

Global Watch

June 2021

Economic Update

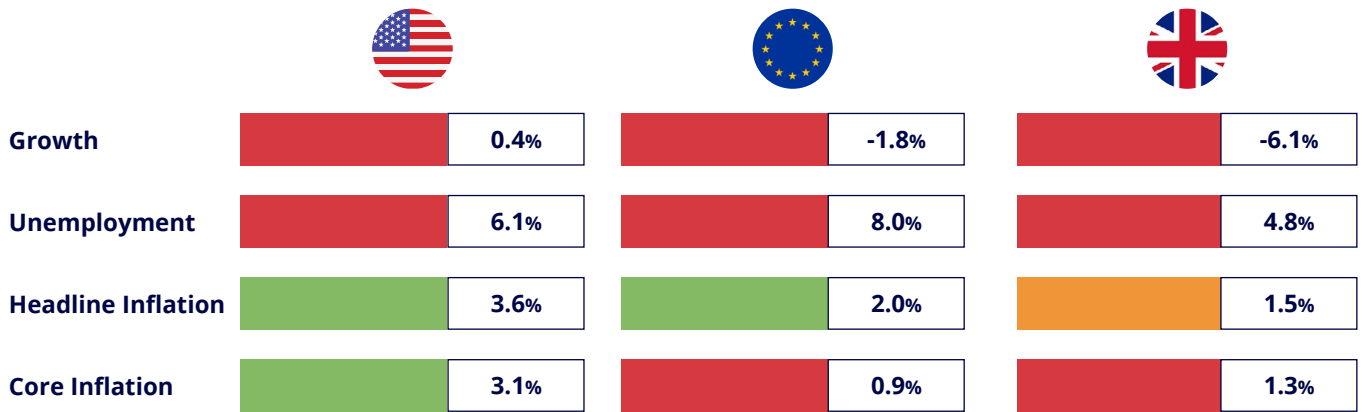


**Bank of
Ireland**

Global economy on the mend

The global economy is on track to rebound strongly in 2021 following a pandemic-driven fall in GDP last year. While tighter public health restrictions dampened world growth in the opening quarter of this year, the rollout of vaccination programmes - albeit at differing rates across countries - is allowing for a re-opening of economies. This is helping to lift business and consumer confidence and reduce uncertainty, and together with continued government and central bank support is contributing to a quickening in the pace of activity. The OECD in its latest Economic Outlook has revised up its forecast for global GDP growth this year and next to 5.8% and 4.4% respectively - helped by a fiscal stimulus-led upturn in the US - though it warns of risks from the potential emergence of new vaccine-resistant variants of the virus. It also notes that a new, much-debated risk is the possibility of higher consumer price inflation. An unwinding of last year's weakness, the release of pent-up demand as economies open up, supply chain disruptions and higher global commodity prices are already contributing to a re-acceleration in inflation, most notably to date in the US where it is running at a near 13-year high. The OECD and the major central banks think this will prove to be transitory as the boost to demand fades and supply picks up. If higher inflation proves more persistent than expected however, central banks may have to scale back monetary policy support sooner than currently anticipated.

Economic Conditions



Policy Stance



Committed to using full range of tools to support the economy



Will do everything necessary to help the economy through the COVID-19 crisis



Respond as necessary to the economic disruption caused by COVID-19

Current Policy Rate

0.0%-0.25%

Fed Funds

0.0%

ECB Refi

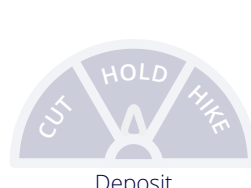
-0.5%

Deposit

0.1%

BOE Bank Rate

Next Meeting



Economy

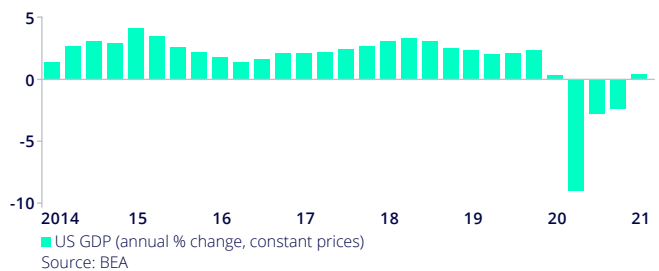
Global activity expanding

The global Composite PMI rose to an eleven-year high of 56.3 in April. The OECD has revised up its forecast for world GDP, which it now sees rising by 5.8% this year and by 4.4% next year.



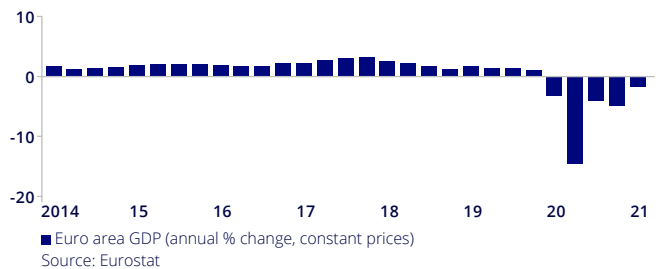
US on the up

GDP in the US rose by 1.6% quarter-on-quarter in Q1 and by 0.4% year-on-year. The OECD expects the economy to expand by 6.9% for the full-year 2021, with growth moderating to 3.6% in 2022.



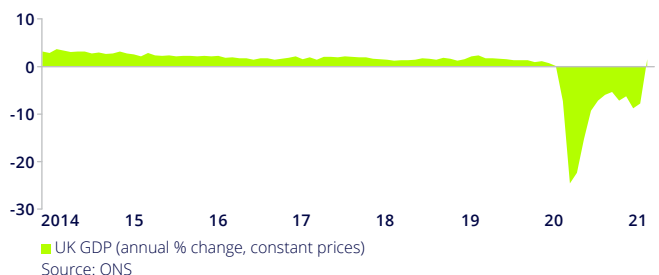
Euro area lagging

Euro area GDP contracted by 0.6% quarter-on-quarter in Q1, albeit the annual rate of decline slowed to 1.8%. The OECD is forecasting an increase of 4.3% for this year as a whole though, and a further gain of 4.4% in 2022.



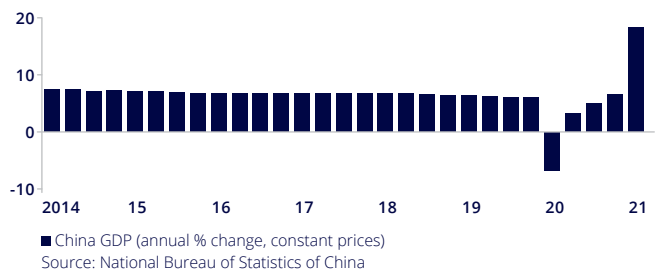
UK recovering

While GDP in the UK fell in Q1 overall, it was up on the month and on the year in March. After a record contraction last year, the OECD sees the economy expanding by 7.2% this year and by 5.5% in 2022.



China growing strongly

China's economy expanded again in Q1 with GDP increasing by 0.6% quarter-on-quarter and by 18.3% year-on-year. The OECD expects full-year growth of 8.5% in 2021 and 5.8% in 2022.



EMs advancing

Activity in emerging markets has picked up recently with the Composite PMI rising again in April, and GDP in non-OECD countries is now expected to increase by 6.2% this year and by 4.9% next year.



Monetary

Fed stands pat

The Fed left policy unchanged again in April but indicated that at upcoming meetings it may begin discussing a plan to wind down bond purchases.



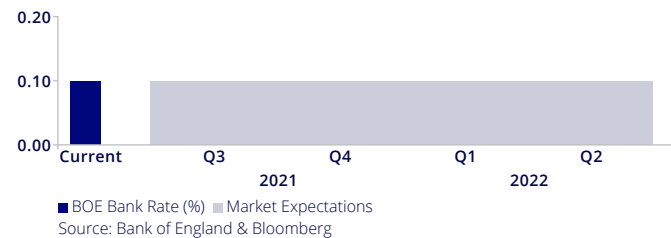
ECB ups pace of QE

The ECB recently increased the size of its monthly bond purchases in order to support the economy by maintaining favourable financing conditions.



BOE stays on hold

The Bank of England left interest rates at 0.1% in May, noting that it doesn't intend tightening until significant progress is made in achieving its 2% inflation target.



Policy & Politics

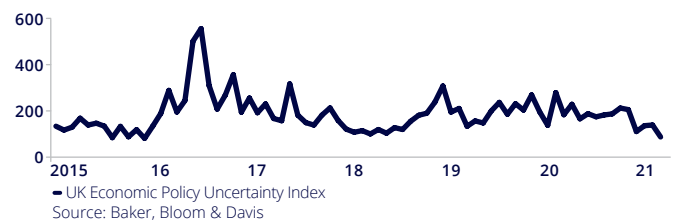
Uncertainty reducing

Vaccination roll-outs and some easing of public health restrictions are helping to lift confidence and reduce uncertainty, which bodes well for the global recovery.



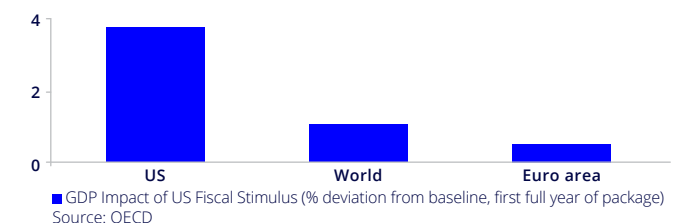
Brexit blues abating

A resolution to Brexit, the fast pace of inoculation, and the re-opening of the economy have led to reduced uncertainty in the UK, though further post-Brexit disruption is a risk.



Positive spill-overs

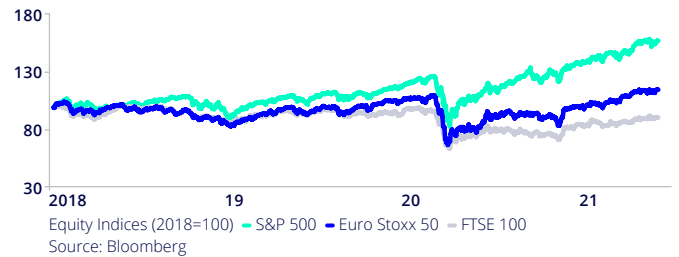
The \$1.9 trillion fiscal stimulus passed recently by Congress is expected to boost GDP growth in the US considerably and to provide a fillip to the world economy as well.



Markets

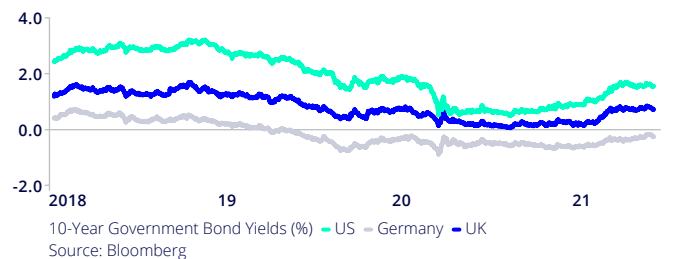
Stocks higher

The ongoing roll-out of vaccines and further signs of recovery in the global economy have seen international equity markets chalk up more gains recently.



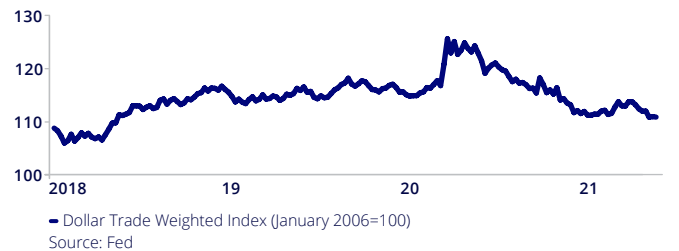
US yields dip

US yields have fallen back since reaching a 12-month high at the end of March, while German yields have nudged up further since then (with the UK largely flat).



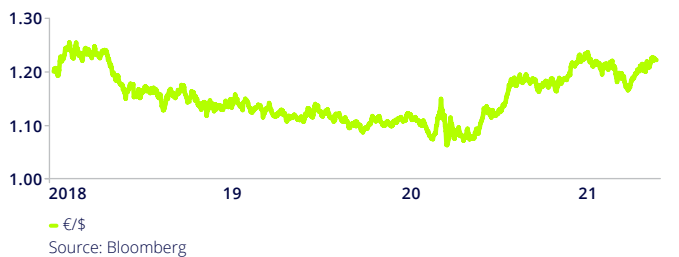
Dollar loses ground

Having appreciated against trading partner currencies in the first quarter of this year, the dollar has lost ground lately as US bond yields have dipped.



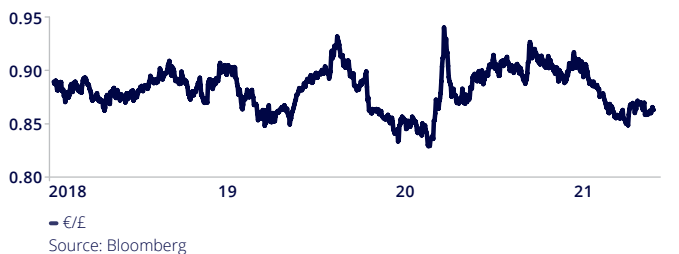
Euro recovers ground

The single currency has now reversed a large portion of its fall against the dollar in the first three months of 2021, rising by about 4 cents to \$1.21 since end-March.



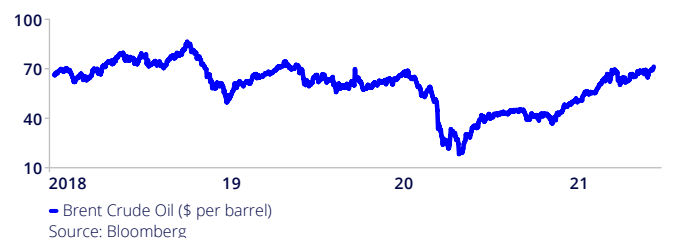
Sterling softens a touch

After strengthening by around 5 pence to 85p against the euro post the UK-EU trade deal reached late last year, the pound is now a touch weaker at 86p.



Oil prices climb

Having remained relatively stable recently, the price of Brent crude has moved up again of late to a 24-month high of \$71 per barrel.



Forecasts

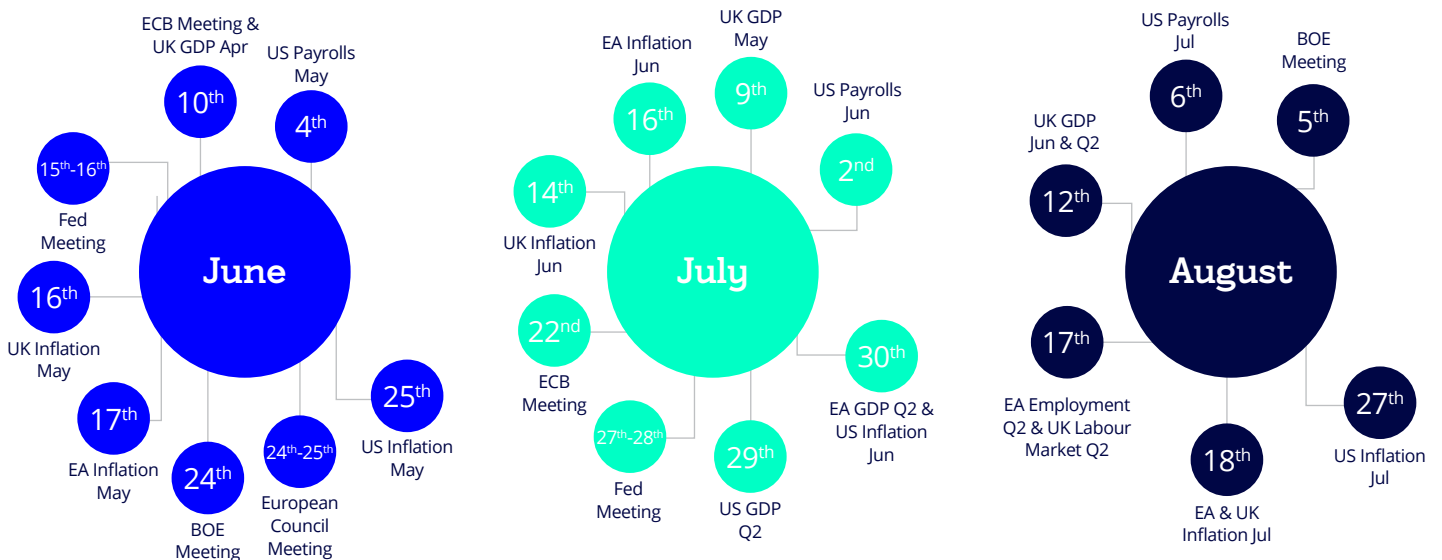
GDP Growth*	2020	2021 (f)	2022 (f)
Global Economy	-3.5%	5.8%	4.4%
US	-3.5%	6.9%	3.6%
Euro area	-6.6%	4.3%	4.4%
China	2.3%	8.5%	5.8%

FX**	Current	End Sep 2021	End Dec 2021
€/\$	1.21	1.21	1.19
€/£	0.86	0.86	0.85
£/\$	1.41	1.41	1.40

*Annual % change, constant prices (Source: OECD, BEA, Eurostat, ONS, National Bureau of Statistics China)

**Current Rate is as of 3rd June 2021 (Source: Bloomberg); Rate forecasts (Source: Bank of Ireland)

Upcoming Events



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