

GLOBAL ECONOMIC OUTLOOK

• Uneven

There is a sharp divergence in economic performance among nations at the moment. We are seeing a rebound in advanced economies and weakening activity in emerging markets, driven in both cases by the trajectory of COVID-19 infections.

Rising vaccinations, easing public health restrictions, pent-up demand and accumulated savings have set the stage for a strong second phase of recovery in advanced economies. The concern in these cases, especially in the U.S., is overheating and inflation. By contrast, elevated infections and renewed restrictions in major countries like India and Brazil show the pandemic is far from over.

The global recovery will not be complete without a sustained recovery in emerging markets, which contribute importantly to global demand and supply chains. New emerging COVID-19 variants remain a key risk for all nations.

Following is our outlook on how major economies are poised for this year of reopening.

United States

- U.S. gross domestic product (GDP) grew at an annualized rate of 6.4% in the first quarter, held back only by slow exports and inventory depletion amid supply chain interruptions. Growth in the second quarter will be even stronger. Concerns are mounting about inflation in this context, especially after the consumer price index (CPI) grew by 4.2% year-over-year in April. We agree with the U.S. Federal Reserve that current inflationary forces will prove transient, as consumers return to former spending patterns and supply chain shortages are resolved.
- The rapid pace of reopening is leading to some surprises in economic data. Job creation in April was far below expectations, but falling unemployment claims and a high number of job openings suggest that is not the start of a trend. Retail sales growth was slow in April, but they increased from the record high level set in March. No decisions should be made on a single data print; economic momentum is still strongly supportive of growth.

Eurozone

- Eurozone gross domestic product (GDP) contracted by an annualized 2.5% in the first quarter after a rise in COVID-19 infections led to fresh restrictions on activity. Thanks to accelerated vaccine rollout, reopening is now underway across much of the bloc. Tourism-dependent countries like Greece, the Netherlands and Portugal are starting to ease travel restrictions. Leading activity indicators are pointing towards a strong rebound in the current quarter. For the first time since the onset of the pandemic, the eurozone's growth risks are tilted to the upside.
- Unemployment in Europe is only modestly above pre-crisis levels, underpinned by furlough schemes. However, an increase in the unemployment rate is expected in the

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second half of the year as more workers gain full-time hours and governments begin to wind down their support.

United Kingdom

- GDP in the U.K. contracted in the first quarter, but the phased reopening since mid-April has led to a pickup in economic activity. The easing of restrictions on social sectors amid falling infections and rising vaccination rates will lead to a strong consumer-driven rebound. Job vacancies in Britain climbed to the highest level since the onset of the pandemic, although the expiration of the furlough scheme in September is likely to cause an increase in unemployment towards the end of the year. Scotland's exit is not a given, but could create significant economic disruptions.
- The Bank of England tapered the amount of its weekly bond purchases, but it didn't make significant changes to monetary policy. Rate hikes are a long way off.

Japan

- Amid increasing COVID-19 cases, the Japanese government reinstated the state of emergency for four prefectures, including Tokyo, at the end of last month. The new measures are likely to weigh on economic activity, but to a far lesser extent than in the first quarter given the coverage of restrictions. Demand will continue to be subdued in the near term, but manufacturing activity is gaining momentum with strong external demand. Accelerated vaccinations and loosened restrictions are expected to drive a strong recovery in the second half of the year.
- Tokyo is set to host the postponed 2020 Olympics this year, but opposition to the mega-event is growing. Events of this magnitude generally provide a boost to the economy; however, this one will be an exception, given that it will be hosted with several restrictions on attendance and international arrivals.

China

- Surveys and hard data are showing signs that China's economic recovery is losing steam. Credit growth decelerated for the second month in a row. Manufacturing was held back, in part by the global chip shortage impacting the electronic and auto industries. Consumption also decelerated in April on the back of an increase in household savings. This presents a challenge for policymakers, as pursuing pro-growth policies will hamper deleveraging efforts, while less generous fiscal and monetary policy will weigh on infrastructure and real estate investment.
- A surge in defaults of state-owned enterprises since late last year is a cause of concern and reflects the deteriorated fiscal positions of local governments. We expect the status quo to continue in China's relations with its major trading partners.

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Global Economic Forecast – May 2021

	2019	2020	2021F	2022F
United States				
Real GDP (Q4-Q4 % change)	2.3	-2.4	7.6	3.1
Unemployment Rate, EOP (%)	3.6	6.7	5.7	4.8
Inflation (CPI, Q4-Q4, %)	2.0	1.2	2.8	2.0
Policy Rate (Top), EOP (%)	1.75	0.25	0.25	0.25
Eurozone				
Real GDP (Q4-Q4 % change)	1.0	-4.9	4.6	3.0
Unemployment Rate EOP (%)	7.4	8.2	8.7	8.1
Inflation (CPI, Q4-Q4, %)	1.0	-0.3	2.2	1.4
Policy Rate, EOP (%)	0.00	0.00	0.00	0.00
Deposit Rate, EOP (%)	-0.50	-0.50	-0.50	-0.50
United Kingdom				
Real GDP (Q4-Q4 % change)	1.2	-7.3	7.2	2.9
Unemployment Rate EOP (%)	3.9	5.0	6.1	5.0
Inflation (CPI, Q4-Q4, %)	1.5	0.8	2.1	1.8
Policy Rate, EOP (%)	0.75	0.10	0.10	0.10
Japan				
Real GDP (Q4-Q4 % change)	-1.0	-1.3	1.9	1.6
Unemployment Rate EOP (%)	2.2	3.0	2.8	2.5
Inflation (CPI, Q4-Q4, %)	0.5	-0.8	0.4	0.5
Policy Rate, EOP (%)	-0.10	-0.10	-0.10	-0.10
China				
Real GDP (Q4-Q4 % change)	5.8	6.5	5.0	5.0
Unemployment Rate EOP (%)	3.6	4.2	4.0	3.6
Inflation (CPI, Q4-Q4, %)	4.2	0.0	2.7	2.2
1-Year Prime Rate, EOP (%)	4.15	3.85	3.85	3.85
Exchange rates (EOP)				
	Jun-2021F	Sep-2021F	Dec-2021F	Mar-2022F
EUR/USD	1.21	1.23	1.24	1.25
GBP/USD	1.40	1.41	1.42	1.43
USD/JPY	109.0	108.0	108.0	108.0
USD/CNY	6.45	6.50	6.50	6.55

F: Forecast

EOP: End of period