

Global Outlook 2021

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Gradual recovery with major underlying shifts

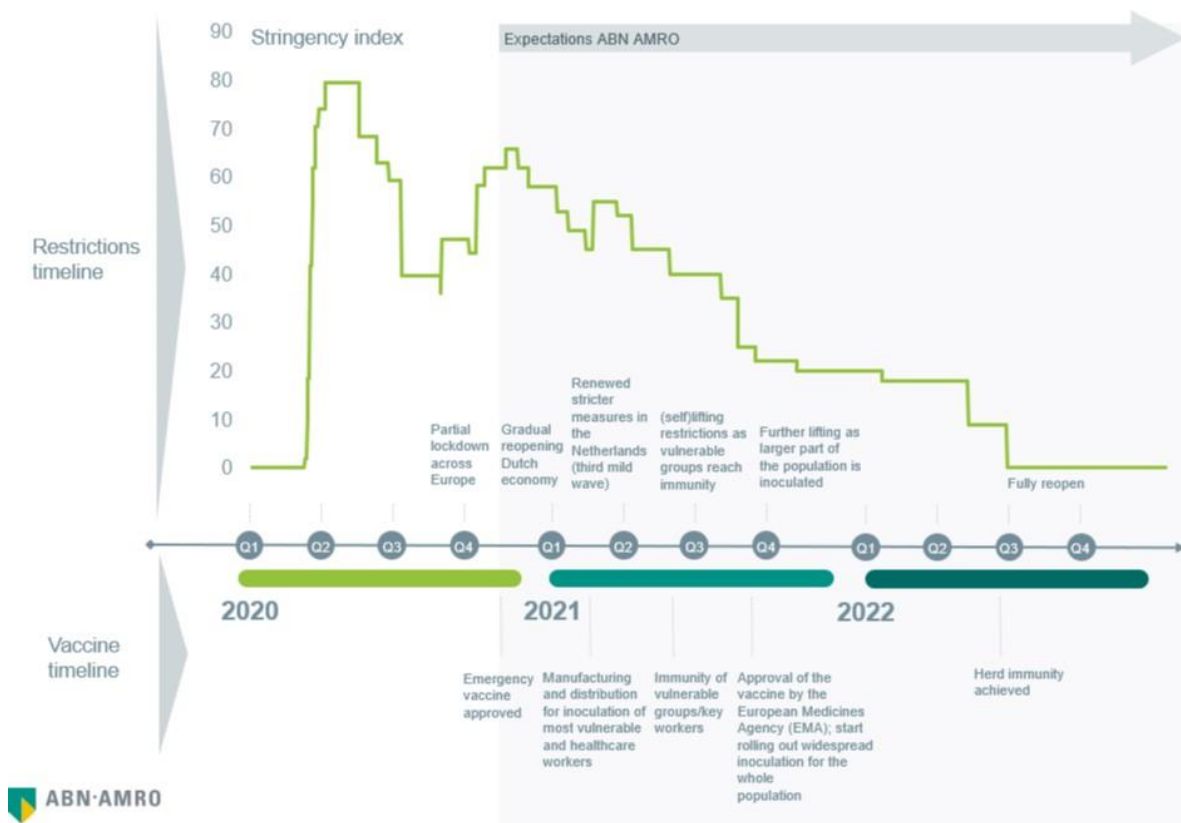
Just as the arrival of the Covid-19 virus determined the course of the global economy of 2020, so the retreat of the virus will dictate the recovery of 2021. Once vulnerable groups have built up immunity, the restrictions can gradually be lifted. This will boost GDP growth rates around the summer of 2021 and take us to pre-corona levels of prosperity by the end of 2021. Thereafter, a period of above-trend growth will begin in which, thanks to stimulus from governments and loose monetary policy, economies will begin the long climb towards their potential levels.

Despite this gradual path of recovery, we see that the situation for businesses, policy makers and consumers has been radically shaken up. We will therefore discuss some of the structural shifts we observe and how they shape the post-corona world.

Remember, however, that much can still go wrong in the early stages of 2021 before we finally reach the end of the pandemic. The combination of a second wave of infections in Europe with lower but longer peaks and a third severe wave in America could still trip up two of the world's three largest economies. The impact of these second and third waves on the various economies will also differ from that of the first wave. The coming months will be a tense waiting game to see whether governments will spend just as lavishly as before to prevent bankruptcies, unemployment and social unrest. The end is in sight, but the final stages will be a hard uphill slog.

The final uphill stages to a vaccine: Eurozone and the US

All countries – with the exception of China – are likely to continue muddling their way through alternating relaxations and restrictions until the vaccine makes a sustainable easing of measures possible. Based on recent [research](#) we expect the winding down of restrictions to start in Q2 2021. Once approved vaccines with full (rather than emergency) market access start to be broadly rolled out, the relaxations can be accelerated around the summer. The figure below shows the progress of the easing of the restrictions (the Stringency Index) in Europe – with some specific details for the Netherlands – in line with our expected timeline for the vaccine roll-out.



Substantial but less damage second and third wave

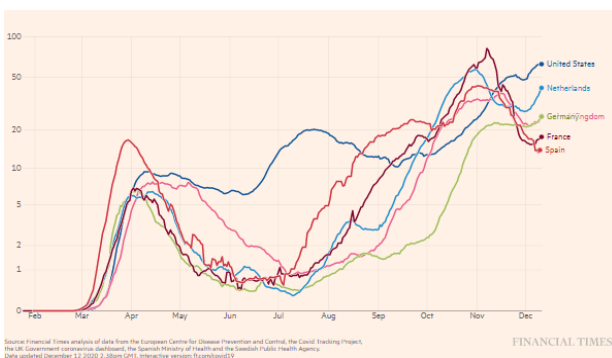
The economic damage in the fourth quarter of 2020 with a possible spill-over to the first quarter of 2021 is expected to be more limited than in the first wave. There are a number of reasons for this. We will discuss the four most important ones:

1 The virus behaves different

The first wave had a short high peak in hospitalisations that quickly led to hospital capacity constraints and subsequent lockdowns. The second wave, and right thereafter the third wave is infecting more and younger people, while fewer people are hospitalized (thus far). Until the start of the third wave, this led to partial lockdowns. In recent days the virus is increasing fast in The Netherlands and Germany, and has caused nationwide strict lockdowns.

In the middle of the second and third waves and the numbers are rising

Covid-19 tracker: seven-day moving average of new cases (per 100,000)



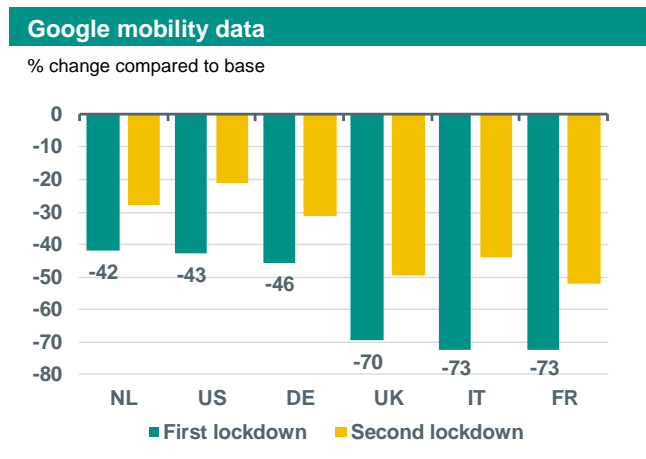
Source: Financial Times

2 Consumers are less careful ... except for the Chinese

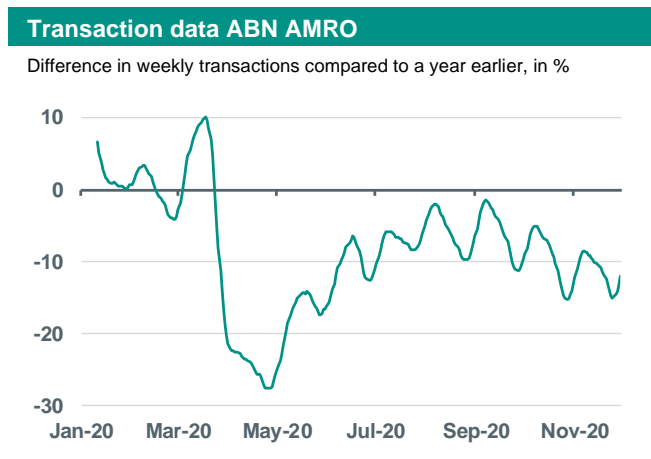
Consumers, too, behave differently. During the first wave and the reopening last summer, we [learned](#) that, in addition to the lockdown measures, people's fear of being infected drove the drop in consumption. Our payment transaction data showed that despite the same lockdown rules in the Netherlands, municipalities differed greatly in the extent to which consumption fell. After checking for other differences between municipalities, this appeared to be caused by the degree of resurgence of the virus. We concluded that fear of infection kept many people indoors during the first wave.

Eurozone

The Google mobility dataset shows that in several Eurozone countries the advice to stay at home during this second wave is less followed than in the spring. For consumer spending this means initially less decline. The overall decrease in consumer spending - measured in the figure below by the decrease in debit card transactions - is smaller than during the first wave, but still significant.



Source: Google mobility



Source: ABN AMRO

The United States

The American consumer shows remarkable resilience. Despite an enormous surge in the number of infections (America currently has proportionally twice as many hospital admissions as we had at the peak in the Netherlands), there are hardly any additional restrictions. This more 'laissez faire' approach to restrictions, particularly in the Republican states, appears so far to be accompanied by a surprisingly robust recovery, but the long-term damage is building up in the form of a sharp rise in long-term unemployment. A development that will ultimately depress consumer spending, but not for the time being. In addition, the indicators reflecting this recovery (such as the PMI forecast index for industrial production) may not tell the whole story. Small and medium-sized businesses that have fewer financial buffers and are over-represented in the hardest hit leisure industry are under-represented in the PMI.

We expect that, in the end, a third of Americans will be subject to more far-reaching contact restrictions in order to keep the virus under control. In our baseline scenario, the additional income support measures in the CARES Act will be extended on 16 December at a bare minimum. Biden's possibilities to extend income support and roll out stimulus measures on a large scale are limited, because the Republicans are expected to dominate the Senate in January.

China

And then there is the Chinese consumer. It took them quite a long time to regain their confidence in public life and to resume their spending ways. This is reflected in the retail sales data from China, but also in the mobility data from Chinese transport companies. It shows that mobility is at 75 percent of pre-corona levels.

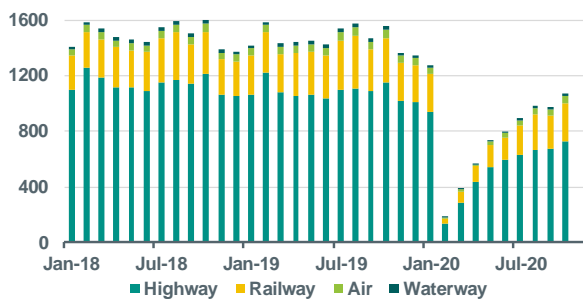
Chinese retail sales by category

Nominal, % yoy

	Feb	March	April	May	June	July	August	Sept	Oct
Cultural & office appliances	-11.3	6.0	8.3	3.0	8.6	2.4	0.9	13.5	14.9
Household articles (daily use)	-10.7	-0.8	7.5	16.9	17.5	7.0	13.8	11.8	11.9
Communication appliances	-9.6	7.4	14.5	13.8	20.8	14.9	32.1	-2.5	10.5
Clothing	-34.2	-36.3	-20.1	-2.5	-2.9	-4.8	2.2	6.3	10.5
Sports & recreation		-6.0	12.7	18.2	24.3	9.3	15.0	9.7	9.5
Books, newspapers, magazines		4.8	-10.8	12.3	18.0	15.3	17.0	6.5	6.7
Food, beverages, tobacco	-4.0	7.3	10.1	6.1	5.7	1.8	0.9	6.8	6.2
Total consumer goods	-21.1	-16.6	-7.9	-3.0	-1.0	-2.6	-1.0	2.3	1.2
Electronic & video	-33.5	-30.7	-11.1	1.2	6.5	-4.0	4.1	-3.3	0.9
Catering	-42.2	-46.0	-29.7	-17.0	-12.4	-10.3	-6.2	-1.5	0.1
Medicine	-16.0	10.8	-12.2	-12.9	-10.0	-14.0	-10.1	-9.8	-5.4
Furniture	-44.7	-33.5	-19.6	-11.3	-13.8	-15.9	-14.0	-11.8	-9.8
Petroleum & related products	-26.1	-18.1	-13.3	-13.2	-12.3	-13.0	-13.4	-11.0	-10.3
Construction & decoration	-42.4	-20.9	-14.6	-7.6	-8.9	-13.0	-16.0	-12.8	-11.8

China: passenger traffic

Million passengers



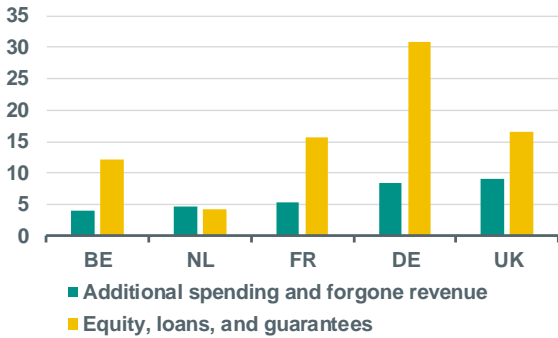
Source: CEIC, ABN AMRO Group Economics

3 Fiscal and monetary support avert many second round effects

Governments and central banks are working in tandem during this crisis to prevent unnecessary damage. Whereas European governments in particular managed to ward off a sharp spike in unemployment with discretionary support measures, the monetary authorities, alongside governments and banks, pulled out all the stops to keep markets liquid. All these measures have so far prevented a tsunami of bankruptcies. There was almost no financial tightening in the markets and the rise in unemployment remained within bounds.

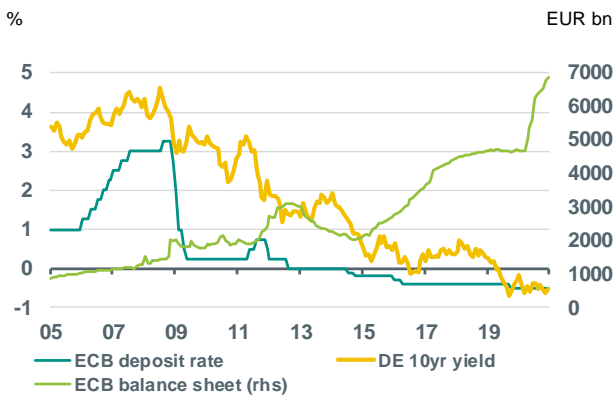
Discretionary fiscal reaction on covid-19-crisis

September 2020, in % GDP



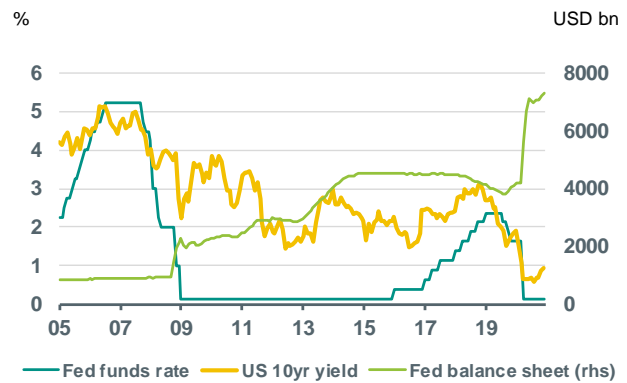
Source: IMF Fiscal monitor, ABN AMRO Group Economics

ECB



Source: Refinitiv, ABN AMRO Group Economics

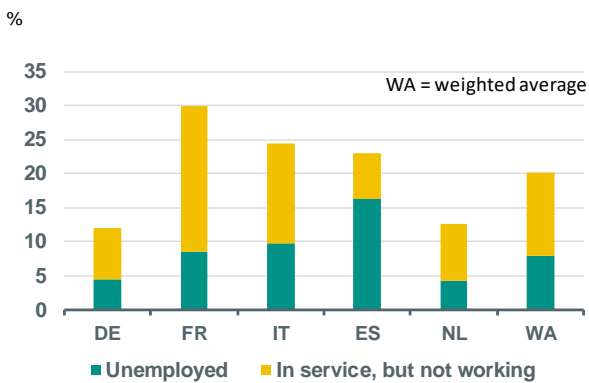
Federal Reserve Bank



Source: Refinitiv, ABN AMRO Group Economics

To assess how much unemployment was prevented by these measures, the graph below provides a hypothetical impression of how unemployment would have shot up without the wage cost subsidies. It shows where unemployment would be if persons working zero hours while falling within a wage subsidy scheme were counted as unemployed.

Unemployment without wage subsidies (hypothetical)



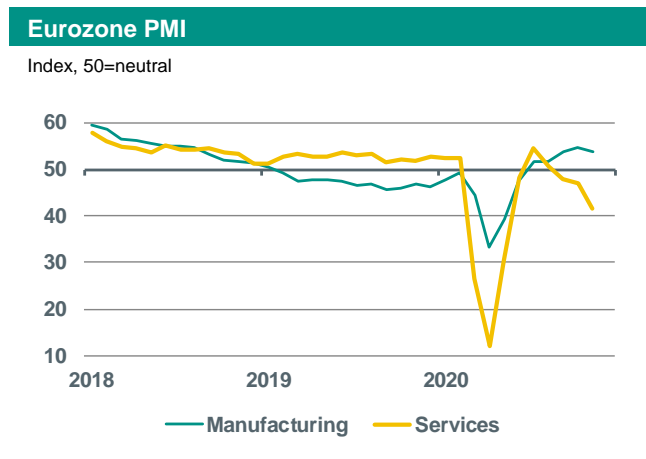
Source: Refinitiv, ABN AMRO Group Economics

4 China's effective recovery prevents new supply shock

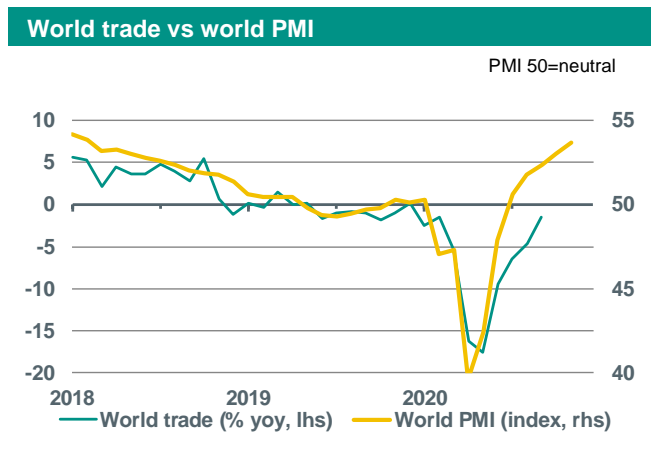
China has already largely made up for the economic downturn. As a result, the supply shock, which put a brake on the world economy in the first wave, is no longer a concern in the second wave. During the first wave, the manufacturing powerhouse China, and in particular the Hubei region and its capital Wuhan, came to a virtual standstill. As a result, production chains around the world were disrupted.

Thanks to effective and centrally-directed interventions, the Chinese industrial production was already up and running again a few months after the outbreak. In 2021, we expect GDP growth in China to be as high as 8%.

Supported by this Chinese recovery, world trade and industrial production have also clearly recovered after a significant decline in the second quarter. Thus, unlike the first wave, the global economy is hardly affected by supply-side disruptions in the second (and third) wave. There is a risk here, however. Should infection rates in the euro area and the US remain high and restrictions persist, sooner or later industrial production growth will inevitably weaken.



Source: Refinitiv, ABN AMRO Group Economics



Source: Refinitiv, ABN AMRO Group Economics

Recovery potential 2021 and 2022

With the phasing out of restrictions between the second quarter and the end of 2021 comes the recovery. Immediately after the first easing of restrictions, there will be strong growth figures for a few quarters, if only because of the aforementioned base effects. Nevertheless, we do not expect a so-called V-shaped recovery. This is due to the anticipated spending levels and proposed stimulus measures.

1 Inability and unwillingness to spend.

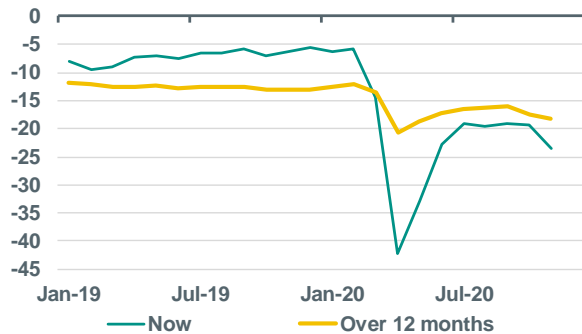
The possibility to spend is being held back by the gradual introduction of the relaxations. We assume that governments – in the Eurozone at least – have learned from the summer when lockdowns were lifted too quickly. Moreover, [research](#) shows that, with the vaccine now in prospect, keeping the infection rate low for a little longer will prevent even more unnecessary deaths.

Another factor weighing on spending is that the worst-affected spending categories offer limited scope for catch-up growth. We cannot, after all, eat out and go on holiday to an unlimited extent once the restrictions have been eased.

And the propensity to spend extra will also be somewhat muted. Judging by consumer confidence data, which show a strong correlation with spending intentions for the coming year, consumers in the Eurozone and US are planning to leave their savings untouched for the time being.

Eurozone – Willingness to buy

Big purchases, index



Source: Refinitiv, ABN AMRO Group Economics

One important detail is that low-income earners spend a relatively large share of their income while people on high incomes tend to save more. As discussed in the conclusion, the Covid-19 crisis has aggravated income inequality because the hardest-hit sectors are the ones where wages are relatively low and uncertain. As precisely these groups of workers run an increased risk of becoming unemployed in this crisis¹, the spending effect will be limited.

2 Delayed effect of stimulus

A final factor preventing a V-shaped the recovery of 2021 is that stimulus programmes are being obstructed by political deadlock. A further delay of the European Recovery Fund and the European multi-year budget was averted just before this Outlook appeared. But with the Senate elections in the US still on hold, we must wait until January to find out whether the Democrats can dominate the Senate. In our baseline scenario this will not happen, so that the stimulus measures (which normally take time to have effect anyway) will probably be less powerful and only start showing results in 2022.

2022 a year of regaining lost ground

We expect both the euro area, the US and China to grow above trend in 2022 (see table at the bottom of the publication). This above-trend growth will gradually bring the level of prosperity closer to the potential level of prosperity, thus narrowing the output gap and reducing the risk of disinflation.

The fiscal support measures agreed in the US and Europe will boost GDP growth, albeit modestly. The European Recovery Fund is [expected](#) to provide a growth boost of around 1 percentage point. As indicated, the degree of economic stimulus in the US will depend on the Senate elections in January.

On the monetary front, there is no tightening in sight. Indeed, even if economic growth is buoyant, the output gap closes rapidly and the labour market regains tightness, inflation expectations will remain low. This is a lesson we have learned from the period after the financial crisis.

¹ According to the Dutch Employee Insurance Agency (UWV), 95% of temporary workers and 33% of standby workers in the Netherlands are active in the sectors that are heading for substantial or very substantial contraction. Only 11% of employees on permanent contracts fall within this category.

We expect about half of the 4% output gap in the US to close in 2022. In the euro area, we expect it to slow down. By the end of 2022, the euro area's GDP will still be about 3.5% below trend, after about 4.5% at the end of 2021.

For China, our expectation is that 2022 will be a more normal year than for the other economies. The high GDP growth rates of reopening were already visible in 2020. In 2021, growth will slow down, but remain above trend. For China, 2022 will be mainly driven by a gradual financial risk and debt reduction.

Netherlands

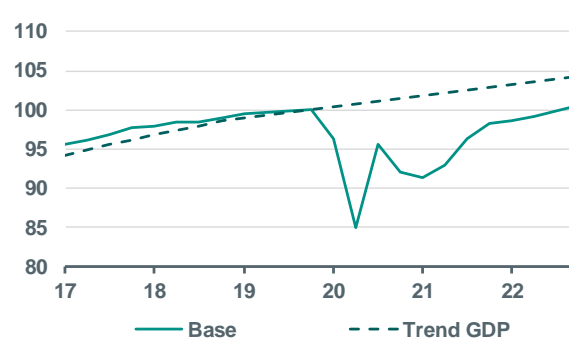
GDP forecast, 19Q4=100



Source: Refinitiv, ABN AMRO Group Economics

Eurozone

GDP forecast, 19Q4=100



Source: Refinitiv, ABN AMRO Group Economics

US

GDP forecast, 19Q4=100



Source: Refinitiv, ABN AMRO Group Economics

China

GDP forecast, 19Q4=100



Source: Refinitiv, ABN AMRO Group Economics

As far as our inflation expectations are concerned, downward inflationary pressures will dominate in the coming years. As long as the output gap is substantial and unemployment rises, this indicates an under-utilisation of production capacity. This means that inflation will remain low.

In 2021, there are a number of special circumstances that temporarily break the trend of disinflation in the euro area. For example, the German VAT rebate will disappear and the 2020 oil price cut will drop out of the data. As a result, inflation will temporarily rise.

Structure shifts are hidden below average growth rates

This pandemic is unusual in many ways. The contraction we have seen in the world economy is unprecedented, with the exception of times of world wars. The frequent comparison with the financial crisis and the subsequent major recession is flawed in many respects. However, the most remarkable thing about this pandemic is the impression that many people,

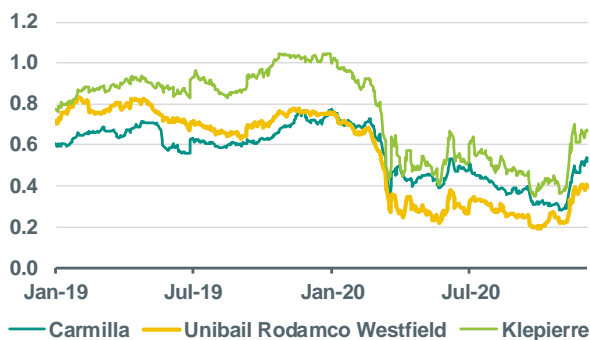
including analysts and investors, have of the structural shifts that this pandemic is initiating or accelerating. Below, we discuss a number of striking trends and how they interact. Based on an analysis of shifts in market valuations, it appears that some trends are indeed significant and may even give rise to a paradigm shift, while for other trends the dreams of a different world seem a bit far-fetched.

Digitisation of work and consumption

It is well known that there has been a massive slide towards online purchases and working from home. However, the question is how much of this shift will prove to be permanent when economies reopen and what it means for physical shopping centres, inner-city real estate, the growth of Big Tech and not least CO2 emissions.

In the months in which the Dutch economy opened up, offline payments did increase again, but this was hardly at the expense of online orders. This is an indication of digital habituation. However, the continuing fear of infection could also cause some of the consumers to self-restrict. The price-to-book of large global shopping centres and the price/earnings valuation of Amazon show what the market expects. While the (European) start of the pandemic in March shows the shift from offline to online, the announcement of a working vaccine marks a start of the market expectations post-Covid.

Price-to-book shopping mall operators



Source: Bloomberg, ABN AMRO Group Economics

Price to FY 20 earnings Amazon



Source: Bloomberg, ABN AMRO Group Economics

Developments are mirrored: during the outbreak of the pandemic in March, the valuation of shopping centres dropped and Amazon's valuation rose. As soon as the first effective vaccine was made public worldwide, investors started pre-sorting for the world after corona. Shopping centres are regaining half of their lost value, while Amazon is returning half of its increase in value (despite rising profit expectations). This tells us that while the world after corona is becoming much more digital than pre-corona, the physical buying experience is not disappearing completely. During the easing in the summer months, we already saw the number of visits to physical shops return to 75% of pre-corona levels.

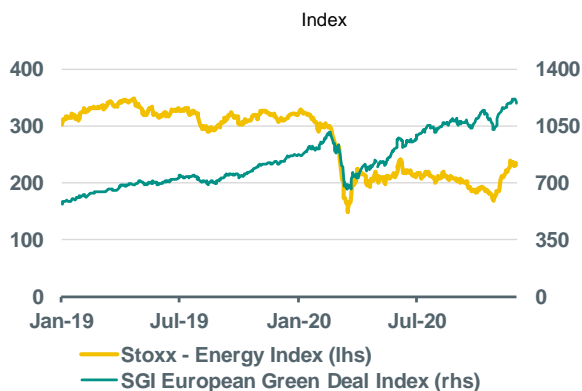
The same seems to be true for business travel. A global survey of frequent business travellers by Oliver Wyman shows that 43% of those surveyed said they would travel much less after the pandemic (27% in May 2020). Based on the survey, the consultant estimates that the business travel industry will fall by 20-36%. The global travel company Expedia lost some 45 percent of its value at the end of April and won back only 24.6 percent with the announcement of a working vaccine on November 9th.

A green restart

Following the outbreak of the pandemic and the huge drop in demand for oil, the exchange rates of the traditional energy companies (Stoxx Energy Index) and the companies expected to benefit from the European Green Deal (SGI European

Green Deal Index) have reversed. Sustainable investment funds (ESG ETFs) also proved less sensitive to the downward shock of the corona pandemic.

Has the pandemic accelerated the path to CO2 reduction?



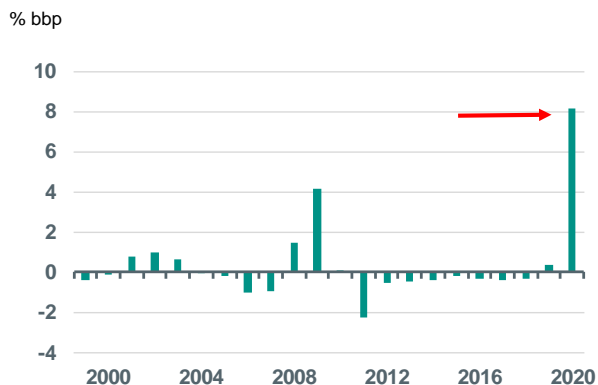
Source: Bloomberg, ABN AMRO Group Economics

Whether CO2 reduction will actually accelerate after the restart depends on policy. American climate measures in particular will have a major impact on the Paris Climate Targets to limit global warming to 1.5 degrees Celsius by 2100. The Senate election in January will show how ambitious President elect Biden can be with his green agenda. With the measures planned by the Democrats, America can prevent 0.1% of the increase in global temperature. But not only that: if the Americans comply with the Paris Agreement, 58% of global CO2 emissions will be eligible for reduction. Finally, the European and American proposed carbon tax will also protect jobs and encourage trading partners to reduce their emissions as well. See [here](#) for our recent study on this.

Paradigm shift in fiscal & monetary policy?

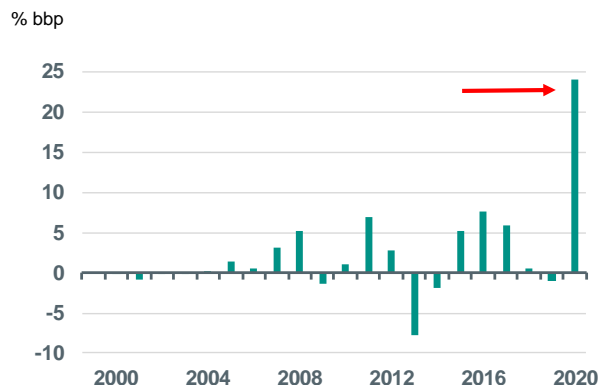
In response to the corona pandemic, governments and central banks have taken far-reaching stimulus measures. Fiscal support and monetary easing seem to be mutually reinforcing. For the time being, policymakers will continue to stimulate the economy. The ECB's inflation forecast of only 1.2% (core inflation) in 2023, announced in December, reflects the ECB's pessimism about its ability to directly boost spending and inflation. Instead, the ECB now seems to be focusing on indirect support, by enabling governments to stimulate the economy. By buying up government bonds on a large scale, the interest rate on government loans remains low, despite the fact that public debt is rising.

Eurozone fiscal impulse



Source: Refinitiv, ABN AMRO Group Economics

Eurozone monetary impulse



Source: Refinitiv, ABN AMRO Group Economics

For the US Central Bank, the door has been opened to a long-term loose monetary policy, by allowing a temporarily overshoot of inflation after a period of under-shooting the inflation target.

This is a welcome development for governments, who have come to realize that the very low interest rates offer them a unique opportunity to limit the economic damage in their country. Unlike after the previous crisis, almost nowhere in the world do policymakers call for a rapid return to austerity.

For the world economy, large-scale stimulation and budget support are indispensable, both to spur recovery with above-trend growth and to reduce disparities between countries. For the euro area, this is what the European Recovery Fund is all about. It is doubtful whether the fiscal stimulus is large enough to make up for lost ground. We [believe](#) that current plans will allow the economy to grow by an additional 1% or so.

Globally, despite the stimulus, the recovery from this crisis looks set to increase rather than reduce inequalities. This widening inequality is a brake on global inflation, as lower incomes consume a relatively larger proportion of their income. Other things equal, this means that interest rates will remain low for a very long time to come. This is particularly true in the context of an ageing world population that is saving more than it spends. Adding to this disinflationary trend are a number of other trends emerging from this pandemic:

- The current underutilisation of production capacity that will persist for a while after the pandemic;
- The digital shift discussed above is accelerating the growth of digital platforms which in turn reduce competition in various markets and lead to winner-take-all concerns. Concerns that not price increases, but wage reductions may result from this is adding to the disinflationary pressure.
- Finally, digitization spurs lower investment demand, as they contain mostly intangible assets.

Persistently low inflation-expectations lead to lowering interest rates which again fuels the interdependence between fiscal and monetary policies.

CONCLUSION

This global outlook outlines our baseline scenario for 2021 and 2022. Nevertheless, other scenarios are possible in these extreme economic circumstances (see [here](#) for our positive and negative scenarios). There are also non-pandemic related developments such as the Brexit and the anything but resolved trade tensions between the US and China. Prior to this pandemic, these developments dominated our outlook. Because of the pandemic's overarching impact on the economy, we have not paid explicit attention to these developments in this global outlook. Our Brexit expectations can be found [here](#) and will also be updated in the coming weeks. Of course, the economic consequences of the Brexit have been taken into account in our estimates.

In this global outlook, in addition to our economic forecasts for 2021, we have tried to pay attention to three structural shifts that will set this unprecedented crisis in motion. The structural shifts around digitisation, CO2 reduction and the monetary-fiscal tandem are developments that influence each other. Working from home reduces CO2 emissions by reducing travel. In order to achieve the agreed reduction in emissions, large-scale investments are again necessary, particularly by governments. Investments that benefit from low interest rates. And finally, this interest rate is being squeezed back by the ongoing digitalisation, which has come full circle. In the coming year, Group Economics will publish various deep dive studies focusing on these larger themes.

* This document has been produced with the help of Nora Neuteboom, Jan-Paul van de Kerke, Nick Kounis, Aline Schuiling, Bill Diviney, Arjen van Dijkhuizen, Shanawaz Bhimji, Philip Bokeloh. All economists and fixed income strategists at ABN AMRO Economic Bureau. Finally, Wilma Schelvis and Theo de Kort have also been of great value in the creation of this publication.

Key economic forecasts

15/12/2020	GDP (% yoy)			Inflation (% yoy)		
	2020e	2021e	2022e	2020e	2021e	2022e
US	-4.2	3.2	3.9	1.2	1.9	1.9
Japan	-5.3	2.6	1.7	0.2	0.4	0.5
Eurozone	-7.6	2.7	5.2	0.3	1.1	0.5
Netherlands	-4.4	3.0	3.6	1.3	1.3	1.6
UK	-10.9	5.7	5.9	0.9	1.5	2.0
Emerging Markets						
China	1.8	8.0	5.5	2.5	2.0	2.5
Asia	-1.5	7.3	5.1	3.1	2.7	3.0
Em. Europe	-4.5	3.5	3.9	5.2	5.1	5.2
Latam	-8.2	3.7	3.0	7.6	8.4	6.9

15/12/2020	Official policy rate (% eop)			3m interbank rate (% eop)		
	2020e	2021e	2022e	2020e	2021e	2022e
US	0.25	0.25	0.25	0.25	0.25	0.25
Japan	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10
Eurozone	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
UK	0.10	0.10	0.10	0.10	0.10	0.10

	10y government bond yields (% eop)		
	2020e	2021e	2022e
US	0.9	0.7	0.8
Japan	0.0	0.0	0.0
Eurozone (Bunds)	-0.8	-0.5	-0.4
UK	0.3	0.7	0.8

	Exchange rates (versus USD, eop)			Exchange rates (versus EUR, eop)			
	2020e	2021e	2022e	2020e	2021e	2022e	
				1.18	1.25	1.30	EUR/USD
USD/JPY	106	110	115	125	138	150	EUR/JPY
USD/EUR	0.85	0.80	0.77				
GBP/USD	1.30	1.38	1.45	0.91	0.91	0.90	EUR/GBP

Source: Thomson Reuters Datastream, EIU, ABN AMRO Group Economics

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