

Global Monthly

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Just how much pent-up demand is there?

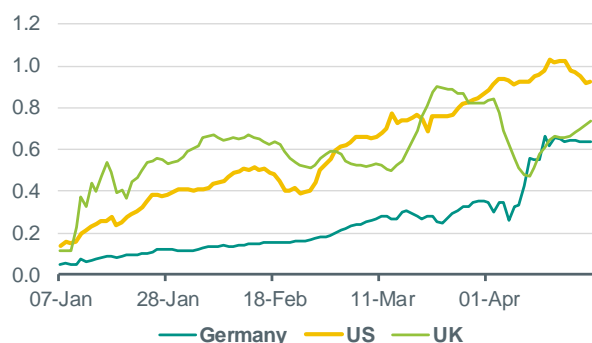
- ▶ We launch a new look Global Monthly containing a global theme as well as short regional updates
- ▶ The shape of the global recovery will in large part depend on the extent to which consumers will spend the massive build-up in savings. This will drive a significant rebound in consumption...
- ▶ ...but it will likely be tempered by the skew in savings to higher earners, and elevated unemployment
- ▶ Meanwhile, global trade and industry continue to be the major bright spot in the global economy
- ▶ **Regional updates:** in [the eurozone](#), the economy has entered a double-dip recession ahead of the recovery in H2, while in [the Netherlands](#) we write about the implications of the delay to coalition talks
- ▶ In [the US](#), we raised our Q1 GDP forecast, and see upside risks to our 5.8% 2021 growth projection
- ▶ We also raised our growth forecast for [China](#), but see signs of a turn in the credit cycle

Global View: Consumption rebound to continue, but overheating fears look unfounded

This month, a doubling in vaccine supply drove a jump in the pace of inoculations in eurozone economies, while the UK – which had been ahead in its vaccination drive – took the first steps to significantly reopening its economy. Although the Netherlands is also taking some steps to reopen at the end of the month, for the eurozone overall we continue to expect the main reopening to happen later in Q2. At the same time, the industrial sector has continued to do better than the lockdown-hampered services sector, helped by strong global trade, and recoveries in the US and China that are much more advanced, as the service sector in these economies has already opened up. This month, we raised our Q1 GDP forecast for the US following exceptionally strong retail sales, and raised our 2021 growth forecast for China. With uncertainty about vaccine rollouts largely behind us, and given the massive accumulation of savings over the past year, the focus for the outlook is shifting to how much pent-up demand there might be on the part of consumers, as lockdowns are eased and economies reopen. This is the main focus of our *Global View* this month, but we also provide a timely update to the global trade and manufacturing story – the major bright spot in the global economy in recent months.

Vaccination pace ramps up in the eurozone

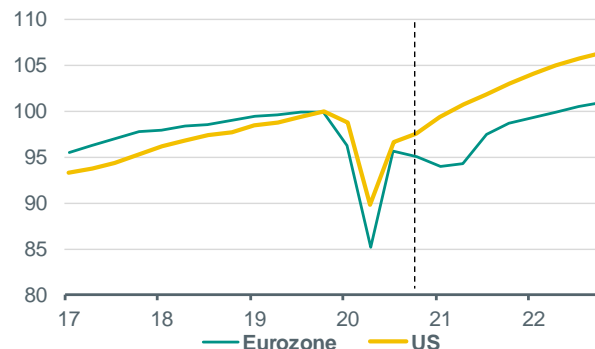
% population receiving a vaccine dose per day



Source: Refinitiv, ABN AMRO Group Economics

US and eurozone economies diverge in Q1

GDP, Q4 2019 = 100



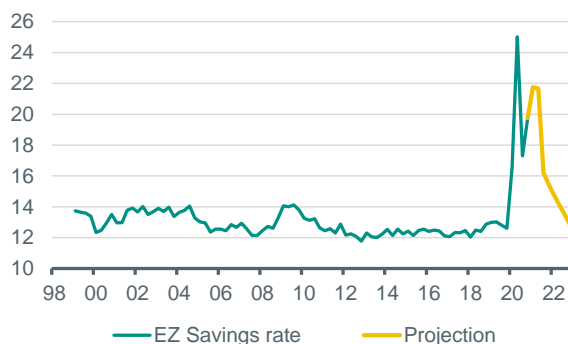
Source: Refinitiv, ABN AMRO Group Economics

Savings rates have soared...

Across the developed world, savings rates have jumped to levels well above historical trends. The rise was particularly sharp during the initial lockdown phase; in the eurozone, the savings rate rose from a long-term average value of c.13% in 2019, to as high as 25% in Q2 2020. It reached similar levels in the US – 26% – although this was coming from a much lower base of around 7% pre-pandemic. A rise in savings is normal in downturns. However, much of the current elevated savings is involuntary – due to restrictions on consumption imposed by lockdowns – rather than deliberate. [Research by the ECB](#) suggests that during the first wave of the pandemic, just 10% of the total rise in the savings rate was driven by precautionary motives (eg. lower job security and fear for job losses), while the rest was forced savings due to lockdowns. Indeed, since peaking early last year, savings rates have fluctuated in line with the easing and tightening of lockdown measures. All told, we estimate that around €650bn in excess savings (i.e. above and beyond 'normal' savings) have since accumulated in the eurozone – equivalent to 5.1% of GDP – while in the US some \$1.8tn has built up (8.4% of GDP).

Savings rates surged during the pandemic...

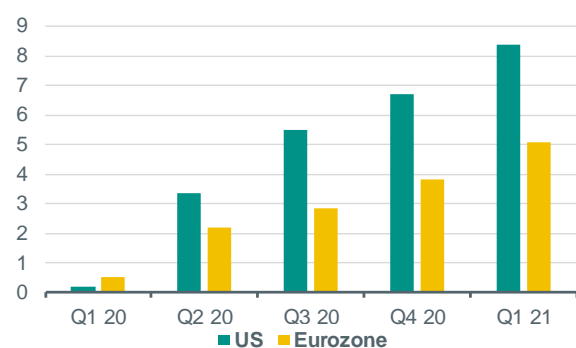
Household savings, % disposable income



Source: Refinitiv, ABN AMRO Group Economics

...leading to a significant cumulative excess

Cumulative excess savings, % GDP



Source: Refinitiv, ABN AMRO Group Economics

...spurring expectations for a consumption boom

The massive build-up of savings – alongside unprecedented fiscal and monetary stimulus – has fuelled expectations for a *roaring '20s* economic boom, and even fears of potential overheating. In the US, an early easing of restrictions – combined with fiscal policy that has erred on the side of overcompensating lost incomes due to the pandemic – is already evident in surging retail sales, which are well above pre-pandemic levels. As a result, we recently raised our Q1 GDP growth forecast to 8.6% annualised, from 4.5% previously. In the eurozone, weak retail sales and car registrations point to consumption contracting in Q1: we have pencilled in -2% qoq, following -3% Q4. Looking ahead, we expect the easing of restrictions to drive continued strong consumption growth in the US, and a sharp rebound in the eurozone – with a corresponding drop in savings rates. With that said, we see a number of reasons to temper expectations for the rebound in consumption.

Savings are skewed towards higher earners, who are less likely to spend any excess

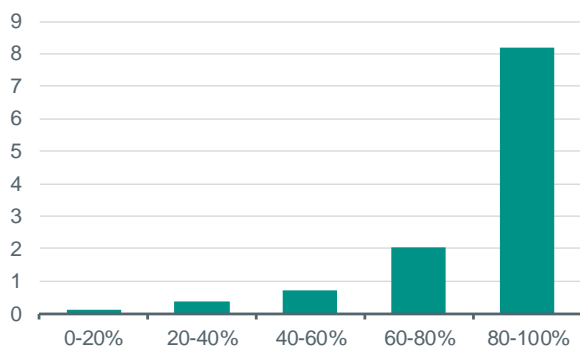
First, the distribution of excess savings matters. A European Commission survey shows that, although all income groups in the EU have saved more over the past year than the 10-year average, the distribution of savings is uneven, with higher earners seeing a significantly bigger increase. Flow of funds data from the Federal Reserve shows similar trends in the US, with by far the bulk of the savings increase (>70%) accruing to the top 20% of earners. The marginal propensity to consume for high income household is typically less than for low income households. Higher income households tend to use excess savings to accumulate wealth rather than to finance additional spending. Given the skew in excess savings towards higher earners, this could significantly dampen the coming boost to consumption. With that said, one potentially supportive aspect of the excess savings distribution is the split by age bracket. Younger households and the retired have saved disproportionately more than 30-65 year olds. According to the lifecycle hypothesis, younger and retired people dissave and spend a higher proportion of their incomes, which would boost prospects for consumption. In the US, although excess savings are also skewed towards higher earners, the aggressive nature of fiscal support has meant low income workers – 40% of unemployment benefit recipients – have been financially better off than when in receipt of their regular wages. However, a NY Fed survey suggests respondents spent just 1/4 of their stimulus checks, preferring to save the remainder.

Spending could also be restrained by elevated unemployment...

A second reason for caution is the looming rise in unemployment, and – related to that – still subdued consumer confidence. Eurozone governments on aggregate have spent around 4% of GDP on discretionary fiscal support in 2020, three-quarters of which consisting of emergency income support for households and companies. These emergency measures will be unwound in the coming years. Although we do not expect governments to choke off the economic recovery, we expect the unwinding of support (particularly wage subsidy schemes) to drive a rise in the unemployment rate. In the US, where the unemployment benefits system has been the primary means of support for workers, unemployment has declined from a high of 14.8% in June last year to 6.0% as of this March. However, some workers will remain displaced for longer, and we do not expect a full normalisation of the labour market until 2023. As a result, household precautionary savings in both the US and the eurozone are expected to remain somewhat higher than their pre-pandemic levels at least until the end of 2022.

US: Savings increase skewed to higher earners

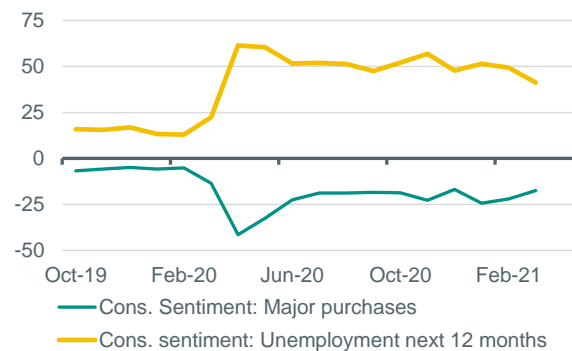
Change in net worth per income group, Q4 19 – Q4 20, USD trillion



Source: Federal Reserve

EZ: Consumers remain cautious

EC consumer sentiment, detailed series, balance



Source: Thomson Reuters Datastream, ABN AMRO Group Economics

...which is one of the factors keeping a lid on consumer confidence

This is reflected in a range of consumer confidence measures. In the US, Michigan consumer sentiment has rebounded, but the forward-looking expectations components remains particularly depressed at around 10 points below pre-pandemic levels. In the eurozone, the aforementioned European Commission survey shows a higher balance of households in all quintile groups said they thought it more likely they would save compared to 2019, and less likely to spend on major purchases over the next 12 months compared to the past 12 months. While consumers are typically careful with big ticket item spending in the aftermath of an economic downturn, this is somewhat surprising given how weak spending on big ticket items has been in the eurozone over the past 12 months. Only the top 25% earners were slightly more upbeat, saying it was likely they would spend more on major purchases in the coming 12 months. The survey results are consistent with the concept of scarring, in which consumers raise their precautionary savings because of increased uncertainty.

Where will all the money go?

Finally, for those who are willing to spend, there is the more fundamental question of: what will (or could) consumers spend their savings on? In the eurozone, the answer to this is reasonably clear. Despite some bright spots – particularly online sales, which are almost 40% above pre-pandemic levels – overall retail sales remain well below the pre-pandemic level, with significant pockets of weakness. In particular, clothing sales remain around 30% lower than before the pandemic, while car sales – although recovering to more normal levels – still have much lost ground to be made up. We estimate a total cumulative shortfall in car sales of around 30% over the past 13 months compared to if the pandemic had not happened. This contrasts with the US, where above-normal car sales have now completely made up for pandemic-related losses.

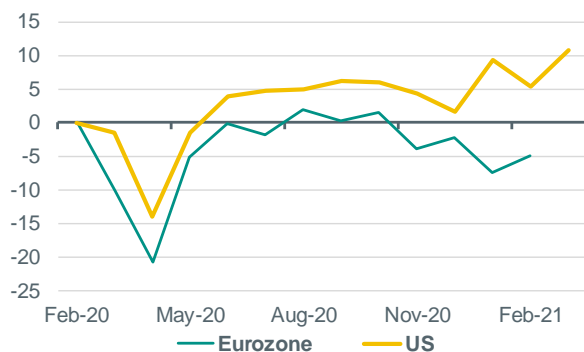
Given how strong the rebound in consumption has already been in the US – with retail sales having fully made up for the losses of the lockdown period – the question of where consumers might spend has less obvious answers than it does for the eurozone. The economy has been largely open for some months. While there is certainly room for restaurant dining to recover further – it remains around 30% below pre-pandemic levels – this will be partly offset by some likely payback in the exceptionally strong durable goods consumption of the past few months. Where else might US consumers spend?

It's the services, stupid

Consumption is not only about retail sales – *services* makes up more than half private consumption in advanced economies. Indeed, it is services that have been most dramatically impacted by lockdowns, and it is here that there is still much room for a recovery. The Bureau of Economic Analysis publishes a detailed breakdown of services expenditure in the US. We analysed this to see where there remain major shortfalls compared with the pre-pandemic trend. This threw up some surprising results. Total services consumption has recovered about half of the post-pandemic shortfall – standing at around 91% of trend levels as of February, up from a low of c.80% at the height of lockdowns last April. Of the remaining 9pp shortfall, 1.8pp comes from eating out, 1.9pp from transportation (including air travel), with a further 1pp in personal care (including hair salons) and hotel accommodation. The biggest contributions to the shortfall, however, were recreation (2.4pp) and – surprisingly – healthcare (2.7pp). While healthcare might appear to be one of the few parts of the economy to benefit from the pandemic, delays to outpatient procedures due to the prioritisation of covid-19 patients – alongside other areas of weakness such as dentistry – are still having a major impact on consumption in this category. Indeed, healthcare is the only major category of services consumption which might see a period of catch-up growth, due to the backlog of procedures. Unlike with durable goods consumption, where prior shortfalls are made up for (as happened with car sales in the US), when services consumption is disrupted, the losses are usually permanent. There are only so many times one might want to dine out, or get a haircut. In these categories, we therefore expect a return to trend, rather than a period of making up for past shortfalls in consumption. The same does not (necessarily) apply to healthcare.

US retail sales already well above pre-covid trend...

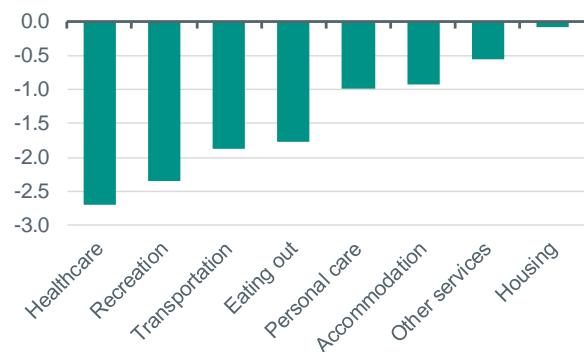
Real retail sales, ex autos, % vs pre-pandemic trend



Source: Refinitiv, ABN AMRO Group Economics

...but still significant room for growth in services

Percentage point contribution to services shortfall from trend



Source: Refinitiv, ABN AMRO Group Economics

Conclusion: Significant room for recovery, but no overheating

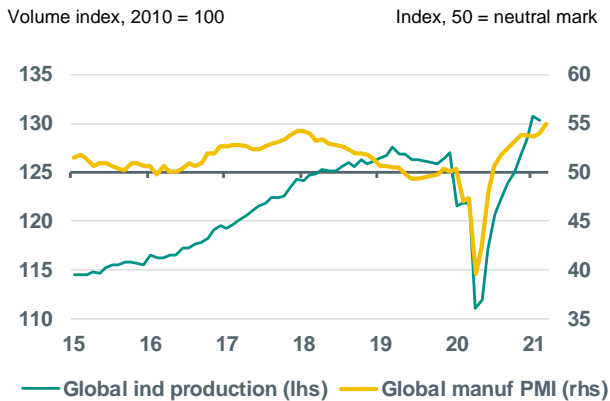
An analysis of both savings accumulations as well as shortfalls in consumption points to significant further gains to come in both the eurozone and the US. With that said, the skew in savings towards upper income groups will temper the degree to which these savings make their way into the economy. More likely is that excess savings continue to fuel asset prices – both in financial markets, but also house prices, which have surged across the developed world over the past year (in the US, the aggregate value of housing increased by \$2.5trn last year alone). Meanwhile, the patterns of growth are likely to differ – with further growth in the US now likely to be almost exclusively in services, while in the eurozone there is ample room for growth in both goods and services. All told, we continue to expect US output gap to close by early 2022, while in the eurozone we do not expect this to happen before 2023. For both, consumption is unlikely to rebound to the degree that it leads to a sustained inflationary upturn, in our view. (Bill Diviney, Aline Schuiling, Nora Neuteboom)

Ongoing recovery in global industry and trade on the horizon

Led by China and the US, global industry and trade are sharply rebounding, partly reflecting catch-up from the pandemic shock and a demand shift to (durable) consumption goods, at least in the US. We expect the rebound to continue. Global manufacturing and trade were hit hard by the first round of covid-19 related lockdowns in early 2020, which brought severe supply chain disruptions starting in China and spreading globally. Global industry has since continued to recover, in line with our view that virus flare-ups and renewed lockdowns seen since Q4-20 would particularly affect the services sectors, but leave industry and trade relatively unscathed. The rise in global manufacturing PMIs and export subindices suggests that

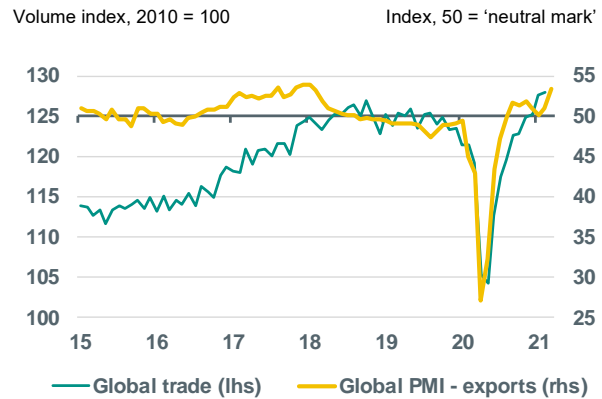
this rebound has further to run. This fits with our view that global demand will strengthen this year, as the rollout of vaccines enables an easing of mobility restrictions. The need for firms to replenish inventories is also a supportive factor.

Global manufacturing PMI at 10-year high



Source: CPB, Refinitiv

Global export PMI at highest level since start tariff wars



Source: CPB, Refinitiv

Hard data and surveys bode well for the outlook

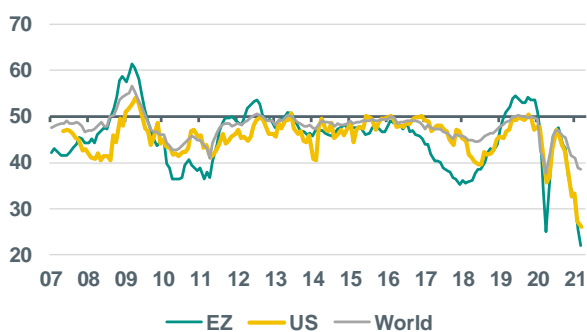
To illustrate the strength of the rebound in global industry and trade: CPB's global industrial production index fell 12.5% between end-2019 and April 2020, but has more than recouped that loss since. It surpassed its pre-corona peak in December and was back at 7% annual growth in February 2021 (the slight drop in February could be related to China's new year break). CPB's global trade index, capturing international trade in goods, lost 16% in the period January-May 2020. However, this index was already back at pre-corona levels in November 2020 and pointed to a 5.3% annual growth pace in February 2021. Other indicators also point to ongoing strength. Frankfurt air freight data were particularly strong in March, with total freight volumes the second-highest on record. The global manufacturing PMI rose further to a ten-year high of 55.0 in March, while the export PMI rose to 53.4 – the highest level since the start of the US-China tariff wars in early 2018.

Various bottlenecks may cap, not prevent further rebound

Despite the generally constructive outlook for global industry and trade, there are still several bottlenecks in the way. According to PMI surveys, delivery times have lengthened, and the temporary blockage of the Suez Canal may have added to this. Moreover, there are more signals of a global shortage in semiconductors that will slow production in automotive and other high-tech sectors, and could drive prices up as well. In addition, container freight rates have jumped in the second half of 2020, reflecting both demand and supply factors, including inelasticities in the supply of containers and container ships. Though container freight rates for transport from Shanghai to Rotterdam – that had risen on China-centred logistical bottlenecks – have eased, they are still historically high. It may take some time before disturbances in shipping and semiconductor supply are over, and this may materially affect specific sectors and firms. But for the global macro picture, this is more likely to push back some of the recovery of trade and industry than prevent it. (Arjen van Dijkhuizen)

Delivery times have lengthened ...

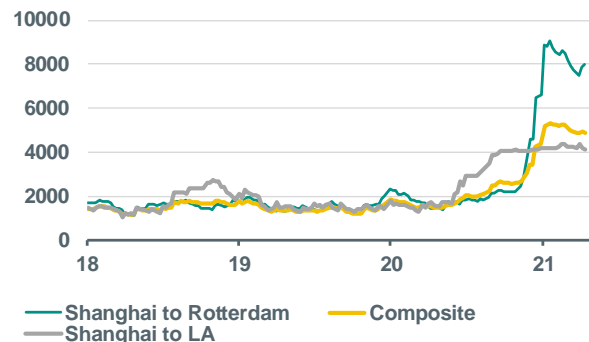
PMI manufacturing – delivery times (lower value = longer delivery time)



Source: Refinitiv

... and freight rates have surged

WCI Container Freight Benchmark Rate pe 40 Foot Box



Source: Bloomberg

Eurozone: Still struggling with the pandemic

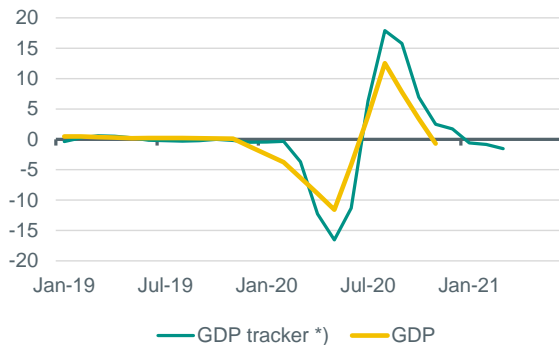
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- ▶ **Vaccinations got off the ground very slowly, but the inoculation pace has been stepped up, which should allow lockdown measures to be unwound meaningfully from the end of Q2 onwards**
- ▶ **GDP growth will bounce back sharply in the second half of the year, but an output gap will remain**
- ▶ **Underlying inflation will remain subdued, allowing the ECB to keep policy accommodative for a considerable time**

The eurozone economy has entered a double dip recession. GDP is expected to have contracted in 2021Q1 (we have pencilled in -1.2% qoq), following a decline by 0.7% qoq in 2020Q4. Part of the services sector and domestic spending in the eurozone has remained depressed by lockdown and social distancing measures since the start of the year, which have largely remained in place moving into Q2. Recent data for retail sales and car registrations have indicated that consumption declined noticeably in 2020Q1 (by an estimated -2% qoq, following -3% in 2020Q4). Moreover, growth in the industrial sector, although still positive, slowed down in Q1 (to an estimated 1.5% qoq, down from more than 4% in Q4). Finally, the results of the ECB's Q1 Bank Lending Survey (BLS) clearly indicated that fixed investment also contracted in Q1, with demand for loans falling as firms' loan requests for financing fixed investment dropped.

Eurozone GDP and monthly tracker

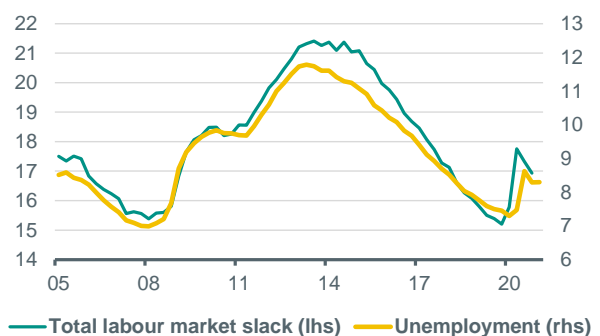
% 3mo3m/qoq



*) weighted average retail sales, car sales and industrial production
Source: Refinitiv, ABN AMRO Group Economics

Labour market slack has increased

% labour force



Source: Refinitiv, ABN AMRO Group Economics

Looking further ahead, it seems that GDP will expand modestly in Q2, as lockdown measures will remain largely in place, but some tweaking of the measures should allow a modest pick-up in services sector activity and domestic spending. Given the current pace of vaccination, lockdown measures should be unwound seriously from the end of Q2 onwards. As a result GDP growth should bounce back sharply in Q3-Q4. We expect the level of GDP to return to the pre-pandemic level around the middle of 2022. Nevertheless, it should be still around 3% below the trend level at the end of 2022.

Inflation jumped higher in March (to 1.3%, up from 0.9% in February), which was entirely due to a jump in energy price inflation. Core inflation fell to 0.9% in March, down from 1.1% in February. Headline inflation will accelerate further this year, but is set to be weak in the medium term. We are roughly only half the way up in terms of the eventual rise in headline inflation (relatively to the February outcome), with the peak likely to be around 2%. However, the factors driving the move – food, energy prices, statistical effects from tax hikes and some service sector price rises once lockdowns end – are transitory in nature and inflation will fall sharply from the start of next year onwards. An important factor that will limit the core inflation rate in the medium-term is the large amount of slack that has built up in the labour market since the start of the pandemic, as well as the drop in labour market participation. These two factors combined will weigh on wage growth in the medium term. All in all, we expect core inflation to remain well below the ECB target during the next 2-3 years. This should allow the ECB to keep monetary policy very accommodative. The central bank still has almost EUR 1 trillion left in its PEPP envelope that it can use for asset purchases. It has committed to step up the monthly pace. Meanwhile, purchases under the APP are continuing. A policy rate hike is unlikely over the coming years.

Netherlands: An improving outlook

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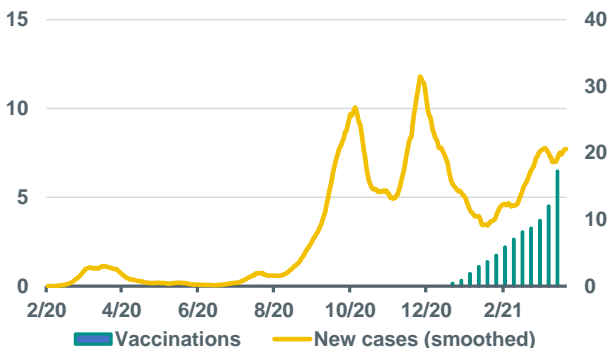
- **Lockdowns are likely to have driven a small contraction in the economy in Q1. However, sentiment has improved, as vaccinations pick up, and restrictions are expected to be eased in coming weeks**
- **The cabinet formation process faces considerable delays, postponing more fundamental policy shifts that we expected before the elections. The impact on Covid policy is limited, however**

Despite facing a third wave of Covid infections, the outlook for the Dutch economy is improving. Latest data suggest the third wave might have plateaued, and more importantly, the vaccination pace has picked up, allowing an easing of restrictions in the coming months. The (outgoing) government has indicated that by the end of April the curfew will be lifted and that bars, cafes and non-essential shops can open at limited capacity. These developments are broadly in line with our base case for a significant easing to take place at the end of the 2nd quarter. In the meantime, private consumption is likely to have driven a small contraction in the economy in Q1, with our transaction data showing a c.-15% yoy decline. That said, transactions picked up in recent weeks, as retailers were allowed to open under strict conditions. Manufacturing also continued to perform well in Q1 amid strong global trade. Manufacturing looks well on its way to return to pre-Covid levels in H2.

For the outlook, as we discuss in the Global View, the return of consumption will be key. While Dutch consumers remain hesitant about the economic situation right now, their expectations regarding the outlook have improved considerably (see right figure below). Moreover, according to the European Commission survey, Dutch households are on average more positive on their future financial situation and spending intentions than Q4 2019. As such, we continue to expect the easing of restrictions and the subsequent rebound in consumption to drive a return to growth in Q2, and a sharp rebound in Q3.

Third wave peaks as vaccination pace picks up

New cases smoothed, thousands, vaccinations (1st shot), % of population



Source: OWID, ABN AMRO Group Economics

Consumers remain hesitant, but are turning positive

Consumer sentiment, headline and average of forward-looking components



Source: CBS, ABN AMRO Group Economics

How difficult will forming a new government be?

The process to form a new government following the 17 March elections has been anything but plain sailing so far. At the outset, the election results already pointed to a difficult cabinet formation process, as at least four parties were needed to form a majority. Because of Covid, PM Rutte aimed for a speedy formation, but the process was severely disrupted when private notes with details about formation talks were leaked. Following this, opposition as well as more allied parties accused PM Rutte of lying about holding talks to offer a prominent conservative critic a ministerial job in the future coalition. It is considered out of the ordinary to address individuals in formation talks. Due to this, the talks had to begin anew. Our expectation is that a severely delayed formation process lies ahead.

This means two things for government policy going forward. First, as the outgoing cabinet can still formally make policies, a longer formation process does not mean the country is rudderless in handling the pandemic. It will need support in parliament, but for Covid-related policies that support remains. However, that is not the case for other policy areas. This means that more structural policy shifts are likely to come later. These include reforms to the labour market, and the broader shift to the left we saw in all party programmes before the elections, with the main proposal being a shift in taxation away from labour towards higher rates for businesses.

US: Recovery is increasingly front-loaded

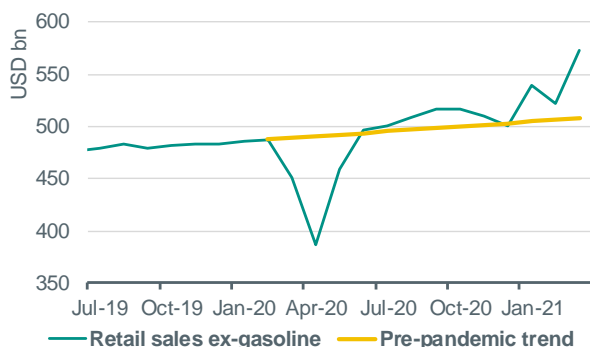
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- ▶ **Private consumption is likely to have returned to its pre-covid level in March. We have raised our Q1 GDP forecast, and see upside risks to our 5.8% growth forecast for 2021**
- ▶ **President Biden's \$2.7tn infrastructure and renewable energy plan disappointed in the pace of proposed spending, but surprised in the ambitious reforms to taxation that aim to fund it**

The US recovery – in its pace and breadth – continues to surprise even our very bullish expectations at the start of the year. As we discuss in this month's Global View, retail sales have already fully made up for the pandemic-related losses in aggregate. As a result, we expect next Thursday's March consumption data to show it reaching the symbolic milestone of returning to pre-pandemic levels for the first time – something we originally expected to happen in Q2 – while Q1 GDP (released on the same day) is expected to jump by 7-8% qoq annualised. If anything, we see scope for a correction in retail sales in the coming months, which have seen a significant boost from successive rounds of stimulus checks. Durable goods purchases have more than made up for pandemic-related losses, raising the risk that some of this consumption has been brought forward and could therefore decline in the coming months. With that said, the ongoing reopening of the economy – spurred by a rapid vaccination pace – means this is likely to be comfortably offset by a recovery in the services sector. This is not only in obvious areas such as hospitality and recreation, where we expect a return to trend output by early next year, but also in healthcare, where there are backlogs in outpatient procedures to be cleared. We continue to expect the output gap to have largely closed by early next year, but the pace of recovery so far suggests this could come even sooner.

Retail sales well above the pre-pandemic trend...

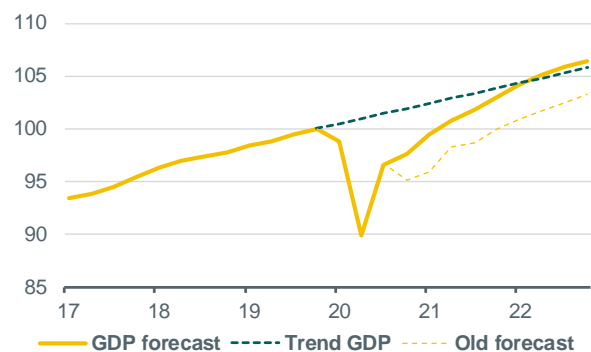
Retail sales, USDbn



Source: Refinitiv, ABN AMRO Group Economics

...meaning the output gap could close even sooner

GDP, Q4 19 = 100



Source: Refinitiv, ABN AMRO Group Economics

Biden's infrastructure plan: Precise timing of spending and tax hikes are crucial for the outlook

The Biden administration has wasted little time in pushing ahead with ambitious spending, and on 31 March it unveiled the USD 2.7tn American Jobs Plan (this is higher than the USD 2.3tn figure quoted in the media, as this does not include USD 400bn of clean energy tax credits which are also part of the package). The plan is made up of three main components: 1) infrastructure, including decarbonisation investments (USD1.7tn), 2) domestic manufacturing (USD 0.6tn), 3) healthcare (USD 0.4tn). We had already made a significant upgrade to our U.S. growth forecast back in January, when Democrats won 2 Senate seats giving them a slim majority with which to push through bold spending plans. The package announced on 31 March is on paper less aggressive than we expected, as spending is now to take place over eight years rather than the four years promised during the election campaign. While there remains uncertainty over the precise timing of the spending rollout – as well as the tax hikes on corporations used to fund it – we think there will be considerable pressure to frontload spending to take place during the course of Biden's term, as the administration will likely want visible results before the next presidential election. At the same time, the tax plans which will fund the spending are equally – if not more – ambitious than the spending itself; the proposal for a global minimum corporate tax rate, in particular, will require international agreement. There also numerous 'sticks' to accompany the aforementioned carrots to encourage a reshoring of manufacturing to the US, such as the removal of a tax exemption on the first 10% of foreign-sourced income. See [here](#) for more.

China: It's my party and I tighten when I want to

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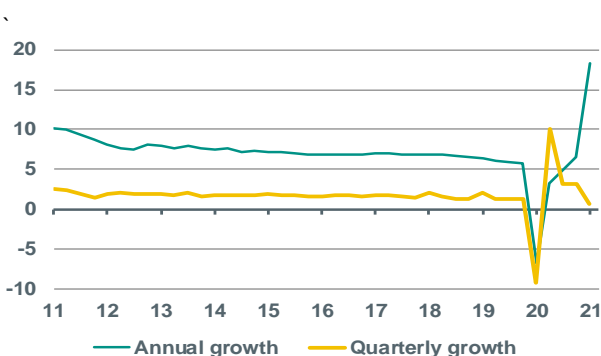
- ▶ **Sky-high annual growth in Q1 thanks to base effect, but weak quarterly growth**
- ▶ **We raise our 2021 GDP growth forecast from 8.5% to 9.0% on 2020-Q4 revisions**
- ▶ **Consumption on track for further recovery, but the credit cycle is turning**

Last week, GDP growth in Q1 was reported at a record-high of 18.3% yoy, close to our forecast of 18% yoy. This mainly reflects the base effect from Q1 of last year, when China was 'in lockdown' following the initial covid-19 outbreak, but also underlines China's stark recovery since. Meanwhile, at 0.6% qoq, quarterly growth was relatively weak. That reflects a retightening of mobility restrictions and regional lockdowns around the Lunar New Year period on virus flare-ups. Besides, sequential growth will be lower this year than in the previous three quarters, as the 'catch-up' effect from the pandemic shock fades. Partly due to an upward growth revision in Q4-20, we raised our 2021 annual growth forecast to 9.0%, from 8.5%. That compares to an official target of 'above 6%' announced in early March. This target was set conservatively, to give Beijing more room to focus on other key goals such as financial de-risking and environmental protection.

The recovery has been led by industry, exports and the property sector, but some rotation looks underway. Consumption and services had been lagging, with social distancing sensitive sectors such as transport and catering struggling. While renewed restrictions in early 2021 kept pandemic related drags in place, the renewed success in getting control of the situation quickly laid the foundation for a pick-up in consumption following the LNY break. Retail sales growth came in stronger than expected in March. With the pace of vaccination being ramped up, we expect the recovery of consumption to strengthen and broaden in the course of this year. Export growth remain solid, although 'pandemic specific' exports (medical supplies, IT products) look to start losing their outperformance now that the pandemic shifts into a new phase.

Record-high yoy growth in Q1, but weak qoq growth

% yoy / % qoq

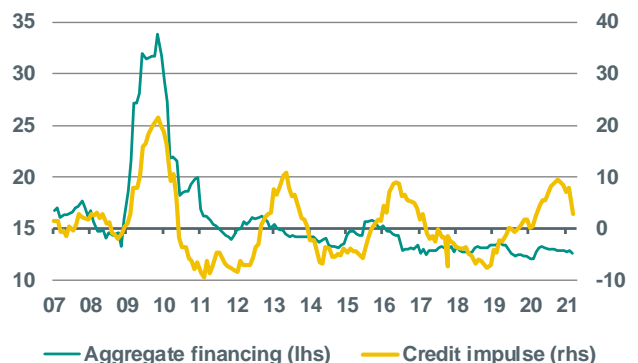


Source: Bloomberg

China's credit cycle is turning

% yoy

Bloomberg China Credit Impulse, 12 mth change



Source: Bloomberg

Beijing is tightening screws again, but carefully

To offset the impact from the covid-19 shock, China eased fiscal and monetary policy in the first half of 2020. Still, the support was relatively limited compared to the packages rolled out in developed economies and to the "credit bazooka" that was rolled out during the global financial crisis. Acceleration in total lending growth was modest and short-lived. Meanwhile, with the economy quickly normalising and the leverage ratio rising again, Beijing put financial de-risking at the forefront again. The government aims to keep credit growth equal to nominal GDP growth this year and has asked banks to keep lending under control. Taking into account (local) government bond issuance as well, the credit impulse has started turning. We expect this trend to continue in 2021, but we do not foresee sharp policy U-turns. Beijing's more hawkish stance also relates to property market regulation and shadow banking including fintech firms and online platforms. The rising number of state-owned firms' bond defaults shows that the 'implicit guarantee framework' is fading, also illustrated by recent turmoil around the asset management company Huarong. At the same time, we expect the government will aim to keep contagion risks in check to mitigate overall financial stability risks, certainly in the run-up to the CCP's 100th anniversary on 1 July.

Key views on a page

A pickup in vaccination pace in the eurozone is easing uncertainty over the timing of reopening. The focus has shifted to the shape of the coming recovery, and how consumers spend the massive build-up in savings. We see this driving a significant rebound in consumption this year, but this will be tempered by the skew in savings towards higher earners, and elevated unemployment. Meanwhile, the industrial sector has continued to do better than the lockdown-hampered services sector, helped by strong global trade, and recoveries in the US and China that are much more advanced. We raised our 2021 growth forecast for China, and see upside risks to our US growth forecast. The inflation outlook remains benign, and central bank policy will stay accommodative.

Macro	Central Banks & Markets
<p>Eurozone – The economy has entered a double dip recession. GDP is expected to have contracted in 2021Q1 (we have pencilled in -1.2% qoq), following a decline by 0.7% qoq in 2020Q4. Vaccination got off the ground very slow, but the inoculation pace has been stepped up. Lockdown measures should be unwound seriously from the end of Q2 onwards, but some tweaking of measures is expected to result in modest GDP growth in Q2. Economic activity will bounce back sharply in the second half of the year, but an output gap will remain at end-2022. Underlying inflation will remain subdued, allowing the ECB to keep policy accommodative for a considerable time.</p>	<p>ECB – Since the start of the year, the ECB's strategy has been one of capping government bond yields. It still has almost EUR 1 trillion left in its PEPP envelope. It has committed to step up the monthly pace of asset purchases. Meanwhile, purchases under the APP are continuing. A policy rate hike is unlikely over the coming years. We expect persistent spare capacity in coming years, while we judge that the ECB will undershoot its inflation target over the medium term. As a result, we expect that the market will price out the rate hike cycle it currently envisages.</p>
<p>Netherlands – Weak private consumption due to lockdowns is likely to have driven a small contraction in the economy in Q1. However, sentiment has improved, as vaccinations pick up, and restrictions are expected to be eased in coming weeks. Manufacturing continued to perform well in Q1 amid strong global trade. For the outlook the return of consumption will be key. We expect modest growth in Q2 and a strong rebound in 2021H2 following the substantial easing of measures at the end of Q2.</p>	<p>Fed – The Fed will continue buying bonds at the current \$120bn monthly pace at least until the end of 2021. The Fed has promised not to raise rates until inflation has reached its 2% target and is on course to moderately overshoot this target for a time. Given these conditions, the first rate hike might come by late 2023. However any hiking cycle will be much more shallow and gradual than in the past. The FOMC currently signals no hikes until at least 2024.</p>
<p>US – Surging retail sales suggests consumption has already returned to its pre-pandemic level. Looking ahead, the ongoing reopening – helped by the rapid vaccine rollout – should spur a further recovery in services. The Biden administration announced the next phase of its fiscal plans, with a \$2.7trn green energy and infrastructure package. The rollout of this package will be more gradual than initially expected, and partly funded by tax rises. However, we continue to expect strong growth to spill over into next year, driving a closure of the output gap by Q1 2022. Against this backdrop, inflation should remain benign, notwithstanding the near-term temporary bounce.</p>	<p>Bond yields – Treasury yields slipped back despite recent buoyant US data, which raises the question whether the recovery is now priced in. Inflation expectations are above 2018 levels, when the economy was at full employment. Meanwhile, markets have priced in a rate hike cycle with a peak in the coming years close to the previous peak. However, the rate hike cycle is priced to start earlier than we expect and much earlier than the Fed is signalling. Markets have arguably run ahead of themselves in pricing in the recovery. Rate hikes in the eurozone are unlikely in the coming years and therefore the 10y Bund yield will likely drift back towards the deposit rate.</p>
<p>China – Bumper growth of 18.3% yoy in Q1-21 reflects the base-effect from the covid19 collapse. Quarterly growth was weak, reflecting new mobility restrictions and regional lockdowns, while the catch-up effect from the pandemic shock fades. We raised our 2021 growth forecast to 9.0% (from 8.5%) on Q4-20 growth revisions. The recovery has been led by industry, exports and the property sector, but a rotation is underway. With the pace of vaccinations being ramped up, the recovery of consumption is set to firm. Meanwhile, with 'financial de-risking' in focus again, the credit cycle is turning. We do not expect sharp U-turns though, in the run-up to the CCP's centennial on 1 July.</p>	<p>FX/EURUSD – Yield curve dynamics have dominated FX markets. The surge in 10y US Treasury yield and 10y US real yield supported the dollar. EUR/USD weakened to the low 1.17s before recovering. The rally in US yields have come to a halt and they have even declined somewhat. As a result, the dollar has declined as well. We think that the Fed will be less dovish than the ECB and other major central banks, and this will support the dollar versus most major currencies this year and next. We also expect US economic outperformance to support the dollar. Our year-end 2021 forecast for EUR/USD stands at 1.15.</p>

Main economic/financial forecasts										
GDP growth (%)	2019	2020e	2021e	2022e	3M interbank rate	15/04/2021	22/04/2021	+3M	2021e	2022e
United States	2.2	-3.5	5.8	4.1	United States	0.19	0.17	0.25	0.25	0.25
Eurozone	1.3	-6.7	3.3	4.2	Eurozone	-0.54	-0.54	-0.55	-0.55	-0.55
Japan	0.3	-4.9	3.2	1.9	Japan	-0.07	-0.07	-0.10	-0.10	-0.10
United Kingdom	1.4	-9.8	5.9	5.9	United Kingdom	0.08	0.09	0.10	0.10	0.10
China	6.0	2.3	9.0	5.5						
Netherlands	1.6	-3.7	2.0	4.0						
Inflation (%)	2019	2020e	2021e	2022e	10Y interest rate	15/04/2021	22/04/2021	+3M	2021e	2022e
United States	1.8	1.2	2.8	2.0	US Treasury	1.53	1.56	1.5	1.50	1.50
Eurozone	1.2	0.2	1.6	0.7	German Bund	-0.29	-0.26	-0.5	-0.50	-0.50
Japan	0.5	0.0	0.5	0.6	Japanese gov. bonds	0.08	0.06	0.0	0.00	0.00
United Kingdom	1.8	0.9	0.0	2.0	UK gilts	0.74	0.74	0.6	0.70	0.80
China	2.9	2.5	1.5	2.5						
Key policy rate	22/04/2021	+3M	2021e	2022e	Currencies	15/04/2021	22/04/2021	+3M	2021e	2022e
Federal Reserve	0.25	0.25	0.25	0.25	EUR/USD	1.20	1.20	1.19	1.15	1.10
European Central Bank	-0.50	-0.50	-0.50	-0.50	USD/JPY	108.8	108.0	108	110	118
Bank of Japan	-0.10	-0.10	-0.10	-0.10	GBP/USD	1.38	1.38	1.35	1.32	1.28
Bank of England	0.10	0.10	0.10	0.10	EUR/GBP	0.87	0.87	0.88	0.87	0.86
People's Bank of China	3.85	3.85	3.85	3.85	USD/CNY	6.52	6.49	6.40	6.40	6.20

Source: Refinitiv, ABN AMRO Group Economics.

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