Global Economic Outlook November 2021

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GLOBAL ECONOMIC OUTLOOK

Highlights:

GDP growth in the United States dropped from 6.7 percent in the second quarter to 2.0 percent in the third quarter, falling short of the average projection of 2.6 percent. Immunization rates in major industrialized economies vary from 55 to 75 percent, and progress in vaccination initiatives has stalled in some countries.

Brent oil price is expected to remain around USD 71.91/barrel in 2022. According to the EIA, OPEC+, US tight oil, and other non-OPEC nations' production growth will outstrip slowing global oil demand growth, resulting in Brent prices falling from present levels to an annual average of USD 72/barrel. OPEC crude oil output is expected to average 26.34 million barrel/day in 2021, up 0.74 million barrel/day from the previous year.

In the US, on the last day of October, job vacancies fell by 191,000 to 10.4 million, a gauge of labor demand. Hiring stayed nearly constant at 6.5 million. The number of people who quit increased by roughly 164,000 in October, bringing the total number of quitting to a new high of 4.4 million.

In October, the seasonally adjusted IHS Markit U.S. Manufacturing Purchasing Managers' Index (PMI) fell to 58.4, down from 60.7 in September and below the previously announced 'flash' estimate of 59.2. The consumer price index (CPI) rose 0.9 percent from September to October, putting it at 6.2 percent higher than a year ago. Since November 1990, this is the greatest yearly inflation rate.

Each month, the Federal Reserve (FED) will cut asset purchases by USD 15 billion until no new acquisitions are made. It said that the rate of tapering might be slowed or sped up based on the data. The Monetary Policy Committee (MPC) of the Bank of England determines monetary policy to fulfill the 2 percent inflation objective while also promoting growth and employment. The MPC decided to keep the Bank Rate at 0.1 percent by a 7–2 vote.

IMF estimated that deficits from low-income developing nation would drop by around 3 percent next year, and that they would be back to pre-pandemic levels by 2026. Many low-income developing nations will undoubtedly require further foreign aid and, in certain cases, debt restructuring. According to preliminary predictions, global debt climbed by USD 27 trillion year over year to USD 226 trillion in 2020, and the debt is expected to remain at record high levels, around 100% of GDP in 2021, before gradually declining through 2026.

World Economic Outlook

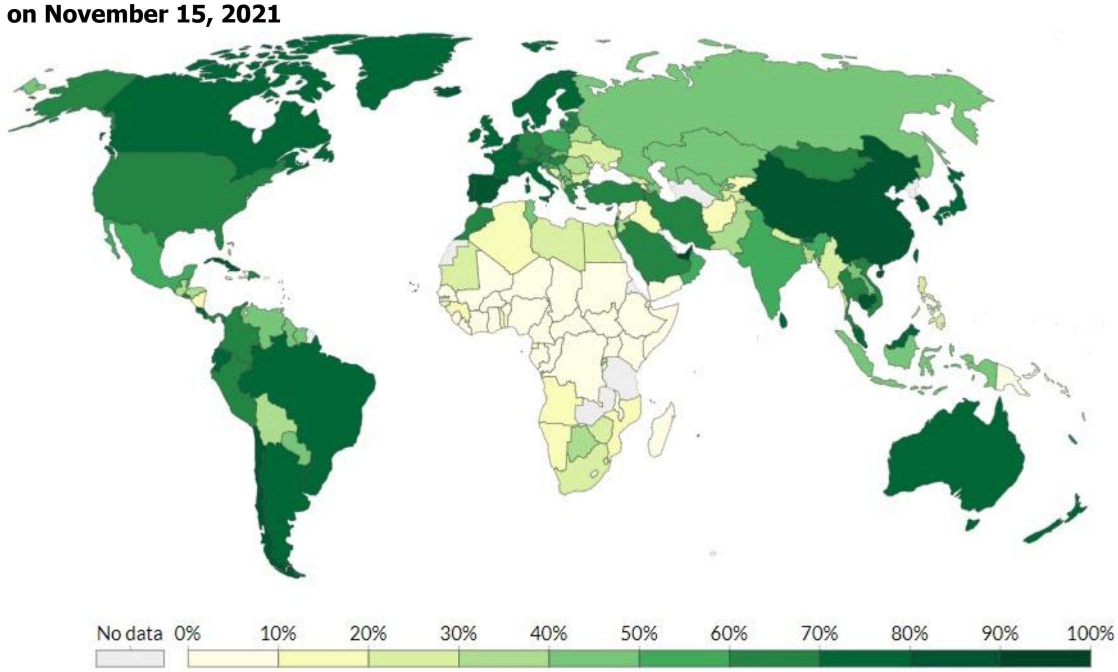
Economic growth

Global economic growth is slowing as the year draws to a close. Despite the persisting circumstances of the coronavirus pandemic, supply-chain bottlenecks, and rising prices, the world's largest economy is expected to recover faster than its counterparts.

The economy of the United States is expected to enjoy a new dawn in 2022, according to market participants. GDP growth in the United States dropped from 6.7 percent in the second quarter to 2.0 percent in the third quarter, falling short of the average projection of 2.6 percent. S&P Global Ratings described its prior full-year 5.7 percent U.S. GDP prediction as "too high" by the fourth quarter, but maintained that 2021 may still record the country's 37-year high in economic growth. As Covid-19 fears fade, supply chain and inflationary pressures moderate in early 2022, economists polled by S&P Global Market Intelligence expect the United States will be spared the brunt of the global economic recession.

As of mid-November 2021, immunization rates in major industrialized economies vary from 55 to 75 percent, and progress in vaccination initiatives has stalled in some countries. With the exception of China, which reached a vaccination rate of over 70% in October 2021, vaccination rates in many emerging nations are expected to remain around 50% until 2023. Lower vaccination rates and less fiscal support measures in low-income nations are expected to result in more long-term economic consequences from the pandemic than in developed economies. While advanced economies' real GDP is predicted to revert to pre-pandemic forecast levels in 2022, developing economies' real GDP is expected to remain on average 3.0 percent below pre-pandemic forecast levels.

Share of people who received at least one dose of Covid-19 vaccine (% Population) on November 15, 2021



Source: OurWorldInData

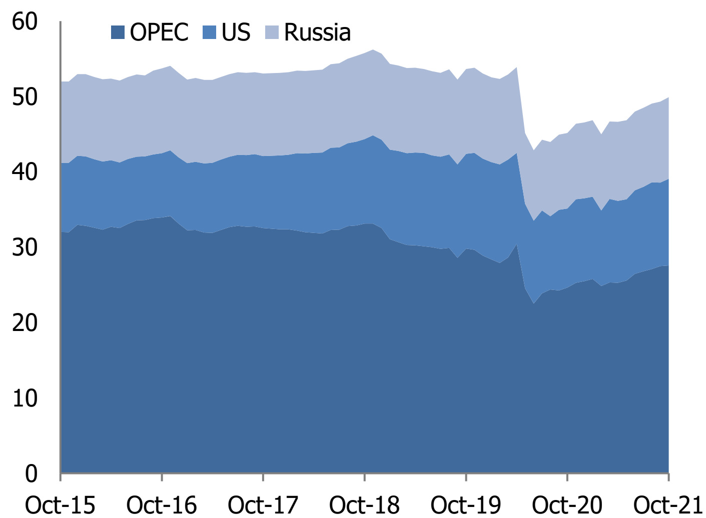
Oil Market

Commodity prices are rising at a fast pace throughout the world, as indicated by the fact that the CPI and PPI of the world's top economies, such as the United States, China, and the European Union, have all reached the all-time high levels in recent decades.

As a consequence of ongoing global oil inventory decreases and the OPEC+ group's current production cutbacks, the EIA revised up its Brent price prediction for 2021 to an average of USD 71.59/barrel in the November Short-Term Energy Outlook (STEO), up 0.29 percent from the October STEO. Crude oil prices have climbed over the last year as a result of consistent draws on global oil inventoriess, which averaged 1.9 million barrels/day over the first three quarters of the year. Furthermore, prices rose when the OPEC+ group stated in early October and confirmed on November 4 that it would maintain current production levels.

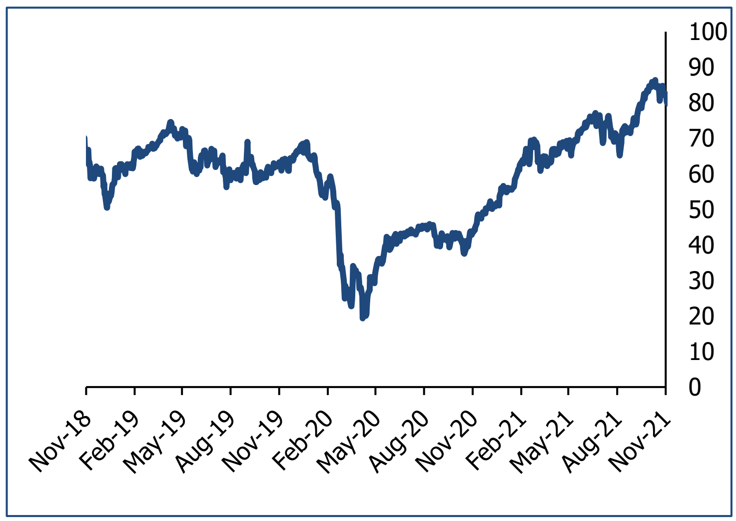
Brent is expected to remain around USD 71.91/barrel in 2022, according to the agency. According to the EIA, OPEC+, US tight oil, and other non-OPEC nations' production growth will outstrip slowing global oil demand growth, resulting in Brent prices falling from present levels to an annual average of USD 72/barrel. OPEC crude oil output is expected to average 26.34 million barrel/day in 2021, up 0.74 million barrel/day from the previous year, and 28.37 million barrel/day in 2022.

Crude oil output (million barrels/day)



Source: Bloomberg

Brent oil price (USD/barrel)



Source: Bloomberg

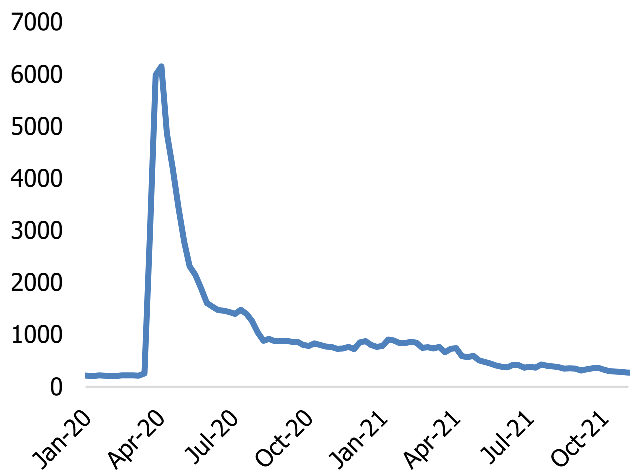
Labor Market

In October, the number of Americans who voluntarily quit their employment reached a new high, but job postings remained stubbornly above pre-pandemic levels, indicating that firms may need to keep raising pay to entice employees. The monthly Job Openings and Labor Turnover Survey, data issued by the Labor Department on Friday indicates an uneven economy, with robust demand colliding with labor and goods shortages, pushing total inflation to its highest annual rise in 31 years.

In the US, the number of people who quit their current job increased by roughly 164,000 in October, bringing the total to a new high of 4.4 million. Workers leave when they are more confident in their ability to find a new job, hence the quit rate is seen as a strong indicator of labor market confidence. In the arts, entertainment, and leisure area, 56,000 individuals departed, while 47,000 left in the other services category. 30,000 people left state and local government schooling.

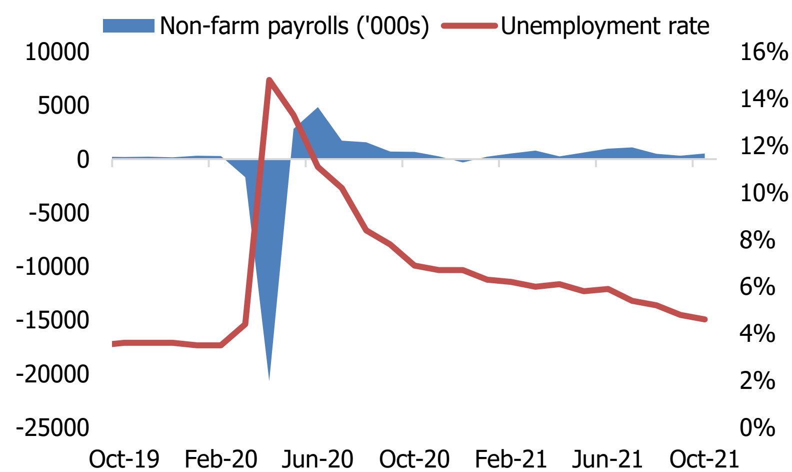
On the last day of October, job vacancies fell by 191,000 to 10.4 million, a gauge of labor demand. Hiring stayed nearly constant at 6.5 million. In all four areas, the number of job postings remained stable, with the highest increases in healthcare and social support, as well as state and local government, excluding education. Last Friday, the government announced that nonfarm payrolls climbed by 531,000 in November, up from 312,000 in October. This year, job growth has averaged 582,000 each month.

Initial weekly jobless claims in the U.S. ('000)



Source: Bloomberg

US unemployment rate and non-farm payrolls



Source: Bloomberg

Manufacturing and consumption

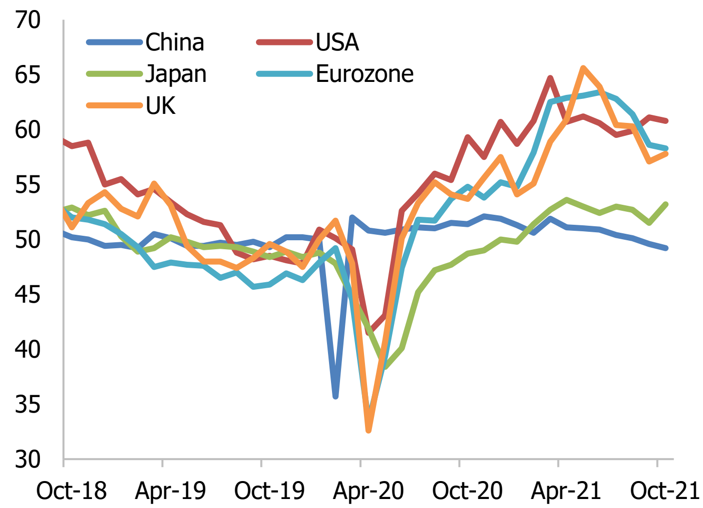
IHS Markit's October PMI data showed a significant improvement in operational conditions throughout the manufacturing sector in the United States. Despite the fact that the general recovery fell to its slowest pace yet in 2021, the growth in new orders remained strong and historically high. Nonetheless, due to capacity restrictions and resource shortages, output growth slowed to its lowest level since July 2020. Vendor performance suffered a significant decline as a result of a lack of input availability and transportation delays, with input costs rising dramatically. Simultaneously, companies passed on greater input costs to their customers, as charges increased at the quickest rate on record. Concerns about supply chain disruption and inflation, however, knocked on company confidence, which fell to its lowest level in a year.

In October, the seasonally adjusted IHS Markit U.S. Manufacturing Purchasing Managers' Index (PMI) fell to 58.4, down from 60.7 in September and below the previously announced 'flash' estimate of 59.2. Despite being at its lowest level in 10 months, the manufacturing sector in the United States has recently improved dramatically.

The consumer price index (CPI) rose 0.9 percent from September to October, putting it at 6.2 percent higher than a year ago. Since November 1990, this is the greatest yearly inflation rate. Core prices increased 0.6 percent from September to October and 4.6 percent from a year ago when volatile food and energy costs were eliminated. This is the highest level since August 1991. The disparity between headline and core inflation is mostly attributable to rising energy prices, which are up 30.0 percent year over year and 4.8 percent month over month.

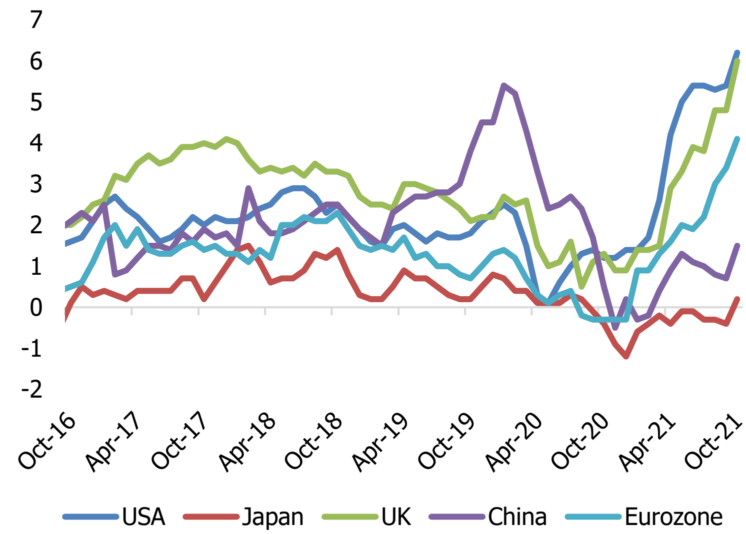
Fed Chair Powell continues to see inflation as temporary, however he defines transitory as not resulting in long-term higher inflation. He admitted that inflation will most certainly rise in 2022 before declining. Investors seem to agree, since bond rates and inflation forecasts have fallen since Powell's remarks. The spread between five-year and ten-year inflation forecasts has widened, indicating that many investors expect somewhat high inflation in the short term before returning to a more typical level in the long run.

Manufacturing PMI of major countries



Source: Bloomberg

Inflation rate (% YoY) in major economies



Source: Bloomberg

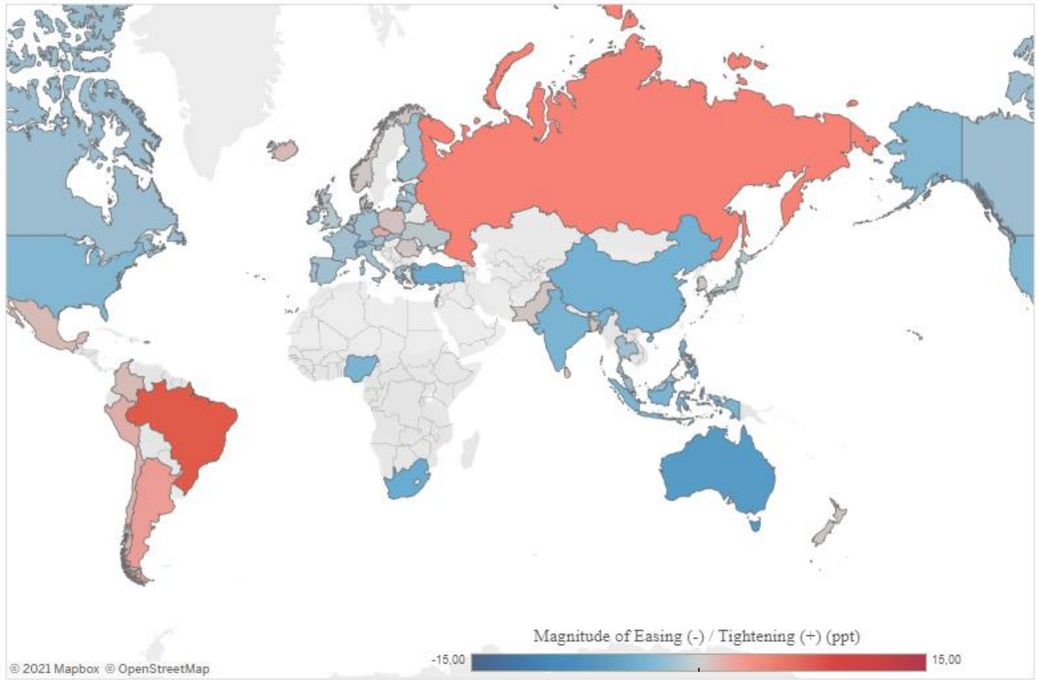
Policies

Monetary policy

The Federal Reserve has announced that the long-awaited reduction of asset purchases will begin. Markets scarcely moved in response, demonstrating the Fed's ability to communicate effectively. They forewarned markets and properly described what was coming, resulting in a minor drop in inflation expectations and good performance of equities prices, which are presently at historic highs. Each month, the Fed will cut asset purchases by USD 15 billion until no new acquisitions are made. It said that the rate of tapering might be slowed or sped up based on the data. "We believe it is appropriate to taper," Fed Chair Powell said, "because the economy has made sufficient progress toward our goals." However, interest rates, the other important policy, will not be modified rapidly. "We don't believe it's time to raise interest rates yet," Powell added. The economy will determine when rates are raised. "I believe we can wait." The majority of individuals now anticipate a rate hike in 2022.

The Monetary Policy Committee (MPC) of the Bank of England determines monetary policy to fulfill the 2 percent inflation objective while also promoting growth and employment. The Committee decided that the current monetary policy stance was appropriate during its meeting that ended on November 2, 2021. The MPC decided to keep the Bank Rate at 0.1 percent by a 7–2 vote. The Bank of England's existing programme of UK government bond purchases, financed by the issuance of central bank reserves, was approved by the Committee by a 6–3 vote, with the target stock of these government bond purchases remaining at GBP 875 billion and the total target stock of asset purchases remaining at GBP 895 billion.

Global Monetary Policy Tracker (Magnitude of Easing/ Tightening) in November, 2021



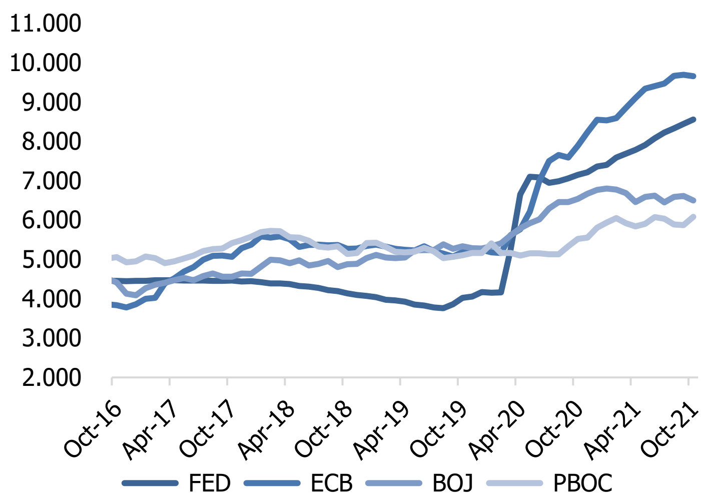
Source: Bloomberg, IMF, International Economics

Fiscal Policy

Fiscal policy, according to the International Monetary Fund, must adjust to shifting conditions in order to handle the consequences of the still-evolving epidemic, which is aggravated by uncertainties regarding future Covid-19 variations. "Fiscal policy continues supportive," the IMF wrote in its October 2021 Fiscal Monitor Report, "with 2021 deficits reducing by around 2 percentage points of GDP on average." Low vaccine availability and increased spending on virus-related priorities are stifling growth in emerging markets and low-income developing countries, according to the IMF, pointing to large fiscal packages announced in the EU and the US that would add USD 4.6 trillion to global GDP between 2021 and 2026.

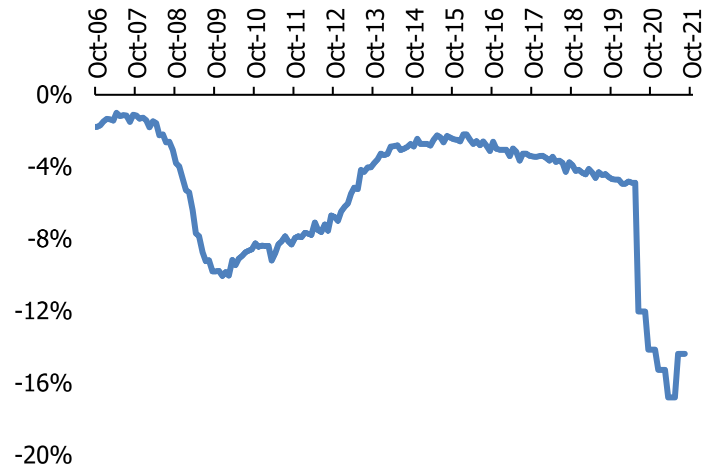
According to the study, low-income developing nations were unable to offer fiscal assistance and pay their debt due to rising interest rates and declining government revenues. It estimated that deficits would drop by around 3 percent next year, and that they would be back to pre-pandemic levels by 2026. According to preliminary predictions, global debt climbed by USD 27 trillion year over year to USD 226 trillion in 2020, and the debt is expected to remain at record high levels, around 100% of GDP in 2021, before gradually declining through 2026. Many low-income developing nations will undoubtedly require further foreign aid and, in certain cases, debt restructuring.

Total assets on major CB's balance sheets (USD bn)



Source: Bloomberg

US budget deficit (%GDP)



Source: Bloomberg

Economic indicators of selected countries

Countries	GDP (% YoY)		CPI (% YoY)		Unemployment rate (%)	
	Latest		Latest		Latest	
US	2.0	Q3	6.2	Oct	4.8	Oct
EU	3.7	Q3	4.1	Oct	7.5	Oct
Germany	1.8	Q3	4.5	Oct	5.2	Oct
France	3.0	Q3	8.1	Oct	6.1	Oct
Italy	3.8	Q3	2.9	Oct	9.9	Oct
Spain	2.0	Q3	7.8	Oct	4.0	Oct
UK	4.8	Q3	2.9	Oct	4.5	Oct
Japans	0.8	Q3	-0.1	Oct	2.8	Oct
China	4.9	Q3	0.8	Oct	4.9	Oct
Russia	3.7	Q3	7.0	Oct	6.0	Oct

Source: OECD, MBS summarized.

Economic indicators forecast of selected countries

Countries	GDP (% YoY)		CPI (% YoY)		Unemployment rate (%)	
	2020	2021F	2020	2021F	2020	2021F
US	-3.4	6.0	1.2	4.3	8.1	5.4
EU	-6.3	5.0	0.3	2.2	7.9	8.0
Germany	-4.6	3.1	0.4	2.9	3.8	3.7
France	-8.0	6.3	0.5	2.0	8.0	8.1
Italy	-8.9	5.8	-0.1	1.7	9.3	10.3
Spain	-10.8	5.7	-0.3	2.2	15.5	15.4
UK	-9.8	6.8	0.9	2.2	4.5	5.0
Japan	-4.6	2.4	0.0	-0.2	2.8	2.8
China	2.3	8.0	2.4	1.1	3.8	3.7
World	-3.1	5.9				

Source: OECD, MBS summarized.

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