

Weekly Insights, 8 Apr 2021

Risks to the Rosy Outlook as World Recovery Seemingly Accelerates

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— & ASSOCIATES —

Inspite of battling new Covid19 restrictions, PMIs run high

Heatmap of Manufacturing/ non-oil private sector PMIs

	US	Germany	EU	UK	Japan	China	India	UAE	Saudi Arabia	Egypt	Lebanon
Jan-19	54.9	49.7	50.6	52.8	50.3	48.3	53.9	56.3	56.2	48.5	46.5
Feb-19	53.0	47.6	49.5	52.1	48.9	49.9	54.3	53.4	56.6	48.2	46.9
Mar-19	52.4	44.1	48.3	55.1	49.2	50.8	52.6	55.7	56.8	49.9	46.3
Apr-19	52.6	44.4	48.4	53.1	50.2	50.2	51.8	57.6	56.8	50.8	46.7
May-19	50.5	44.3	47.9	49.4	49.8	50.2	52.7	59.4	57.3	48.2	46.3
Jun-19	50.6	45.0	47.6	48.0	49.3	49.4	52.1	57.7	57.4	49.2	46.3
Jul-19	50.4	43.2	46.6	48.0	49.4	49.9	52.5	55.1	56.6	50.3	47.7
Aug-19	50.3	43.5	47.1	47.4	49.3	50.4	51.4	51.6	57.0	49.4	47.8
Sep-19	51.1	41.7	46.0	48.3	48.9	51.4	51.4	51.1	57.3	49.5	46.4
Oct-19	51.3	42.1	46.2	49.6	48.4	51.7	50.6	51.1	57.8	49.2	48.3
Nov-19	52.6	44.1	47.0	48.9	48.9	51.8	51.2	50.3	58.3	47.9	37.0
Dec-19	52.4	43.7	46.4	47.5	48.4	51.5	52.7	50.2	56.9	48.2	45.1
Jan-20	51.9	45.3	48.1	50.0	48.8	51.1	55.3	49.3	54.9	46.0	44.9
Feb-20	50.7	48.0	49.1	51.7	47.8	40.3	54.5	49.1	52.5	47.1	45.4
Mar-20	48.5	45.4	44.3	47.8	44.8	50.1	51.8	45.2	42.4	44.2	35.0
Apr-20	36.1	34.5	33.4	32.6	41.9	49.4	27.4	44.1	44.4	29.7	30.9
May-20	39.8	36.6	39.5	40.7	38.4	50.7	30.8	46.7	48.1	40.0	37.2
Jun-20	49.8	45.2	47.4	50.1	40.1	51.2	47.2	50.4	47.7	44.6	43.2
Jul-20	50.9	51.0	51.7	53.3	45.2	52.8	46.0	50.8	50.0	49.6	44.9
Aug-20	53.1	52.2	51.6	55.2	47.2	53.1	52.0	49.4	48.8	49.4	40.1
Sep-20	53.2	56.4	53.5	54.1	47.7	53.0	56.8	51.0	50.7	50.4	42.1
Oct-20	53.4	58.2	54.8	53.7	48.7	53.6	58.9	49.5	51.0	51.4	43.3
Nov-20	56.7	57.8	53.8	55.6	49.0	54.9	56.3	49.5	54.7	50.9	42.4
Dec-20	57.1	58.3	55.2	57.5	50.0	53.0	56.4	51.2	57.0	48.2	43.2
Jan-21	59.2	57.1	54.8	54.1	49.8	51.5	57.7	51.2	57.1	48.7	41.0
Feb-21	58.6	60.7	57.9	55.1	51.4	50.9	57.5	50.6	53.9	49.3	42.2
Mar-21	59.1	66.6	62.5	58.9	52.7	50.6	55.4	52.6	53.3	48.0	46.4

Source: Refinitiv Datastream, Nasser Saidi & Associates

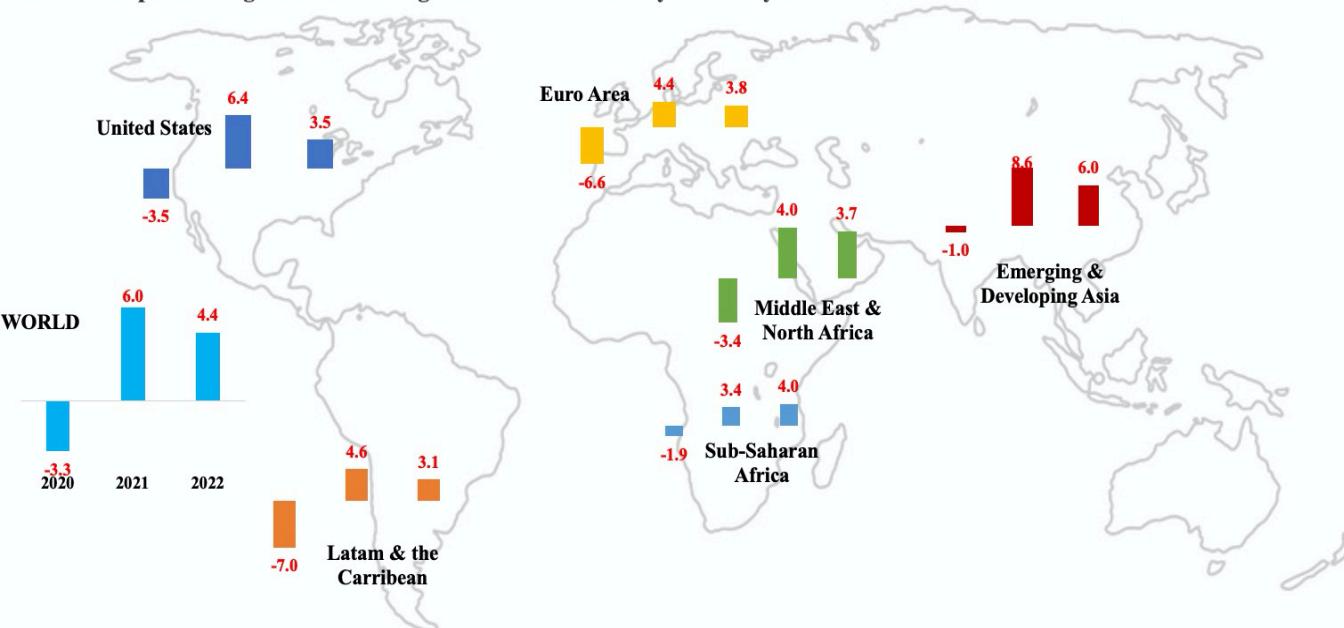
- Global manufacturing PMI touched a 10-year high in Mar: the uptick happened inspite of increased restrictions in late-2020/ early 2021, suggesting less severe impact of the recent lockdowns vs. the one in Apr-May.
- Preparedness for disruptions to production & supply chains as well as online demand & delivery likely improved.
- However, overall conditions are still affected by supply chain disruptions and inflationary pressures.
- Global Services PMI grew to a 33-month high of 54.7 in Mar, supported by inflows of new work.

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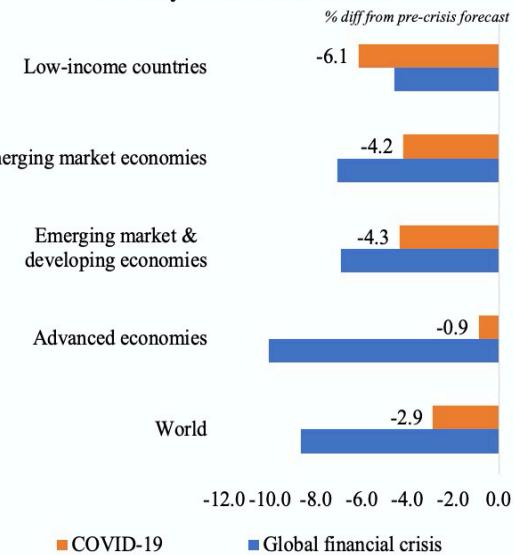
Optimism spills over into IMF's growth forecasts amid uneven recovery caution

- The IMF projects 6% yoy growth in 2021, up from the 3.3% contraction last year. If the forecast is realized, it would mark the fastest rate of global growth since 1976. While China returned to pre-pandemic GDP levels in 2020 itself (+2.3%), many are unlikely to recover till 2023 – depending on new virus variants, pace of vaccination rollout and extent of fiscal/ monetary stimulus.
- The average medium term output loss over 2020-24, relative to pre-pandemic forecasts, is projected to be 6.1% in low-income countries versus 4.1% and a smaller 0.9% in emerging and advanced nations respectively. This is much lower than the losses seen during the 2008-09 financial crisis (when advanced nations suffered the most).
- The Middle East's growth forecasts have remained broadly unchanged though recovery prospects of the GCC (where vaccination pace is quite high) are miles apart from many of the war-torn nations.

IMF turns optimistic: global economic growth set to recover by 6% this year

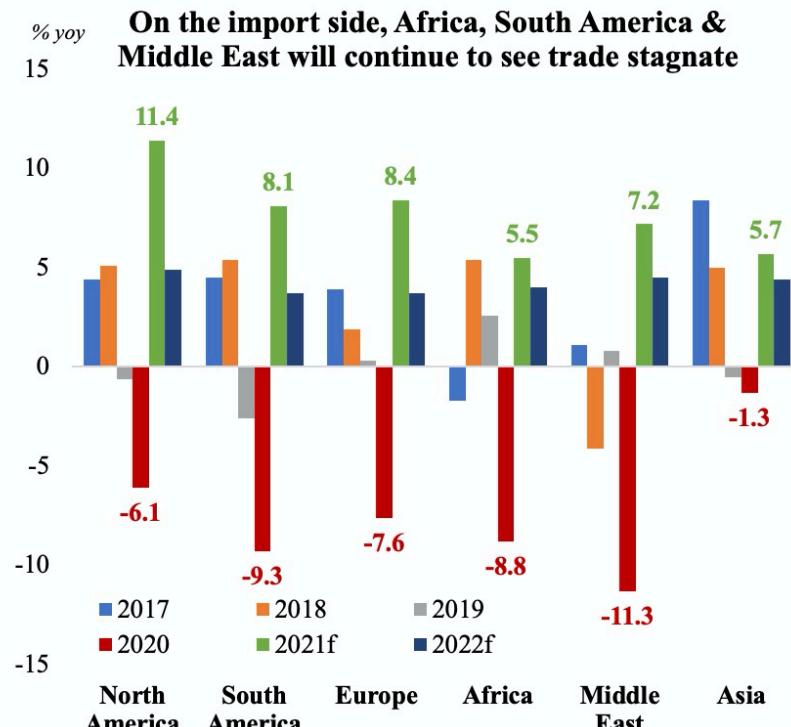
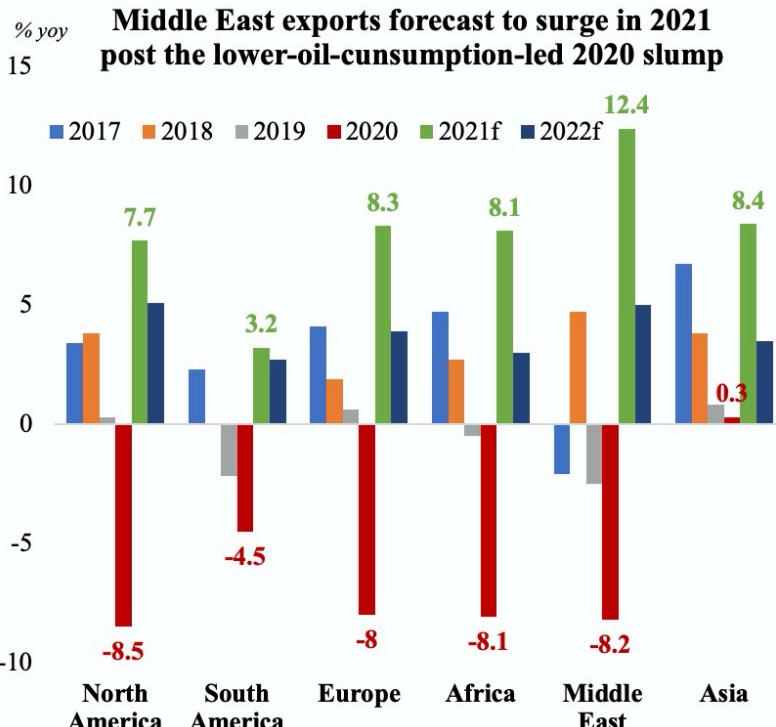


Medium term output losses less compared to 2008-09 crisis, but EMEs hit more severely vs. advanced nations



Merchandise trade poised for recovery in 2021, before slowing in 2022: WTO

- Strong, but uneven recovery is the story in merchandise trade volumes as well.** Trade volume is projected to increase by 8% this year and then slow to 4% in 2022. Cross-border trade in services remains subdued and new waves of infection could easily reverse course of trade.
- Falling oil prices led to a 35% contraction in trade in fuels in 2020:** it had a significant impact on Middle East exports (-8.2% slump in 2020), also resulting in a massive 11.3% plunge in imports. As travel picks up post-vaccine drives, demand for oil will likely strengthen, causing a 12.4% rise in exports in the Middle East this year.
- Asia, the export hub:** the region's limited impact and faster recovery from the virus + supply of medical supplies & consumer goods supported their export growth last year. This will enable the 8.4% rise in exports this year.



Risks to the Rosy Outlook

- **Pandemic-related risks:**

- New strains of vaccine-resistant Covid19 => prolonged pandemic
- Highly unequal global roll out of vaccines could reverberate on advanced nations, when lockdowns are relaxed
- Supply chain disruptions: one leading COVID-19 vaccine includes 280 components sourced from 19 different countries. Any constraint would impact production and distribution
- Insufficient production of vaccines + vaccine nationalism affecting global rollout of vaccines

- **Financial risks:**

- Avoid a repeat of 2013 “taper tantrum”. Rise in US rates => repricing of risk + tighter financial conditions => negative impact on highly leveraged nations/ businesses (heavy borrowings in 2020, supported by low interest rates: EMEs borrowed 9.8% of GDP & low-income nations 5.5%)
- Impact of corporate sector when stimulus measures are rolled back: potential bankruptcies/ insolvencies (& job losses), profitability => financial risks & effect on banks’ bottom line

- **Long-lasting effects from the pandemic:**

- Poverty: an additional 95mn people likely entered the category of “extreme poor” in 2020 versus pre-pandemic projections => rising food prices & social unrest (Lebanon as an example)
- Labour markets: youth, women & low-skilled workers more affected + impact on productivity
- Inequality within nations & across economies: not limited to income. Think education, technology

- **Climate change risks:** methane & CO₂ levels surged to record amounts in 2020 + stranded assets + preparedness for a low-carbon transition

- **Geo-political risks:** US-China tensions led suppliers to shift away from China (one of the reasons behind the current shortage of computer chips), reshoring and “Made at home” policies

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