3%. The Bank of Japan kept its monetary easing policy unchanged in December. The policy rate remains at -0.1% and the 10-year government bond yield target at 0%. It extended its emergency lending programme by six months to September 2021, to help corporate financing, as Japan faces a record spike in new Covid-19 cases. We think the Bank of Japan has announced a review of its easing policy over concerns that a failure to offer anything dovish could put unwelcome appreciation pressure on the yen around year-end. The assessment of "further effective and sustainable monetary easing" to be published in March, is likely to reinforce the BoJ's commitment to persist with monetary easing for an extended period, in our view. It might introduce more flexibility to its asset purchases and perhaps review its three-tier structure for current account deposits with a view to providing greater relief for financial institutions.

Emerging market: China leading the way

PMI surveys suggest a gradual recovery in most emerging markets as of late 2020 with momentum into 2021. Even though the Covid situation has deteriorated in advanced economies notably in Europe, China's expansion has continued offering support via trade and has increased for commodities. Large government expenditure programmes worldwide, supportive monetary policies and the outlook of a weaker dollar offer key support to emerging economies. China has only a limited number of Covid cases every day. High frequency data based on pollution and mobility add evidence of the recovery, especially in the industrial sector. Other growth engines, such property sales, have gained momentum. A number of supply shortages of electricity power since late autumn offer further evidence. Policymakers are keeping the focus on long-term challenges such as export sustainability, renminbi appreciation pressure, financial risks (local government debt), and structural unemployment. To counter this, China intends, with its 14th Five-Year Plan, to promote urbanisation, increase purchasing power, improve the capacity and propensity to consume, and increase public consumer spending. As a result, GDP growth is expected to be 9.5% (8.6% before) in 2021, as the economy is still in a growth recovery phase. Growth should fall to 5.3% in 2022. We forecast inflation of 2.6% in 2020 and maintain our forecast for 2021 of 2.3%. In 2022 we expect a rebound to 2.8%.

In India, a bounce-back in 2021 (11.6%) could recoup the negative growth in 2020 (-11.4%), although we see downside risks from exports and fiscal policy. Inflation is set to slow, as core prices plummet and food prices ease. Our inflation forecast is 5.8% in 2020 and 4.3% in 2021 and even less in 2022 with 3.8%.

Brazil's economic performance was better than we had expected in 2020. But in Q1 it will have to handle the consequences of the aggressive fiscal policy it adopted in response to the pandemic that Brazil has been fighting with a combination of record low interest rates and fiscal stimulus of almost 10% of GDP. Indeed we forecast GDP growth of -4.5% in 2020 and 3% for this and next year. Our inflation forecast is 3.1% in 2020, and 4.0% for this and next year.

Russia will stand out with a credible consolidation plan and rock-bottom debt ratios. We expect larger current account surpluses to ensue from stronger external demand and higher oil prices. Growth is expected at -4.5% in 2020 and 3.8% in 2021. It should fall back to 3% next year. Our inflation forecast is 3.4% for 2020 and 3.5% for this and next year.

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