



RESEARCH

World Economic Outlook, October 2021

**RECOVERY DURING A PANDEMIC:
HEALTH CONCERNS, SUPPLY DISRUPTIONS, PRICE PRESSURES**

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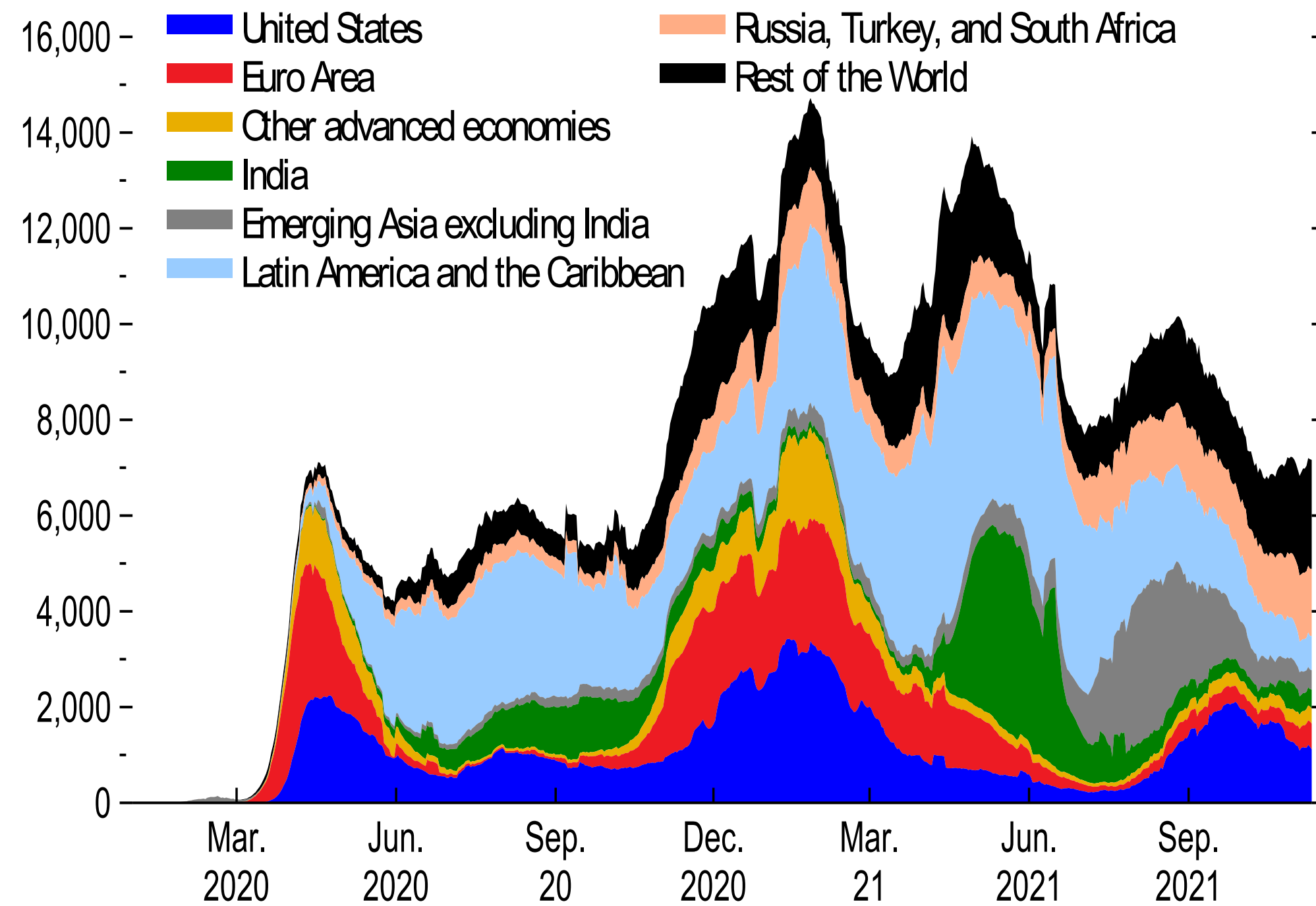
Overview

- **Increased uncertainty about the path of the pandemic:** rapid spread of Delta, threat of new variants
- **Policy choices becoming more difficult:** rising inflation, still subdued employment, more limited room for maneuver
- **Fault lines opened up by pandemic likely to extend into medium term:** vaccine inequities, policy shifts, near-term divergences become medium-term scarring

Shifting incidence of pandemic severity, vaccine inequity

New Confirmed COVID-19 Deaths

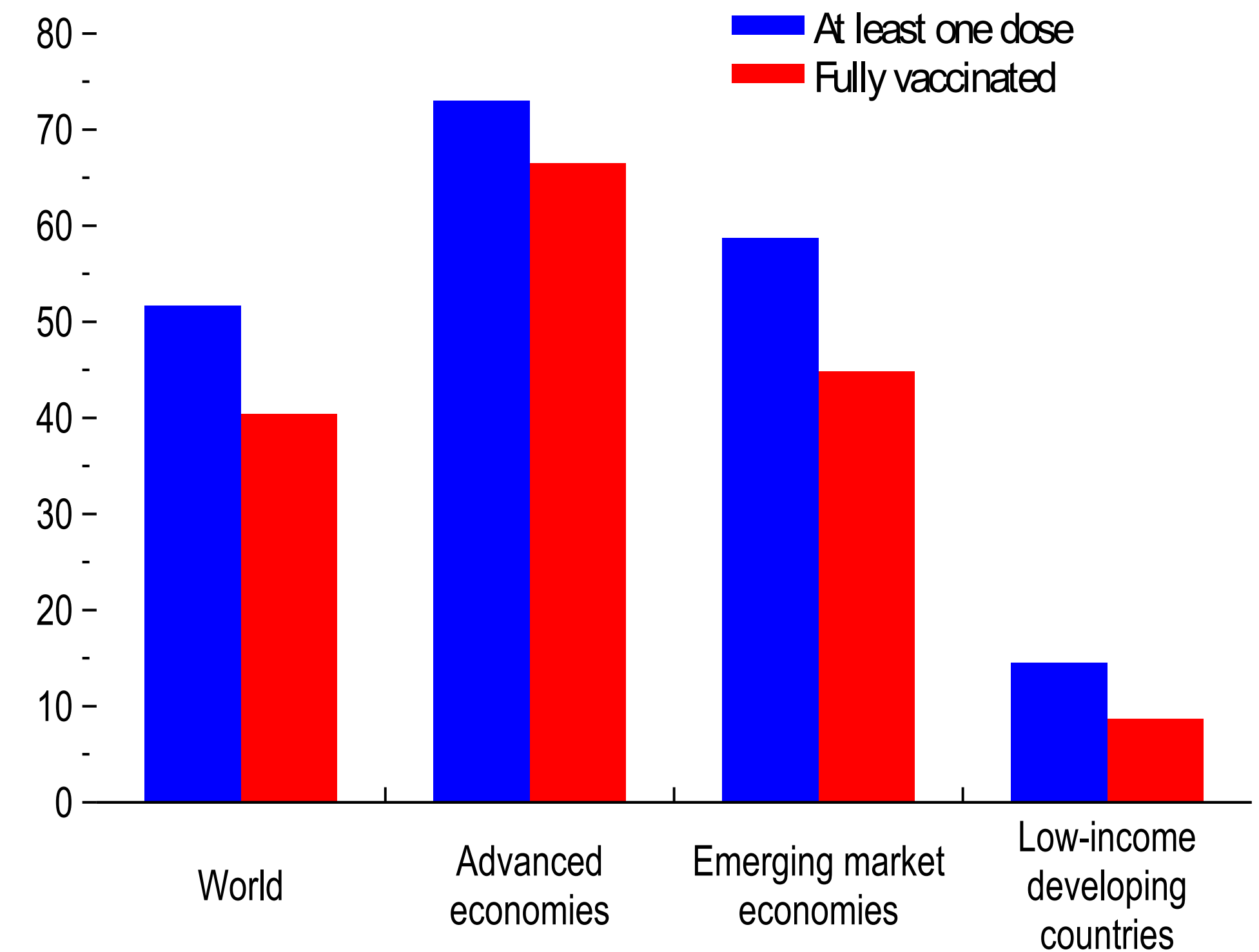
(Persons, seven-day moving average)



Sources: Our World in Data; and IMF staff calculations.
 Note: Data as of November 11, 2021.

The Great Vaccination Divide

(Percent of population)



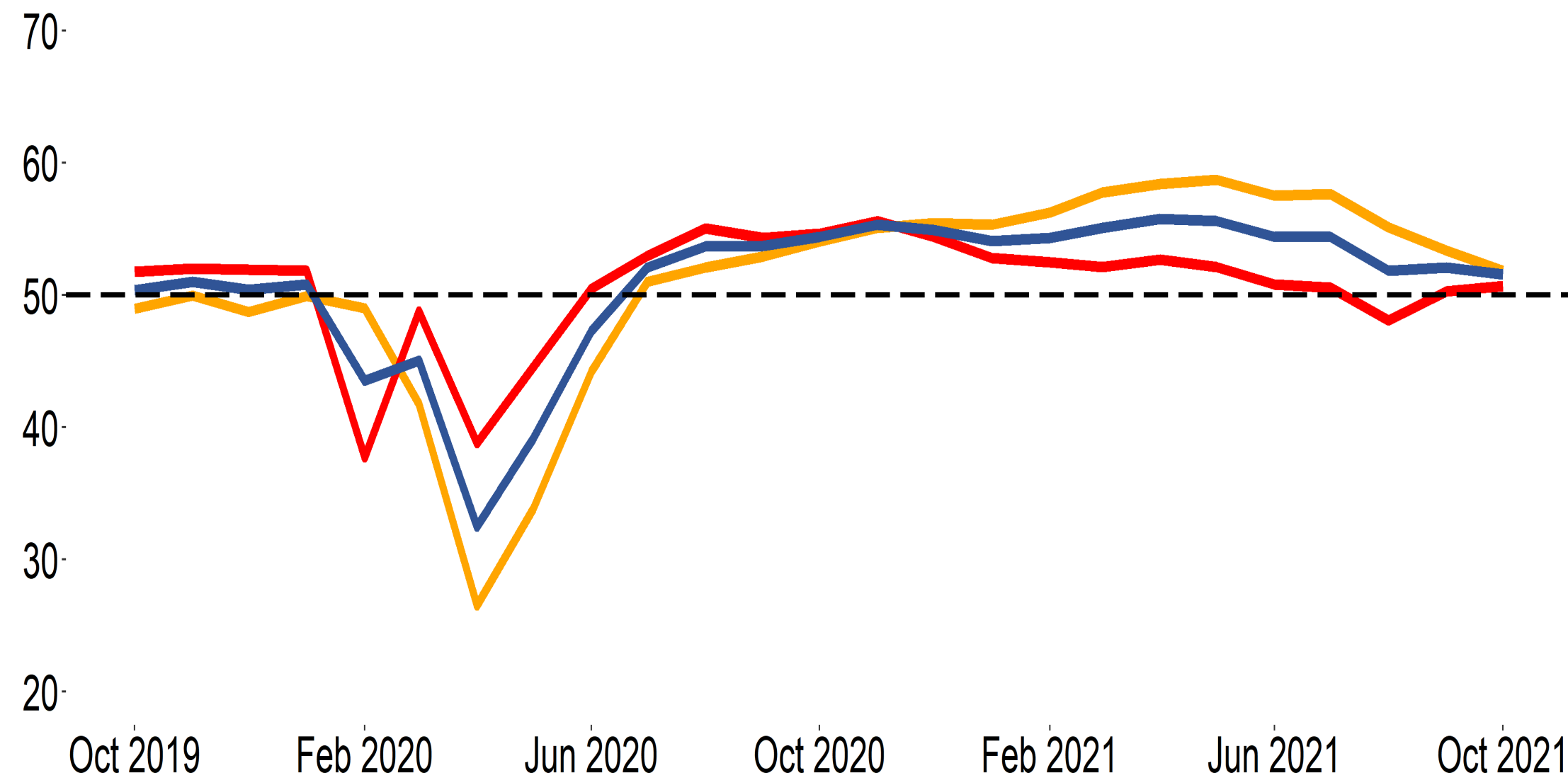
Sources: Our World in Data; and IMF staff calculations.
 Note: Data as of November 11, 2021.

Delta and supply disruptions weighing on the outlook

Manufacturing PMI - Output

(diffusion index, 50+=expansion)

— AEs — EMs — World



AE Manufacturing PMI includes: GBR, DEU, FRA, ITA, ESP, IRL, NLD, AUT, GRC, DNK, CHE, USA, CAN, JPN, AUS and NZL.
AE Manufacturing data are weighted according to each country's contribution to the AE Manufacturing Gross value Added (GVA).

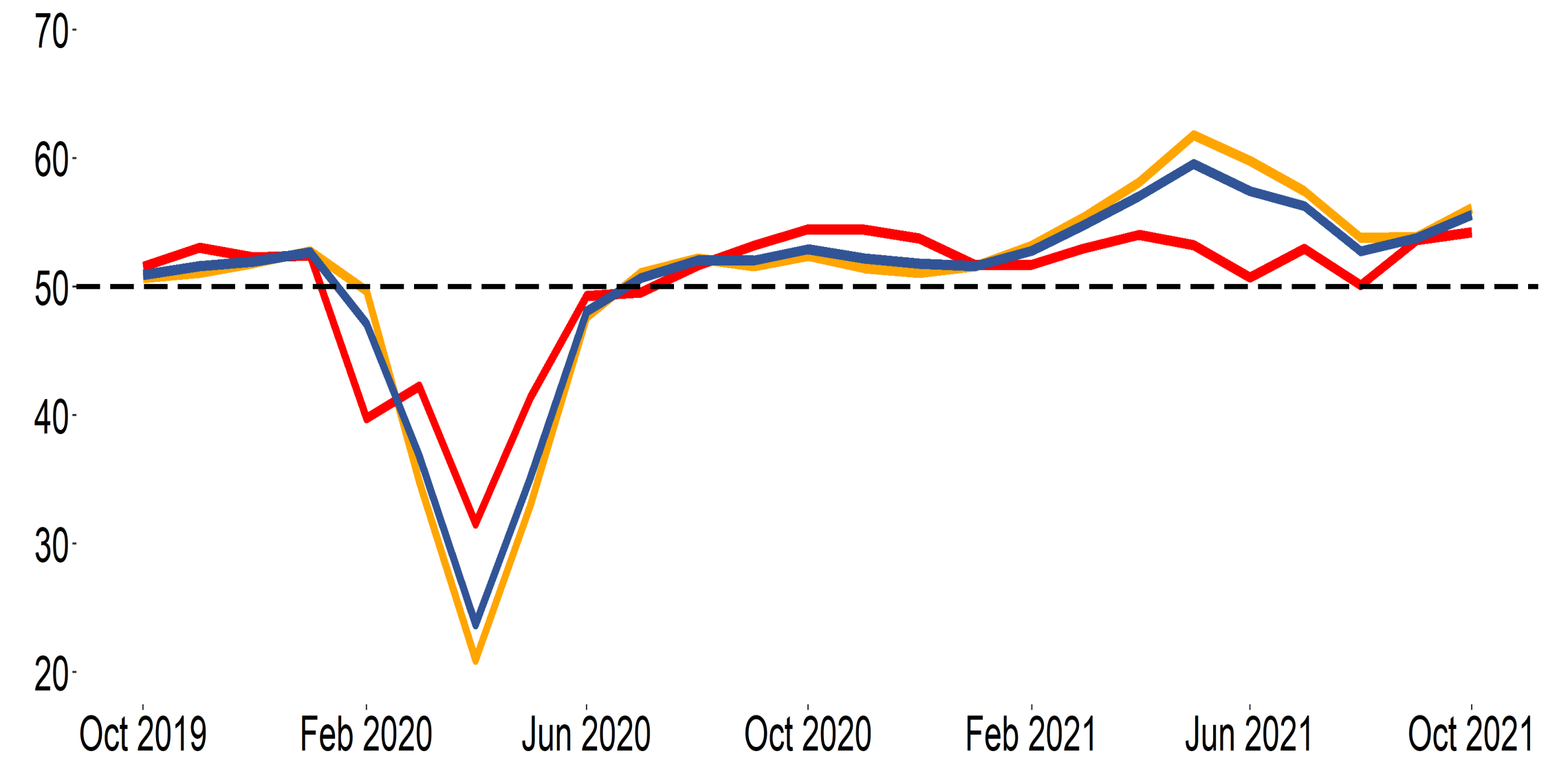
EM aggregate includes:
BRA, CHN, CZE, EGY, IND, IDN, KEN, LBN, MYS, MEX, NGA, PHL, POL, RUS, SAU, ZAF, THA, TUR, ARE, VNM, GHA, and COL.
Composite EM data are a weighted average of EM Manufacturing and EM Services data, so would include all the countries on the list.

Sources: IHS Markit, Haver Analytics, IMF staff calculations
Updated November 11

Services PMI - Business Activity

(diffusion index, 50+=expansion)

— AEs — EMs — World



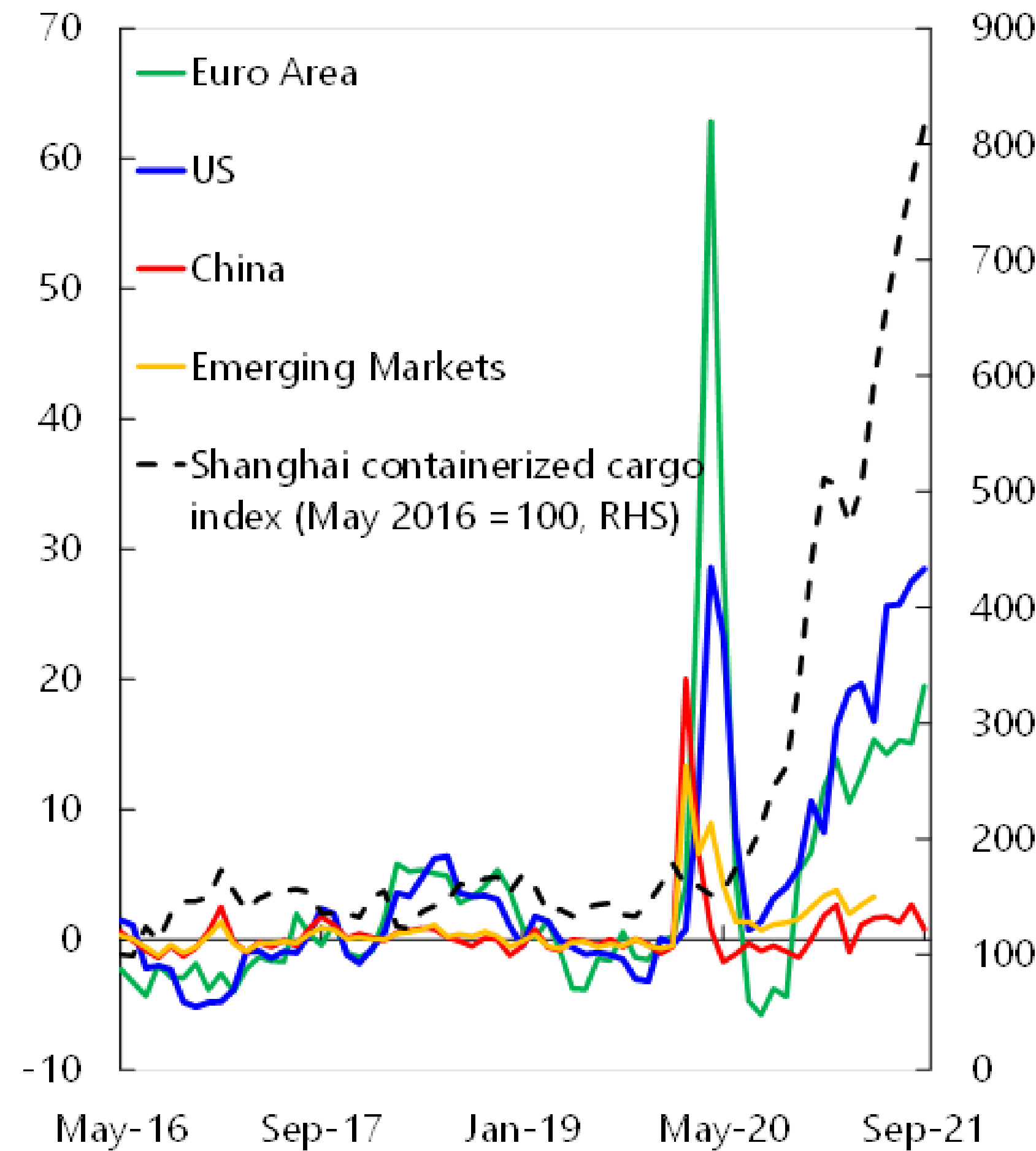
AE Services PMI includes: GBR, DEU, FRA, ITA, ESP, IRL, USA, JPN, AUS and NZL.
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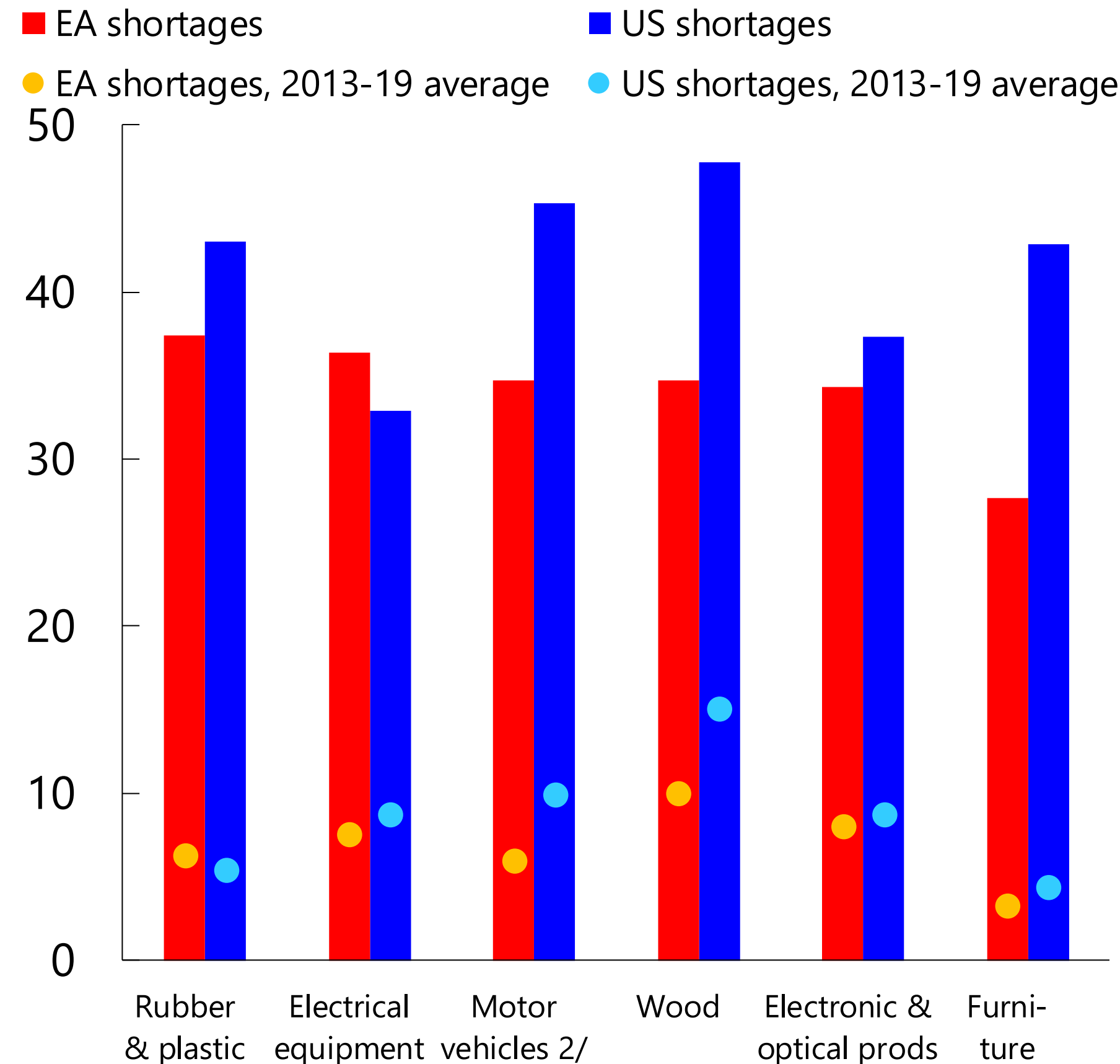
Supply-demand mismatches persist

Supply Chain Disruptions
(index)



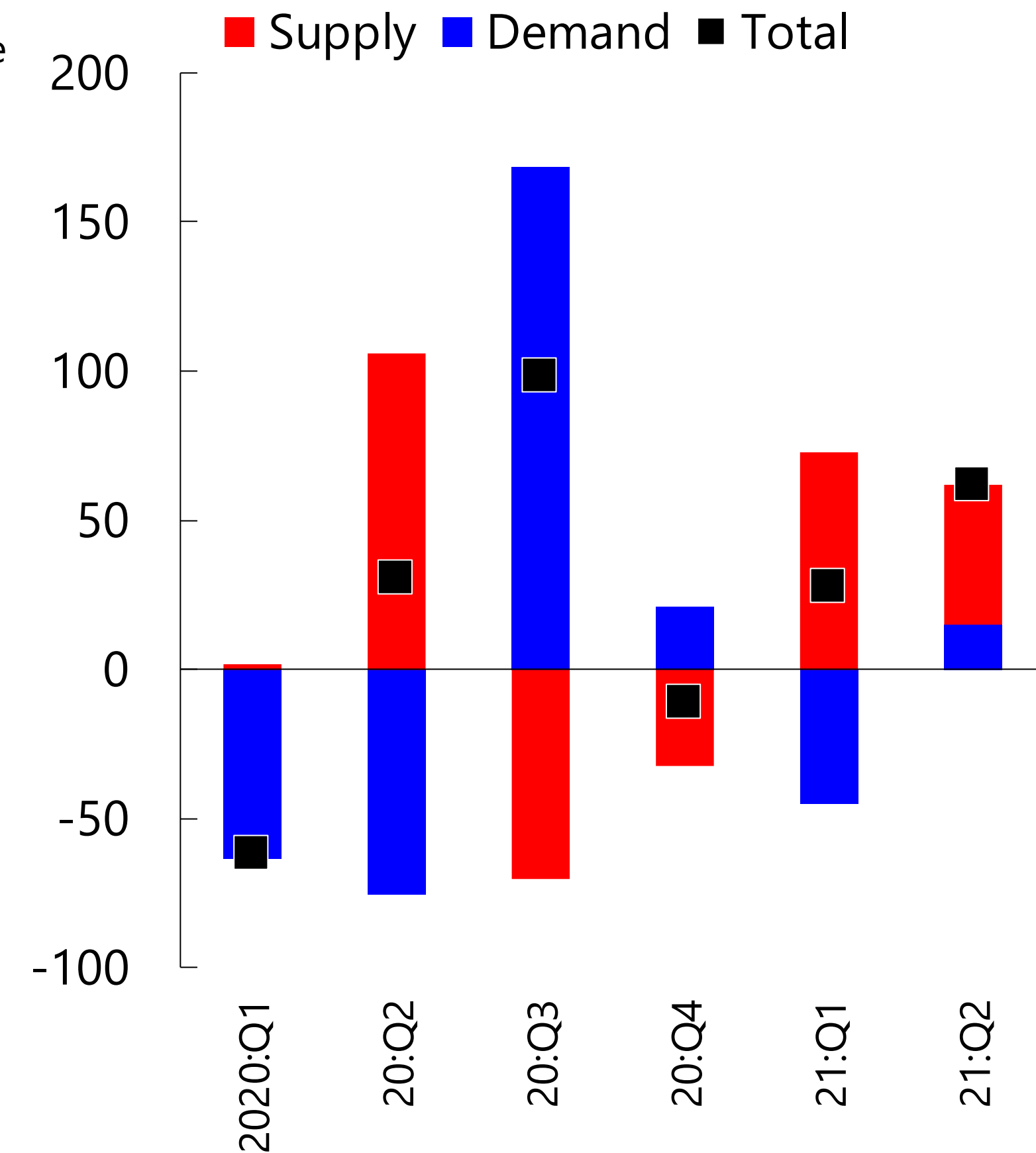
Widespread shortages

(percent of businesses reporting equipment shortages limiting production; 2021Q2)



Supply and demand drivers of shipping expenditure growth

(percent, Baltic Dry Index)



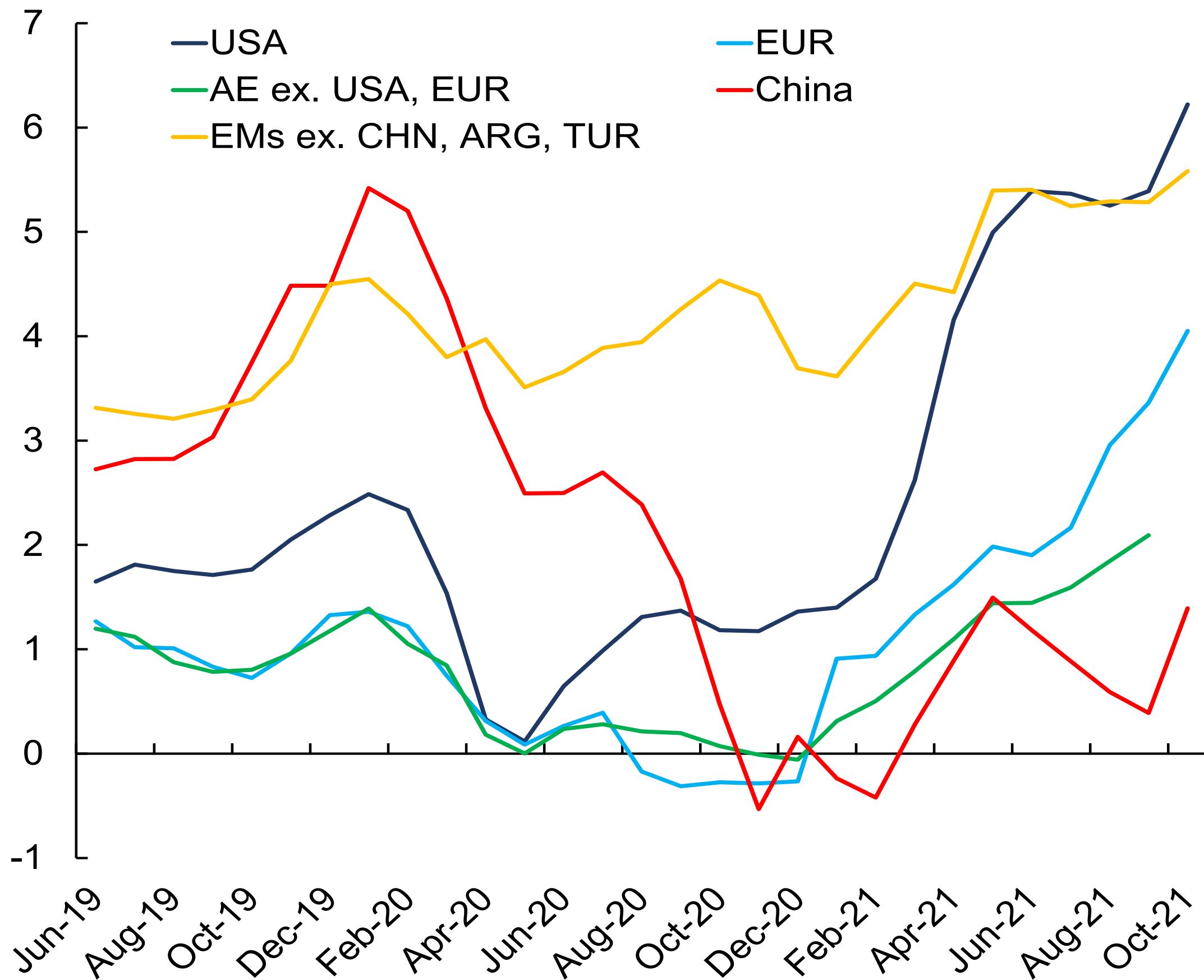
Source: Bloomberg, L.P.; Haver Analytics; IHS Markit; Beige Book, Federal Reserve Board; U.S. Bureau of Economic Analysis; Eurostat; U.S. Census Bureau; U.S. Bureau of Labor Statistics; and IMF staff calculations.
1/ Supply Chain Disruptions are calculated as the difference between the supply delivery times sub-index in the PMI and a counterfactual, cyclical measure of supply delivery times based on the manufacturing output sub-index in the PMI.

2/ Denotes "Transportation Equipment Manufacturing" for the US and "Motor Vehicles and Trailers" for the euro area (EA).

Elevated inflation with cross-country differences

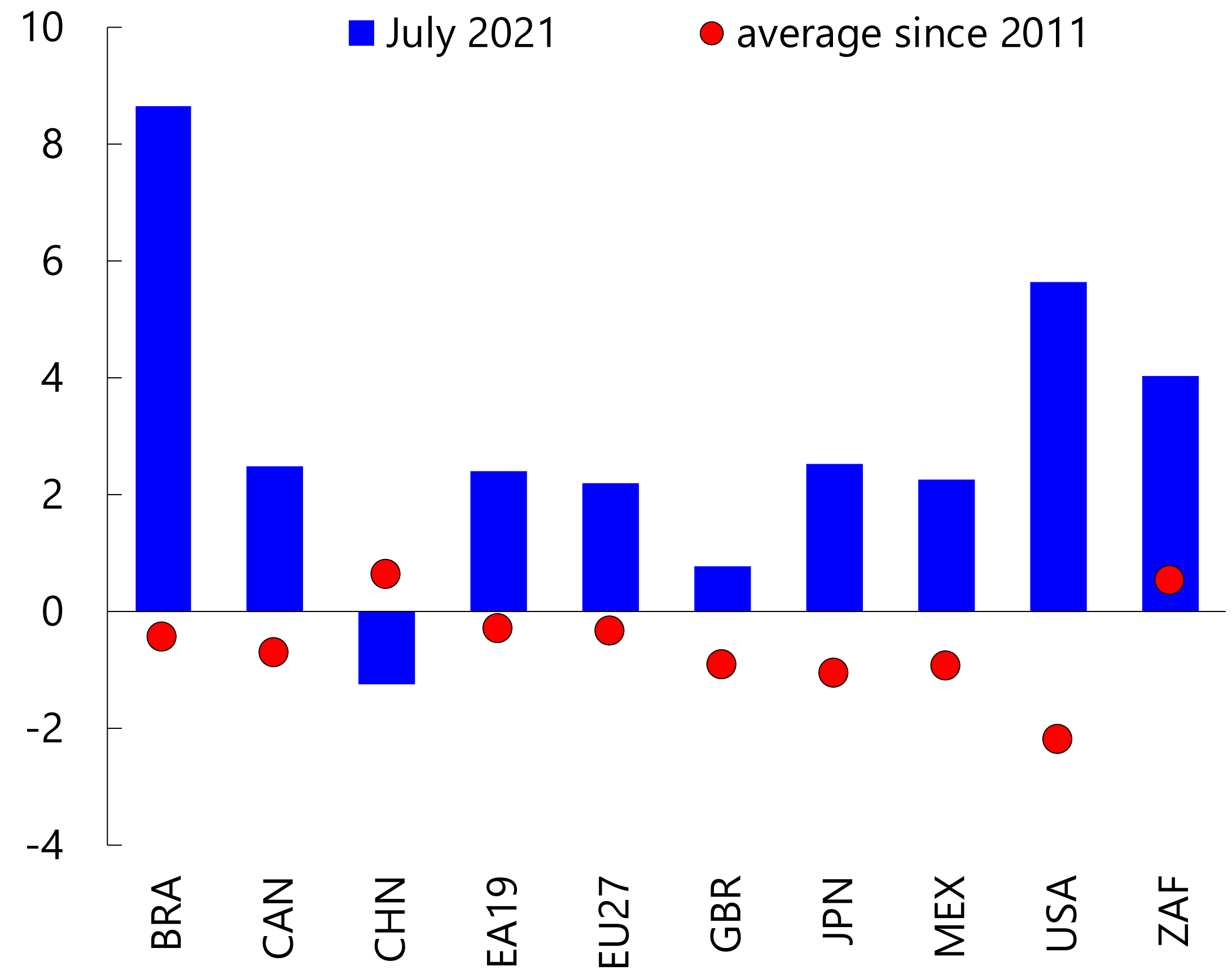
Headline Inflation

(year-on-year, percent)



Excess of goods over services inflation 1/

(percent per year)



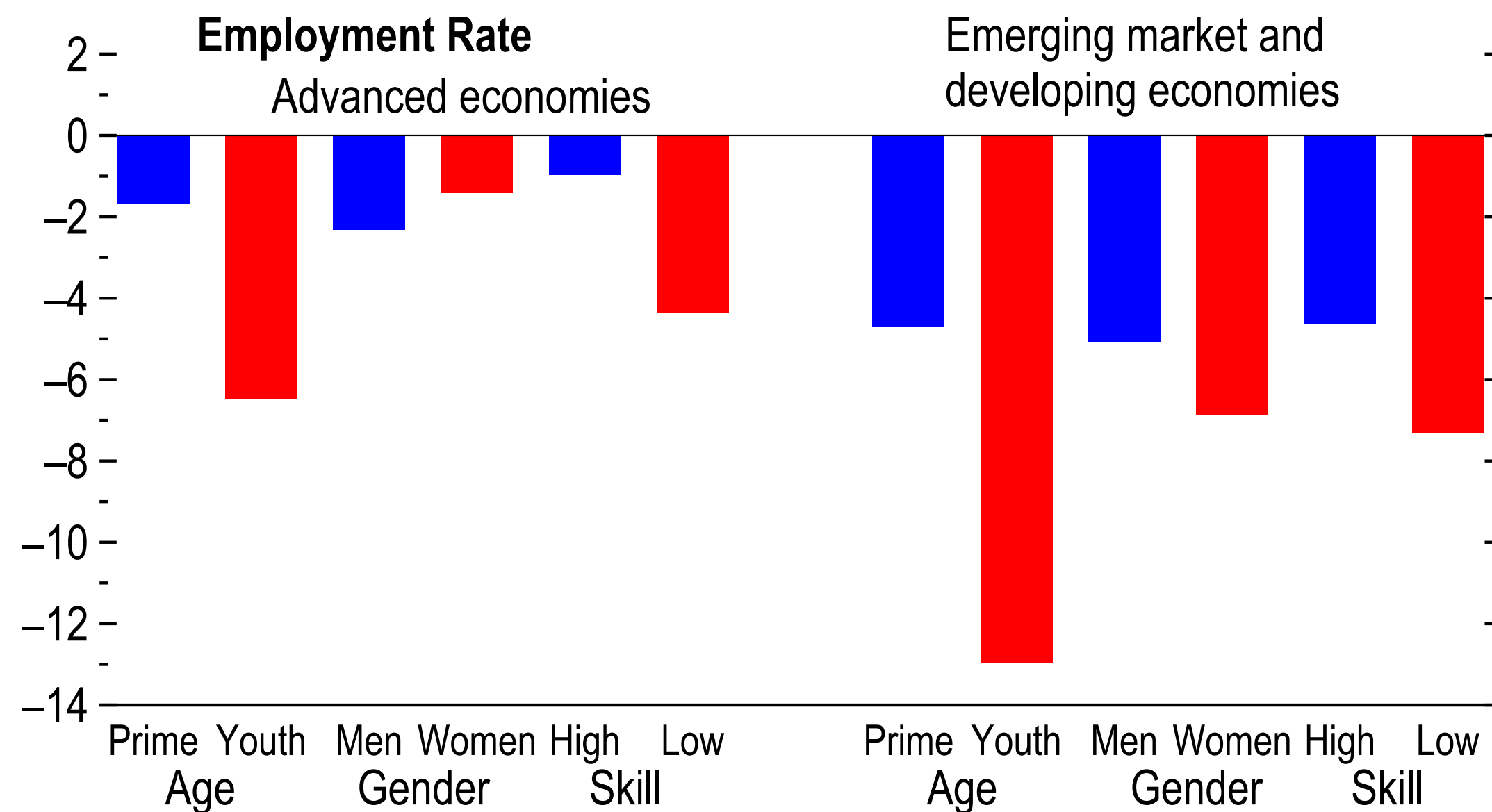
Sources: Bloomberg, L.P.; IMF *Global Data Source*; IMF *STA CPI Database*; Haver Analytics; IMF, *World Economic Outlook*; Food and Agriculture Organization of the United Nations; and IMF staff calculations.

1/ JPN average since 2016.

Labor market slack persists; employment anticipated to lag output

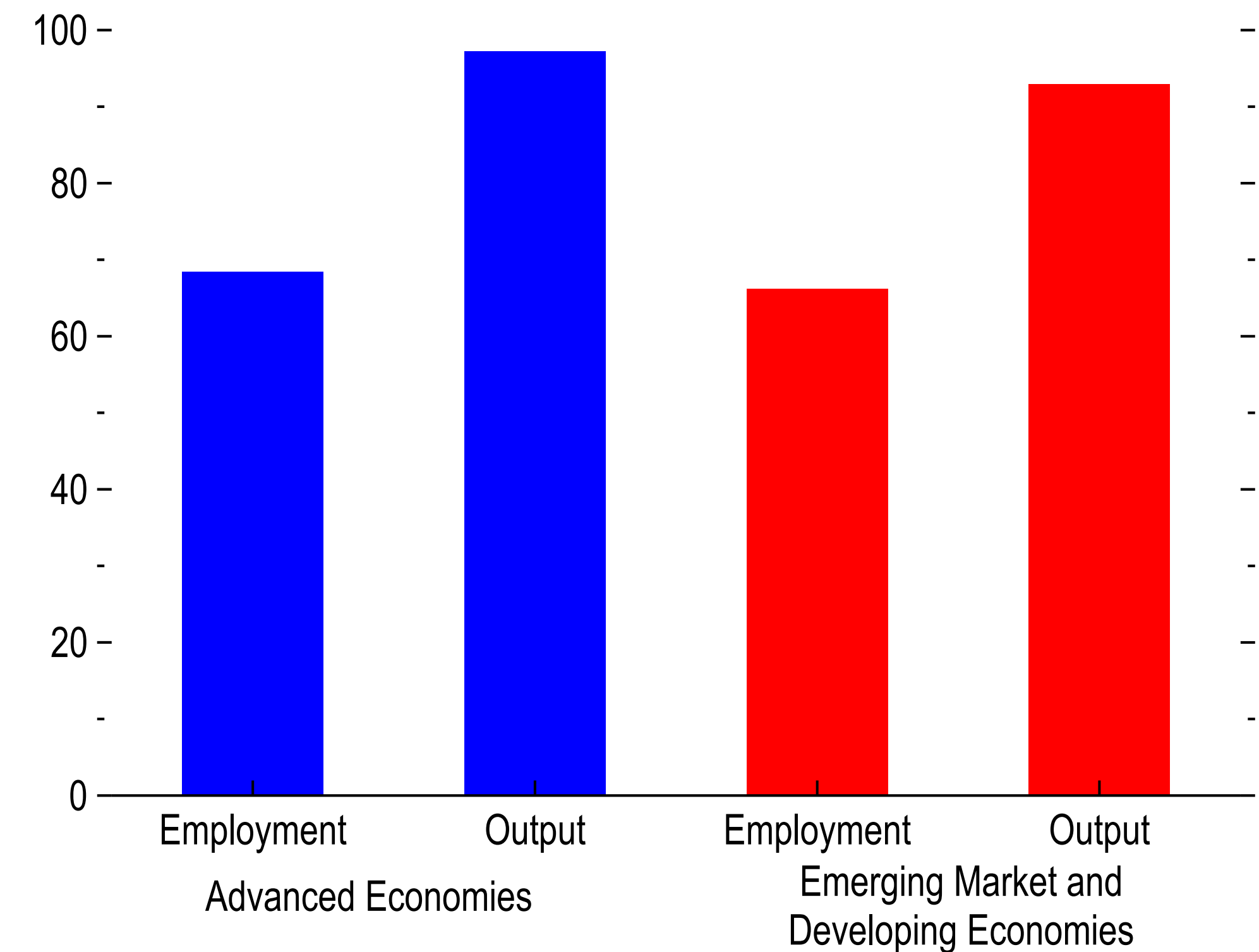
Labor Markets by Economy and Worker Groups

(Average percent difference from 2019:Q4 to 2021:Q1)



Share of Economies Projected to Regain Pre-Pandemic Employment and Output Levels by 2022

(Percent)



Sources: IMF staff estimates.

Growth projections: Advanced economies

(percent change from a year earlier)



World



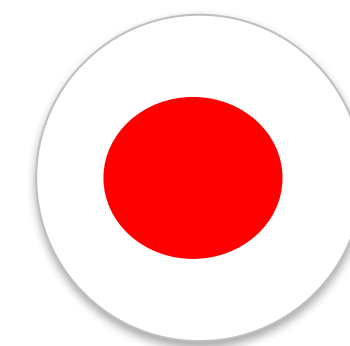
Advanced Economies



U.S.



Euro Area



Japan



U.K.



Canada



Other
Advanced
Asia

2020

-3.1

-4.5

-3.4

-6.3

-4.6

-9.8

-5.3

-1.2

Revision from
Jul. 2021

0.1

0.1

0.1

0.2

0.1

0.0

0.0

0.0

2021

5.9

5.2

6.0

5.0

2.4

6.8

5.7

4.8

Revision from
Jul. 2021

-0.1

-0.4

-1.0

0.4

-0.4

-0.2

-0.6

-0.1

2022

4.9

4.5

5.2

4.3

3.2

5.0

4.9

3.5

Revision from
Jul. 2021

0.0

0.1

0.3

0.0

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0.4

0.3

Source: IMF, October 2021 *World Economic Outlook*.

Growth projections: Emerging markets and LIDCs

(percent change from a year earlier)

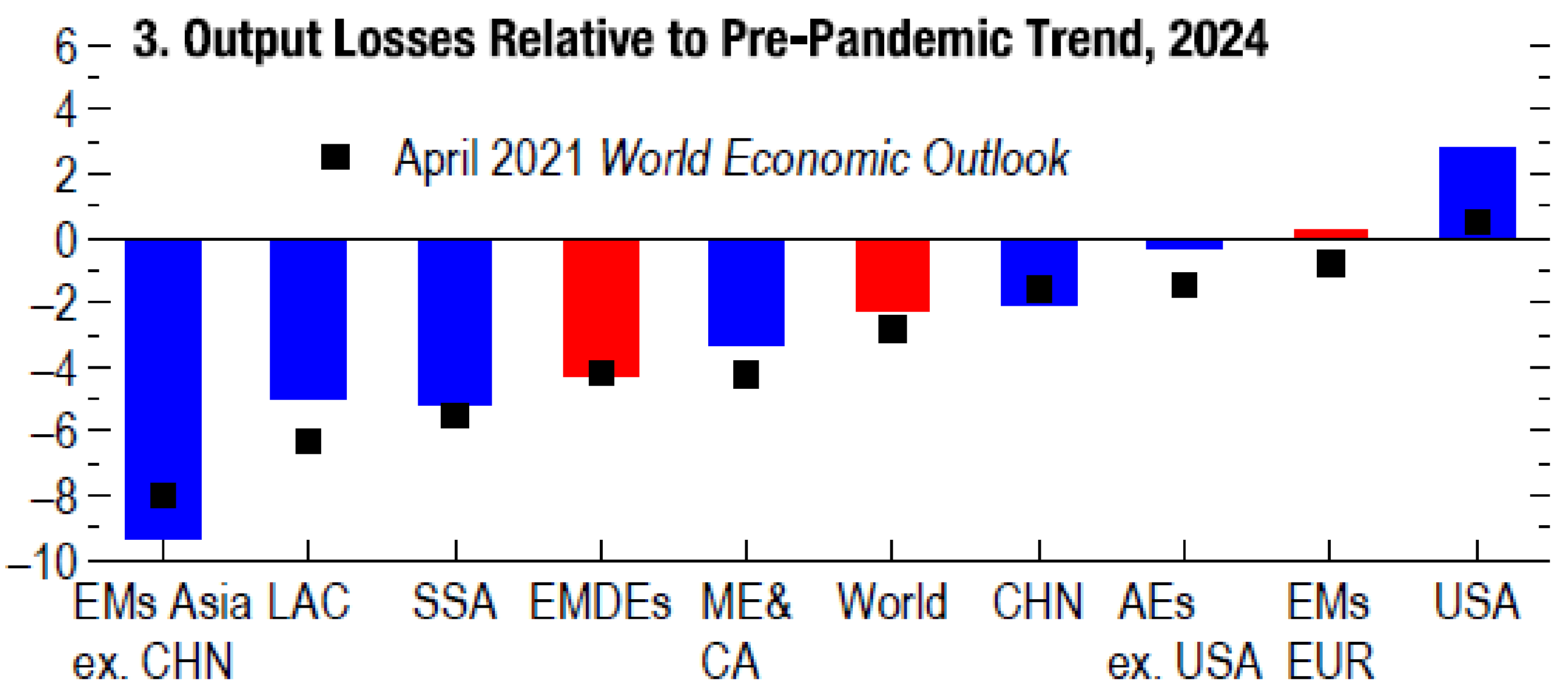
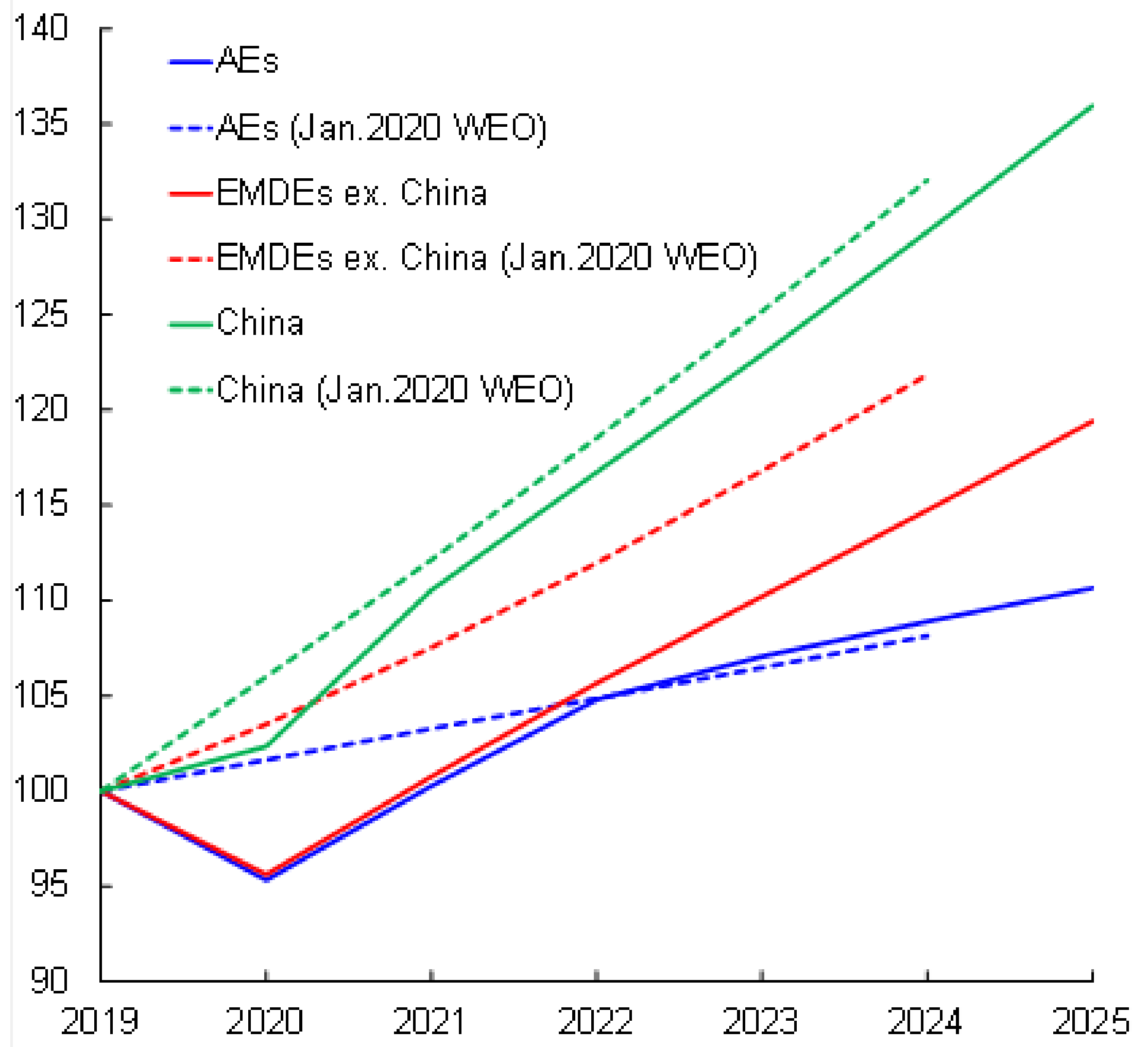
	 World	 Emerging Market and Developing Economies	 China	 India	 Brazil	 Russia	 Commodity Exporting Economies	 Low Income Developing Countries
2020	-3.1	-2.1	2.3	-7.3	-4.1	-3.0	-3.8	0.1
Revision from Jul. 2021	0.1	0.0	0.0	0.0	0.0	0.0	0.0	-0.1
2021	5.9	6.4	8.0	9.5	5.2	4.7	4.4	3.0
Revision from Jul. 2021	-0.1	0.1	-0.1	0.0	-0.1	0.3	-0.1	-0.9
2022	4.9	5.1	5.6	8.5	1.5	2.9	3.5	5.3
Revision from Jul. 2021	0.0	-0.1	-0.1	0.0	-0.4	-0.2	-0.1	-0.2

Source: IMF, October 2021 *World Economic Outlook*.

Expected output scarring varies across groups

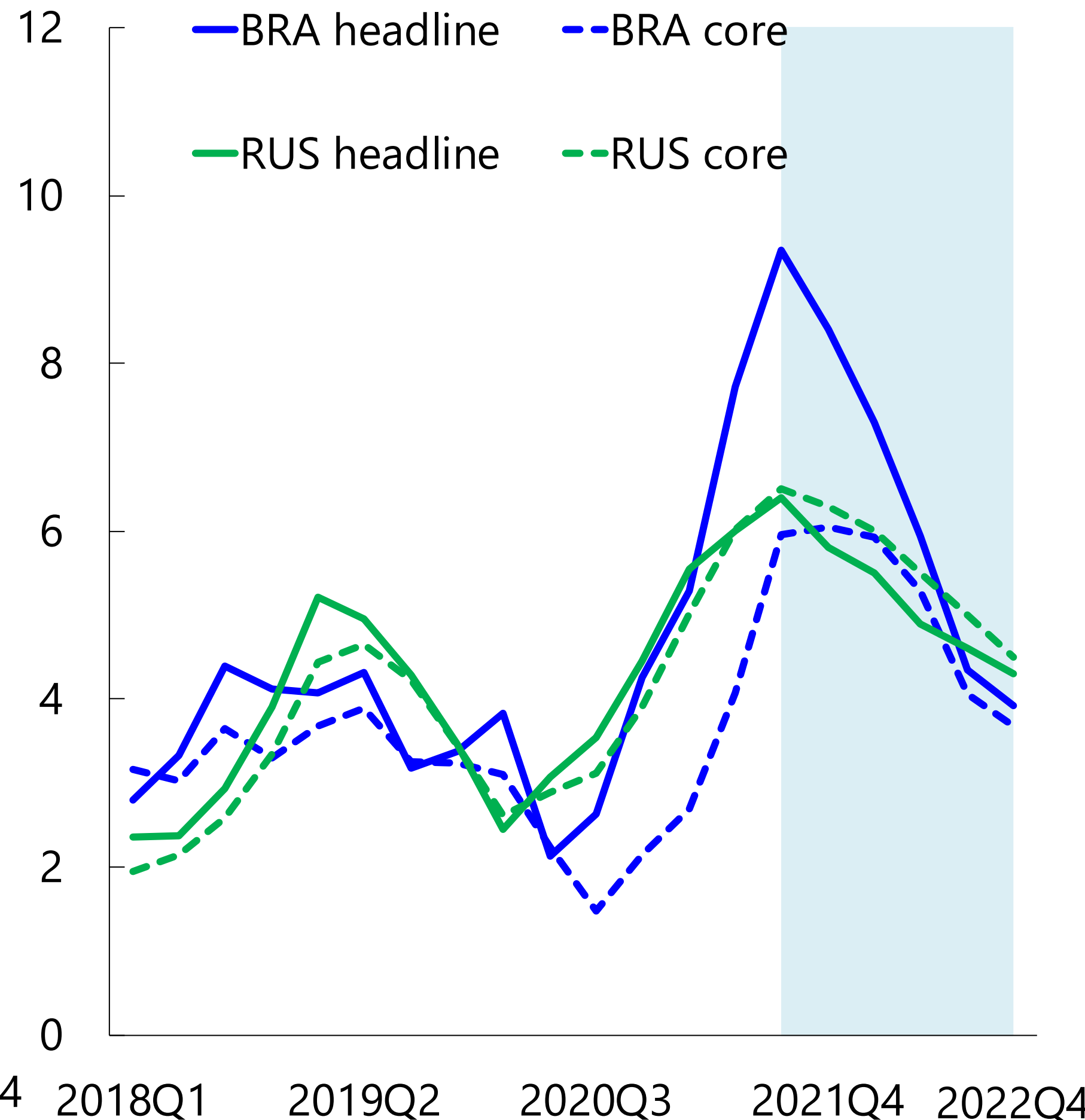
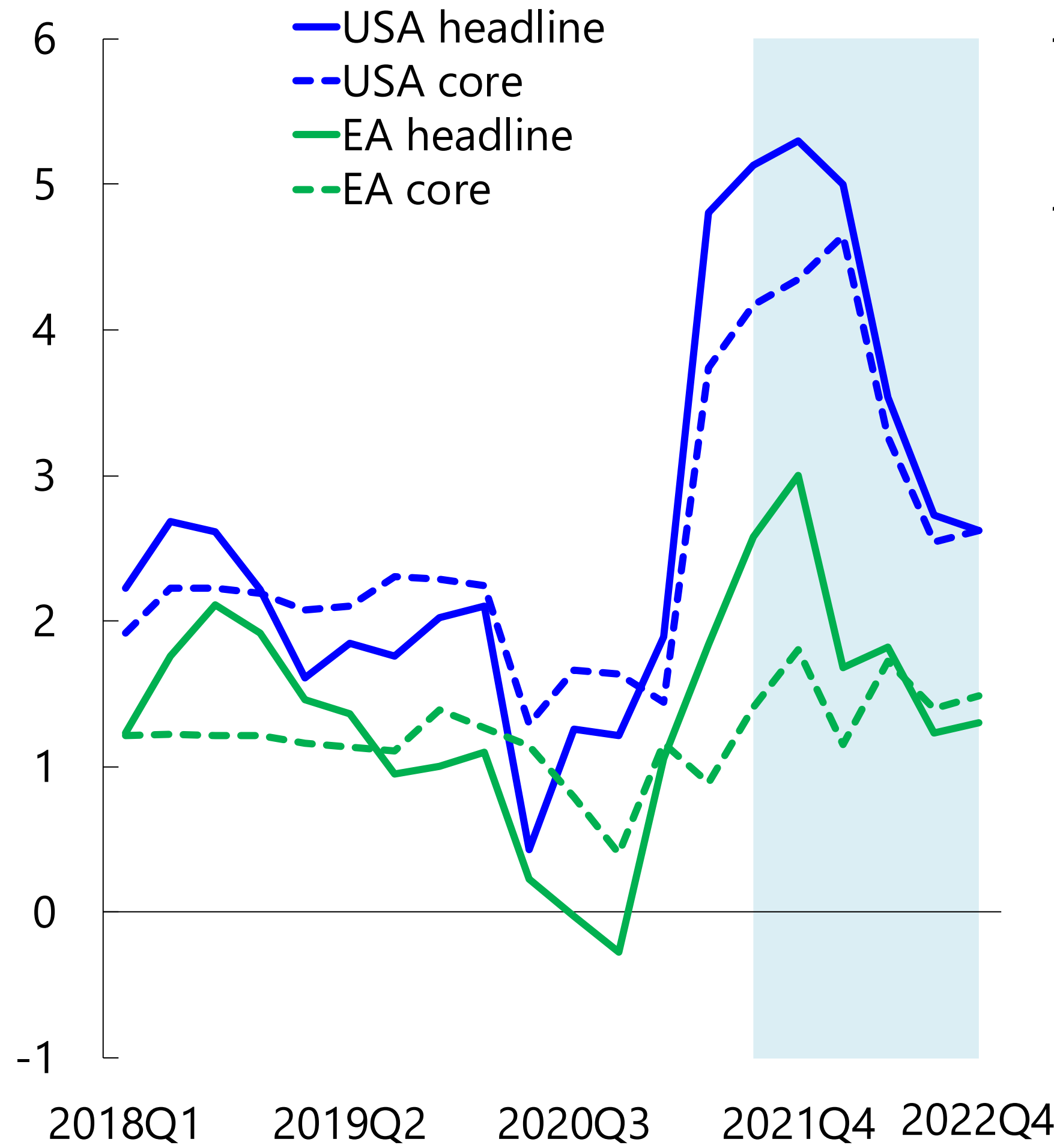
Projected Output Path

(Index, 2019=100)

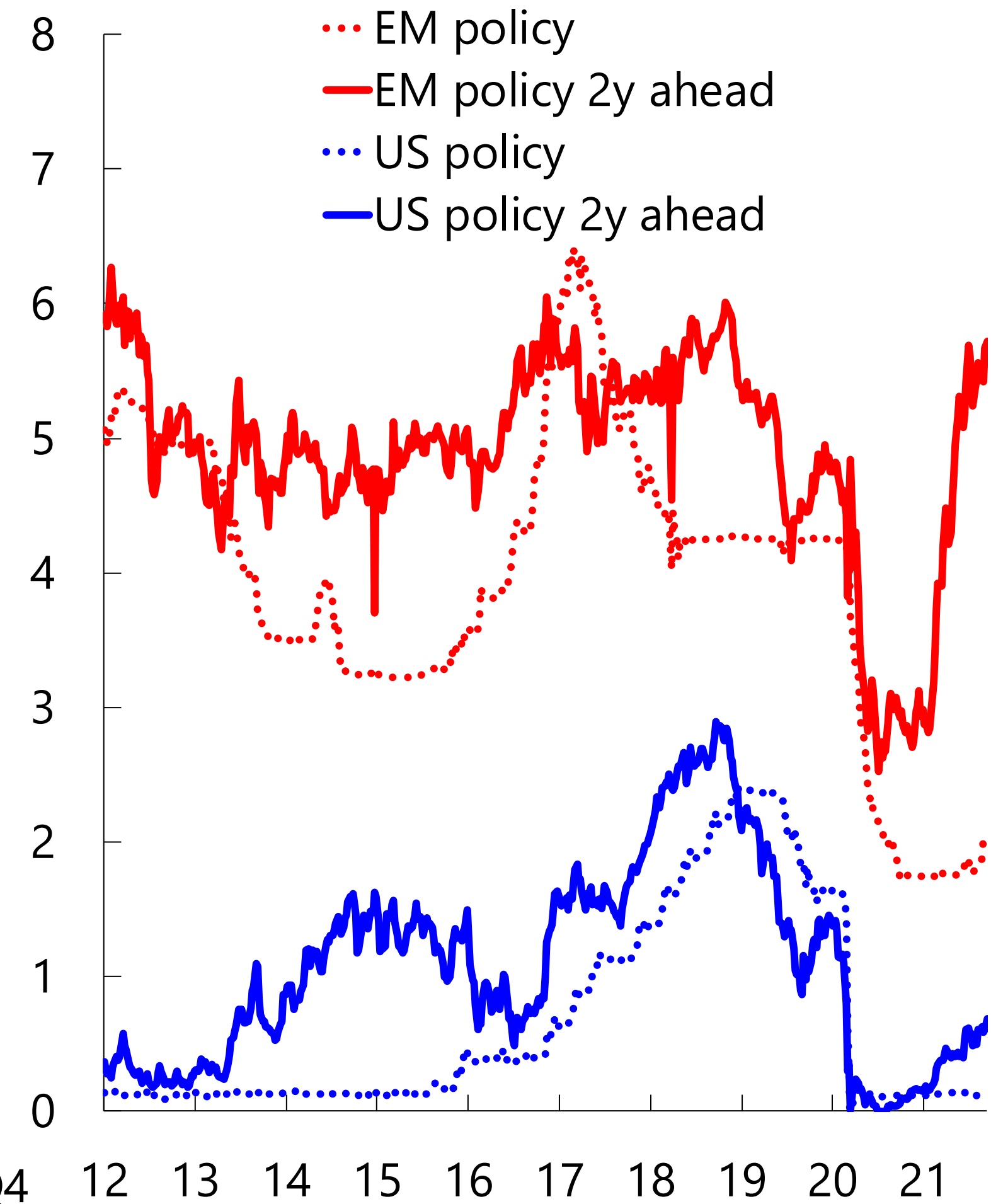


Inflation expected to revert to normal ranges by end-2022

Headline and core inflation (percent; yoy)



Policy rates and 2-year ahead market expectation (percent)



Risks are tilted to the downside

On the upside, the recovery could turn out stronger if:

- **Vaccine production and distribution** proceed faster than assumed
- Faster **productivity growth** from changes in production, distribution, and payment systems
- Faster and more effective implementation of structural **investment plans** (Public investment push in the US, NextGen EU)

But downside risks are dominant:

- Emergence of more transmissible and deadlier **SARS-CoV-2 variants**
- More persistent **supply-demand mismatches** → sustained price pressures and rising inflation expectations → faster-than-anticipated monetary normalization in AEs and tightening of global financial conditions
- Smaller **US fiscal package**
- Financial market volatility from **failing to raise US federal debt ceiling** or **large-scale disorderly corporate debt defaults and restructuring in China property sector**
- Intensifying **unrest, geopolitical tensions, trade policy uncertainty, cyberattacks**
- More adverse **climate shocks**

Multilateral policy priorities

- **Accelerate vaccine access**
- **Invest in climate actions**
- **Ease financial constraints** to struggling countries (SDRs allocation, DSSI)
- **Tackle debt vulnerabilities** (Common Framework)
- **Defuse trade and technology tensions**

National policy priorities, to be adjusted to country-specific pandemic and economic conditions

Fiscal and structural policies

- Continue **health spending**—vaccines, testing, and treatments—and targeted support to households and firms most impacted
- Facilitate growth opportunities related to **green technology** and **digitalization**, reverse setback to **human capital** accumulation, and reduce **inequality**
- Address **sovereign debt overhangs**

Monetary policy

- Central banks can generally **look through transitory inflation** pressures, but should stand ready to act if risks of inflation expectations de-anchoring rise.
- Where tangible risk of **inflation expectations de-anchoring**, tighten to get ahead of price pressures
- Where recovery is strong and vaccinations widespread, **signal forthcoming normalization**

Financial policy

- Measures to support credit and stabilize balance sheets should become **more targeted**
- Strengthen **insolvency frameworks** to expedite resolution of debt overhangs

Thank you