

Economy Watch

The Emerging Global Recovery

June 9, 2021



Some of the critical questions and issues we will be answering today

- How rapidly is the US economy recovering and what is the outlook for the next year?
- Will the European recovery accelerate in the coming months?
- Will China's economic rebound continue? Will India bounce back?
- What awaits the Gulf region later this year?



Today's Speakers



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US Economic Outlook

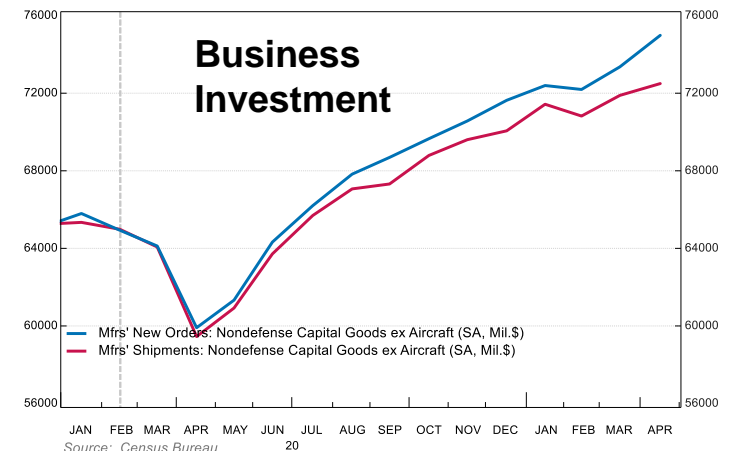
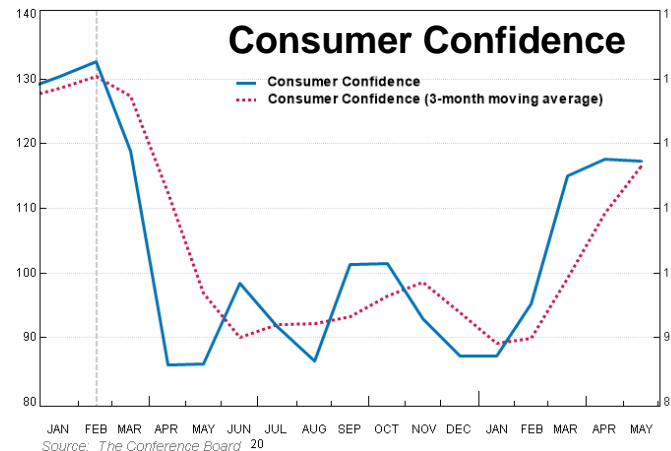
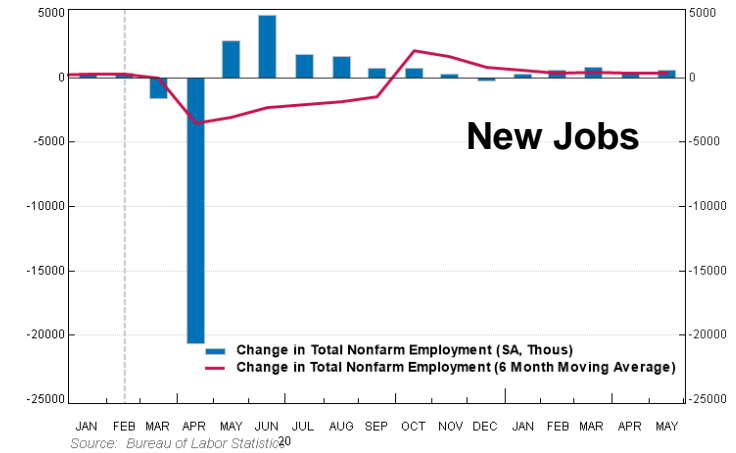
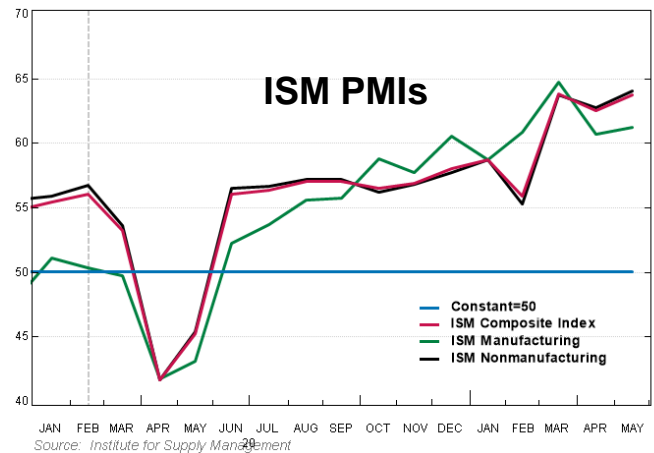
Macro data continue to improve across the US economy, bolstering recovery prospects. Further fiscal support is ahead.

US economic recovery continues to gather momentum

- PMIs strong, especially in services
- Consumer Confidence improving
- Unemployment rate continues to fall
- Business investment in equipment very strong

Advanced Child Tax Credits begin July 15 and will run through early 2022. Monthly checks for families

Infrastructure package possible, but it would not impact the economy until 2022



US consumer spending already exceeds pre-pandemic level but is lopsided. The transition back to services will likely stoke inflation.

April 2021 US consumers spending relative to January 2020:

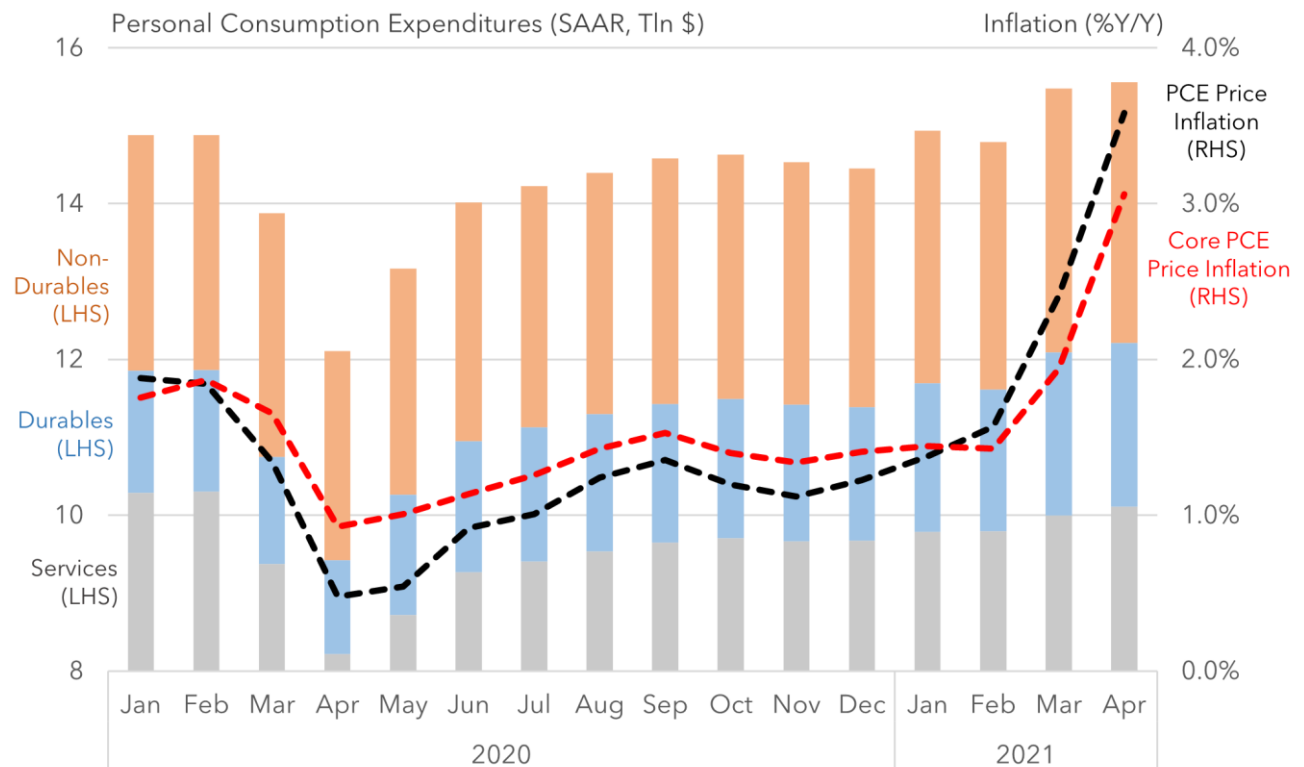
- Durable Goods: +29.2%
- Nondurable Goods: +9.0%
- Services: -4.6%

Spending will pivot back to services as economy reopens

Inflation already accelerating due to supply-demand mismatch in durables (supply chain crunch), but pivot back to services will sustain overall inflation trend

Labor market crunch / wage inflation could also become a key factor for inflation

As Consumer Spending Patterns Shift Inflation is Rising



Source: BEA, The Conference Board

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US economic recovery is strengthening, but inflation risks remain.

| | 2020 | | | | 2021 | | | | 2019 | 2020 | 2021 | 2022 | 2023 |
|----------------------------------|-------|--------|--------|-------|-------|-------|-------|------|------|-------|------|------|------|
| | I Q* | II Q* | III Q* | IV Q* | I Q* | II Q | III Q | IV Q | | | | | |
| Real GDP | -5.0 | -31.4 | 33.4 | 4.3 | 6.4 | 9.0 | 7.8 | 4.2 | 2.2 | -3.5 | 6.6 | 3.8 | 2.5 |
| Real disposable income | 2.6 | 48.5 | -17.4 | -7.6 | 61.7 | -21.0 | 3.0 | 1.5 | 2.2 | 6.0 | 6.8 | | |
| Real consumer spending | -6.9 | -33.2 | 41.0 | 2.3 | 11.3 | 9.3 | 8.0 | 5.1 | 2.4 | -3.9 | 8.1 | | |
| Residential investment | 19.0 | -35.5 | 63.0 | 36.6 | 12.7 | 9.0 | 9.0 | 7.0 | -1.7 | 6.1 | 16.3 | | |
| Nonresidential investment | -6.7 | -27.2 | 22.9 | 13.1 | 10.8 | 9.7 | 7.4 | 6.2 | 2.9 | -4.0 | 8.8 | | |
| Inventory change (bln chn '12\$) | -80.9 | -287.0 | -3.7 | 62.1 | -92.9 | -35.0 | 50.0 | 40.0 | 48.5 | -77.4 | -9.5 | | |
| Total gov't spending | 1.3 | 2.5 | -4.8 | -0.8 | 5.7 | 3.5 | 0.3 | 1.0 | 2.3 | 1.1 | 1.5 | | |
| Exports | -9.5 | -64.4 | 59.6 | 22.3 | -2.9 | 8.1 | 3.0 | 4.1 | -0.1 | -12.9 | 4.2 | | |
| Imports | -15.0 | -54.1 | 93.0 | 29.9 | 6.7 | 12.1 | 8.1 | 5.1 | 1.1 | -9.3 | 13.8 | | |
| Unemployment rate (%) | 3.8 | 13.1 | 8.8 | 6.8 | 6.2 | 5.8 | 5.2 | 4.6 | 3.7 | 8.1 | 5.4 | 3.9 | |
| PCE Inflation (%Y/Y) | 1.7 | 0.6 | 1.2 | 1.2 | 1.8 | 3.5 | 2.9 | 3.0 | 1.5 | 1.2 | 2.8 | 2.3 | 1.8 |
| Core PCE Inflation (%Y/Y) | 1.8 | 1.0 | 1.4 | 1.4 | 1.6 | 2.9 | 2.2 | 2.4 | 1.7 | 1.4 | 2.3 | 2.1 | 2.0 |

Source: The Conference Board



European Outlook

The Euro Area economy is gaining strength. CEOs are increasingly optimistic. Business confidence jumped in May.

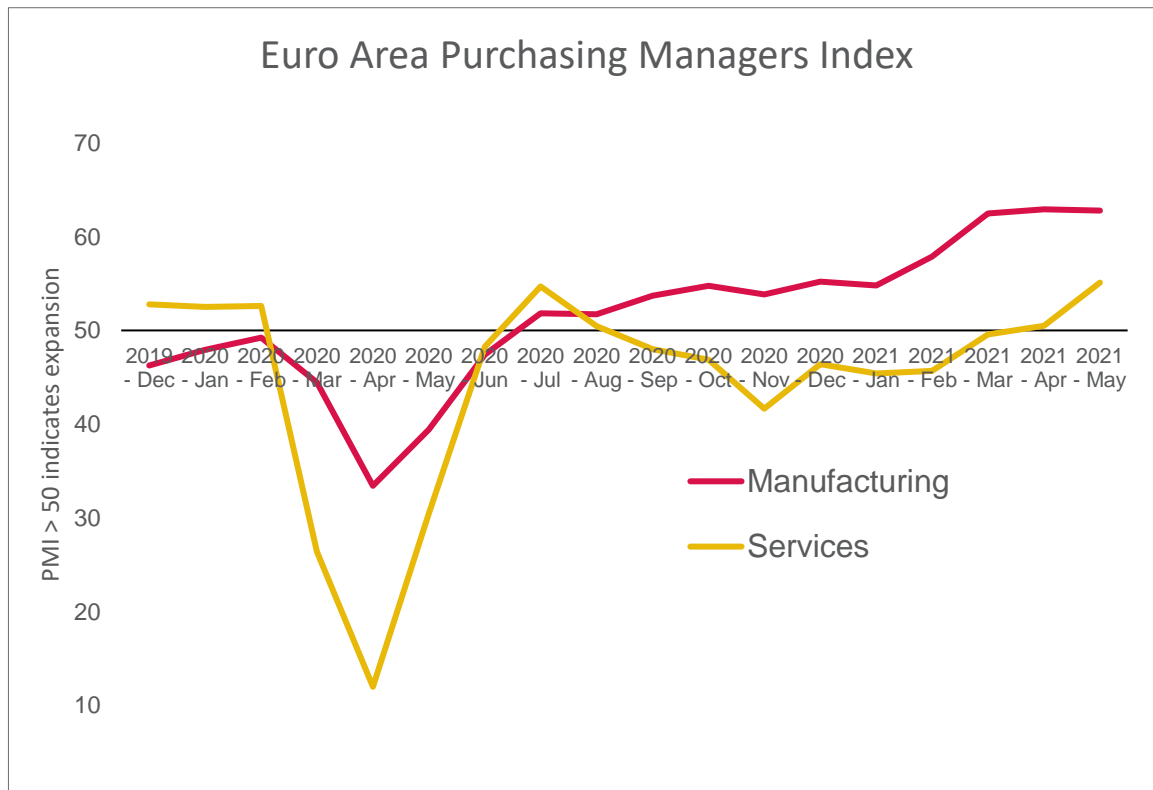
- Currently there are very high level of confidence among businesses and consumers
- Recovery split between 2021 and 2022
- Vaccination has been accelerating in April and May, but: can herd immunity be really achieved?

| | 2020 | 2021 | 2022 |
|-----------|-------|------|------|
| Germany | -5.0 | 3.0 | 3.3 |
| France | -8.5 | 5.8 | 3.8 |
| Italy | -9.4 | 4.0 | 3.4 |
| Spain | -11.5 | 6.0 | 5.7 |
| Euro Area | -6.8 | 4.2 | 3.7 |
| UK | -10.4 | 5.5 | 3.9 |

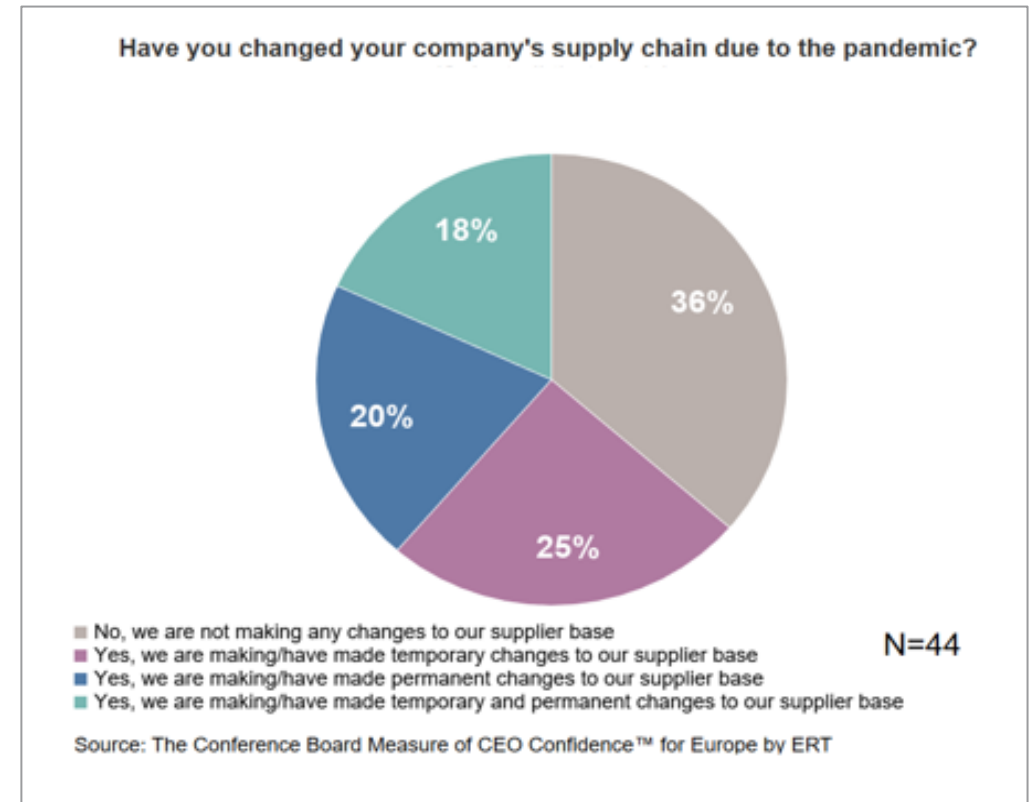
Source: The Conference Board [Global Economic Outlook](#), May 2021 Update



Services will drive growth in the coming months while manufacturing is facing supply constraints.

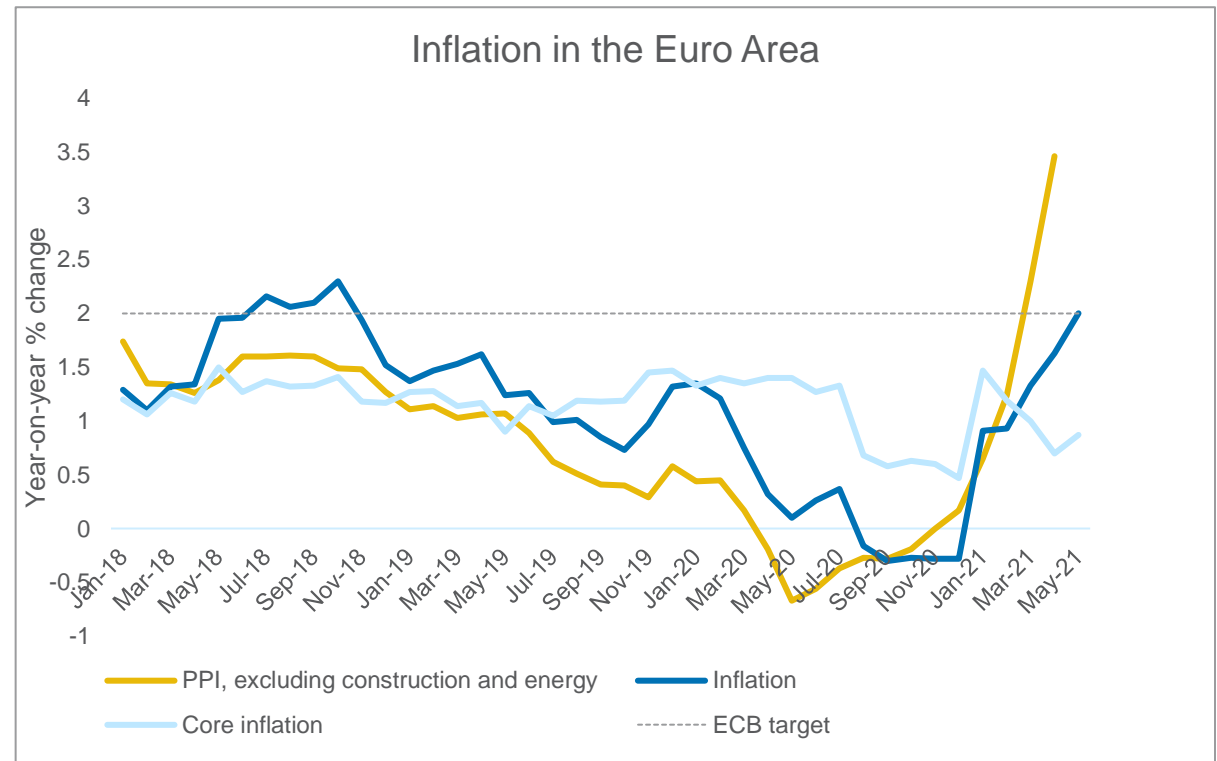


Source: IHS Markit, The Conference Board



Slower recovery in economic activity in the Euro Area creates downward pressure that balances increasing input costs.

- Overall inflation has been increasing but once energy is excluded, the increase fades away
- There is an increase in producer prices since January. The trend remains, although less marked, even after energy prices are excluded. Companies are facing higher input prices. It's not clear if these rising costs will be passed on to consumers
- According to the ECB Survey of Professional Forecasters, some pressure on prices is expected in 2021, but no fundamental change in the medium-term is in sight



Source: Eurostat, IHS Markit, The Conference Board

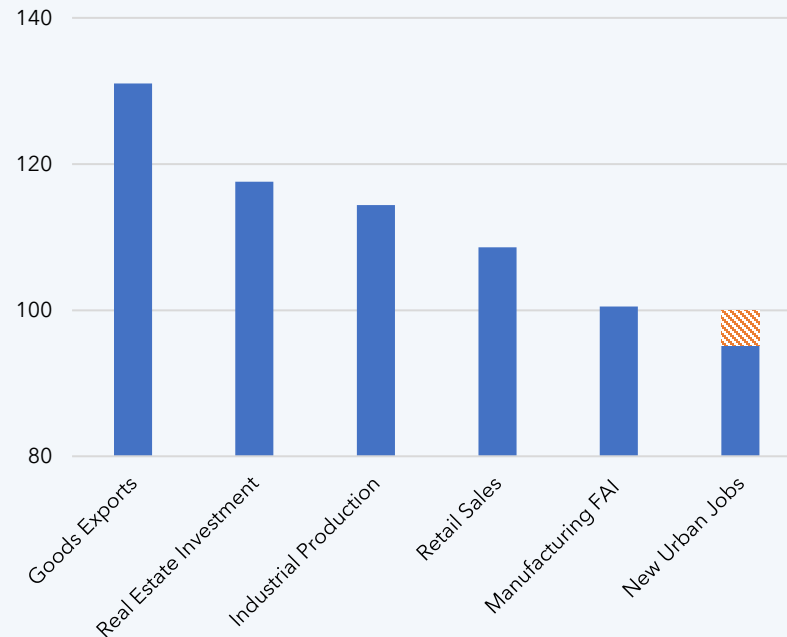


China Outlook

China's economic recovery is steady but unbalanced.

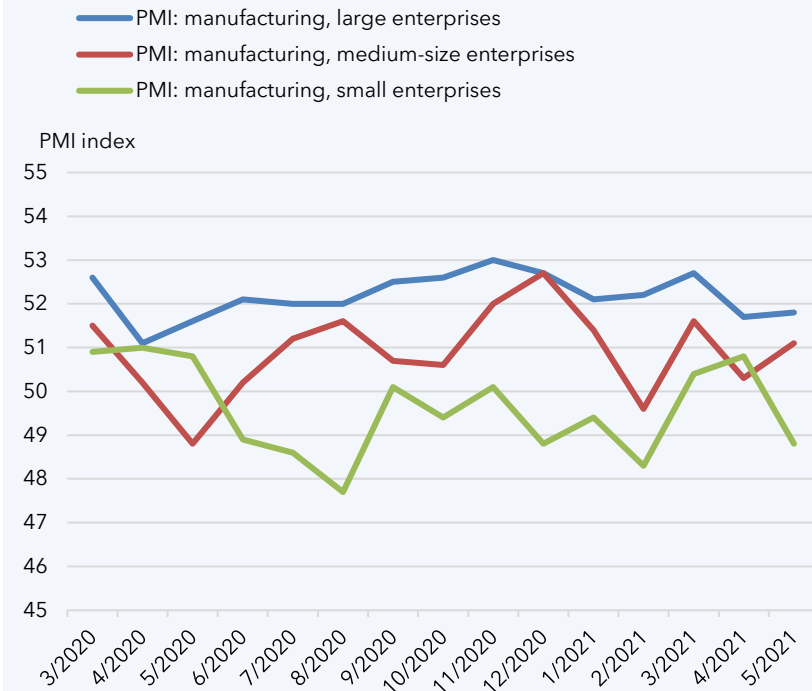
Demand recovery has been leading by exports and real estate investment, while employment growth and consumption growth are lagging

Index of 2021 Jan-Apr level, 2019 Jan-Apr = 100



Sources: NBS, CEIC, The Conference Board

Small manufacturers are lagging in the recovery

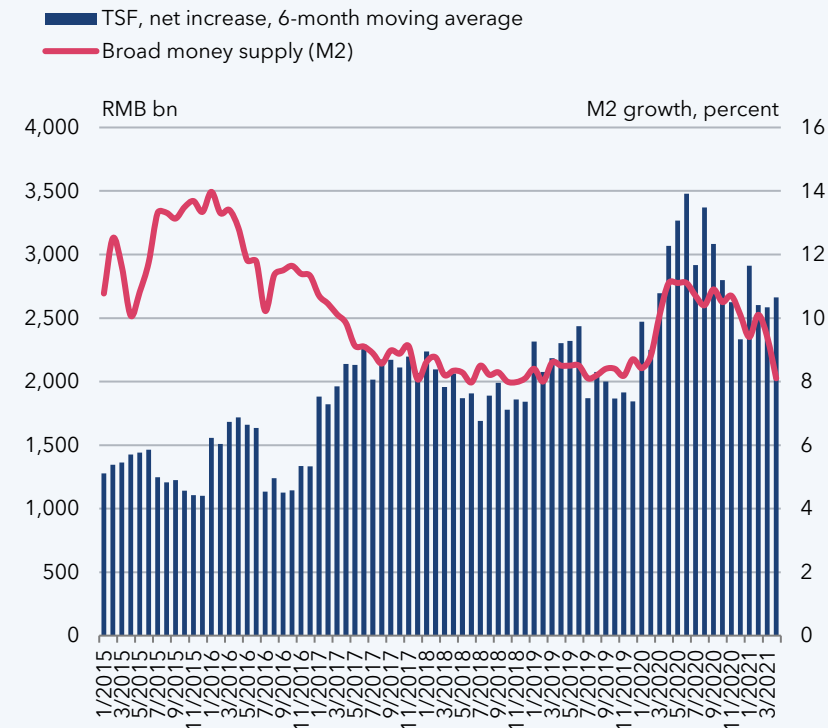


Sources: NBS, CEIC



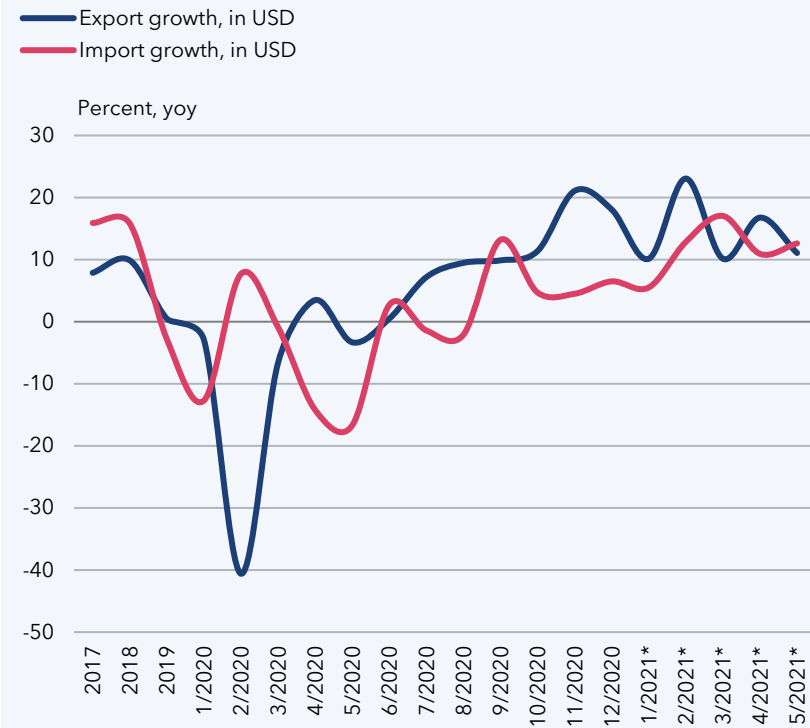
Monetary policy and trade performance are normalizing.

Monetary growth has peaked, though net credit flow is still higher than the pre-COVID level



Sources: PBoC, CEIC, The conference Board

Robust export growth continues in 2021



Sources: GAC, CEIC, The Conference Board
 Note: monthly growth in 2021 are estimated CAGRs over 2020 and 2021



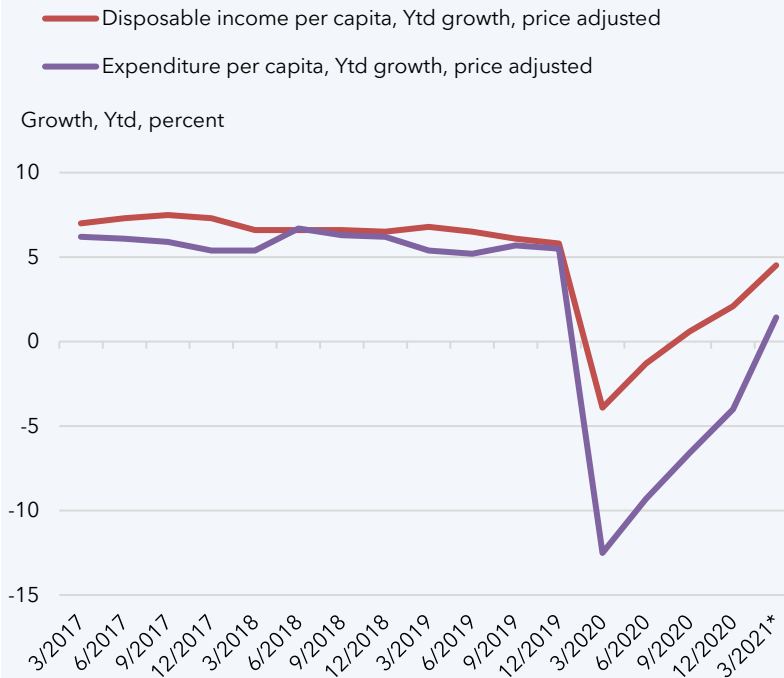
Intensifying producer price inflation is beginning to exert upward pressure on consumer prices

Mounting inflationary pressure



Sources: NBS, CEIC, The Conference Board

Household income growth remains lower than pre-COVID levels



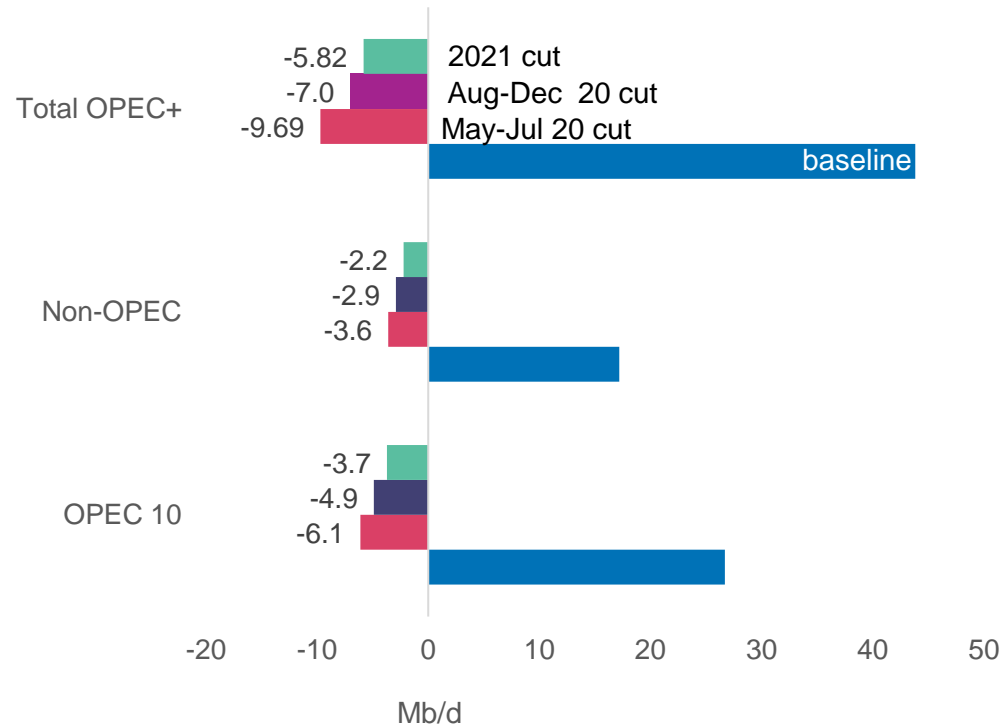
Sources: NBS, CEIC, The Conference Board
 Note: The growth in Q1 2021 are estimated CAGRs over 2020 and 2021.



Gulf Outlook

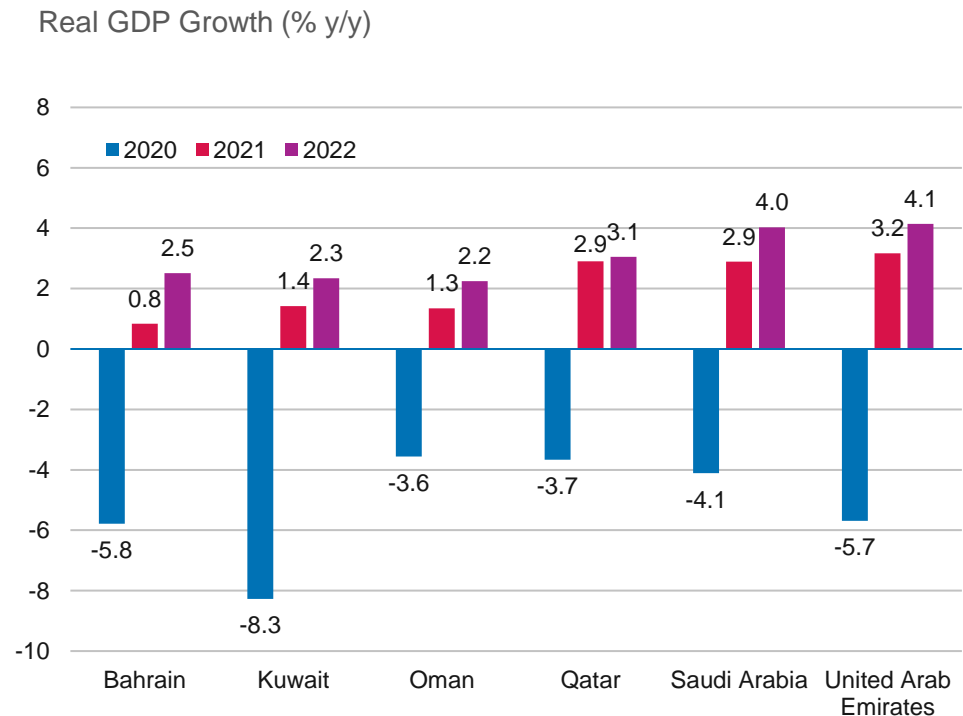
In 2020, the Gulf countries faced a dual shock: the COVID-19 pandemic, quickly followed by a deep oil shock.

OPEC+ May 2020 Oil Cut Agreement (mb/d)



Source: OPEC

Uneven recovery in the Gulf region

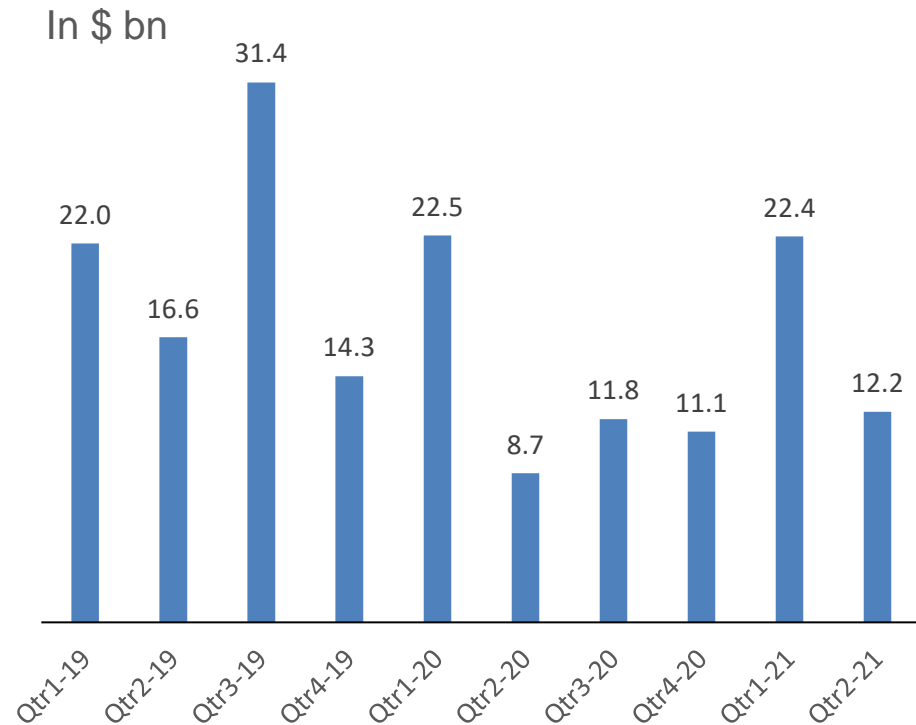


Source: The Conference Board



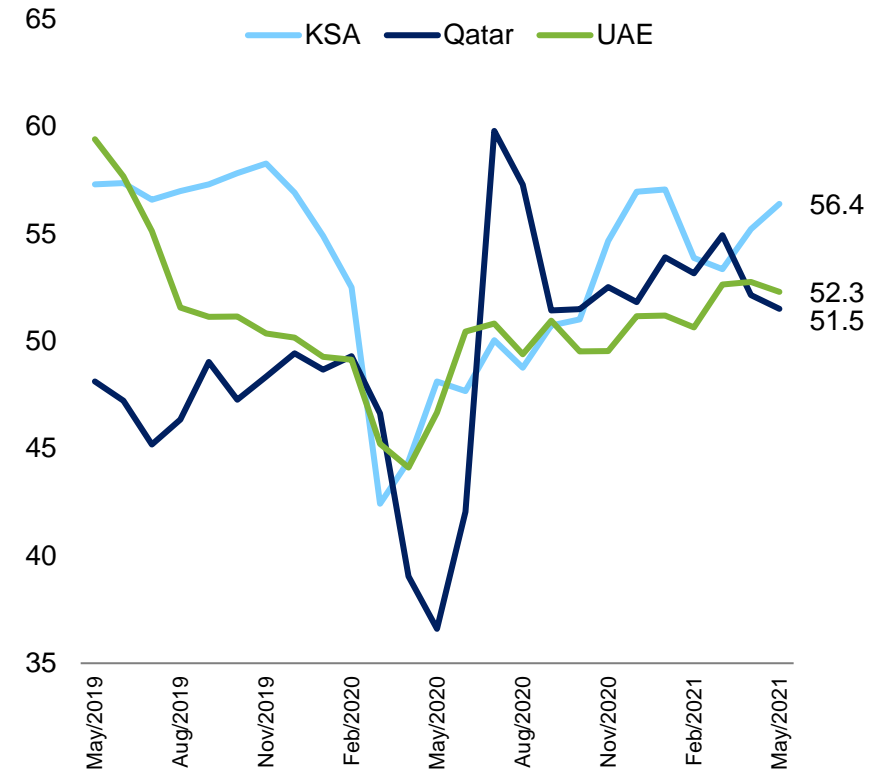
The fragile recovery of oil prices and tight fiscal budgets translated into slow funding for project awards while non-oil private sector activity expanded.

Project awards remain below pre-pandemic averages



Source: MEED

Purchasing Manager Index in expansionary phase

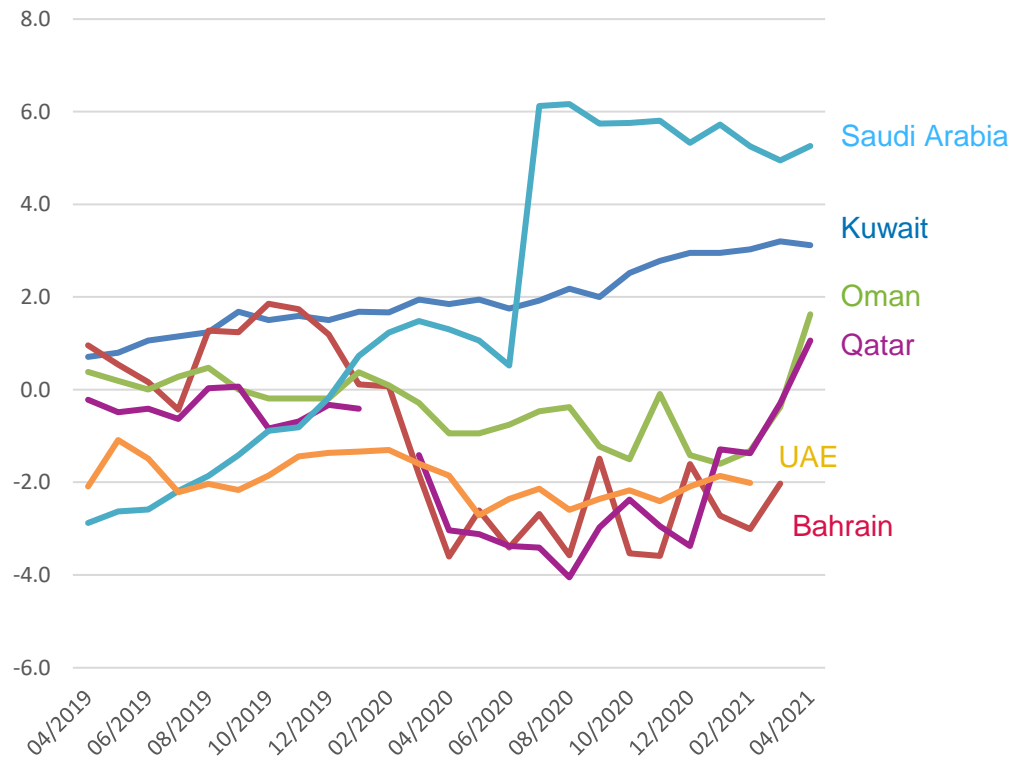


Source: Haver Analytics, Markit



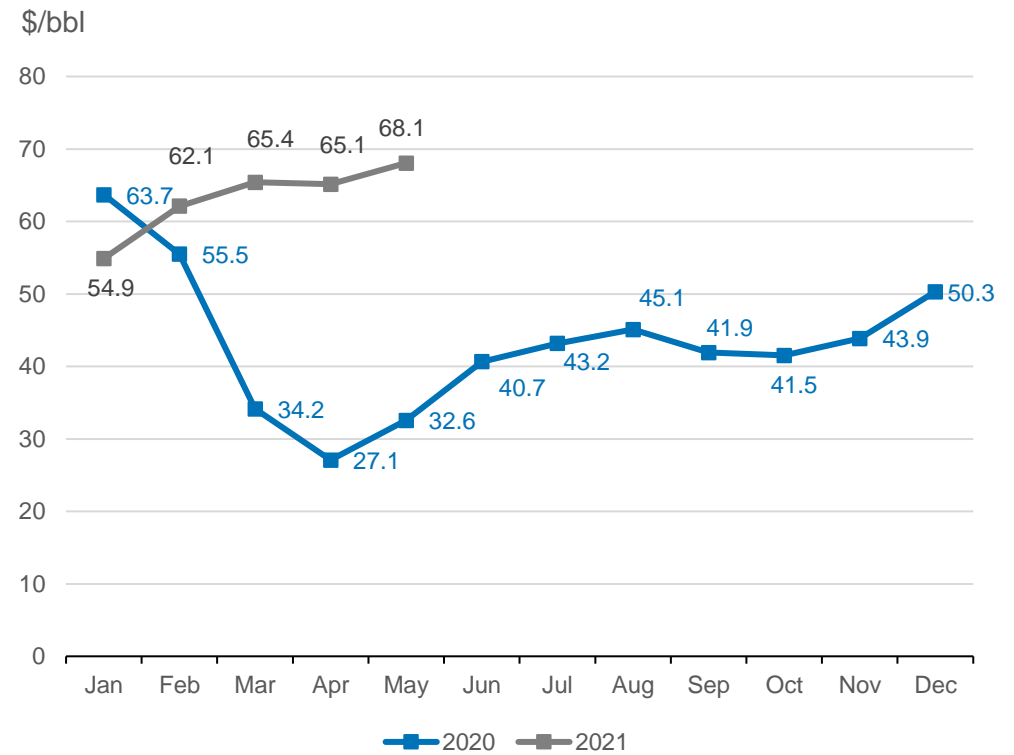
OPEC+ oil production cuts helped support a recovery in prices, but will this action lengthen the time it takes for the economy to recover?

Inflationary pressures diverge in the Gulf region



Source: National Sources

Brent Prices 2021 vs 2020



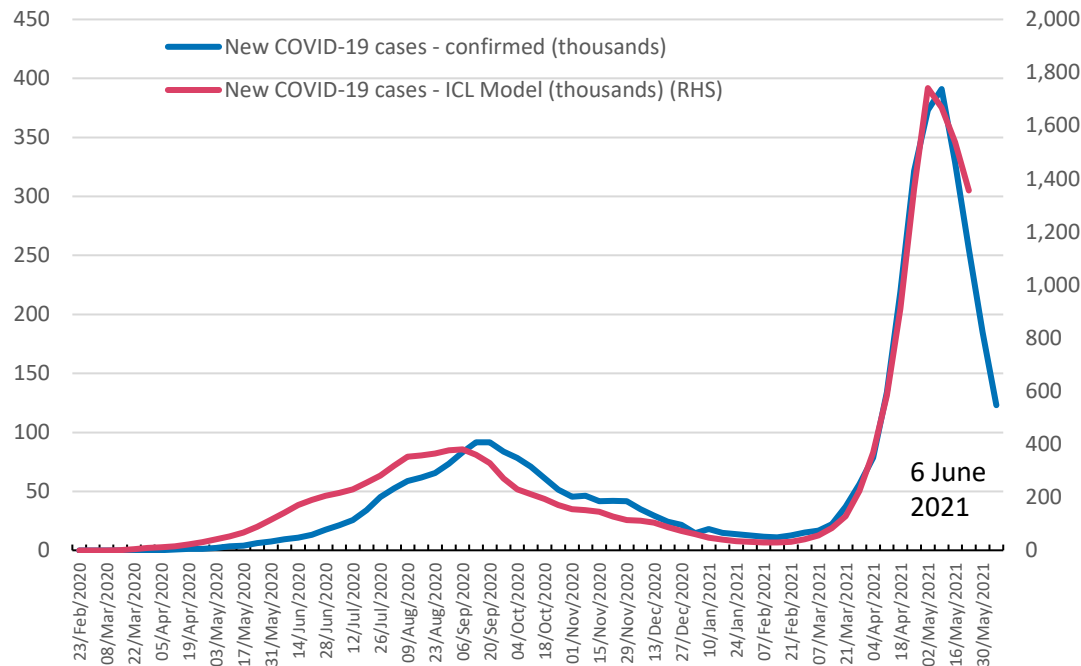
Source: Haver Analytics



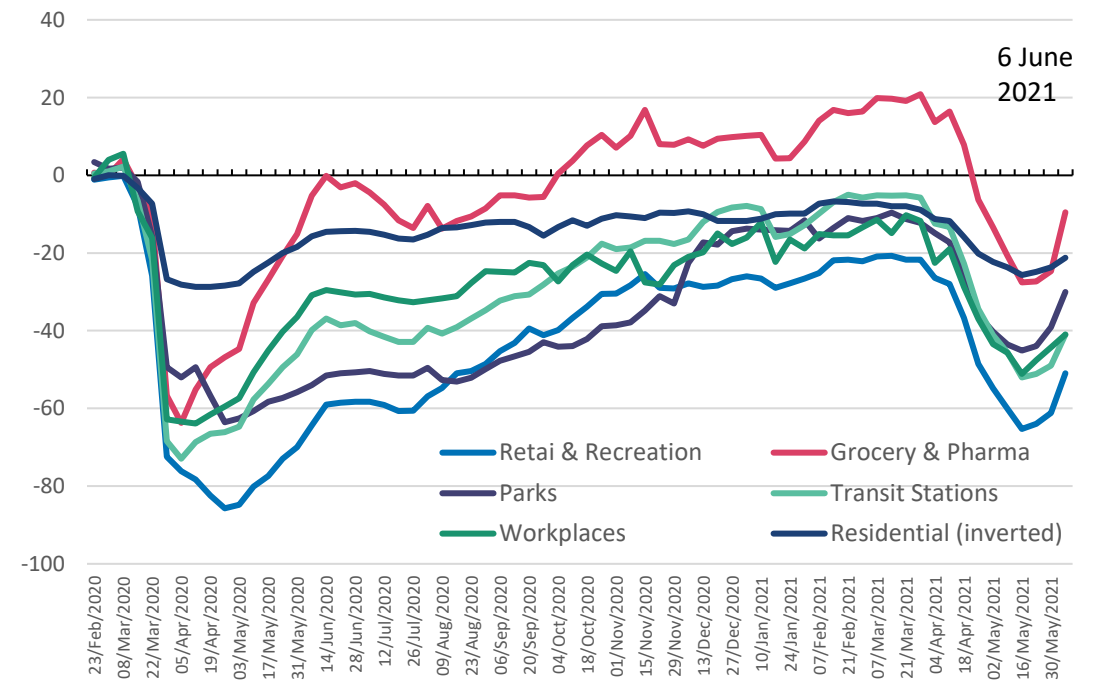
Emerging Market Outlook

Newly recorded COVID cases on the decline in India; mobility moving upwards again.

New COVID-19 cases (confirmed and modeled), weekly averages (thousands)



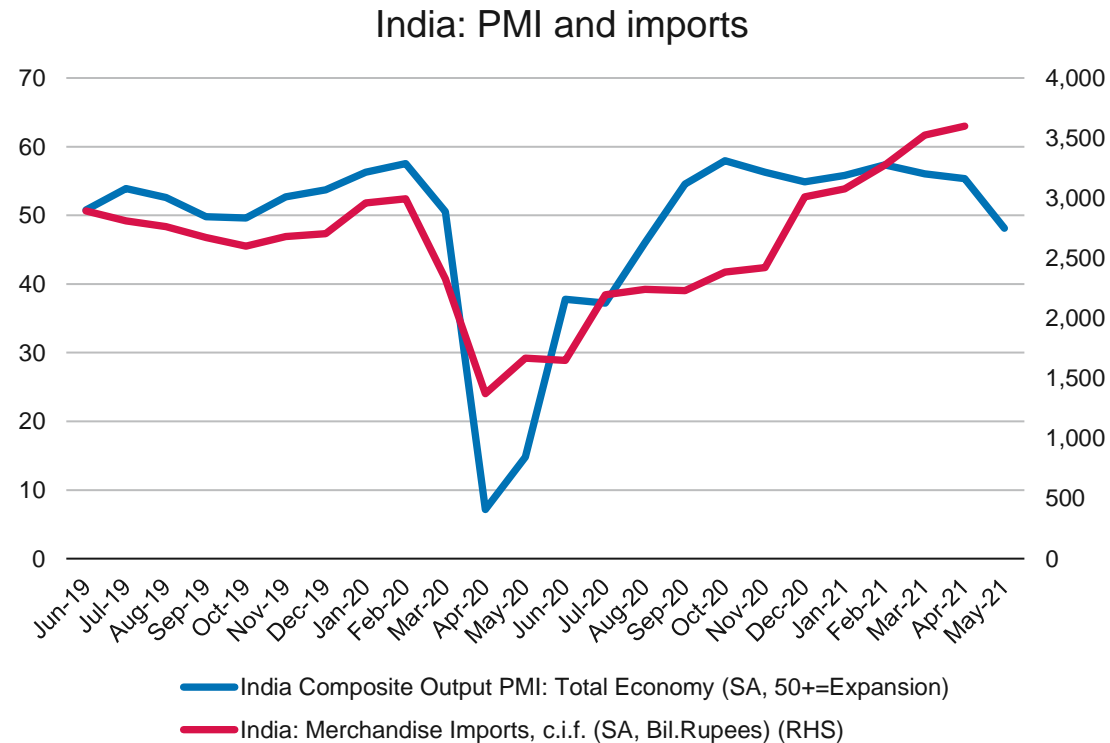
Google mobility reports, weekly averages (% change from pre-pandemic baseline)



Source: The Conference Board calculations using data from Haver analytics



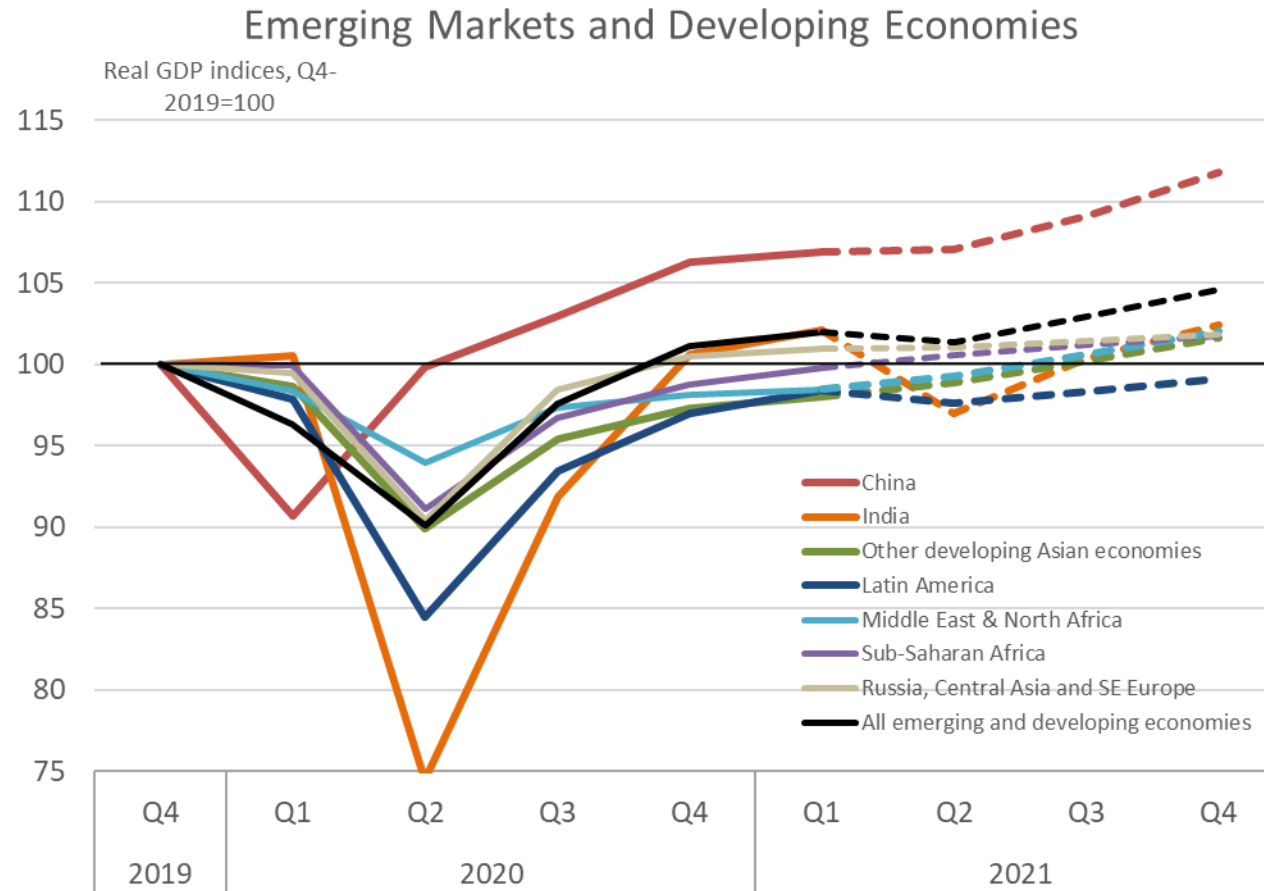
The Indian economy likely declined in Q2 but is expected to rebound fairly quickly.



Source: The Conference Board calculations using data from Haver analytics



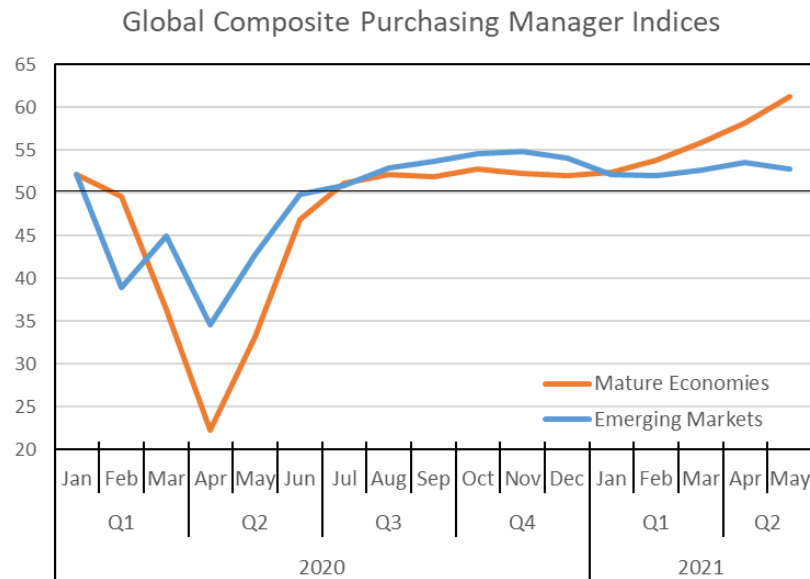
Most emerging markets and developing economies should return to pre-pandemic output levels by the end of this year.



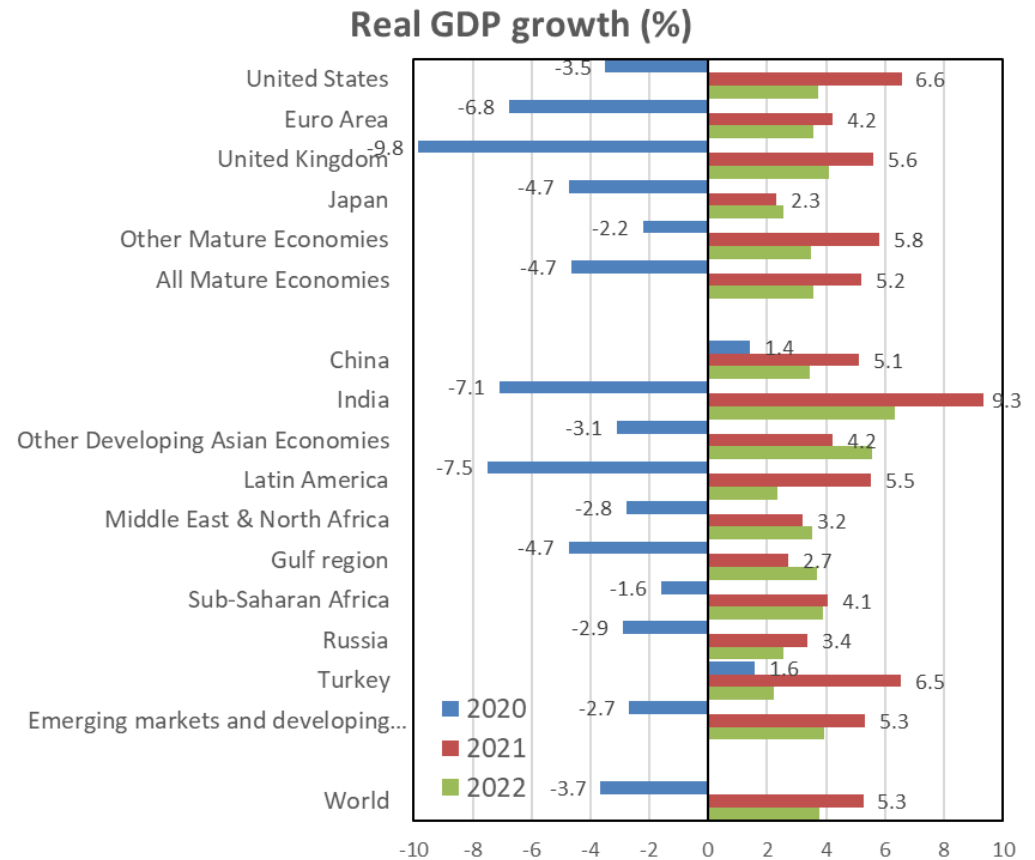
Source: The Conference Board Global Economic Outlook, June 2021



A rebound in global economic activity is underway, initially driven by mature economies.



Source: The Conference Board calculations using data from Haver analytics

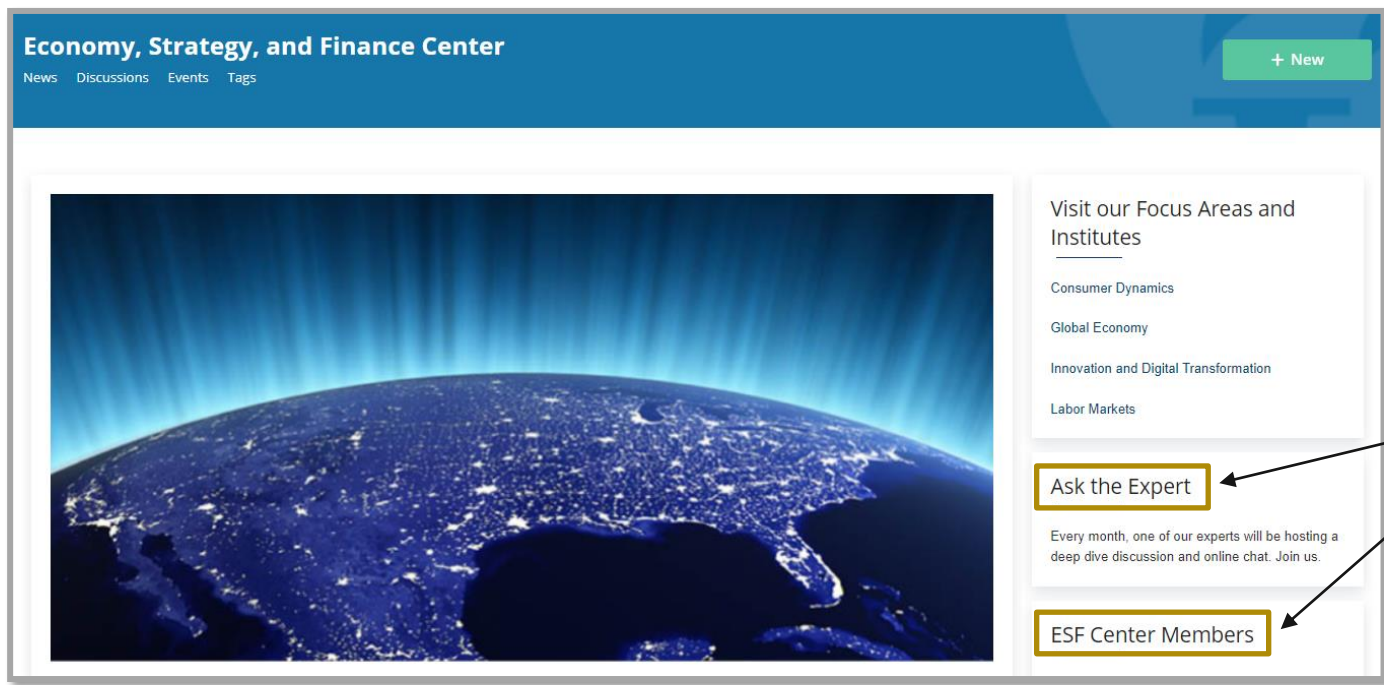


Source: The Conference Board Global Economic Outlook, June 2021



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