Global Economic Forecasts

Euromonitor International Analytics

The global economic outlook has improved since q1 2021. Global real gdp growth in 2021 is now expected to be the fastest in more than 40 years, at 5.8% (a 0.5 percentage point upgrade relative to the q1 forecast), followed by 4.5% growth in 2022 (a 0.4 percentage point forecast upgrade).The forecast upgrade is mainly driven by advanced economies, which are now expected to grow by 5% in 2021 (a 1 percentage point increase relative to the q1 forecast) and by almost 4% in 2022 (a 0.7 percentage points forecast upgrade), compared to the long-term trend growth of 1.5%. In contrast, developing economies' real gdp growth rate forecast for 2021–2022 has been raised by just 0.2–0.3 percentage points to 6.5% and 5.0%, compared to the long-term trend of 4.1%. The covid-19 pandemic remains a significant constraint on global economic activity in q2, with ongoing lockdowns and social distancing measures in many countries.However,more targeted lockdowns and greater consumer adaptation, such as online shopping, have reduced the impact of recent lockdowns.

Both pessimistic and optimistic scenarios are becoming less likely as more extensive vaccination campaigns are undertaken in q2–q3. The baseline forecast is now assigned around 66% probability, with pessimistic scenarios of a delayed economic recovery assigned around 28% probability and the optimistic scenario of a faster recovery assigned around 6% probability.

The main downside risks remain the emergence of more contagious coronavirus variants, and the possible spread of variants that are more resistant to the current vaccines.The risk of a vaccine-resistant virus mutation coming from developing economies with ongoing strong pandemic waves and slow vaccination campaigns, such as Brazil or India, is especially concerning.

The US

The US economic outlook has continued to improve, due to the large fiscal stimulus implemented by the Biden administration and rapid progress with coronavirus vaccinations. Real gdp growth in q1 2021 was better than expected, at an annualised rate of 6.4%. This puts economic activity in q1 at less than 1% below its level at the end of 2019. Both consumer spending and business investment experienced strong growth, putting them close to end of 2019 levels as well. **Economic activity is expected to exceed end of 2019 levels in q2 2021**.

Real gdp is now expected to increase by 6.7% in 2021 (two percentage points higher than the previous q1 forecast), followed by 4.3% growth in 2022. This would put US economic activity less than 0.4% below the level forecast for 2021pre-pandemic, rising above the pre-pandemic forecast level in 2022. At the current pace of US vaccinations, US high social contact sectors should mostly normalise from covid-19 effects during the summer of 2021.The US Google Mobility report from early May shows movement in retail and recreation sector locations just 3% below pre-pandemic levels, suggesting the sector has already mostly recovered from the pandemic.

China

China's economy grew by an unprecedented 18.3% year-on-year in q1 2021 (up from 6.5% year-on-year growth in q4 2020). This **rapid growth mainly reflects a recovery** from the large coronavirus-driven economic contraction in q1 2020. Industrial production growth was 24.5% year-on-year, while the services sector's year-on-year growth was a slower 15.6%. Exports increased by 38.7% year-on-year, sustained by the recovery in global trade. Real gdp is now expected to increase by 8.6% in 2021 (0.6 percentage points higher than in the q1 forecast) and by 5.5% in 2022, leaving 2022 economic output 0.5% below the level forecast before the pandemic.

The government has not stated a real gdp growth target for 2021, establishing only a minimum goal of growth above 6%. This signals a reduction in pressure on local governments to boost growth through potentially unsustainable investment or other artificial means, leaving more room for debt reduction and economic rebalancing to consumption. Fiscal policy is still expected to remain accommodative in 2021, with a moderate reduction in the budget deficit.

Japan

The Japanese economy is forecast to expand by 3% in 2021 (a 0.7 percentage points upgrade from the q1 forecast), followed by 2.3% growth in 2022. This baseline scenario is assigned a 61–71% probability. In the first half of 2021, Japan's external sector has been a major driver of economic activity, underpinned by strong overseas demand for cars and electronics. The global vaccine roll-out and robust external demand from the US and China are likely to support growth in Japan's manufacturing sector over 2021. **Recovery in the services sector has been more subdued**, due to surging covid-19 cases and the renewed state of emergency.

The Japanese government approved a record high budget of JPY107 trillion for the 2021 fiscal year to boost economic recovery. In addition, a gradually improving labour market and elevated household savings are set to support private consumption growth over 2021. However, a slow vaccination roll-out could halt the rebound in consumer confidence. Moreover, consumption prospects depend on the fate of the Tokyo Olympic Games.

Japan's inflation is forecast to remain muted and well below the Bank of Japan's target of 2% in the coming years. As a result, the central bank is expected to maintain its ultra-loose monetary policy stance in the medium term to keep borrowing costs low and promote economic recovery amid heightened uncertainty.

The Eurozone

Eurozone real gdp is expected to grow by 3.9% annually over 2021–2022. This would still leave it 3% below the pre-pandemic forecast level in 2022. The Eurozone's economic recovery has been slower than expected in early 2021 due to ongoing social distancing measures, a third coronavirus wave in the spring and delays in vaccination campaigns in q1. Real gdp declined by 0.6% quarter-on-quarter in q1 2021, putting the Eurozone in a technical recession.

EU covid-19 infection rates increased in March, due in large part to the spread of more infectious coronavirus variants, leading to lockdown measures extending in early spring. However, the third Eurozone pandemic wave peaked in mid-April, and lockdown restrictions are gradually being lifted. Earlier vaccine supply bottlenecks have also been solved with new purchase agreements.

A strong recovery is expected in the second half of 2021, backed by the relaxation of social distancing measures in q2–q3, accelerating vaccination campaigns, rising private sector confidence and high accumulated savings to spend. Stronger global export demand and fiscal support, mainly from EU recovery programmes, are also expected to boost economic growth. This baseline forecast is assigned a 61–71% probability.

The UK

In 2020, the UK economy contracted by a record 9.9%. This was the largest economic drop the country has faced since the Great Frost of 1709 and was much deeper than in 2009. Euromonitor International's real gdp growth outlook for 2021 has been revised upwards to 5.5%, owing to faster relaxation of social distancing measures, higher consumer confidence and spending in q2 2021.

The Bank of England is more optimistic, expecting the UK's real gdp growth to reach 7.3%, the highest in more than 70 years. This comes as the UK **records stronger than initially predicted jobless figures and retail sales, including sales online**. Consumption in turn should continue benefiting from high household saving rates.

Real gdp growth has been revised up by 0.4 percentage points to 5.2% for 2022. This comes as the UK has been successful with its vaccination roll-out, allowing for an early ending to strict lockdown in q2 2021, and hence fewer pandemic scars than initially expected. Meanwhile the country's central bank continues to hold interest rates at record low levels.

Downside risks have continued to decline both from covid-19 and other sources in 2021. Pandemic risks are falling as vaccination campaigns continue and the current vaccines appear to remain effective against recently emerging variants. However, their effectiveness against new variants is likely to be lower, and further variants could emerge that require vaccine redevelopment.

The Eurozone recession scenario is meant to capture a more severe contraction with negative annual real gdp decline and an Italexit. These risks have receded as Italy's new government is highly pro-Euro, and the recovery from the pandemic is reducing financial market risks. After several months of the Biden administration, it appears that a major trade confrontation between the US and China is highly unlikely. However, US-China relations will remain tense on several fronts such as technology standards and Taiwan.

While high unemployment is expected to remain a major concern for the UK in 2021, the estimated rate was lowered to 5.9% for the year based on the baseline forecasts. Extension of government support for jobs - primarily an extension of the furlough scheme, which pays employees a portion of their income (up to 80% of the salary, with a maximum of gbp2,500) - up until the end of September 2021 was the main factor in the positive change.

Russia

In 2021, Russian real gdp is expected to rebound by 2.8% according to our baseline forecast scenario. The Russian **economy's recovery will be driven by the easing of covid-19 restrictions, rebounding manufacturing output**, improving confidence indicators, as well as rising global oil prices.

We upgraded the recovery expectation by 0.4 percentage points for 2021 in q2, compared to estimates in the previous quarter. Although the vaccination rate in Russia remains extremely low, the macroeconomic drivers outweigh the negative pandemic factors. We expect Russian economic growth to pick up in the second half of 2021, as previously anticipated.

According to the baseline scenario, we expect the Russian economy to reach 2019 levels in 2022. The country's stimulus package of around 2.6% of gdp will remain an important factor facilitating growth, especially regarding the sme segment, which was badly hurt by the pandemic.

The Central Bank of Russia has increased its monetary rate by 50 basis points since our previous report in March 2021. The Bank stated that the strong recovery in consumer demand was causing inflationary pressures in the country, hence motivating a more active fiscal policy to halt the rise in inflation at an early stage. We anticipate the inflation level in Russia to be close to the Central Bank's target rate of around 4% over the coming years.

Brazil

The severe second wave of coronavirus continues, limiting economic growth. We project real gdp growth to reach 3% in 2021, while our baseline forecast for 2022 has been downgraded to 2.3%. This baseline scenario is assigned a 61–71% probability. With looming risks of a potential third wave of covid-19 and rather low vaccination rates in Brazil, economic activity in the first quarter of 2021 continued declining, although **March recorded a slightly better performance than expected.** The ICB-Br index fell by 1.6% (seasonally adjusted) in March, compared to a projected 3.8% decline.

Stronger inflationary pressures have arisen from increasing commodity prices and consequently rising food and fuel prices. These inflationary pressures are expected to persist over the medium term. The Supreme Court of Brazil has opened an inquiry to investigate President Bolsonaro and his government's response to the covid-19 pandemic, which has already killed more than 400,000 Brazilians. The official investigation might fuel further political tensions in the country, adversely affecting Brazil's economic recovery.

India

India's real gdp growth forecast has been revised down for 2021, as the country struggles with rapidly rising numbers of covid-19 cases during q2 2021. **After a strong economic performance at the end of 2020, India is projected to record 9.4% annual real gdp growth in 2021 and 7.6% in 2022.** The baseline forecast probability stands at 61–71% in 2021.

India's economy continued to grow at the beginning of 2021; however, the baseline forecast anticipates an economic contraction in q2 compared to the previous quarter. The pressure derives from locally-imposed mobility restrictions in light of the escalating health crisis. India's gdp is expected to return to growth in q3 2021 under the baseline scenario.

Inflation is picking up and is predicted to reach 5.4% in q2 2021, compared with 4.3% in q1, affected by rising prices for food, beverages, clothing and footwear. Consumer price growth is to start gradually subsiding from q4 2021 onwards. The inflation level will remain within India's target band, which was confirmed in March 2021 at 4%, with a margin of 2% on either side for the upcoming five years.

Mobility restrictions and weak consumer sentiment are behind elevated unemployment in q2 2021 (6.2% in the baseline scenario). However, the government is resisting imposing a nationwide lockdown for fear of repeating the negative effect on the economy and employment rates observed in 2020, paving the way for an optimistic outlook for gradually shrinking unemployment in q3 2021. ■ *Source : Euromonitor*