

Economic and financial risk insights

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"Large US fiscal stimulus and positive developments on the vaccine front will boost growth while inflation risk rears its head."

Jérôme Haegeli, Group Chief Economist

Key takeaways:

- The USD 1.9trn fiscal stimulus in the US is a **strong tailwind for GDP growth but increases inflation risk**. We revise up both forecasts.
- The UK's ambitious re-opening schedule is setting the pace in the advanced world**. All UK restrictions are expected to be lifted by 21 June.
- A third vaccine in the US** will help expand supply and accelerate the roll-out.
- Risks to the global outlook are balanced**, with further pandemic setbacks the dominant global near-term risk.
- Watch our monthly [outlook video](#).

Risk landscape: what's new?

- USD 1.9 trillion of fresh stimulus in the US is a strong growth tailwind.** The package will provide substantial support for the recovery. We see lower risk of disruptive and premature policy tightening. Coupled with very accommodative US Federal Reserve policy and ongoing vaccine roll-out, we have revised up our US real GDP forecasts to 6.5% for 2021 and 3.5% for 2022 (from 5.0%/2.8%). In the Euro area, the ECB states it will continue to ensure ample liquidity, though we expect a diverging growth path to the US. In China, monetary and fiscal support is turning more prudent and targeted given the now higher growth forecast for 2021.
- Inflation risk is on the rise.** We expect headline inflation to increase significantly globally in the first half of 2021 due to base effects from last year's low oil prices. The large US fiscal stimulus package creates an additional transitory inflation push. US inflation will likely surge to 3% by May and we have revised up our 2021 US inflation forecast to 2.5% (from 2.4%). Medium-term inflation risks have also increased since central banks worldwide are likely to tolerate higher inflation for some time. While a brighter economic outlook and higher inflation risks imply higher long-term yields, the overall lower-for-longer outlook for the interest rate environment remains very much intact.
- The US and the UK lead vaccination rates in the G8 race for herd immunity.** The quick vaccine roll-out in the UK is allowing the government to attempt an ambitious re-opening schedule that aims to lift all restrictions by 21 June. In the US, approval of a third vaccine (by Johnson & Johnson) expands availability and will increase the pace of deployment of vaccinations. Elsewhere, we see a significant discrepancy in the return to normalcy between advanced and emerging markets, with a lag of nine to 12 months for emerging economies due to limited access to vaccines.

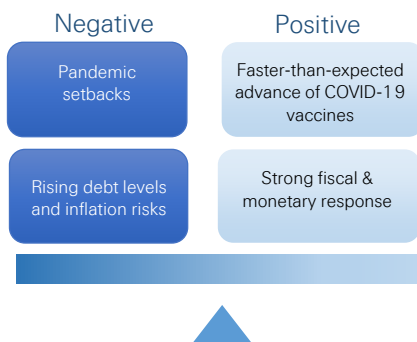
Baseline view changes

We have revised up our US growth forecasts to 6.5% and 3.5% for 2021/22, while also expecting slightly higher inflation and yields due to higher fiscal stimulus and the broad vaccine roll-out. We have made upward revisions to Euro area forecasts too, with stronger increases for 2022. For China, we increase our 2021 growth forecast by almost a full percentage point.

Key forecasts (in %)

	Real GDP growth		Inflation		CB policy rate		10y yield	
	2021	2022	2021	2022	2021	2022	2021	2022
US	6.5	3.5	2.5	2.2	0.13	0.13	1.80	2.00
Euro Area	4.2	4.5	1.5	1.1	0.00	0.00	-0.20	-0.10
China	8.3	5.3	1.7	2.1	2.00	2.20	3.00	2.70

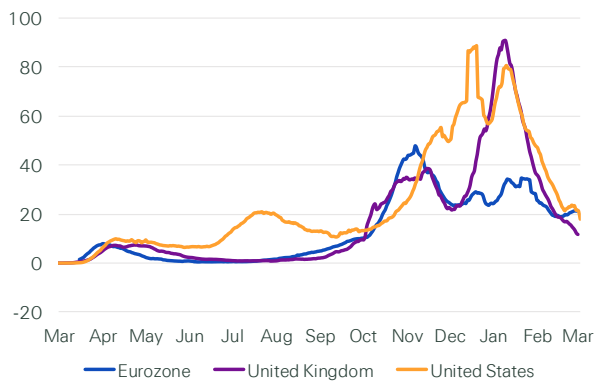
Source: Swiss Re Institute



For questions and comments, please email
Institute@swissre.com

Tracking the COVID-19 recovery: high frequency indicators

Figure 1: New cases per 100 000 people



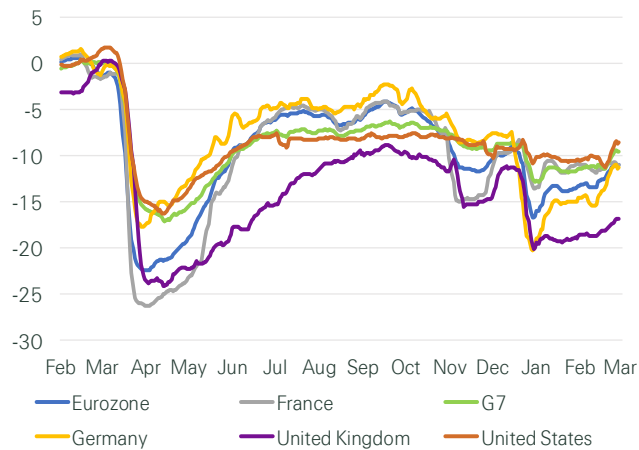
Note: 7-day moving average of new COVID-19 infections per 100,000 population. Source: ECDC, Worldometer, Swiss Re Institute

Figure 2: 5y breakeven implied inflation in the US



Source: Datastream, FRED, Swiss Re Institute.

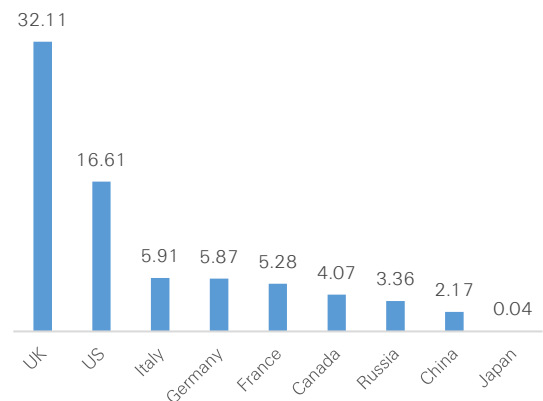
Figure 3: SRI Effective Lockdown Index



Note: SRI Effective Lockdown Index is a combination of the 7-day moving average of the google mobility index and the Oxford stringency index. The former represents the average change in frequency of visits to workplaces, public transport and retail centres, and the latter is a measure of COVID-19 related restrictions imposed by a government. We extend google data with apple data to get more recent data.






Source: Thomson Reuters, Google, Apple, Swiss Re Institute

Figure 4: Percentage of population with at least one dose of a COVID-19 vaccine



Source: Our World in Data, Swiss Re Institute, as of 8 March 2021.

Global risk monitor (12-18 months outlook, relative to the baseline)

Risk scenario	Explanation	Probability & trend
 Pandemic setbacks	<p>We see pandemic setbacks as the dominant near-term global downside risk, including: another surge in COVID-19 infections, slower-than-anticipated vaccine rollout due to bottlenecks in production or distribution, or new mutations that reduce the effectiveness of existing vaccines. These risks could delay economic recovery by causing tighter or extended lockdowns, particularly in Europe. The recent approval of a third vaccine in the US is a positive development that helps increase supply and therefore availability.</p> <p>Key to watch: COVID-19 infection rates, vaccination progress, virus mutations, stringency of restrictions</p>	25% =
 Inflation risks	<p>We expect inflation to increase globally during spring due to base effects from low oil prices in 2020, larger-than-expected fiscal stimulus in the US and demand pull in reopening sectors. Financial markets are volatile due to a repricing of inflation expectations and uncertainty on how asset valuations and interest rates will react. There is increased attention of Fed policy guidance.</p> <p>Key to watch: OPEC meeting (1 April); Eurozone HICP (17 March); US PCE (26 March); US CPI (10 March)</p>	20% ↑
 Sharp rise in business insolvencies	<p>Public support measures have prevented an increase in business insolvencies so far, but these are likely to go up once those measures are phased out. The depth of the COVID-19 crisis means insolvencies could rise by as much as during the global financial crisis of 2008-09 in a risk scenario. Alternatively, the trend of "zombification" could lead to a delayed, but ultimately sharp increase in insolvencies if support measures are prolonged.</p> <p>Key to watch: business bankruptcies, credit spreads, restructuring/default rate news</p>	15% ↓
 Stronger global growth	<p>Growth could strengthen if vaccination progress is quicker than our baseline outlook, or if we see a medium-term resolution of the US-China trade disputes, with tariff roll-back. There is also upside risk from greater economic resilience to COVID-19-related restrictions. For example, the manufacturing sector seems to be suffering significantly less in the current lockdown than during the first wave of infections in spring 2020.</p> <p>Key to watch: vaccination progress, fiscal spending plans, severity of lockdowns, PMIs, real interest rates, US-China trade and tech disputes</p>	15% ↑
 Premature policy tightening	<p>COVID-19 has dramatically increased public debt levels. As restrictions are eased and economies rebound, governments may withdraw economic support or tighten policy prematurely, which could choke the upswing. There is currently broad global agreement about the need for fiscal and monetary support, but this consensus may not hold.</p> <p>Key to watch: fiscal announcements, central bank speeches</p>	15% ↓

Regional forecast overview

US:

Upward revision to 2021 and 2022 real GDP growth forecasts (to 6.5% from 5.0%, and to 3.5% from 2.8% respectively) due to a larger-than-expected fiscal stimulus. We revise up inflation forecasts for 2021 to 2.5% due to base effects and stronger growth. We raise our 10-year yield forecast to 1.8% for 2021 and 2.0% for 2022.

Euro area:

We increase our projections for real GDP growth in 2021 and 2022 based on a stronger external backdrop and a firmer recovery beyond Q1'21. We lift our CPI forecast for 2021 due to stronger than expected price pressures in Q1, and we see 10-year yields slightly higher at -0.2% (+0.2ppt) in 2021 and -0.1% (+0.3ppt) in 2022.

United Kingdom:

Upward revision to real GDP growth, 10-year yields and inflation forecasts. We anticipate a quicker than previously expected normalisation of economic activity due to progress on vaccinations, the government's ambitious lockdown release schedule, and further fiscal support from the spring budget. The latter implies more debt issuance and higher yields.

Japan:

Upward revision to 2021 and 2022 real GDP growth forecasts (to 2.6% from 2.4%, and to 1.9% from 1.7% respectively). Exports data and manufacturing PMI continue to improve, suggesting robust business recovery. Six prefectures have lifted their COVID-19 states of emergency alongside successful vaccine roll-out, supporting overall market sentiment.

China:

Upward revision to 2021 real GDP growth to 8.3% from 7.4% and to the 10-year yield forecast to 3.0% from 2.7%. Economic growth momentum is robust despite distortion from the Chinese New Year (CNY) holiday. February 2021 PMIs were the highest of all years since 2013 in which CNY fell in February. Exports surged 60.6% yoy in Jan-Feb, further supporting economic recovery.

US	2020	2021	2022	2020	2021	2022
	Real GDP (% change)			CPI (% change)		
Swiss Re Institute	-3.5 ↑	6.5 ↑	3.5 ↑	1.2	2.5 ↑	2.2
Consensus		4.7	3.6		2.3	2.2
IMF		3.1	2.9		2.8	2.1
	Fed Funds Rate (%)			10y Gov. Bond Yield (%)		
Swiss Re Institute	0.13	0.13	0.13	0.92	1.80 ↑	2.00 ↑
Bloomberg Consensus		0.17	0.20		1.65	1.97

Euro Area	2020	2021	2022	2020	2021	2022
	Real GDP (% change)			CPI (% change)		
Swiss Re Institute	-6.6 ↑	4.2 ↑	4.5 ↑	0.3	1.5 ↑	1.1
Consensus		4.4	4.1		1.2	1.2
IMF		5.1 ↑	3.1		0.9 ↑	1.2
	Refi. Rate (%)			10y Gov. Bond Yield (%)		
Swiss Re Institute	0.00	0.00	0.00	-0.57	-0.20 ↑	-0.10 ↑
Bloomberg Consensus		0.00 ↑	0.00		-0.30 ↑	-0.03

UK	2020	2021	2022	2020	2021	2022
	Real GDP (% change)			CPI (% change)		
Swiss Re Institute	-9.9 ↑	5.0 ↑	5.5 ↑	0.9	1.7 ↑	1.9 ↓
Consensus		4.2	5.6		1.5	2.0
IMF		5.9	3.2		1.2	1.7
	Bank Rate (%)			10y Gov. Bond Yield (%)		
Swiss Re Institute	0.10	0.10	0.10	0.19	0.70 ↑	1.00 ↑
Bloomberg Consensus		0.10	0.20		0.57	0.84

Japan	2020	2021	2022	2020	2021	2022
	Real GDP (% change)			CPI (% change)		
Swiss Re Institute	-4.7	2.6 ↑	1.9 ↑	-0.1	0.0	0.4
Consensus		2.3	2.3		-0.2	0.4
IMF		2.3	1.7		0.3	0.7
	Overnight Call Rate (%)			10y Gov. Bond Yield (%)		
Swiss Re Institute	-0.03	0.00	0.00	0.02	0.00	0.00 ↓
Bloomberg Consensus		0.00	0.00		0.05	0.05

China	2020	2021	2022	2020	2021	2022
	Real GDP (% change)			CPI (% change)		
Swiss Re Institute	2.3	8.3 ↑	5.3	2.5	1.7	2.1
IMF		8.2	5.8		2.7	2.6
	Reverse Repurchase Rate 7d (%)			10y Gov. Bond Yield (%)		
Swiss Re Institute	2.20	2.00	2.20	3.15	3.00 ↑	2.70 ↑
Bloomberg Consensus		-	-		3.18	3.19

Note: Arrows signal up-/ downward revisions from last month.

In case you missed it ...

- **US economic outlook:** US economic outlook – more vaccines, more stimulus, more growth and more inflation (11 Mar 2021) click [here](#) for the report
- **Economic insights:** The Great East Japan Earthquake: lessons learned, 10 years on (11 Mar 2021) click [here](#) for the report
- **Economic insights:** Machine intelligence to help build underwriting excellence in post COVID-19 times (23 Feb 2021): click [here](#) for the report
- **sigma 07/2020:** Rebuilding better: global economic and insurance outlook 2021/2022 (11 Nov 2020): click [here](#) for the report

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