

# Economy Watch

## The UK and EU Economic Emergence from the Pandemic Recession

September 15, 2021



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

- How is the Delta variant impacting the economic outlook for the US and global economies?
- How are the European Union and United Kingdom faring under this phase of the pandemic?
- What is the economic outlook for the EU and UK over the coming year?
- How will the EU and UK reengage each other and the rest of the world as the pandemic fades?



# Today's Speakers



**Klaas de Vries**  
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Director  
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Principal Economist  
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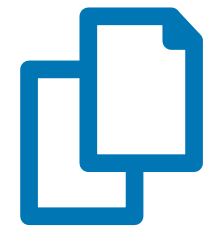
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# US Economic Outlook

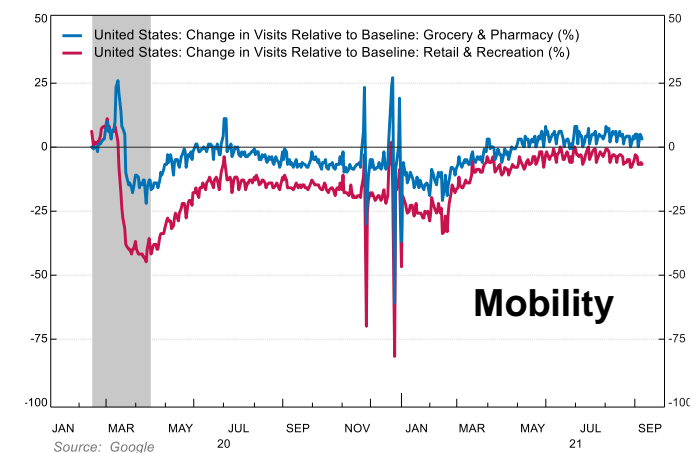
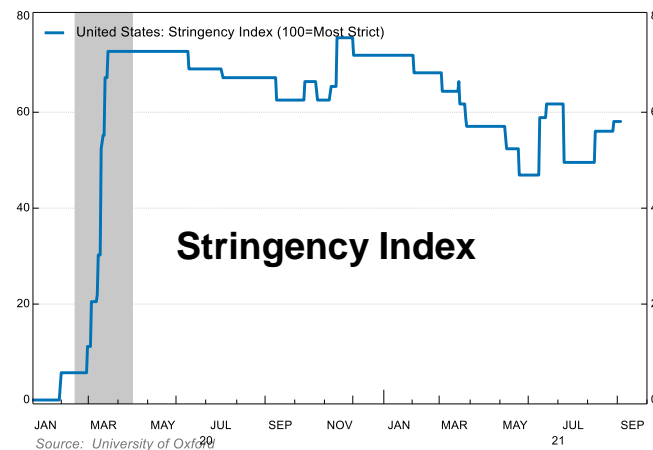
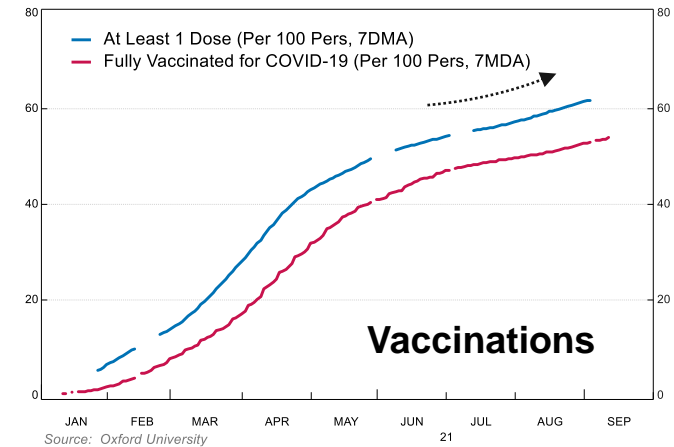
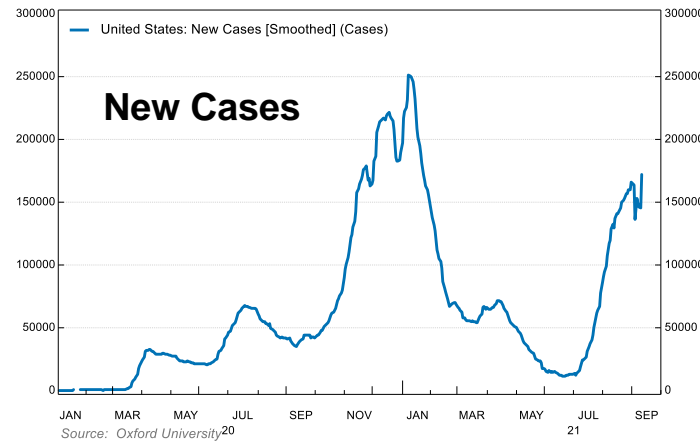
# Rise of the COVID-19 Delta variant is impacting government policies and consumer behavior

The rise of the Delta variant has resulted in a large wave of new COVID-19 cases. However, this wave may be peaking.

Vaccination campaign appears to have found a second wind.

Delta's impact on government policies and consumer behavior is clear, but much more muted than previous waves.

- Government stringency index up but remains well below 2020 levels.
- Consumer mobility data show lull in shopping activity.



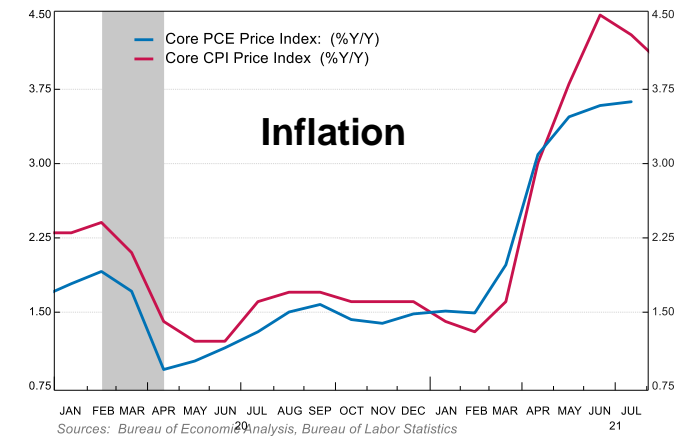
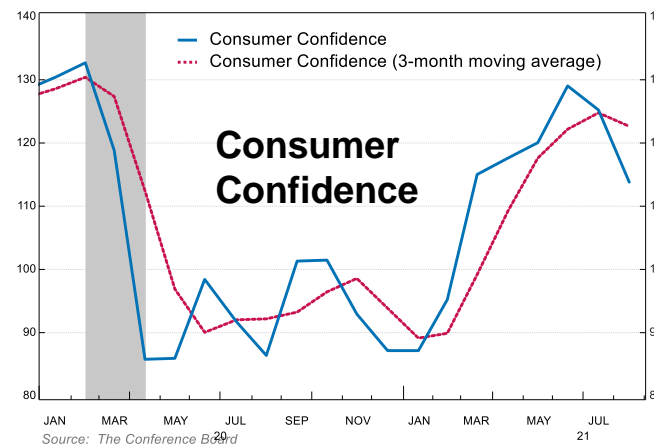
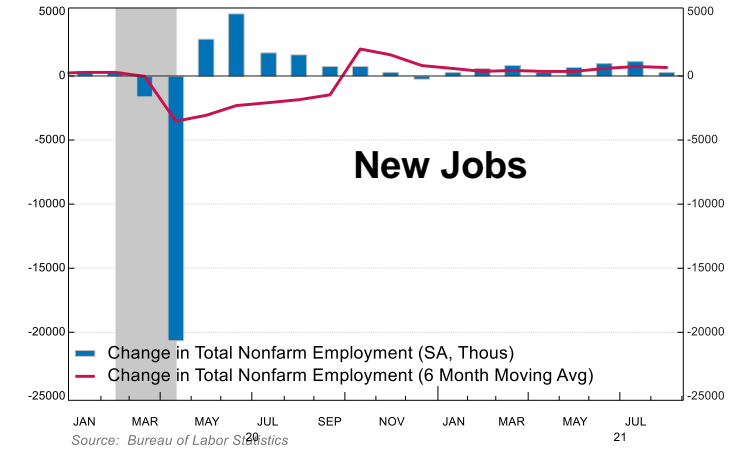
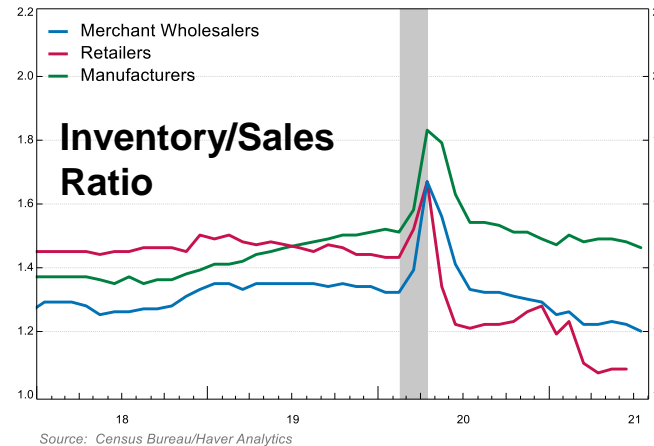
# Numerous forces at play as the US economy continues to grapple with pandemic

Inventories should begin to rise again as companies work to restock. This will bolster economic growth.

Consumer Confidence has slipped as the Delta variant has spread.

Labor Markets continue to recover, but at a slower rate. Delta variant delaying rebound in in-person services.

Inflation remains elevated, but the severity of month-over-month price increases continues to moderate.



# US economic recovery muted by the emergence of COVID-19 Delta variant

## THE CONFERENCE BOARD US ECONOMIC OUTLOOK, 2020-2021-2022-2023 Percentage Change, Seasonally Adjusted Annual Rates\*

	2020				2021				2022		2020	2021	2022	2023
	I Q*	II Q*	III Q*	IV Q*	I Q*	II Q*	III Q	IV Q	I Q	II Q				
Real GDP	-5.1	-31.2	33.8	4.5	6.3	6.6	5.5	3.9	3.4	2.9	-3.4	5.9	3.8	3.0
Real disposable income	3.1	48.5	-16.6	-8.3	54.7	-31.0	1.0	0.0	1.0	1.5	6.2	2.7	-1.5	1.0
Real consumer spending	-6.9	-33.4	41.4	3.4	11.4	11.9	3.0	4.1	4.2	3.5	-3.8	8.1	4.1	2.8
Residential investment	20.3	-30.8	60.0	34.4	13.3	-11.5	-1.0	3.0	2.0	3.0	6.8	10.3	1.0	1.3
Nonresidential investment	-8.1	-30.3	18.7	12.5	12.9	9.3	0.9	5.1	5.0	5.2	-5.3	7.4	4.8	4.4
Inventory change (bln chn '12\$)	-30	-253	25	89	-88	-169	31	100	90	60	-42	-32	60	15
Total gov't spending	3.7	3.9	-2.1	-0.5	4.2	-1.9	1.4	2.0	2.5	3.0	2.5	0.9	2.4	4.3
Exports	-16.3	-59.9	54.5	22.5	-2.9	6.6	4.1	5.1	6.1	7.1	-13.6	4.6	5.8	4.7
Imports	-13.1	-53.1	89.2	31.3	9.3	6.7	9.1	12.1	7.1	6.1	-8.9	14.2	7.6	4.1
Unemployment rate (%)	3.8	13.1	8.8	6.8	6.2	5.9	5.2	4.8	4.4	4.0	8.1	5.5	3.8	
PCE Inflation (%Y/Y)	1.7	0.6	1.2	1.2	1.8	3.9	4.1	4.3	4.0	3.0	1.2	3.5	2.9	2.0
Core PCE Inflation (%Y/Y)	1.8	1.0	1.5	1.4	1.7	3.4	3.6	3.9	3.5	2.5	1.4	3.1	2.5	1.8

Source: The Conference Board

\*Units: Quarterly growth rates are QoQ SAAR unless otherwise noted.  
Annual growth rates are year-over-year unless otherwise noted

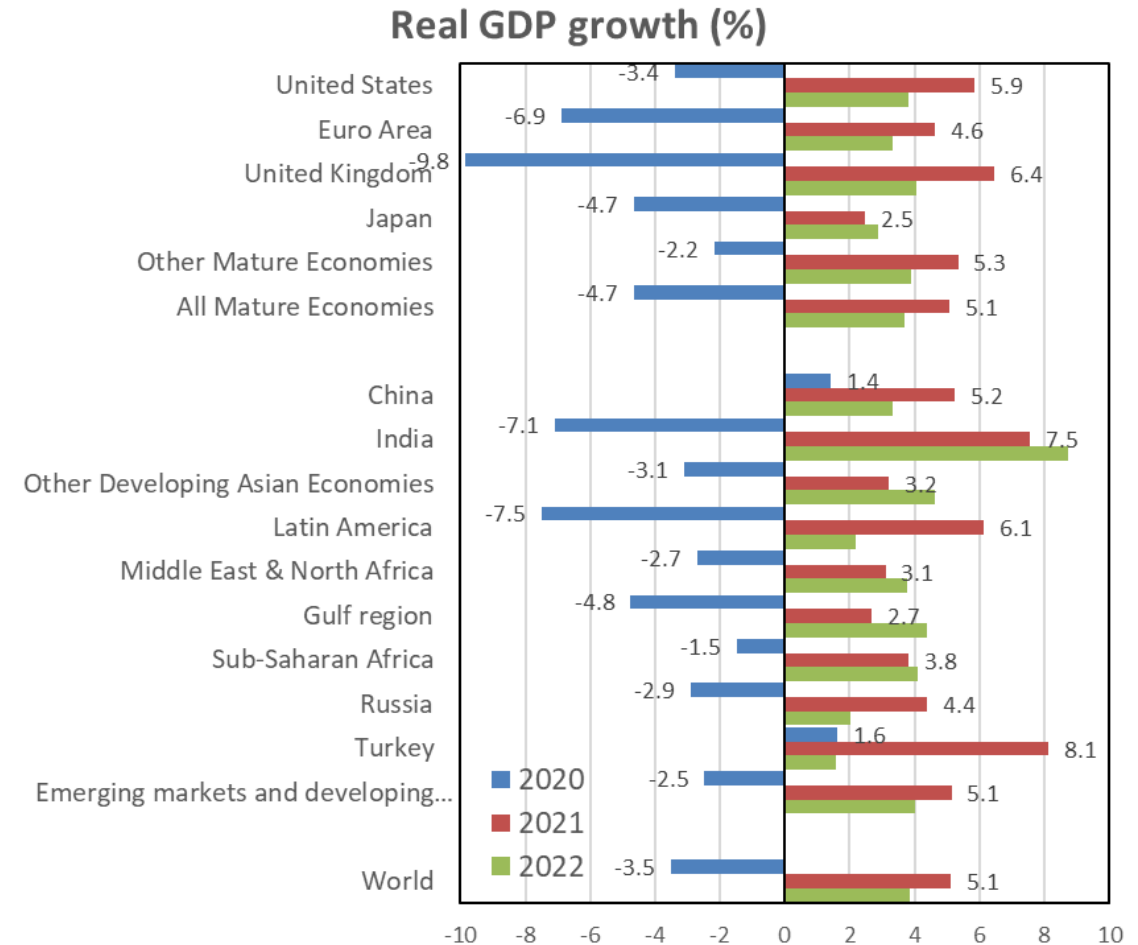




# Global Outlook

# Global growth for 2021 is revised down slightly to 5.1 as the spread of COVID-19 Delta variant weighs on the outlook

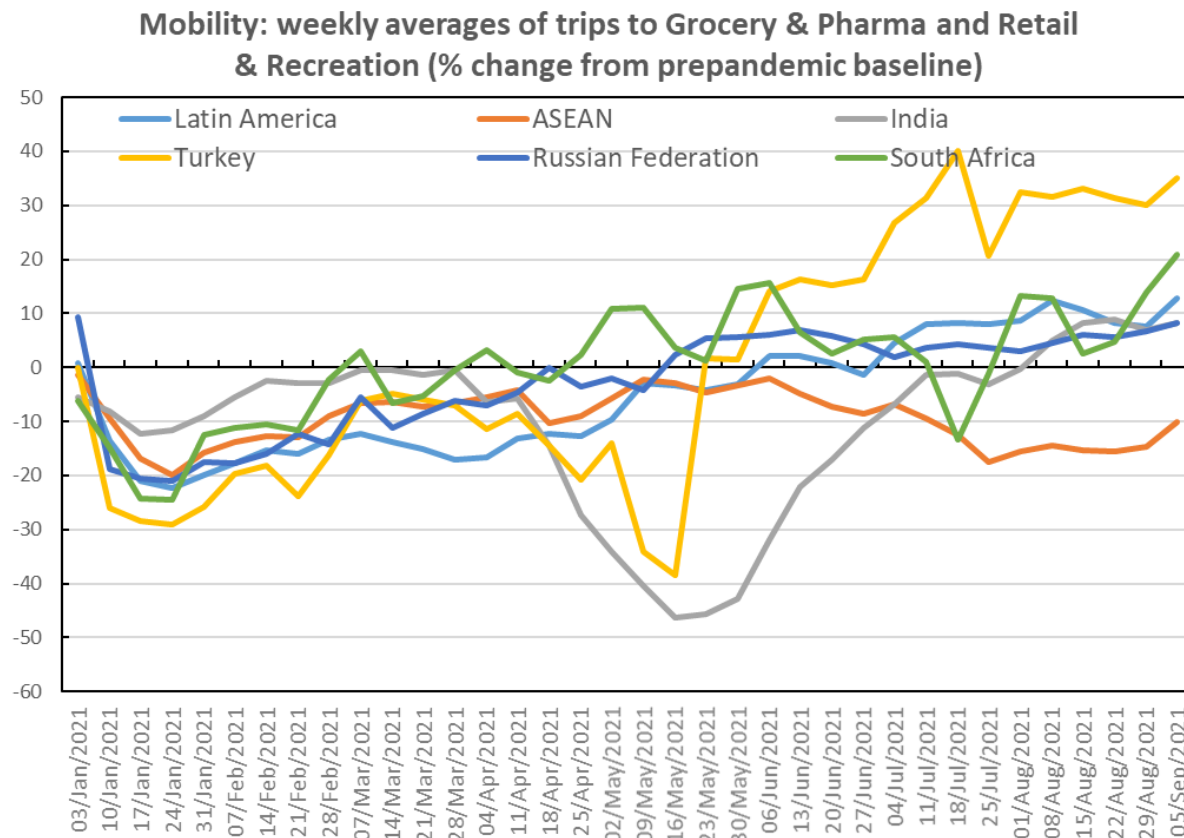
- Countries that saw relatively few cases in 2020 are seeing much higher case numbers this year, and in some cases had to reintroduce localized or even national lockdowns.
- The impact is generally less pronounced among other major emerging economies such as Mexico, Brazil, Russia, and Turkey, and economies with high vaccination rates, including the US and throughout Europe.
- However, if vaccination rates accelerate globally, the negative economic impact should subside over the next few quarters



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



# Mobility indicators set the stage for return to normal economic activity in the near term for most large EMs, but ASEAN countries are an exception



Note: ASEAN and Latin American are weighed aggregates based on GDP in international dollars (PPPs).

Source: The Conference Board using data from Haver analytics

- Turkey emerged from lockdown restrictions in mid-May, while mobility in India has climbed rapidly since June. Footfall to stores and places of recreation is above pre-pandemic levels (roughly the January 2020 baseline), though seasonality may play a role as well.
- However, as new cases have risen strongly in ASEAN countries – as well as other large economies in the region such as Japan, South Korea and Australia – mobility in these places has pulled back, sometimes voluntarily, reducing economic activity along with it.

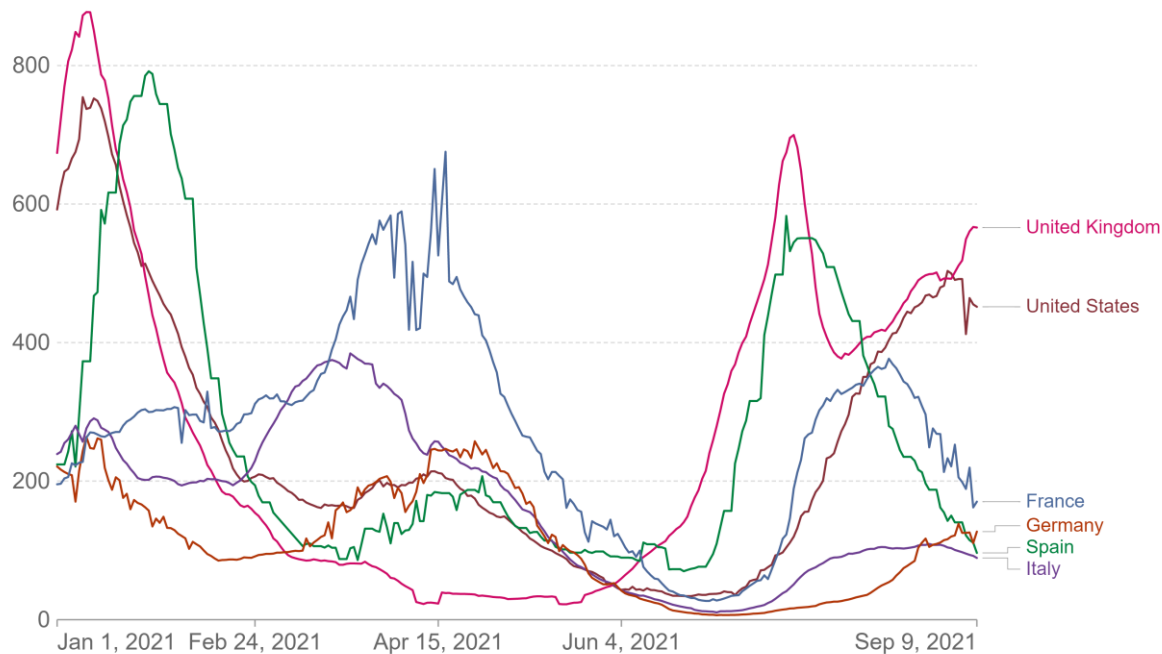


# The Economic Outlook in Europe & the United Kingdom

# New hospital admissions are low. The figure suggests that new government restrictions to limit the circulation of the virus are unlikely

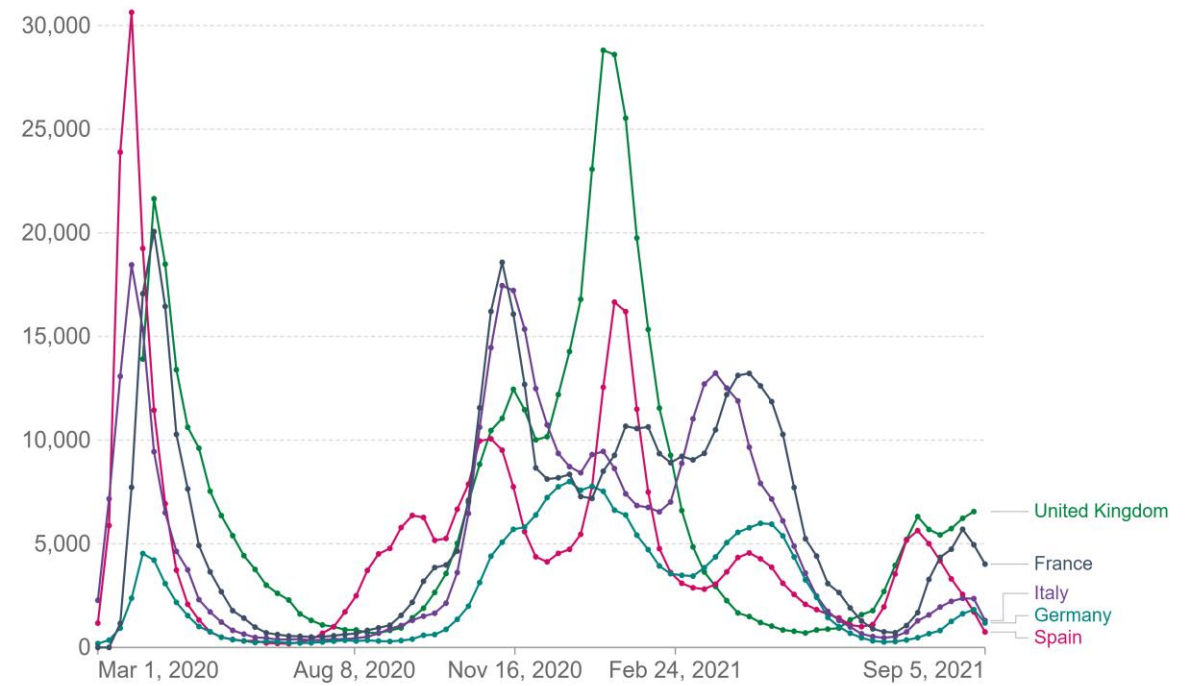
## Daily new confirmed COVID-19 cases per million people

Shown is the rolling 7-day average. The number of confirmed cases is lower than the number of actual cases; the main reason for that is limited testing.



Source: Johns Hopkins University CSSE COVID-19 Data

## Weekly new hospital admissions for COVID-19



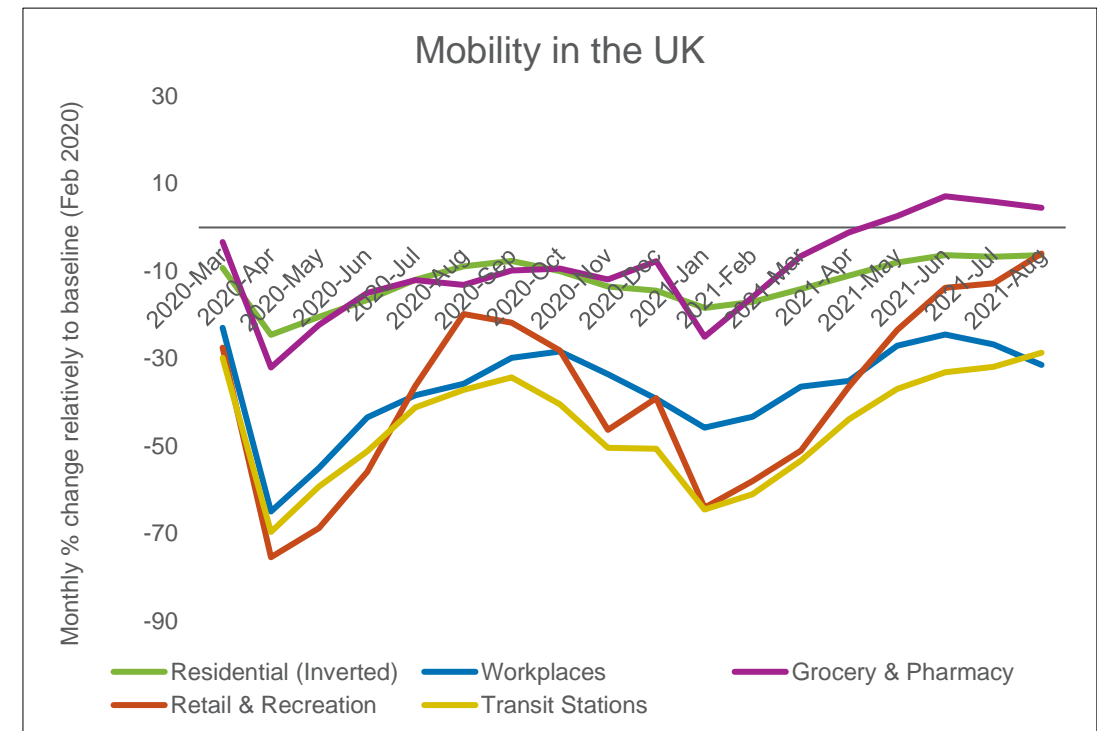
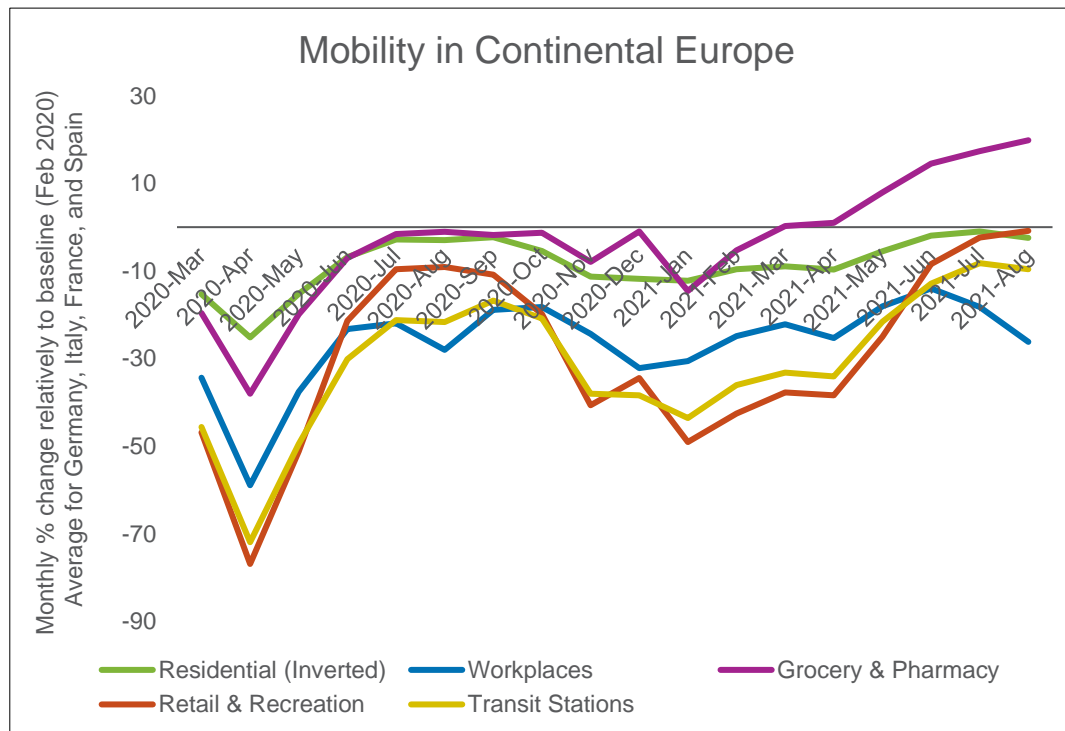
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Source: European CDC for EU countries, government sources for other countries – Last updated 9 September, 14:14 (London time)  
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Source: Our World in Data (Data accessed as of September 10<sup>th</sup>)



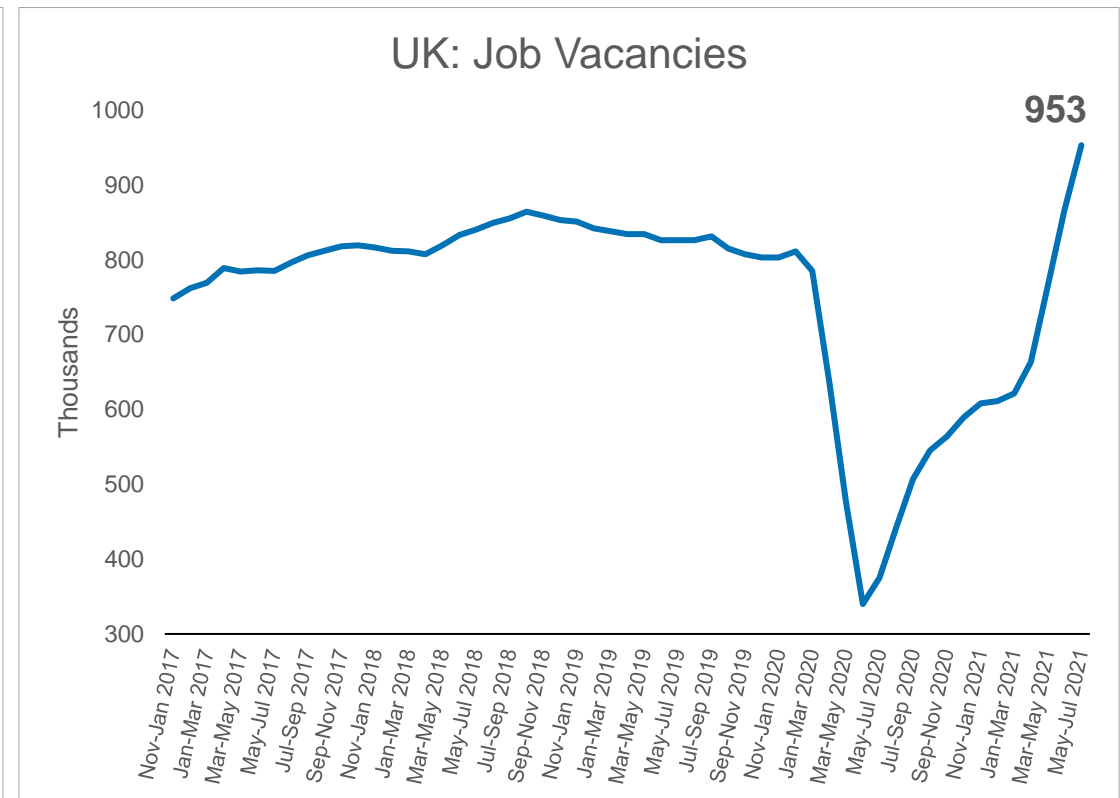
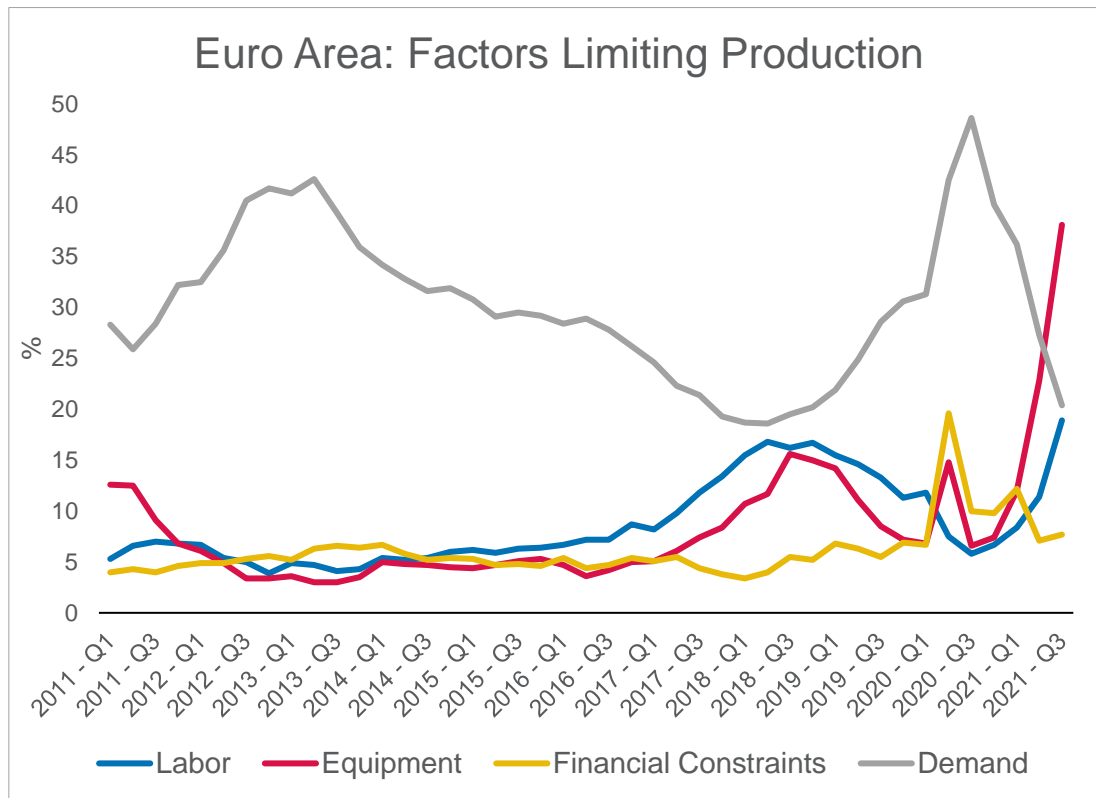
Mobility indicators show a normalization in people's behavior as restrictions are lifted. Lower mobility associated with workplaces may become permanent



Source: Google Mobility Data, TCB Calculations



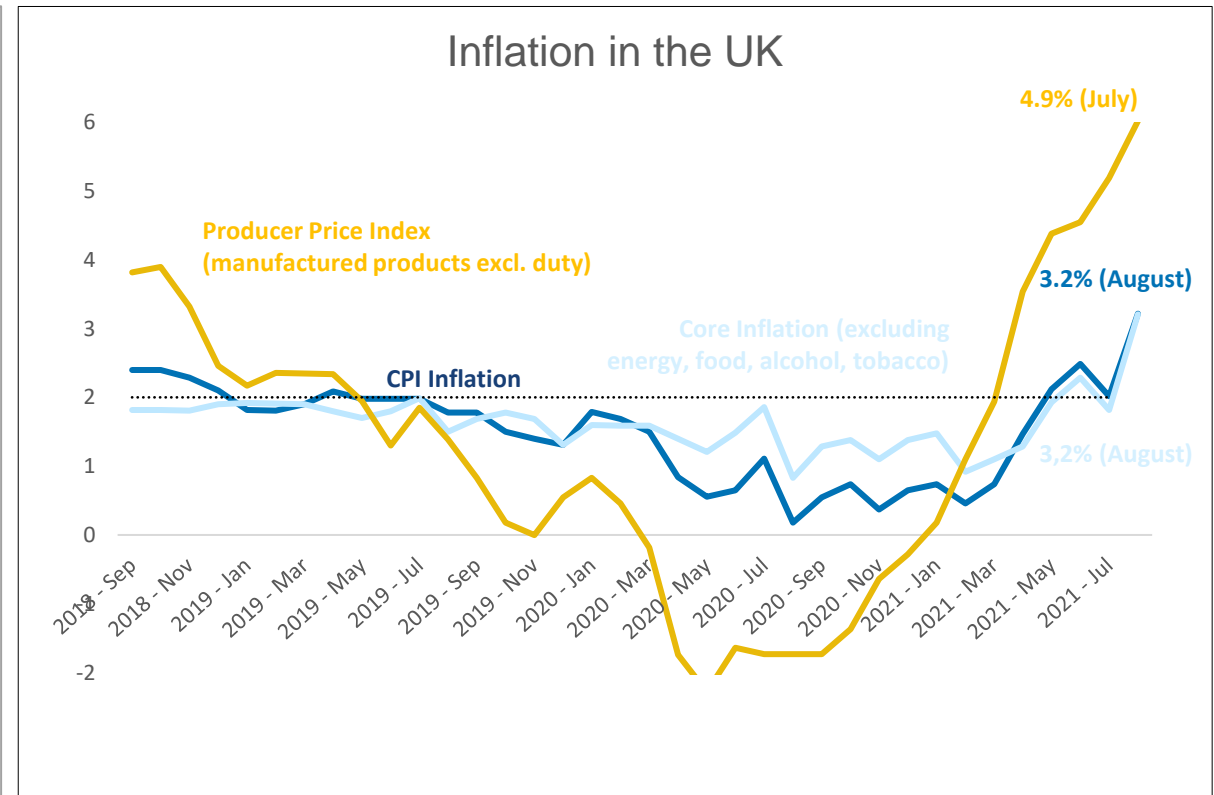
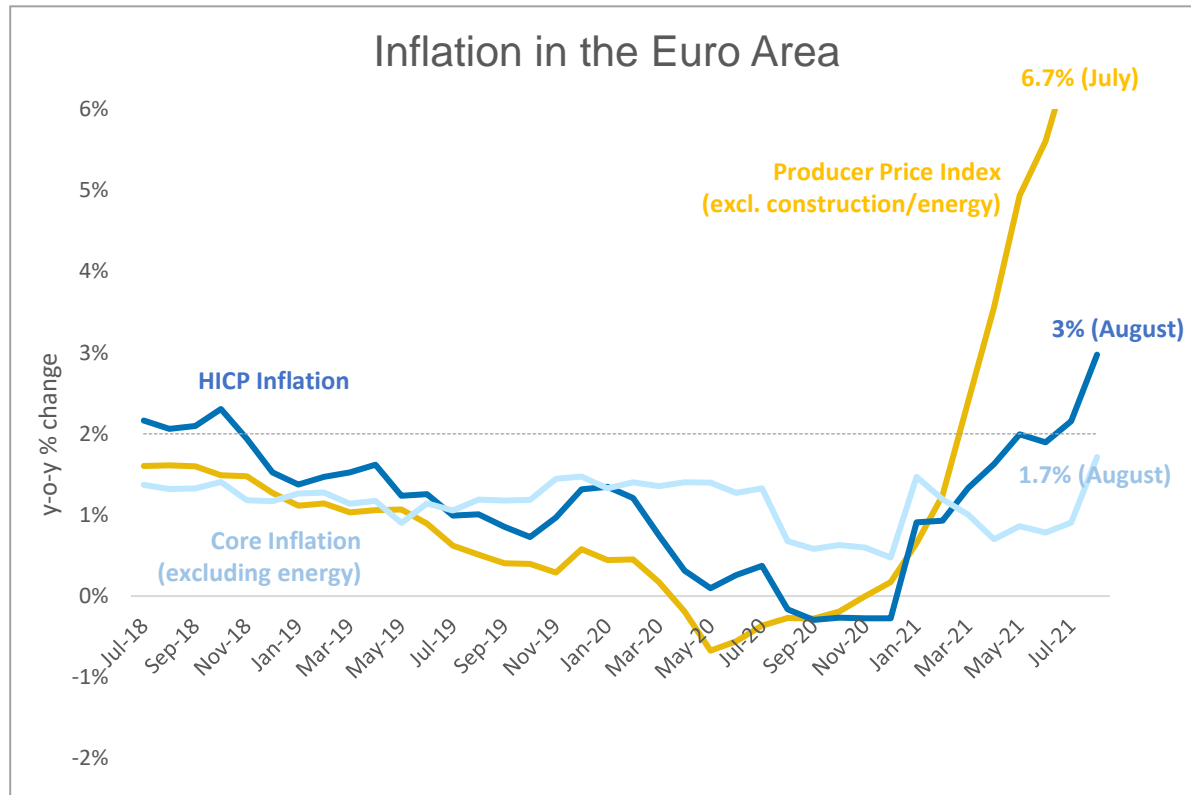
# The devil is in the supply side of the economy: supply chain issues for manufacturers in continental Europe and labor shortages in the UK could restrain growth



Source: European Commission, ONS, Haver Analytics



Inflation in Europe is not due to the overheating of the economy, but rather a result of high energy prices and pandemic-related supply disruptions. These cannot be addressed by monetary policy alone.



Source: Eurostat, ONS, Haver Analytics





Governments are playing a huge role in boosting the recovery. 18 months into the pandemic, most mature economies face triple-digit public debt burdens

General government overall balance  
% of GDP

	2019	2020	2021 (estimate)
France	-3%	-9.9%	-7.2%
Germany	1.5	-4.2	-5.5
Italy	-1.6	-9.5	-8.8
UK	2.3	-13.4	-11.8
US	-5.7	-15.8	-15

General government gross debt  
% of GDP

	2019	2020	2021 (estimate)
France	98%	113%	115%
Germany	60	69	70
Italy	135	155	157
UK	85	104	107
US	108	127	133

Source: IMF, Fiscal Monitor April 2021



# Fiscal spending towards green economy ramps up at different pace across Europe

The **scope of funding** and **timeframes** provides insight into the specific choices each government made in terms of **sectoral allocation**.

Sectors		France		Germany		United Kingdom	
4 top sectors	Railway infrastructure	4.70 €	15.5%	5.00 €	18.2%	4.72 £	27.2%
	Electric vehicles	3.38 €	11.1%	6.90 €	25.1%	3.25 £	18.7%
	Building energy retrofits	6.70 €	22.1%	2.00 €	7.3%	4.60 £	26.5%
	Hydrogen	2.00 €	6.6%	9.00 €	32.7%	0.27 £	1.6%
	<b>Total</b>	<b>16.8 €</b>	<b>55%</b>	<b>22.9 €</b>	<b>83%</b>	<b>12.8 £</b>	<b>74%</b>
Other sectors	Green transition (Unspecified) (a)	5.90 €	19.4%	0.40 €	1.5%		
	Air and maritime transportation	2.10 €	6.9%	3.20 €	11.6%	0.10 £	0.6%
	Environmental rehabilitation and protection	3.15 €	10.4%	0.70 €	2.5%	1.33 £	7.6%
	Urban commuting and mobility	1.20 €	3.9%			2.25 £	12.9%
	Agriculture, Food, and Animals	1.05 €	3.5%	0.30 €	1.1%		
	Nuclear	0.20 €	0.7%			0.67 £	3.9%
	Renewables					0.18 £	1.0%
	<b>Total</b>	<b>13.6 €</b>	<b>45%</b>	<b>4.60 €</b>	<b>17%</b>	<b>4.5 £</b>	<b>26%</b>
<b>Total</b>	<b>30.4 €</b>		<b>27.5 €</b>		<b>17.3 £</b>		

Combining sectoral focus and implementation speed, we find **salient differences in country strategies**.

	Slower implementation	Faster implementation
<b>Emerging sectors</b>		<b>Germany:</b> Focused acceleration of new technologies and industries, as part of repositioning in global races.
<b>Existing sectors</b>	<b>United Kingdom:</b> Gradually reorienting existing sectors (with some exploration of new ones)	<b>France:</b> Spreading resources to rapidly support green reorientation in many (mostly existing) sectors.

These do not necessarily imply that one green recovery strategy is better than another.

**Germany** has been criticized for **over-privileging industry** and under-privileging sustainability.

**France's** strategy of **spreading resources** may dilute transformative effects.

The **UK's** focus on **large-scale technologies and infrastructures** (such as nuclear power, CCS, hydrogen) has been criticized as *"a scattergun approach that is (...) likely to be ineffective"* (CREDS, 2020).

# Global Europe/ Global Britain

# Both the COVID-19 and Brexit shocks are expected to weigh on the future of the UK. Recent events send mixed signals

## Scenario 1: FALL APART

Referenda for independence take place in Northern Ireland and Scotland

The pandemic generates social tensions

Unclear political effect on the EU

## Scenario 2: RESILIENT BRITAIN

The UK loosens its European ties and strengthens its global dimension.

Regulatory freedom spurs innovation and growth

Aggressive trade policy

EU-UK relations suffer

## Scenario 3: MUDDLE THROUGH

The UK realises it becomes a rule-taker

Existing competitive sectors, together with a weak Pound, allow output growth to remain positive but at survival rates

Policy fails to drive change



## Labor productivity growth has slowed in both the UK and the EU

	All Mature Economies	United States	Japan	Germany	United Kingdom	France	EU-14	EU-13	EU-27
<i>Growth of GDP per Hour Worked</i>									
2000-2007	2.1	2.2	1.5	1.5	2.1	1.5	1.2	5.1	1.9
2011-2019	1.1	0.6	1.0	1.0	0.3	0.9	0.7	2.8	1.1
2018	1.1	1.0	0.0	-0.1	0.4	0.4	0.0	4.2	0.8
2019	1.3	1.5	1.2	0.5	0.0	0.9	0.6	3.8	1.2
2020	1.2	2.6	-1.2	0.2	0.5	0.4	0.9	-0.9	0.2
2021 (Forecast)	1.9	2.3	1.0	1.4	0.7	2.0	0.8	4.3	1.6

- How do EU and UK compare in terms of competitiveness in global economy?
- How resilient are economies to external shocks?
- What are EU and UK doing to strengthen their position in global cooperation?
- Is there a clear direction in terms of managing changes in global economy?



# The UK is less global than it used to be: inward investment, trade, and immigration have suffered since Brexit

The UK is traditionally a welcoming place for inbound **FDIs**. Less so recently. Outward flows of FDI grew as a result of Brexit

Average 2005-2020, % of GDP	Outward FDI	Inward FDI
France	2.4%	1.1%
Germany	2.5	1.1
Italy	1.6	1.0
UK	1.9	3.3
US	1.6	1.5

Source: OECD

The UK economy is open to trade. Half of **exports** go to the EU. That portion is suffering because of Brexit. Exports to other countries are not (yet?) offsetting the loss

Using the ONS's May 2021 data, the CER model finds that leaving the single market and customs union has reduced total UK goods trade by £10 billion, or 13.5%.

**Cost of Brexit for trade = £10 billion shortfall in total goods trade**

Source: CER, *The cost of Brexit*, May 2021

**Immigration** was a discussion point in the Brexit campaign. Brexit put an end to the easy EU-UK labor mobility. Today's labor shortages are a result of that (along with pandemic-related disruptions)



Photo by Jack Taylor



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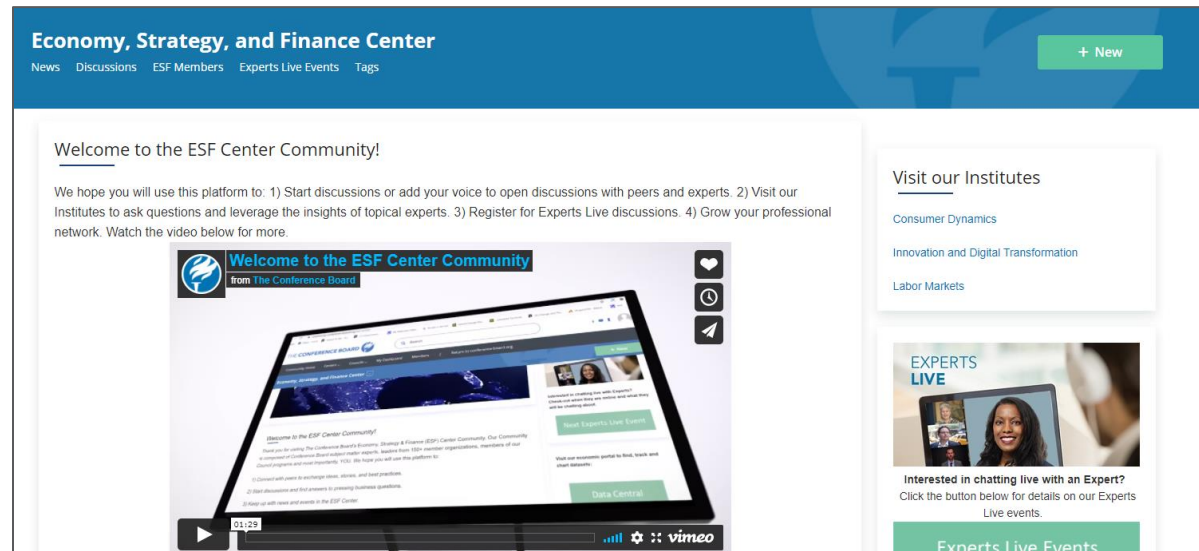


**Erik Lundh**  
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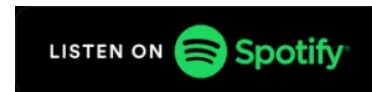


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