

Global Watch

December 2021
Economic Update

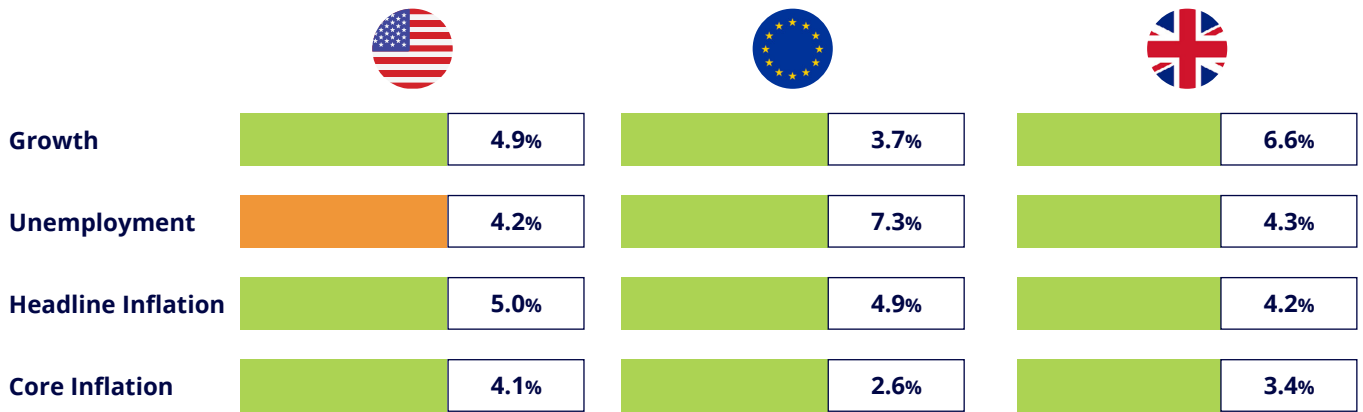


Bank of
Ireland

Inflation rears its head amid ongoing global expansion

The recovery in the global economy is continuing, albeit momentum has eased as the Delta variant of COVID-19 has spread and bottlenecks bite. The OECD expects world GDP to expand by 5.6% this year and by 4.5% next year but is also warning of downside risks to growth from virus setbacks - the re-imposition of restrictions in some countries and the emergence of the Omicron variant being cases in point - and the potential for supply constraints to last for longer. The latter have contributed to a sharp acceleration in consumer price inflation, which is currently running at multi-year highs in the US, Euro area and UK. And while the main central banks believe upward price pressures will prove temporary, the risk that they might turn out to be more persistent is on their radar. Indeed, the Bank of England seems set to raise interest rates at one of its next two meetings in December and February, and with the Fed now talking about speeding up the pace of 'tapering', the door to an early rate hike could be opening in the US too. The ECB, for its part, acknowledges that higher inflation may last for a while longer yet. It still sees below-target inflation over the medium term though and has stated that its key rates are likely to remain unchanged next year. This, not surprisingly, has taken a toll on the euro, which has lost ground against the dollar particularly, and comes during a bout of increased market volatility of late.

Economic Conditions



Policy Stance



Monetary policy to remain accommodative so that inflation averages 2% over time



Maintain persistently accommodative monetary policy to meet inflation target



Set interest rates to support households and businesses and return inflation to target

Current Interest Rate

0.0%-0.25%

Fed Funds

0.0%

ECB Refi

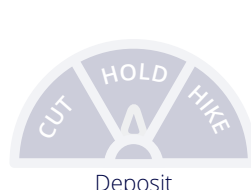
-0.5%

Deposit

0.1%

BOE Bank Rate

Next Meeting



Economy

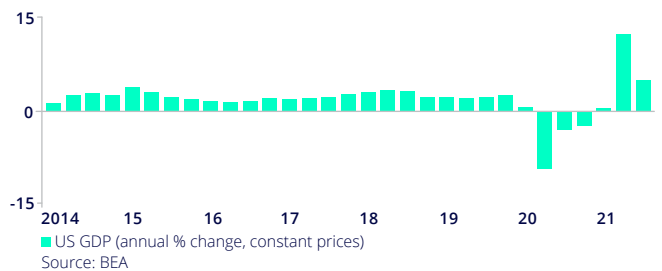
Global upturn continuing

The global Composite PMI has ticked up again recently and remains in expansionary territory. The OECD expects world GDP to increase by 5.6% this year, followed by growth of 4.5% in 2022.



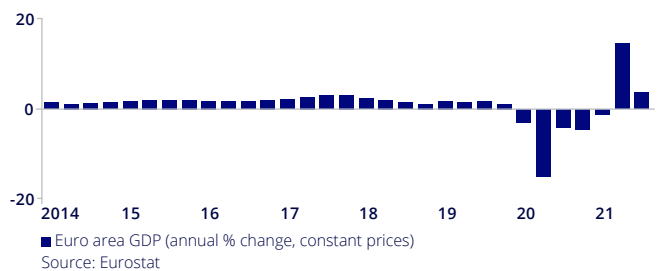
US growing

GDP in the US rose further in Q3, increasing by 0.5% quarter-on-quarter and by 4.9% year-on-year. The OECD sees the economy growing by 5.6% for 2021 as a whole, and by 3.7% next year.



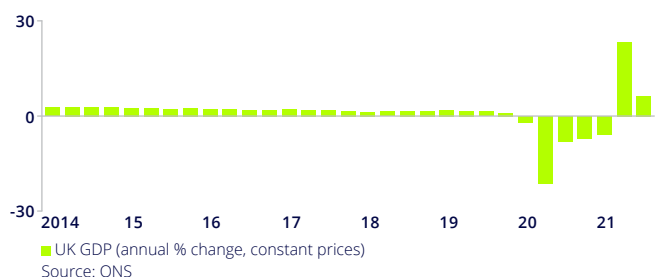
Euro area expanding

Euro area GDP rose by 2.2% quarter-on-quarter in Q3 and was up 3.7% on an annual basis. The OECD is forecasting an increase of 5.2% for the full-year 2021, with a gain of 4.3% expected in 2022.



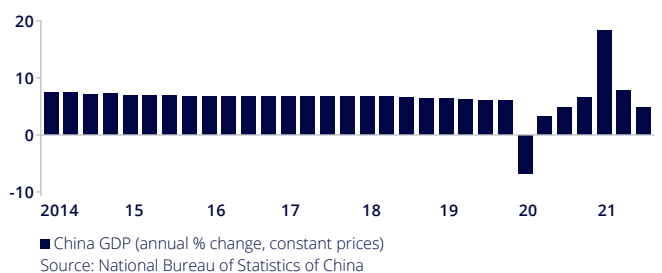
UK rebound ongoing

The UK economy has regained more ground with GDP up 1.3% on the quarter and 6.6% in the year to Q3. The OECD has pencilled in full-year growth of 6.9% for 2021, easing to 4.7% next year.



China moderating

China's economy expanded again in Q3 with GDP increasing by 0.2% quarter-on-quarter and by 4.9% year-on-year. The OECD expects growth of 8.1% for 2021 as a whole, followed by 5.1% in 2022.



EM activity firmer

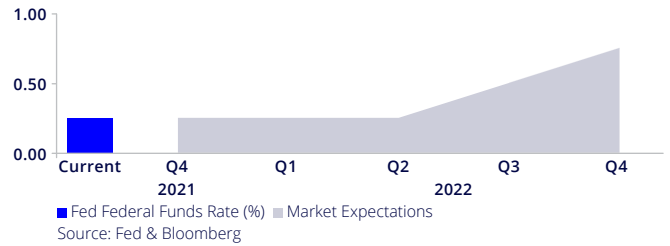
The emerging markets Composite PMI dipped into contractionary territory in August but edged up again in September-October. GDP in non-OECD countries is projected to increase by 5.8% this year and by 4.9% next year.



Monetary

Fed tapers

The Fed has begun the process of slowing the pace of its monthly bond purchases, which it expects to have completed by the middle of 2022.



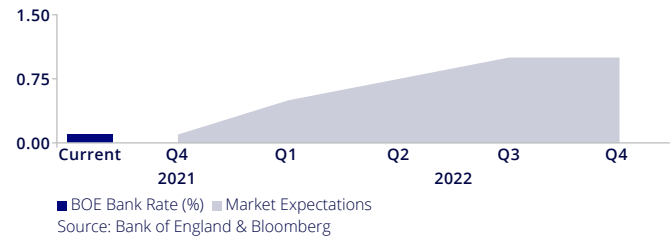
ECB on hold

The ECB left policy unchanged in October and said it will announce its plans in relation to the pandemic emergency purchases programme (PEPP) in December.



BOE set to hike

The Bank of England has indicated that an increase in interest rates is on the cards soon and could come at either its final meeting of this year or its first of next year.



Policy & Politics

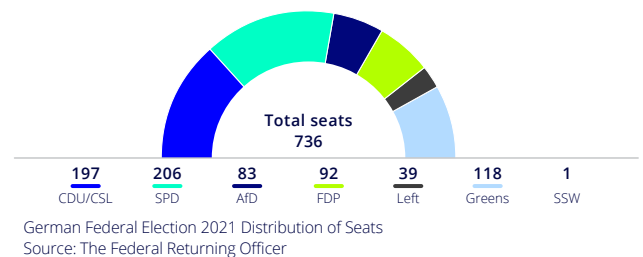
EU-UK tensions

The European Commission has proposed adjustments to the Northern Ireland Protocol which are the basis for negotiations that are currently ongoing with the UK.



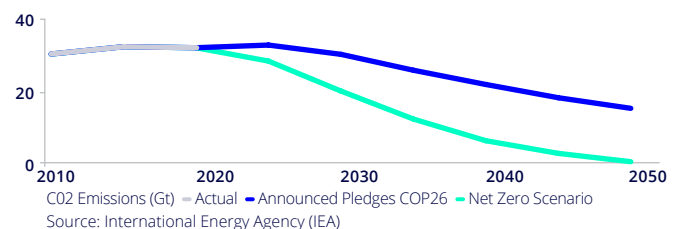
New German Government

At the end of protracted talks following elections in late September, the SPD, Greens and Free Democrats (FDP) have agreed to form a new coalition government.



COP26

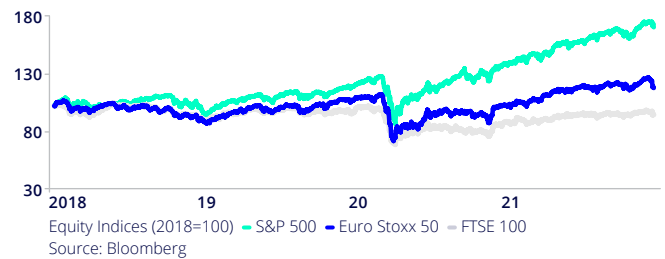
Analysis by the IEA post the Glasgow conference suggests that updated pledges to reduce CO2 emissions fall short of what is required to get to net zero by 2050.



Markets

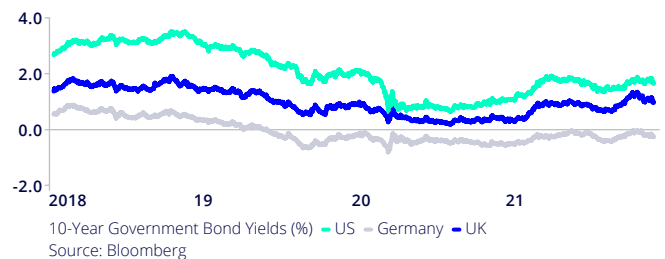
Stocks wobble

International equity markets lost some ground in late November amid concerns about the new Omicron variant of COVID-19, though they are still ahead in 2021 to date.



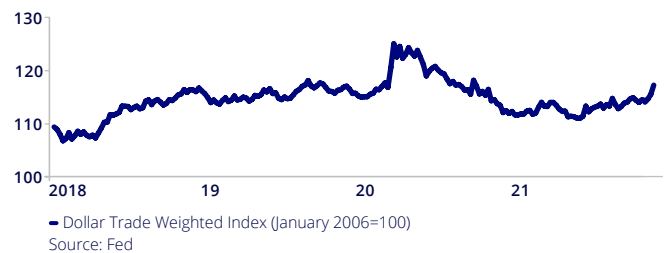
Bond yields dip

Government 10-year bond yields have generally been trending higher since the end of the summer, though they have fallen recently on the back of Omicron worries.



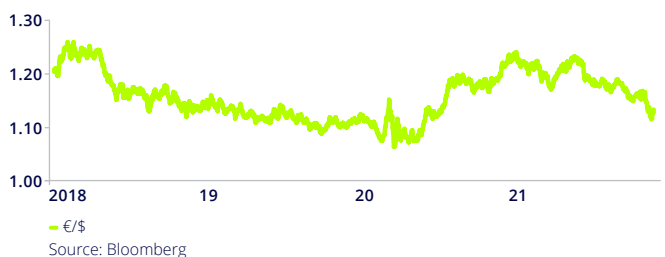
Dollar advances

The dollar has strengthened against the currencies of its main trading partners in the past few months, hitting a 2021 high in November in the process.



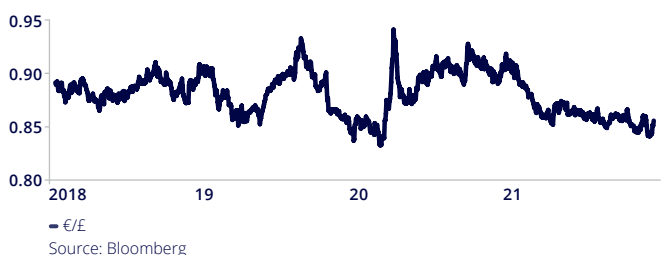
Euro under pressure

The single currency has retreated further against the dollar, falling to around \$1.13 and down some 10 cents since the beginning of this year.



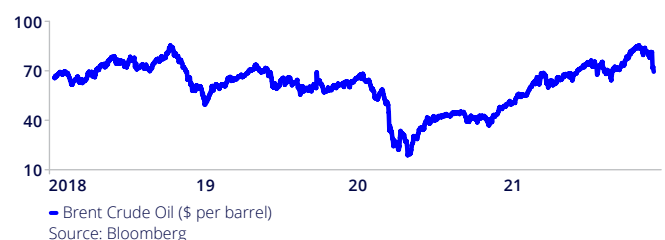
Sterling gains

The prospect of an increase in UK interest rates saw sterling strengthen to under 84p against the euro in mid-November before it eased back a little.



Oil prices off highs

The price of a barrel of Brent crude rose to a seven year high of around \$85 in late October but has since fallen back to circa \$70.



Forecasts

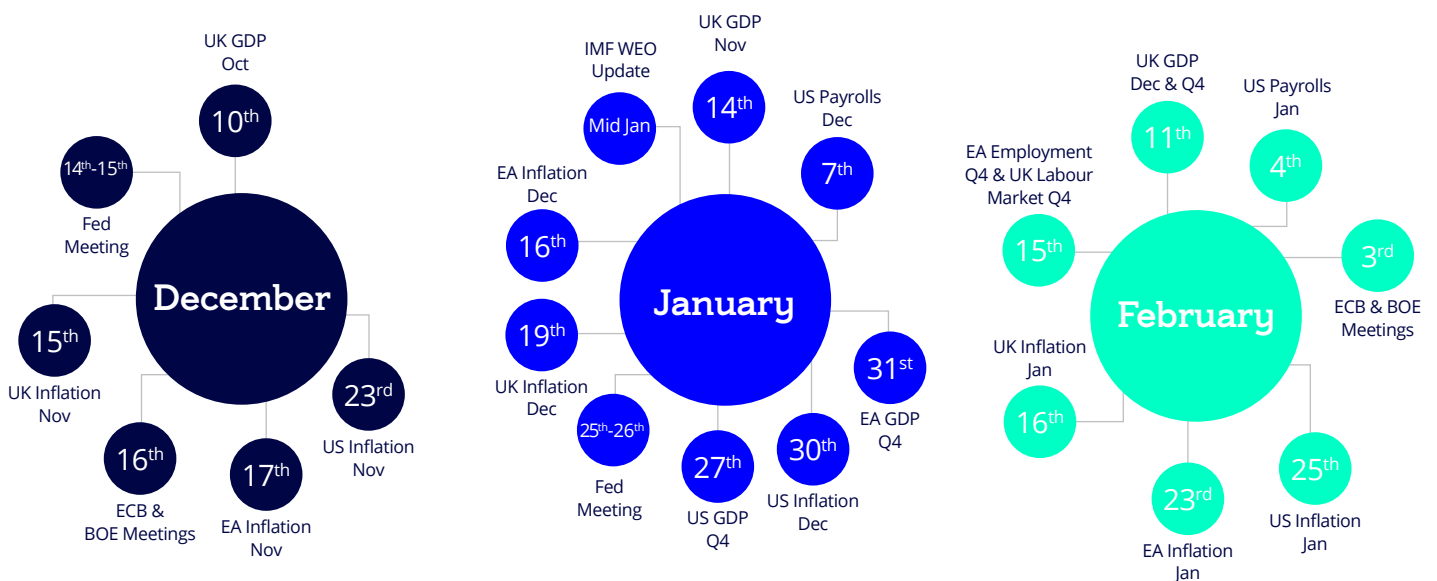
GDP Growth*	2020	2021 (f)	2022 (f)
Global Economy	-3.4%	5.6%	4.5%
US	-3.4%	5.6%	3.7%
Euro area	-6.4%	5.2%	4.3%
China	2.3%	8.1%	5.1%

FX**	Current	End Dec 21	End Mar 22
€/\$	1.13	1.11	1.10
€/£	0.85	0.84	0.84
£/\$	1.33	1.32	1.31

*Annual % change, constant prices (Source: OECD, Eurostat)

**Current Rate is as of 30 November 2021 (Source: Bloomberg); Rate forecasts (Source: Bank of Ireland)

Upcoming Events



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