



## Key Developments<sup>1</sup>

7 February 2021

*The virus continues to depress aggregate demand across most OECD economies.*

	Outcome	Previous	Comment
<b>US non-farm payrolls</b> (Feb)	49K	-227K	Little change
<b>EU composite PMI</b> (Jan)	47.8	47.5	Yet another slightly sub-par figure
<b>EU GDP Q4</b> (QoQ)	-0.7%	12.4%	Last quarter's rebound was short-lived
<b>India budget</b>	3% fiscal boost for 2021		Unexpectedly stimulative

### US non-farm payrolls: indicative of a sluggish economy

- The increase of just 49K comes on top of an 87K downward revision to December.
- The coronavirus continues to depress aggregate demand.

### EU composite PMI: no real change to 'off-colour' sentiment

- At 47.8 in February, the reading was essentially unchanged from January's 47.5.
- Purchasing managers are still on balance pessimistic: a value of 50 or above has not been registered since last November.

### EU GDP: lockdowns are having their now-customary depressive effect

- After rebounding by 12.4% last quarter, GDP has fallen back again, by 0.7%.
- With the EU-wide fiscal stimulus due to kick in only around the end of the year, it looks as if until then aggregate demand will continue to languish, at best.

### India budget:<sup>2</sup> government spending accelerated

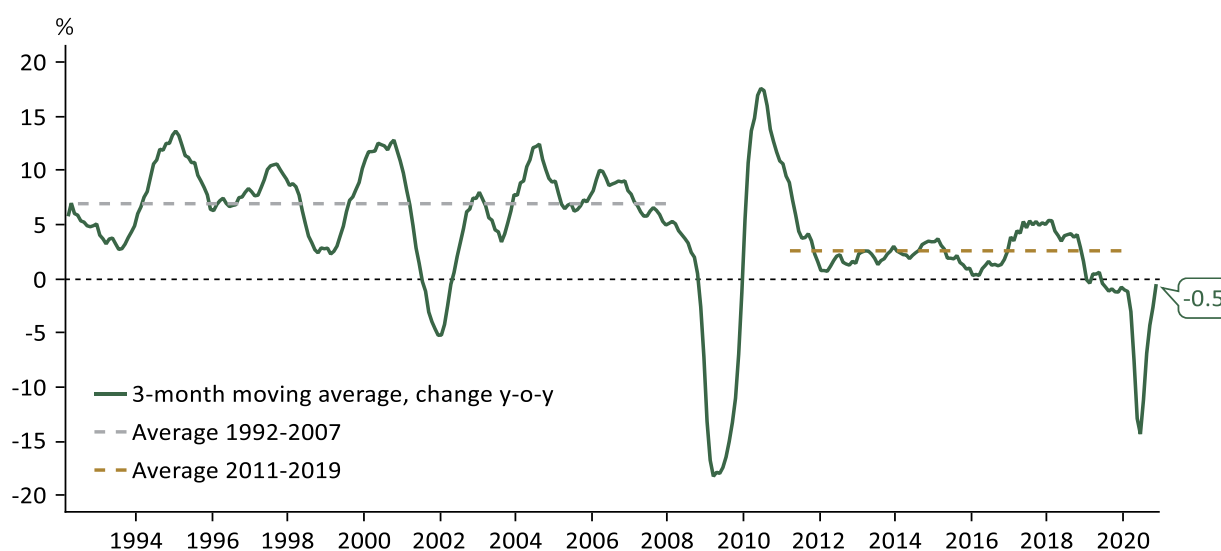
- The fiscal boost, of the order of 3% of GDP for this year, is large by any standards.
- The decision – a possible harbinger for other countries – reflects recognition of faster growth as a pre-condition for debt sustainability, and increased estimates of likely multiplier effects.

**Bottom line:** *no challenge so far to our World View – neither on the output nor the inflation front.*

## Chart of the week. World trade volume growth: a bounce-back, but still slower than pre-crisis.

- Further confirmation of global sluggishness, given that lockdown benefits goods demand relative to services.

Figure: 3-month moving average, % y-o-y



Sources: Llewellyn Consulting and Macrobond

Note: Last data point is November 2020

<sup>1</sup> *Key Developments* presents what in our judgement represent the past week's most important individual data and other developments.

These are selected, in an attempt to counteract the risk of Kahneman 'confirmation bias', as those best able to reveal the extent to which the key assumptions and relationships that underpin our *World View* remain valid – or not, as the case may be.

Generally we feature hard data rather than forecasts or survey results; but make exceptions in important cases.

This approach is particularly important at present because economies and markets have been hit by a shock that is both large and novel, the twin conditions that typically challenge understanding, and lead to unusually large forecasting errors.

<sup>2</sup> Interpretation based on Varma, S., 2021. *India Budget: In fiscal activism, India takes a chance on growth*. 2 February. [Accessed 5 February 2021]

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