


UniCredit Research outlook: The re-opening!

Strong growth, but full European recovery still not in sight, and there are still more questions than answers.

Any removal of stimulus would be premature.

Erik Fossing Nielsen, Group Chief Economist

18 July, 2021

Banking that matters. |  **UniCredit**

Amazing degree of agreement about the global outlook!

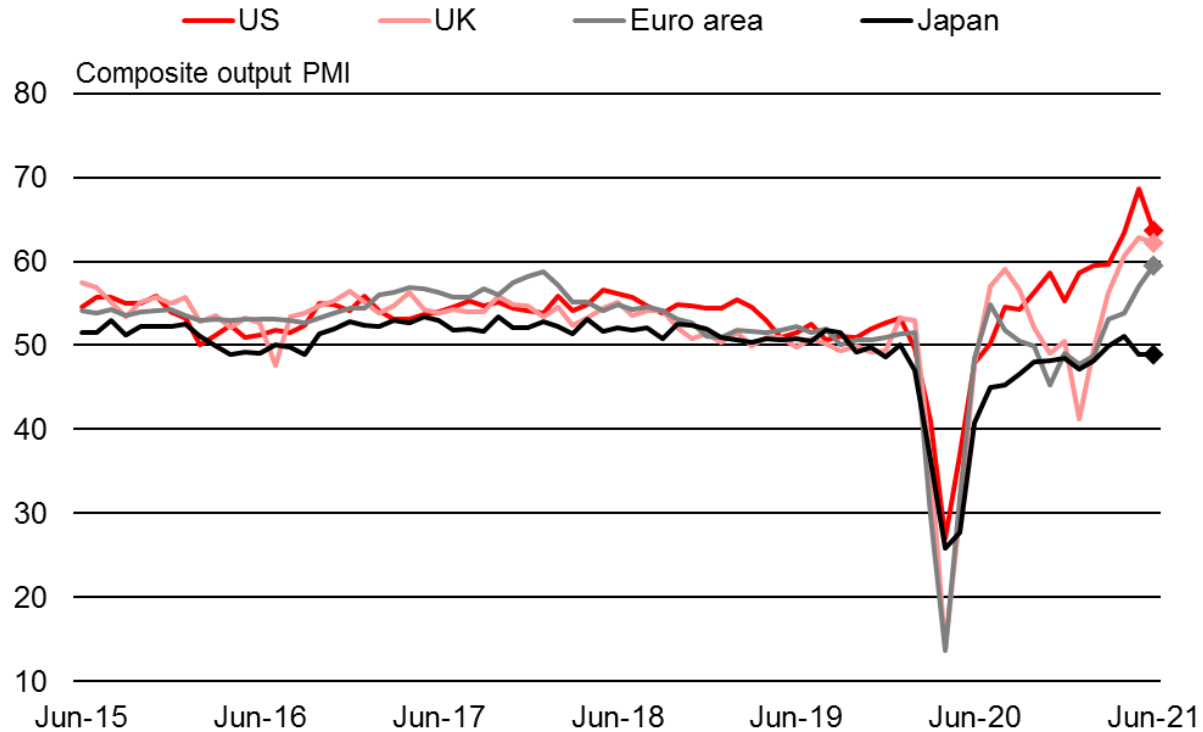
Differences mostly due to time of forecast release

	UniCredit (Jun-21)			IMF (Apr-21)		EC * (Jul-21)		OECD (May-21)	
	2020	2021	2022	2021	2022	2021	2022	2021	2022
World	-3.3	6.1	4.6	6.0	4.4	5.6	4.3	5.8	4.4
US	-3.5	6.6	3.8	6.4	3.5	6.3	3.8	6.9	3.6
Eurozone	-6.7	4.5	4.3	4.4	3.8	4.8	4.5	4.3	4.4

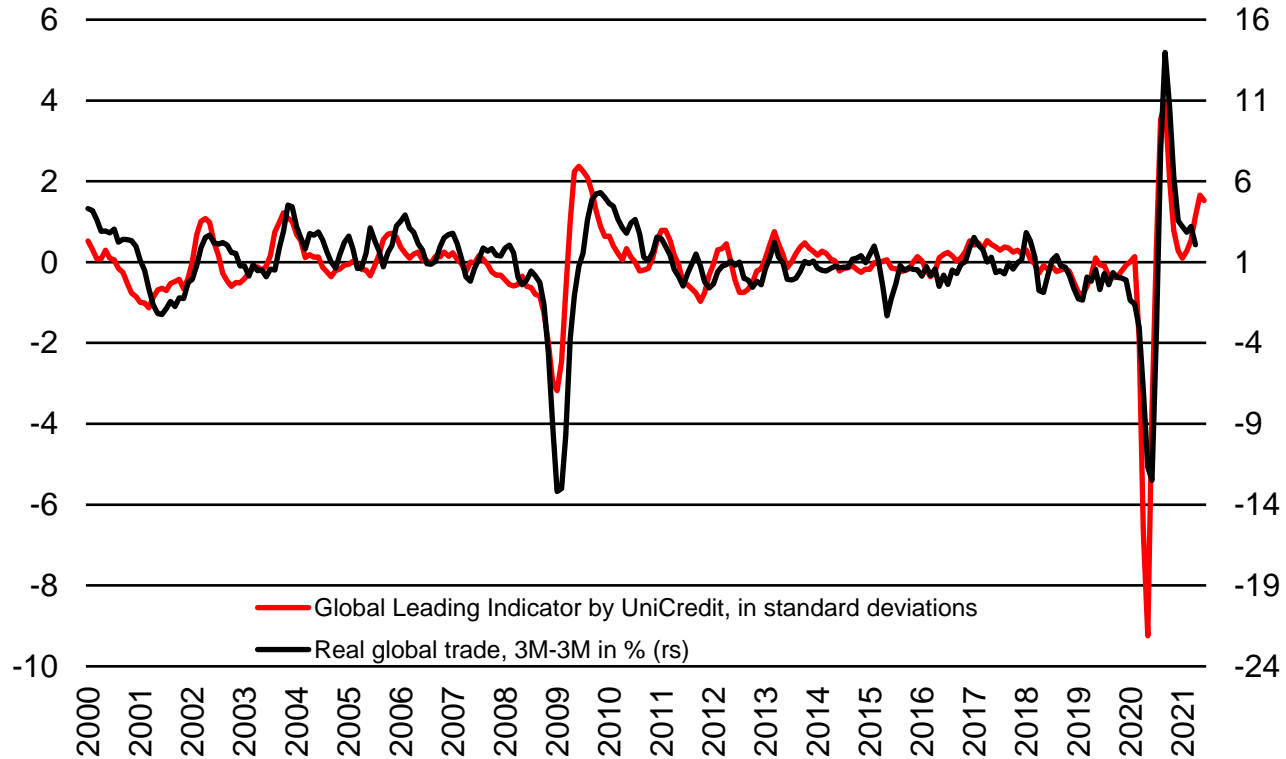
* Eurozone estimates published in July, World and US estimates in May.



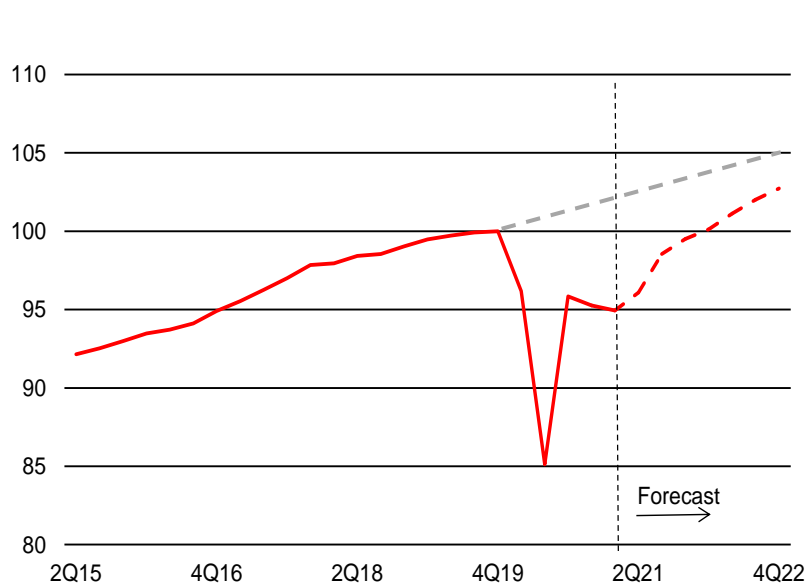
Growth is strong as illustrated by global PMIs



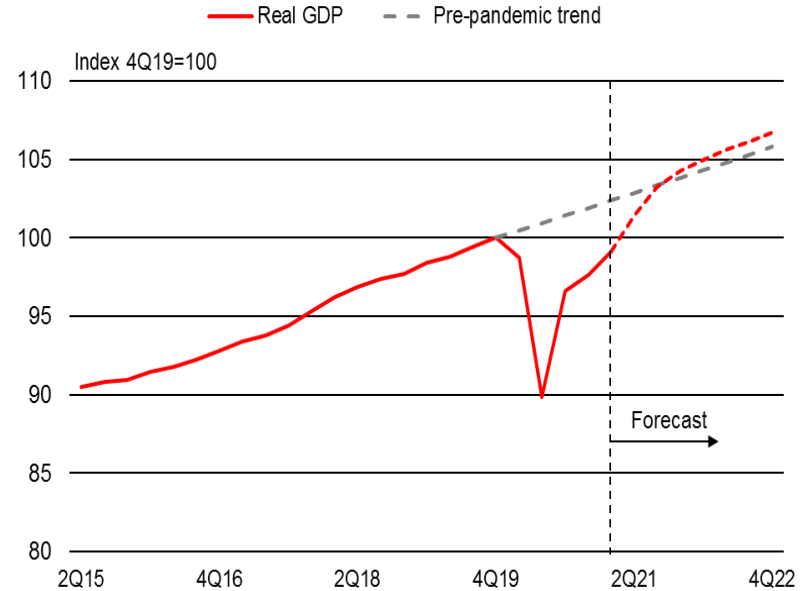
Our Global Leading Indicator signals strong growth in global trade



Yet, Eurozone GDP will be back to pre-COVID levels only by early 2022 and recovery to the trend line is not in sight ... in sharp contrast to the US



Eurozone



USA

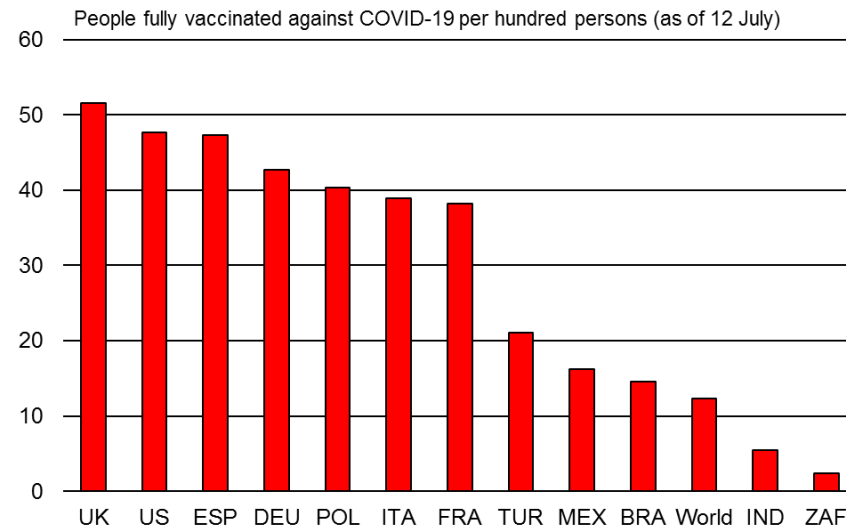
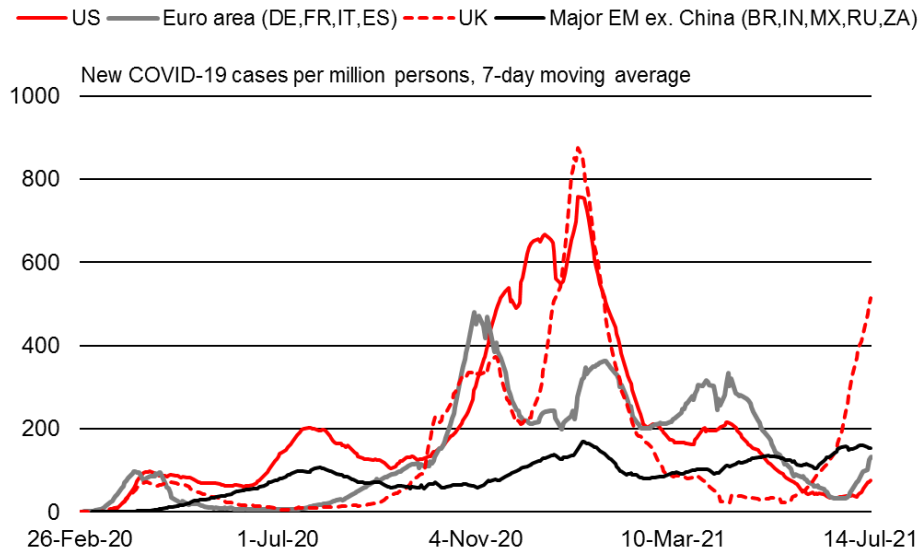


Seven key questions for the path of European growth:

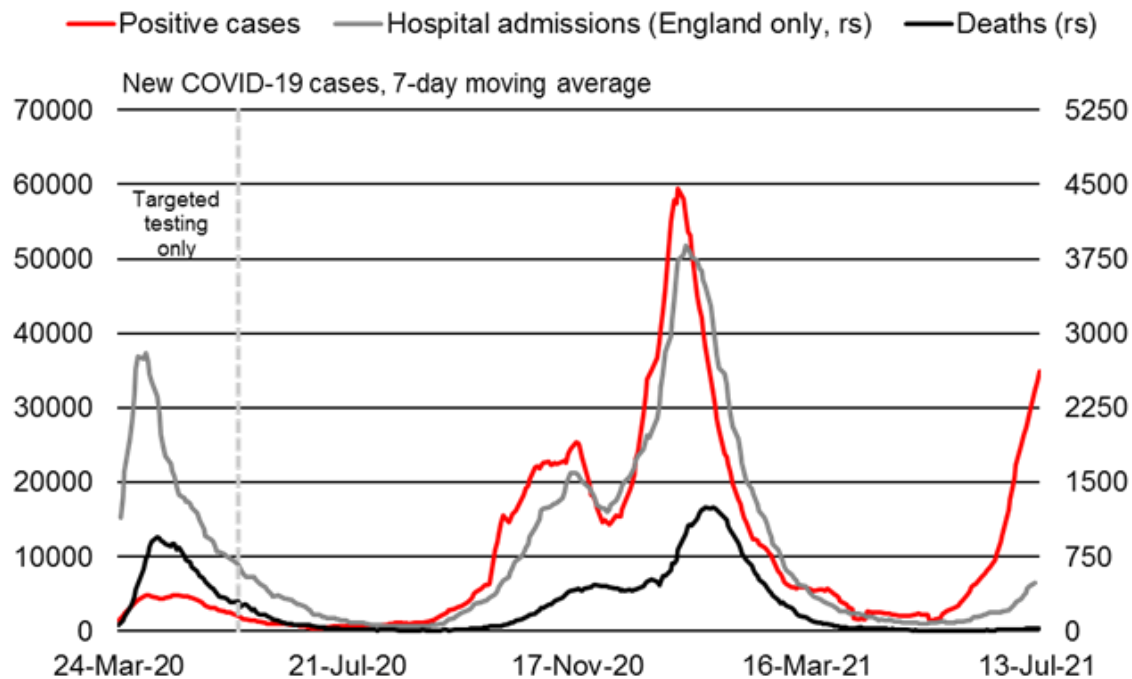
- 1. What will be the path of the pandemic/variants/vaccination?**
- 2. Is inflation transitory or the beginning of trouble?**
- 3. Where will oil prices go?**
- 4. What will households do with their excess savings?**
- 5. What will be the implications of the additional corporate debt?**
- 6. What will be the fiscal policy picture?**
- 7. What will be the monetary policy response: to insufficient fiscal effort - and to market effects of stronger US recovery?**



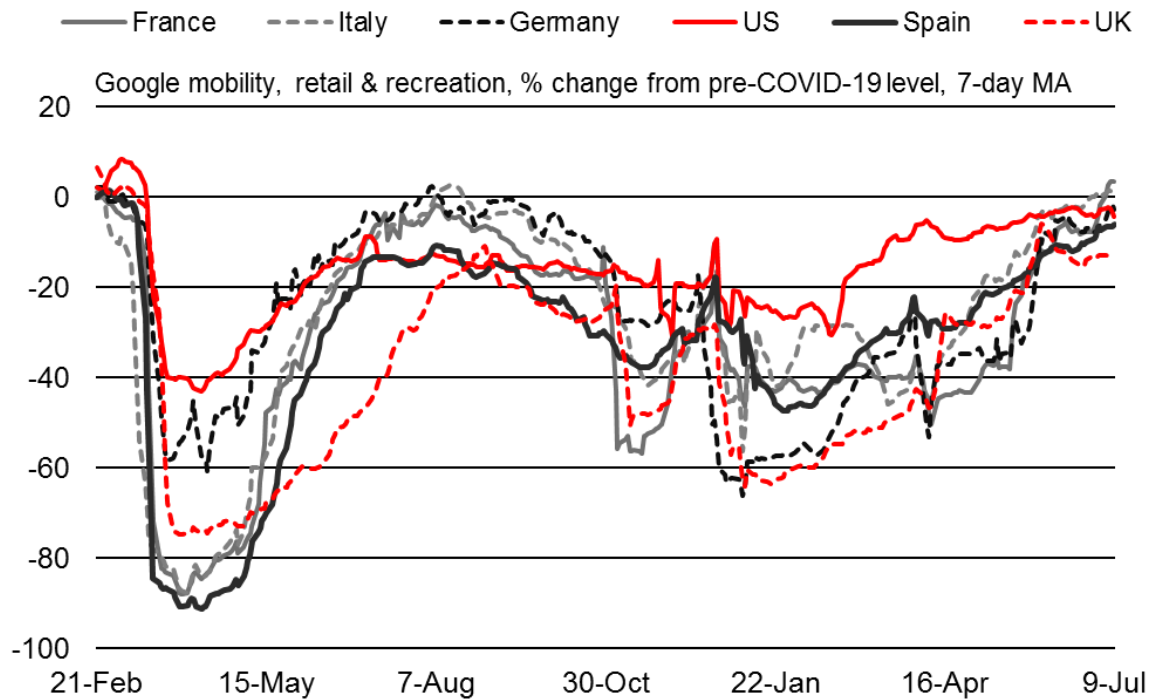
Question 1: The outlook for infection rates unknown, and vaccination rates are still mostly disappointing



In England, the link between cases and hospitalizations has partially broken, even against the Delta variant

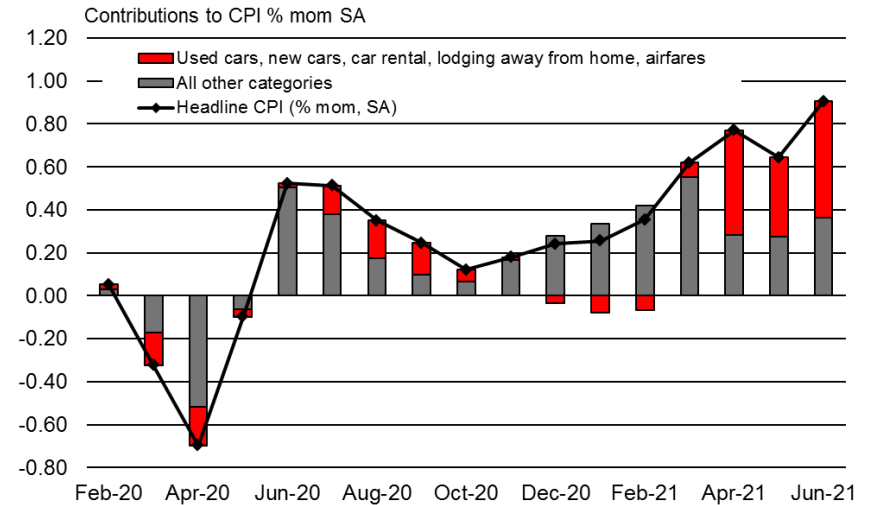
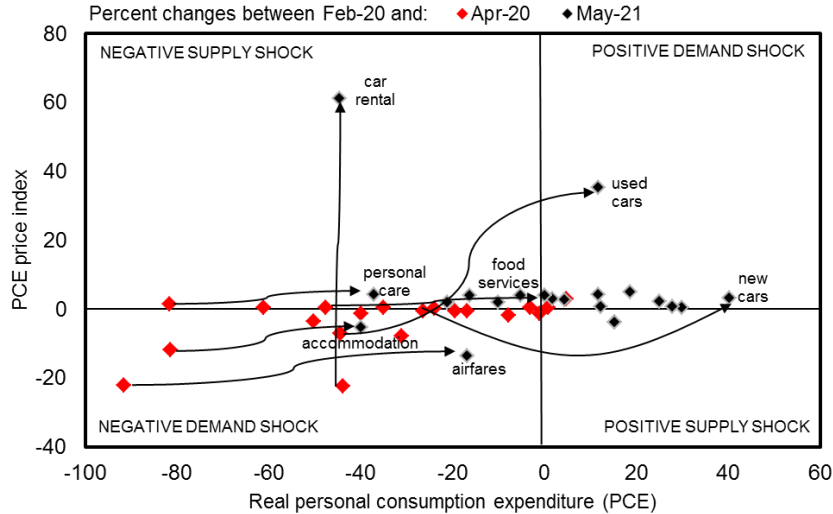


Global mobility indicators depend more on infection rates than on lockdown. For now, getting back towards normal

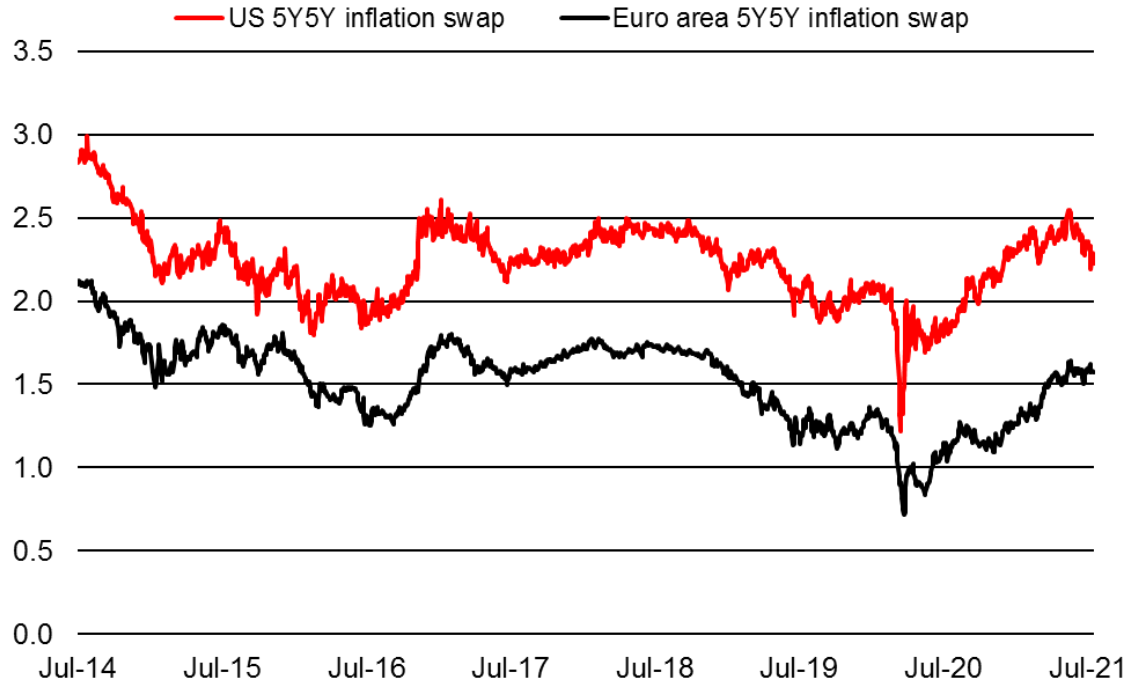


Question 2: Is inflation transitory or the beginning of trouble?

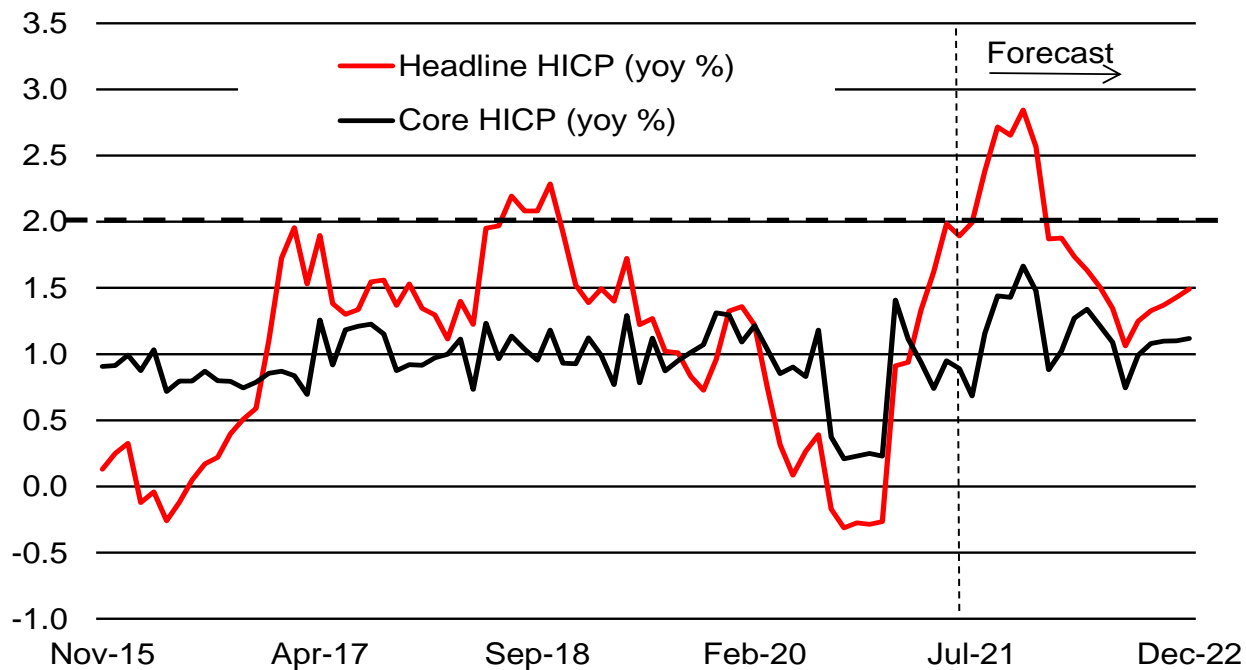
Even in the US, inflation is driven by a very small number of items



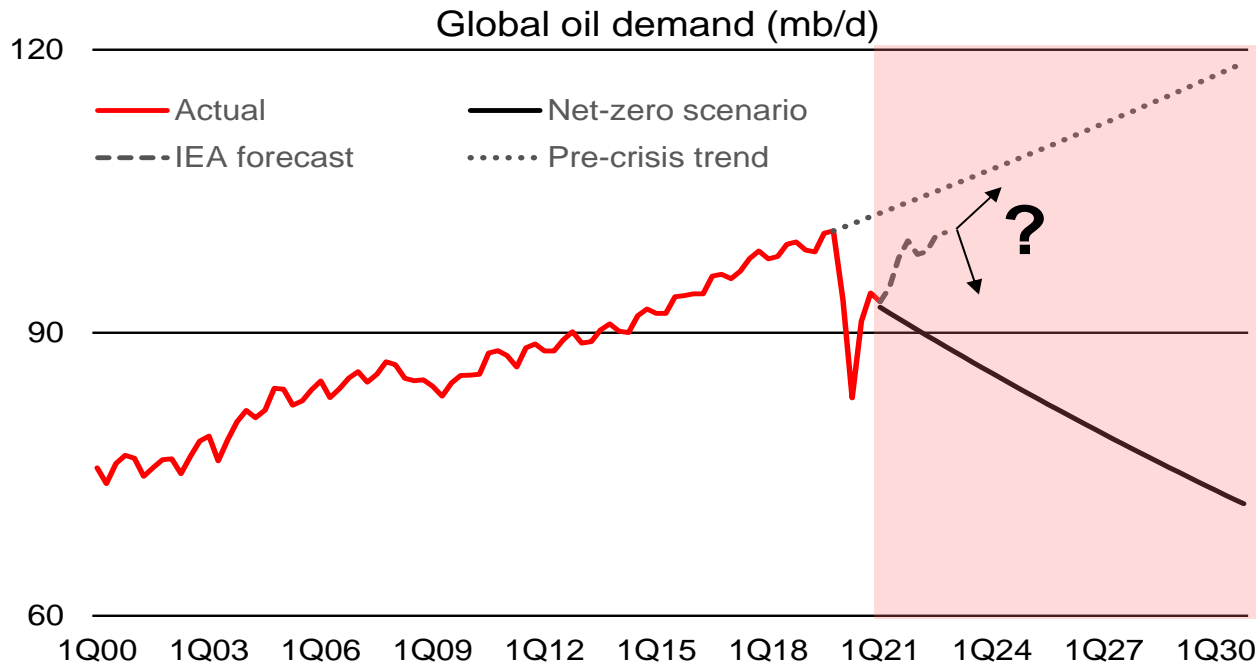
Inflation expectations back to where they came from, and now falling in the US – lower than desirable in both the US and Europe



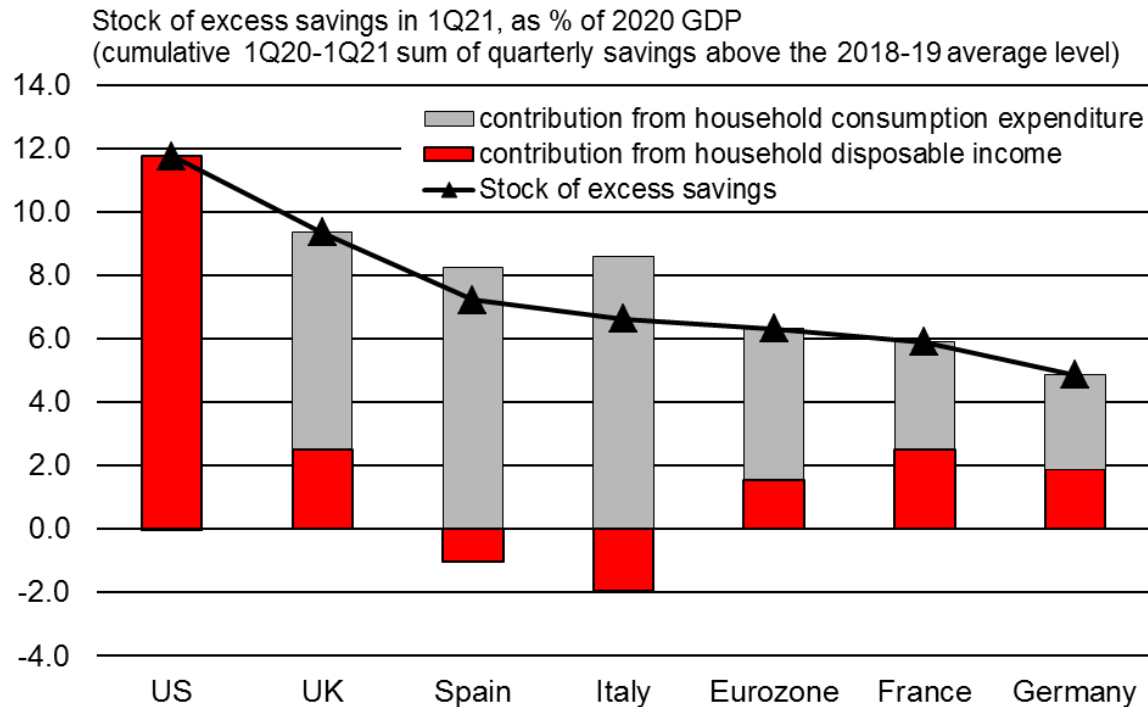
The eurozone inflation target remains out of sight for at least the next 2-3 years



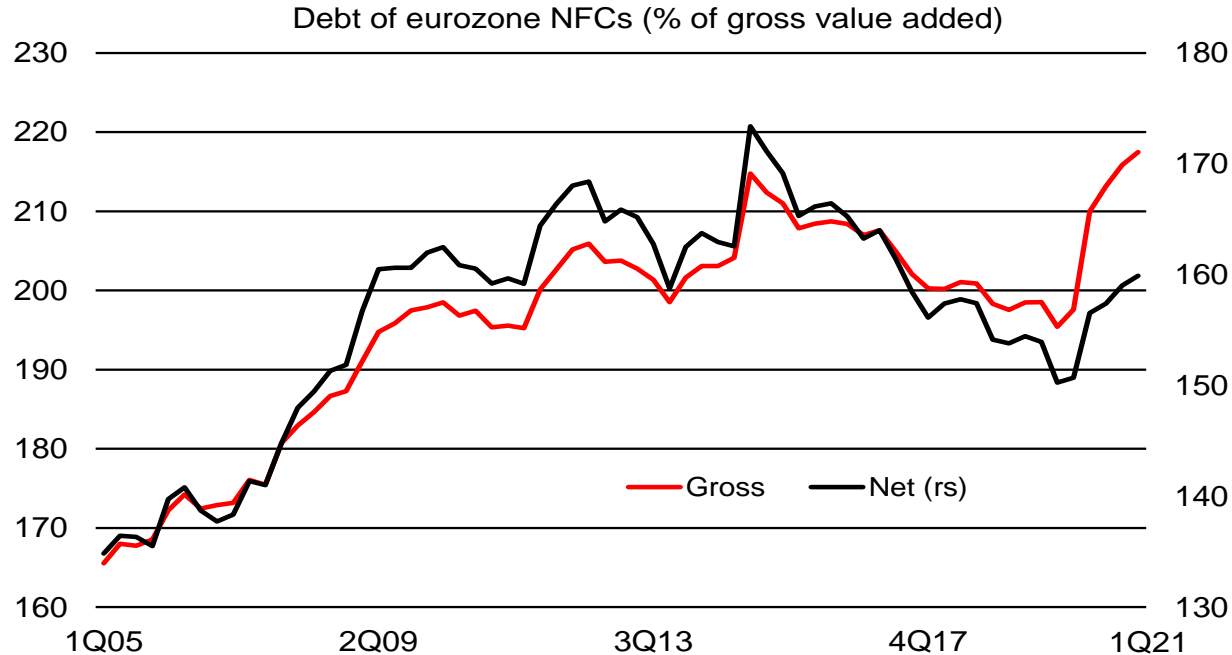
Question 3: Where will oil prices go as the Green revolution moves forward?



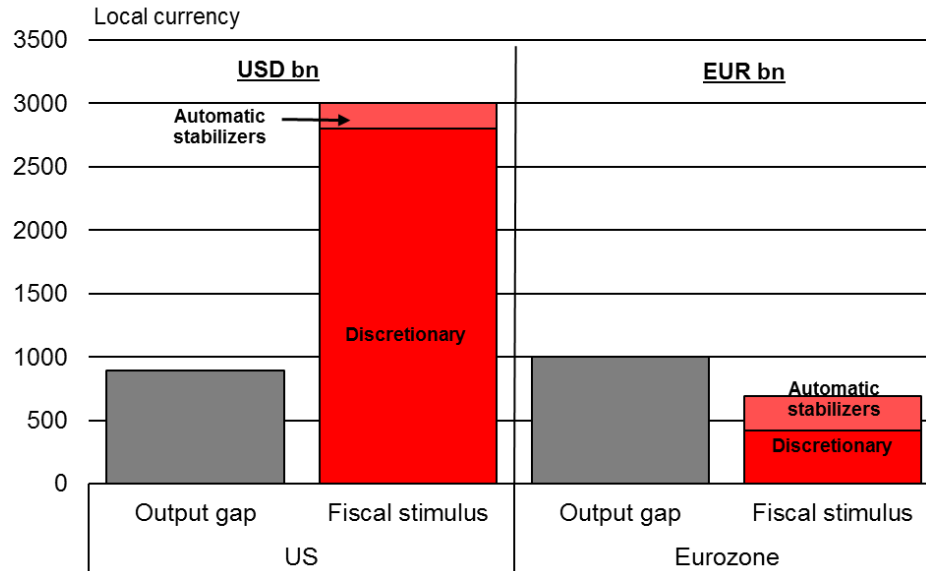
Question 4: Will consumers keep or spend their huge excess savings? It'll probably partly depend on the source of excess savings



Question 5: Corporates' debt has risen, but mostly for deposits. Will the spare cash be used to reduce gross debt or will it be invested?



Question 6: The fiscal policy response: After strong response in 2020, eurozone fiscal effort now on stingy side – and way below the US effort



“Output gap” is made up of two components. The first component reflects the damage caused by the pandemic and is computed as the percentage gap between the level of real GDP in 4Q20 and its pre-crisis trend. The second component catches the pre-crisis output gap, which we estimate to have been (negative) 2-2.5% for the eurozone and zero for the US. Percentages are then translated into current units of local currencies taking nominal 2020 GDP as reference.

“Discretionary” fiscal stimulus in the US includes the USD 900bn plus the USD 1.9tn packages, while longer-term spending plans are not included. In the euro area, it includes measures financed through both national and EU money.

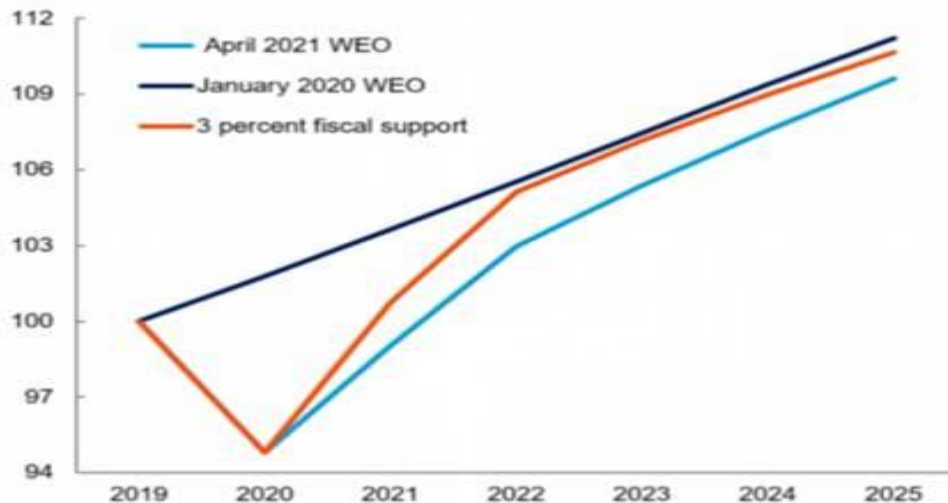


Europe would benefit from a more determined fiscal effort, says the IMF: 3% more support would lead to 2% higher GDP

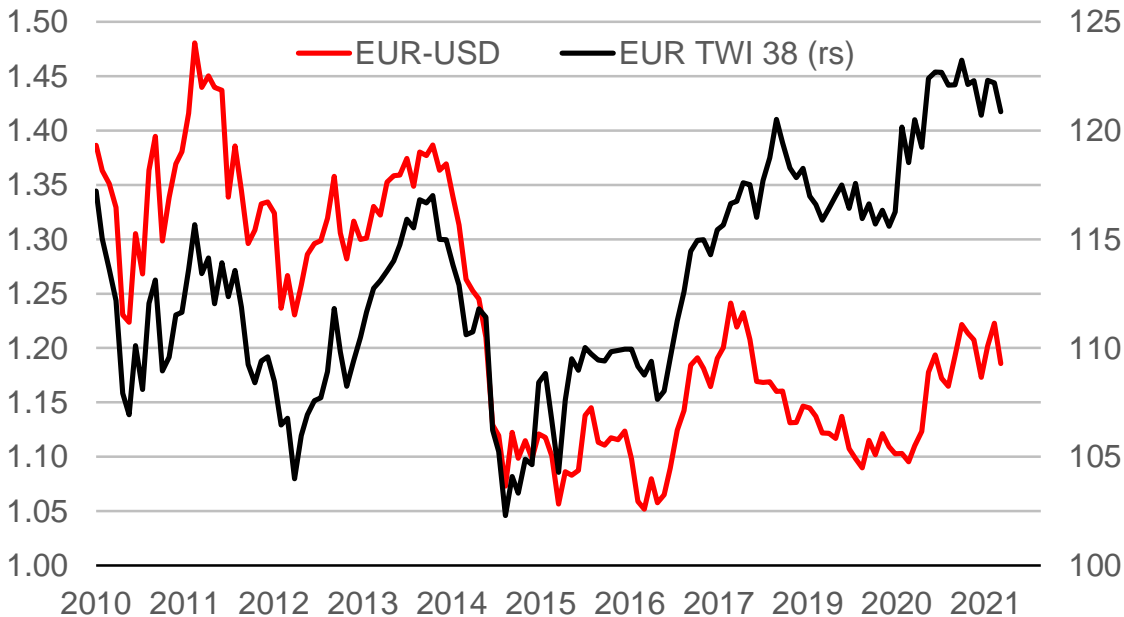
Fiscal booster shot

New fiscal measures could lift Europe's output by 2 percent by end-2022 and significantly reduce scarring.

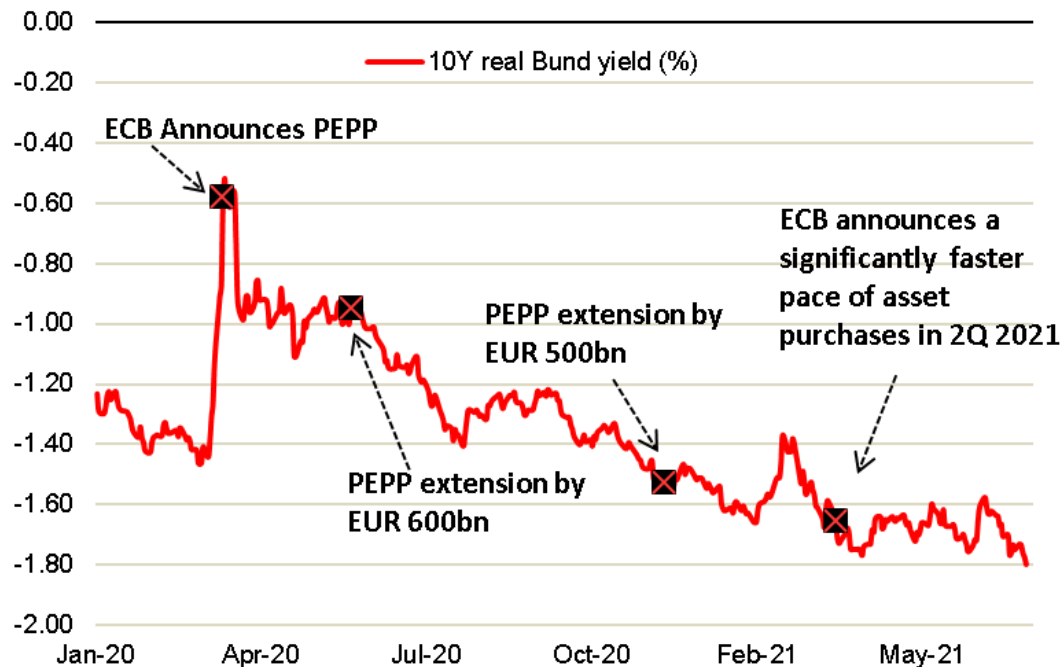
(real GDP; index, 2019 = 100)



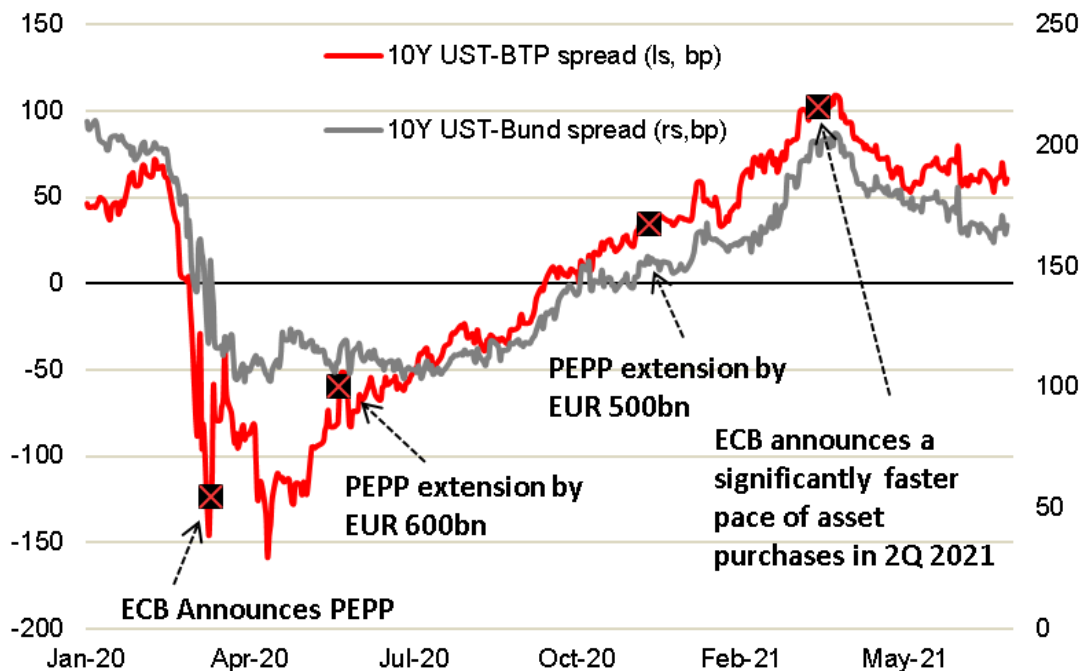
Question 7: ECB response further complicated by divergence to US growth, outlook and policy signals. So far, no measurable transmission via the exchange rate ...



...but plenty of transmission across the Atlantic in yields. Good news: ECB's action is helping to keep eurozone real yields very low...



...but the real story so far is the ECB's luck of lower US yields since April



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