

News in Review

17 March 2021

'A global economic recovery is in sight'



Last week, the Organisation for Economic Cooperation and Development (OECD) released its latest set of forecasts declaring **'a global economic recovery is in sight.'** The international soothsayer said prospects have **'improved markedly in recent months'** as vaccine rollouts gather momentum and the US launches a massive new stimulus package.

According to its new predictions, the world economy is set to rebound sharply, with 5.6% growth this year and 4.0% next year – a large upward revision from December's forecast, which implied the global economy would expand by 4.2% this year and 3.7% in 2022. As a result, global output is now expected to rise above its pre-pandemic level by mid-2021, albeit with significant divergences between countries.

The OECD did, however, warn of potential risks, most notably relating to how quickly authorities can vaccinate their citizens, how soon lockdown restrictions are lifted and whether new virus mutations can be kept in check. It also stressed that, *The top policy priority is to ensure that all resources necessary are used to produce and fully deploy vaccinations as quickly as possible throughout the world.'*

UK economy shrank in January

Last week also saw the release of UK gross domestic product statistics, which revealed the economy contracted by 2.9% in January. While this does represent a sizeable decline, it was significantly lower than many analysts had feared, given that large sections of the economy were affected by lockdown restrictions reintroduced early in

the new year. Commenting on the figures, Jonathan Athow of the Office for National Statistics (ONS), commented, *"The economy took a notable hit in January, albeit smaller than some expected."*

BoE Governor: outlook more positive

The Bank of England (BoE) Governor, Andrew Bailey, struck a relatively optimistic tone when speaking about UK economic prospects during a radio interview on Monday, saying, *"I'm now more positive but with a large dose of caution."* The Governor suggested the economy would regain its pre-COVID level by the end of this year, three months earlier than last month's BoE forecast had implied. Mr Bailey also said he expected inflation to start rising towards the Bank's 2% target in *"the next two or three months"* but that *"a lot more evidence"* of a sustainable inflationary trend would be required before the BoE's interest rate-setting Monetary Policy Committee would act.

UK-EU trade slumps

Official data released by ONS last week revealed the largest monthly fall in UK imports and exports of goods since records began in 1997. This was due to a sharp decline in UK-EU trade, with exports to the EU falling by 40.7% and imports declining by 28.8% in January. The figures were the first since post-Brexit trading arrangements came into force and ONS suggested temporary factors were likely to be behind the falls. However, Suren Thiru, Head of Economics at the British Chambers of Commerce, warned the significant slump *"provides an ominous indication of the damage being done to post-Brexit trade with the EU by the current border disruption."*

Biden signs COVID relief bill

Last Thursday, US President Joe Biden, signed a \$1.9tn coronavirus economic relief package into law. The stimulus bill, named the *'American Rescue Plan Act'*, includes another round of one-off direct household payments, which will see most Americans receive cheques worth \$1,400. The bill, which also includes an extension of jobless benefits and a child tax credit, expected to lift millions out of poverty, passed through Congress without a single Republican voting in favour.

Prior to signing the bill, Mr Biden said the relief package was about *"rebuilding the backbone of this country."* The package is not only forecast to boost the US economy, but the impact on trade from rising US imports and exports is also expected to lift growth rates right across the globe. Stock markets reacted positively to the recovery package, with the S&P 500 posting its strongest weekly gain since early February.

China economy bouncing back

On Monday, further evidence of China's economic recovery emerged, with industrial output and retail sales surging in the first two months of this year. Both sets of data beat analysts' expectations, suggesting the world's second largest economy has consolidated its brisk recovery from the coronavirus paralysis suffered early last year.

Here to help

Financial advice is key, so please do not hesitate to get in contact with any questions or concerns you may have.