



Key Developments¹ & Chart of the week

5 March 2021

Regionally differentiated growth prospects, but overall a bit quicker than earlier seemed likely

	Outcome	Previous	Comment
US ISM manufacturing PMI (Feb)	60.8	58.7	PMI reached a 3-year high
US non-farm payrolls (Feb)	379K	166K	A reasonably solid number
China manufacturing PMI (Feb)	50.6	51.3	Weakest outcome since last April
EA manufacturing PMI (Feb)	57.9	54.8	Strongest reading for 4 months
Canada GDP (Q4)	+2.3	+8.9	Private demand fell back in Q4
Australia GDP (Q4)	+3.1	+3.4	Only 1% away from pre-pandemic
UK budget	Supportive of growth near term, but little strategy longer term		

Manufacturing PMIs show diverging regional stories

- The ninth consecutive month of US expansion confirms the vigour of its recovery. China’s recovery appears to be slowing somewhat; European survey data suggest a gradual pick-up.

US non-farm payrolls

- Employment has quite a way to rise – 9 million odd – before it reattains pre-pandemic levels.

Australian recovery stronger than Canada’s

- Australia’s Q4 GDP was only 1.1% below its 2019 peak, but Canada was 3.2% short. The difference reflects Australia’s greater success in keeping the virus at bay, a somewhat larger fiscal response, and that Australia exports iron ore to China rather than oil and gas to the US.

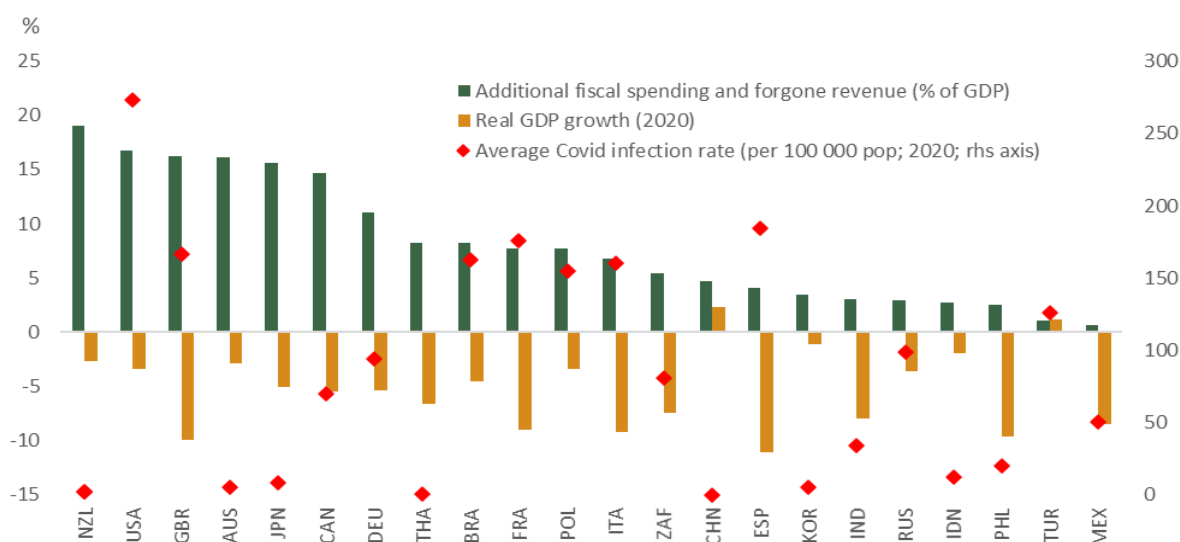
UK budget continues support for demand

- Strong on keeping growth going now, but no evident intention to reform the tax system. And little detail on the green dimension – from the country that will be hosting this year’s COP-26.

Bottom line: World GDP looks like regaining pre-recession levels a bit sooner than usual after a recession. The big issue: will growth then settle back to sluggish post 2008 rates?²

Chart of the week. GDP growth, fiscal support, and Covid-19 infection rates (2020).

- Covid-related fiscal support packages and economic outcomes have varied greatly across countries. Effective control of the virus seems to have been the key driver. Asia stands out as emerging best from the pandemic.



Sources: Llewellyn Consulting, the IMF, and Macrobond

Note: The fiscal data does not include the proposed \$1.9tr fiscal package in the US.

¹ *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 the shock that has hit economies and markets is both large and novel, twin conditions that typically challenge understanding and lead to unusually large forecasting errors.

² Distinguishing between the pace of recovery back to pre-pandemic levels from whatever may be the sustainable rate of growth thereafter is going to be a considerable challenge for analysts.

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