Global economy returning to its recovery course after summer setbacks

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ABSTRACT

Recently, the coronavirus pandemic has caused economic developments in major economies to drift apart: While infection rates were declining and production was experiencing strong growth in places such as Europe and the United States in the second quarter of 2021, emerging economies were experiencing strict economic restrictions due to high case numbers. In some of these countries, the economy declined. Globally, the spread of the coronavirus slowed considerably in late summer 2021 and accordingly, the global economy will return to its recovery course beginning in the third quarter of 2021. Although higher case numbers are expected in winter 2021/22, they will probably have far less of an impact on the economy than before due to increased vaccination rates and selectively implemented containment measures. Positive momentum, particularly in the services sector, will be provided mainly by continued strong growth in private consumption, which is likely to remain a key growth driver in the coming years. Currently, raw material and input shortages are hindering growth in the manufacturing industry. However, disruptions to international supply chains and restrictions at key primary product manufacturing sites are expected to dissipate in the first half of 2022. This will probably lead to some catch-up effects in the manufacturing sector, which is likely to provide the global economy with additional momentum. Thus, DIW Berlin is maintaining its growth forecast of 6.7 percent for the global economy. In 2022, global economic output is expected to grow by 5.2 percent. In the second quarter of 2021, the estimate was 0.3 percentage points lower. Global economic output is expected to grow by 4.2 percent in 2023.

Higher rates of infection in emerging economies slowed the global economy over summer 2021. Following sluggish growth at the beginning of 2021, the global economy contracted slightly by 0.2 percent in the second quarter compared to the previous quarter. Declines in infection rates in advanced economies contrasted with rapidly increasing rates in some emerging economies and, accordingly, the economic development of these countries drifted apart (Figure 1).

Advanced economies continued on their recovery course over summer 2021 as waves of infection petered out. During the second quarter of 2021, containment measures were rapidly scaled back in response to decreasing case numbers, which revived the personal services and retail sectors. With simultaneous solid developments in the manufacturing sector, most advanced economies recorded strong growth once again. The euro area returned to its recovery course in the second quarter of 2021 with a growth rate of 2.2 percent. With production up 1.5 percent, the USA, on the other hand, maintained its pace of expansion. At 4.8 percent, the United Kingdom recorded extraordinarily strong growth, which is primarily due to all significant restrictions on public life having been lifted in mid-May 2021. In Japan, in contrast, pandemic containment measures weighed on economic activity far into the second quarter of 2021. Accordingly, Japanese GDP grew sluggishly, only 0.3 percent compared to the first quarter.

A resurgence of infections has noticeably dampened production in emerging economies in Asia and South America. In India, likely the hardest hit emerging economy, economic output declined by around ten percent in the second quarter due to national and regional curfews. In some South American countries, too, the domestic economy was largely paralyzed over summer 2021 due to the pandemic. As a result, economic growth in Brazil came to an almost complete standstill. In China, in contrast, recovery picked up speed over the summer, gaining 1.3 percent in the second quarter of 2021 after just 0.4 percent in the first quarter.

Global economic growth is expected to pick up in the third quarter of 2021. Case numbers in many emerging economies sank again over the late summer. Accordingly, containment measures were lifted, which should boost production in the

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relevant countries. Despite recent increases in the infection rate in many advanced economies, containment measures were tightened only slightly, if at all, so that the recovery is likely to continue in the third quarter of 2021, albeit at a somewhat slower pace than recently. Increasing levels of immunity among the population gives consumers overall confidence in the future. However, uncertainties about the further course of the pandemic and containment strategies are likely to have clouded consumers' sentiment somewhat recently in many advanced economies (Figure 2). Accordingly, retail sales declined somewhat again following a strong summer.

Business confidence also rose sharply once more in the summer, resulting in the purchasing managers' indices now being well above the expansion threshold of 50 index points. Despite exuberant corporate sentiment, industrial production was sluggish in many places due to supply-side shortages (Figure 3). As a result, there were disruptions to international supply chains and restrictions at key primary product manufacturing sites from spring 2021 onward. Although the order situation is extraordinarily good due to the global economic recovery, orders likely cannot be processed before spring 2022 because of input shortages. This is also indicated by the slight capacity underutilization in many places and the rising producer prices since the beginning of 2021. International trade was accordingly weaker in the second quarter of 2021. Although the global trade volume was well above the pre-crisis level at the beginning of 2021, it has been stagnating since April (Figure 4).

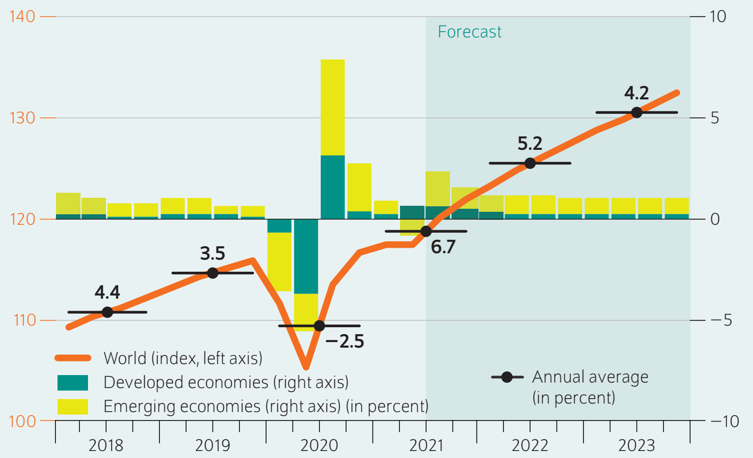
Despite an expected increase in the infection rate, the global economy should continue to expand from winter 2021, albeit at a slower rate than recently. This forecast is based on the assumption that it will be possible to curtail the pandemic with containment measures and the available vaccines. The number of infections will increase again in most advanced economies at the end of 2021. However, due to the vaccination campaign and resulting increases in immunity among the population, the share of those who experience severe illness will be significantly lower. Therefore, governments are able to tolerate higher incidences while simultaneously implementing health policy measures that restrict public life much less significantly than during previous waves. It is assumed that a reintroduction of strict health policy measures will affect vulnerable segments of the population and local coronavirus hotspots in particular. Therefore, it is also assumed that economic activity will be limited mainly due to quarantine and illness-related workforce shortages. During the spring of 2022, infection rates are expected to decline as more and more of the population is vaccinated. Over the course of 2022, existing restrictions on social life will be successively lifted. In contrast, the pandemic is expected to be combated more slowly in less advanced economies. In countries vaccinating at a slower pace, there are likely to still be strict containment measures in place.

In particular, solid growth of private consumption is likely to carry the global upswing during the forecast period. Especially in advanced economies, households should be able

Figure 1

Growth of real GDP

Compared to previous quarter, in percent



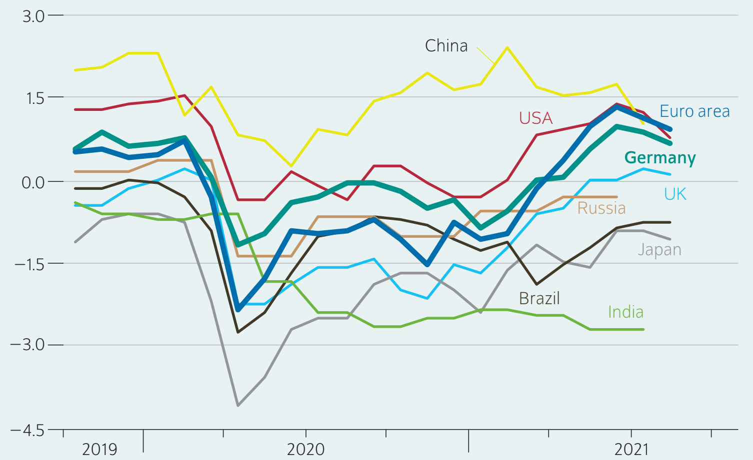
Sources: National statistical offices; DIW Berlin Economic Outlook Autumn 2021.

The global economy is likely to have reached its long-term growth path by the end of 2022.

Figure 2

Consumer confidence

Indices (standardized)



Sources: Confidence Board; GfK UK; Japanese Cabinet Office; European Commission; IBRE Brazilian Institute of Economy; China Economic Monitoring and Analysis Center; Russian Federal State Statistics Services; Reserve Bank of India; authors' own calculations.

Consumer sentiment in advanced economies fell somewhat recently.

Table

Real GDP, consumer prices, and unemployment rate in the global economy
In percent

	GDP				Consumer prices				Unemployment rate in percent			
	Change over previous year in percent											
	2020	2021	2022	2023	2020	2021	2022	2023	2020	2021	2022	2023
Euro area	−6.5	4.5	4.6	1.9	0.1	2.5	1.8	1.5	7.9	7.7	7.7	7.2
without Germany	−7.3	5.6	4.4	2.1	−0.1	2.2	1.7	1.4	9.8	9.6	9.6	9.1
France	−8.0	6.0	4.0	2.3	0.5	2.2	1.9	1.4	8.0	7.8	8.3	7.8
Italy	−8.9	5.5	4.3	2.1	−0.3	1.5	1.6	1.2	9.3	9.7	9.4	9.0
Spain	−10.8	6.2	5.8	1.9	−0.3	2.5	2.0	1.4	15.8	15.2	14.7	13.9
Netherlands	−3.8	3.8	3.2	2.2	1.2	2.2	2.1	1.6	3.9	3.2	3.7	3.5
United Kingdom	−9.8	6.9	5.8	1.7	1.0	2.8	2.5	1.8	4.5	4.8	4.5	4.2
USA	−3.4	6.1	4.3	2.5	1.2	4.2	2.6	1.7	8.1	5.6	4.3	3.8
Japan	−4.7	2.4	2.8	1.9	0.0	−0.4	0.6	1.0	2.8	2.9	2.8	2.7
South Korea	−0.9	4.1	3.2	3.0	0.7	1.6	1.5	1.2	3.9	4.0	3.7	3.6
Middle Eastern Europe	−3.7	5.0	4.1	3.8	3.1	3.9	3.4	3.3	3.7	4.0	3.7	3.4
Turkey	1.6	7.6	3.0	4.3	12.3	16.3	14.2	13.0	13.1	13.4	13.1	13.0
Russia	−2.5	2.2	3.0	2.4	3.4	6.3	5.7	4.4	5.8	5.1	4.9	4.5
China	2.4	8.1	5.4	5.8	2.5	1.8	2.4	2.5	4.0	3.8	3.7	3.7
India	−7.0	9.1	9.8	6.4	6.6	5.5	5.0	5.5				
Brazil	−4.4	5.6	2.1	2.3	3.3	7.1	3.9	3.2	13.5	14.9	13.8	12.6
Mexico	−8.5	6.1	3.7	3.1	3.4	5.2	3.4	3.0	4.5	3.8	3.4	3.3
Advanced economies	−4.7	5.2	4.2	2.2	0.8	3.0	2.1	1.5	6.9	5.6	5.0	4.5
Emerging markets	−1.2	7.5	5.8	5.3	4.1	4.4	4.2	4.1	5.4	5.3	5.1	4.9
World	−2.5	6.7	5.2	4.2	2.8	3.8	3.4	3.2	6.0	5.5	5.0	4.8

Sources: National statistical offices; DIW Berlin Economic Outlook Autumn 2021.

to maintain their consumption over winter 2021/22 despite rising case numbers. Increased immunity and accordingly fewer uncertainties regarding the further course of the pandemic should give private consumption additional momentum and decrease the saving rate in many places. The gradual recovery on the labor markets will likely support the income of private households as well. For example, the unemployment rate should continue to decline in advanced economies as long as emergency aid for businesses, such as the short-time work allowance, is not ended too early. In many emerging economies, which can afford far less fiscal support, the situation on the labor markets is likely to improve only gradually.

The recovery of private consumption will likely lead to a noticeable growth in sales in the retail and personal services sectors. Moreover, supply chains and raw material prices are likely to have normalized again in the first half of 2022. This should lead to some catch-up effects in the manufacturing sector.

Additionally, further fiscal stimuli are likely to support the recovery during the forecast period. In addition to the planned investment measures in the United States, the spending programs submitted as a part of the recovery and resilience plan of many European countries were approved. While some small upfront payments will flow through the end of 2021, the bulk of the fiscal stimulus is expected over the coming years.

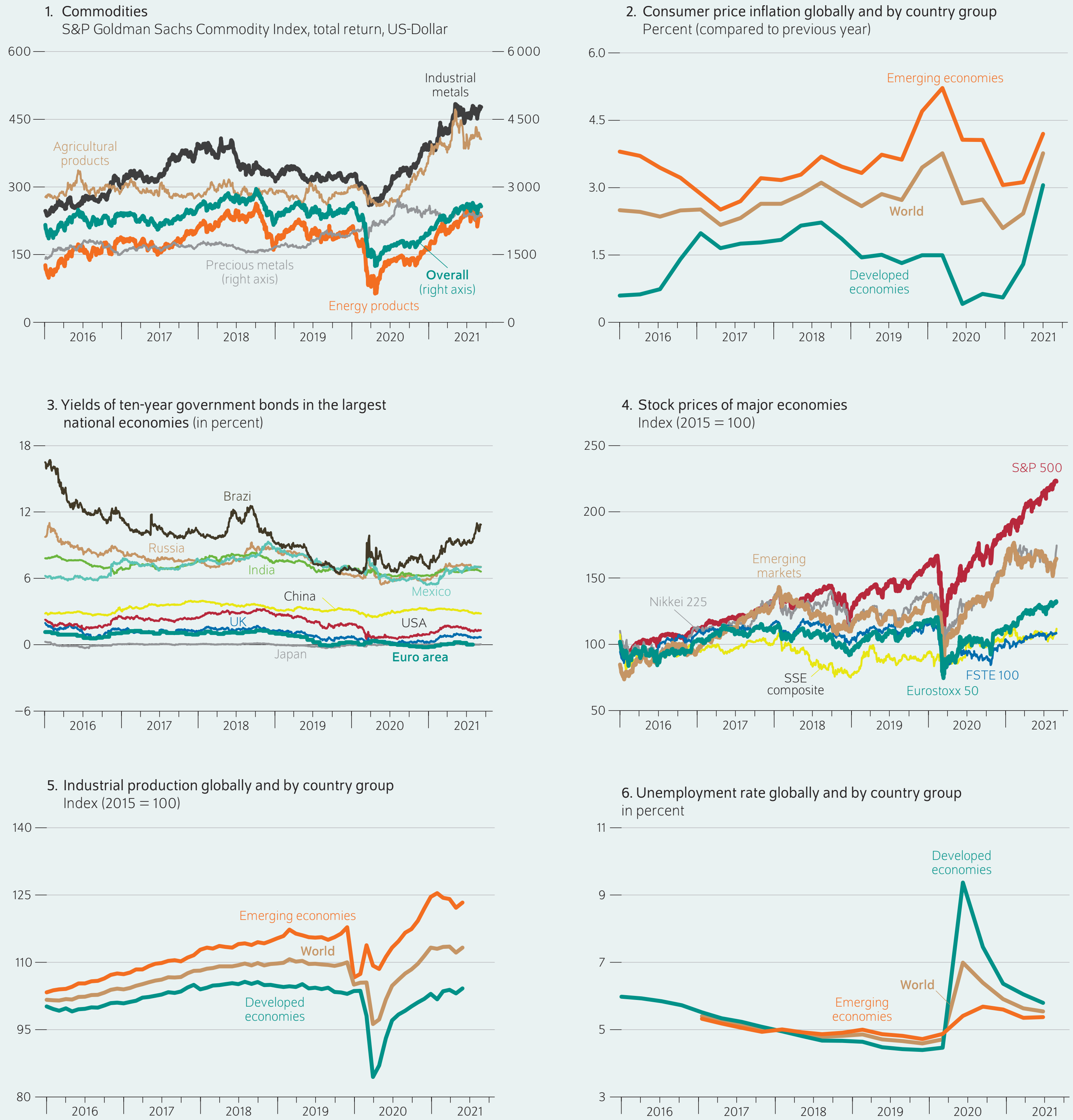
In addition to expansionary fiscal policy, the further favorable financing conditions will support corporate investment activity. While some central banks, such the Bank of Korea, have already begun to make their monetary policy somewhat less expansive, many have announced they will not begin gradually phasing out ongoing expansionary monetary policy measures until 2022. Consumer price inflation continued to rise in many places over the summer and is likely to temporarily exceed the inflation target of the respective central bank by the end of 2021.[1] Primarily behind this temporary increase are rising raw material and energy prices as well as price increases due to supply bottlenecks within international supply chains. A sharp rise in wages, which could lead to significantly higher core inflation rates in the medium term, is not yet on the horizon; improvements on the labor markets are progressing too slowly for this in many places.

Overall, powerful growth in production in the advanced economies was able to compensate for the majority of the pandemic-related losses in emerging economies in the second quarter of 2021. Beginning in the second half of 2021, the global recovery is likely to continue as greater shares of the population are vaccinated against COVID-19. Thus, global production will likely only be able to reach its long-term growth path by the second half of 2022. The increased rates of infection in some emerging economies led to greater growth losses than previously forecast. Assuming these countries

1 Cf. SGL 21

Figure 3

Global economic indicators



Note: Last observations on May 26, 2021 (part 1); first quarter of 2021 (part 2); April 30, 2021 (part 3); May 26, 2021 (part 4); March 1, 2020 (part 5); second quarter of 2021 (part 6).

Sources: S&P Dow Jones Indices (part 1); German Stock Exchange, CBOE (part 2); ECB, PboC, Federal Reserve, BoE, BOJ, Central Bank of Brazil (part 3); Bureau of Labor Statistics (part 4); IHS Markit (part 5); Macrobond (part 6). National statistical offices; IMF; Macrobond; Eurostat; CPB World Trade Monitor, STOXX, Nikkei Inc.; Shanghai Stock Exchange, FTSE; authors' own calculations.

Figure 4

Volumes of import goods worldwide and for selected economies

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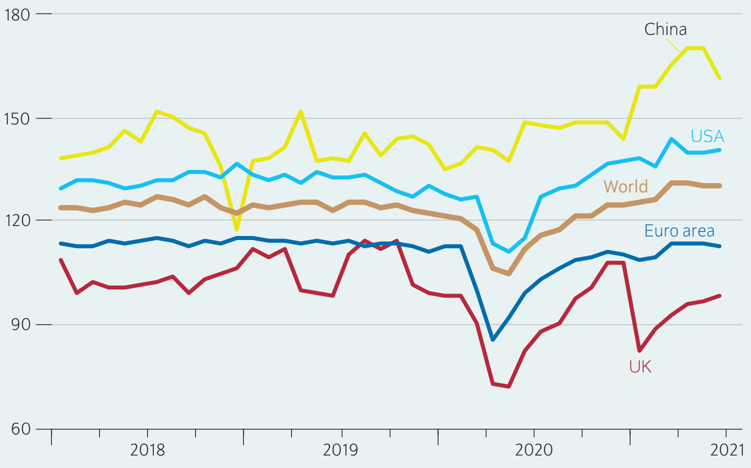

Source: CPB.

The global economy stagnated over summer 2021 due to pandemic-related primary product shortages and supply chain disruptions.

will successfully be able to keep infection rates low in the future, this will result in correspondingly higher growth rates in 2022. Overall, DIW Berlin confirms its global economic forecast from summer 2021 and is increasing its forecast for 2022 by 0.3 percentage points. Thus, DIW Berlin expects growth rates of 6.7 percent for 2021, 5.2 percent for 2022, and 4.2 percent for 2023. The global economy should have reached its long-term growth path by the end of 2022 (Table).

The downward risks have recently increased, as uncertainties regarding the further course of the pandemic and the effectiveness of existing vaccines against new mutations have increased. This would make stricter lockdown measures necessary again and would likely further delay an economic upswing. Another risk is that corporate and personal insolvencies will rise sharply, in particular as a result of another (partial) lockdown. This could lead to significant loan defaults and, as a result, destabilize the financial markets, which could also jeopardize the solvency of a number of countries. Global recovery, on the other hand, would be strengthened by faster vaccine distribution and more effective treatments for COVID-19.

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