

Global Watch

August 2021
Economic Update

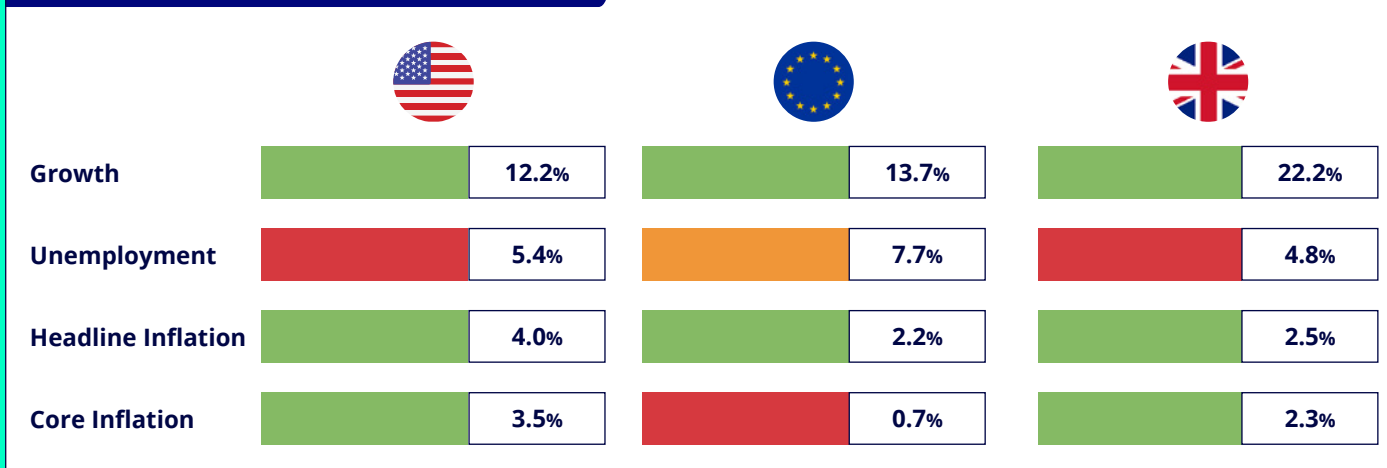


Bank of
Ireland

Global rebound in train

After moderating in the first quarter, the pace of global activity picked up in the second quarter as public health restrictions started to be eased and economies gradually re-opened. And while the Delta variant of COVID-19 is a concern, the global economy remains on track to expand strongly this year. The IMF's latest forecasts see world GDP increasing by 6.0% for 2021 as a whole, unchanged from its April projection. But reflecting differences in the pace of vaccine rollouts, growth in advanced economies has been marked up whereas it has been lowered for emerging markets. Global growth of 4.9% is pencilled in for 2022, an upward revision of 0.5 percentage points mainly on the expectation of further significant fiscal stimulus (particularly in the US). The IMF cites a number of risks to this outlook however. One is the uneven progress on the inoculation front, which means recovery is not assured even in countries where infections are currently very low so long as the virus circulates elsewhere. Another relates to the potential for an abrupt tightening of global financial conditions, which could arise if the recent increase in consumer price inflation proves persistent and results in a reassessment of monetary policy prospects. Both the Fed and the ECB are of the view that this is temporary and continue to indicate that a hike in interest rates is some distance away yet, though it is noteworthy that the Bank of England has said some modest adjustment of monetary policy may be needed to keep inflation in check over the medium term.

Economic Conditions



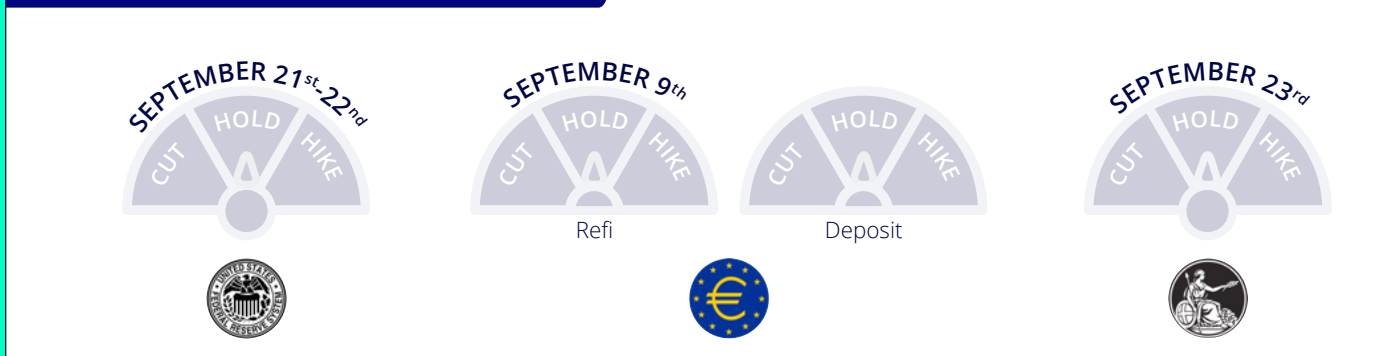
Policy Stance



Current Policy Rate



Next Meeting



Source: Bank of Ireland, BEA, Eurostat, ONS, Fed, ECB, Bank of England

Growth: Annual % change in GDP (constant prices), US, Euro area and UK Q2 2021

Unemployment: Rate (%), US July 2021, Euro area June 2021, UK March-May 2021

Headline and Core Inflation: Annual % change, US PCE June 2021, Euro area flash CPI July 2021, UK CPI June 2021, core inflation excludes food and energy (as well as alcohol and tobacco in the case of the Euro area and UK)

Policy Rates: Federal Funds Rate, ECB Main Refinancing Rate and Deposit Rate, Bank of England Bank Rate

Economy

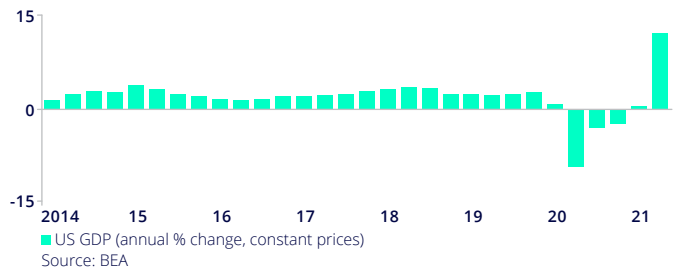
Global recovery continuing

The global Composite PMI has softened a little recently but remains comfortably in expansionary territory. The IMF expects world GDP to increase by 6.0% this year and by 4.9% in 2022.



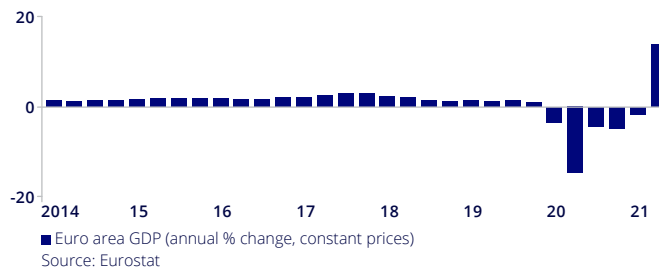
US expanding

GDP in the US rose again in Q2 2021, increasing by 1.6% quarter-on-quarter and by 12.2% year-on-year. The IMF sees the economy growing by 7.0% for 2021 as a whole, and by 4.9% next year.



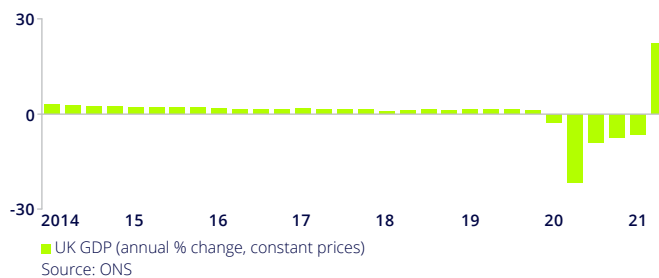
Euro area picking up

Having fallen in Q1, Euro area GDP rose by 2.0% quarter-on-quarter in Q2 and was up 13.7% on an annual basis. The IMF is forecasting an increase of 4.6% for the full-year 2021, with a further gain of 4.3% expected in 2022.



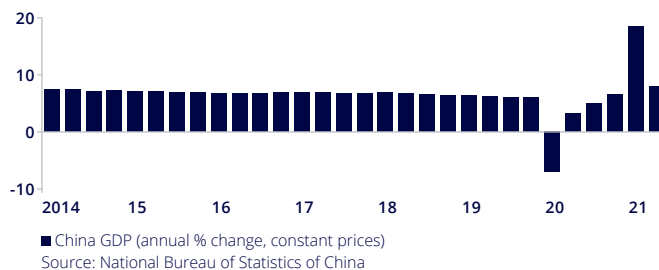
UK rebound underway

After contracting in Q1, the UK economy regained ground in Q2 with GDP rising by 4.8% quarter-on-quarter and by 22.2% year-on-year. The IMF sees full-year growth of 7.0% in 2021 easing to 4.8% next year.



China growing

China's economy expanded again in Q2 with GDP increasing by 1.3% quarter-on-quarter and by 7.9% year-on-year. The IMF expects growth of 8.1% for 2021 as a whole, followed by 5.7% in 2022.



EM activity eases

The emerging markets Composite PMI edged up in July but remained below its level in April this year. The IMF has lowered its 2021 forecast for GDP growth a little to 6.3%, but raised 2022 a touch to 5.2%.



Monetary

Fed unchanged

The Fed remained on hold at its July meeting but has since indicated it may begin to wind down the pace of its monthly bond purchases later this year.



ECB sets new inflation target

The ECB says interest rates are likely to remain at their present or lower levels until it sees inflation on track to durably reach its new 2% target.



BOE stands pat

The Bank of England left monetary policy unchanged in August but said some modest tightening may be needed to meet its inflation target over the medium term.



Policy & Politics

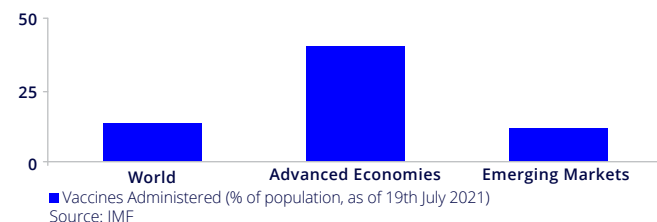
Uncertainty reducing

As vaccination programmes have progressed and economies have started to re-open, uncertainty has eased which will support the global recovery.



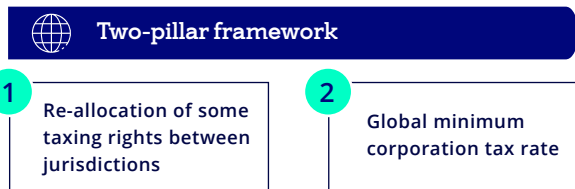
Uneven progress

The proportion of the population in emerging markets that is fully inoculated is running well behind advanced economies though and is contributing to diverging prospects according to the IMF.



International tax reform

Some 130 countries and jurisdictions have signed up to the OECD's new plan to reform corporation tax rules, with October 2021 the slated deadline for concluding the negotiations.

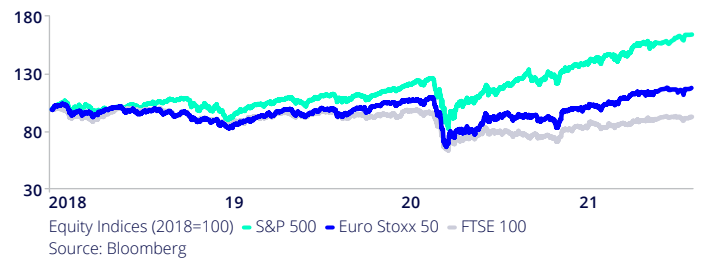


Source: OECD

Markets

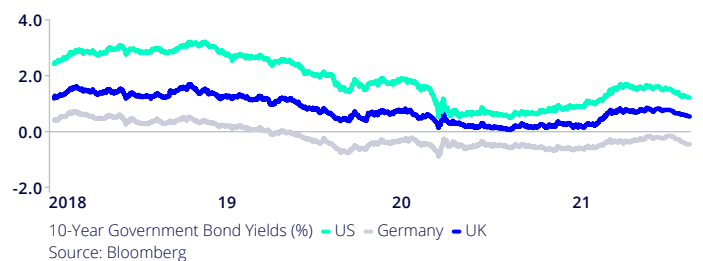
Stocks advance

International equity markets have advanced further - and are now well ahead year to date - notwithstanding a few wobbles related to concerns about the Delta variant of the virus.



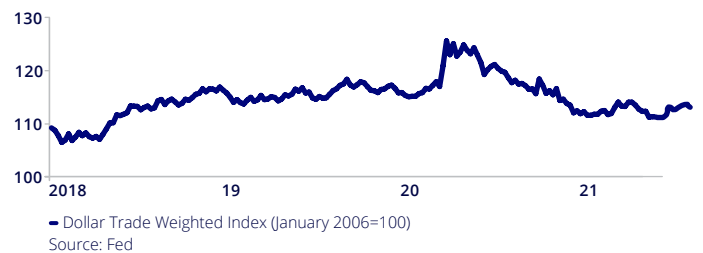
Bond yields fall

Government bond yields have fallen recently, reversing much of their increase in the first quarter of 2021, despite a pick up in inflationary pressures.



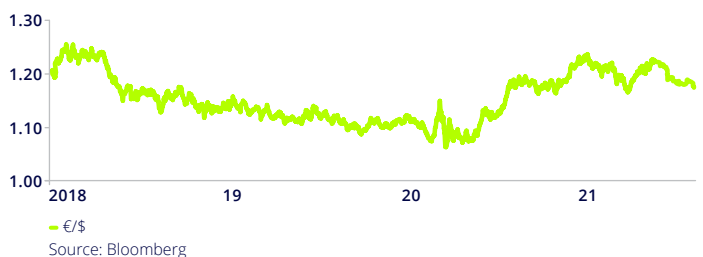
Dollar steadies

Having lost ground against the currencies of its main trading partners during the second quarter of the year, the dollar has been steadier of late.



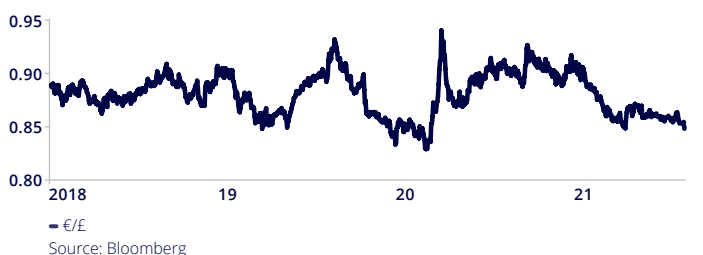
Euro retreats

The single currency has been on the back foot against the dollar recently, and at \$1.17 is now in and around its 2021 low.



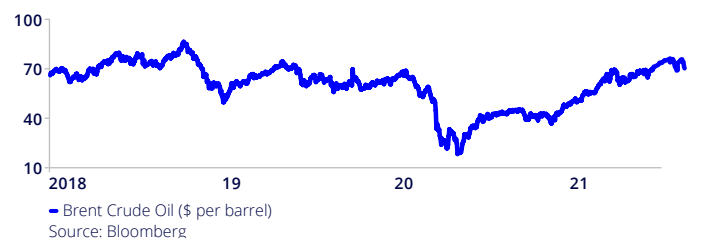
Sterling resilient

While businesses and supply chains have been adjusting to the new UK-EU trading arrangements, the pound has held its own and is currently trading just below 85p to the euro.



Oil prices dip

Oil prices have retreated lately after OPEC+ agreed to boost production, with Brent crude hovering around the \$70 per barrel mark.



Forecasts

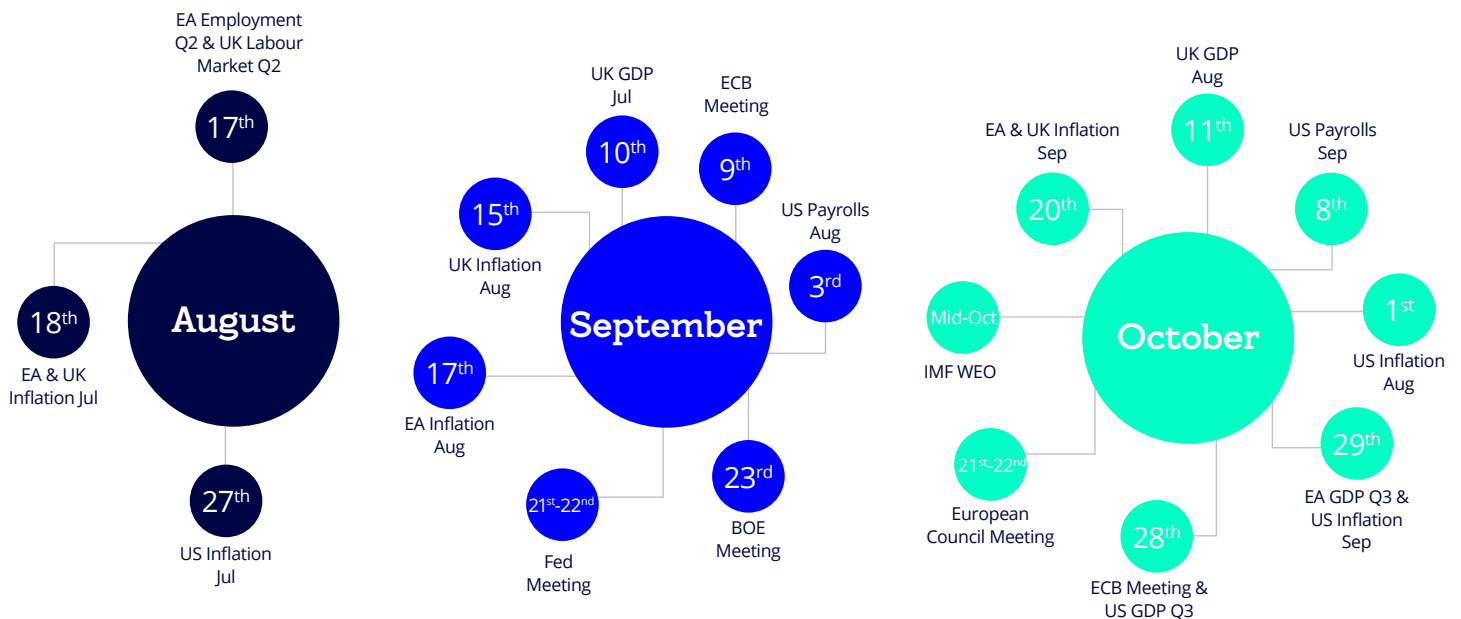
GDP Growth*	2020	2021 (f)	2022 (f)
Global Economy	-3.2%	6.0%	4.9%
Advanced	-4.6%	5.6%	4.4%
Emerging	-2.1%	6.3%	5.2%

FX**	Current	End Sep 21	End Dec 21
€/\$	1.17	1.18	1.19
€/£	0.85	0.85	0.85
£/\$	1.38	1.39	1.40

*Annual % change, constant prices (Source: IMF)

**Current Rate is as of 11th August 2021 (Source: Bloomberg); Rate forecasts (Source: Bank of Ireland)

Upcoming Events



Contact Us

economics@boi.com

+353 1 250 8900

Dr. Loretta O’Sullivan

Group Chief Economist

ext. 44267

Michael Crowley

Senior Economist

ext. 44268

Mark Leech

Head of Media Relations

+353 87 905 3679

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