# Key Developments[1] & Chart of the week

9 April 2021

*Strong growth in the US, and the IMF upgrades its world outlook*

| | Outcome | Previous | Comment |
|---|---|---|---|
| **US services PMI** (Mar) | 63.7 | 55.3 | Record high |
| **US goods & svces trade** (Mar) | - $71.0bn | -$67.8bn | Another new record |
| **US PPI** (Mar) | 1.0% | 0.5% | A big number |
| **IMF 2021 world GDP forecast** | +6.0% | +5.5% | Boosted by US stimulus |

## US services PMI

- The US services PMI leaped by 8.4 ppt to a record 63.7 in March (although the history goes back only to mid-1997). All components were strong, but particularly striking was the 'prices paid' component, up 2.2 ppt to 74.0, the highest since just before the 2008 crisis.

## US trade deficit

- The US goods and services deficit widened to a record-high US$71 bn in February, its second record in four months, with imports down 0.7% and exports down 2.6%.
- Unless the Administration resorts to more Trump-style protectionism, US fiscal stimulus seems more likely to 'spill over' into a widening current account deficit than into higher inflation.

## US PPI

- Further evidence of significant price rises at the producer level. Energy price increases were important, but core PPI, at 0.7%, was strong too.

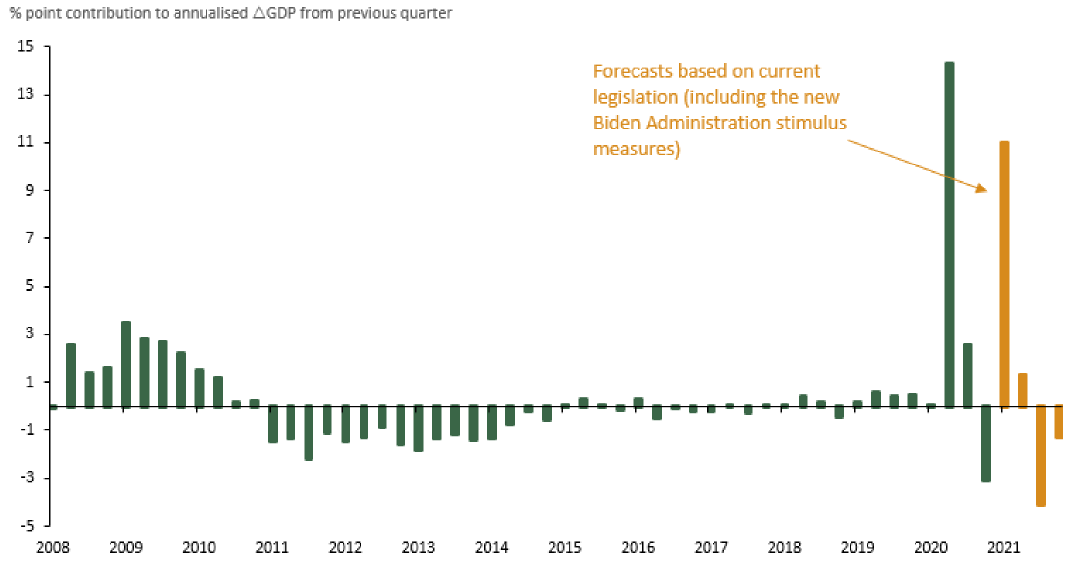
## IMF *World Economic Outlook*

- The IMF upgraded its global growth forecast for 2021 by 0.5 ppt to 6.0%, and for 2022 by 0.2 ppt to 4.4%. Its longer-term forecast is unchanged at 3¼-3½% pa.
- The upgrading was driven largely by the US fiscal stimulus (with spillovers to Canada and Latin America) and progress in administering vaccines.[2]

***Bottom line**: No material challenge so far to our World View[3] for output,[4] nor for inflation[5] – unless or until wages start to accelerate.*

## **Chart of the week.** Here comes the second major US fiscal policy boost

- The impulse is unquestionably big: the unknown is the likely size of the consequent expenditure increases.




Sources: Llewellyn Consulting, Saul Eslake, and Brookings
Note: See endnote for more on how the size of the policy stimulus (federal, state, and local) is calculated.[6]

[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 COVID-19 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] The IMF also notes persistent 'scarring' effects in emerging economies (other than China).

[3] Our recent *World View*, published in February, presents full underlying argument and supporting evidence.

[4] In our *World View* we expect GDP growth to continue strongly in China; and the Biden fiscal stimulus augurs strongly for the US. Furthermore, the recent Biden infrastructure package stands to underpin recovery, both on the demand and on the supply side. Elsewhere among OECD economies a proper recovery seems likely only once the vaccines restore a 'new normality'. Historically, re-attaining pre-recession GDP levels has taken some years, and post-recession growth is slower than its prior trend.

[5] While the aggregate price level in different economies may spike from time to time, capacity and labour markets are generally not strained, and it seems at present unlikely that such shocks as may hit the aggregate price level will turn into a price/wage spiral. Markets are fretting about future US inflation in the context of the big Biden fiscal package; but with inflation constrained almost everywhere else, international price competition stands to keep a lid on inflation globally – and perhaps even curb any incipient price pressure in the US, where a significant part of the expenditure increase may spill over into the current account of the balance of payments rather than into domestically-generated inflation. For more, see our *Rising US inflation concerns,* 12 February.

[6] The size of the policy stimulus (federal, state, and local) is calculated by:

Calculating the effect of changes in fiscal policy (direct, sans multipliers) without the effect of the economy on the budget. This is achieved by cyclically adjusting the figures: comparing their figures with counterfactual values in which *"… taxes and spending rise with potential GDP – the level of output that would be obtained if the economy were at full employment*."

For more see: https://www.brookings.edu/research/the-hutchins-centers-fiscal-impact-measure/