Global Economic Outlook — January 2022

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GLOBAL ECONOMIC OUTLOOK

Highlights:

Global growth is predicted to decelerate from 5.9% in 2021 to 4.4 percent in 2022, down half a percentage point from the primarily to projection revisions in the two largest economies. The United States was adjusted downward 1.2 percentage points due to a revised assumption that removed the 'Build Back Better' fiscal policy package from the baseline, faster withdrawal of monetary assistance, and persistent supply shortages. Pandemic-related disruptions connected to the zero-tolerance Covid-19 policy, as well as long-term financial hardship among property developers, have resulted in a 0.8-percentage-point drop in China.

Oil prices that rallied 50% in 2021 will power further ahead this year, some analysts predict, saying a lack of production capacity and limited investment in the sector could lift crude to USD 90 or even above $100 a barrel. Though the Omicron coronavirus variant has pushed COVID-19 cases far above peaks hit last year, analysts say oil prices will be supported by the reluctance of many governments to restore the strict restrictions that hammered the global economy when the pandemic took hold in 2020.

The US unemployment rate dropped to 3.9 percent, the lowest since February 2020, pointing to a sustained recovery in the job market helped by a fast-recovering economy and strong demand for labor. The rate was still slightly above pre-crisis levels amid reports of severe labor shortages, but should decline further in the coming months as companies fill widespread vacancies. The number of unemployed persons decreased by 483,000 to 6.3 million.

Inflation plowed ahead at its fastest 12-month pace in nearly 40 years during December 2021. The consumer price index, a metric that measures costs across dozens of items, increased 7%, according to the department's Bureau of Labor Statistics. On a monthly basis, CPI rose 0.5%. Excluding food and energy prices, so-called core CPI increased 5.5% year over year and 0.6% from the previous month. That compared with estimates of 5.4% and 0.5%.

Fed announced ealier this month that it will double the pace at which it's scaling back purchases of Treasuries and mortgage-backed securities to $30 billion a month, putting it on track to conclude the program in early 2022, rather than mid-year as initially planned. Projections published alongside the statement showed officials expect three quarter-point increases in the benchmark federal funds rate will be appropriate next year, according to the median estimate, after holding borrowing costs near zero since March 2020.

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

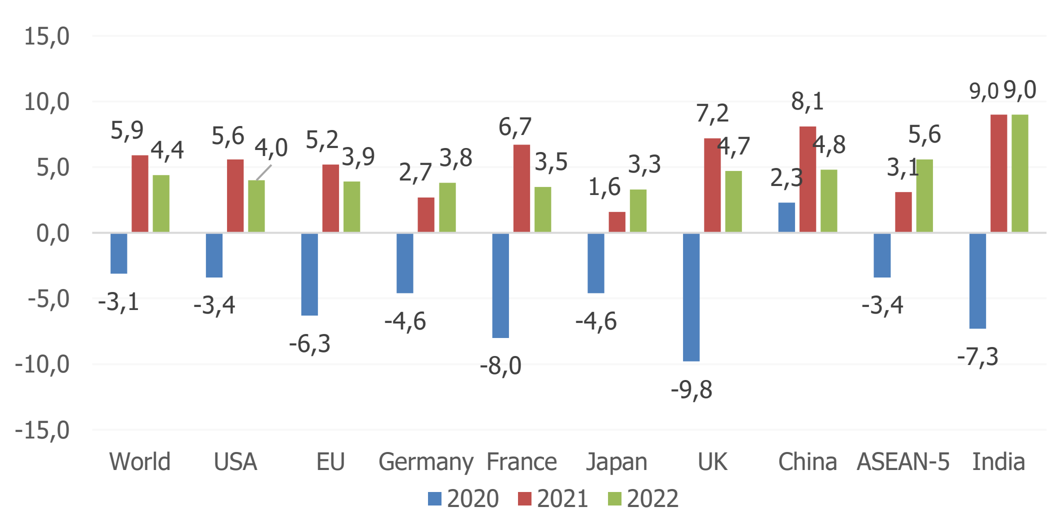
Economic growth

The global economy is predicted to be weaker in 2022 than originally anticipated. Countries have reimposed mobility restrictions as the new Omicron Covid-19 variant spreads. In the United States, as well as many other emerging market and developing economies, rising energy prices and supply disruptions have resulted in higher and more broad-based inflation than anticipated. The persistent contraction of China's real estate industry, as well as a slower-than-expected recovery of private consumption, constrain growth prospects.

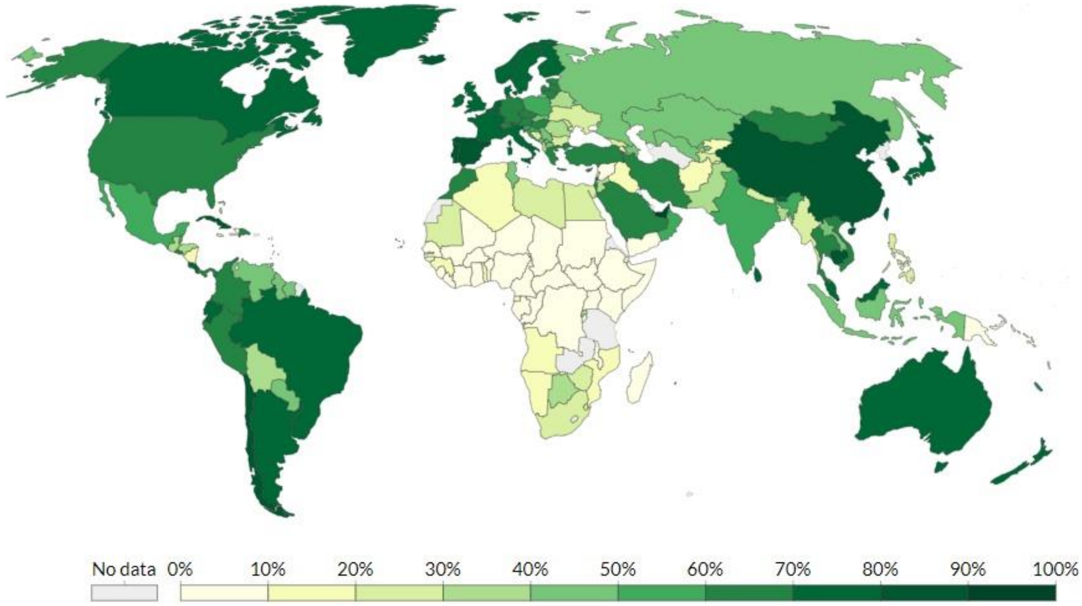
Global growth is predicted to decelerate from 5.9% in 2021 to 4.4 percent in 2022, down half a percentage point from the primarily to projection revisions in the two largest economies. The United States was adjusted downward 1.2 percentage points due to a revised assumption that removed the 'Build Back Better' fiscal policy package from the baseline, faster withdrawal of monetary assistance, and persistent supply shortages. Pandemic-related disruptions connected to the zero-tolerance Covid-19 policy, as well as long-term financial hardship among property developers, have resulted in a 0.8-percentage-point drop in China. In 2023, global growth is forecast to decrease to 3.8 percent. Although this is 0.2 percentage point higher than the prior prediction, the upgrade is mostly due to a mechanical pickup in the second half of 2022 as current growth drags disappear. The estimate assumes that by the end of 2022, adverse health outcomes in most nations will have decreased to low levels, provided that vaccination rates improve globally and medicines become more effective.

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.

2021 GDP and 2022 GDP Forecast (%)



Share of people who received at least one dose of Covid-19 vaccine (% Population) on January 15, 2022



Source: IMF & OurWorldInData

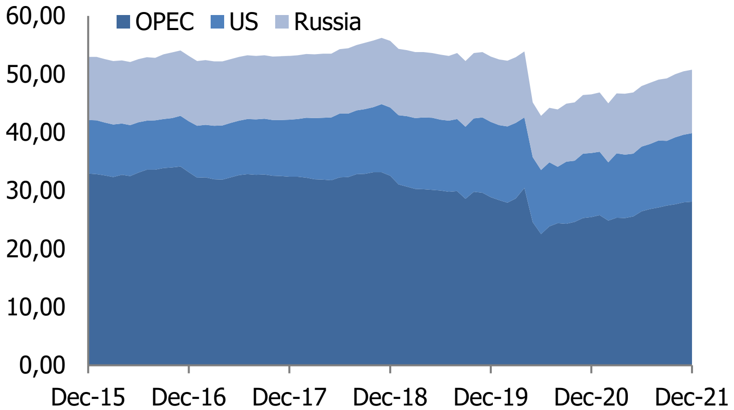
Oil Market

Oil prices that rallied 50% in 2021 will power further ahead this year, some analysts predict, saying a lack of production capacity and limited investment in the sector could lift crude to USD 90 or even above USD 100 a barrel. Though the Omicron coronavirus variant has pushed COVID-19 cases far above peaks hit last year, analysts say oil prices will be supported by the reluctance of many governments to restore the strict restrictions that hammered the global economy when the pandemic took hold in 2020.

According to the Gulf Business, the Organization of the Petroleum Exporting Countries (OPEC) and its partners, known as OPEC+ for short, are quite confident in the growth of oil demand in 2022. There is a high probability that OPEC+ will continue. continue to increase production by 400,000 bpd next month. In particular, in the context that oil reserves in developed countries are currently 170 million barrels lower than the average in the period 2015 - 2019. Thus, the world's oil demand is expected to increase significantly in 2022, but in that context, many oil exporting countries are now in a situation where it is no longer possible to increase production.

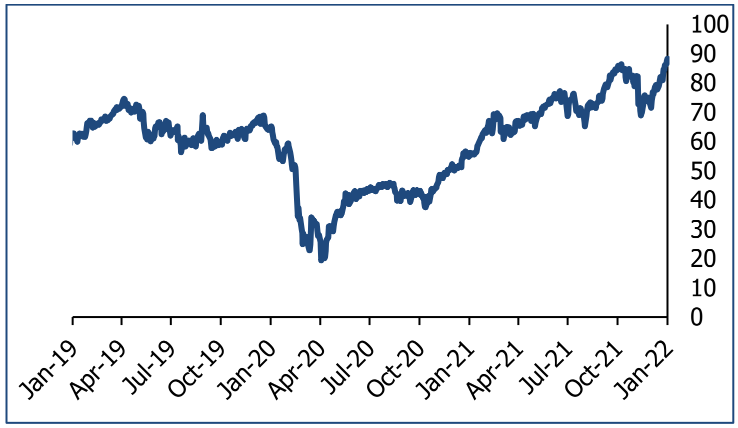
In 2021, withdrawals from global petroleum inventories averaged 1.4 million barrels per day and contributed to higher crude oil prices. These inventory draws resulted from petroleum consumption returning faster than petroleum production after the Covid-19 pandemic began in 2020. In 2022, we expect that petroleum production will increase and consumption growth will slow, leading to increases in petroleum inventories globally.

Crude oil output (million barrels/day)



Source: Bloomberg

Brent oil price (USD/barrel)



Source: Bloomberg

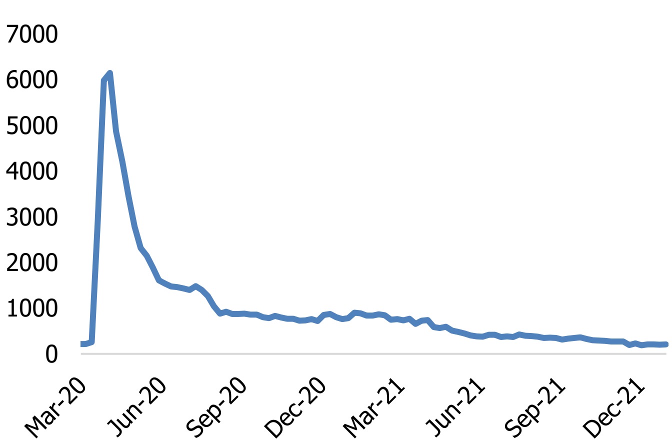
Labor Market

2021 was a transition year. The widespread rollout of vaccines early in the year raised the prospect that the end of the pandemic was within reach. But that didn't materialize. Variants and uneven vaccination rates in the US and abroad have led to continued waves of Covid-19 infection. The result has been a labor market starting to emerge from the worst of the pandemic, but not yet able to fully break free. Employment has grown rapidly, as have wages. These trends could continue in 2022, perhaps in a smoother manner.

U.S. employment increased less than expected in December amid worker shortages and job gains could remain moderate in the near term as Omicron variants disrupt economic activity. Nonfarm payrolls rose by 199,000 jobs last month, the Labor Department said in its closely watched employment report on Friday. Data for November was revised up to show payrolls advancing by 249,000 jobs instead of the previously reported 210,000.

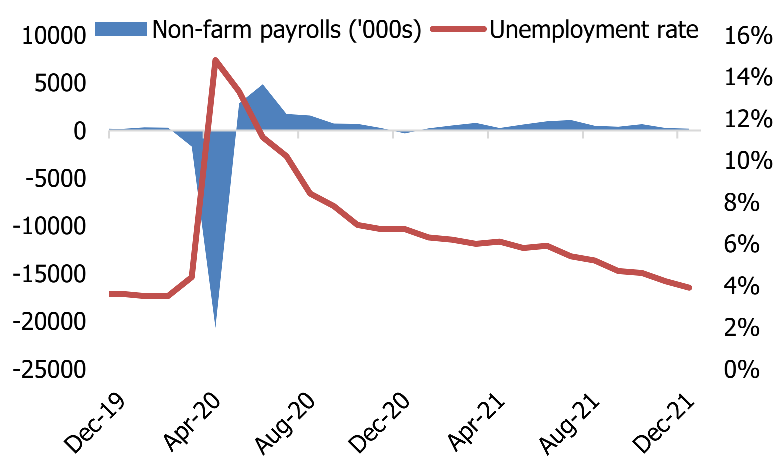
The US unemployment rate dropped to 3.9 percent, the lowest since February 2020, pointing to a sustained recovery in the job market helped by a fast-recovering economy and strong demand for labor. The rate was still slightly above pre-crisis levels amid reports of severe labor shortages, but should decline further in the coming months as companies fill widespread vacancies. The number of unemployed persons decreased by 483,000 to 6.3 million.

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



Source: Bloomberg

US unemployment rate and non-farm payrolls



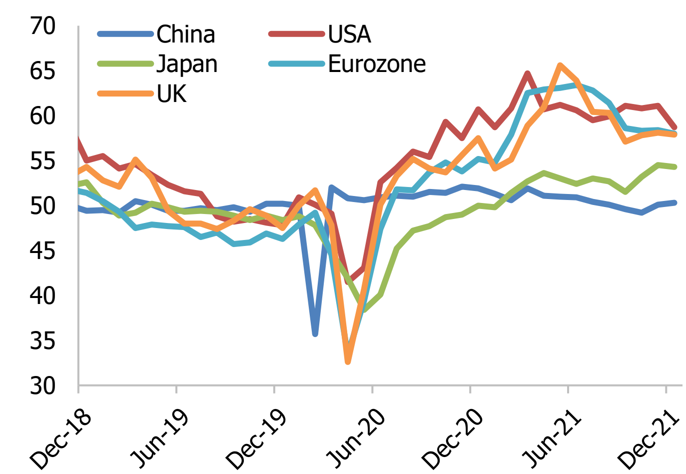
Source: Bloomberg

Manufacturing and consumption

Inflation plowed ahead at its fastest 12-month pace in nearly 40 years during December 2021. The consumer price index increased 7%, according to the department's Bureau of Labor Statistics. On a monthly basis, CPI rose 0.5%. Excluding food and energy prices, so-called core CPI increased 5.5% year over year and 0.6% from the previous month. That compared with estimates of 5.4% and 0.5%.

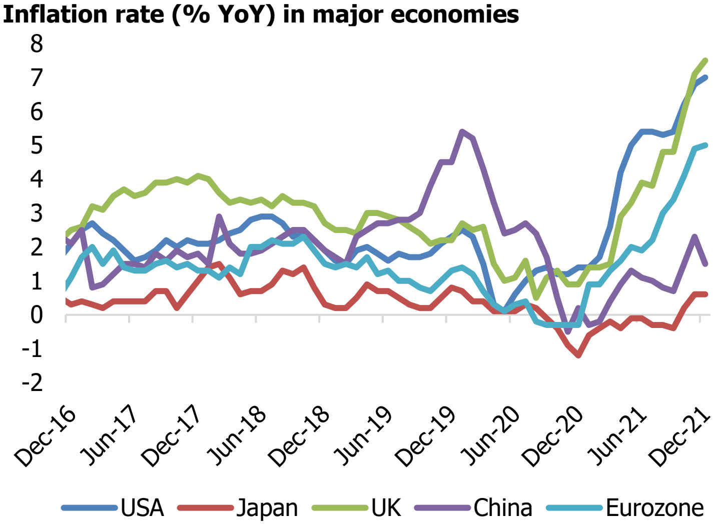
Shelter costs, which make up nearly one-third of the total rose 0.4% for the month and 4.1% for the year. That was the fastest pace since February 2007. Used vehicle prices, which have been a major component of the inflation increase during the Covid-19 pandemic due to supply chain constraints that have limited new vehicle production, rose another 3.5% in December, bringing the increase from a year ago to 37.3%. Conversely, energy prices mostly declined for the month, falling 0.4% as fuel oil was down 2.4% and gasoline fell 0.5%. Still, the complex as a whole rose 29.3% in the 12-month period, including a gain of 49.6% for gasoline.

Manufacturing PMI of major countries



Source: Bloomberg

Inflation rate (% YoY) in major economies



Source: Bloomberg

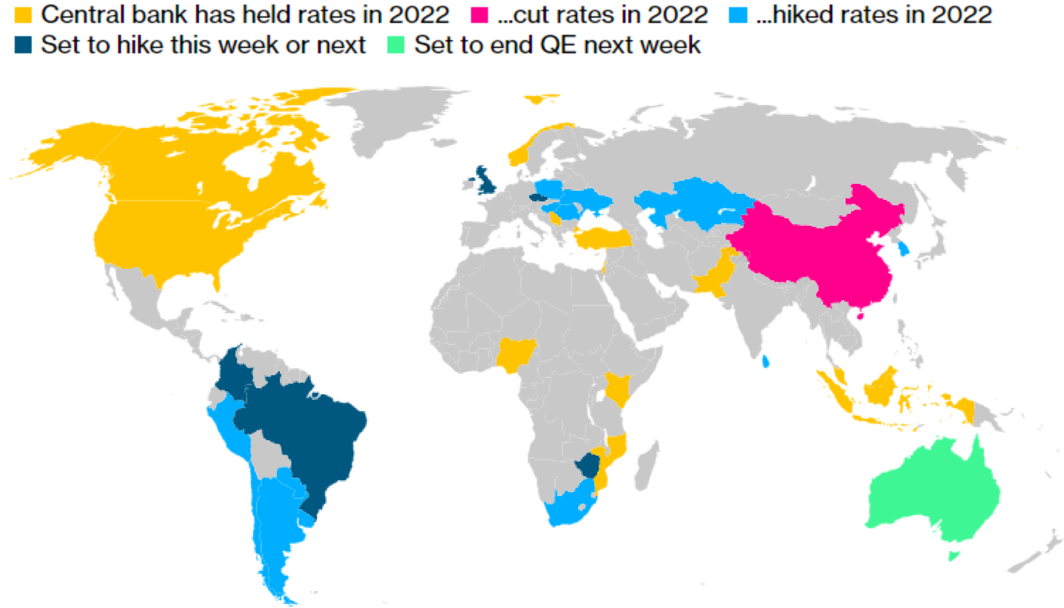
Policies

Monetary policy

Accelerating inflation and both market and policymaker responses to it pose a significant risk to the US outlook. Price gains are now likely weighing on consumer spending and are expected to prompt a more aggressive pace of Federal Reserve tightening. During this period of monetary policy transition, long-run interest rates could move significantly in either direction depending on market perceptions of how successful monetary and fiscal policy will be at containing inflation without excessively slowing growth.

Ealier this month, Fed announced that it will double the pace at which it's scaling back purchases of Treasuries and mortgage-backed securities to USA 30 billion a month, putting it on track to conclude the program in early 2022, rather than mid-year as initially planned. Projections published alongside the statement showed officials expect three quarter-point increases in the benchmark federal funds rate will be appropriate next year, according to the median estimate, after holding borrowing costs near zero since March 2020.

Global Monetary Policy Tracker in January 2022



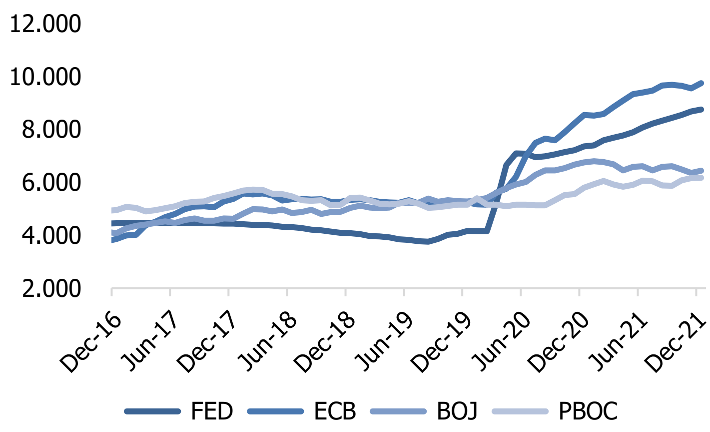
Source: Bloomberg, International Economics

Fiscal Policy

Fiscal policy, according to the International Monetary Fund, must adjust to shifting conditions in order to handle the consequences of the pandemic, 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.

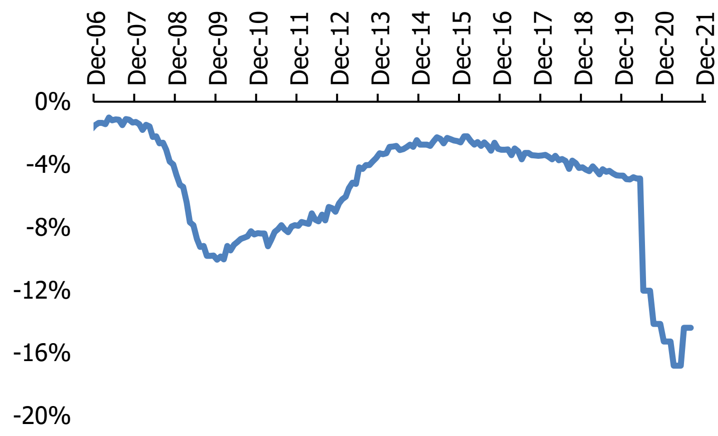
According to the study, low-income developing nations were unable to offer fiscal assistance and pay their debt due to rising interest rates and declining government revenues. It estimated that deficits would drop by around 3 percent next year, and that they would be back to pre-pandemic levels by 2026. 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

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