World Economic Prospects Monthly
Overview: Stronger recovery will not unleash inflation

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The larger US fiscal stimulus lies behind our upward revision to global GDP growth in 2021 to 6.0%

The upgrade also reflects better-than-expected growth in Q4 and a stronger recovery over 2021

- Although we have upgraded our global GDP growth forecast for 2021 again, to 6.0% from 5.6%, we do not expect this to trigger a sustained rise in inflationary pressures. We still view the pandemic as being disinflationary and expect the low inflation/low yield environment of the past decade to persist.

- The US looks set for an even bigger fiscal boost than we had expected a month ago, and its GDP growth is now seen at 7.0% this year. We expect the full $1.9trn of fiscal measures to be passed, rather than the $1.3trn package previously assumed. Strong US demand and a fall in global Covid cases bode well for the world economy.

- However, a growing concern is that the ongoing substantial global fiscal support, combined with the release of pent-up demand as restrictions are eased, may cause a sustained pick-up in inflation. Although we expect some factors, many of which are a direct consequence of the pandemic, and rising oil prices to lead to higher headline inflation in the short term, we do not see a sustained overshoot of inflation targets.

- First, fiscal policy is expected to be a bit tighter at a global level this year than in 2020 and, while households have built up large stocks of savings over the past year, the unwind is likely to be gradual and a large share of these unplanned savings may be permanently saved rather than spent.

- Second, we do not see a strong argument why higher costs and inflation in the short term will lead to an inflationary spiral. Workers are in no position to push up wages in response to the near-term rise in inflation. And while some sectors that have seen surges in demand during the pandemic may be able to pass on higher costs and even expand their margins, this will be offset by weaker price pressures among the sectoral losers from the pandemic.

- Although a rise in bond yields from their record lows seems justified, we doubt central banks will come under pressure to raise policy rates any time soon to contain inflation.

We now expect global GDP to surpass its Q4 2019 level in Q2 this year. Due to our recent revisions, global GDP at end-2021 will be about 1.6% higher than we expected at end-2020.
# Major forecast changes this month

| Country | Change | Background |
|---------|--------|------------|
| World | World GDP now seen growing 6.0% in 2021, up from 5.6% last month due to stronger US. Growth then slows to 4.2% in 2022. | Q1 will still be weak, but strong growth in the US and China and faster vaccine roll-out later in 2021 will lift growth prospects. |
| Canada | GDP growth forecast for 2021 raised to 5.5% from 4.4%, but lowered to 3.0% in 2022 from 3.8%. | Flash estimate shows GDP rose at 0.5% m/m in January, quelling earlier fears of a contraction in Q1, and stronger US growth will also lift 2021. |
| China | GDP still forecast to grow 8.9% in 2021, after 2.3% in 2020, with 5.4% now seen in 2022. | Slow growth momentum in Q1 amid underwhelming spending during holiday season, followed by a strengthening from Q2 onwards. |
| Eurozone | Growth seen at 4.2% in 2021 and 4.7% in 2022, broadly unchanged from last month, after 6.6% contraction in 2020. | Renewed Covid outbreaks and restrictions, plus slow vaccine roll-out, mean growth outlook remains modest. |
| France | GDP still seen growing by about 5% this year, after record contraction of 8.2% in 2020, but 2022 forecast cut to 4.6%. | Slow vaccine roll-out and weak Q1 due to high Covid infections mean 2021 forecast broadly unchanged. |
| Germany | Our 2021 GDP call is raised to 3.8% from 3.6% last month, after 5.3% contraction in 2020. Growth in 2022 lowered to 4.3%. | Weak Q1 still expected, but stronger pick-up from Q2 and stronger Q4 2020 provides a higher starting point. |
| Italy | Growth forecasts for 2021 and 2022 broadly unchanged at 4.6% and 4.5% respectively, after 8.9% contraction last year. | Another GDP decline seen in Q1 will weigh on growth this year, but solid recovery still expected from Q2 onwards. |
| Japan | GDP growth now forecast at 2.7% in 2021 and 2.2% in 2022 (was 2.6% and 2.4% in February). | Changes reflect latest GDP data, updates for extended state of emergency and improving outlook for H2 2021. |
| Spain | Our GDP growth forecasts are unchanged at 5.8% this year and 6.2% in 2022, after estimated 11.0% fall in 2020. | Weaker Q1 2021 still in prospect before vaccine programme boosts H2 and triggers a pick-up in tourism and domestic demand. |
| UK | GDP now seen growing 5.9% in 2021 and 6.5% in 2022 (up from 5.0% and 6.1% last month), after 9.9% drop last year. | Budget saw sizeable short-term stimulus package, extending income support schemes and capital allowance to boost investment spending. |
| US | GDP growth forecast raised to 7.0% in 2021 and 3.0% in 2022, up from 5.9% and 2.7% respectively last month. First rate rise still seen in mid-2023. | Improving health conditions, faster vaccine roll-out and fiscal stimulus from the $1.9tn American Rescue Plan could lift GDP growth to its fastest since the early-1980s. |

Source: Oxford Economics
### Summary of International Forecasts

|                  | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|------------------|------|------|------|------|------|------|
| **Real GDP**     |      |      |      |      |      |      |
| **North America**|      |      |      |      |      |      |
| United States    | 2.2  | -3.5 | 7.2  | 3.4  | 1.1  | 1.2  |
| Canada           | 1.9  | -5.4 | 6.1  | 2.5  | 2.1  | 2.0  |
| **Europe**       |      |      |      |      |      |      |
| Eurozone         | 1.3  | -6.8 | 4.1  | 4.8  | 2.0  | 1.3  |
| Germany          | 0.6  | -5.3 | 3.8  | 4.3  | 1.5  | 0.9  |
| France           | 1.5  | -8.2 | 4.9  | 5.3  | 2.6  | 1.7  |
| Italy            | 0.3  | -8.9 | 4.5  | 4.6  | 1.7  | 0.6  |
| Spain            | 2.0  | -10.8| 5.5  | 6.3  | 2.7  | 2.1  |
| UK               | 1.4  | -9.8 | 7.2  | 5.5  | 1.9  | 1.4  |
| EU27             | 1.6  | -6.3 | 4.0  | 4.7  | 2.2  | 1.5  |
| **Asia**         |      |      |      |      |      |      |
| Japan            | 0.3  | 4.9  | 3.0  | 2.3  | 1.2  | 1.0  |
| China            | 6.0  | 2.3  | 8.9  | 5.4  | 4.8  | 4.8  |
| India            | 4.8  | -6.9 | 11.8 | 6.1  | 7.2  | 7.2  |
| **G7**           |      |      |      |      |      |      |
| World            | 1.6  | -5.1 | 6.0  | 3.7  | 1.4  | 1.2  |
| **World 2015 PPPs** | 2.8  | -3.5 | 6.3  | 4.5  | 3.4  | 3.3  |
| **World trade**  | 0.5  | -6.1 | 10.6 | 5.3  | 3.4  | 3.1  |
| **Inflation (CPI)** |      |      |      |      |      |      |
| **North America**|      |      |      |      |      |      |
| United States    | 1.8  | 1.2  | 2.8  | 2.2  | 2.0  | 2.0  |
| Canada           | 2.0  | 0.7  | 2.6  | 2.0  | 2.2  | 2.3  |
| **Europe**       |      |      |      |      |      |      |
| Eurozone         | 1.2  | 0.3  | 1.7  | 1.4  | 1.5  | 1.7  |
| Germany          | 1.5  | 0.5  | 2.2  | 1.5  | 1.7  | 1.9  |
| France           | 1.1  | 0.5  | 1.5  | 1.4  | 1.6  | 1.8  |
| Italy            | 0.6  | -0.1 | 1.4  | 1.2  | 1.3  | 1.4  |
| Spain            | 0.7  | -0.3 | 1.5  | 1.5  | 1.5  | 1.6  |
| UK               | 1.8  | 0.9  | 1.4  | 2.0  | 1.7  | 1.7  |
| EU27             | 1.4  | 0.7  | 2.0  | 1.6  | 1.8  | 1.9  |
| **Asia**         |      |      |      |      |      |      |
| Japan            | 0.5  | 0.0  | -0.3 | 0.3  | 0.5  | 0.7  |
| Emerging Asia, excl Japan | 2.4  | 2.3  | 2.4  | 2.6  | 2.7  | 2.7  |
| China            | 2.9  | 2.5  | 1.7  | 2.3  | 2.4  | 2.4  |
| India            | 3.7  | 6.6  | 4.7  | 4.8  | 5.1  | 5.3  |
| **World**        | 3.2  | 2.8  | 3.4  | 2.9  | 2.8  | 2.8  |
| **Exchange Rates** |      |      |      |      |      |      |
| US$ Effective    | 110.2| 109.1| 104.9| 105.0| 102.8| 100.8|
| $/€              | 1.12 | 1.14 | 1.18 | 1.18 | 1.21 | 1.23 |
| ¥/$              | 109.0| 106.8| 109.7| 109.9| 104.9| 102.9|
| **Commodity Prices** |      |      |      |      |      |      |
| Brent Oil ($/bl) | 64.4 | 41.8 | 62.2 | 60.2 | 60.3 | 60.7 |
A vaccine- and stimulus-fuelled economic boom is now under way. The US economic restart is gaining traction, propelled by an improving health situation, rising fiscal stimulus and warmer weather. Expanded vaccinations will allow for a wider re-opening of the economy starting in the spring, sparking the strongest economic performance in nearly 40 years. We now forecast GDP growth of 7.2% in 2021, up from 7.0% seen last month, and 3.4% in 2022.

While consumers took a breather in February, they are ready for the ‘great splurge’. As the economy re-opens and virus fears dissipate, lower-income families will be able to spend more freely on the back of generous fiscal transfers from the American Rescue Plan, while higher-income families will rely on their steady income streams and tap into some of the accumulated $1.9tn of excess savings.

Accelerating job gains are also paving the way for a strong revival in demand. The economy added an impressive 916,000 jobs in March, with the unemployment rate falling 0.2ppt to 6.0% and the labor force participation rate edging up to 61.5%. We expect the hiring spree to continue in the coming months, with the economy likely to add 7.5m jobs this year and the unemployment rate falling to 4.3% by year-end.

Although inflation remained well-contained in February, with headline PCE inflation up 0.2ppt to 1.6% and core PCE inflation down 0.1ppt to 1.4%, price pressures have started to build. The combination of base effects, a wider economic re-opening and supply chain bottlenecks may lift core inflation to 2.5% in the spring. However, with inflation expectations likely to remain anchored, the spike should prove temporary.

Economic and labor market conditions are set to heat up rapidly but reaching the Federal Reserve’s broad-based and inclusive maximum employment goal will be a multi-year process. As such, we expect the Fed to maintain a very dovish stance and do not expect a rise in the Fed funds rate before mid-2023.
Forecast overview

US economy at the onset of a mini-boom

With the economy set to grow strongly, the final Q4 GDP report came only as a reminder of the long winter now left behind. GDP grew an upwardly revised 1.1% (or 4.3% annualized) in Q4 2020, with consumption cooling markedly while residential activity and business investment maintained firm momentum. Strong goods demand continued to pull in imports while sluggish global activity led to slower export growth.

Since then, the economy’s restart has gained traction as better health conditions allow for more re-opening and additional fiscal stimulus boosts consumer spending. Our weekly US Recovery Tracker has been on a strong upward trajectory since mid-January as the improved public health picture has led to higher mobility, strengthening employment, and stronger demand.

This year, we expect a consumer boom with private consumption likely to grow 8.4%, its fastest rate since 1946, amid improving health conditions, expanding vaccine distribution and generous fiscal stimulus. This should help to drive GDP growth of 7.2% this year, up from 7.0% expected last month and the fastest since the early-1980s. A slowdown to 3.4% growth is forecast for 2022.

Fiscal policy and vaccines tilt risks to upside

The pandemic remains the main downside risk for the US economy, although the risks are now receding. Meanwhile, upside risks stemming from the faster-than-anticipated vaccine roll-out and further fiscal stimulus have risen.

- **Vaccine roll-out**: the latest vaccination rate is about 3m daily doses, at which pace the US will achieve herd immunity (70% of the adult population inoculated) by early-summer. This will ease virus fears and allow for a broad relaxation of activity restrictions.

- **Fiscal policy**: President Biden unveiled the American Jobs Plan (AJP), which proposes to spend $2.3tn on a wide array of infrastructure projects and is based on the Build Back Better plan he had campaigned on. Some version of it will likely become law later this year.

- **Rising inflation**: inflation will undoubtedly warm up in 2021, although it is unlikely to spiral out of control amid a lingering demand gap in some sectors of the economy and anchored inflation expectations. We see headline PCE inflation averaging 2.4% in 2021.
• **Consumer spending**: The forthcoming burst in economic activity will be driven by consumers. The February pull-back in consumer spending was only a temporary blip and we expect consumer spending to grow 8.4% this year – its fastest since 1946.

• **Labor market**: nonfarm payrolls rose by an impressive 916,000 in March, while the unemployment rate fell 0.2ppt to 6.0%. We expect the hiring spree to continue, with the economy likely to add 7.5m jobs this year.

• **Business investment**: despite some negative weather effects, capital goods momentum is strong and will remain well supported. We see capex up 7.6% in 2021.

• **Buoyant housing activity**: the housing sector remains a bright spot, buoyed by low interest rates and fiscally-supported incomes. We see residential investment rising 11.8% in 2021.

• **Trade flows recovering slowly**: the US economy is set to outpace the rest of the world. We therefore expect a stronger pull for imports and a more gradual export recovery, which will lead to a widening current account deficit to 3.4% of GDP this year.

**Fed will maintain an ultra-dovish stance**

The FOMC and Chairman Powell displayed an even more patient and an ultra-dovish posture than anticipated at the March policy meeting. The updated ‘dot plot’ interest rate forecasts continued to show no rate lift-off through 2023. This came despite a marked upgrade to the committee’s economic projections.

The FOMC’s very patient stance is in line with the new policy framework that implicitly calls for the economy to run a bit hot – with inflation temporarily just above 2% – in order to promote broad and inclusive employment gains. In our view, conditions for rate lift-off will not be achieved until 2023, with the Fed seen raising rates by 25bp in mid-2023.

**Long-term factors**

After the sharp rebound in activity this year and the slowdown seen in 2022, economic growth should steady at around 1.6% in 2024-2030, broadly in line with potential.

• **Flexible labor force**: the US will maintain a flexible labor force, giving it an advantage over its peers.

• **Steady productivity**: we expect productivity growth to sustain a steady but modest pace in the long term.

• **Population challenges**: lower projected population growth will result in lower output growth in the long run.
All key activity indicators recorded huge increases on a y/y basis in January-February. But headline growth figures were distorted by the very low base due to the peak of the coronavirus outbreak in Q1 last year. Growth momentum in industrial production early this year was broadly unchanged from Q4 2020, underpinned by strong export demand. Domestically, the pace of fixed asset investment and household consumption fell due to a short-lived renewed wave of coronavirus and the resulting caution and reduction in travel during the Chinese New Year holiday. We expect robust growth to resume after temporary weakness in Q1 and still forecast GDP growth of 8.9% in 2021 and 5.4% in 2022.

Industrial production, investment and retail sales surged by over 30% y/y in January-February in real terms. Industrial value added grew by an average of 0.7% m/m seasonally adjusted in the two months, while export volumes rose 5.5% from Q4. Real fixed asset investment and retail sales volumes fell by 8.8% and 2.8% a month.

Household consumption should gain momentum as coronavirus caution recedes and travel and logistics return to ‘normal’ in March. Meanwhile, the strength in exports and improvement in business confidence should bolster corporate investment this year. Indeed, latest PMI readings suggest domestic and external demand are gaining pace.

While China’s economic outlook depends less on the speed of vaccine roll-out than in other countries, it does matter for a ‘full’ return to normality domestically and to close the immunity gap with other countries, which in turn will enable China to re-open its borders safely. The government aims to inoculate 40% of the 1.4bn population by June. This goal is ambitious, but past experience suggests it is plausible. During the 2010 measles vaccination campaign, 100m children were inoculated within 10 days. We do not underestimate the government’s ability to meet its target.

Forecast for China

|                     | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|---------------------|------|------|------|------|------|------|
| Domestic Demand     | 5.2  | 2.1  | 8.0  | 5.6  | 5.1  | 5.1  |
| Private Consumption | 5.9  | -3.4 | 10.8 | 9.1  | 8.3  | 7.9  |
| Stockbuilding (% of GDP) | 4.5  | 5.2  | 7.6  | 3.4  | 2.1  | 2.3  |
| Government Consumption | 0.6  | 0.6  | 0.4  | 0.2  | 0.2  | 0.2  |
| GDP                 | 6.0  | 2.3  | 8.9  | 5.4  | 4.8  | 4.8  |
| Industrial value added | 5.7  | 2.3  | 12.6 | 5.4  | 4.0  | 3.5  |
| Consumer Prices, average | 2.9  | 2.5  | 1.7  | 2.3  | 2.4  | 2.4  |
| Current Balance (% of GDP) | 0.7  | 1.9  | 2.6  | 1.1  | 1.0  | 0.9  |
| Government Budget (% of GDP) | -5.6 | -8.6 | -7.7 | -7.3 | -6.9 | -6.5 |
| Gross government debt (% of GDP) | 37.8 | 42.1 | 44.6 | 47.7 | 50.5 | 52.9 |
| Current Account ($bn) | 102.9 | 274.0 | 452.6 | 210.6 | 197.0 | 201.0 |
| Trade Balance ($bn) | 393.0 | 515.0 | 667.7 | 505.5 | 528.2 | 557.1 |
| Short-Term Interest Rates (%) | 3.29 | 3.01 | 2.95 | 2.97 | 3.10 | 3.24 |
| Exchange Rate (Per US$), average | 6.91 | 6.90 | 6.54 | 6.52 | 6.49 | 6.44 |

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Forecast overview

Recovery to continue after a Q1 blip

GDP grew 6.5% y/y in Q4 2020 (2.9% q/q sa), bringing full-year growth to 2.3%. In January-February, growth momentum in industrial production remained robust, underpinned by strong export demand, but domestic demand was dampened by travel restrictions and coronavirus caution during the Chinese New Year holiday. We expect robust economic growth to resume after temporary weakness in Q1 and are optimistic about exports and manufacturing investment. Household consumption should become a key driver of growth from Q2 as confidence and employment conditions improve. As a sign of consumer activities returning to 'normal', official data shows that domestic travel returned close to pre-pandemic levels during the long weekend in early April, although tourism revenue only reached 60% of pre-pandemic levels.

Testing and quarantine requirements have been effective so far in keeping new coronavirus cases at very low levels. More recently, the government has shifted its focus towards a vaccination campaign. In our view, the target to vaccinate 40% of the population by end-June is ambitious. But the government has been able to roll out vaccines rapidly in the past, such as during the 2010 measles vaccination campaign. Local governments also became a lot more active in promoting vaccination in late-March. Particularly effective and rapid vaccine roll-out could boost confidence and domestic spending, but any substantial setbacks to the campaign would lead to a modest downside scenario. Overall, we still forecast GDP growth of 8.9% in 2021.

Factors affecting our short-term outlook are:

- **Macro policy stance to normalize**: the government has announced an unambitious goal of ‘above 6%’ growth for 2021, consistent with the shift to lower, but high-quality, growth during the 14th Five-Year Plan. This year’s government work report also presents a composed macroeconomic stance that balances the economic recovery against risks, but no specific macro measures to stimulate consumption were announced. We think infrastructure spending will be more restrained, as indicated by a smaller quota announced for local government special bonds that are used for financing infrastructure projects. We expect the fiscal deficit – on our definition – to fall to 7.7% of GDP in 2021 from 8.6% last year, but we see no evidence of a desire for major fiscal consolidation.
• **Macro leverage to remain stable:** the government is keen to see macro leverage kept generally stable, and overall credit to expand in line with nominal GDP growth. Property developers and banks will face stricter financial regulations. Overall, credit to finance infrastructure investment will probably slow. But we do not expect credit to the corporate sector to slow sharply, and credit to small and medium enterprises, innovation and ‘green’ development should remain strong. Household loan growth will probably slow somewhat, but the pace should remain sufficient to support a revival in consumption.

• **Growth rotation to consumption and corporate investment:** we expect household consumption to become a key driver of growth in 2021 as employment and income prospects improve and households spend their increased savings. Corporate investment should gain momentum following weakness in 2020 amid improved profitability and a strong export outlook. Stricter financial regulations will weigh on real estate investment, but we think that robust housing sales will provide funding to support property developers to invest.

• **Global recovery should support exports:** new export orders picked up again, helping to support the March PMI reading which rose to 51.9. We think that strong global economic recovery should support China’s export outlook despite the likely retreat of pandemic-related demand (for personal protective equipment, computers, and laptops) later this year. Goods imports should remain strong due to the ongoing domestic recovery, but the rotation of growth drivers will support imports of capital goods and less so for commodity imports.

**Reforms and innovation key to future growth**

The Outline of the 14th Five-Year Plan (covering 2021-25) indicates less rapid but higher-quality growth. The key longer-term objectives in the plan are (i) innovation-driven development and industrial modernization; (ii) a robust domestic market and expansion of domestic demand, in part by boosting high-quality urbanization; and (iii) ‘green ecology’ and decarbonization. The theme of ‘dual circulation’ is about fostering synergy between a strong domestic market and being an attractive destination for FDI. Meanwhile, the performance of China’s export-oriented manufacturing sector has been much stronger than expected since the onset of the coronavirus pandemic, with only limited decoupling by developed countries and few signs that China’s role in global supply chains is diminishing.
We expect the near-term outlook to remain under pressure, but the economy should then recover at a faster pace than previously expected in H2 this year. But with some restrictions still in place, the services sector will pick up only gradually. We expect the pace of recovery to accelerate in H2 as the vaccine roll-out gathers pace and manufacturers benefit from stronger foreign demand, notably from the US and China. We have raised our GDP growth forecasts to 3.0% in 2021 and 2.3% in 2022 from 2.7% and 2.2% previously.

Activity indicators weakened in Q1 as pandemic-related restrictions limited spending. The service sector was hit particularly hard, while trade and production remained relatively buoyant. Real export growth softened in February and industrial production saw a temporary setback amid a global chip shortage. However, the increase in the au Jibun Bank Manufacturing PMI to 52.7 in March from 51.4 in February suggests that the outlook remains encouraging.

We expect the economy to recover gradually from Q2 thanks to loosened restrictions, the vaccine roll-out and the resumption of policy support for domestic travel. On the downside, health-related risks persist and weak labour market prospects pose a threat to the recovery.

The government’s third supplementary budget for fiscal year 2020 and its 2021 annual budget extended fiscal support for businesses, households and the health care system into this year. At its March meeting, the BoJ unveiled the results of its policy review, which provided the central bank with more flexibility to maintain its policy measures while avoiding perceptions that it is edging towards tightening. With more favourable growth prospects amid additional US fiscal expansion, the yen has depreciated notably and will probably remain weak until mid-2022.
Forecast overview

Brighter outlook for H2 2021 after temporary setback in Q1

The state of emergency (SOE) has been lifted on a national level, but several prefectures including Osaka have reimposed tighter restrictions to fight a surge in coronavirus infections. After a temporary dip in Q1, GDP should pick up from Q2 due to more robust foreign demand and a buoyant manufacturing sector. Meanwhile, the vaccine roll-out will enable more substantial normalisation in the battered services sector. Reflecting these improved prospects, we now forecast GDP will grow 3.0% in 2021 and 2.3% in 2022, up from 2.7% and 2.2% respectively last month.

- Consumer outlook continues to face headwinds: high-frequency data suggest the SOE has weighed on spending, particularly services, but mobility has held up better than during the SOE last year. Indeed, the services PMI nudged up to 48.3 in March from 46.3 in February. While still below the 50-mark that separates expansion from contraction, this is the highest since January 2020. The Tokyo Olympic Games appear set to go ahead in July, but without foreign spectators so the boost to consumption and the hospitality sector will be limited. Health-related risks persist and the labour market remains under pressure, with the jobs-to-applicants ratio below 1 in the Tokyo capital region and wage growth at very low levels.

- Investment to improve due to stronger foreign demand, technological shifts and structural factors: after struggling in 2020, the investment outlook has gradually improved. Machinery orders, a leading indicator of business investment, recovered notably in Q4 2020 and remained up on the year in January, which points to a bounce-back in capital spending in early-2021. Meanwhile, business sentiment has improved according to the latest Tankan survey. We expect robust foreign demand and technological shifts in China and the US to support investment beyond H2. Indeed, foreign orders of machinery and machinery tools orders have seen notable improvement since late 2020.

In the long-term, we expect investment to be supported by efforts to decarbonise the economy and other structural factors.
• **Brighter prospects for exports in 2021, despite temporary slowdown in February:** real goods export growth softened in February to 0.5% y/y after 8.5% in January, reflecting distortions due to the Lunar New Year and supply chain disruptions in the car industry. Nonetheless, the outlook from mid-year remains bright, given stronger demand from China and expanded US fiscal spending plans.

• **Production to experience modest set-back in early-2021:** industrial production growth worsened to -3.8% y/y in February from -2.0% in January, as the weakness in consumer goods outweighed the improvement in capital goods. The auto industry continued to struggle amid a global chip shortage. That said, the March manufacturing PMI improved to 52.7 from 51.4 in February, indicating a positive overall development.

• **BoJ gains more flexibility following its policy review:** At its March meeting, the BoJ unveiled the results of its three-month monetary policy review, announcing a marginally wider +/-25bp corridor (+/-20bp previously) around its 0% government bond yield target, more flexible ETF and J-REIT purchases, and tweaks to its reserve-tiering system. Although the BoJ will tolerate greater movement in JGB yields, it made clear that a sudden rise would be curbed. ETF and J-REIT purchases will be conducted in a more flexible manner, without explicit targets and with a focus on stabilising markets during downturns. Meanwhile, tiering changes are intended to incentivise lending. The short-term negative 0.1% policy rate and existing lending/purchase operations remain unchanged. CPI inflation was -0.4% y/y in February after -0.6% in January due to higher energy prices.

• **Fiscal support is extended into 2021:** the Suga administration has extended fiscal support for firms, households and the health care system into 2021. In March, the government announced it will make another disbursement from coronavirus funds to support businesses and households while trading restrictions remain in place.

• **The JPY has weakened:** the yen has continued to weaken since the start of the year, falling to ¥110/US$ from ¥103/US$ in early-January. With more favourable growth prospects due to additional fiscal expansion in the US, we expect the Japanese currency to remain weak, ending this year at ¥111/US$.
With restrictions in place across the eurozone throughout the quarter, we expect GDP to have posted a small decline in Q1. And the short-term outlook remains weak as several countries are extending restrictions due to the renewed rise in infections. But we still expect a recovery to start in Q2 and then strengthen further in Q3, as the vaccination process picks up speed and mobility gradually returns to normality. We forecast GDP to grow 4.1% in 2021 and 4.8% in 2022, broadly unchanged from last month’s forecasts.

Although the economy remains weak, survey data suggest activity picked up towards the end of Q1. The composite PMI rose to its highest level in eight months in March and has now moved into expansionary territory. Our Eurozone Recovery Tracker, which uses high-frequency data, shows a similar picture and suggests activity strengthened in March. Although we expect GDP to suffer a small decline in Q1, the stronger end to the quarter reinforces our view that GDP will expand in Q2.

We expect manufacturing to remain much less affected by the new round of lockdown measures than the more contact-intensive services sector. Consumer spending is likely to remain weak in the short term, and the new restrictions will mean a further postponement in the recovery in air travel and tourism, but we still anticipate a pick-up in growth in Q2 and Q3 this year as restrictions are rolled back. Despite strong growth this year, eurozone GDP is not seen returning to its pre-crisis level until the start of 2022, with the hardest-hit countries seeing even slower recoveries.

Inflation rose to 1.3% in March, the highest in 14 months, mostly due to higher energy prices as core inflation moderated to 0.9%. Inflation will rise further this month as higher energy costs continue to feed through, but we see limited room for core inflation to rise significantly from current levels.

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**Forecast for Eurozone**

(Annual percentage changes unless specified)

|                      | 2019  | 2020  | 2021  | 2022  | 2023  | 2024  |
|----------------------|-------|-------|-------|-------|-------|-------|
| Domestic Demand      | 1.9%  | -3.4% | 3.4%  | 5.4%  | 2.2%  | 1.1%  |
| Private Consumption  | 1.3%  | -8.1% | 3.1%  | 7.0%  | 2.4%  | 1.3%  |
| Fixed Investment     | 5.6%  | -8.5% | 5.0%  | 4.7%  | 2.6%  | 1.3%  |
| Stockbuilding (% of GDP) | 0.3% | 0.0%  | -0.1% | 0.1%  | 0.2%  | 0.2%  |
| Government Consumption| 1.8%  | 1.1%  | 2.7%  | 1.5%  | 0.8%  | 0.6%  |
| Exports of goods and services | 2.5% | -9.8% | 8.3%  | 6.4%  | 3.1%  | 2.4%  |
| Imports of goods and services | 3.9% | -9.3% | 7.0%  | 7.8%  | 3.4%  | 2.2%  |
| GDP                  | 1.3%  | -6.8% | 4.1%  | 4.8%  | 2.0%  | 1.3%  |
| Industrial Production| -1.3% | -8.5% | 9.1%  | 2.9%  | 1.8%  | 1.3%  |
| Consumer Prices, average | 2.2% | 2.2%  | 2.5%  | 2.4%  | 2.2%  | 2.2%  |
| Current Account Balance (% of GDP) | 2.3% | 2.2%  | 2.5%  | 2.4%  | 2.2%  | 2.2%  |
| Government Budget (% of GDP) | -0.6% | -6.9% | -6.6% | -3.7% | -2.5% | -1.7% |
| Short-Term Interest Rates (%) | -0.4% | -0.4% | -0.5% | -0.4% | -0.4% | -0.3% |
| Long-Term Interest Rates (%) | 0.4%  | 0.1%  | 0.1%  | 0.5%  | 0.8%  | 1.1%  |
| Exchange rate (US$ per Euro), average | 1.12 | 1.14 | 1.18 | 1.18 | 1.21 | 1.23 |
| Exchange rate (YEN per Euro), average | 122.1 | 121.9 | 127.3 | 126.3 | 126.0 | 127.3 |

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Forecast overview

GDP probably contracted again in Q1…

With most of Europe still under tight restrictions during Q1, we expect GDP to have posted another fall of 0.5% q/q, similar to that in Q4 2020. Short-term prospects for the euro area remain weak given that several countries have extended restrictions as a result of a renewed rise in the number of Covid infections. But although the economy remains weak, sentiment indicators suggest activity was gaining momentum at the end of Q1. The composite PMI rose to its highest level in eight months in March, finally crossing into expansionary territory. Our Eurozone Recovery Tracker, which uses high-frequency data, shows a similar picture and suggests that activity strengthened during the month.

…but we still expect a pick-up in Q2 and Q3

The strong end to Q1 reinforces our view that activity will start recovering in Q2 and then more strongly in Q3 as restrictions are eased and daily activities resume. Progress in the vaccination roll-out will be vital if we are to see a significant rise in travel and tourism during the summer. This will be particularly relevant to some of the southern European countries which were hit hardest by the pandemic.

Our 2021 GDP growth forecast is broadly unchanged (at 4.1% versus 4.2% previously). Eurozone GDP will not recover to its pre-crisis level until 2022, but the impact of the crisis will vary significantly given the different policies put in place across countries and as a result of their economic structures. The following factors underpin our forecast:

- Weak consumption now but pent-up demand should fuel recovery: retail sales have been weakening again during the second wave. Furthermore, retail data have been overstating the strength of the consumer sector during the pandemic, and total consumer spending will continue to be hampered by weaker demand for services than goods in the short term. But improving consumer confidence shows that households are willing to spend once restrictions are lifted and we expect the large amount of accumulated savings to fuel consumption once the medical situation has improved. The longer-term recovery will also be shaped by the damage done to the labour market once policies put in place to preserve employment start to be withdrawn. We expect consumer spending to grow 3.1% this year and then 7.0% in 2022.
• **Investment could surprise to the upside**: although uncertainty will continue to weigh on the investment outlook in the short term, the strong recovery in trade and industry could see capital spending growing faster than previously expected. The disbursement of the EU recovery fund should also boost investment prospects over the coming years. But with the impact of the crisis on firms not yet felt fully owing to the strong public intervention, there is still a risk of permanent damage to large parts of the corporate sector curtailing investment prospects in the medium term. We see investment expanding 5.0% this year and 4.7% in 2022.

• **Outlook for exports is brightening**: total exports fell by almost 10% last year due to the impact of the pandemic on tourism and the fall in merchandise trade. But weak domestic demand also caused imports to decline sharply, so the contribution of net trade to growth was only modestly negative. With global merchandise trade recovering strongly and tourism flows starting to recover from H2 2021, we expect export volumes to rise 8.3% this year and then grow a further 6.4% in 2022.

• **Higher inflation in 2021**: inflation will rise this year amid higher energy prices and stronger core inflation, as the disinflationary impact from the pandemic fades. Some one-off factors may also introduce increased volatility in the numbers, but we expect the medium-term outlook for eurozone inflation to remain moderate. We expect inflation of 1.7% this year, up from 0.3% in 2020, and then 1.4% in 2022.

**ECB continues to deliver ample stimulus**

The ECB continues to provide ample monetary stimulus to try to ease financial conditions. Following the launch of the pandemic asset purchase programme (PEPP) and changes to the TLTRO programme to improve liquidity conditions, the ECB announced an increase and further extension of the PEPP in December. It will purchase up to €1.85 trillion of bonds until March 2022 and will also reinvest principal payments until end-2023, a move that gives governments space to increase debt issuance substantially and which has helped calm bond markets and lower risk spreads in peripheral countries. The recent moves in bond markets also mean the ECB will probably step up its PEPP purchases to cap the rise in yields. On a longer-term horizon, the weak growth and inflation outlooks mean that we still expect monetary conditions to remain ultra-loose for an extended period; we do not expect interest rates to start to rise until early-2024.
France has entered a new hard lockdown for at least four weeks from 3 April, with schools closing as well. This follows the failure of the government to contain the recent surge in Covid-19 infections, which has pushed hospital capacities to their limits. Most of the containment measures now imposed were already included in our outlook, so the latest lockdown has led us to lower our forecasts only marginally. We now expect French GDP to grow by 4.9% in 2021, 0.1pp lower than last month, and 5.3% in 2022.

The restrictions are similar to those imposed during November; non-essential shops are closed, personal mobility is heavily restricted, cross-regional travel is forbidden and international borders are closed. But this time, schools have also been shuttered, something the government had refused to do since the end of the first lockdown as the negative impact on inequalities and mental health has been prioritised. Just as in the first lockdown, this will hit the labour supply as many parents will have to stop working to take care of children. Overall, we estimate the new containment measures will cause GDP to fall by 0.7% q/q in Q2 and the risks are on the downside as restrictions may be extended beyond early-May.

But we now expect a stronger economic rebound in Q3 as consumers appear to be raring to spend when rising vaccinations allow restrictions to be lifted significantly across the continent, something we expect to happen from late-Q2. This is supported by the latest surveys which have improved markedly, driven by future expectations of both consumers and businesses. And manufacturing and trade data remain strong despite the temporary headwinds in supply-chains that have seen input products encountering delays in delivery, resulting in rising input prices.
Rising Covid cases and hospitalisations, as well as the slow progress of the vaccination campaign, have forced the government to reverse some of the recent easing in lockdown measures. But our baseline had already assumed no significant rise in activity before May, by when the vaccination pace should have picked up strongly. Solid manufacturing and construction should also support activity in Q2. So we still forecast 3.8% GDP growth this year – with a return to pre-crisis GDP levels by end-2021 – and then growth of 4.3% in 2022.

We expect the economy to have contracted by 0.8% q/q in Q1 and see mild downside risks. Lockdowns weighed on services, with little boost from the partial easing in March. Despite the 1.2% m/m rise in retail sales in February, we expect a q/q fall of 9% in Q1 due to the closure of non-essential retail stores for most of the quarter and the hike in VAT. Industrial activity will partially offset the drag; while output fell 1.6% m/m in February, after -2.0% in January, March should see a strong rebound judging by buoyant surveys, strong high-frequency data and February’s robust order intake.

Infighting between the federal and the 16 state governments over the response to the worsening epidemiological situation adds to near-term uncertainties. Our baseline assumes no significant tightening of measures in April beyond those that were in place during winter, followed by a gradual reduction in measures beginning in May.

Inflation continued to rise in March, reaching a one-year high of 1.7% after 1.3% in February on further gains in energy prices. Core inflation held steady at around 1.4%, only modestly lower than 1.6% in Q4 2019. We expect inflation to reach 3% in Q4 due to base effects after last year’s VAT cut and reinforced by the recovery. So we have raised our 2021 inflation forecast to 2.2% from 2.0%. But we still see a slowdown to 1.5% in 2022 as we expect underlying price pressures to remain muted amid sluggish wage growth and low capacity utilisation.

### Forecast for Germany

|                      | 2019  | 2020  | 2021  | 2022  | 2023  | 2024  |
|----------------------|-------|-------|-------|-------|-------|-------|
| Domestic Demand      | 1.3   | -4.5  | 3.5   | 5.4   | 1.8   | 1.0   |
| Private Consumption  | 1.6   | -6.3  | 1.9   | 8.2   | 2.3   | 1.0   |
| Fixed Investment     | 2.6   | -3.9  | 4.4   | 3.2   | 1.4   | 1.0   |
| Stockbuilding (% of GDP) | -0.3  | -1.0  | 0.1   | 0.2   | 0.2   | 0.1   |
| Government Consumption | 2.7           | 3.3   | 0.9   | 1.0   | 0.9   | 0.8   |
| Exports of Goods and Services | 1.0          | -10.2 | 9.0   | 5.4   | 2.8   | 2.0   |
| Imports of Goods and Services | 2.6          | -9.0  | 9.1   | 7.9   | 3.6   | 2.2   |
| GDP                  | 0.6   | -5.3  | 3.8   | 4.3   | 1.5   | 0.9   |
| Industrial Production | -4.3  | -10.3 | 9.7   | 2.3   | 1.3   | 0.7   |
| Consumer Prices, average | 1.5   | 0.5   | 2.2   | 1.5   | 1.7   | 1.9   |
| Current Balance (% of GDP) | 7.7   | 6.8   | 6.4   | 5.5   | 5.3   | 5.2   |
| Government Budget (% of GDP) | 1.5   | -4.2  | -4.6  | -1.7  | -0.6  | -0.3  |
| Short-Term Interest Rates (%) | -0.4  | -0.4  | -0.5  | -0.4  | -0.4  | -0.3  |
| Long-Term Interest Rates (%) | -0.2  | -0.5  | -0.2  | 0.1   | 0.3   | 0.6   |
| Exchange Rate (US$ per Euro), average | 1.12  | 1.14  | 1.18  | 1.18  | 1.21  | 1.23  |
| Exchange Rate (£ per Euro), average | 0.877 | 0.889 | 0.857 | 0.854 | 0.856 | 0.859 |
The restrictions put in place during Q1 to curb the rise in Covid infections will probably have resulted in a renewed contraction in economic activity. We still see a recovery starting in Q2 and gaining momentum later in the year, although a successful vaccine roll-out will be key, especially given the importance of the summer season for the key tourism sector. We now forecast GDP growth of 5.5% this year (down from 5.8% last month) and 6.3% in 2022.

Although Q1 was a weak quarter for growth, sentiment data suggest activity picked up towards the end of the period. The March composite PMI rose above the 50-point threshold for the first time in eight months, with both services and manufacturing improving significantly. The Economic Sentiment Indicator showed a similar dynamic, rising strongly in March, although we caution that some of these data are probably partly driven by base effects due to the collapse in March and April last year.

Although the labour market has remained quite resilient to the crisis, the deterioration in economic conditions saw employment falling for a second consecutive month in March. On a more positive note, the number of workers under furlough – who are not officially recorded as unemployed – fell to around 780,000. Taking everything into account, we think GDP will contract by about 1% q/q in Q1.

Our forecast remains highly dependent on the evolution of the pandemic. Although the number of infections has fallen substantially, the slow start of the vaccination process means that some restrictions will need to remain in place for now. We expect a recovery to start in Q2 once the most vulnerable groups are vaccinated and restrictions can start to be rolled back, with a further strengthening in H2.

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**Forecast for Spain**

(Annual percentage changes unless specified)

|                        | 2019  | 2020  | 2021  | 2022  | 2023  | 2024  |
|------------------------|-------|-------|-------|-------|-------|-------|
| Domestic Demand        | 1.4   | -9.0  | 5.5   | 6.1   | 2.8   | 1.8   |
| Private Consumption    | 0.9   | -12.1 | 6.0   | 7.3   | 3.2   | 1.7   |
| Fixed Investment       | 2.7   | -11.4 | 7.6   | 8.4   | 4.2   | 2.1   |
| Stockbuilding (% of GDP)| 0.9  | 0.7   | 0.3   | 0.2   | 0.1   | 0.4   |
| Government Consumption | 2.3   | 3.8   | 3.9   | 1.2   | 0.7   | 0.7   |
| Exports of Goods and Services | 2.3 | -20.2 | 9.6 | 9.3 | 3.9 | 3.6 |
| Imports of Goods and Services | 0.7 | -15.8 | 9.8 | 8.7 | 4.4 | 2.9 |
| GDP                    | 2.0   | -10.8 | 5.5   | 6.3   | 2.7   | 2.1   |
| Industrial Production  | 0.7   | -9.6  | 7.9   | 3.0   | 1.8   | 1.6   |
| Consumer Prices, average | 0.7 | -0.3  | 1.5   | 1.5   | 1.5   | 1.6   |
| Current Balance (% of GDP) | 2.1  | 0.7   | 0.9   | 1.6   | 1.4   | 1.3   |
| Government Budget (% of GDP) | -2.9 | -11.0 | -3.3  | -5.8  | -4.0  | -2.9  |
| Short-Term Interest Rates (%) | -0.36 | -0.43 | -0.52 | -0.44 | -0.42 | -0.30  |
| Long-Term Interest Rates (%) | 0.68 | 0.41  | 0.45  | 0.90  | 1.26  | 1.56  |
| Exchange Rate (US$ per Euro), average | 1.12 | 1.14  | 1.18  | 1.18  | 1.21  | 1.23  |
| Exchange Rate (£ per Euro), average | 0.877 | 0.889 | 0.857 | 0.854 | 0.856 | 0.859 |
We expect GDP to have contracted again in Q1 after the drop of around 2% in Q4 last year. But the contraction in Q1 is expected to be marginal and we expect it to be followed by a slow pick-up from Q2 as we anticipate a roll back of restrictions from May. But risks for this year, and in particular for Q2, remain on the downside if the vaccination roll-out does not improve or the government is unable to ease some of the current restrictions. Overall, we forecast growth at 4.5% this year and 4.6% in 2022, broadly unchanged from last month, after the 8.9% contraction in 2020.

The services PMI remains in contraction territory, although the pace of decline in February and March was slower than in previous months. And the manufacturing PMI rose to 59.8 in March, its highest in more than 10 years, but we think this was artificially inflated by some positive base effects from March last year. We still anticipate a pick-up in growth in Q2 and Q3 if restrictions are rolled back, but we do not expect GDP to return to its pre-crisis level until end-2022.

New labour market data are taking on board large methodological changes that treat differently some people benefiting from the short-term unemployment schemes. Between February and December last year the number of employed fell by 770,000, while under the previous methodology the drop was around 420,000.

According to our analysis, reforms planned by new Prime Minister Mario Draghi could reverse some of the lacklustre growth and debt sustainability problems that have plagued Italy for years. But detailed proposals have yet to be revealed and Draghi’s reformist agenda will inevitably face strong political opposition, so we do not expect GDP to return to its pre-crisis level until end-2022.

Forecast for Italy
(Annual percentage changes unless specified)

|                         | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|-------------------------|------|------|------|------|------|------|
| Domestic Demand         | -0.5 | -8.4 | 4.5  | 4.8  | 1.9  | 0.6  |
| Private Consumption     | 0.3  | -10.7| 3.6  | 5.8  | 2.3  | 0.8  |
| Fixed Investment        | 1.1  | -9.2 | 10.4 | 3.8  | 2.2  | 0.9  |
| Stockbuilding (% of GDP)| 0.0  | -0.2 | -0.3 | 0.1  | 0.1  | 0.0  |
| Government Consumption  | -0.8 | 1.6  | 2.6  | 0.4  | 0.0  | 0.0  |
| Exports of Goods and Services | 1.9 | -14.5| 10.8 | 8.1  | 2.5  | 1.9  |
| Imports of Goods and Services | -0.5 | -13.1| 11.3 | 9.1  | 3.0  | 1.8  |
| GDP                     | 0.3  | -8.9 | 4.5  | 4.6  | 1.7  | 0.6  |
| Industrial Production   | -1.1 | -11.0| 11.6 | 3.5  | 1.4  | 1.0  |
| Consumer Prices, average| 0.6  | -0.1 | 1.4  | 1.2  | 1.3  | 1.4  |
| Current Balance (% of GDP) | 3.4 | 3.6  | 3.2  | 2.8  | 2.6  | 2.7  |
| Government Budget (% of GDP) | -1.6 | -9.5 | -9.0 | -5.0 | -4.0 | -3.0 |
| Short-Term Interest Rates (%) | -0.36 | -0.43 | -0.52 | -0.44 | -0.42 | -0.30 |
| Long-Term Interest Rates (%) | 1.95 | 1.16 | 0.79 | 1.44 | 2.08 | 2.42 |
| Exchange Rate (US$ per euro), average | 1.12 | 1.14 | 1.18 | 1.18 | 1.21 | 1.23 |
| Exchange Rate (£ per euro), average | 0.88 | 0.89 | 0.86 | 0.85 | 0.86 | 0.86 |
We have raised our forecast for 2021 GDP growth to 7.2%, from 5.9% seen last month, after output fell by less than expected at the start of the latest lockdown. As restrictions are relaxed through Q2, we expect a strong consumer-led recovery to take hold.

GDP fell 2.9% m/m in January, a much smaller decline than expected. This was partly due to the ONS making sizeable adjustments for the testing and tracing and vaccination schemes, which contributed a boost of almost 1ppt to the m/m change in GDP. In addition, consumers and firms have adapted to life under lockdown, for example significantly increasing the share of retail sales conducted online.

The theme of consumers and firms being able to maintain a higher level of activity during lockdowns continued through the remainder of Q1. Retail sales rose 2.1% m/m in February, while debit and credit card data reported a firming in consumer spending through Q1 despite restrictions on social consumption remaining in place. We expect GDP to have fallen by 2.0% q/q in Q1, much smaller than the 19% drop in Q2 2020.

The government has confirmed that the second step of its four-step roadmap for relaxing restrictions will commence on 12 April as planned. This includes the reopening of non-essential retailers and outdoor hospitality and, in macroeconomic terms, is likely to prove the most important step, triggering a strong rebound in GDP. With the vaccination roll-out continuing and the number of Covid cases steadily falling, the UK should continue to progress along the roadmap on schedule. This would mean the vast majority of the economy re-opens by mid-May, with the remaining restrictions set to fall away on 21 June. If this scenario plays out, then the consensus forecast for 2021 GDP growth of 4.7% (according to the latest HMT survey) is likely to prove far too low. We now expect the economy to grow by 7.2% this year and 5.5% in 2022.

The UK is expected to be one of the strongest performers in 2021

| Forecast for UK | (Annual percentage changes unless specified) |
|-----------------|--------------------------------------------|
| 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
| Domestic Demand | 1.6 | -10.5 | 8.7 | 5.0 | 1.9 | 1.4 |
| Private Consumption | 1.1 | -10.6 | 5.5 | 6.3 | 1.9 | 1.5 |
| Fixed Investment | 1.5 | -8.8 | 8.8 | 5.9 | 2.4 | 0.0 |
| Stockbuilding (% of GDP) | 0.1 | -0.5 | 0.2 | 0.1 | 0.1 | 0.1 |
| Government Consumption | 4.0 | -6.5 | 13.5 | 0.5 | 1.7 | 2.6 |
| Exports of Goods and Services | 2.7 | -15.8 | -0.2 | 9.4 | 2.6 | 1.9 |
| Imports of Goods and Services | 2.7 | -17.8 | 5.1 | 7.3 | 2.5 | 2.1 |
| GDP | 1.4 | -9.8 | 7.2 | 5.5 | 1.8 | 1.4 |
| Industrial Production | -1.2 | -8.0 | 3.5 | 2.5 | 0.5 | 0.1 |
| CPI, average | 1.8 | 0.9 | 1.4 | 2.0 | 1.8 | 1.7 |
| Current Balance (% of GDP) | -3.1 | -3.5 | -4.1 | -3.5 | -3.3 | -3.2 |
| Government Budget (% of GDP) | -2.4 | -12.4 | -12.7 | -5.2 | -3.8 | -3.2 |
| Short-Term Interest Rates (%) | 0.81 | 0.29 | 0.08 | 0.09 | 0.09 | 0.17 |
| Long-Term Interest Rates (%) | 0.88 | 0.32 | 0.83 | 1.15 | 1.49 | 1.63 |
| Exchange Rate (US$ per £), average | 1.28 | 1.28 | 1.37 | 1.38 | 1.41 | 1.43 |
| Exchange Rate (Euro per £), average | 1.14 | 1.13 | 1.17 | 1.17 | 1.17 | 1.16 |
Forecast overview

GDP is expected to fall by 2% in Q1

GDP fell by 2.9% m/m in January, leaving it 9% below the pre-pandemic level. This was only a slightly larger hit than in November’s less stringent lockdown, when output was 7% lower than its February 2020 level, and left GDP well above the levels seen in the early stages of the first lockdown last April (when it was down 24% on the pre-pandemic level).

Part of January’s stronger-than-expected performance was due to a large rise in health output, with the ONS making sizeable adjustments to incorporate the impact of the testing and tracing and vaccination schemes. But sectors subject to restrictions, such as retail, hospitality and education, also fared much better than in previous lockdowns, as firms and consumers adapted to life under lockdown.

High-frequency data suggest activity firmed in February and March. The re-opening of schools on 8 March will also have boosted activity that month, and overall we expect the Q1 fall in GDP to be just 2%, much lower than the 19% drop caused by the first lockdown in Q2 2020.

Vaccine will allow strong recovery from Q2

Our forecast assumes the relaxation of restrictions follows the roadmap set out by the government in late-February. After non-essential retail and outdoor hospitality re-open in mid-April, hotels and indoor hospitality are expected to be permitted to open in mid-May, with all remaining restrictions falling away on 21 June.

The lifting of restrictions on social consumption, and associated boost to confidence, should trigger a strong consumer-led recovery, with GDP growing by around 6% q/q in Q2. With the Q1 decline likely to be smaller than we had previously anticipated, we have raised our forecast for GDP growth in 2021 to 7.2% from 5.9% last month.

The timing of the removal of restrictions remains the key driver of the short-term outlook. Other key influences are:

- **Continued fiscal support:** the Budget loosened the fiscal stance by almost 3% of GDP in fiscal year 2021/22, ensuring fiscal policy remains highly stimulative. Most of the Covid-related support schemes are due to remain in place until the autumn, a few months beyond the planned end of restrictions, giving the economy a short period to adjust before support is withdrawn. In particular, demand...
for labour should be recovering strongly by the time that the Job Retention Scheme is wound down at the end of September. So we expect the peak in unemployment to be around 5.7% on the ILO measure this year, less than 2ppt above its pre-pandemic level. A relatively modest rise in joblessness, two more self-employment income support payments and continuation of the temporary uplift to universal credit until end-September will help to limit the hit to household incomes.

- **Low inflation**: household spending power will be further supported by low inflation. Rising fuel and energy prices and strong base effects will push up headline inflation rates from the spring. But long-running disinflationary forces will remain powerful and, apart from a brief period in 2022, we expect the CPI measure to remain below the 2% target throughout the next few years.

- **Consumers spending some of their excess savings**: with limited opportunities to spend, the past year has seen households repay unsecured credit and accumulate savings. This strengthening of household balance sheets has left consumers in a strong position to support the recovery by taking on new credit and spending some of their excess savings. We assume 5% of accumulated savings are spent by end-2022. This relatively cautious assumption largely reflects the idea that the majority of the extra cash is likely to be held by wealthier households who tend to have a lower marginal propensity to consume. But the potential for a greater proportion of excess savings to be spent is a key source of upside risk to the forecast.

- **Sustained monetary policy support**: the BoE is in the early stages of conducting the £150bn worth of asset purchases authorised at its November 2020 meeting. These are due to run to December 2021 and the MPC has suggested it will offer further support if necessary. Additional support could come in the form of negative interest rates, which will be part of the MPC’s toolkit from August. But we think that negative rates are unlikely to be used given the economy should be in experiencing a strong rebound at that point.

- **Extra trade frictions due to Brexit**: the UK-EU free-trade agreement will keep UK-EU trade tariff- and quota-free for qualifying goods. But the new relationship has still introduced new customs and regulatory trade barriers that will weigh on export competitiveness.
Many emerging markets (EMs) face ongoing challenges from virus-related restrictions with vaccinations picking up only slowly. Our baseline continues to see a stronger rebound in H2, supported by a more positive external environment, although scars from the pandemic will take some time to heal and new outbreaks remain a key risk. Overall, our 2021 and 2022 EM GDP growth forecasts are unchanged at 7.0% and 4.9% respectively.

Most EM countries have little chance of reaching collective herd immunity this year. And Covid outbreaks have worsened in many areas, with several countries forced to ratchet up lockdown measures. This will hurt near-term activity, though the economic drag will be significantly milder than in 2020. Both consumers and businesses are better-prepared for these restrictions which should support recovery later in Q2 even if some containment measures remain in place. Moreover, trade has been a bright spot and should continue to support EM, particularly in Asia. We expect manufacturing recovery to gain pace in the months ahead as global recovery broadens.

Although the global growth backdrop remains positive for EMs, the recent surge in US Treasury yields and the ensuing outflow of portfolio capital from EMs has pushed some central banks, including Brazil, Russia and Turkey, into policy tightening. Rising inflation pressures will warrant further rate hikes, but institutional risks will probably prevent these in Turkey. Elsewhere, monetary authorities will look past the current temporary rise in inflation and delay any rate hikes.

| GDP forecast for Emerging Markets |
|-----------------------------------|
| (Annual percentage changes unless otherwise specified) |
| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
| Asia |
| China | 6.0 | 2.3 | 8.9 | 5.4 | 4.8 | 4.8 |
| India | 4.8 | -6.9 | 11.8 | 6.1 | 7.2 | 7.2 |
| Indonesia | 5.0 | -2.1 | 4.7 | 7.0 | 5.4 | 5.6 |
| Korea | 2.0 | -0.9 | 3.3 | 3.4 | 2.8 | 2.3 |
| Malaysia | 4.3 | -5.6 | 5.4 | 6.7 | 5.7 | 5.0 |
| Philippines | 6.0 | -9.5 | 6.2 | 8.5 | 6.9 | 6.1 |
| Thailand | 2.3 | -6.1 | 3.9 | 6.1 | 4.7 | 3.8 |
| Latin America |
| Argentina | -2.1 | -10.0 | 6.2 | 1.7 | 1.7 | 1.7 |
| Brazil | 1.4 | -4.4 | 3.5 | 2.5 | 2.2 | 2.2 |
| Chile | 0.9 | -6.0 | 7.0 | 2.8 | 3.7 | 3.1 |
| Mexico | 0.0 | -8.5 | 5.6 | 3.5 | 1.9 | 1.9 |
| South Africa | 0.2 | -7.0 | 2.5 | 3.1 | 2.3 | 2.2 |
| Emerging Europe |
| Czech Rep | 2.2 | -5.6 | 2.9 | 4.6 | 3.1 | 2.9 |
| Hungary | 4.6 | -5.1 | 4.8 | 4.5 | 3.6 | 3.1 |
| Poland | 4.6 | -2.7 | 3.5 | 4.6 | 3.0 | 2.4 |
| Russia | 2.0 | -3.0 | 2.5 | 2.7 | 1.7 | 1.8 |
| Turkey | 0.9 | 1.8 | 4.9 | 2.6 | 3.4 | 3.4 |
| Emerging Markets | 3.9 | -1.6 | 7.0 | 4.0 | 4.4 | 4.4 |
Forecast overview

India: Risks to near-term recovery are on the downside

The recent acceleration of daily coronavirus cases in India, marked by a new high in Maharashtra, has raised concerns that the economic recovery may be derailed. We continue to expect growth momentum to slow further in H1 before wider vaccination leads to an improvement in H2. Assuming the absence of harsh lockdowns, similar to 2020, and a supportive macro policy backdrop, we maintain our 2021 growth forecast at 11.8%, with 2022 seen at 6.1%. However, risks have shifted to the downside in the near term.

Latin America: Downside risks to Q2 outlook

The Easter holiday brought an incipient third Covid wave that could see an extension of restrictions well into Q2. Brazil will suffer the biggest hit to Q2 GDP due to ongoing state- and city-level lockdowns to fight the rising death toll. We now expect Brazil’s GDP to expand 3.5% this year, down from 3.8% previously, but we have raised our 2022 forecast to 2.4%. In addition, we have cut Colombia’s 2021 GDP growth forecast to 6.2% from 6.7%, as the slow vaccine roll-out suggests a protracted period of restrictions. Meanwhile, Mexico’s 5.6% GDP rebound is unchanged as restrictions continue to ease, allowing an early revival of tourism and the services sector in general. We have lowered our Latin America (excluding Venezuela) forecast for 2021 GDP growth to 5.2%, from 5.3% previously.

Inflation pressures in the region are building due to rising international energy and food prices, which are being amplified by weaker currencies, particularly in Brazil and Peru. Ample economic slack is an offset, but risks to the inflation outlook are to the upside. Monetary policy is expected to remain accommodative in most countries, but rising cost-inflation, higher US yields and Brazil’s tightening cycle is narrowing the window for protracted low policy rates in the region. But we expect all inflation-targeting central banks, apart from Brazil, to keep rates on hold until 2022.

Turkey: Economy to falter after strong Q1

Economic activity in Q1 was stronger than we had been anticipating, with industry supported by the strength of global trade. Nonetheless, we now expect the economy to falter in Q2 in the face of renewed lira depreciation precipitated by the firing of the central bank governor and higher level of inflation. This will hit consumers and also undermine investment. Moreover, tourism will be slower to pick up in
H2. Although Turkey’s vaccination campaign has progressed relatively well, with about 12% of the population having received at least one dose of the vaccine, the outbreak has worsened amid record infections. This may prompt countries to place restrictions on travel to Turkey. So GDP is now on course to see a q/q decline in Q2, with a modest recovery thereafter, and we have cut our 2021 GDP growth forecast to 4.9% from 5.1% previously. The economy grew by 1.8% in 2020, one of the few countries to avoid contraction.

**Russia: CBR returns to policy tightening**

According to latest estimates, the Russian economy saw a modest 3.0% decline in 2020, with most of the fall due to consumption (-4.8%) and investment (-1pp). These sharp falls in domestic demand were partially offset by a decline in imports, as net exports added 1.7pp to annual growth. For 2021, we still expect the economy to rebound by 2.5%, helped primarily by a recovery in consumption but with exports and investment dampened by OPEC+ oil output cuts. Covid-related containment measures are already minimal, so we do not expect the relatively slow vaccination process to significantly affect our outlook for recovery. The sharp acceleration in inflation (to 5.8% in March versus the 4% target), driven both by external factors and higher core inflation, prompted the CBR to lift the policy rate by 25bp in March to 4.5%. Coming with little forward guidance, this was a surprise to the markets, suggesting that the increase in US bond yields played a role. The CBR also signalled further tightening, leading us to expect another 100bp in rate hikes by year-end, bringing the policy rate to 5.5%.

**South Africa: Cautiously optimistic**

Developments over the last month have tilted more towards the positive end of the spectrum and we have raised our 2021 GDP growth forecast for South Africa to 2.5% from 2.0% last month. The forecast is driven by the expected uptick in global activity as well as improving mobility, which has proved to be a reliable leading indicator for GDP growth. Nonetheless, the vaccination drive remains well behind targets. Given the uncertainty surrounding the vaccination process and the possibility of a third-wave of infections, we expect domestic demand to remain muted for most of this year. Moreover, South Africans continue to face electricity shortages, with load-shedding estimated to extend to August this year. This will hurt economic activity, particularly during the winter months.
## UNITED STATES

### TABLE 1 SUMMARY ITEMS

| YEARS BEGINNING Q1 | 2019 | 2020 | 2021 | 2022 | 2023 |
|---------------------|------|------|------|------|------|
| Consumer Expenditure | 2.4  | 2.2  | 2.2  | 2.2  | 2.0  |
| Real Pers. Disposable Income (%) | 3.7  | 3.7  | 3.7  | 3.7  | 3.7  |
| Real GDP | 2.9  | 2.9  | 2.9  | 2.9  | 2.9  |
| Industrial Production | 2.9  | 2.9  | 2.9  | 2.9  | 2.9  |
| Unemployment Rate % | 3.3  | 3.3  | 3.3  | 3.3  | 3.3  |
| Average Earnings | 1.0  | 1.0  | 1.0  | 1.0  | 1.0  |
| Whole Economy Productivity | 2.9  | 2.9  | 2.9  | 2.9  | 2.9  |
| Competitiveness | 0.0  | 0.0  | 0.0  | 0.0  | 0.0  |
| Producer Prices | 0.0  | 0.0  | 0.0  | 0.0  | 0.0  |
| Consumer Prices | 0.0  | 0.0  | 0.0  | 0.0  | 0.0  |
| Total Profits | 0.0  | 0.0  | 0.0  | 0.0  | 0.0  |

### TABLE 2 SUMMARY ITEMS

| TRADE BALANCE | CURRENT ACCOUNT | GOVERNMENT BALANCE | GOVERNMENT FINANCIAL BALANCE | SHORT-TERM INTEREST RATE | LONG-TERM INTEREST RATE | TOTAL HOUSING STARTS | LIGHT VEHICLE SALES | EXCHANGE RATE/US DOLLAR | EXCHANGE RATE/DOLLAR PER EURO | EFFECTIVE EXCHANGE RATE |
|---------------|-----------------|---------------------|-------------------------------|--------------------------|-------------------------|----------------------|----------------------|--------------------------|-------------------------------|------------------------|
| (US$ BN)      | (US$ BN) (%)     | (US$ BN) (MILLIONS) | (US$ BN) (MILLIONS) DOLLAR PER EURO | (1990=100)               | (1990=100)               | (HE)                 | (LTV)                | (£/US)                   | (£/US)                        | (£/US)                 |
| Q1 2019       | -1022.0          | -2.2               | -372.2                        | -4.8                      | 2.33                    | 2.14                 | 1.30                 | 17.1                     | 109.02                        | 110.24                 |
| Q2 2019       | -1036.0          | -3.4               | -313.3                        | -6.4                      | 2.55                    | 2.33                 | 1.31                 | 19.1                     | 110.23                        | 110.07                 |
| Q3 2019       | -1026.0          | -2.7               | -306.9                        | -5.8                      | 2.14                    | 2.33                 | 1.30                 | 17.1                     | 109.02                        | 110.24                 |
| Q4 2019       | -1022.0          | -2.2               | -372.2                        | -4.8                      | 2.33                    | 2.14                 | 1.30                 | 17.1                     | 109.02                        | 110.24                 |

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## TABLE 1  SUMMARY ITEMS
Annual Percentage Changes, Unless Otherwise Specified

| YEARS BEGINNING Q1 | CONSUMERS EXPENDITURE | TOTAL EXPENDITURE | TOTAL INVESTMENT | REAL GDP | INDUSTRIAL PRODUCTION (GROS) | TOTAL EMPLOYMENT | AVERAGE EARNINGS | WHOLE ECONOMY PRODUCTIVITY (GDP/PET) | COMPETITIVENESS INDEX (2008=100) | CONSUMER PRICE INDEX | RETAIL PRICE INDEX |
|--------------------|------------------------|------------------|------------------|---------|-----------------------------|------------------|------------------|-------------------------------------|-----------------------------|-------------------|------------------|
| 2019               | 5.90                   | 4.69             | 4.55             | 5.95    | 5.74                        | -0.12            | 9.21             | 2.87                                | 168.1                       | 2.90              | 1.99             |
| 2020               | -3.42                  | 2.10             | 5.20             | 2.35    | 2.29                        | -3.04            | 6.42             | 3.03                                | 166.9                       | 2.49              | 1.43             |
| 2021               | 10.75                  | 8.83             | 7.61             | 8.89    | 12.62                       | 2.05             | 10.39            | 3.23                                | 178.3                       | 1.74              | 1.24             |
| 2022               | 9.06                   | 5.13             | 3.39             | 3.59    | 5.42                        | 1.55             | 7.98             | 3.36                                | 188.3                       | 2.16              | 1.76             |
| 2023               | 8.39                   | 4.71             | 2.15             | 4.83    | 3.95                        | 0.45             | 7.47             | 3.50                                | 186.7                       | 2.35              | 3.09             |
| 2024               | 7.92                   | 4.78             | 2.35             | 4.78    | 3.52                        | 0.28             | 7.20             | 3.66                                | 188.6                       | 2.37              | 2.06             |

| YEARS BEGINNING Q1 | Q1 | Q2 | Q3 | Q4 |
|--------------------|----|----|----|----|
| 2019               | 6.18 | 4.33 | 5.60 | 5.75 |
| 2020               | -12.30 | 1.09 | 0.53 | 0.99 |
| 2021               | 21.24 | 20.40 | 19.31 | 18.59 |
| 2022               | 9.19 | 10.04 | 9.08 | 8.88 |
| 2023               | 8.11 | 8.16 | 8.33 | 8.43 |
| 2024               | 8.15 | 8.00 | 7.88 | 7.77 |

| YEARS BEGINNING Q1 | Q1 | Q2 | Q3 | Q4 |
|--------------------|----|----|----|----|
| 2019               | 5.90 | 5.74 | 5.65 | 6.00 |
| 2020               | -0.07 | 0.08 | 0.13 | 0.16 |
| 2021               | 1.21 | 1.15 | 1.09 | 1.05 |
| 2022               | 1.09 | 1.05 | 1.01 | 0.98 |
| 2023               | 0.98 | 1.04 | 1.01 | 0.97 |
| 2024               | 0.97 | 0.94 | 0.92 | 0.89 |

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## TABLE 2  SUMMARY ITEMS

| YEARS BEGINNING Q1 | TRADE BALANCE (USD BN) | CURRENT ACCOUNT (USD BN) | CURRENT ACCOUNT (% OF GDP) | GOVERNMENT FINANCIAL DEPOSIT (YUAN BN) | GOVERNMENT FINANCIAL DEPOSIT (% OF GDP) | SHORT-TERM INTEREST RATE | SPREAD OVER US SHORT-TERM (RSH-RSH US) | REAL SHORT-TERM INTEREST RATE (Note 1) | EQUILIBRIUM EXCHANGE RATE PER DOLLAR (RESEX) | EXCHANGE RATE PER DOLLAR (REX) |
|--------------------|------------------------|--------------------------|---------------------------|----------------------------------------|-------------------------------|-------------------------|----------------------------------------|------------------------------------------|------------------------------------------|-------------------------------|
| 2019               | 393.0                  | 102.9                    | 0.7                       | 5499.2                                 | 5.6                           | 3.07                    | 0.75                                   | 0.17                                     | 6.17                                      | 6.91                          |
| 2020               | 515.0                  | 274.0                    | 1.1                       | 8699.3                                 | 8.6                           | 2.57                    | 1.92                                   | 0.48                                     | 165.4                                     | 2.48                          |
| 2021               | 670.7                  | 455.7                    | 2.6                       | 8883.6                                 | 7.3                           | 1.28                    | 0.79                                   | 0.17                                     | 165.9                                     | 2.73                          |
| 2022               | 515.0                  | 215.2                    | 1.1                       | 8699.3                                 | 7.3                           | 1.28                    | 0.79                                   | 0.17                                     | 165.9                                     | 2.73                          |
| 2023               | 533.2                  | 202.1                    | 1.0                       | 9042.9                                 | 6.9                           | 3.20                    | 0.84                                   | 0.85                                     | 188.5                                     | 2.36                          |
| 2024               | 562.3                  | 206.2                    | 0.9                       | 9115.9                                 | 6.5                           | 3.37                    | 0.82                                   | 0.85                                     | 198.3                                     | 2.35                          |

| YEARS BEGINNING Q1 | Q1 | Q2 | Q3 | Q4 |
|--------------------|----|----|----|----|
| 2019               | 67.8 | 96.2 | 114.6 | 153.5 |
| 2020               | 114.3 | 71.0 | 93.3 | 85.6 |
| 2021               | 17.1 | 153.5 | 97.3 | 7.6 |
| 2022               | 167.0 | 142.7 | 74.8 | 7.6 |
| 2023               | 154.5 | 103.8 | 103.8 | 103.8 |
| 2024               | 93.4 | 126.1 | 139.1 | 158.7 |

Note 1: REAL INTEREST RATES = Nominal interest rate (RSH) - change in CPI

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### TABLE 1  SUMMARY ITEMS

| YEARS BEGINNING Q1 | CONSUMERS EXPENDITURE | REAL PERS. DISPOSABLE INCOME | SAVING RATE (%) | REAL GDP | INDUSTRIAL PRODUCTION | UNEMPLOYMENT RATE (%) | AVERAGE EARNINGS | WHOLE ECONOMY PRODUCTIVITY | COMPETITIVENESS (2000=100) | PRODUCER PRICES | CONSUMER PRICES |
|---------------------|------------------------|-----------------------------|----------------|----------|----------------------|----------------------|----------------|--------------------------|-----------------|----------------|------------------|
| 2019                | -0.2                   | 1.0                         | 5.3            | 0.3      | -2.7                 | 2.4                  | -0.3          | -0.6                     | 87.7            | 0.2            | 0.5              |
| 2020                | -6.0                   | 1.6                         | 12.2           | -4.9     | -10.3                | 2.8                  | -1.0          | -4.2                     | 91.4            | -1.1           | 0.0              |
| 2021                | 2.0                    | -3.8                        | 7.3            | 3.0      | 7.5                  | 2.9                  | -0.4          | 2.3                      | 83.4            | 0.6            | -0.3             |
| 2022                | 2.6                    | -0.2                        | 4.8            | 2.9      | 2.5                  | 2.9                  | 0.3           | 1.5                      | 79.8            | 0.4            | 0.3              |
| 2023                | 0.8                    | 0.5                         | 4.6            | 1.2      | 1.3                  | 2.3                  | 0.7           | 0.9                      | 80.4            | 0.5            | 0.5              |
| 2024                | 0.8                    | 0.7                         | 4.5            | 1.0      | 1.1                  | 2.2                  | 1.3           | 1.2                      | 79.4            | 0.6            | 0.7              |

Note 1: REAL INTEREST RATES = Nominal interest rate (RSH or RLG) - % change in CPI

### TABLE 2  SUMMARY ITEMS

| YEARS BEGINNING Q1 | TRADE BALANCE (YEN BN) | CURRENT ACCOUNT (YEN BN) | CURRENT ACCOUNT (% OF GDP) | GOVERNMENT FINANCIAL ACCOUNT (YEN BN) | GOVERNMENT FINANCIAL ACCOUNT (% OF GDP) | SHORT-TERM INTEREST RATE | REAL SHORT-TERM INTEREST RATE | REAL LONG-TERM INTEREST RATE | REAL EXCHANGE RATE PER US DOLLAR (RKO) | EFFECTIVE EXCHANGE RATE (1990=100) |
|---------------------|------------------------|--------------------------|---------------------------|--------------------------------------|-----------------------------------------|--------------------------|--------------------------------|-----------------------------------|--------------------------------|-----------------------------------|
| 2019                | 373.0                  | 20207.6                  | 3.6                       | -14206.3                             | -2.5                                    | -0.08                    | -0.06                          | -0.57                             | 109.02                          | 85.88                             |
| 2020                | 2994.9                 | 17492.4                  | 3.2                       | -65588.6                             | -12.2                                   | -0.07                    | -0.01                          | -0.05                             | 106.76                          | 86.93                             |
| 2021                | 6046.8                 | 21104.9                  | 3.8                       | -57788.6                             | -10.4                                   | -0.06                    | -0.07                          | 0.24                              | 107.18                          | 86.48                             |
| 2022                | 5003.0                 | 23038.8                  | 4.1                       | -33952.9                             | -6.0                                    | -0.05                    | -0.05                          | -0.22                             | 109.55                          | 82.14                             |
| 2023                | 4394.9                 | 23194.6                  | 4.1                       | -23660.9                             | -4.1                                    | -0.05                    | -0.05                          | -0.52                             | 104.86                          | 86.31                             |

Note 1: REAL INTEREST RATES = Nominal interest rate (RSH or RLG) - % change in CPI
### Germany

#### Table 1: Summary Items

| Years Beginning Q1 | 2019 | 2020 | 2021 | 2022 | 2023 |
|-------------------|------|------|------|------|------|
| Q1                | 1.6  | 1.6  | 1.9  | 8.2  | 2.3  |
| Q2                | 1.0  | 0.2  | 1.1  | 2.3  | 1.3  |
| Q3                | 1.8  | -2.0 | -0.7 | -7.1 | 11.8 |
| Q4                | 2.3  | -12.7| -3.0 | 2.1  | 4.8  |
| Q1                | 2.5  | 1.4  | 1.0  | 7.6  | 51.8 |
| Q2                | 2.6  | 1.8  | 1.6  | 4.6  | 5.3  |
| Q3                | 2.4  | 1.8  | 1.5  | 3.4  | 5.4  |
| Q4                | 2.4  | 1.6  | 1.5  | 3.4  | 6.3  |

#### Table 2: Summary Items

| Years Beginning Q1 | 2019 | 2020 | 2021 | 2022 | 2023 |
|-------------------|------|------|------|------|------|
| Q1                | 219.0| 265.0| 197.7| 180.7| 177.0|
| Q2                | 209.3| 236.8| 223.1| 206.3| 203.8|
| Q3                | 240.8| 268.8| 224.5| 230.5| 280.1|
| Q4                | 257.3| 292.9| 245.3| 277.7| 292.8|

Note: 1. REAL INTEREST RATES = Nominal interest rate (RSH or RLG) - % change in CPI.

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### TABLE 1: SUMMARY ITEMS

**YEARS BEGINNING Q1**

| YEAR | CONSUMERS EXPENDITURE | REAL PERS. DISPOSABLE INCOME | SAVING RATIO (%) | REAL GDP | INDUSTRIAL PRODUCTION | UNEMPLOYMENT RATE (%) | AVERAGE EARNINGS | REAL GDP GROWTH | WHOLE ECONOMY PRODUCTIVITY (GDP/ET) | COMPETITIVENESS (2008=100) | PRODUCER PRICES | CONSUMER PRICES |
|------|------------------------|-------------------------------|------------------|---------|------------------------|-----------------------|------------------|----------------|-------------------------------------|---------------------------|----------------|----------------|
| 2019 | 1.2                    | 1.5                           | 1.0              | 1.8     | 1.7                    | 2.1                   | 1.9              | 0.7            | 1.5                   | 2022                      | 1.5            | 1.8            |
| 2020 | 1.5                    | 2.1                           | 1.5              | 1.8     | 1.7                    | 2.1                   | 1.9              | 0.7            | 1.5                   | 2023                      | 1.5            | 1.8            |
| 2021 | 2.2                    | 1.1                           | 1.0              | 3.2     | 2.3                    | 1.9                   | 2.0              | 0.8            | 1.5                   | 2024                      | 1.5            | 1.8            |

**Note 1:** REAL INTEREST RATES = Nominal interest rate (RSH or RLG) - % change in CPI

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### TABLE 2: SUMMARY ITEMS

**YEARS BEGINNING Q1**

| YEAR | TRADABLE BALANCE (EURO BN) | CURRENT ACCOUNT (EURO BN) | CURRENT ACCOUNT BALANCE (% OF GDP) | GOV. FIN. BALANCE, MAAS. DEF (EURO BN) | GOV. FIN. BALANCE, DEF (% OF GDP) | SHORT-TERM INTEREST RATE (RSH) | LONG-TERM INTEREST RATE (RLG) | REAL SHORT-TERM INTEREST RATE | REAL LONG-TERM INTEREST RATE | EXCHANGE RATE US DOLLAR PER EURO (ORD) | EFFECTIVE EXCHANGE RATE 2010=100 |
|------|-----------------------------|---------------------------|----------------------------------|---------------------------------------|---------------------------------|------------------------------|-------------------------------|-------------------------------|-------------------------------|---------------------------------|---------------------------------|
| 2019 | Q1                          | -13.9                     | -2.1                             | -17.2                                 | -2.9                             | -0.31                        | 0.52                          | -1.53                         | -0.70                         | 0.14                            | 101.23                          |
|      | Q2                          | -15.2                     | -3.2                             | -16.7                                 | -2.7                             | -0.32                        | 0.23                          | 0.14                          | -0.90                         | 0.12                            | 101.29                          |
|      | Q3                          | -15.7                     | -6.2                             | -16.8                                 | -2.8                             | -0.40                        | -0.21                        | -1.40                         | -0.77                         | 0.11                            | 101.18                          |
|      | Q4                          | -13.4                     | -4.3                             | -22.3                                 | -3.7                             | -0.40                        | -0.06                        | -1.49                         | -1.14                         | 1.11                            | 100.84                          |
| 2020 | Q1                          | -13.0                     | -10.0                            | -31.4                                 | -5.4                             | -0.41                        | -0.08                        | -1.60                         | -1.27                         | 1.10                            | 100.94                          |
|      | Q2                          | -20.5                     | -22.1                            | -63.1                                 | -12.2                            | -0.30                        | -0.01                        | -0.60                         | -0.31                         | 1.10                            | 102.30                          |
|      | Q3                          | -19.7                     | -13.4                            | -29.0                                 | -4.9                             | -0.47                        | -0.21                        | -0.82                         | -0.56                         | 1.17                            | 104.19                          |
|      | Q4                          | -15.8                     | -11.3                            | -70.7                                 | -12.4                            | -0.52                        | -0.33                        | -0.41                         | -1.11                         | 1.11                            | 104.40                          |

**Note 1:** REAL INTEREST RATES = Nominal interest rate (RSH or RLG) - % change in CPI

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| YEARS BEGINNING Q1 | HOUSEHOLD CONSUMER EXPENDITURE (%) | REAL HOUSEHOLD Disposable INCOME (BCU/1000) | SAVING RATE (%) | REAL GDP (BCU/1000) | REAL GDP PRODUCT-MIX (BCU*100) | UNEMPLOYMENT RATE (%) | AVERAGE EARNINGS (RLG) | WHOLE ECONOMY PRODUCTIVITY (BCU*100) | PRODUCER PRICES (EX. VAT) (BCU/100) | CPI | RPI EXCLUDING MORTGAGE PAYMENTS (BCU/100) | CONSUMER PRICES (BCU/100) |
|-------------------|-----------------------------------|---------------------------------------------|----------------|---------------------|---------------------------------|----------------------|----------------------|-------------------------------------|-------------------------------------|-----|------------------------------------------|-------------------------------------|
| 2018              | 1.1                               | 1.6                                         | 6.5            | 1.4                 | -1.2                            | 3.8                  | 3.1                   | 0.0                   | 1.4                  | 2.6            | 2.5                        | 1.8                   |
| 2019              | 1.0                               | 1.5                                         | 5.8            | -0.8                | -8.0                            | 4.5                  | 0.8                   | -3.2                  | -1.0                 | 1.5            | 1.7                        | 0.9                   |
| 2020              | 1.4                               | 1.7                                         | 5.7            | 7.2                 | 3.5                             | 5.5                  | 2.7                   | 8.9                   | 2.3                  | 2.5            | 2.5                        | 1.4                   |
| 2021              | 2.3                               | 2.1                                         | 7.7            | 5.5                 | 2.5                             | 5.1                  | 2.7                   | 2.0                   | 2.0                  | 2.7            | 2.5                        | 2.0                   |
| 2022              | 2.4                               | 2.1                                         | 7.7            | 1.9                 | 0.5                             | 4.6                  | 2.6                   | 0.3                   | 2.7                  | 2.6            | 2.6                        | 1.8                   |
| 2023              | 1.5                               | 1.9                                         | 7.9            | 1.4                 | 0.1                             | 4.3                  | 2.7                   | 0.8                   | 2.5                  | 2.8            | 2.8                        | 1.7                   |

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### TABLE 1 SUMMARY ITEMS

| YEARS BEGINNING | Q1 | Q2 | Q3 | Q4 |
|-----------------|----|----|----|----|
| 2019            | 0.3| 0.3| 0.4| 0.4 |
| 2020            | 0.7| 1.1| 0.7| 0.7 |
| 2021            | 3.6| 3.3| 2.9| 2.9 |
| 2022            | 5.8| 5.8| 5.8| 5.8 |

Notes:  
1. REAL INTEREST RATES = Nominal interest rate (RSH or RLG) - % change in CPI

### TABLE 2 SUMMARY ITEMS

| YEARS BEGINNING | Q1 | Q2 | Q3 | Q4 |
|-----------------|----|----|----|----|
| 2019            | 68.9| 49.7| 2.6| -76.6 |
| 2020            | 67.3| 52.4| 2.8| -92.6 |
| 2021            | 68.8| 56.1| 3.2| -156.2 |

Note 1: REAL INTEREST RATES = Nominal interest rate (RSH or RLG) - % change in CPI
| YEARS BEGINNING Q1 | CONSUMERS EXPENDITURE | GROSS FIXED INVESTMENT | DOMESTIC DEMAND (%) | REAL GDP | INDUSTRIAL PRODUCTION | UNEMPLOYMENT RATE (%) | AVERAGE EARNINGS | WHOLE ECONOMY PRODUCTIVITY | COMPETITIVENESS (2008=100) | PRODUCER PRICES | CONSUMER PRICES |
|-------------------|------------------------|------------------------|----------------------|----------|------------------------|----------------------|----------------|-----------------------------|--------------------------|----------------|-----------------|
| 2019 Q1 | 1.3 | 5.6 | 1.9 | 1.3 | -1.3 | 7.6 | 2.1 | 0.1 | 5.1 | 0.5 | 1.2 |
| 2019 Q2 | 1.5 | 7.7 | 2.5 | 2.0 | 1.8 | 8.0 | 2.8 | 1.1 | 3.3 | 1.0 | 1.5 |
| 2020 Q1 | 1.2 | 4.7 | 1.3 | 1.0 | -2.1 | 7.4 | 1.8 | -0.1 | 5.1 | -0.9 | 1.0 |
| 2020 Q2 | -3.9 | 0.8 | -1.7 | -3.3 | -5.7 | 7.3 | 0.9 | -0.3 | 7.5 | -1.2 | 1.1 |
| 2021 Q1 | -4.6 | -4.6 | -4.1 | -4.2 | -6.7 | 8.6 | 0.6 | -2.2 | 9.7 | -2.9 | 0.6 |
| 2021 Q2 | -7.6 | -8.7 | -5.9 | -4.9 | -6.4 | 8.3 | 0.7 | -3.1 | 11.5 | -2.0 | 1.0 |
| 2021 Q3 | -4.5 | -3.7 | -3.3 | -1.7 | 3.1 | 8.3 | 1.5 | 0.0 | 6.0 | 0.5 | 1.1 |
| 2021 Q4 | 11.0 | 16.8 | 10.1 | 12.3 | 23.9 | 8.5 | 7.3 | 10.7 | 3.7 | 4.1 | 1.5 |
| 2022 Q1 | 0.9 | 4.7 | 2.6 | 2.3 | 7.8 | 8.9 | 2.2 | 1.6 | 3.1 | 3.3 | 1.9 |
| 2022 Q2 | 6.3 | 4.3 | 4.9 | 4.4 | 4.1 | 8.9 | 3.0 | 3.8 | 1.6 | 2.4 | 2.3 |
| 2022 Q3 | 9.3 | 6.1 | 7.0 | 6.1 | 3.5 | 8.8 | 3.5 | 5.0 | 4.2 | 0.3 | 1.6 |
| 2022 Q4 | 8.9 | 5.3 | 6.5 | 5.9 | 3.0 | 8.8 | 3.8 | 4.6 | 4.2 | -0.4 | 1.3 |
| 2023 Q1 | 5.8 | 3.9 | 4.6 | 4.0 | 2.7 | 8.4 | 3.3 | 2.7 | 3.7 | 1.8 | 1.4 |
| 2023 Q2 | 4.2 | 3.5 | 3.5 | 3.2 | 2.5 | 8.3 | 3.1 | 1.9 | 3.4 | 0.2 | 1.4 |
| 2023 Q3 | 3.3 | 3.1 | 2.8 | 2.6 | 2.2 | 8.1 | 3.0 | 1.5 | 3.3 | 0.6 | 1.5 |
| 2023 Q4 | 2.5 | 2.8 | 2.3 | 2.2 | 2.2 | 8.0 | 2.8 | 1.1 | 3.0 | 0.9 | 1.5 |
| 2024 Q1 | 2.1 | 2.4 | 1.9 | 1.8 | 1.6 | 7.9 | 2.8 | 0.9 | 3.3 | 1.1 | 1.6 |
| 2024 Q2 | 1.8 | 2.1 | 1.6 | 1.4 | 1.4 | 7.9 | 2.8 | 0.8 | 3.3 | 1.2 | 1.6 |
| 2024 Q3 | 1.5 | 1.4 | 1.2 | 1.2 | 1.2 | 7.7 | 2.7 | 0.7 | 3.2 | 1.2 | 1.7 |
| 2024 Q4 | 1.2 | 1.1 | 1.1 | 1.3 | 1.3 | 7.7 | 2.7 | 0.8 | 3.2 | 1.2 | 1.7 |

**Note:** Real Interest Rates = Nominal Interest Rate (RSH or RLQ) - % change in CPI