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Standard Chartered Global Focus Q3 2021: Navigating a vulnerable recovery

27 July 2021, Pakistan – Standard Chartered expects global growth to rebound to 5.8% in 2021 from -3.3% in 2020 as economies reopen and vaccination rollouts gain momentum.

According to the latest Global Focus – containing the Bank's economic forecasts for Q3 – it sees two key downside risks to the outlook: (1) a more extensive resurgence of pandemic cases resulting from new variants, which could force the extension or re-imposition of restrictions; and (2) a more sustained surge in inflation that damages consumer confidence and forces a swifter tightening of monetary policy.

The two risks are linked, as current supply-chain pressures (and related costs) could worsen if a COVID resurgence disrupts global production again. Eighteen months on from the first COVID-19 cases, some parts of the world are emerging from the pandemic, while others remain in the midst of a crisis. Global case numbers so far this year are higher than for all of 2020, and many countries in Sub-Saharan Africa (SSA), Asia, Latin America and the Middle East are experiencing renewed surges with still-low vaccination rates. In most major developed economies, by contrast, advanced vaccination programmes are containing the pandemic and allowing restrictions to be eased.

Global GDP and trade volumes are recovering faster now than after the global financial crisis Thanks to successful pandemic containment, China's GDP has returned to trend (the level reached if growth had continued at the average pace seen before the pre-pandemic peak); the Bank continues to expect growth of 8% this year.

Activity elsewhere in Asia has turned lower again with a resurgence in COVID cases. India, Singapore, Indonesia and Japan are unlikely to return to pre-pandemic GDP levels until Q3-2021. Since the previous Global Focus in early April, Standard Chartered has downgraded its 2021 GDP growth forecasts for these economies, with the exception of Singapore, where activity has been resilient despite restrictions.

Of the developed economies that were hardest hit by the pandemic, the Bank expects the US to return to trend GDP by late 2021 thanks to substantial fiscal support; it maintains the 2021 GDP growth forecast of 6.5%. Although the euro area may not fully regain output lost during the pandemic after having suffered a double-dip recession, the Bank raises its 2021 growth forecast to 4.5% given good vaccination progress, with over half of the population having received at least one dose.

Global export volumes are now 3.9% higher than before the pandemic. Booming goods trade has particularly benefited small export-oriented economies (such as Taiwan and Vietnam) and commodity producers (such as Chile). Standard Chartered expects this dynamic to continue, helped by pent-up consumer demand, as unemployment falls and savings are deployed amid economic reopening.

In developed economies, the build-up of savings during the pandemic has raised the prospect of a spending surge once economies normalise and restrictions are fully lifted. However, several factors may limit the full deployment of savings for higher spending on goods and services. And precautionary savings may stay high, particularly as households anticipate higher taxation to reduce government debt levels. The Bank expects a gradual rather than an abrupt return to 'normal' savings rates over the next couple of years.

Sarah Hewin, Head of Research, Europe and Americas, Standard Chartered Bank, said: "The pandemic continues to pose downside risks to the outlook. The more recent emergence of the 'Delta plus' variant, which is potentially even more transmissible, highlights that new variants will continue to pose a significant threat until cases are brought down sufficiently on a global scale. Achieving herd immunity against the Delta variant could require as much as 90% of the population to be vaccinated. While China and the EU are on track to approach such levels by September or October, the recent slowdown in the US vaccination pace suggests that the 90% level may not be reached until February 2022."

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Note to editors

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