

Largest economies forecast to regain pre-Covid levels by end of year

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The world's largest economies on both sides of the Atlantic have a good chance of recovering the lost ground caused by the coronavirus pandemic by the end of the year, much faster than economists had previously feared.

Economists have revised up their forecasts for US and eurozone economic performance after data this week showed both economies displaying more resilience than had been expected.

US household spending is beginning to show the effects of Joe Biden's \$1.9tn stimulus, and the eurozone's first-quarter contraction due to the latest wave of Covid-19 was smaller than economists had expected, figures published on Friday showed. The bloc's progress in rolling out vaccinations is expected to boost consumer spending in the coming months as service sector businesses reopen.

As a result, the likelihood is growing that both economies will regain their pre-pandemic level of output before the end of the year — a sharp improvement from the IMF's April forecasts, which suggested this would not happen until well into 2022.

After the data were published, James Knightley, chief international economist at ING bank, said: "Wowzers, the US economy is hot." Giada Giani of Citi said that European indicators had been "much stronger in April than we had anticipated".

Thursday's first-quarter US growth figures left the economy's output only 0.9 per cent below its pre-pandemic peak and Washington's stimulus cheques boosted households' incomes by much more than expenditure rose, leaving significant unspent resources.

"The picture of a lacklustre eurozone economy is set to change quickly"

Bert Colijn, ING

Economists expect a consumption boost in the second quarter will help the US to recover the remaining ground lost during the pandemic by the end of June.

US food service, transport and recreation businesses are opening up again and Ian Shepherdson, US economist at Pantheon Macroeconomics, said the scope for growth to accelerate as the economy fully reopens “is considerable”.

He expects the US economy to reach its pre-pandemic economic level before the end of the year. As recently as last month, the IMF forecast that a full US recovery would only take place by mid-2022.

The outlook has also improved significantly in the eurozone, despite it logging a double-dip recession in the first quarter in figures published on Friday. Recent data have been better than economists had feared.

The area’s economy had shown “resilience”, according to Maddalena Martini of Oxford Economics, who said the data “sends encouraging signs surrounding the near-term outlook”.

Eurozone output is still 5.5 per cent below its pre-pandemic peak but economists said there was scope for rapid growth in the second half of the year. Bert Colijn, economist at ING bank, said “the picture of a lacklustre eurozone economy is set to change quickly” as the spread of coronavirus subsides and Europe’s vaccination programme accelerates.

Economists at Citi said there was a chance the eurozone would regain its pre-pandemic level of output before the end of the year, while Holger Schmieding, chief economist of Berenberg bank, forecast a “surge” in demand from May that would take output above this level well before the end of 2021.

In April, the IMF said eurozone activity levels would remain below the bloc’s pre-pandemic level well into 2022.

Faster-than-forecast growth and strong spending on both sides of the Atlantic will put pressure on central banks to limit their emergency stimulus measures, which were launched last year to contain the crisis.

But the US Federal Reserve and the European Central Bank are both likely to resist any moves to take the heat out of the recovery. Central bankers across the world’s

major advanced economies have been unanimous in saying they want to see strong evidence of higher inflation before reducing pandemic stimulus measures.

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