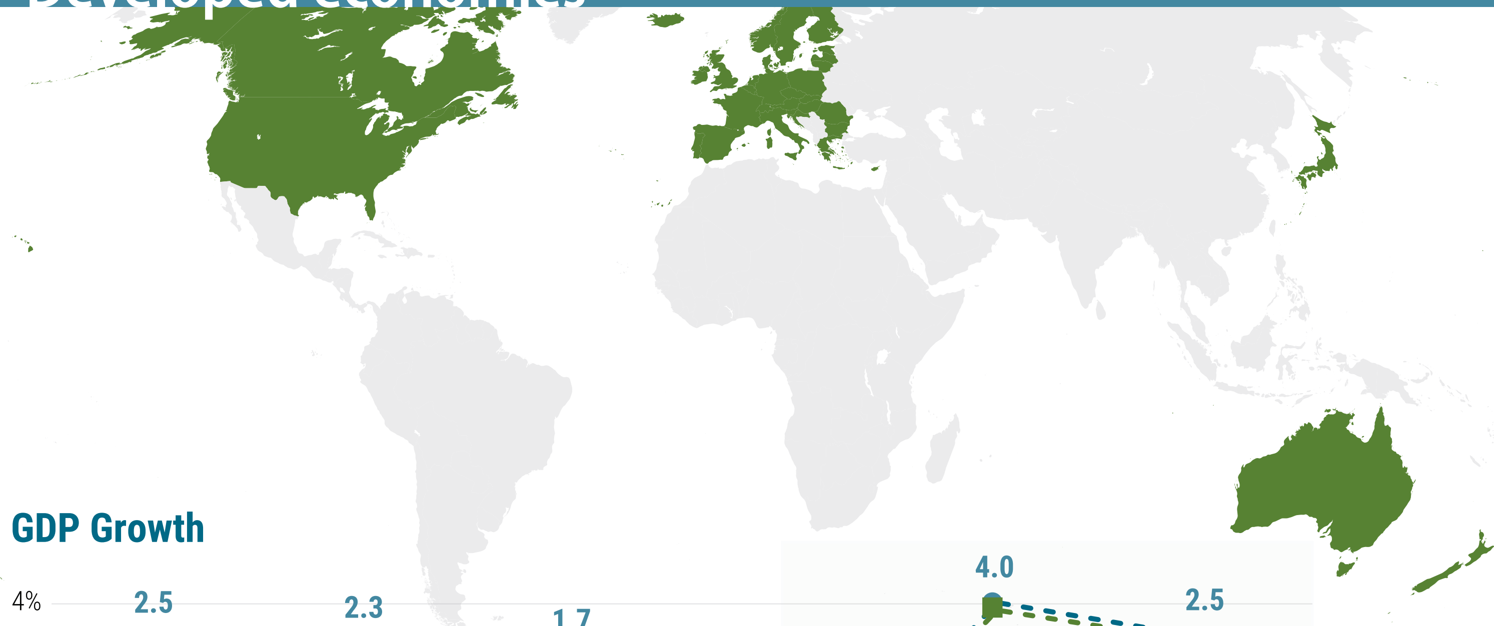
World Economic Situation and Prospects

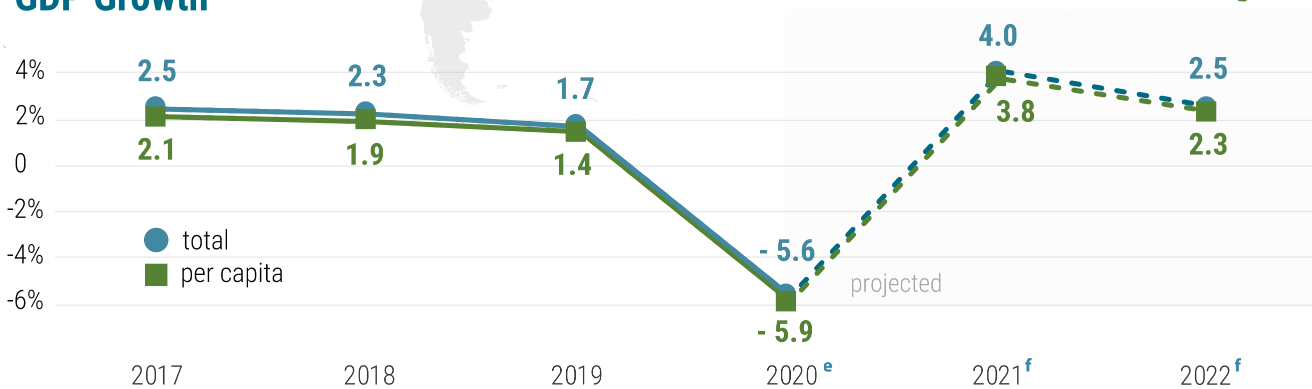
2021

United Nations

Developed economies



GDP Growth

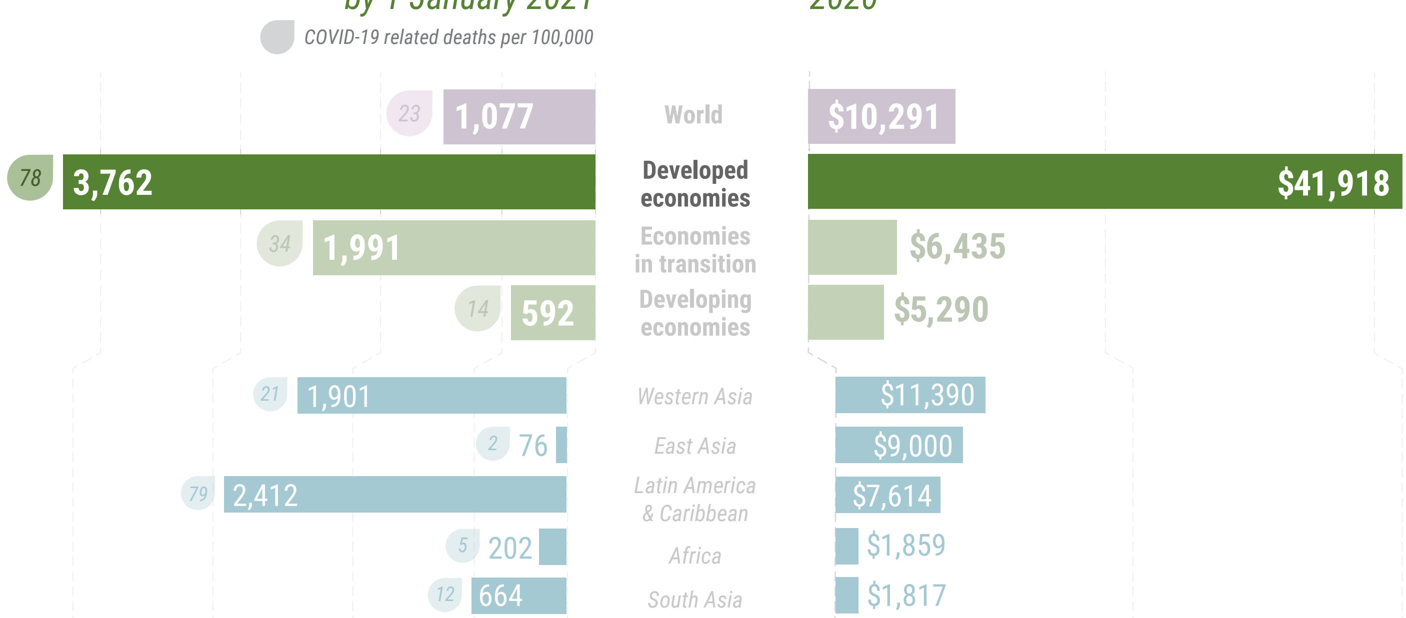


COVID-19 Cases per 100,000 people

by 1 January 2021

GDP per capita

2020



Note: The boundaries and names shown and the designations used on this map do not imply official endorsement or acceptance by the United Nations.

The map represents countries and/or territories or parts thereof for which data is available and/or analysed in *World Economic Situation and Prospects 2021*. The shaded areas therefore do not necessarily overlap entirely with the delimitation of their frontiers or boundaries.

Aggregate data for Africa, excluding Libya.

e: 2020 estimates, **f:** 2021-22 forecasts.

Source for COVID-19 data: UNDESA calculations, based on data from Johns Hopkins University.

Regional developments and outlook

Developed economies

- In their midyear rebound, developed economies failed to attain the pre-crisis level of economic output
- Domestic demand recovery has been fragile and could easily be reversed if fiscal support measures weaken
- Economies with larger exposure to tourism were hit hard

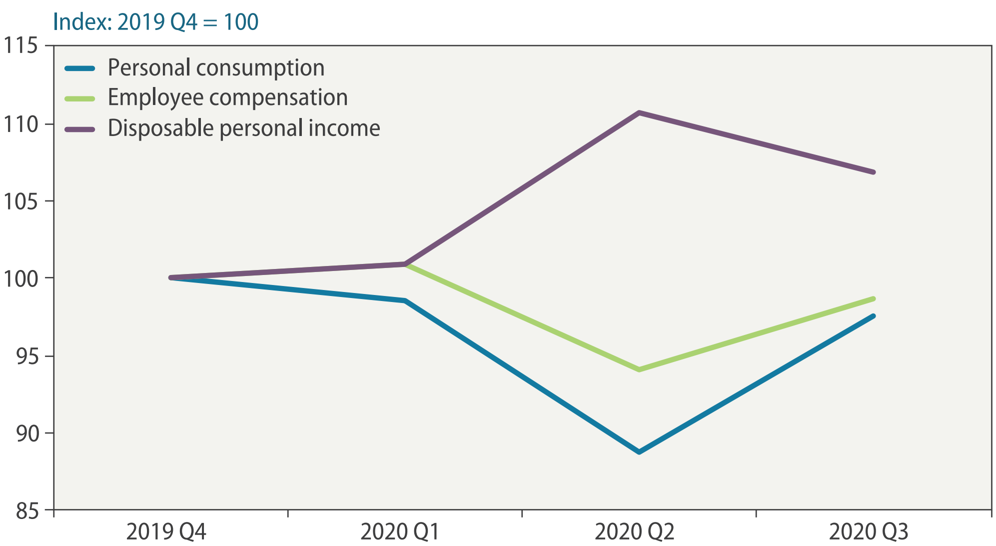
Northern America: the strong midyear economic rebound nevertheless fell short of the pre-crisis level of output

United States of America: while GDP plunged, aggregate personal income grew owing to stimulus measures

In the United States of America, real gross domestic product (GDP) is estimated to have contracted by 3.9 per cent in 2020. The economy came to a standstill in mid-March owing to lockdown measures taken to combat the coronavirus disease (COVID-19) pandemic; and the unemployment rate jumped to 14.7 per cent in April from 3.5 per cent in February. The Government promptly responded with an unprecedented stimulus package (the Coronavirus Aid, Relief, and Economic Security (CARES) Act), whose size cumulatively totalled 12 per cent of GDP by the end of October. This measure, which expanded income transfers to households and provided emergency loans to businesses, sustained growth in aggregate disposable personal income in the second quarter (figure III.1). Nevertheless, domestic demand imploded.

Figure III.1

Disposable personal income, employee compensation and personal consumption in the United States



Source: The Bureau of Economic Analysis of the United States Department of Commerce, "Gross Domestic Product, Third Quarter 2020 (Advance Estimate)", October 29, 2020, available at https://www.bea.gov/sites/default/files/2020-10/gdp3q20_adv.pdf.

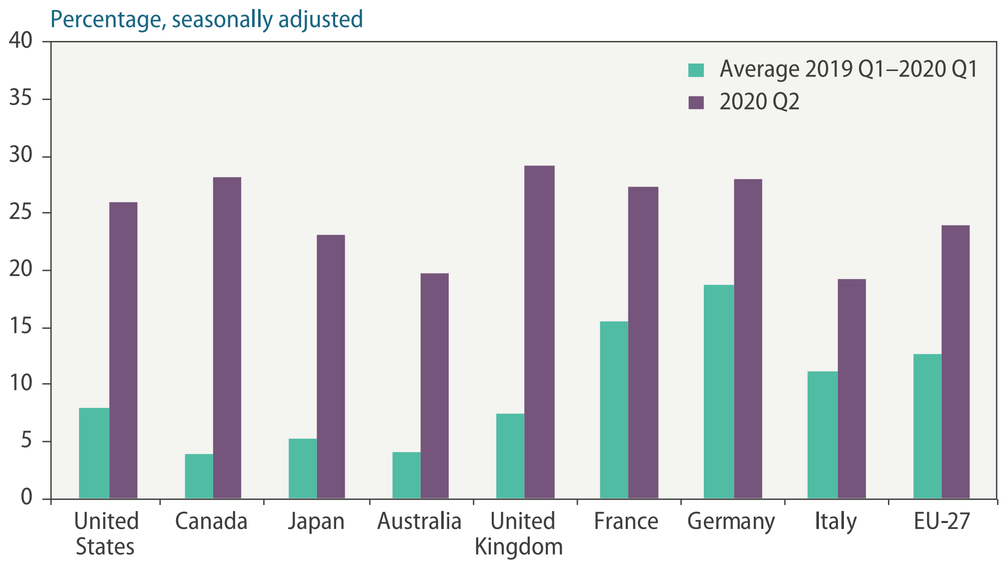
Note: Calculation based on seasonally adjusted annural rates.

Household savings rates spiked in the United States and other developed economies

In the United States, while the impact of the stimulus packages has been waning, the household savings rate has remained high, at 13.6 per cent in October, significantly higher than the pre-crisis yearly average of 8.0 per cent. There are several explanations for the pattern of such increases in savings rates which emerged across the developed economies (figure III.2).

Figure III.2

Household savings rate, selected developed economies



Sources: Australian Bureau of Statistics (2020); Statistics Canada (2020); Japan, Cabinet Office (2020); United Kingdom, Office for National Statistics (2020b); United States Department of Commerce, Bureau of Economic Analysis (2020); Eurostat (2020) (France, Germany, Italy and EU-27).

The main driver of the spikes has been a massive decline in household consumption and large increases in temporary government transfers. However, as lockdown measures prevented households from spending on non-essential items, the decline in spending does not necessarily represent a fundamental shift in savings behaviour. According to the permanent income hypothesis (PIH), households do not change their patterns of consumption expenditure in response to a temporal change in income if they perceive no change in their permanent income. The PIH can therefore partially explain household behaviour in countries where the household disposable income increased in the second quarter of 2020 despite the plunge in wages and wage supplements, for example, Australia, Canada, Japan and the United States (Australian Bureau of Statistics, 2020; Statistics Canada, 2020; Japan, Cabinet Office, 2020; United States Department of Commerce, Bureau of Economic Analysis, 2020;). However, in several large European economies, such as France, Germany, Italy and the United Kingdom of Great Britain and Northern Ireland, the scale of income transfers could not offset the decline in wages and wage supplements (European Central Bank, 2020; United Kingdom, Office for National Statistics, 2020a). Another factor that can account for the spikes in the household savings rate is household perception of future uncertainties. In developed economies, as both nominal interest rates and consumer price inflation rates were at historical lows, households, absent inflation expectation, felt no pressure to discount their future income and spend now, which led to historically high levels of precautionary savings.

In the United States, the financial sector absorbed the initial shock, limiting the second-round shock inflicted by the crisis

During the second quarter of 2020, growth of household debt in the United States was curbed as the outstanding amount decreased from $14.30 trillion in the first quarter to $14.27 trillion, which represented the first quarterly decline since 2014. Households refrained from taking up new loans to purchase durable goods. In the same period, the amount of non-financial corporate debt exhibited an increase as total liabilities grew from $16.9 trillion to $17.6 trillion, reflecting the utilization of the special credit facilities made available by the stimulus package. Despite the accelerating financial hardship, the delinquency rate of commercial bank loans remained low, at 1.54 per cent. At its last peak, which occurred in the first quarter of 2010, the delinquency rate had stood at 7.4 per cent. Although the magnitude of the negative shock on economic activities was unprecedented, the United States banking sector—which had accumulated a sufficient level of liquidity and capital owing to the prudential regulations adopted after the global financial crisis of 2008—was able to absorb that shock. This regulatory buffer prevented the amplification of the economic shock throughout the financial sector, thereby limiting the second-round economic impact of the COVID-19 pandemic crisis.

During the third quarter of 2020, the United States economy rebounded as lockdown measures were relaxed. The consumption of goods and residential investments exceeded the pre-crisis level, while the personal savings rate decreased to 14.1 per cent in August from 33.6 per cent in April. As economic activities partially recovered, the unemployment rate decreased to 7.9 per cent in September. However, the midyear rebound fell short of the pre-crisis levels of both consumption of services and corporate investments, which remained weak. Moreover, hopes for the realization of a straightforward recovery scenario were dashed by accelerating COVID-19 outbreaks in many parts of the United States as some business restrictions were reimposed.

The fragile recovery could falter if the fiscal stimulus wanes

The United States economy is forecast to grow by 3.4 per cent in 2021. As monetary easing continues, consumption of durable goods and residential investments continue to grow. However, other demand components, particularly corporate investments and exports, are forecast to remain weak as long as the uncertainties associated with the COVID-19 pandemic persist. While loans to the household sector, particularly through mortgages, are projected to grow, the banking sector is expected to be more cautious in issuing new corporate loans. In a context of weak employment prospects and wage growth, the fragile recovery could easily be reversed if fiscal support measures, including income transfers and loan guarantees, remain inadequate.

Canada: the energy sector remains weak amid the midyear recovery

In Canada, the economy is estimated to have contracted by 5.6 per cent in 2020 and is forecast to grow by 3.8 per cent in 2021. To alleviate the economic impact of the COVID-19 outbreak, an unprecedented fiscal stimulus package (amounting to 16 per cent of GDP), which included income support, loan guarantees and liquidity assistance, was implemented. The fiscal measures supported the growth of aggregate personal income in the second quarter, while production activities plunged. The economy broadly rebounded in the third quarter, led by strong residential investments and housing sales, as a result in part of monetary easing. The unemployment rate, which had jumped to 13.7 per cent in May, fell gradually to 8.9 per cent in October; it remained, however, far above the pre-crisis level, in January, of 5.5 per cent. The energy sector remained weak, reflecting subdued global energy demand, which is likely to constrain the country's growth prospects in the near term.

Europe: fallout from the pandemic is compressing economic activities

Europe has been experiencing an economic crisis of historic proportions, with the region expected to have seen an economic contraction of 7.8 per cent in 2020 (for EU-27) as a consequence of the pandemic. At the end of the first quarter, with rising case numbers and fatalities, a large number of countries implemented widespread and rigorous lockdown measures in order to contain the spread of the pandemic. This led to a virtual standstill in large parts of the economy, which set off a cascade of negative effects. Businesses—especially small businesses with fewer financial reserves—were thrown into a liquidity crisis, as revenues fell off the cliff while costs remained unchanged. After a respite during the summer and signs of economic revival, the pandemic outbreak started again to worsen at the end of October, with many countries, including France, Germany, Italy and the United Kingdom, reintroducing various lockdown measures.

Great uncertainty is associated with the growth forecast for 2021

While it is forecast that the region will experience a return to positive growth of 5.2 per cent in 2021 and 2.6 per cent in 2022, this needs to be put in context. First, base effects would account for the greatest part of the rebound; and second, the baseline forecast is predicated on the assumption that the lockdown measures renewed in the fourth quarter will improve the public health situation. Consequently, an exceptional degree of uncertainty is tied to this forecast. The major risks include a longer-lasting wave of pandemic infections, leading to a continued contraction of economic activities. By contrast, in case of the approval and introduction of a vaccine, sectors such as tourism could see a faster recovery, with actual growth exceeding the recovery's forecasted trajectory. Besides the aforementioned risks, the region is also facing challenges that predated the pandemic, including those related to the future relationship between the European Union (EU) and the United Kingdom as well as disruptive structural changes in the automotive industry in a number of countries, where the shift to alternative technologies would entail the revamping of entire supply sectors.

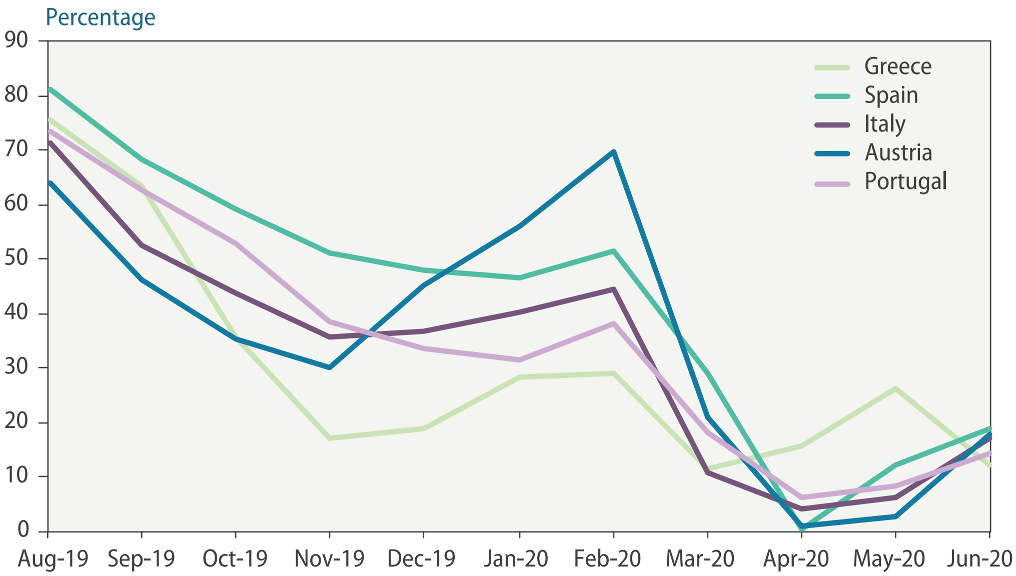
Countries with larger exposure to tourism have been hit hard

There has been some variation in the fallout from the pandemic across the region. Belgium, France, Italy and Spain have been hit especially hard, in terms of case numbers and fatalities or the magnitude of their economic contraction. In Germany, on the other hand, the fallout and resulting economic contraction, while still significant, have been more limited. The length of the instituted lockdowns and the role and share of the service sector in the economy largely account for the differences in economic contraction across countries. The economies of Southern Europe generally rely to a greater extent on services, in particular tourism. In consequence, large swaths of economic activities were shut down when, in a matter of days, the travel industry, including hotels, restaurants and airlines, suffered a complete collapse (figure III.3). By contrast, over the summer, countries such as Germany, with larger manufacturing sectors and greater exposure to global trade, experienced a quicker rebound. The pandemic has also contributed to the widening of already existing differences across the euro region, inasmuch as several countries with higher pre-existing debt and unemployment levels have been hit especially hard.

While unemployment increased, short-time work measures helped cushion the impact

Under short-time work measures, many employees in the region accepted some reduction in income to avoid unemployment, at least in the first instance. Nevertheless, unemployment increased in the region to 7.5 per cent in September 2020, compared with 6.6 per cent in 2019, with Greece and Spain registering the highest unemployment rates:

Figure III.3
Hotel occupancy rate in selected European countries



Sources: Eurostat.
Note: Estimates for Greece cover January, February, March, May and June 2020.

16.8 per cent (July) and 16.5 per cent, respectively. Moreover, youth unemployment, which remains a serious challenge across the European Union, increased by more than 2 percentage points year-on-year to 17.1 per cent in September.

Fiscal policy measures included unprecedented steps taken at the EU level

The need to address the pandemic and its fallout triggered the enactment of significant fiscal policy measures, although there were differences among individual countries in terms of the extent and level of their efforts and the limitations they confronted. At the outbreak of the pandemic, the immediate aim was to ramp up spending on health-care capacities and to increase testing and tracing capabilities, within a context where policymakers had only a limited time-window for preventing both the freezing-up of entire economies and further stress in financial markets. This generated a range of fiscal policy measures across countries, which included, among others, wage support schemes, liquidity assistance and tax deferrals. The size and impact of those measures depended, however, on the individual country's fiscal position at the onset of the crisis. Italy, for example, was already facing relatively high levels of public debt and consequently experienced constraints in rolling out a sufficiently large fiscal response to the pandemic. Germany, in contrast, was able, given relatively low public debt, to use its available policy space to initiate a significant fiscal stimulus. The pandemic also led the European Union to take unprecedented fiscal policy-related steps. For example, it activated the escape clause of the Stability and Growth Pact (SGP), which normally limits national fiscal deficits to 3 per cent of GDP and public debt to 60 per cent of GDP. The Pact still remains in force under the escape clause but countries now have the increased flexibility with respect to budgetary rules that they need to support their health-care systems, firms and employees. In addition, the EU has loosened State-aid rules, thereby giving national Governments more leeway in providing support to firms. In recognition of the severity of the policy challenges, the EU also agreed for the first time on joint-debt issuance. This will serve as the means of financing a recovery plan in the amount of

750 billion euros. Under the plan, which will prioritize ecologically sustainable development, digitalization, support for companies and strengthening of health-care systems, loans and grants will be made available to the neediest and hardest- hit economies in the region.

The European Central Bank initiated significant monetary stimulus measures

The pandemic also led to a wide range of monetary policy actions. In March 2020, the European Central Bank (ECB) initiated a pandemic emergency purchase programme (PEPP) and in June subsequently increased its total volume to 1,850 billion euros, equivalent to more than 10 per cent of euro zone GDP. Other central banks in the region have taken similar steps towards providing support within the context of the pandemic. The ECB programme features significant flexibility with regard to the types of assets purchased and the time frames for purchases. The exercise of that flexibility will lead to further increases in the size of the Bank's balance sheet, which has already ballooned over the past years owing to the implementation of similar programmes. In addition, the Bank has kept its policy interest rate at -0.5 per cent. The immediate aim of these measures is to reduce the negative impact of the health crisis on the real economy and to prevent the emergence of a financial crisis. In accordance with its mandate, the ECB continues to target an inflation rate of below—but close to—2 per cent. However, even with the significant increase in stimulus measures, the inflation rate has become negative and in September stood at -0.3 per cent for the euro area. Lower energy prices have been a major contributing factor, but even when energy and unprocessed food are excluded, inflation stood at only 0.4 per cent, well below the policy target. This sets the stage for an increasingly serious policy predicament. While the undershooting of the policy target and the looming spectre of deflation could very well merit a further increase in or extension of stimulus measures, such steps could lead to renewed criticism that, by financing public budgets, the European Central Bank is overstepping its mandate.

Developed Asia: linkage with developing East Asia holds the key to post-crisis recovery

Developed Asia—comprising Japan, Australia and New Zealand—experienced an unprecedented plunge in the level of its economic activities in the second quarter of 2020. While these countries could afford to implement unprecedented fiscal stimulus packages, it is the revival of their external demand—particularly from developing East Asia and notably from China—that will make recovery solid and sustainable. Indeed, Japan shares global supply chains for manufacturing with developing East Asia; East Asia is Australia's largest destination for commodity exports; and the recent growth in New Zealand's tourism sector has benefited from the visits of tourists from East Asia. For a post-crisis recovery to succeed, it is therefore crucial that developed Asia ensure the restoration of the value chains it has been sharing with developing East Asia.

Japan: exports are expected to lead the recovery

In Japan, real GDP is estimated to have contracted by 5.4 per cent in 2020 and is forecast to grow by 3.0 per cent in 2021. Despite the roll-out of an unprecedented stimulus package, including income transfers and employment subsidies, real GDP plunged in the second quarter, marking the third consecutive quarterly decline. Owing to stagnating domestic demand, household debt increased only slightly in the second quarter, to 345 trillion yen from 343 trillion yen in the previous quarter. In the same period, the debt of the non-financial sector showed a steep increase, from 1,754 trillion to 1,852 trillion yen, reflecting the utilization of emergency loan facilities. The third-quarter rebound was weak as households remained cautious when spending; and residential and corporate investments stayed subdued despite easing financing conditions. Although Japan was able to avoid a one-time surge in unemployment in the second quarter, the unemployment rate gradually rose to 3.0 per cent in September from 2.4 per cent in January. The fragile employment situation reflects weak prospects for corporate profits and wage growth; and domestic demand growth is projected to be mild. It is exports that are projected to lead the recovery as demand from the East Asian economies recovers.

Australia: the pace of recovery picked up towards the end of 2020

In Australia, real GDP, which is estimated to have contracted by 4.5 per cent in 2020 and will grow by 3.3 per cent in 2021, dipped substantially in the second quarter, reflecting the economic effects of the lockdown measures. The midyear recovery was relatively slow, due partly to another lockdown in the State of Victoria in August instituted in response to a second wave of pandemic outbreaks. While the unemployment rate has remained high, after jumping from 5.3 per cent in January to 7.5 per cent in July and decreasing only slightly to 7.0 per cent in October, the pace of recovery nevertheless picked up towards the end of the year. External demand for Australia's commodity exports is expected to lead growth in 2021.

New Zealand: the high-performing tourism sector was hit by the impact of border closures

In New Zealand, real GDP is estimated to have contracted by 6.1 per cent in 2020, with an expansion by 5.2 per cent expected in 2021. While lockdown measures instituted to contain community infection were successful in bringing down the number of COVID-19 outbreaks, the economy nonetheless came to a standstill in the second quarter with a plunge in domestic demand. The midyear recovery, on the other hand, was robust, with housing sales growing rapidly on the back of monetary easing. The recovery of exports has been weak, however, as strict border controls impacted the tourism sector, the main pillar of New Zealand's services exports. Also fragile is the employment situation: the unemployment rate jumped to 5.3 per cent in the third quarter from 4.0 per cent in the previous quarter.