Group Economics | 28 June 2021

Global Monthly

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Are labour shortages for real?

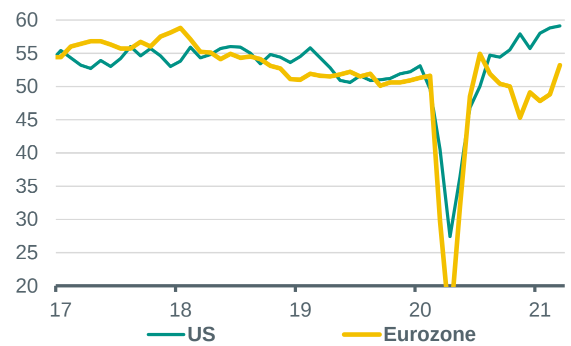
- **The global economy continues to rebound rapidly following the easing of lockdown measures**
- **This month, we upgrade both our eurozone and US GDP growth forecasts for 2021**
- **One possible spanner in the works for the recovery is a potential looming labour shortage**
- **We find that despite signs of a shortage, aggregate labour demand is still well below pre-pandemic levels, and this will likely be met with ample supply once government support measures are eased**
- **Regional updates: in *the eurozone*, economies are bouncing back after an early easing of lockdowns, and in *the Netherlands*, improving confidence points to a sharp rebound in consumption**
- **In *the US*, goods consumption is easing, but this should be offset by the services recovery**
- **Cost pressures continue to rise in *China*, prompting a policy response from Beijing**

Global View: Is there a genuine shortage of labour supply vis-à-vis demand?

This month, the eurozone recovery gained momentum following the earlier-than-expected easing of lockdown restrictions in May. As a result, we upgraded our 2021 growth forecast by 0.6pp to 4.5%, and now expect GDP to return to its pre-pandemic level in Q1 2022 – one quarter sooner than our previous expectation. We made a similar backward-looking revision to our US GDP forecast, reflecting the more rapid pace of recovery so far, and now expect growth of 6.2%, up 0.4pp from our previous forecast. In both economies, we expect growth to remain strong for the remainder of the year, although the pace of growth will moderate over the coming months (in the US, momentum has already peaked). A key potential impediment to the recovery going forward is the emergence of a range of supply-side bottlenecks. In China, the rise in commodity prices has reached a point where the authorities have taken steps to curb price rises. Elsewhere, surging job vacancies and anecdotal reports suggest labour market bottlenecks are becoming a constraint on the recovery. In our *Global View* this month, we dig deeper into this issue. While there are indeed signs of potential shortages, we judge that there will be more than adequate supply to meet labour demand once government support measures (unemployment benefits in the US, and wage subsidy schemes in the eurozone) are unwound.

Economies continue to rebound from lockdowns

Composite PMI, >50 = expansion



Source: Refinitiv,,ABN AMRO Group Economics

Could labour supply bottlenecks hinder the recovery?

US job openings, millions

Source: Refinitiv, ABN AMRO Group Economics

From the perspective of inflation, the question of whether there are labour shortages and hence upward pressure on wages and prices is the current million dollar question for markets. Why? Well, If the answer is that there is no shortage, then temporary supply chain distortions and base effects are the main drivers of the current jump in inflation. As these start to phase out in the coming months and market participants start to realise that inflation will remain within the mandate of central banks, then inflation expectations will come down with realised inflation, and the risk of earlier aggressive rate hikes will get priced out of the market.

If the answer is yes, it means that hard to abate labour shortages will drive a self-reinforcing spiral of wage and price increases in the medium to long term, on top of the temporary surge in commodity prices. These events would raise current inflation expectations further, adding fuel to inflation to the extent that policy makers need to act. To answer the question of whether a genuine shortage of demand versus supply exists, we take a step back and look at how total labour demand has developed since the pandemic. For there to be a shortage, we would need one or a combination of the following to apply: 1) structurally higher demand for labour than before the pandemic, 2) structurally less supply of labour.

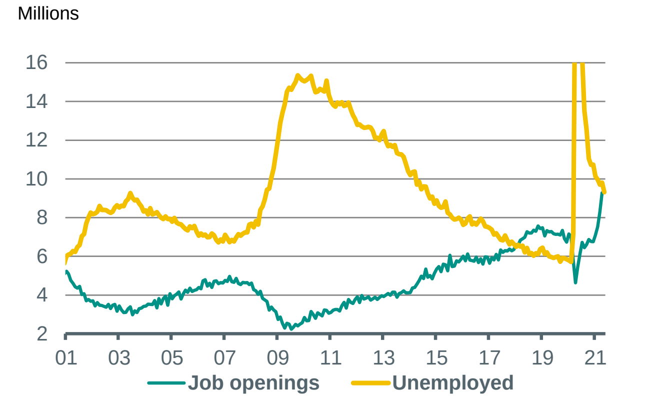
To assess whether this is the case we analyse the US and the eurozone labour markets separately. Both labour markets are not only structurally different, they also have seen very different approaches to support during the pandemic. In the US, the government has allowed businesses to (temporarily) lay off staff, and compensated lost incomes via unemployment benefits. In contrast, in the eurozone governments have opted for wage subsidy ('Short-Time Work') schemes that keep employees on payroll even if they are not working. Our analysis on the US and the eurozone therefore takes into account these very different policy approaches. Specifically for the Netherlands, we have done a deep-dive into the question of shortages by analysing the probability of a match from job search and vacancy data by location, occupation and willingness to travel.

There is more to demand than vacancies

Job vacancies have surged in the US, giving the strong impression that a significant shortage has built up. Particularly because unemployment has been dropping at a remarkable pace, recently equalling the number of job openings, it seems as if employers now have few options but to increase wages to be able to find the right employees.

If we compare the vacancy increase (+2.3 million) to the employment lost during the pandemic (-7.1 million), we can clearly see that the increase in vacancies is still nowhere near enough to make up for the fall in employment we have seen. Plotting total demand for labour (employment + vacancies) as a percentage of the total workforce over time, it clearly shows that – on the demand side at least – there is ample room for further growth.

US: Surging vacancies meet falling unemployment



Source: Refinitiv,,ABN AMRO Group Economics

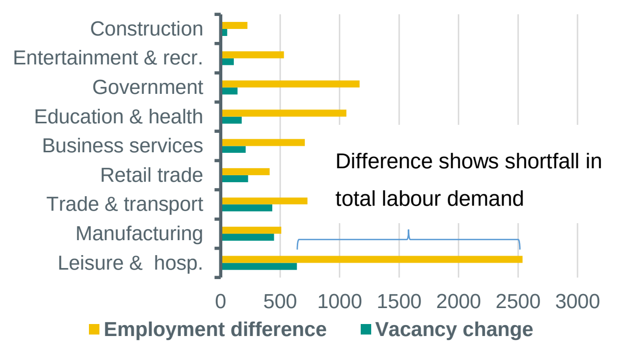
US: Total labour demand as % of potential workforce

Source: Bloomberg, ABN AMRO Group Economics

Concluding that there is still room for labour demand to increase in aggregate, risks ignoring a potentially uneven distribution among sectors. Looking at the sectoral distribution of changes in employment and changes in vacancies between May 2021 and February 2020 (the start of the pandemic) practically rules out this risk. Even on a sector level, there is no sector where the rise in vacancies is bigger than the fall in employment. The sector closest to such a situation is manufacturing. This can partly be explained by the fact that industrial production has been recovering well ahead of the services industries – it has been not far off pre-pandemic levels since the beginning of the year – and thus the initial loss in total employment has to a large extent already been made up for.

US: Change in vacancies and employment

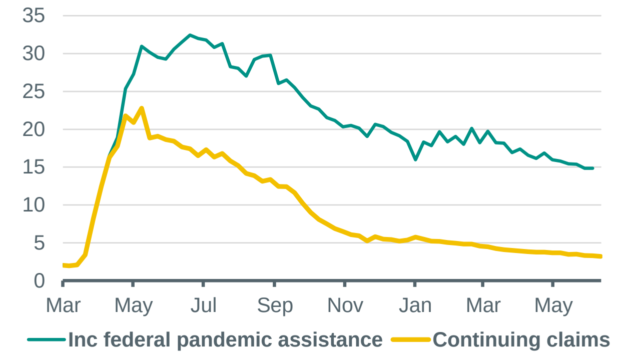
'000 since the start of the pandemic



Source: Refinitiv,,ABN AMRO Group Economics

US: 15 million still receiving unemployment benefits

Recipients of unemployment benefits, millions

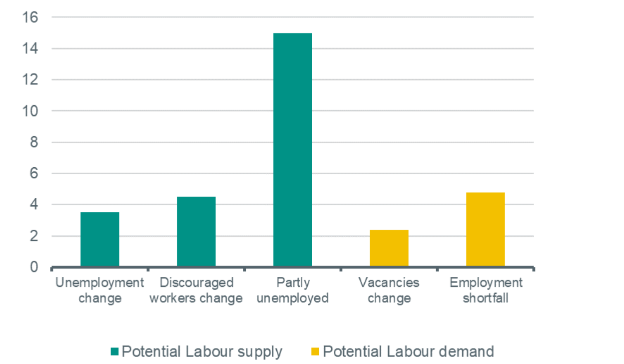


Source: Bloomberg, ABN AMRO Group Economics

To assess whether there is sufficient potential labour supply to fulfil current demand conditions, we need to incorporate not only the unemployed, but also the population of discouraged workers and the ability of the current workforce to work more hours. There are still 3.5mn more unemployed people than before the pandemic, and 4.5mn who have left the labour force but who might return over time; some of these may have retired early, or started education or training, while others might merely be discouraged and are waiting for the full reopening of the economy. There are also 15mn people still claiming some form of unemployment benefits and therefore at least partly unemployed. Thus, there is a very large potential pool of additional labour supply.

US sources of potential labour demand and supply

Estimates; Millions; Changes Q1 2021 to pre-pandemic)



Source: Refinitiv; ABN AMRO Group Economics

Looking ahead, we expect a substantial increase in active job search in the coming months as states start to phase out the additional unemployment benefits that may have been providing disincentives to look for work until now. Furthermore, the reopening of daycare-, and schools in September will also enable young parents to return to work. Many states have already begun to phase out unemployment benefits early, so we could begin to see an improvement in conditions over the summer.

All told, we take the view that there is little sign of a genuine labour shortage in the US. Instead, it appears workers are returning more slowly to the workforce than employers need them. This is likely however to be a temporary phenomenon, and there should be signs of relief in the coming months.

Ample slack in the eurozone labour market

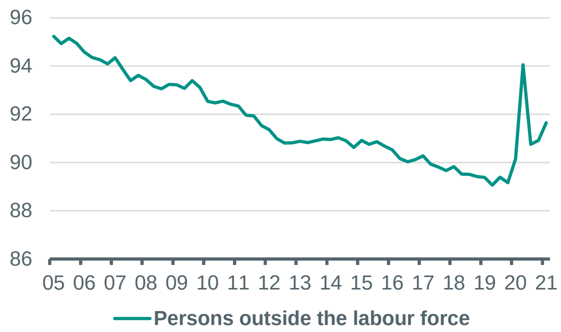
For the eurozone the situation is rather different, but here too, the potential labour supply should suffice to fulfil total demand for work at pre-pandemic levels.

On the demand side, total employment has fallen by 3.4 million since the start of pandemic – roughly half that in the US – because of wage subsidy schemes that are conditional on keeping people employed. On top of that, vacancies are also currently lower than before the pandemic. The main exception to this vacancy drop is in housing and construction, where the vacancy rate has increased since the pandemic. It is clear that a large part of the additional (involuntary) savings during the lockdowns has been spent in housing and reconstruction, causing a boom in this sector. The general drop in vacancies in the eurozone is due to the fact that the continent is only starting to come out of lockdowns very recently.

To assess the change in total demand for labour since the pandemic we have to add the drop in vacancies to the drop in employment. Vacancies have according to our calculations fallen by about 410.000 since the pandemic, meaning a total 3.8 million job fall in total labour demand since the pandemic.

Eurozone: Inactivity has risen during the pandemic

People outside the labour force, millions



Source: Eurostat, ABN AMRO Group Economics

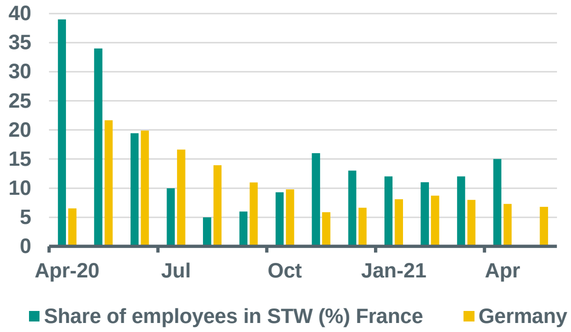
Employment down despite support schemes

Millions

Source: Refinitiv, ABN AMRO Group Economics

EZ: Still a lot of people in STW

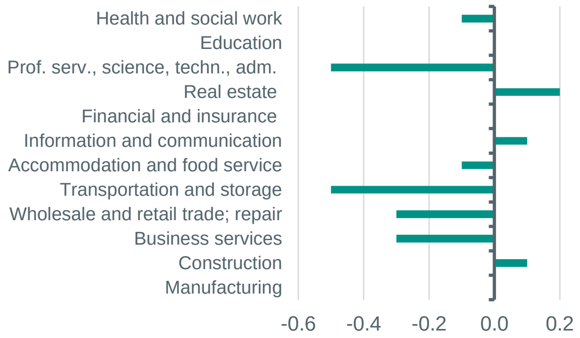
% employment



Source: Ifo, DARES, ABN AMRO Group Economics

EZ: Vacancy rate per sector

Change 2019Q4-2021Q1, pps



Source: Refinitiv, ABN AMRO Group Economics

On the supply side there are at least three sources of labour supply potential

There is meanwhile ample supply of labour to meet this still-depressed level of demand. First, there are people receiving unemployment benefits. Since the pandemic, their number has grown by about 1.1 million.

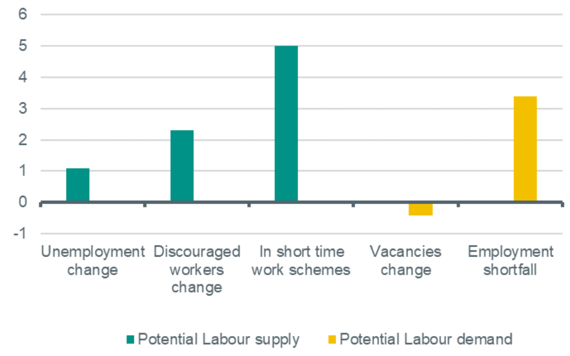
Second, there are those who have withdrawn from the labour market as they have stopped searching for work (while still being available), or they have kept searching but are currently unavailable. There are around 2.3 million such people who are neither employed nor unemployed.

The final group is the most uncertain group in terms of potential labour supply. These are workers for whom employers are currently still receiving short time work subsidies as there are insufficient revenues in the firm to pay these workers. For this latter group to keep their jobs, firms need to be able to survive liquidity and potential debt overhang issues after economies reopen, and government support ends. In France and Germany, where some 5 million workers were still on short-time work schemes as of March 2021, we expect a substantial proportion will end up looking for work in the coming months.

For the coming months, we expect the demand for workers to recover further back toward pre-pandemic levels, while also on the supply side, discouraged workers and workers who couldn't hold their jobs as subsidies end will join the unemployed that are available for work. Looking at rough estimates of total supply, we expect there to be sufficient people available to fill vacancies going forward. Whether temporary labour shortages will rise in the coming months depends for a large part on government policies around the timing and pace of the unwinding of support. As such, we expect inflationary pressures in the eurozone via the wage channel to remain modest, and well within the mandate of the ECB.

Euro area sources of potential labour demand and supply

estimates; millions of people/jobs; changes Q1 2021 to pre-pandemic



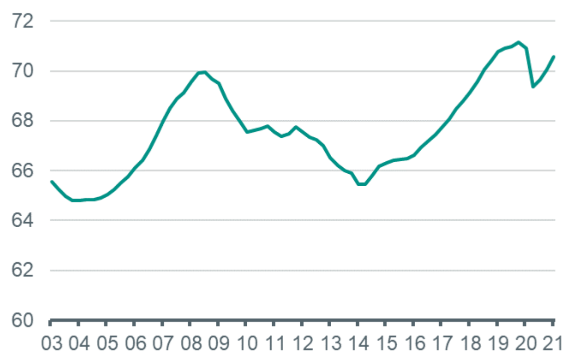
Source: Refenitiv; ABN AMRO Group Economics

Labour market looks tighter in the Netherlands

The Netherlands provides an interesting case in the eurozone, as the fall in vacancies has been quite small since the pandemic (-41.000 between Q4 2019 and Q1 2021), while employment also fell only modestly (-44.000). The total demand for labour thus is already quite close to pre-pandemic levels. On the supply side there is neither a large amount of additional unemployment (0.4 percentage point drop), nor a lot of discouraged workers (net outflow of 20.000 workers). We do still see a substantial number of firms (representing about 8 to 14% of the working population) that are still receiving wage subsidies (NOW3). Unsurprisingly, therefore, employers are having a hard time filling their vacancies. We have constructed a job market tightness indicator that measures on a weekly basis whether jobs search actively matches a vacancy based on occupational preference and willingness to travel. As things stand (June 22nd) there is no interest from job seekers for about 17 percent of the outstanding vacancies.

Total labour demand as % of total workforce

(employment + vacancies)



Source: CBS, ABN AMRO Group Economics

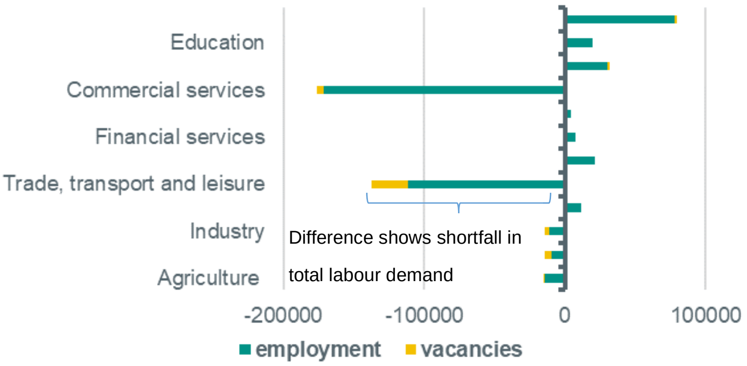
Vacancies with no matching search activity by job seekers

%

Source: ABN AMRO Group Economics, UWV data

In terms of the sectoral distribution of potential labour shortfalls, we can clearly see that the hard hit sectors have ample room for catch up growth before running into shortages, while public sectors such as health care and education – sectors that were already having shortages before the pandemic – are seeing an increase in both employment and additional vacancies. In terms of wage growth, these sectors are however often lagging and not leading. Also, in general we can say that wage rigidities through collective labour bargaining – for a very large part of the workforce – break the correlation between tightness and wage growth. While shortages are looming in certain sectors, we do not foresee strong wage growth as a likely boost to inflation in the Netherlands either.

Sectoral distribution of potential labour shortfall



Source: CBS, ABN AMRO Group Economics

To conclude, we are not expecting a genuine shortage of labour to the extent that home grown inflationary pressures will occur. However, there are significant uncertainties given that we are – especially in the eurozone – just in the early days of reopening. As support is being withdrawn, structural shifts in home working and travel could prevent firm revenues fully recovering in some sectors. Also, the debt overhang from bank lending or from rent-, and tax deferrals could cause a wave of bankruptcies if governments pull back support to soon. For the problem of labour shortages however, a too-sticky support from the government could be detrimental as well. In this case job mobility is discouraged, causing a mismatch between sectors that could prove inflationary. For the euro area, we believe this risk is a moderate one, given that most of the flexible workforce is or was active in the hardest hit sectors from the pandemic. In the US meanwhile, there is a risk that the fall in labour force participation is more structural, and that – while vacancies are still far short of the drop in employment since the pandemic – that there could be a case of 'discouraged employers' who are not bothering to post vacancies they know they cannot fill. This could therefore mask the true level of labour demand in the economy. The phenomenon of discouraged employers may already occur today in the Netherlands, where sectors such as the energy sector, which has had a hard time finding workers for a long time, are seeing a decrease in vacancies posted. However, our base case is that labour demand will be adequately met as supply impediments ease, and this should become more evident over the coming months.

(Sandra Phlippen; Bill Diviney; Aline Schuiling; Nora Neuteboom)

Eurozone: Bouncing back

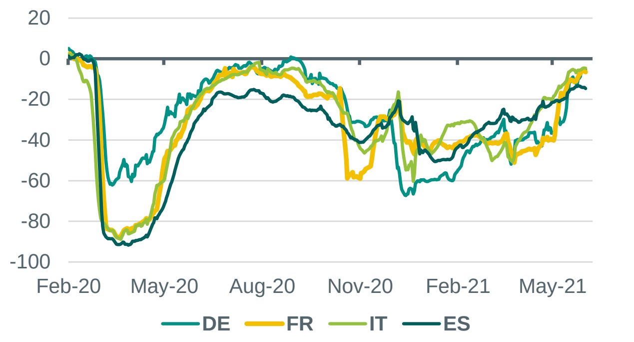
Aline Schuiling – Senior Economist | aline.schuiling@nl.abnamro.com

- **Governments are rapidly scaling back lockdown measures**
- **The unwinding of lockdown measures has been somewhat earlier than we had assumed before, implying that the rebound in private consumption and GDP growth will partly shift towards Q2 and away from Q3**
- **Inflation has risen to 2%. This this is mainly due to transitory factors, which should fade next year**
- **Underlying inflation will remain subdued, allowing the ECB to keep policy accommodative**

The eurozone economy contracted less sharply in Q1, than initially was estimated by Eurostat. GDP growth was revised higher, to -0.3% qoq, up from -0.6% earlier. Since then, the accelerating pace of vaccinations has encouraged governments to end curfews and allow shops, hotels, restaurants and the sports, entertainment and leisure industries to re-open, albeit often with some form of social distancing measures. The unwinding of lockdown measures has been somewhat earlier than we had assumed before, i.e. around the middle of Q2 instead of the end of Q2. This means that the rebound in private consumption growth and services sector activity will partly shift towards Q2 and away from Q3. High frequency data for visits to retail and recreation shows that by mid-June, activity had returned to about 5-6% below pre-pandemic levels in Germany, France and Italy, whereas in Spain the gap still was around 14%. We expect the gap versus pre-pandemic levels to close further in the coming months, as the tourism season starts and social distancing measures are expected to be unwound further. We expect GDP to grow by around 1.3% qoq in Q2 and another 2.4% in Q3. We expect GDP to return to pre-pandemic levels in the first quarter of 2022, which is a quarter earlier than we had estimated before. Still, GDP should remain below trend levels throughout our forecast period, suggesting inflation will remain sluggish over the medium term horizon.

Visits to retail and recreation jumping higher

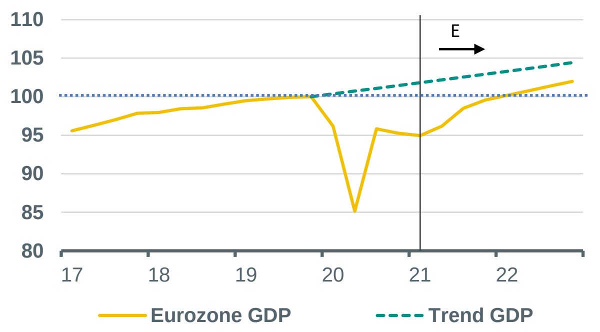
% change compared to pre-pandemic baseline



Source: Our World in Data; Google Mobility Trends

Eurozone GDP

Index, 2019 Q4 = 100



Source: Refinitiv, estimates ABN AMRO Group Economics

Headline inflation increased to 2.0% yoy in May, up from 1.6% in April. The core rate increased to 1.0% from 0.7% April. Looking forward, there are some potential sources of further rises in core inflation in the short-term. There is a base effect from last year's German VAT cut, which should push up inflation this summer. In addition, prices in some sectors most impacted by the restrictions which have fallen sharply, could see some normalisation. Finally, core goods prices (also known as industrial goods excluding energy) are lifted by global price rises due to supply bottlenecks (also see here). We expect these supply bottlenecks to ease in the coming months and the upward price pressures are likely to dissipate. More fundamentally, we think core inflation will settle at very low levels in 2022 and 2023. Despite the economic recovery, we will likely remain in an environment of substantial economic slack. This is likely to also become increasingly evident in the unemployment figures in the coming months. The combination of falling labour market participation and wide-spread use of short-time work schemes means there is currently a great deal of hidden unemployment (also see the first chapter of this publication). 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.

NL: Consumer confidence indicators showing green light

Nora Neuteboom – Senior Economist | nora.neuteboom@nl.abnamro.com

- **Consumer confidence indicators and leading indicators seems to be improving across the board**
- **We expect a sharp rebound of consumption in Q2 and Q3 of this year**

The rapid vaccination roll-out and continued drop in hospitalized Covid-19 patients has meant the Dutch economy has largely reopened. Since 18 May, most restrictions were withdrawn, which led to a sharp rebound in consumption. In the past three weeks, our transaction data shows that total expenditure by bank customers was around 14% higher than during similar weeks in 2019. Will this sharp recovery be sustained, or is it a temporary catch-up phenomenon?

The consumer confidence aggregate, measured by the CBS, shows improving confidence, albeit still in negative territory. In May, the aggregate confidence among Dutch consumers stood at -3, around its 10-year average (-4). The harmonised EU consumer survey on the Netherlands turned positive in April and continued to improve further in May, driven by a strong pickup in the forward-looking components. In contrast to the consumer confidence indicator of the CBS, the EU confidence indicator is much higher than its long-term average (May: 3, versus 10-year average of -6). The Netherlands seems a positive outlier, as Germany and the EU-average are still in negative territory and much closer to their long-term averages.

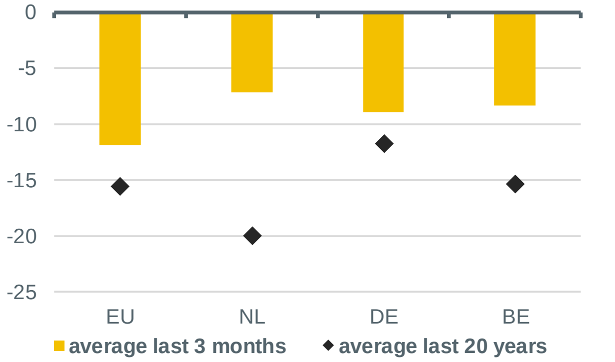
Recovery of luxury goods and services

ABN AMRO transaction data; including pin, creditcard and iDeal; level index = 2019

Source: ABN AMRO

Dutch consumer positive on future spending

Balance of answers to question: "Compared to the past 12 months, do you expect to spend more or less money on major purchases over the next 12 months?"



Source: Eurostat and European Commission Consumer Survey

However, the components of these indicators that correlate strongly with future consumption (economic situation last 12 months and unemployment expectations) show a more bleak picture. Both indicators are still much more negative than their long-term averages. That said, given the unusual situation with the virus-induced lockdown measures of the past 12 months, we arguably should not take these numbers at face value. Indeed, our transaction data shows that spending in categories like beauty, luxury goods and wellness, which correlate well with future spending, are largely above the level of last summer. Also, the forward looking components in the consumer surveys point toward recovery. The financial situation in the next 12 months stood at 10 in May, which is one of the highest levels of recent decades (10-year average: -0.8). However, even with this indicator, caution should be exercised in interpreting it. The financial situation of households has improved due to involuntary savings accumulated during the lockdown months, but this would not necessarily result in a massive spending boom (as explained here). One survey question in particular stands out. On the question of whether households, compared to the past 12 months, expect to spend more money on major purchases, Dutch consumers were very positive. It stood at -6.5 in May – an historical peak – while the long term average is around -20.

All in all, even though the second quarter of this year still saw a partial lockdown (at least in the first half of May), we expect household consumption to recover by 3.8% qoq in Q2. In Q3, we expect consumption to rebound further by 3.8% qoq, while the strength of the recovery fades in Q4 (1.2% qoq). This brings our private consumption forecast for 2021 at 1.5%.

US: Consumer goods boom is dissipating

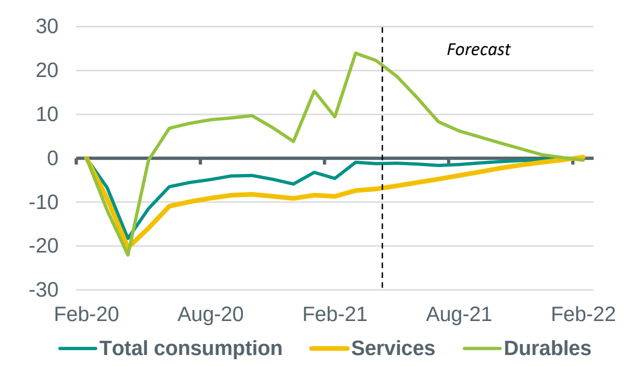
Bill Diviney – Senior Economist | bill.diviney@nl.abnamro.com

- **Goods consumption eased further in May, with a bigger correction still to come. The services recovery should more than offset this, but we could be in for a volatile few months**
- **The rapid recovery so far has led us to upgrade our 2021 growth forecast to 6.2% from 5.8%**
- **Hawkish tilt by the Fed is no game changer, but a reflection of increasing upside risks to inflation**

Retail sales fell -1.3% in May, with declines concentrated in goods categories that have been exceptionally strong this year – particularly autos and home improvement – and offset by growth in clothing and eating out categories. We see scope for much bigger declines in goods categories over the coming months, with autos particularly vulnerable to a correction (sales are still running some 30% above pre-pandemic levels). Indeed, even with the decline in May, overall retail sales remain around 13% higher than the pre-pandemic trend. Will the looming pullback in goods consumption derail the broader recovery in consumption? We think not. Services makes up by far the biggest share of consumption, at 64%, with durable goods at around 13%, and in contrast to goods, services consumption remains around 7% below the pre-pandemic trend. While the recovery in restaurant dining and air travel has lost some momentum, we think growth in services will still more than offset declines in goods consumption. With that said, it is difficult to forecast the timing of these dynamics with precision, and so the consumption data could be highly volatile in the coming months if, for instance, the correction in goods consumption occurs more suddenly than we currently expect. As a base case, we expect the two offsetting forces to net out to much more modest consumption growth in H2 of 4.1% annualised, down from the projected 10.6% surge in H1. Meanwhile, as a result of the more rapid recovery in the economy so far this year, we have made a largely backward-looking upward revision to our growth forecast – we now expect growth of 6.2%, up from 5.8% previously, albeit still below the consensus (6.6%).

Significant correction in goods consumption likely…

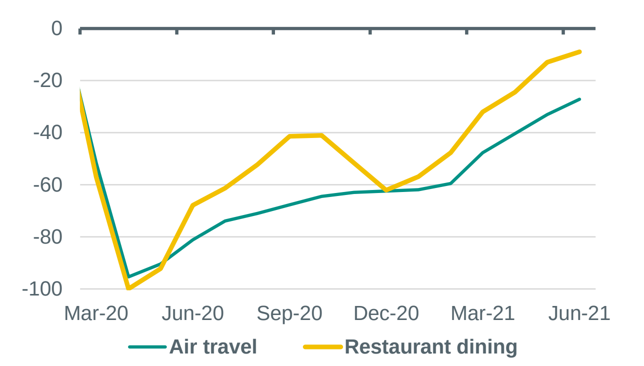
% above / below pre-pandemic trend



Source: Refinitiv, ABN AMRO Group Economics

…but continued services recovery should offset this

GDP, Q4 19 = 100



Source: Refinitiv, ABN AMRO Group Economics

Hawkish tilt by the Fed most likely *not* a sign of things to come

There was some surprise among market participants last week by the scale of the shift in the FOMC projections last week – in particular, the projection of two rate hikes in 2023, compared to none in the March projections. This came alongside a jump in the PCE inflation projection, to 3.4% from 2.4% previously. The more hawkish projections, paired with some eye-opening remarks from the previously very dovish St Louis Fed president Bullard, might give the impression that the Fed has already abandoned its new average inflation targeting framework, and that it is much more concerned about the recent surge in inflation than it is letting on. We think this view is mistaken. First, there is little in the shift in projections to suggest the Fed is deviating from its new framework. Even with quite a generous look-back assumption for average inflation (say, to 2017), with 3.4% price growth this year, and a little above 2% growth in 2022 and 2023, the Fed could quite easily make the case that it is fulfilling the condition for rate hikes of inflation moderately exceeding its 2% target. In our view, the shift by the Fed is an honest reflection of a genuine shift in the balance of risks around in inflation, which have become tilted to the upside. While our base case continues to be that inflation falls back to more normal levels this year, the risk is that more persistent bottlenecks drives a longer-lasting rise in inflation expectations, keeping realised inflation more elevated for longer than we currently project. Provided our base case pans out, however, the Fed is still unlikely to hike before 2023.

China: Beijing reacts to rising cost push pressures

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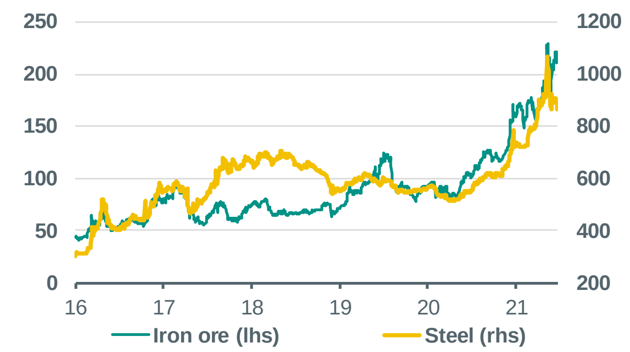
- **Cost push pressures are rising, with producer price inflation at post-global-crisis high in May**
- **Beijing is taking action to tame commodity prices, while the credit cycle has already turned**
- **Bottleneck issues still in play: container freight tariffs from Chinese ports have risen again**

China is facing rising ‘cost push’ pressure on inflation, in line with a broader global pattern (with for instance the global PMI sub-index for input prices at a 10-year high in May). China’s producer price inflation (PPI) accelerated in recent months, hitting a post-global-crisis high of 9.0% yoy in May. This adds to concerns over a rising contribution from China to a pick-up in global goods inflation. We should place this a bit into perspective, though. First, the acceleration in China’s PPI is strongly driven by a surge in global commodity prices. Second, China’s PPI needs to remain high for a sustained period to have a meaningful impact on global goods price inflation, while consensus expectation including ours is for an easing thereof in the second half of this year (partly reflecting base effects and policy actions, see below). Third, Chinese producers typically do not fully pass on higher cost prices to their offtakers. Although China’s consumer price inflation (CPI) and core inflation have picked up in recent months as well, their pace (at 1.3% and 0.9% yoy in May, respectively) is still relatively low.

Beijing has taken action to contain commodity boom

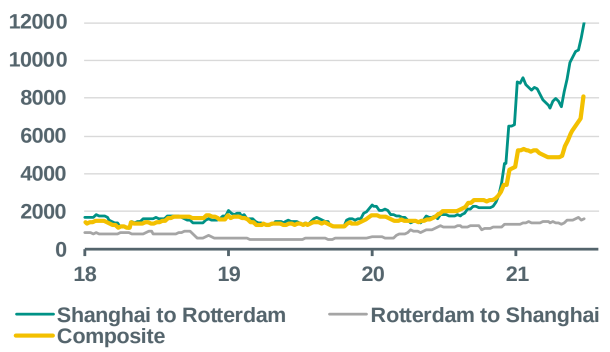
In USD, per metric tonne



Source: Refinitiv

Container freight rates have started to rise again

WCI container freight benchmark rates, per 40 foot box



Source: Bloomberg

Beijing is taking action to tame commodity prices, while the credit cycle already turned

Meanwhile, Chinese policy makers are already reacting to contain price pressures. Beijing has for instance taken steps to stem a further rise in domestic commodity prices and fight speculation. State firms have been told to reduce their exposure to overseas commodity markets. Moreover, the authorities have announced to start selling from state reserves in metals, which have already pushed metal prices lower, particularly steel prices. Still, upward price pressures on these commodities will not be easily eliminated, reflecting a.o. China’s industry-led recovery and longer-term decarbonisation goals. More broadly, China’s credit cycle has already started turning. This reflects that Beijing put financial stability issues higher on its agenda as the economy has largely recovered from the pandemic shock (for more on this see our China update here).

Bottleneck issues still in play: container freight tariffs from Chinese ports have risen again in recent months

Other cost push pressures from China with global spillovers come from bottlenecks in global trade and industry, which are specific for the a-typical post-pandemic global recovery. Container freight tariffs from Chinese ports have risen further over the past months, reflecting a combination of strong demand for Chinese goods and inelasticities in the supply of containers and ships. Another (not only China-related) bottleneck relates to the global scarcity in semi-conductors, partly driven by geopolitics. Average lead times for chips have risen to record highs, creating operational problems and temporary production stops in automotive and other high tech sectors. All this is also reflected in a further lengthening in global delivery times, with the global PMI subindex dropping to a record low in May. While clearly in play on the short-term, these bottleneck issues should fade over time, as economies reopen and normalise and global demand rebalances towards services again. That said, risks of a longer path to normalisation and a stronger than anticipated passthrough into consumer prices have risen.

Key views on a page

The eurozone recovery has gained momentum following the earlier-than-expected easing of lockdown restrictions in May. As a result, we upgraded our 2021 growth forecast by 0.6pp to 4.5%, and now expect GDP to return to its pre-pandemic level in Q1 2022 – one quarter sooner than our previous expectation. We made a similar backward-looking revision to our US GDP forecast, reflecting the more rapid pace of recovery so far, and now expect growth of 6.2%, up 0.4pp from our previous forecast. In both economies, we expect growth to remain strong for the remainder of the year, although the pace of growth will moderate over the coming months (in the US, momentum has already peaked). Supply-side bottlenecks (including in the labour market) could constrain the recovery, although as a base case we expect these bottlenecks to ease over the coming months.

Macro	Central Banks & Markets
Eurozone – Governments have rapidly unwound most restrictions in the services sector since mid-May. As a result, consumption growth has accelerated. This came earlier than we assumed before - around the middle of Q2 instead of the end of Q2. This means the rebound in GDP growth will partly shift to Q2 and away from Q3. We expect GDP to return to its pre-pandemic level in 2022Q1. An output gap will remain at end-2022. Inflation meanwhile jumped from 1.6% in April to 2.0% in May. A number of transitory factors will continue to have an upward impact on core inflation in the coming months. However, underlying inflation will remain subdued, allowing the ECB to keep policy accommodative for a considerable time.	**ECB** – Since the start of the year, the ECB's strategy has been one of capping government bond yields. It still has around EUR 700 billion left in its PEPP envelope. It stepped up the monthly pace of asset purchases in Q2 and will sustain that pace in Q3. The PEPP will likely end in March 2022, but purchases under the APP are expected to continue beyond that point. 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.
Netherlands – GDP for Q1 was revised downward in the second calculation and settled on a contraction of 0.8% qoq (-0.5% previously). Weak private consumption drove this contraction whereas investments and exports dampened the drop. Due to easing of restrictions the outlook for private consumption has improved considerably. Indeed, consumer confidence indicators and leading subcomponents of those indicators point towards a sharp rebound of consumption in Q2 and Q3 of this year. This rebound in consumption will drive economic growth in the second and third quarters. We expect Dutch GDP to expand by 3.2% in 2021 and 2.7% in 2022.	**Fed** – The Fed will continue buying bonds at the current $120bn monthly pace at least until the end of 2021. We expect an official taper announcement in September as a base case, with tapering to start in Q4. 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, we expect the first rate hike by late 2023, although upside risks to inflation could bring this forward. The latest median FOMC projection is for two rate hikes in 2023.
US – The consumer goods boom is now dissipating, and goods consumption is likely to decline further in the coming months. Despite a likely slower pace of expansion in H2, growth is likely to remain well above trend, with significant room for recovery in services, which will offset the expected fall in goods consumption. Cooling growth will help keep a lid on inflationary pressures, which have picked up due to the rapid pace of recovery and supply bottlenecks. We do not expect an overheating scenario that prompts aggressive Fed policy action, but the recent pickup in inflation expectations has raised the risk of such a scenario. We do not view the recent hawkish shift by the Fed as signalling a bigger change to come.	**Bond yields** – Yields on US Treasuries have slipped back despite recent buoyant US data, suggesting the recovery is now priced into the US Treasury market. Inflation expectations are above levels seen in 2018, when the US economy was already at full employment. Meanwhile, markets seem to have priced in a rate hike cycle with an eventual peak in the coming years close to the previous peak. However, the rate hike cycle is priced to start earlier than we expect. This has resulted in a bear flattening of the US Treasury curve. 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.
China – The recovery from the pandemic shock has been led by industry, exports and the property sector, while the rotation to consumption takes time. With vaccinations being ramped up, the recovery of consumption should gain some momentum. Meanwhile, with 'financial de-risking' in focus again, the credit cycle has turned. Quarterly growth will be much lower in 2021 compared to Q2-Q4 2020, also with catch-up effects fading. An acceleration in producer price inflation is largely driven by a commodity boom, triggering public interventions on domestic commodity markets. Bottleneck issues are still in play: container freight tariffs from Chinese ports have risen again in recent months.	**FX/EURUSD** – The momentum has been slowly shifting in favour of the US dollar again. The US dollar index has found it difficult to stay below the 90 level. It appears investors think this is a good level to buy some dollars. This coincides with levels above 1.22 in EUR/USD. Second, the Fed has sounded more hawkish than expected. It is now projecting two 25bp rate hikes by the end of 2023. The direction that the Fed is taking is clear, and this has supported the US dollar. Third, the dovish tone of the ECB has weighed on the euro versus the dollar. Our year-end forecast EUR/USD stands at 1.18 (changed on 9 June).

Main economic and financial market forecasts

GDP growth (%)	2019	2020e	2021e	2022e	3M interbank rate	17-6-2021	24-6-2021	+3M	2021e	2022e
United States	2,2	-3,5	6,2	4,1	United States	0,13	0,15	0,25	0,25	0,25
Eurozone	1,3	-6,7	4,5	3,9	Eurozone	-0,55	-0,54	-0,55	-0,55	-0,55
Japan	0,0	-4,7	2,7	2,4	Japan	-0,09	-0,08	-0,10	-0,10	-0,10
United Kingdom	1,4	-9,8	5,9	5,9	United Kingdom	0,08	0,08	0,10	0,10	0,10
China	6,0	2,3	9,0	5,5						
Netherlands	1,9	-3,8	3,2	2,7						
Inflation (%)	**2019**	**2020e**	**2021e**	**2022e**	**10Y interest rate**	**17-6-2021**	**24-6-2021**	**+3M**	**2021e**	**2022e**
United States	1,8	1,2	3,7	2,4	US Treasury	1,51	1,49	1,5	1,50	1,50
Eurozone	1,2	0,2	1,6	0,7	German Bund	-0,19	-0,19	-0,4	-0,50	-0,50
Japan	0,5	0,0	0,5	0,6	Japanese gov. bonds	0,07	0,05	0,0	0,00	0,00
United Kingdom	1,8	0,9	1,1	2,0	UK gilts	0,78	0,74	0,8	0,70	0,80
China	2,9	2,5	1,5	2,5						
Netherlands	2,7	1,1	1,8	1,0						
Key policy rate	**24-6-2021**	**+3M**	**2021e**	**2022e**	**Currencies**	**17-6-2021**	**24-6-2021**	**+3M**	**2021e**	**2022e**
Federal Reserve	0,25	0,25	0,25	0,25	EUR/USD	1,19	1,19	1,19	1,18	1,15
European Central Bank	-0,50	-0,50	-0,50	-0,50	USD/JPY	110,2	110,9	109	110	118
Bank of Japan	-0,10	-0,10	-0,10	-0,10	GBP/USD	1,40	1,39	1,40	1,40	1,40
Bank of England	0,10	0,10	0,10	0,10	EUR/GBP	0,86	0,86	0,85	0,84	0,82
People's Bank of China	3,85	3,85	3,85	3,85	USD/CNY	6,45	6,47	6,40	6,40	6,20

Source: Refinitiv, ABN AMRO Group Economics.

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