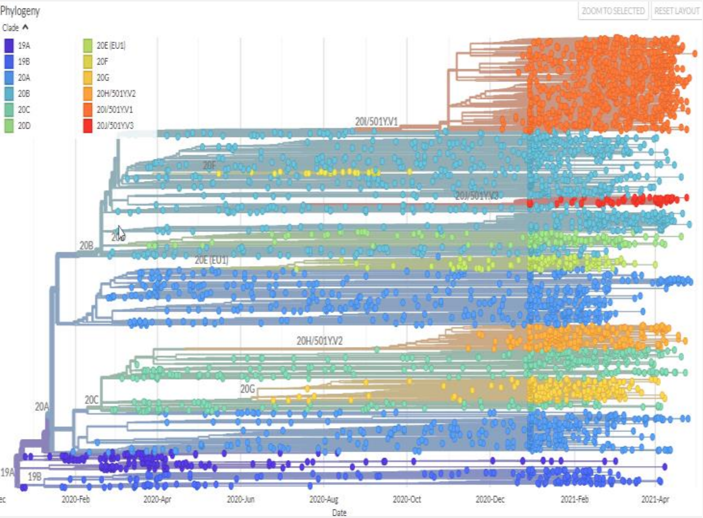
A NEW YORK LIFE INVESTMENTS COMPANY

Economic and financial outlook

Anton Brender & Florence Pisani

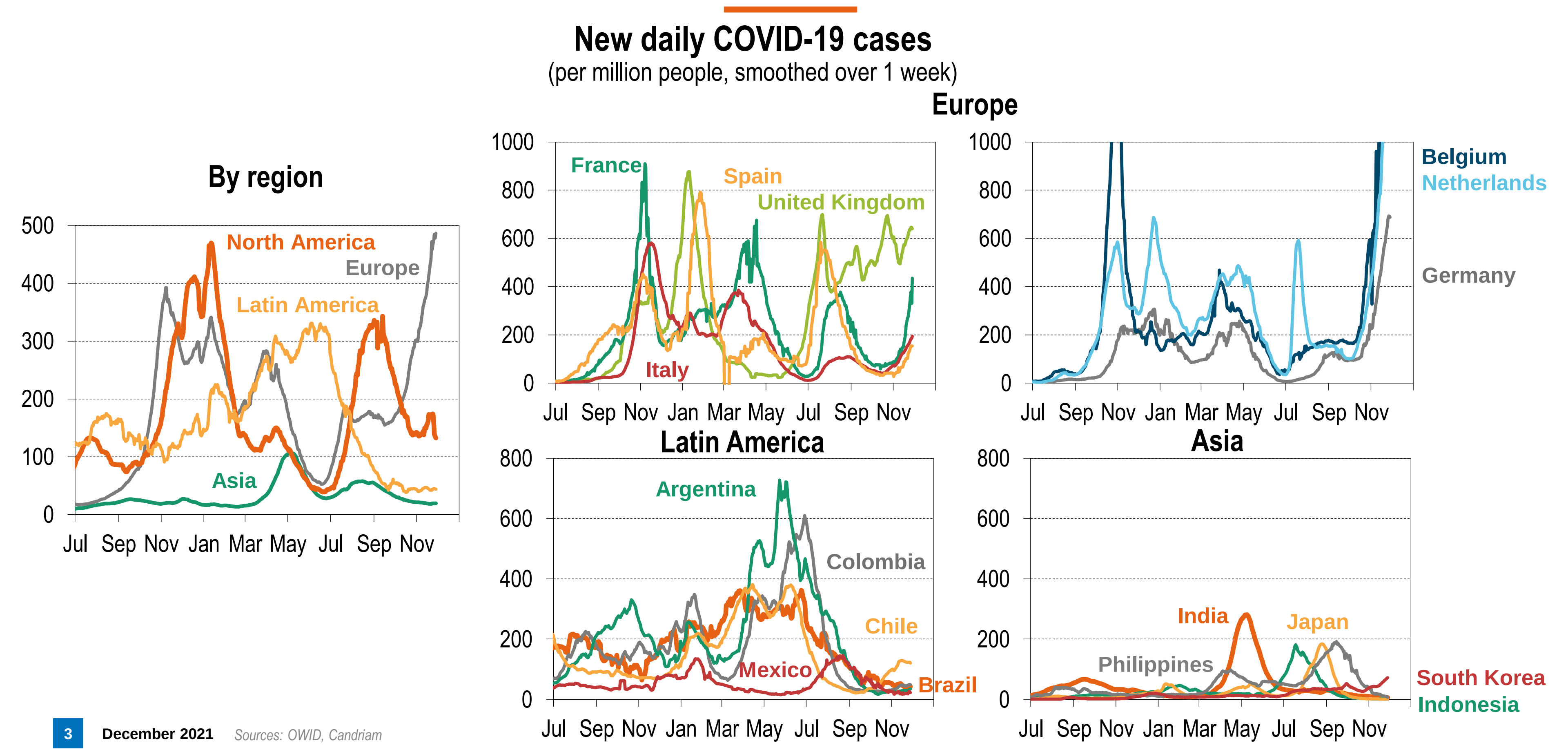
December 2021



1. Pandemic

Vaccination is progressing…
but new cases are rising again

Since November, new cases have jumped in Europe



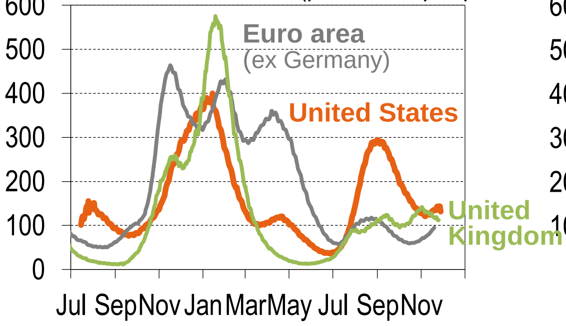
 December 2021 *Sources: OWID, Candriam*

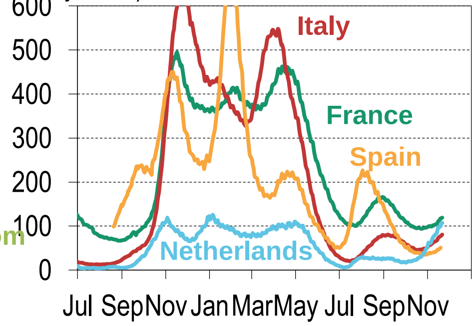
Some health systems could soon start to be under strain

Current COVID-19 patients hospital occupancy

Hospital beds occupied

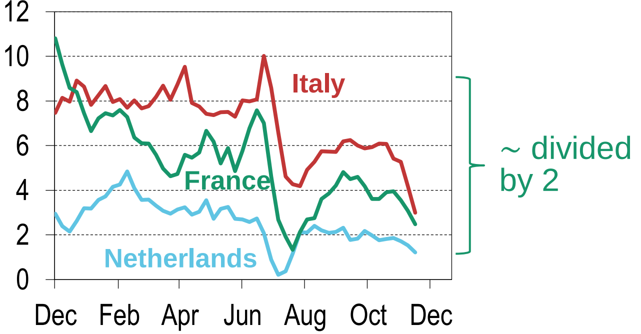
(per million people, since July 2020)





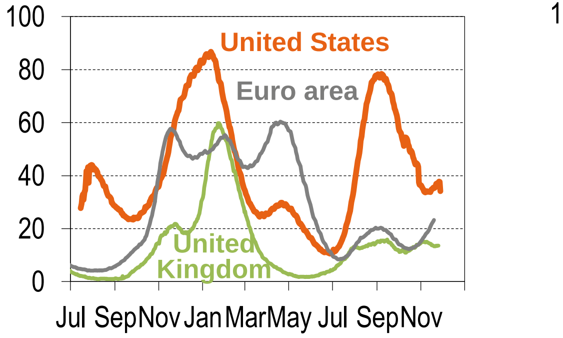
New hospitalizations / new cases

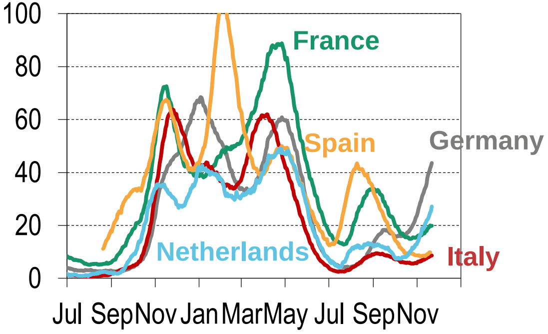
(% since December 2020)



ICU beds occupied

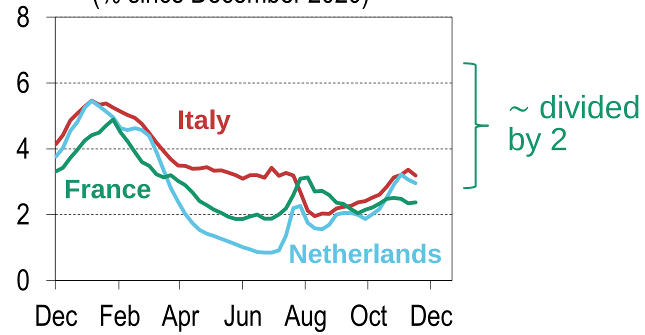
(per million people , since July 2020)





New deaths / new hospitalizations

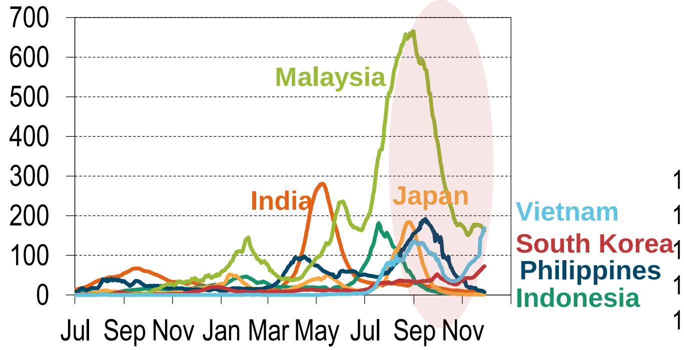
(% since December 2020)



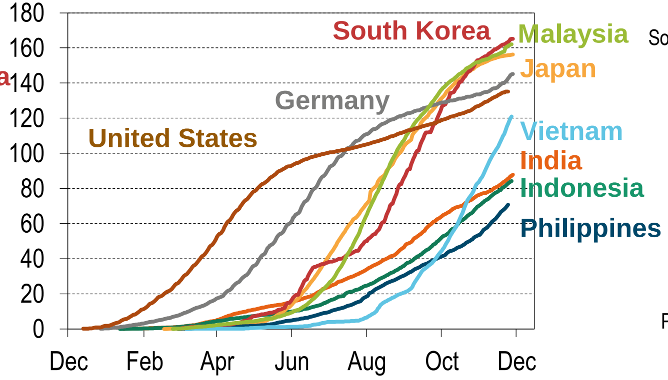
 Sources: OWID, Candriam

After a slow start, the vaccination campaign in Asia has accelerated significantly

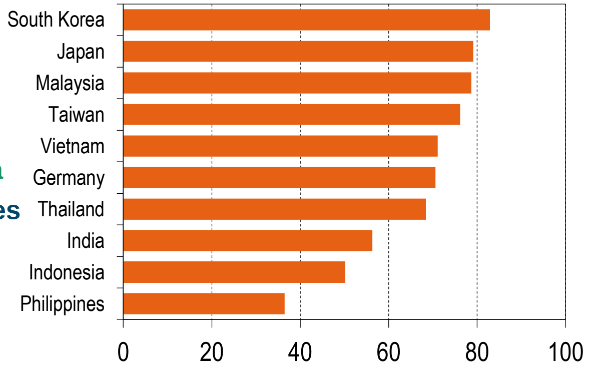
New daily COVID-19 cases
(per million people, smoothed over 1 week)



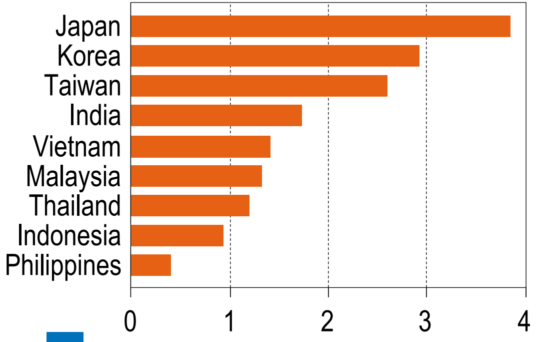
Number of doses administered
(per 100 inhabitants)



Persons having received at least one dose
(%)



Share in world exports
(%)



2. Global economy
Manufacturing activity is still under stress

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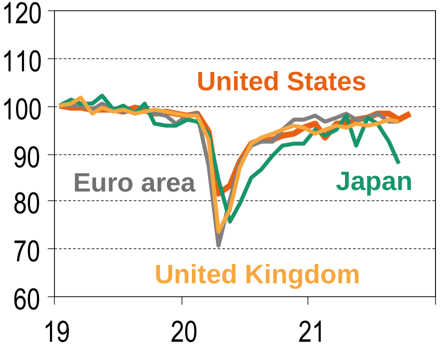
For the last months, industrial production has been moving sideways…

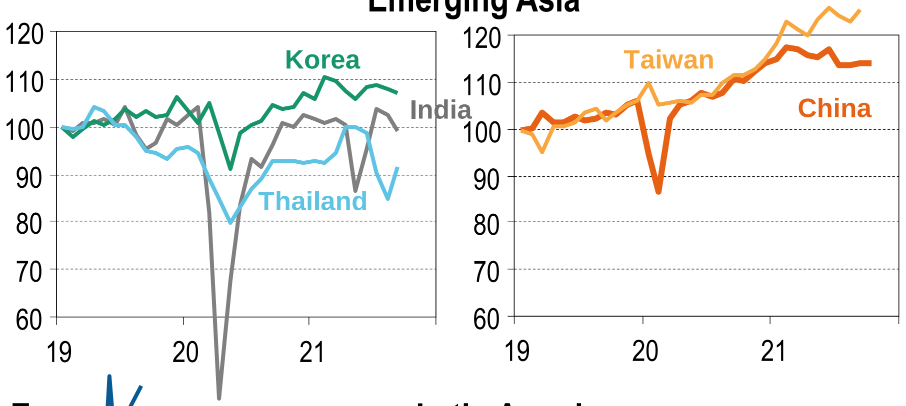
World trade and industrial production
(2010 = 100, volume)

Industrial production
(January 2019 = 100, manufacturing)

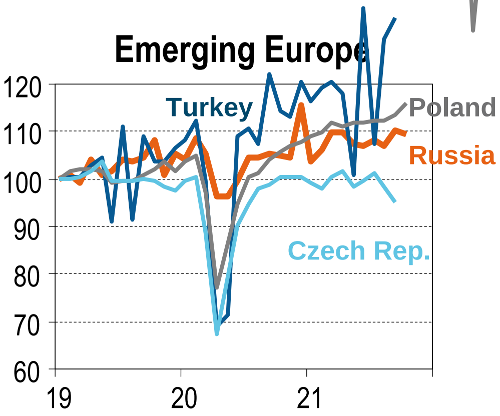
Advanced



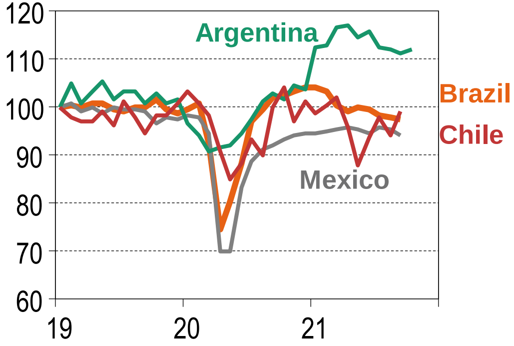
Emerging Asia



Emerging Europe

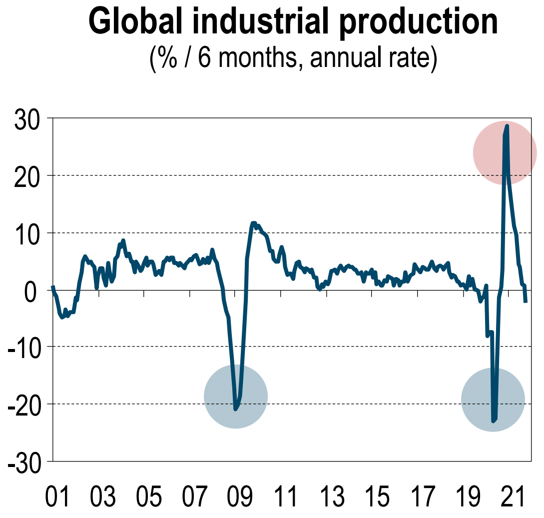


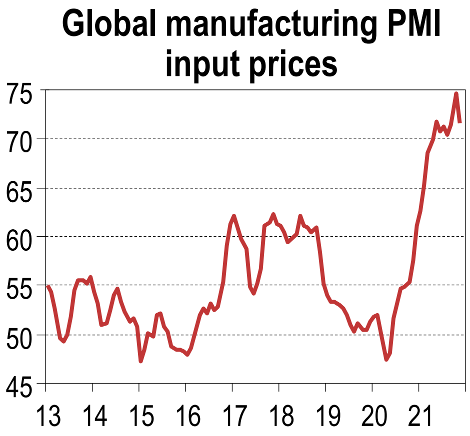
Latin America

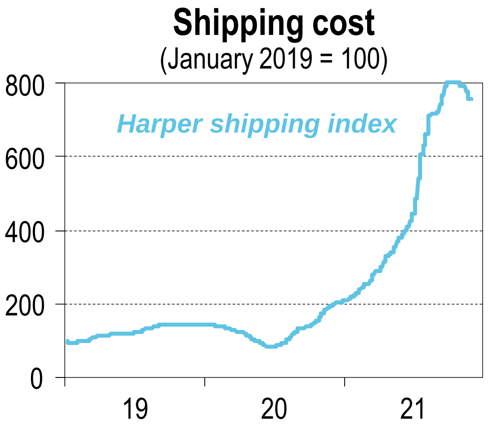


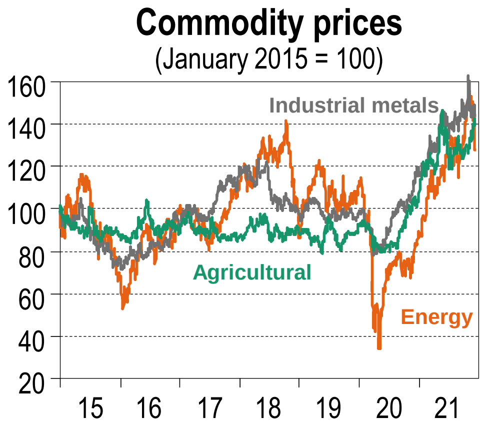
 Sources: Refinitiv Datastream, Candriam

… curbed in particular by supply constraints



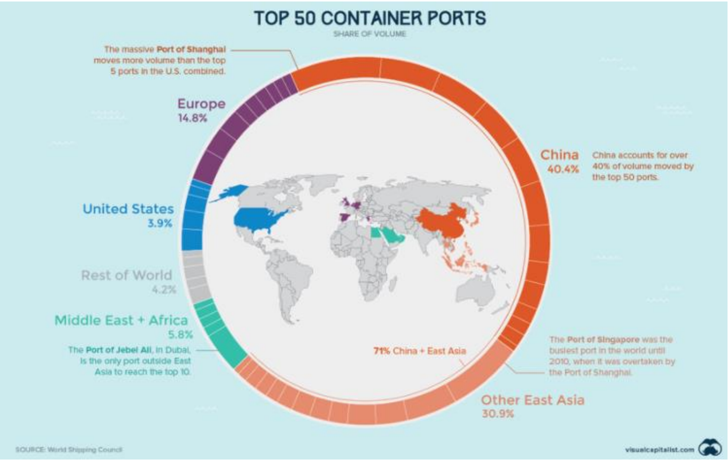






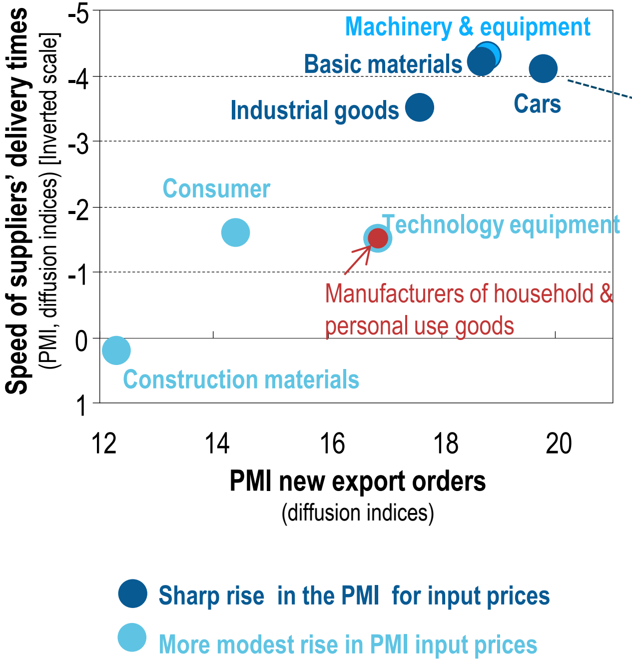
 Sources: Refinitiv Datastream, JP Morgan, Candriam

Supply bottlenecks will take time to resolve

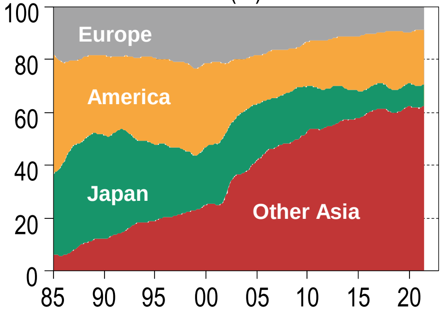


- ➢ **Only 5 of the top 20 ports in the world are located outside of East Asia**
- ➢ **More than 70% of the total volume of maritime transit through the region's ports, therefore any perturbation can have repercussions on global shipping, which represents an estimated 80% of world trade volume and 70% of global trade value.**

Global suppliers' delivery times by sector
(change between February 2021 and Q2 2020)



Production of semiconductor by region
(%)

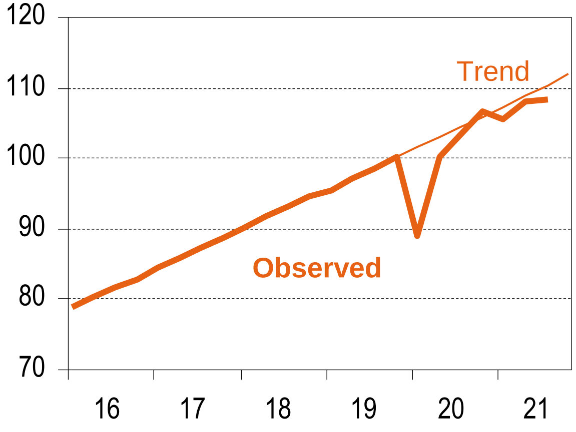


Ju Peng/Xinhua, Associated Press
NYT, 7 septembre 2021

3. China
The Communist Party is back…
so are political challenges!

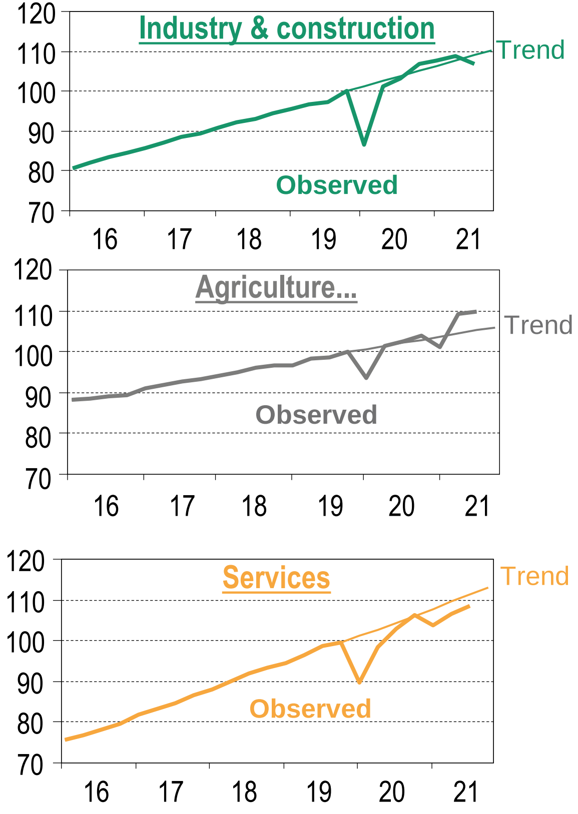
By the end of last year, business activity had returned to its pre-pandemic trend, but the "Zero Covid" strategy leads to recurring slowdowns!

Total GDP

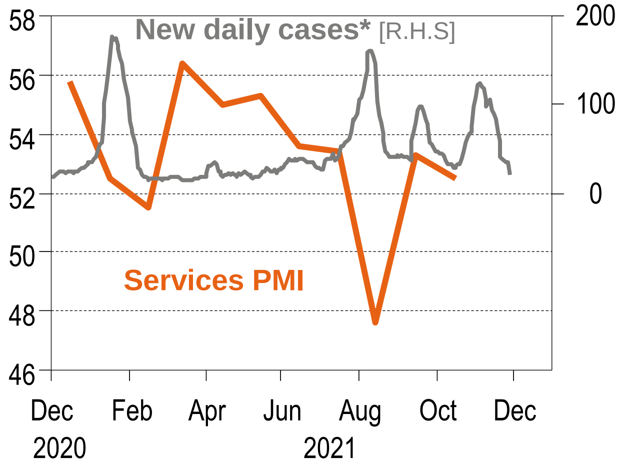


GDP by sector

(2019 Q4 = 100, volume)



Services PMI and new Covid cases



(*) Per million inhabitants, smoothed over 7 days

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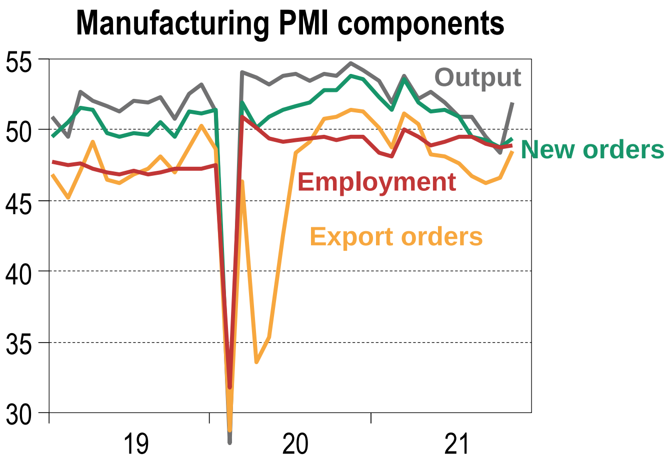
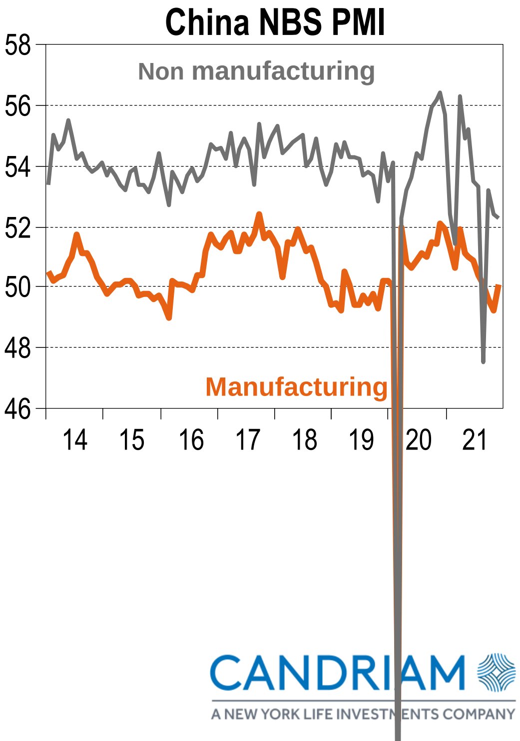
 Sources: Refinitiv Datastream, Candriam

At the end of 2021, PMIs point to stabilizing GDP growth

China NBS Manufacturing PMI





 December 2021 Sources: Refinitiv Datastream, Candriam

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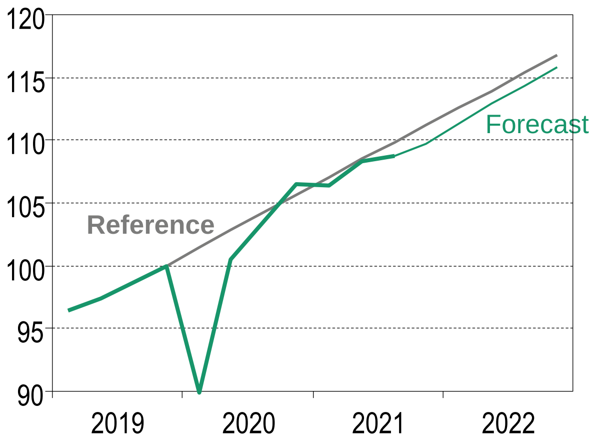
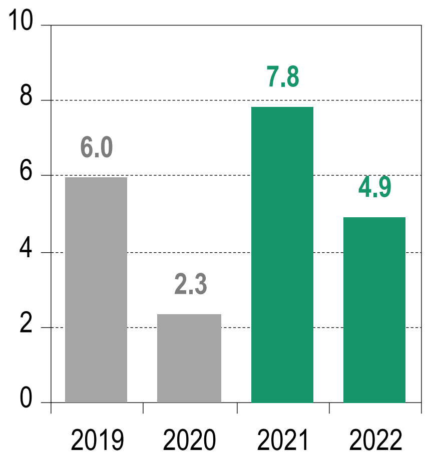
After a slowdown, growth should gradually accelerate... but uncertainties have increased

Real GDP trajectory
(2019 Q4 = 100)



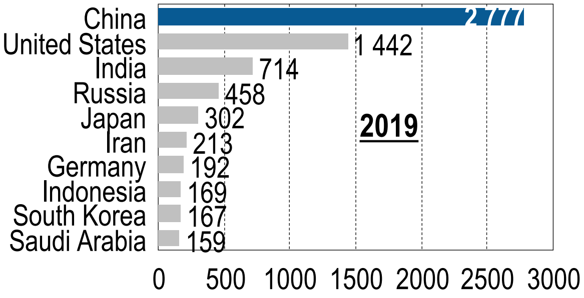
Real GDP growth
(%, annual average)

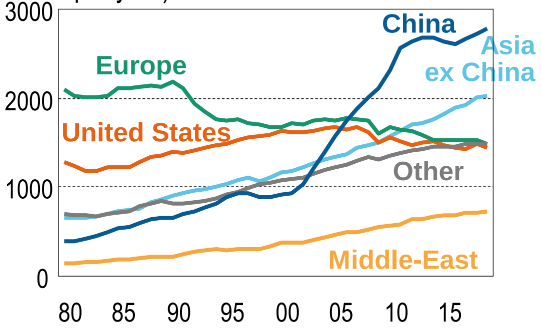


 Sources: Refinitiv Datastream, Candriam

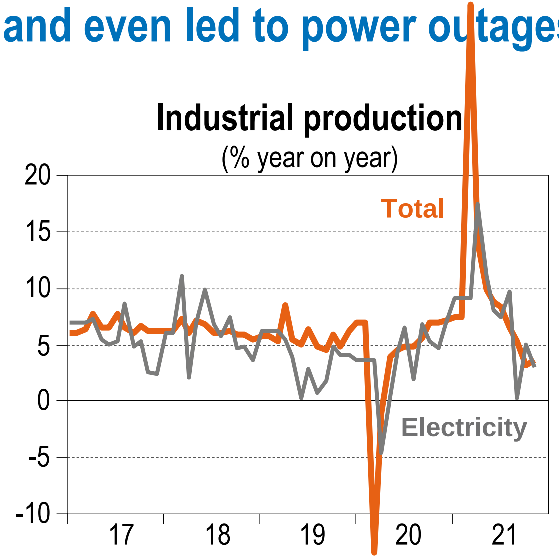
Efforts to reduce carbon emissions have slowed industrial activity and even led to power outages

National carbon emissions
(million tons of carbon per year)

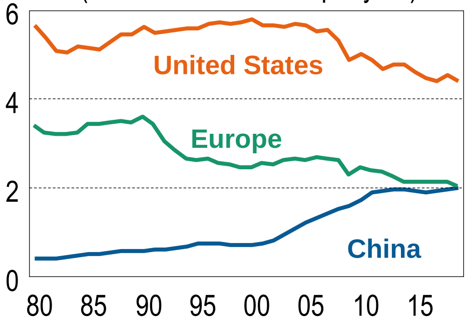




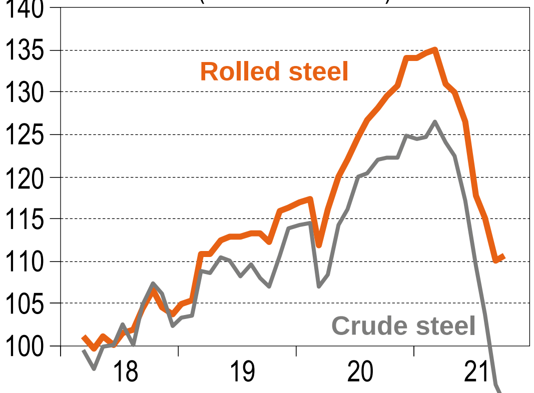
Industrial production
(% year on year)



Carbon emissions per capita
(million tons of carbon per year)



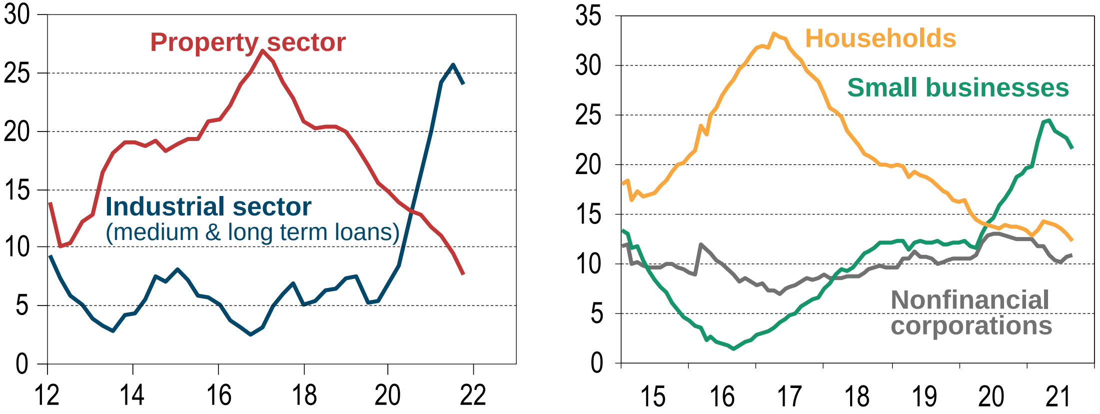
Steel production
(June 2018 = 100)



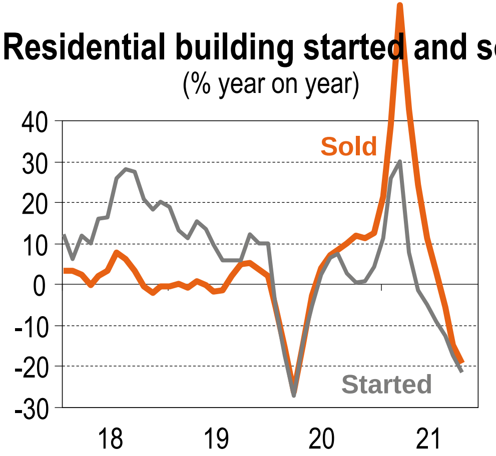
Sources: ICOS, IMF, Candriam

The deleveraging engineered by authorities has curbed activity in the real estate sector

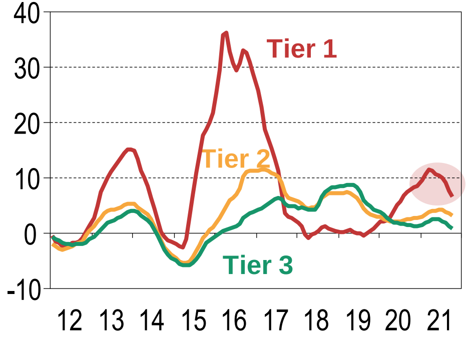
Bank loans
(% year on year)



Residential building started and sold
(% year on year)



Housing prices
(2nd hand residential buildings, % year on year)



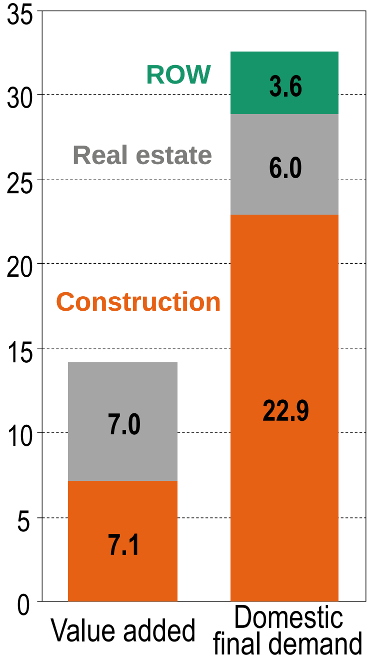
Authorities stepped up the crackdown on the misuse of commercial loans and consumer loans in the property sector, and further tightened the use of shadow banking channels (such as trust loans and entrusted loans) by developers.

Local governors in cities that lack sufficient property market regulations and experience rapid housing price increases are now held accountable.

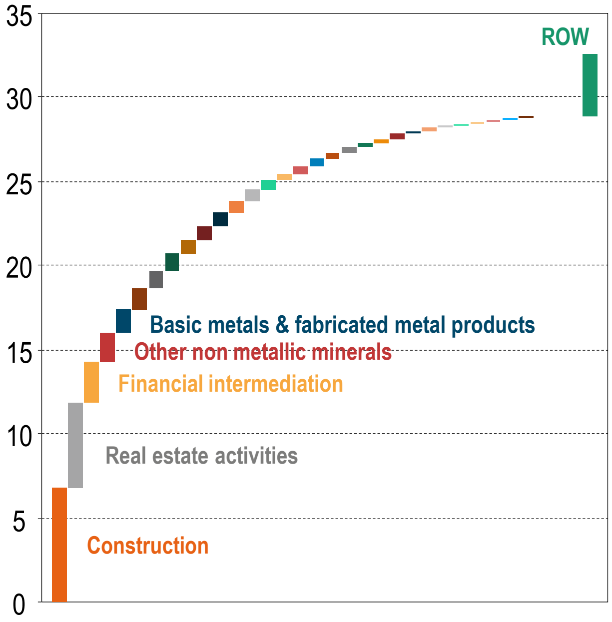
 Sources: Refinitiv Datastream, Candriam

Construction and real estate account for 30% of China's final demand: a major correction in those sectors could have a broad impact on activity

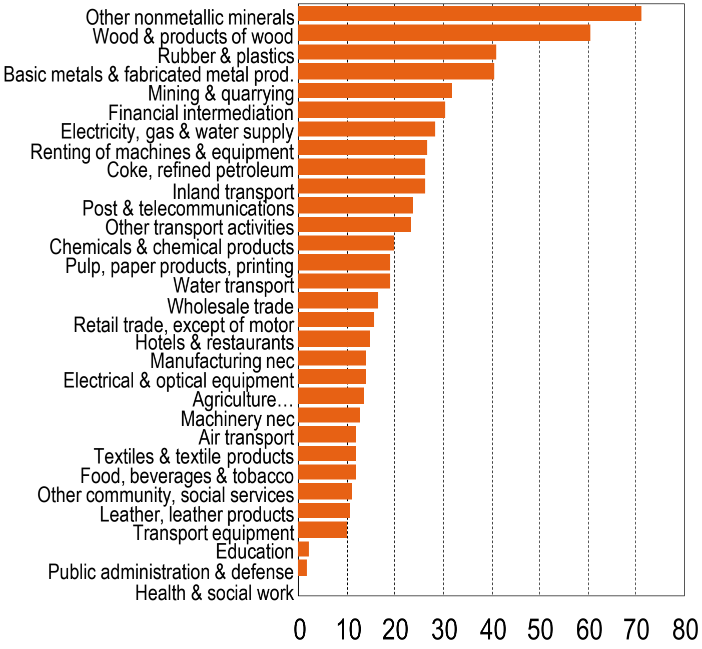
The final demand addressed to the construction and real estate sectors is more than twice the size of the value added of the two sectors
(% of GDP, 2018)



Origin of value added in domestic final demand of construction & real estate
(% of GDP, 2018)



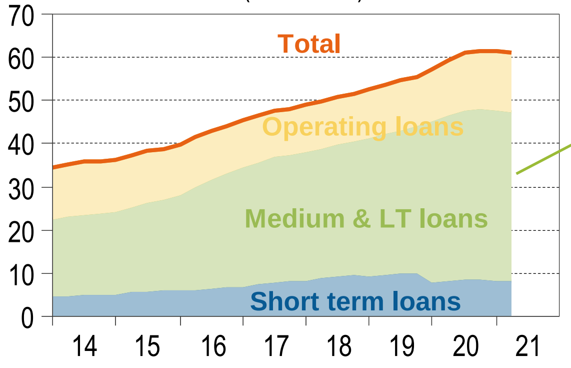
Final demand of construction & real estate
(% of each sector's value added, 2018)



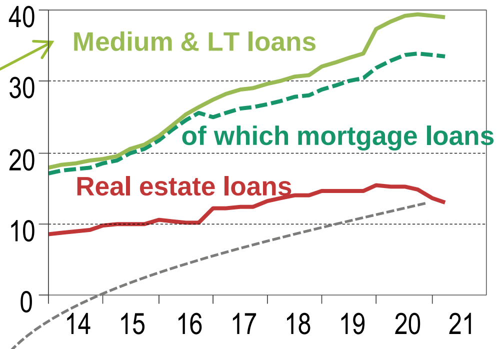
 December 2021 *Sources: Asian Development Bank, Candriam*

The ongoing credit crunch is triggering bankruptcies but stockholders, SOEs and the central government should absorb part of the losses, preventing the shock from becoming systemic

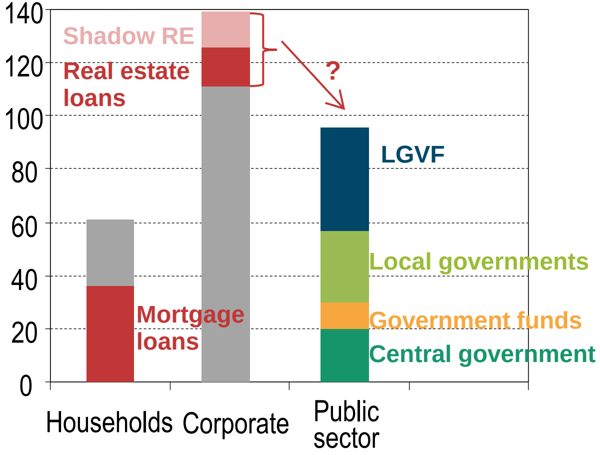
Household debt
(% of GDP)



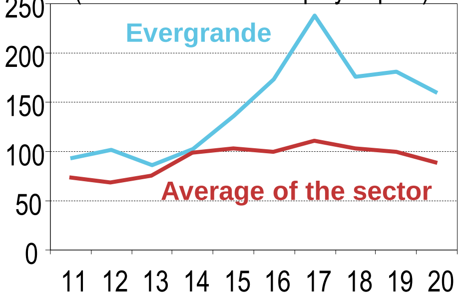
Mortgage and RE bank loans
(% of GDP)



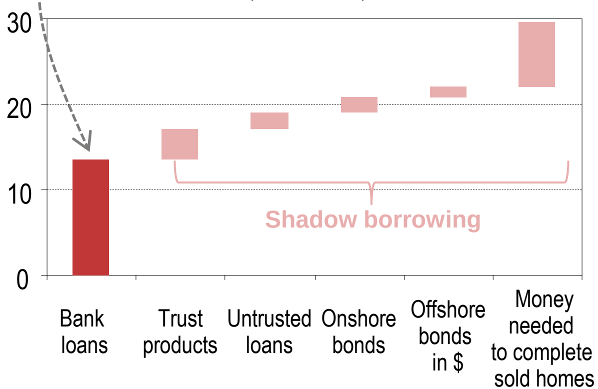
Non financial agents' debt
(% of GDP)



Real estate developers' leverage
(net debt as a % of equity capital)



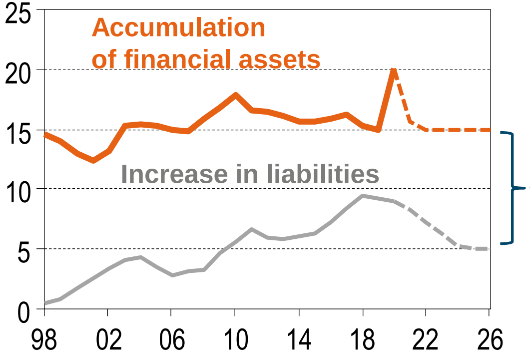
Total property developers' debt
(% of GDP)



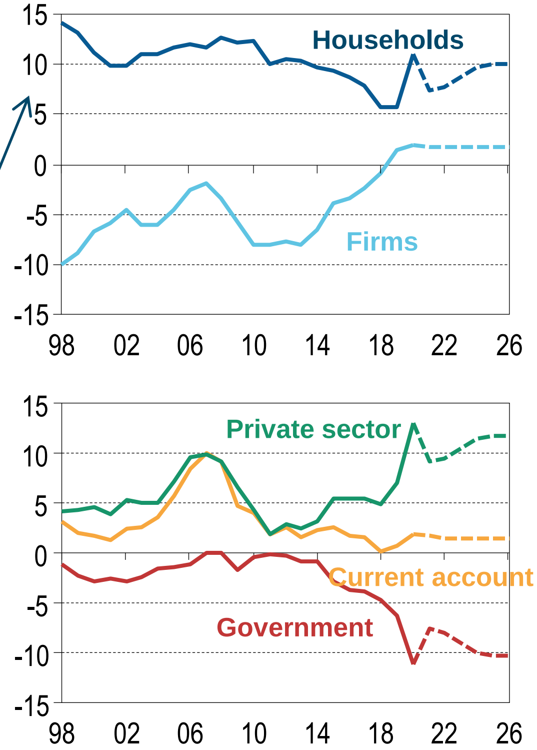
 Sources: Refinitiv Datastream, Nomura, Candriam

If households continue to accumulate financial assets at an elevated pace, the fall in private borrowing may force the government to maintain a high public deficit for a while

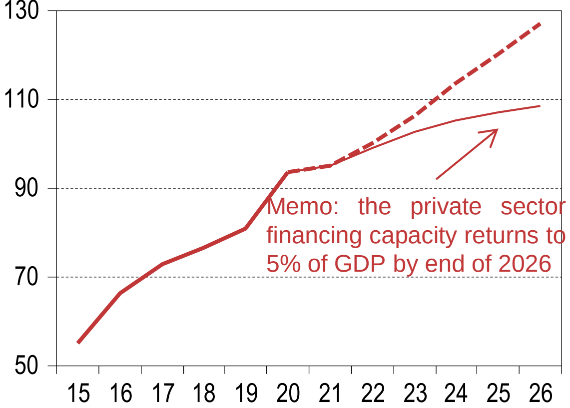
Households increase in financial assets and liabilities
(% of GDP)



Net lending / borrowing capacity by sector
(% of GDP)



Implied evolution in government debt
(% of GDP)



Sources: NBS, Candriam

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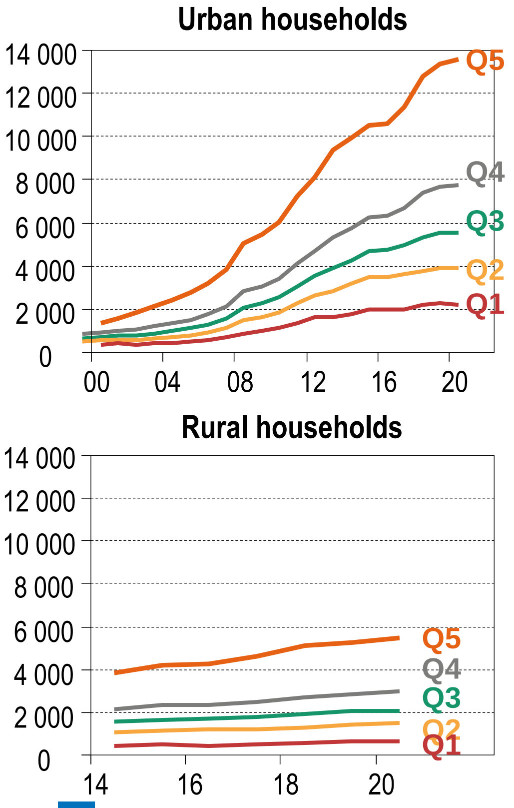
The government could of course try to reduce household savings by raising taxes on the richest households or companies: this would be in line with its "common prosperity" agenda

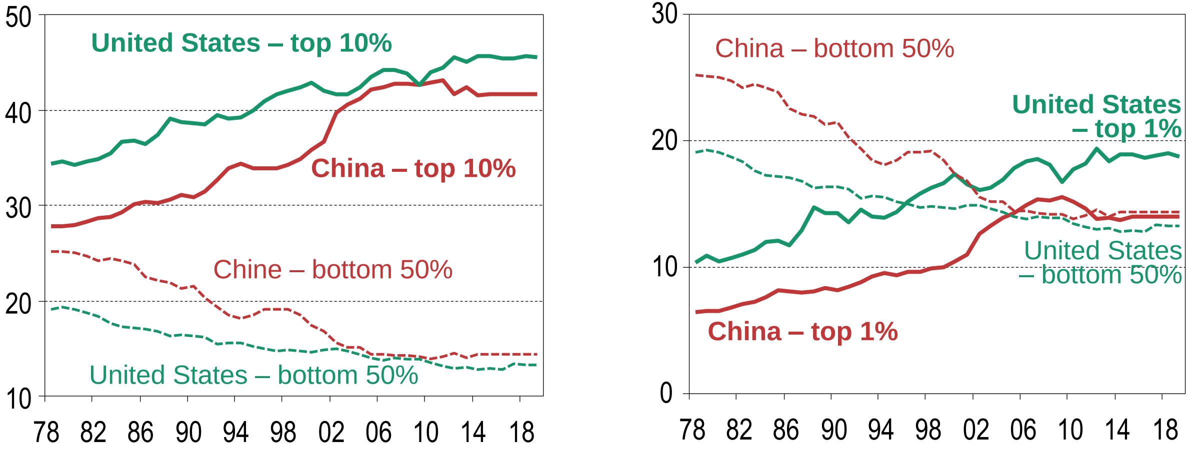
Disposable income per capita by quintile

(in US dollars)



Share in pre-tax national income

(%)



 December 2021 *Sources: Refinitiv Datastream, WID, Candriam*

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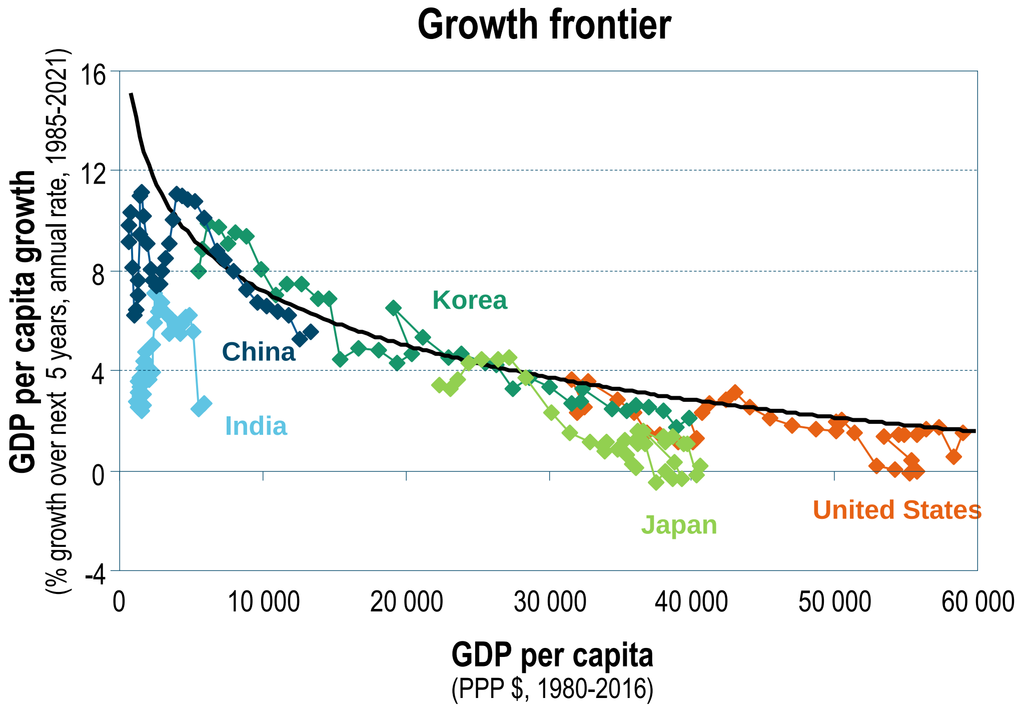
To sum up, Chinese authorities are now confronted with many challenges: if they fail to keep the economy in balance, growth could easily be "subpar" in the coming years



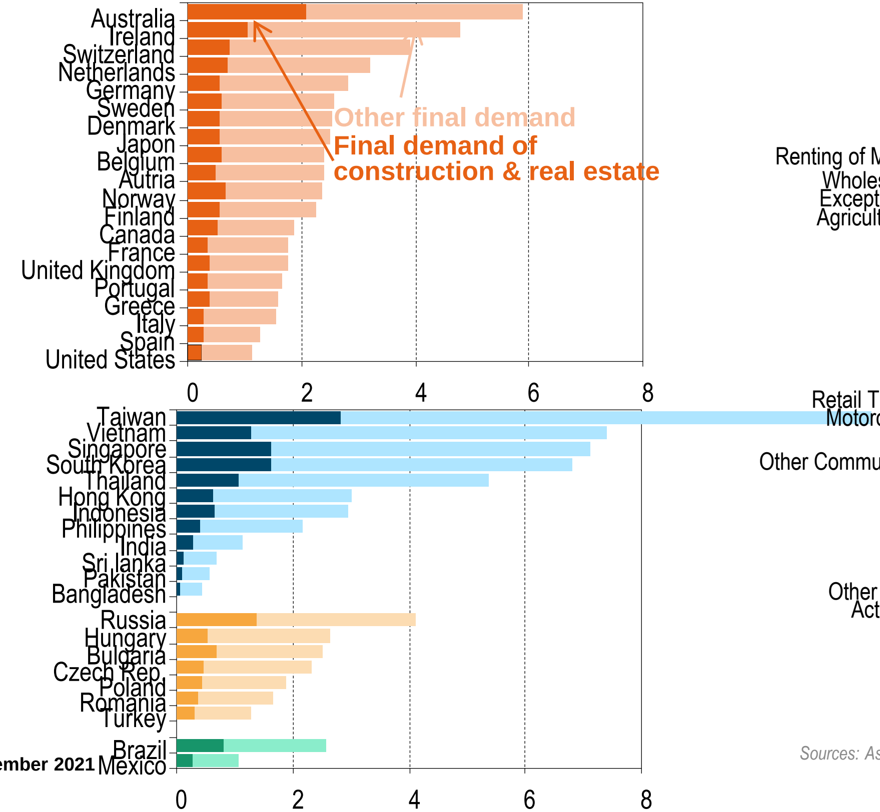
- If China manages to stay close to the "frontier", growth will be around 5% in the coming years…
- … but if it were to be caught in a macroeconomic "saving trap", growth could decelerate worryingly like it did in Japan.

 Sources: Refinitiv Datastream, Candriam

An economic slow down in China would have a significant impact on some countries and some sectors in the rest of the world (I)

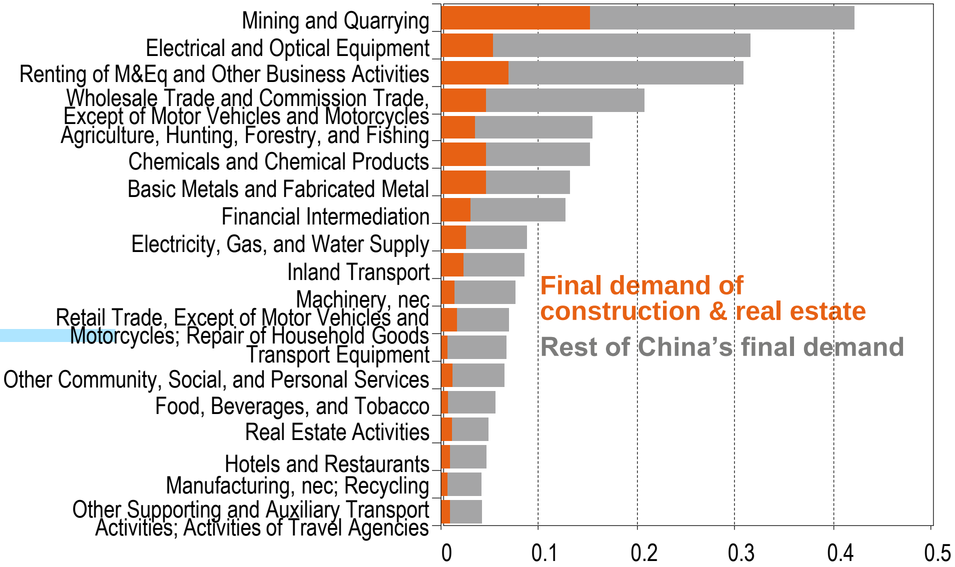
Foreign value added in China's final demand by country of origin

(% of countries' GDP)



Foreign value added in China's final demand by industry of origin

(% of world ex China GDP)

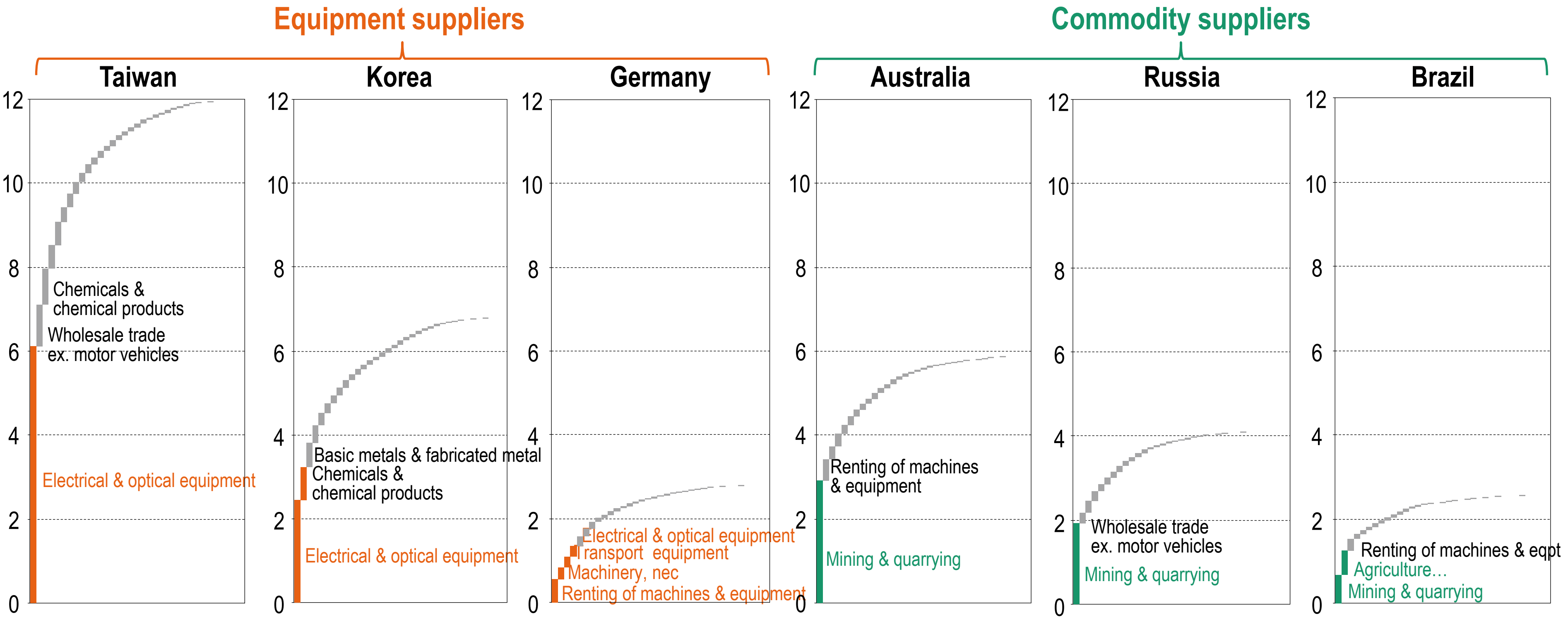


Sources: Asian Development Bank, Candriam

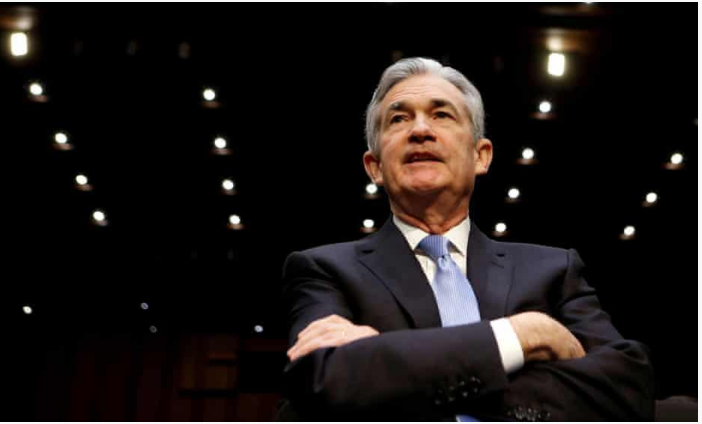
An economic slow down in China would have a significant impact on some countries and some sectors in the rest of the world (II)

Foreign value added in China's final demand by country and industry of origin

(% of countries' GDP)



Sources: Asian Development Bank, Candriam



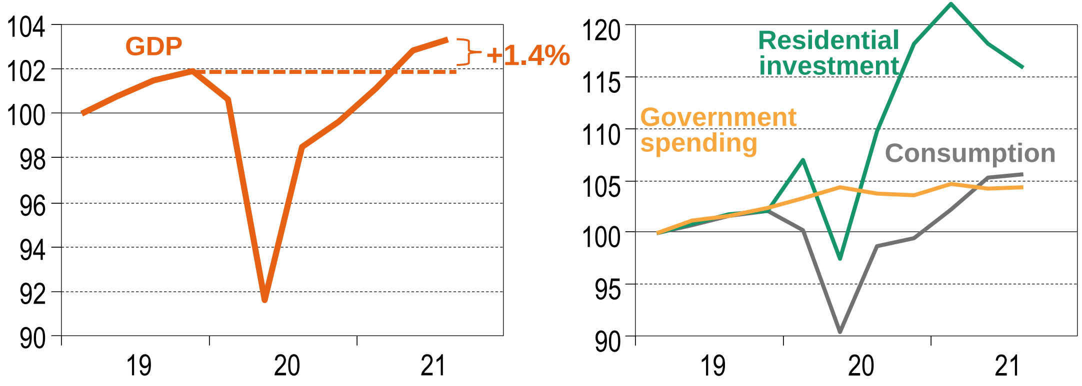
Jerome Powell
Nominated for second term as Chair of US Federal Reserve
The Guardian

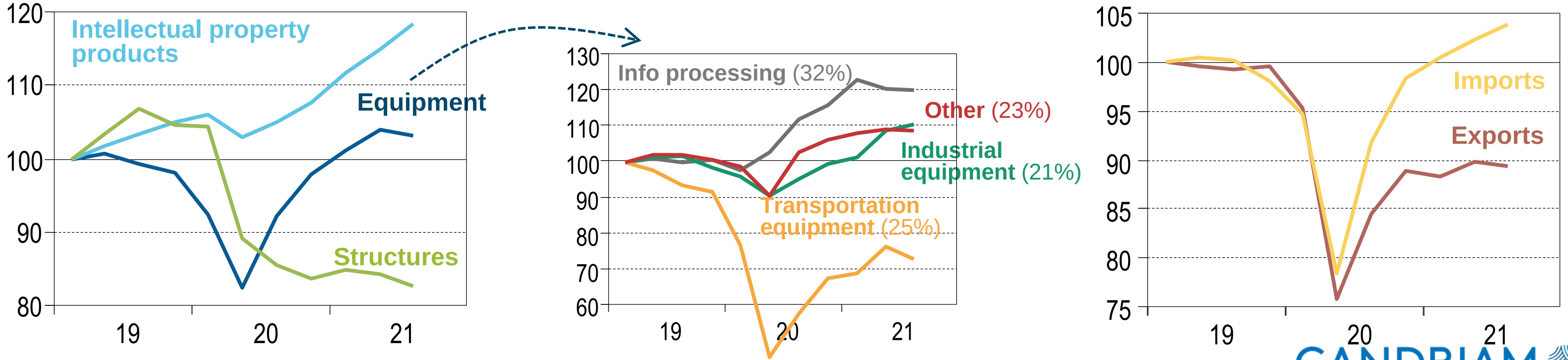
4. United States
Tapering… and then hiking

Activity has continued to rise in Q3 but at a more moderate pace

GDP and its components

(2019 Q4 = 100, volume)

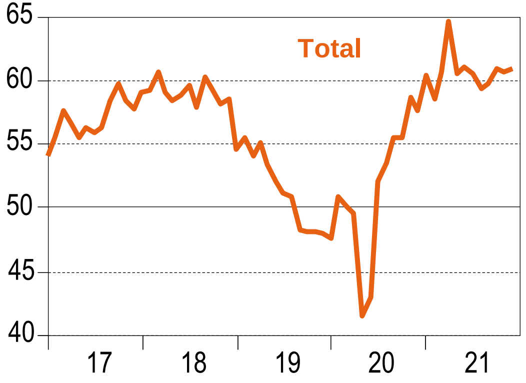


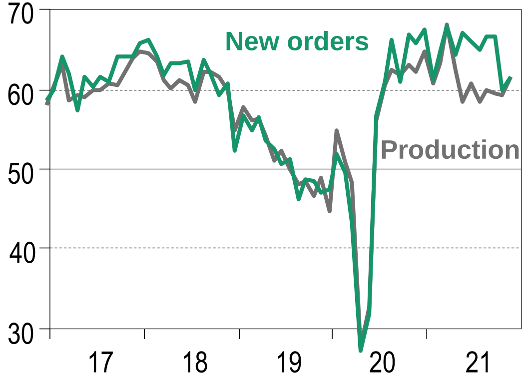


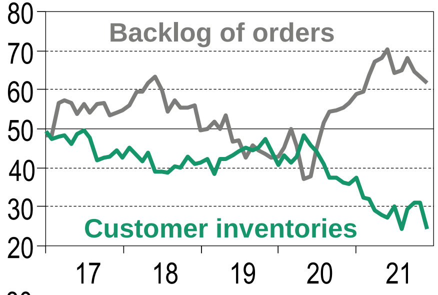
 December 2021 *Sources: Refinitiv Datastream, Candriam*

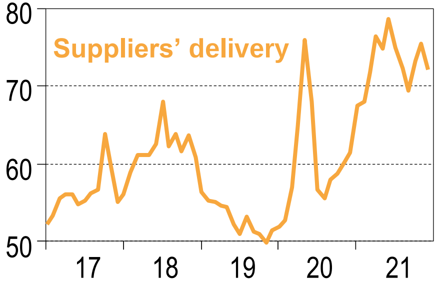
While tensions in the manufacturing sector are still curbing production, the ISM services index has reached an all-time high

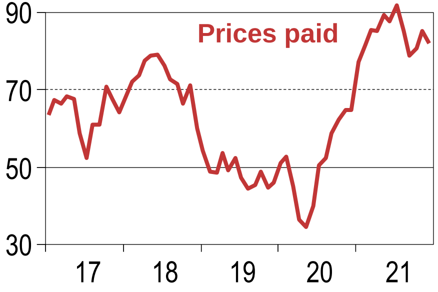
ISM manufacturing



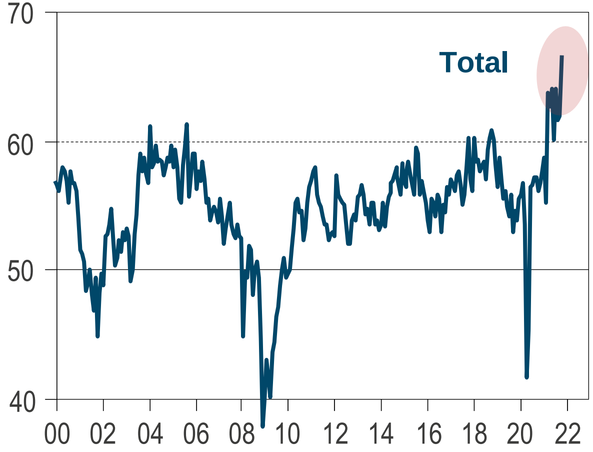


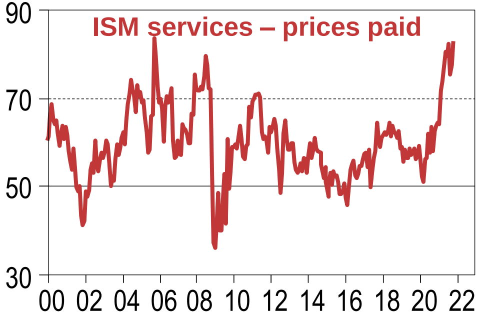






ISM services

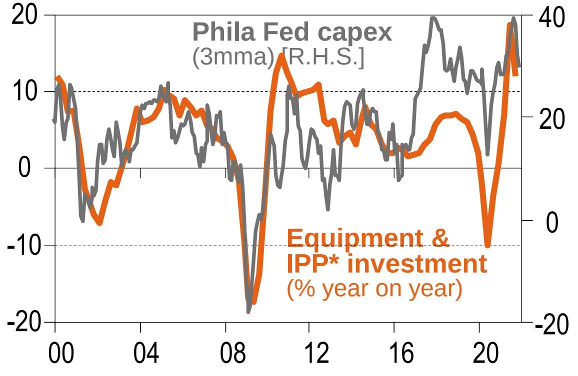




Sources: Refinitiv Datastream, Candriam

After a sharp rebound, business investment has started to slow down but inventory building will provide an offset

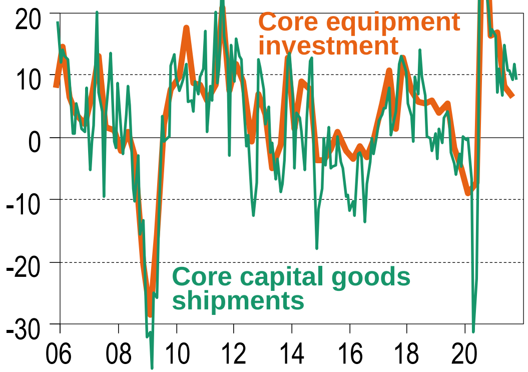
Phila Fed survey and investment



(*) Intellectual Property Products

Core equipment investment

(% quarter on quarter, annual rate)

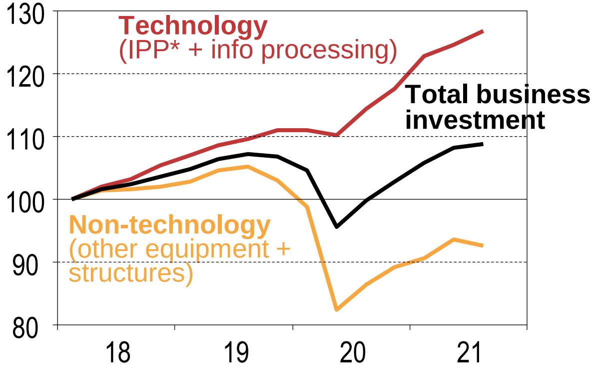


Core new orders and shipments

(billions of dollars)

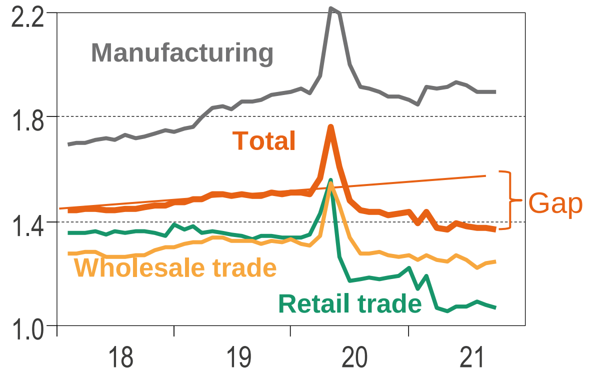
Fixed capital formation

(2018 Q1 = 100, volume)



Inventories to sales ratio

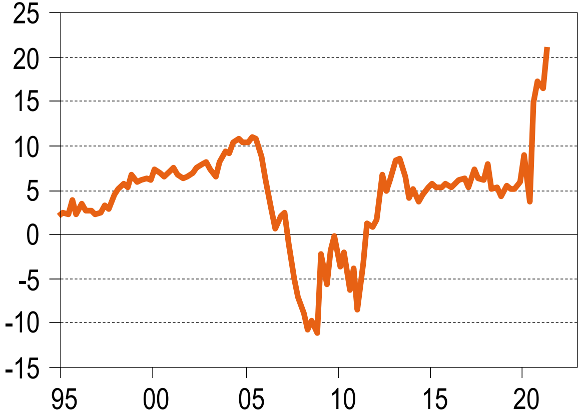
(business sector, volume)



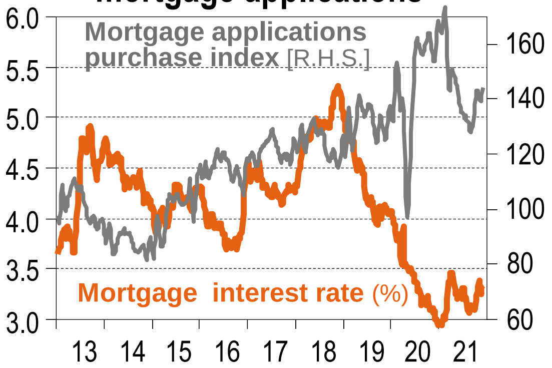
 Sources: Refinitiv Datastream, Candriam

Rising house prices are now weighing on affordability…
while bottlenecks and zoning constraints are curbing new constructions

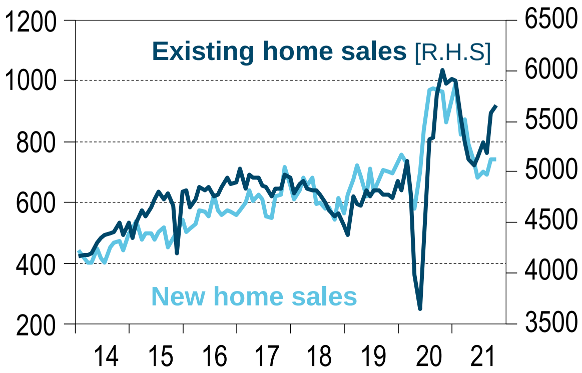
FHFA house price index
(% quarter on quarter, annual rate, purchase only)



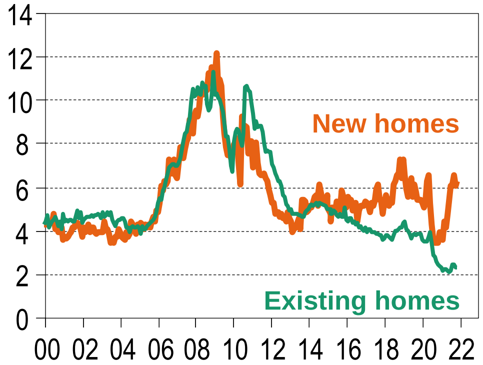
Interest rates and mortgage applications



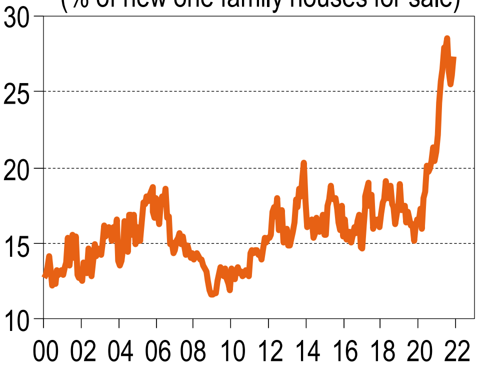
Existing and new home sales
(thousands, annual rate)



Inventories of houses
(months of supply)



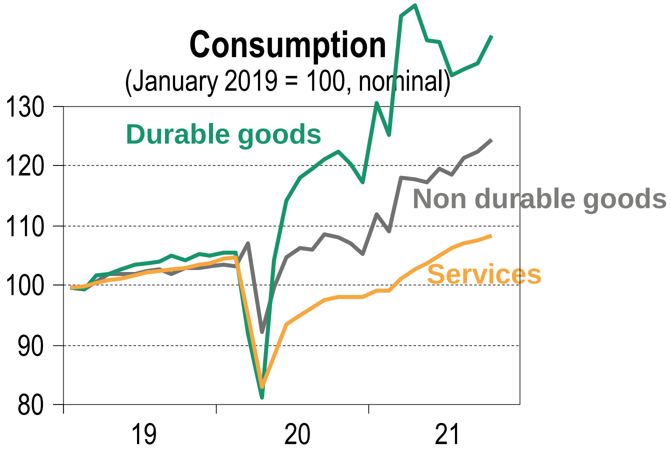
New one family houses for sale but not started
(% of new one family houses for sale)



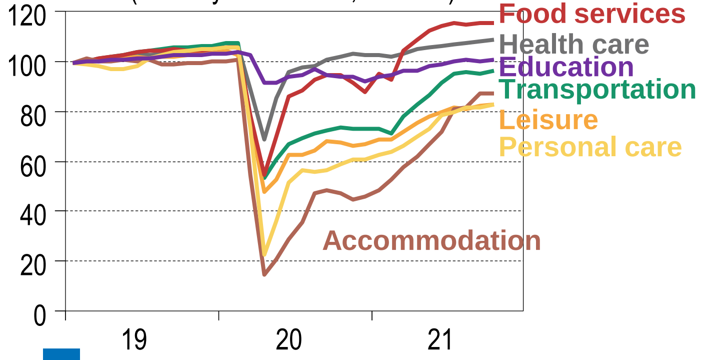
 Sources: Refinitiv Datastream, Candriam

Fiscal support is fading, compensations are now supporting consumption while the saving rate has normalized

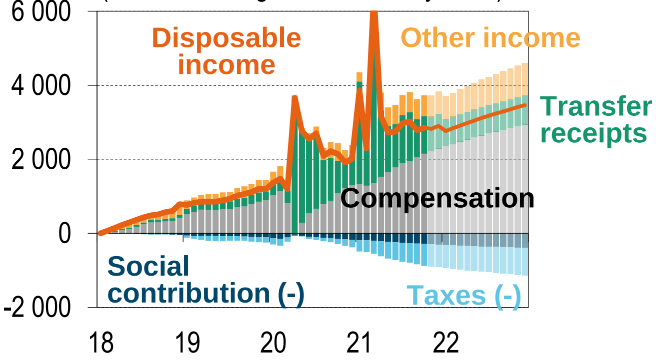
Consumption
(January 2019 = 100, nominal)

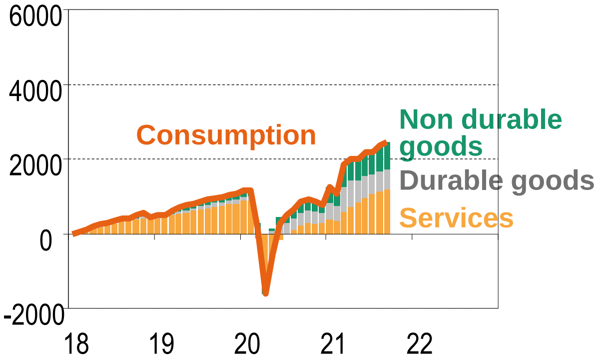


Services
(January 2019 = 100, nominal)

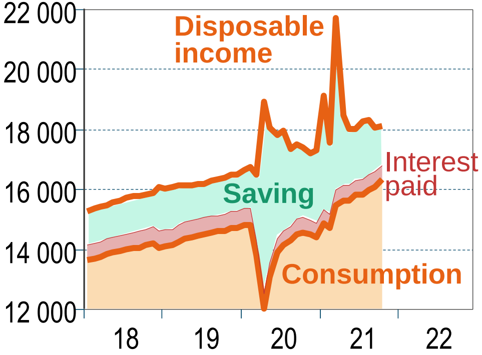


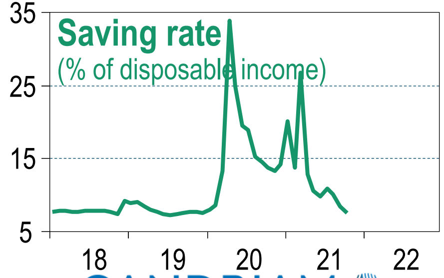
Contribution to household disposable income and consumption
($ billion, change since January 2018)





Consumption, income and saving
($ billion, change since January 2018)





Sources: Refinitiv Datastream, Candriam

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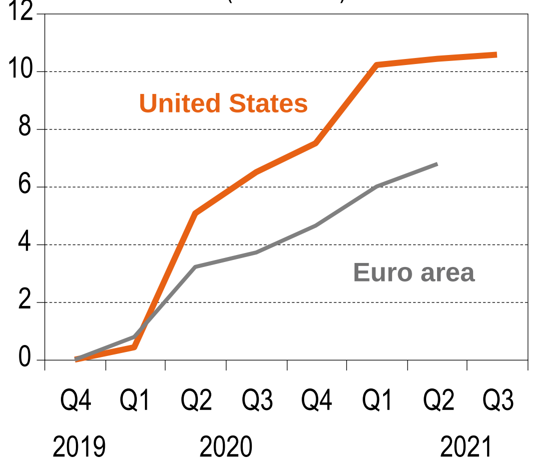
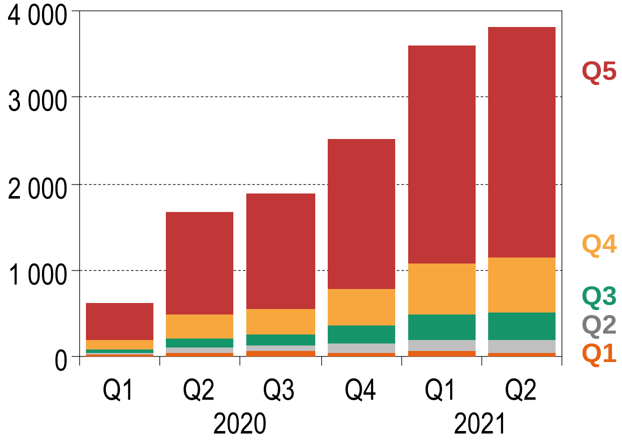
Accumulated excess savings remain elevated, but largely concentrated in the hands of the wealthiest households

Cumulated excess financial savings since Q4 2019
(% of GDP)

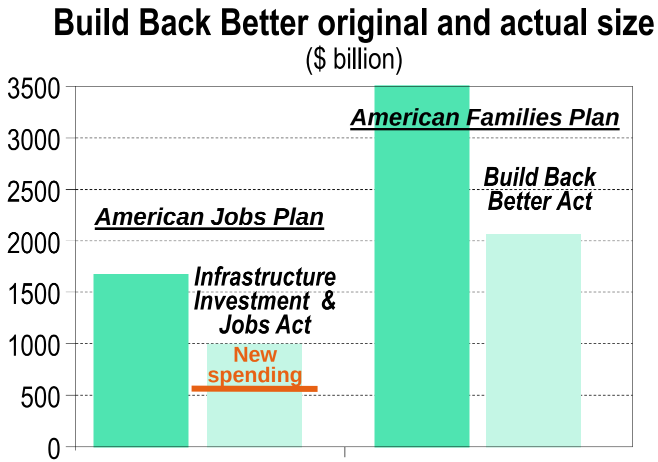


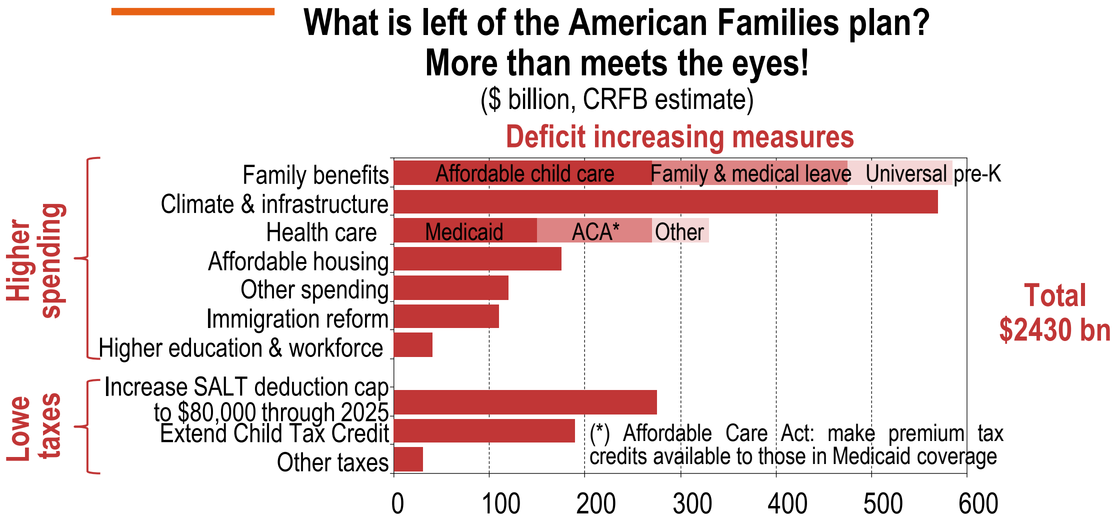
Increase in short term liquid assets by income quintile
($ billion, cumulated since Q4 2019)

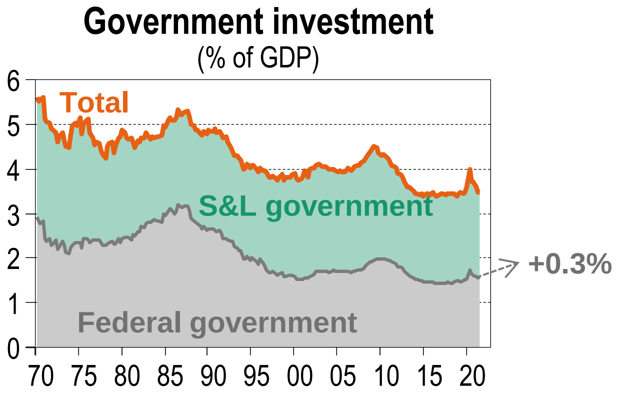


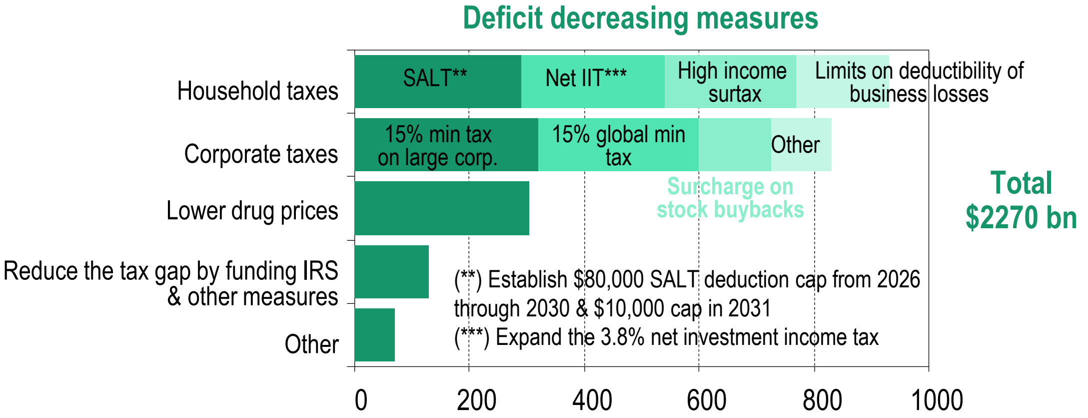
 Sources: Refinitiv Datastream, Federal Reserve, Candriam

The President has signed the $1 trillion bipartisan Infrastructure Investment and Jobs Act but the Build Back Better Act is still on hold





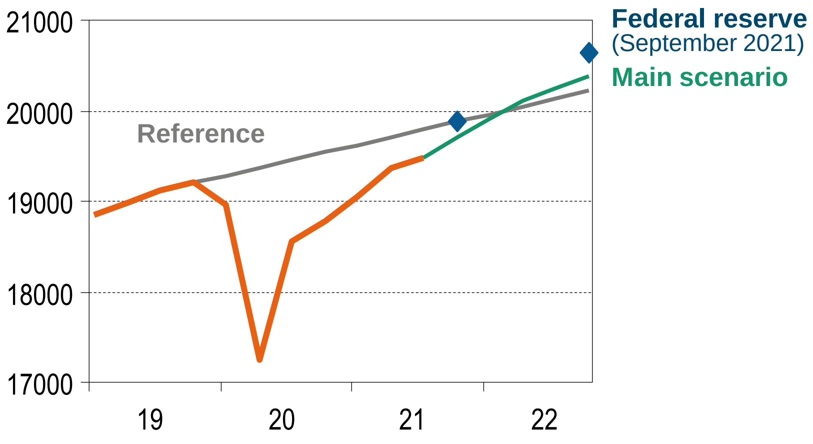




Sources: Refinitiv Datastream, CRFB, Candriam

With growth soon to be above trend, the Fed will have to decide how close the economy can get to "maximum employment"

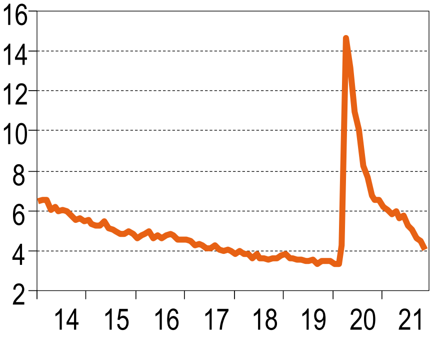
Real GDP
(billions of constant dollars, annual rate)



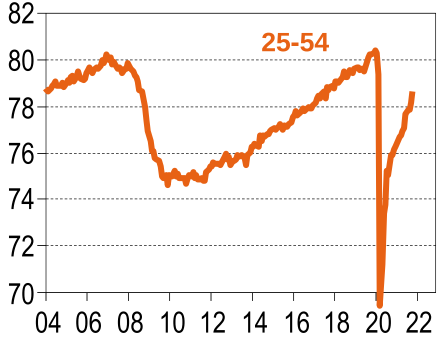
GDP growth
Main scenario

2021 = 5.5%
2022 = 3.9%

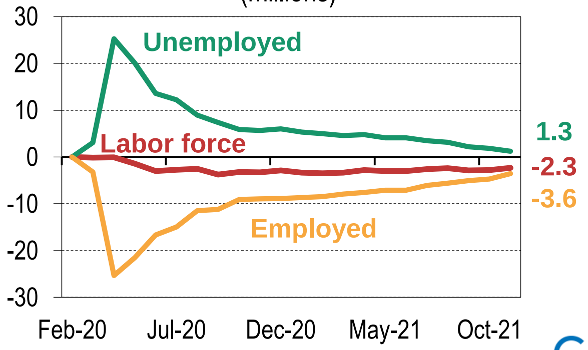
Unemployment rate
(%)



Employment rate
(%)



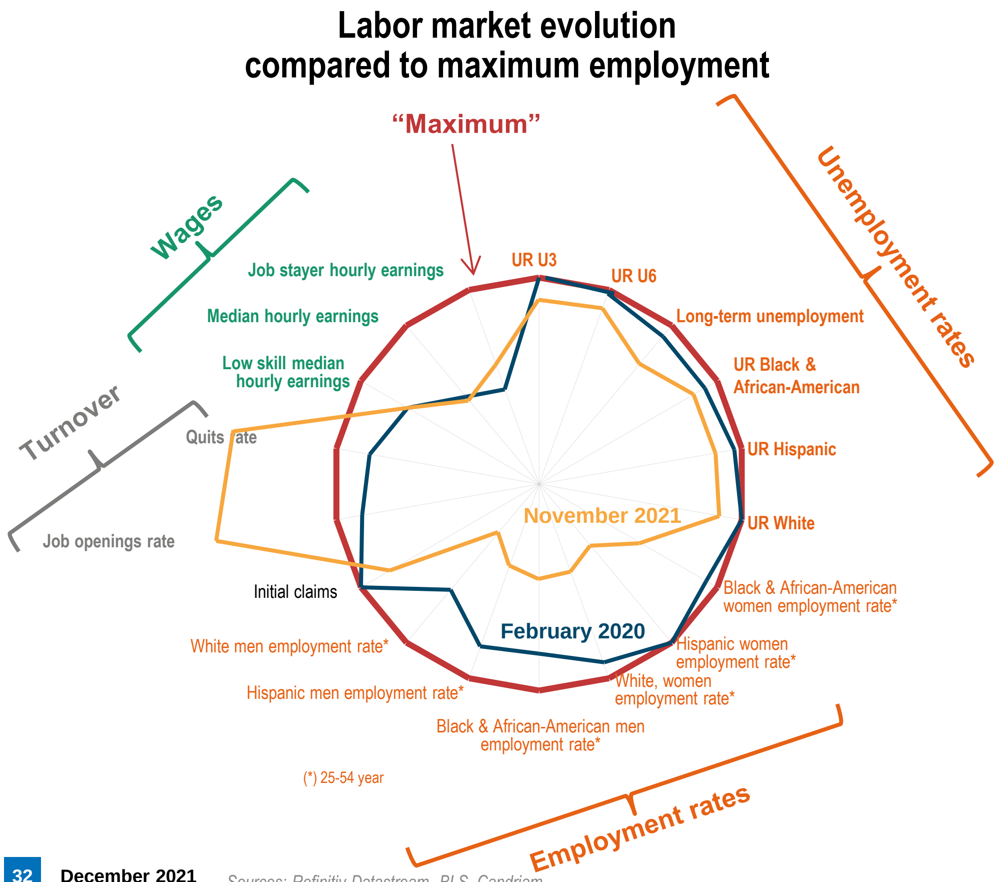
Cumulated change since Feb. 2020
(millions)

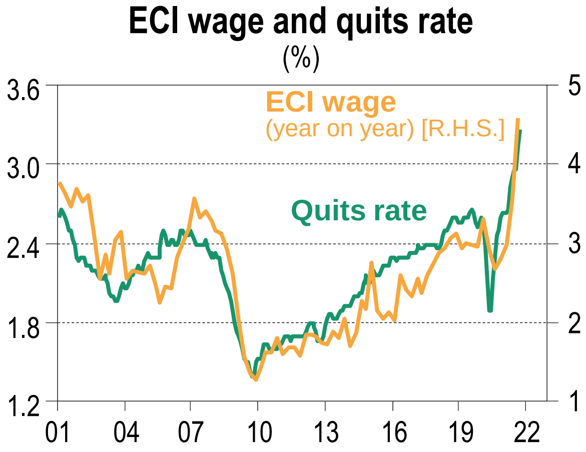


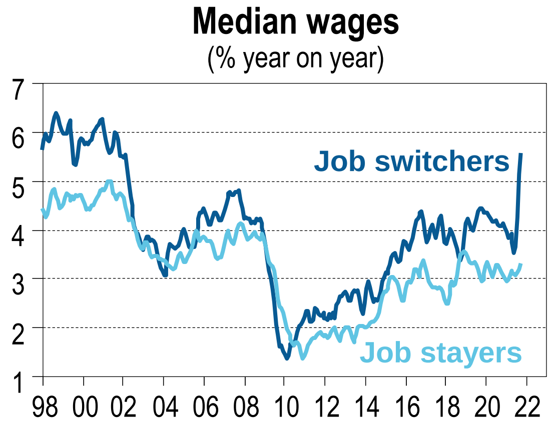
"If the path of progress made since last year were to continue, **maximum employment could be achieved by the second half of next year."**
J. Powell

 Sources: Refinitiv Datastream, Candriam

The increase in labor turnover rates has helped push wages up





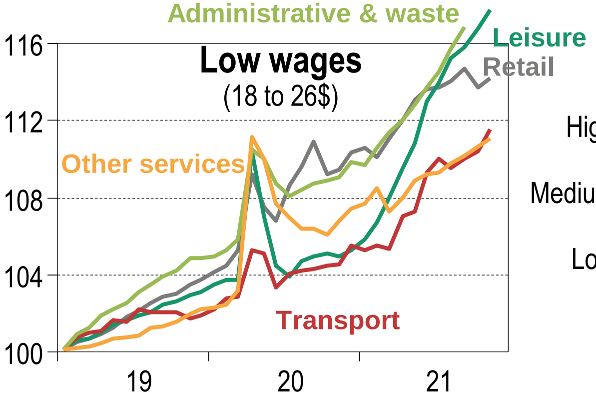


Sources: Refinitiv Datastream, BLS, Candriam

From the Fed's perspective the pick up in wages is welcome… as long as productivity gains provide an offset!

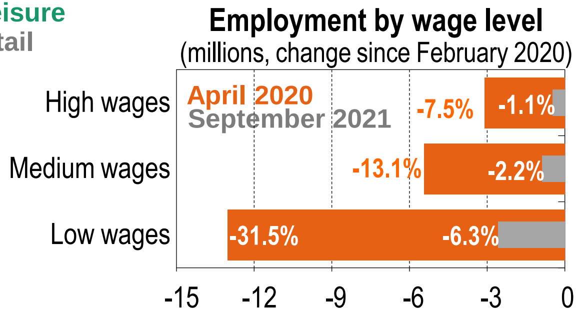
Hourly earnings

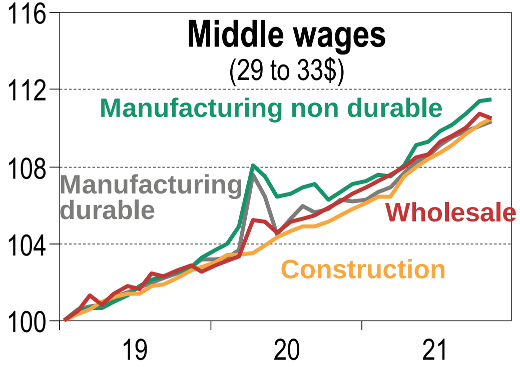
(January 2019 = 100)

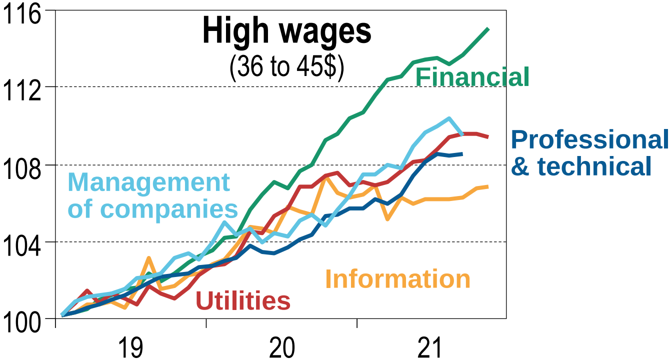


Employment by wage level

(millions, change since February 2020)

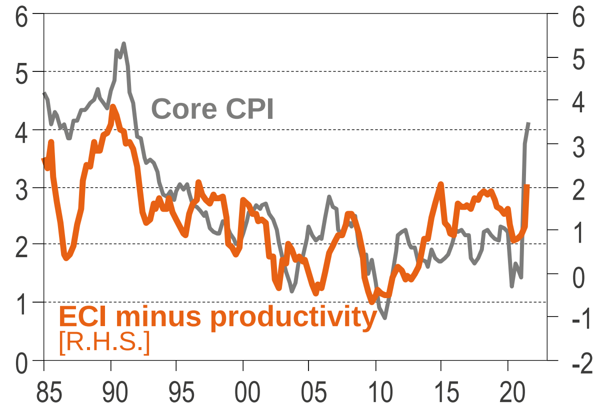






ECI, productivity and core inflation

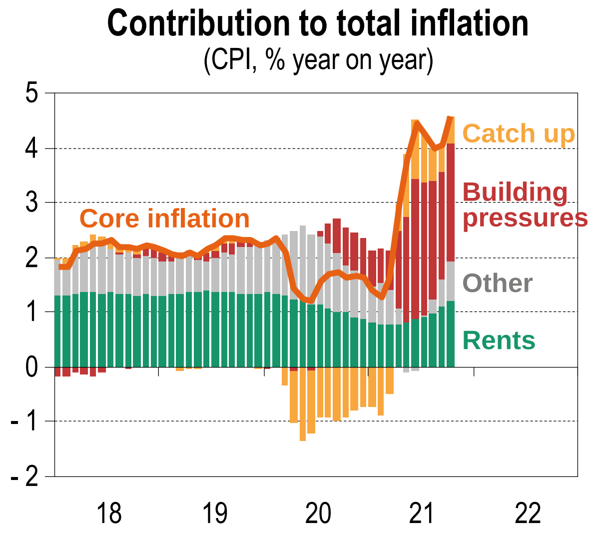
(% year on year)

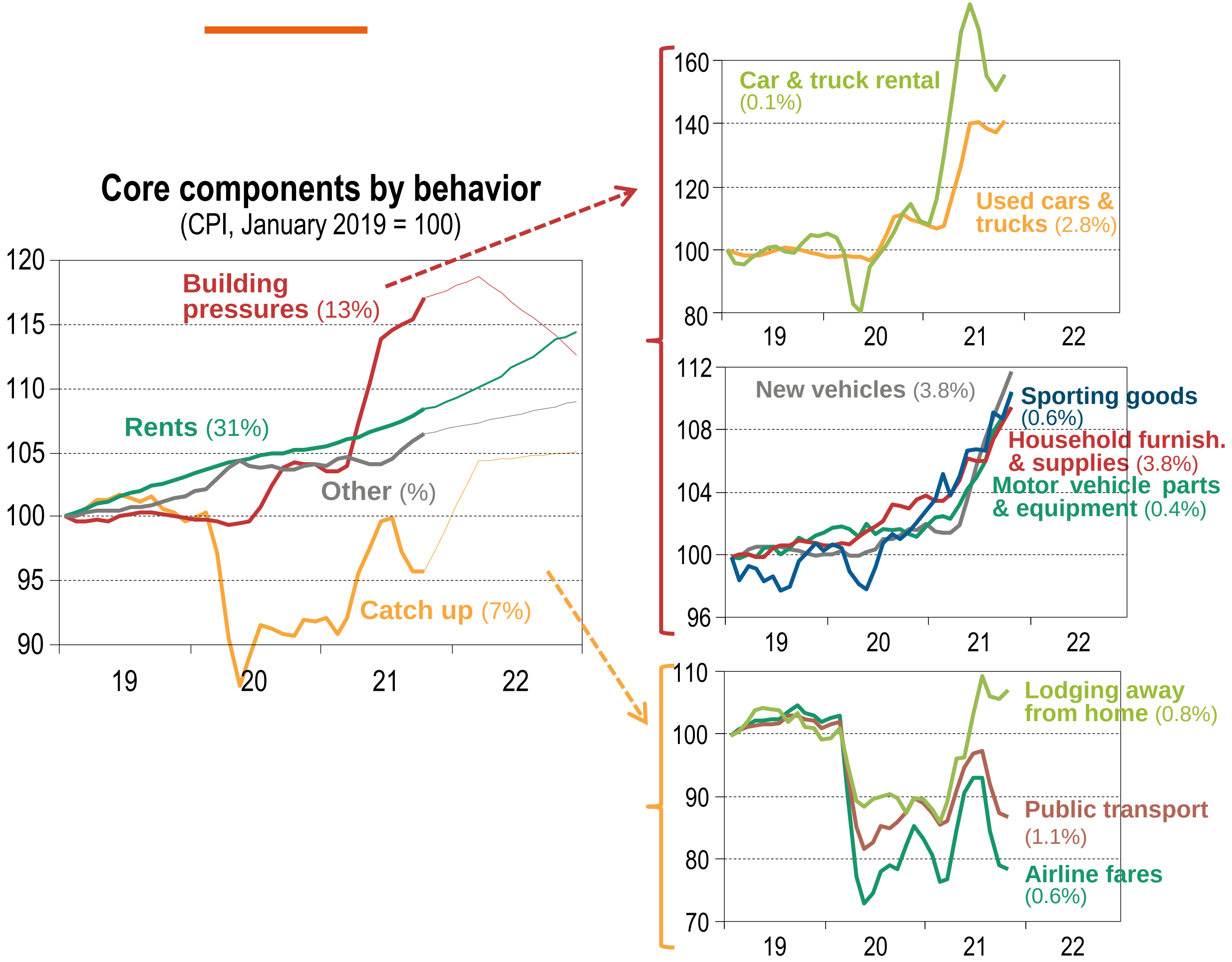


"If wages were to be rising persistently and materially above inflation and productivity gains, that could put upward pressure on prices or downward pressure on margins, and you can find yourself in what we used to call a wage price spiral. We don't have evidence of that yet. Productivity has been very high." J. Powell, November 3, 2021

 Sources: Refinitiv Datastream, Candriam

Up to now at least, most of the acceleration in inflation reflects transitory factors



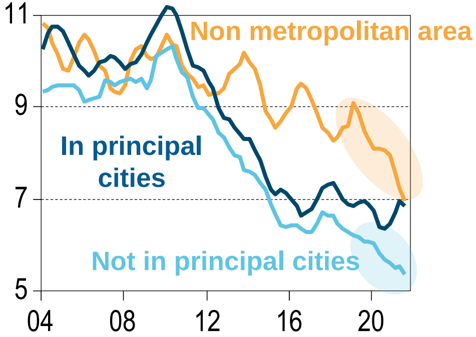


 Sources: Refinitiv Datastream, Candriam

Still, with good reasons for rents to rise, inflation will be slow to decelerate

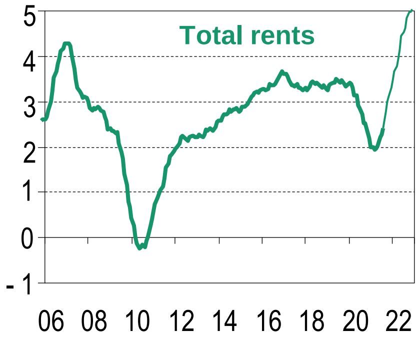
Rental vacancy rates

(%)



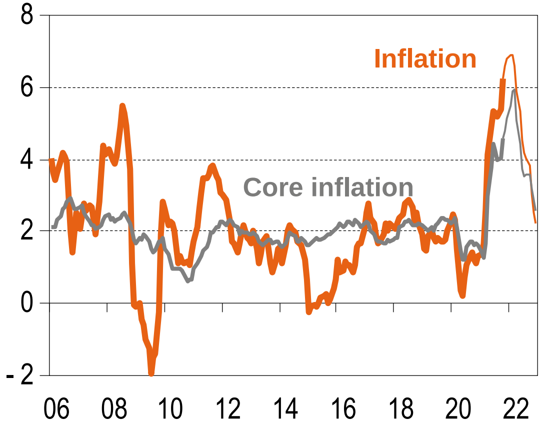
Rents

(% year on year)

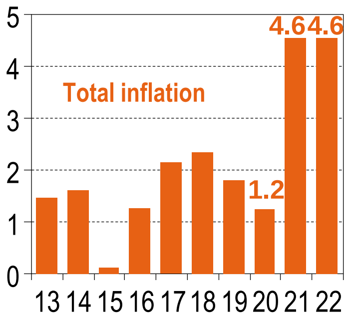


CPI inflation forecasts

(% year on year)



(% annual average)



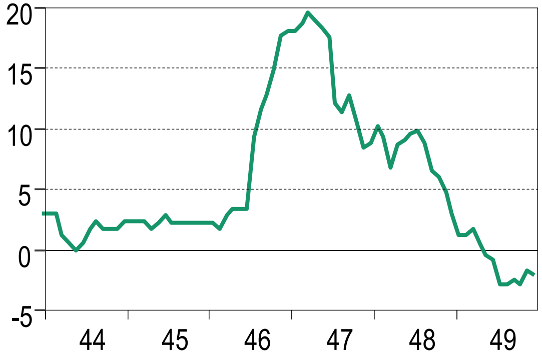
 December 2021 Sources: Refinitiv Datastream, Candriam

The current bout of inflation resembles the post WWII episode: it then took two years for inflation to subside

Three bouts of inflation

(% year on year, CPI)

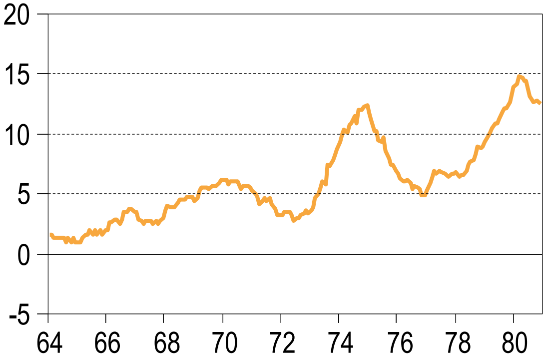
Post WWII



The rapid post-war inflationary episode was caused notably by supply shortages (supplies were running low or were exhausted entirely during the war and families had trouble buying cars and household appliances because they were essentially unavailable), pent-up demand was strong after wartime rationing and the elimination of price controls.

This inflationary episode ended after two years as domestic and foreign supply chains normalized and consumer demand began to level off.

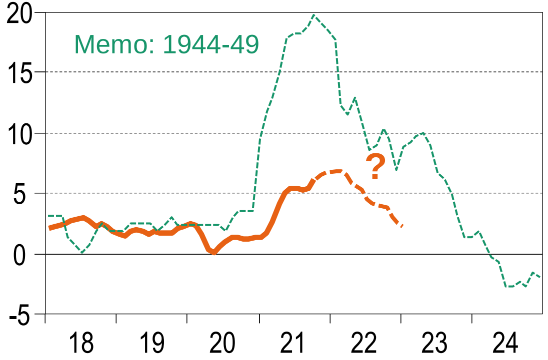
Mid-60's and 70's



The rise in inflation in the mid-60's was caused by a booming economy. From 1965 through 1969, real quarterly GDP growth averaged 4.8% at annual rate. Inflation fell after President Nixon instituted a freeze on wages and prices.

This bout of inflation was followed, in the 70's, by the longest stretch of heightened inflation because of two surges in oil prices. **The episode ended with Paul Volcker well-known campaign of hiking interest rates to bring inflation under control… at the cost of a severe recession.**

Today



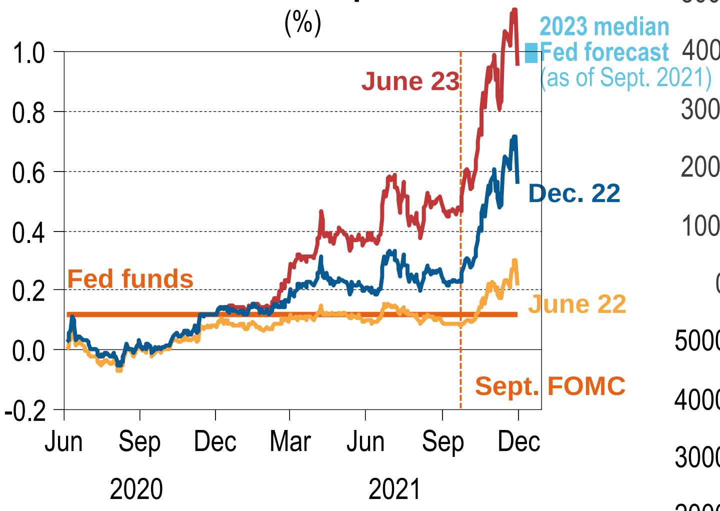
The post-World War II period is perhaps the most relevant case study for today. Supply shortages, a shift to durable goods consumption, pent-up demand for services and excess savings combine to drive up prices.

One substantial difference between the inflation dynamics of World War II and today is due to price controls which reduced the price level 30 percent below what it would have been otherwise. When the caps were lifted in 1946, prices climbed significantly.

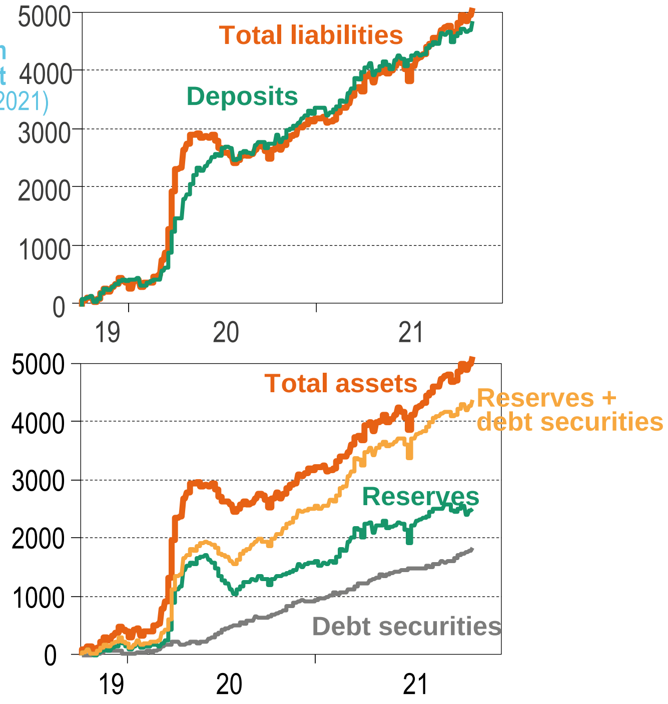
Sources: White House, Refinitiv Datastream, Candriam

With the Fed starting to normalize its policy, long term rates should now increase

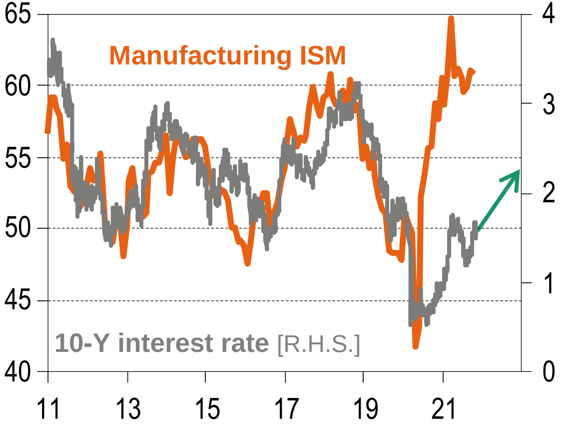
Fed funds rate expectations
(%)



Change in commercial banks' balance sheet
($ billion, cumulated since October 2019)



ISM and 10-year interest rate



 December 2021 Sources: Refinitiv Datastream, Candriam

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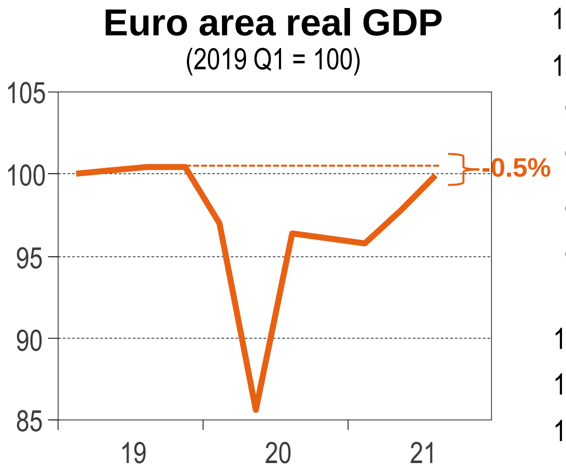
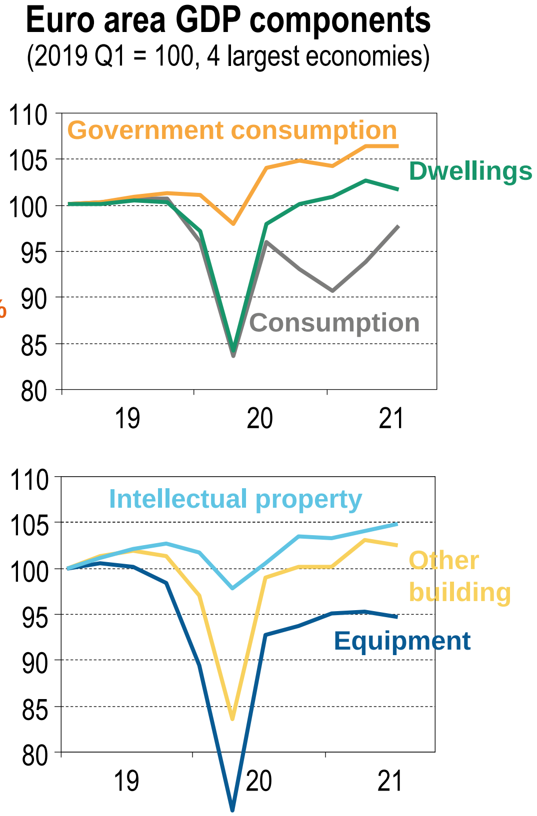
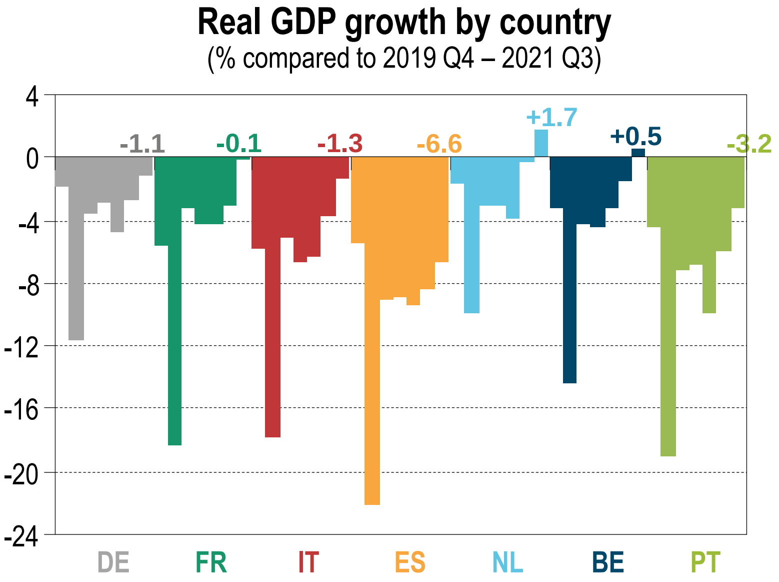
ECB President Christine Lagarde and
Deutsche Bundesbank chief Jens Weidmann
Image Alliance / dpa | Arno Bergi

5. Euro area
The ECB can afford to be patient

At the end of the third quarter, economic activity was almost back to its pre-crisis level



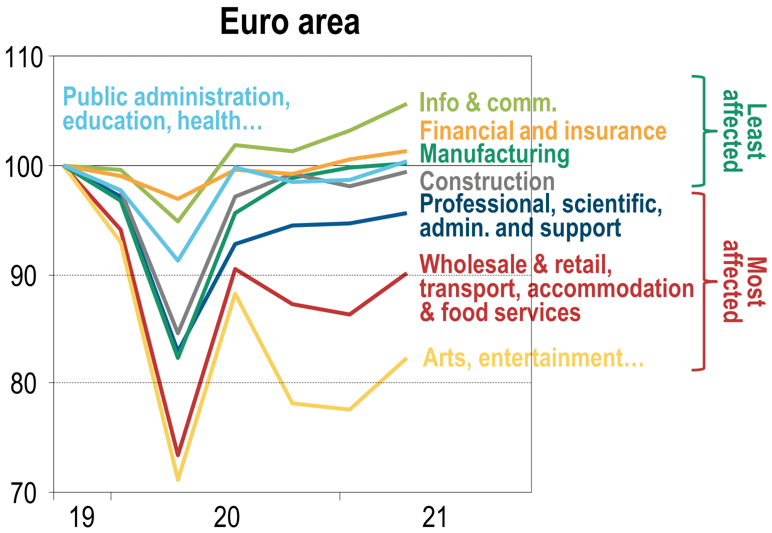


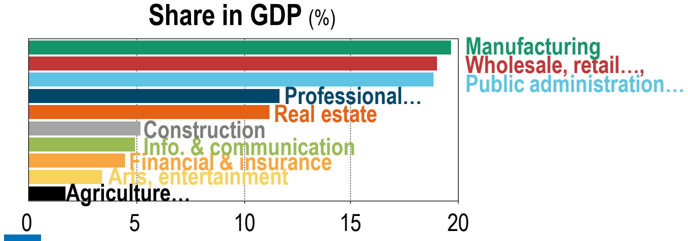


 Sources : Refinitiv Datastream, Candriam

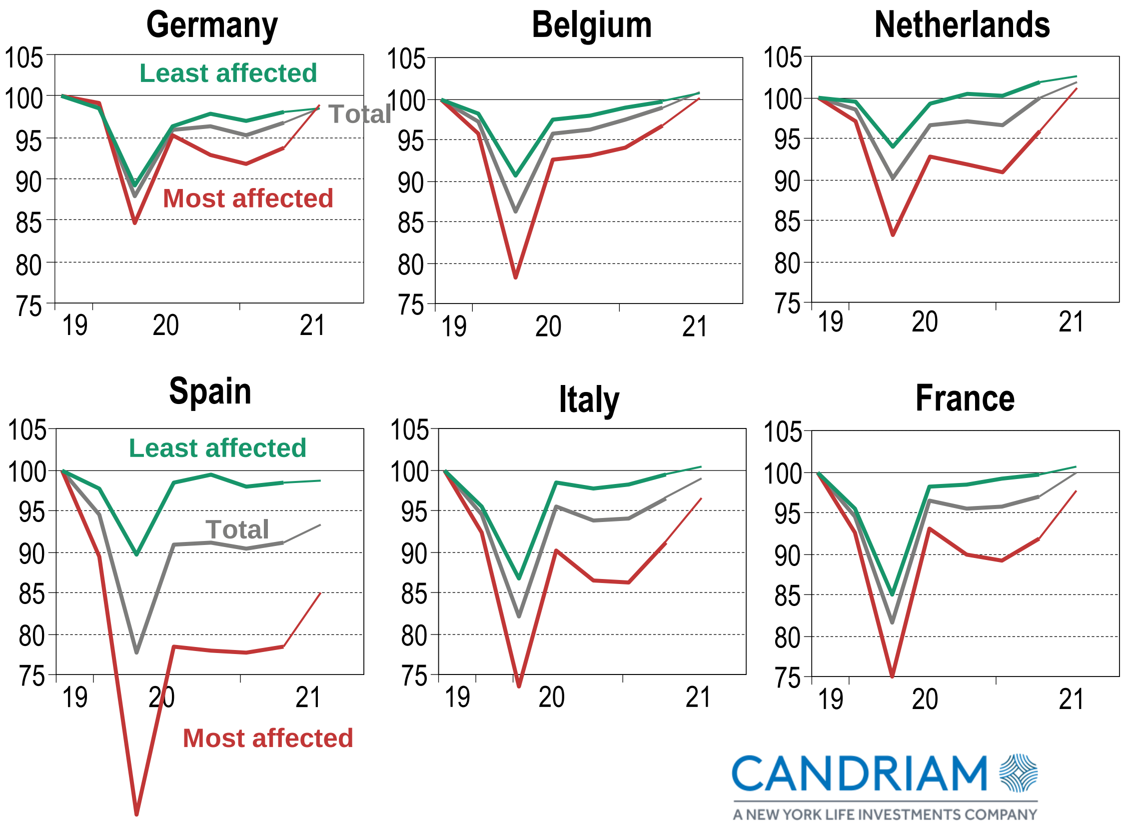
The most affected sectors were still way below their pre-crisis level, especially in Spain

GDP by sector
(2019 Q4 = 100)





Value added
(2019 Q4 = 100)

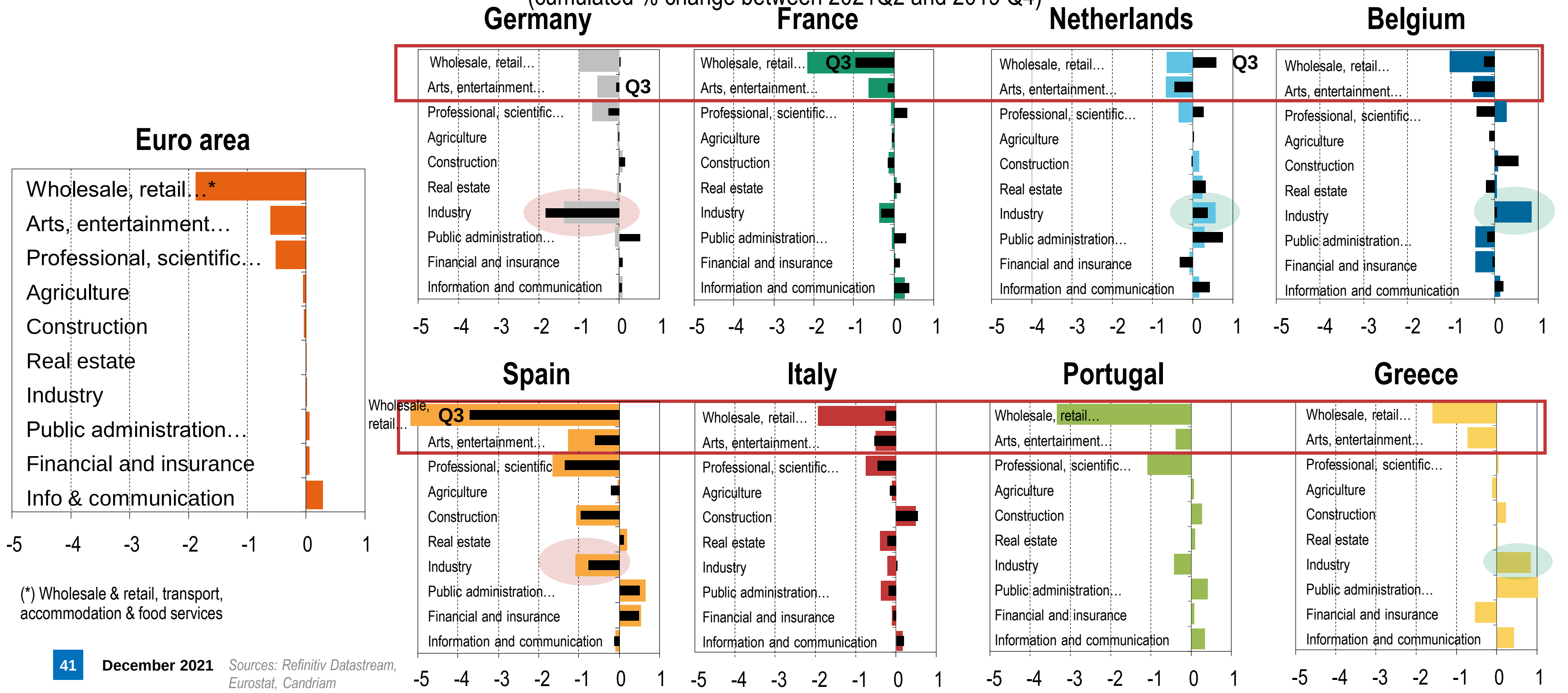


 December 2021 Sources: Refinitiv Datastream, Eurostat, Candriam

Except in Germany, most of the output gap was due to the fall in activity in the “trade, transport and accommodation & food sector”

Contribution to growth

(cumulated % change between 2021Q2 and 2019 Q4)



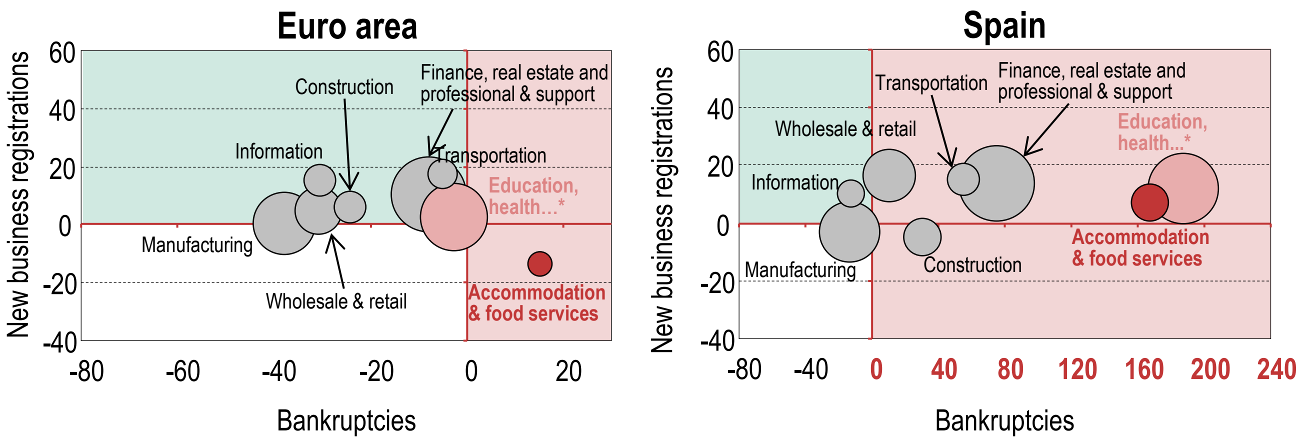
(*) Wholesale & retail, transport, accommodation & food services

 Sources: Refinitiv Datastream, Eurostat, Candriam

Bankruptcies have jumped in some service sectors, in particular in Spain...

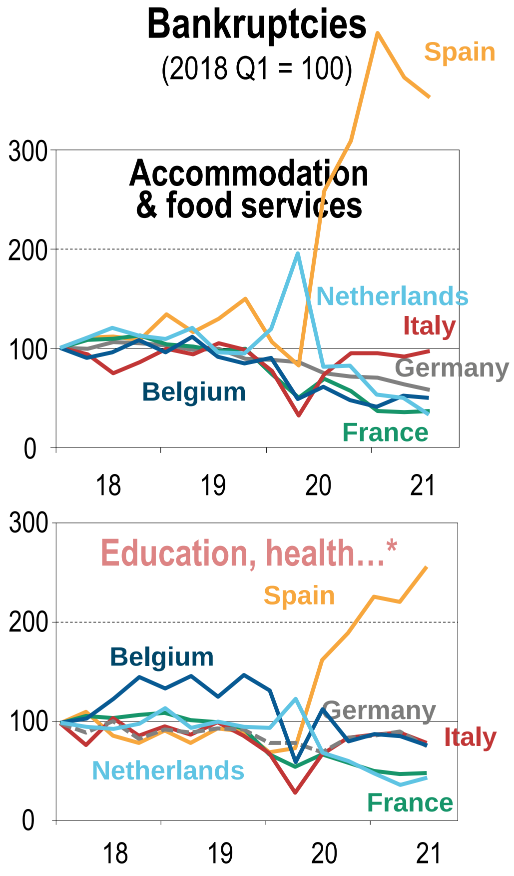
Business creation and destructions during the COVID-19 Crisis

(new business registrations and bankruptcies % change from 2019 Q4 to 2021 Q3)



(*) Education, health + Arts, entertainment and recreation + other services

N.B. The size of the bubbles are proportional to the sector size in total value added.

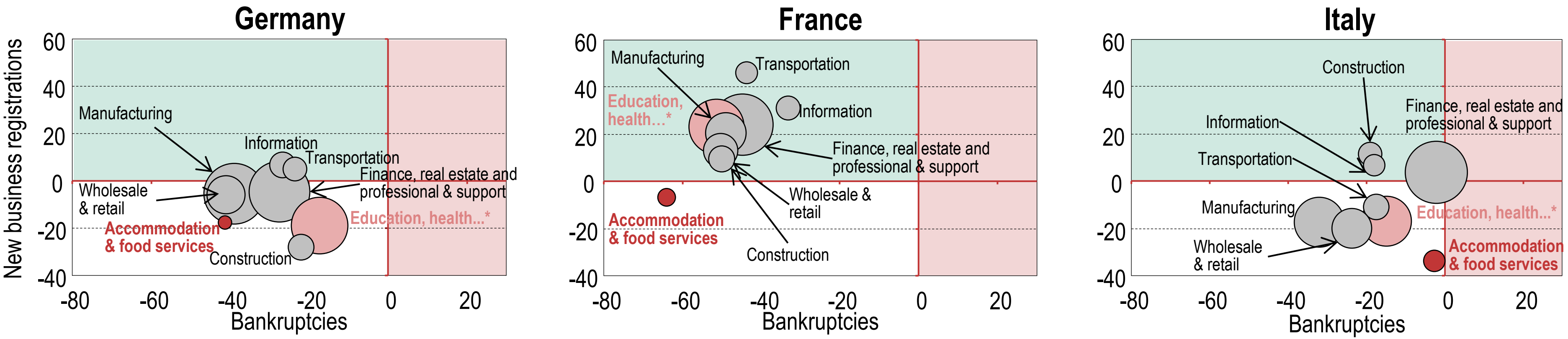


 Sources: Eurostat, Candriam

… but in most euro area countries, bankruptcies have been contained and business creations have remained rather dynamic

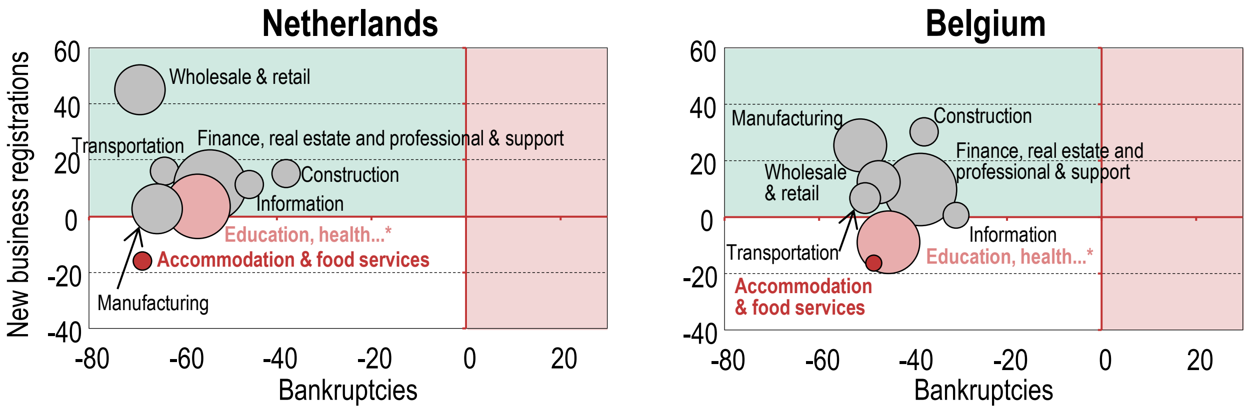
Business creation and destructions during the COVID-19 Crisis

(new business registrations and bankruptcies % change from 2019 Q4 to 2021 Q3)



N.B. The size of the bubbles are proportional to the sector size in total value added.

(*) Education, health + Arts, entertainment and recreation + other services

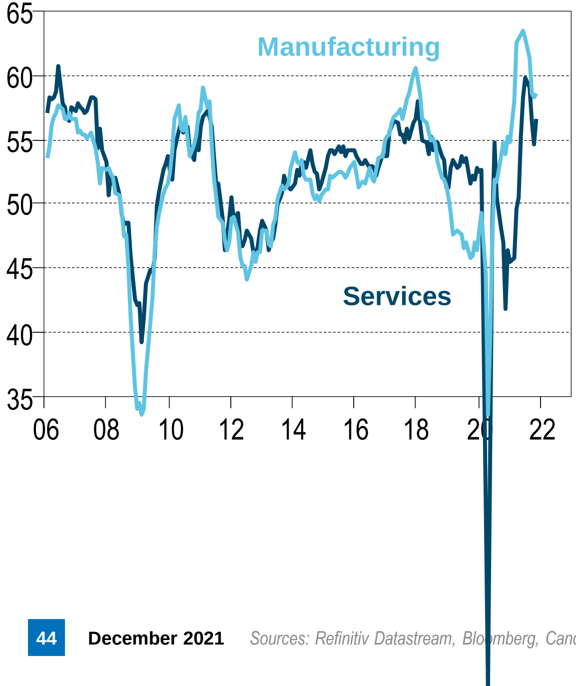


 Sources: Eurostat, Candriam

Before the new wave of Covid cases, business surveys remain at elevated levels, pointing to an ongoing recovery

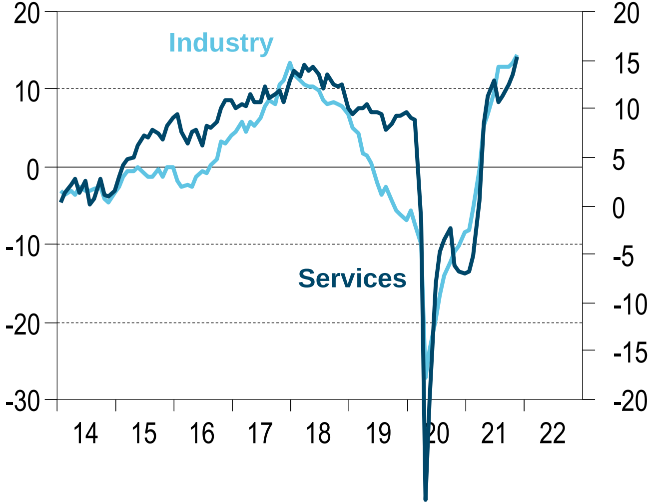
European Commission surveys

PMI indices



Production expectations

Employment expectations

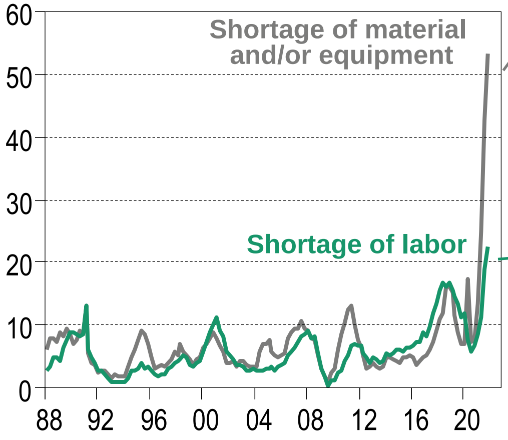


 Sources: Refinitiv Datastream, Bloomberg, Candriam

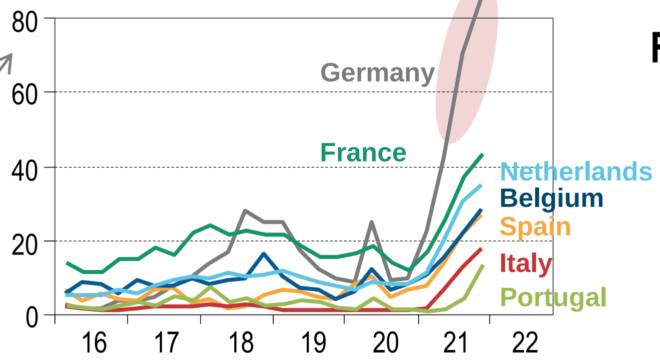
Supply constraints are now clearly curbing manufacturing activity … in Germany in particular! (I)

Factors limiting production in industry
(EC quarterly business survey, % of firms)

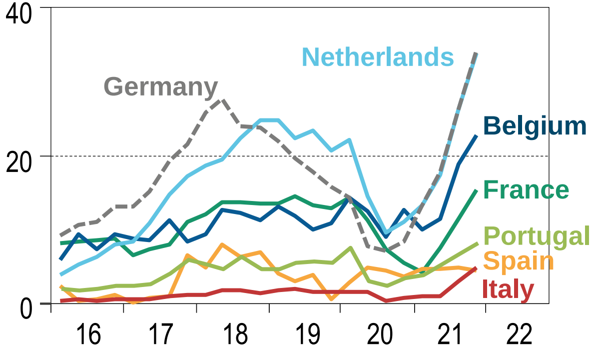
Euro area



Shortage of material and/or equipment

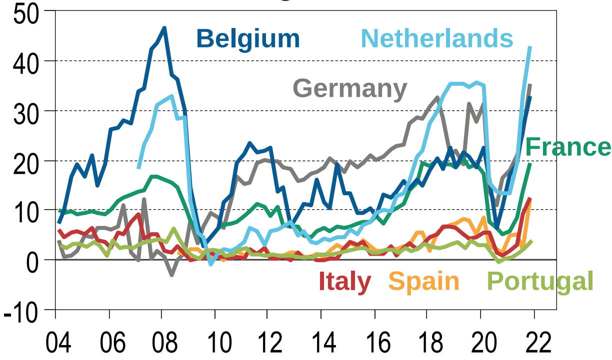


Shortage of labor



Factors limiting services production
(EC quarterly business survey, % of firms)

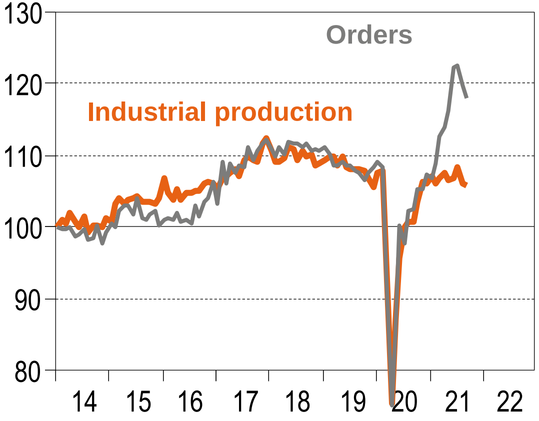
Shortage of labor



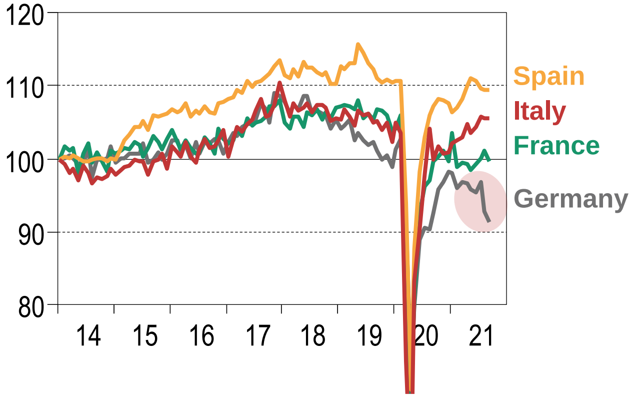
 December 2021 *Sources: Refinitiv Datastream, Bloomberg, Candriam*

Supply constraints are now clearly curbing manufacturing activity … in Germany in particular! (II)

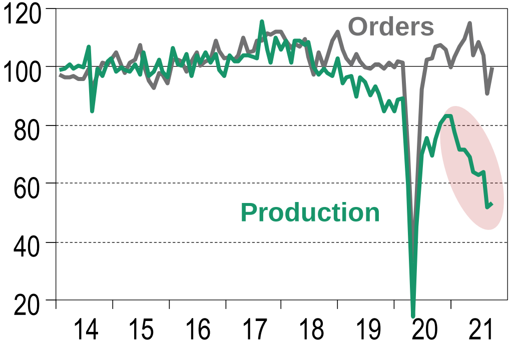
Euro area industrial production and new orders
(January 2014 = 100)



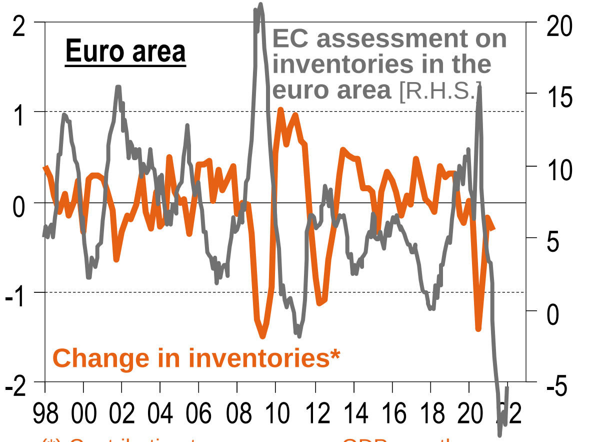
Industrial production by country
(January 2014 = 100)



German car production and orders
(2015 = 100)



Firms' assessment of inventories
(European Commission survey)



(*) Contribution to year-on-year GDP growth

 Sources: Refinitiv Datastream, Candriam

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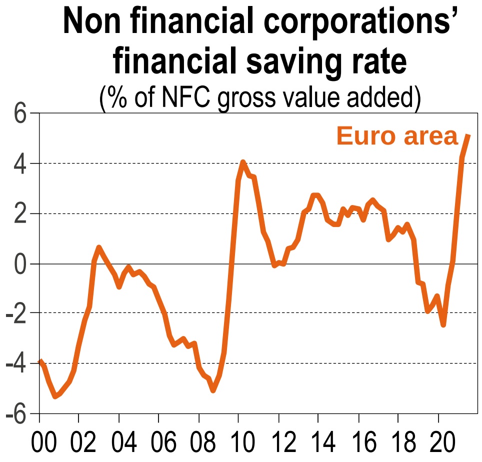
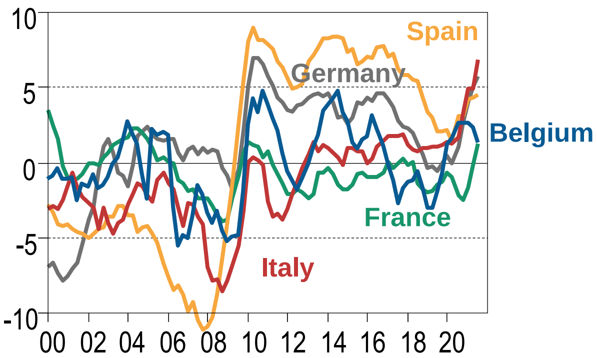
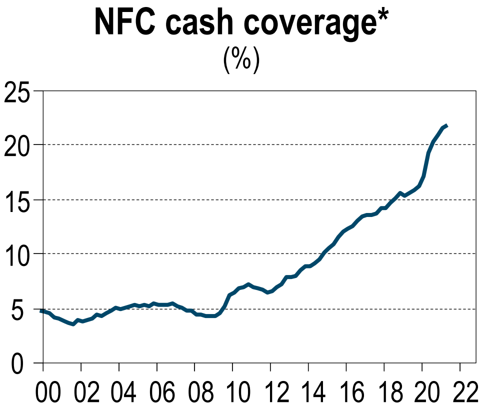
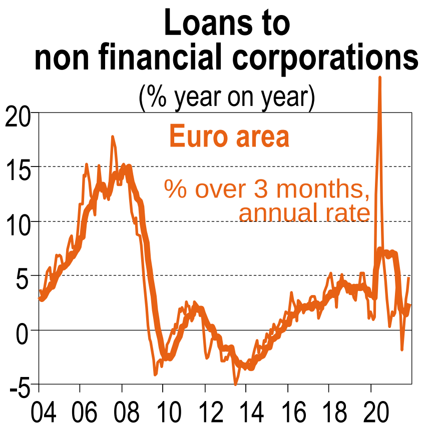
Firms' financial saving rates have jumped and financing conditions remain accommodative

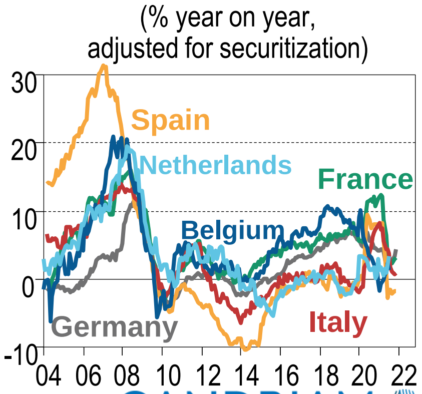






(*) Cash as a percentage of four-quarter moving sums of gross interest payments.

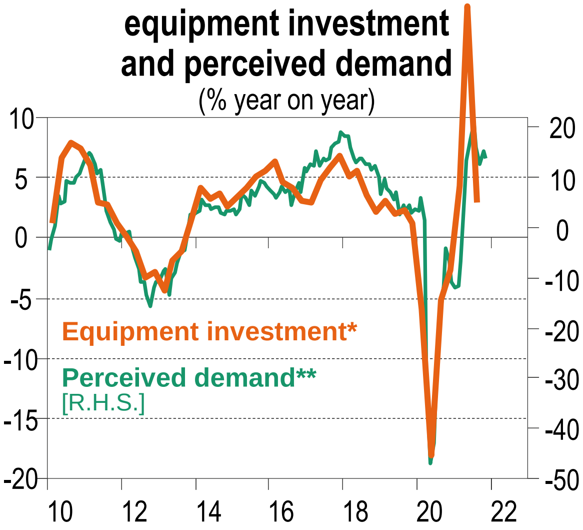




 December 2021 Sources: Refinitiv Datastream, Candriam

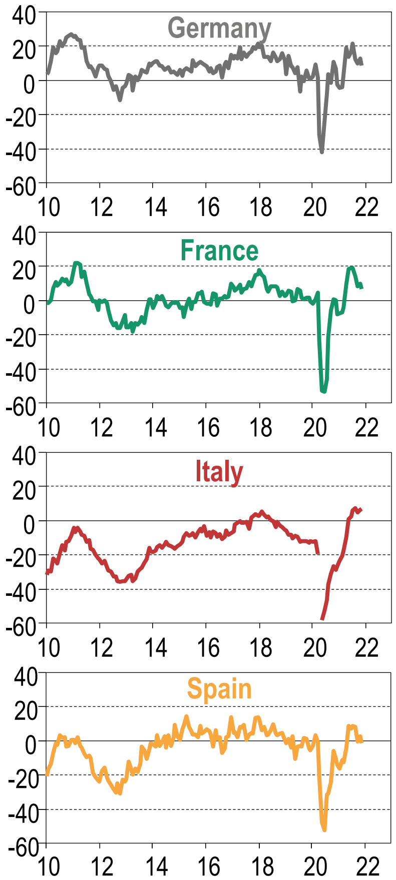
Demand expectations should continue to support a moderate growth in equipment investment

Euro area equipment investment and perceived demand
(% year on year)



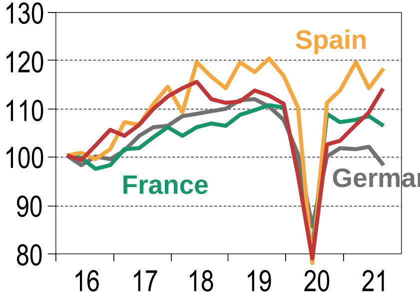
(*) % year on year (including intellectual property rights)
(**) Composite indicator: 0.7 x industry production trend + 0.3 x services recent evolution in demand

Perceived demand by country**

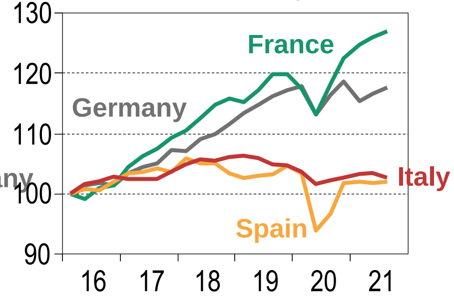


Investment by country
(2016 Q1 = 100)

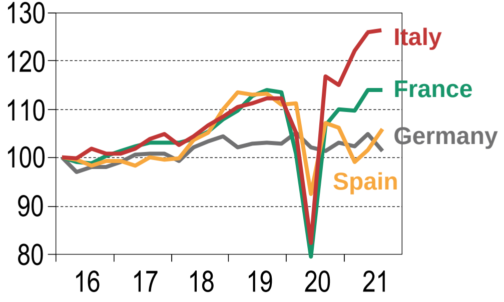
Equipment



Intellectual property products



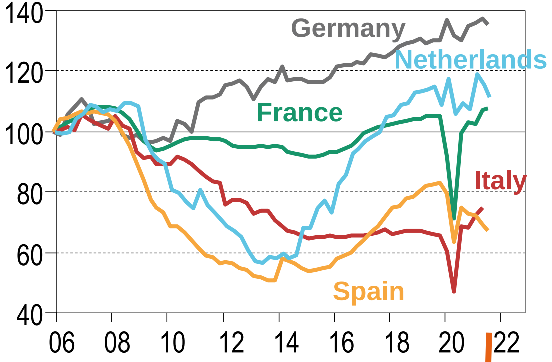
Structures



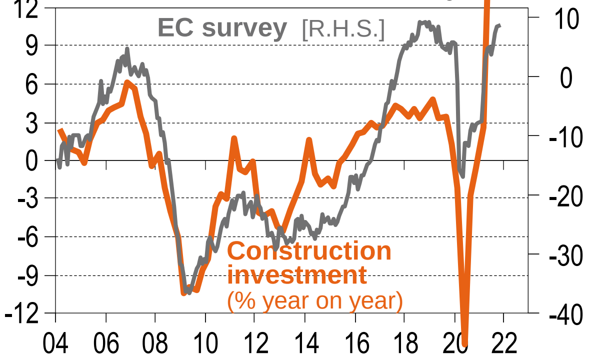
 Sources: Refinitiv Datastream, Candriam

With the exception of Spain, residential investment is recovering despite increasing supply-side headwinds and rising real estate prices

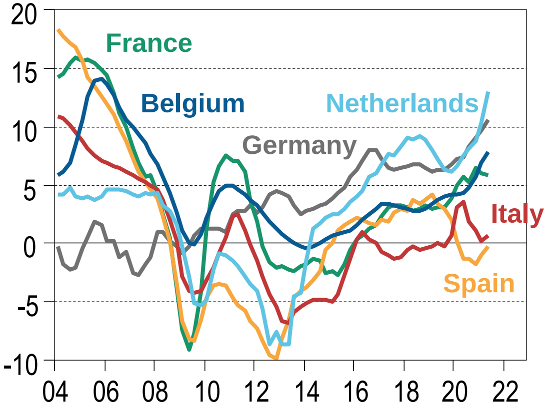
Residential investment
(2006 Q1 = 100)



EC construction survey

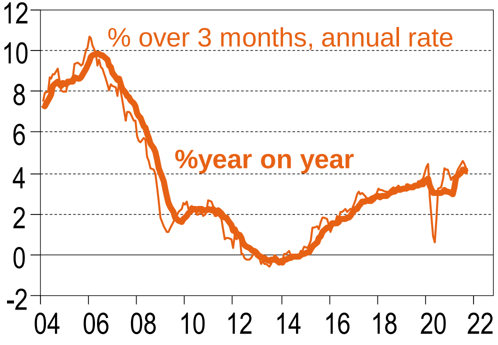


Residential property prices
(% year on year)

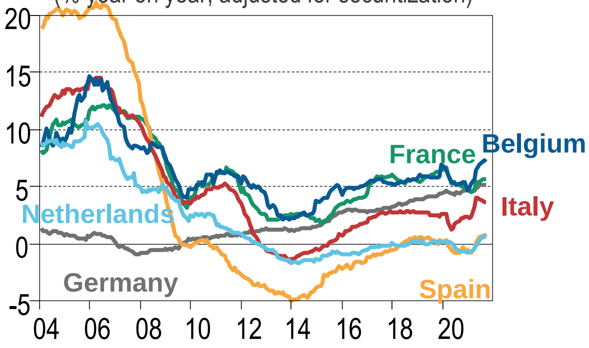


Loans to households

Euro area

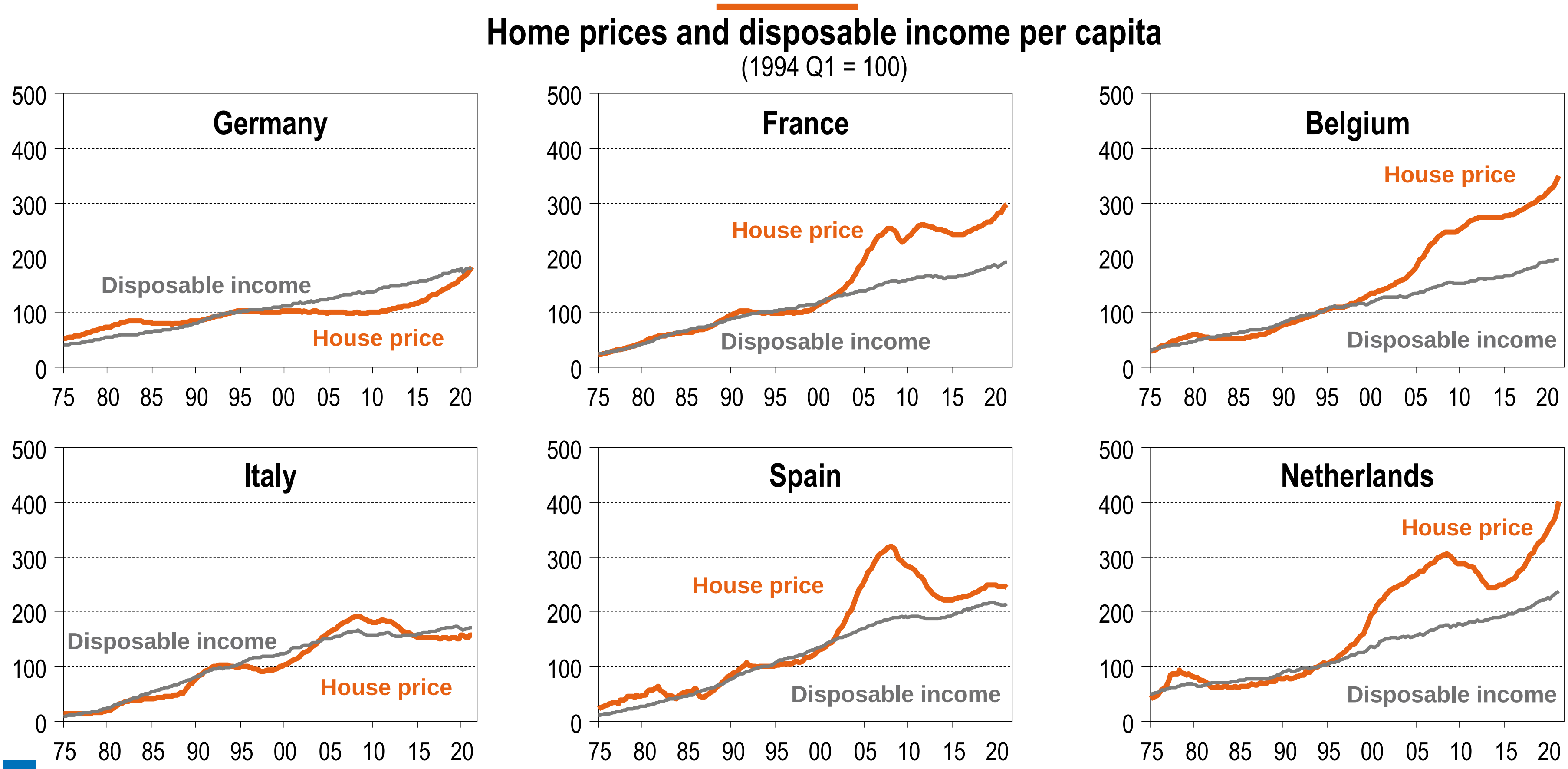


By country
(% year on year, adjusted for securitization)



 Sources: Refinitiv Datastream, Candriam

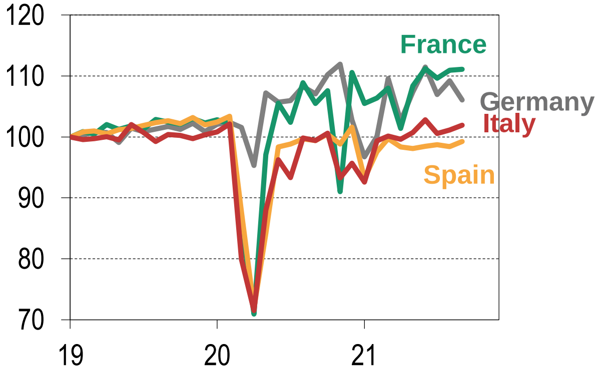
Memo: low interest have pushed home prices significantly higher in some countries



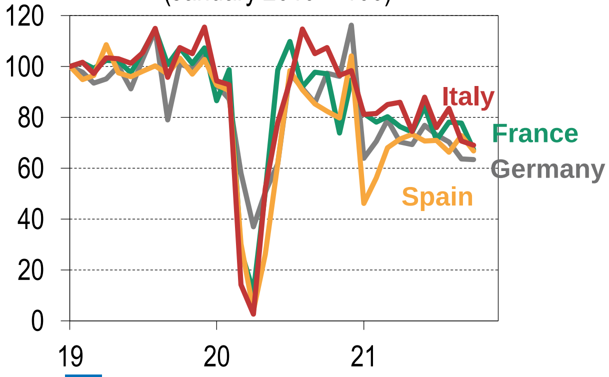
 Sources: Federal Reserve of Dallas, Candriam

At the end of Q3, the consumption gap was still not filled

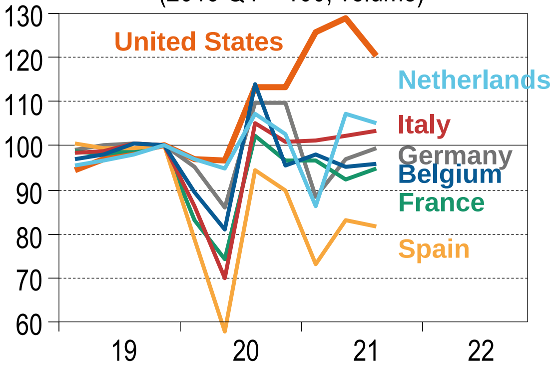
Retail sales ex cars
(January 2019 = 100)



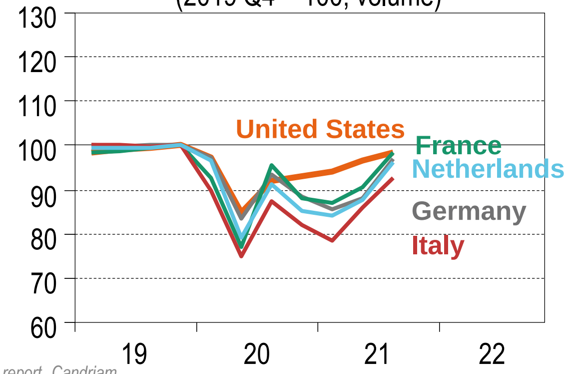
Car sales
(January 2019 = 100)



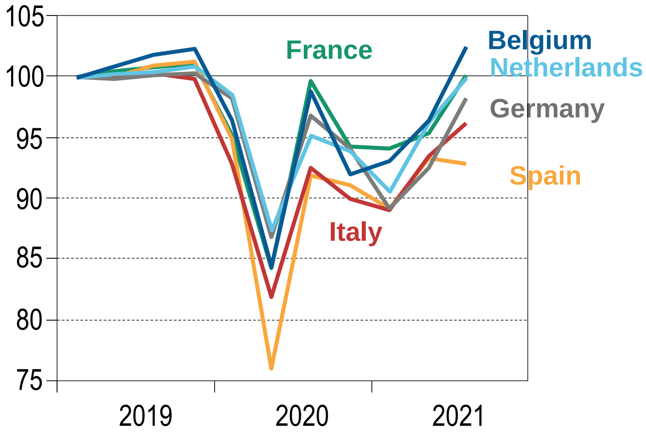
Durable goods consumption
(2019 Q4 = 100, volume)



Services consumption
(2019 Q4 = 100, volume)



Consumption
(2019 Q1 = 100, volume)

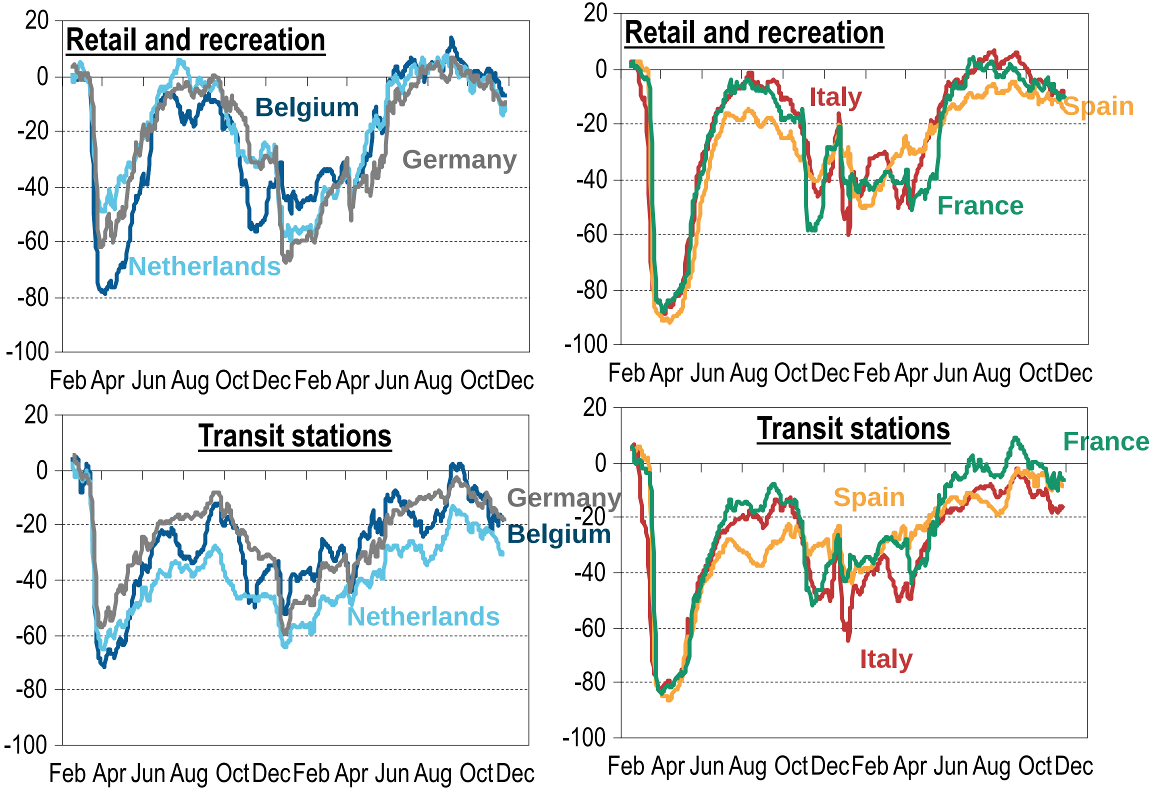


 Sources: Refinitiv Datastream, Google mobility report, Candriam

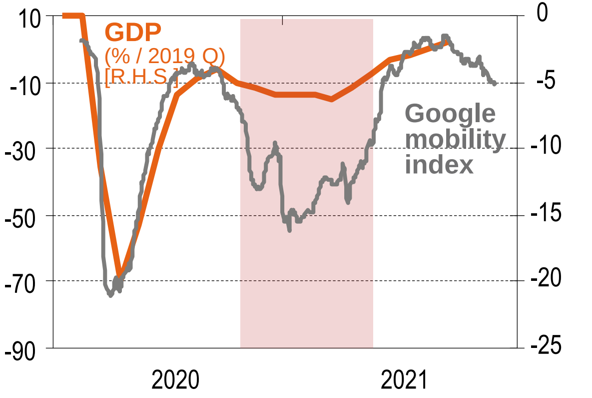
The new wave of Covid will lower mobility indicators, but the effects on fourth quarter activity should be muted

Google mobility trends

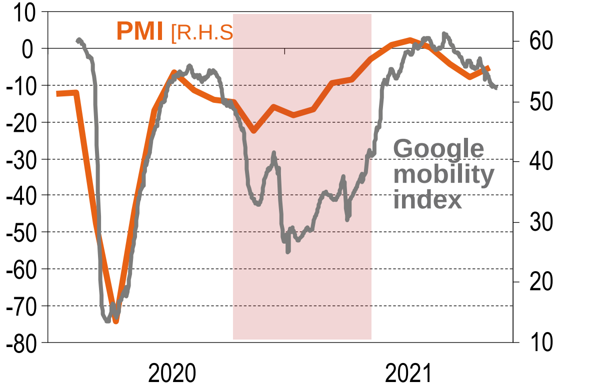
(% compared to January 2020, smoothed over 7 days)



Google mobility and GDP in the euro area

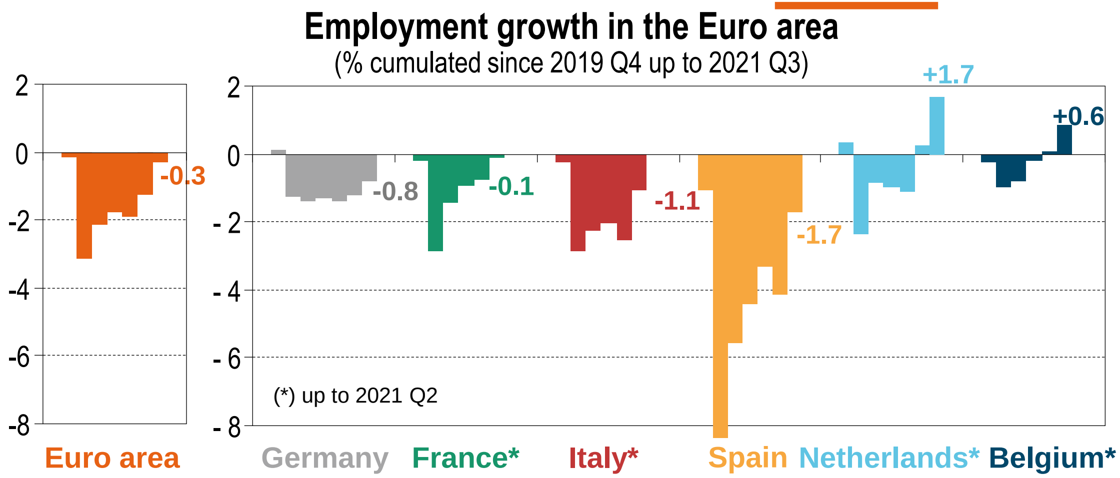


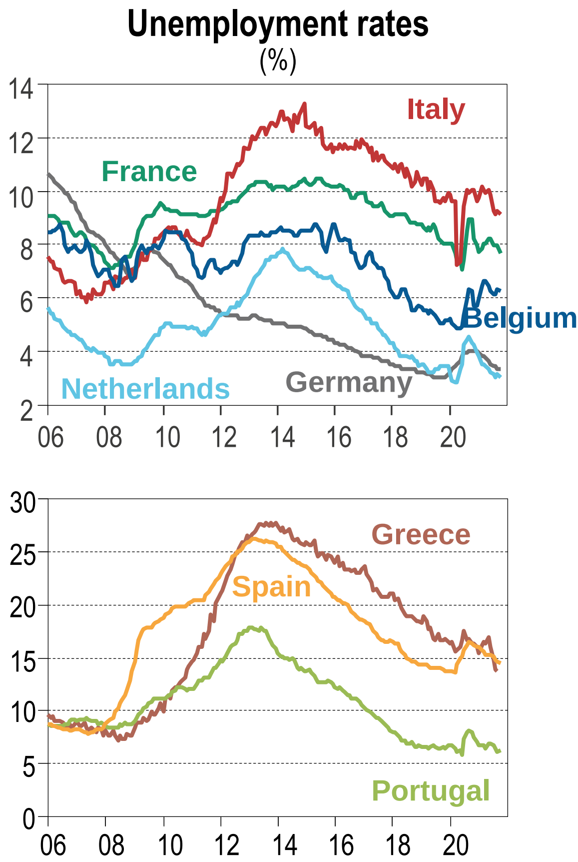
Google mobility and composite PMI in the euro area



 December 2021 *Sources: Refinitiv Datastream, Google mobility report, Candriam*

The continuing improvement in the labor market should support consumption

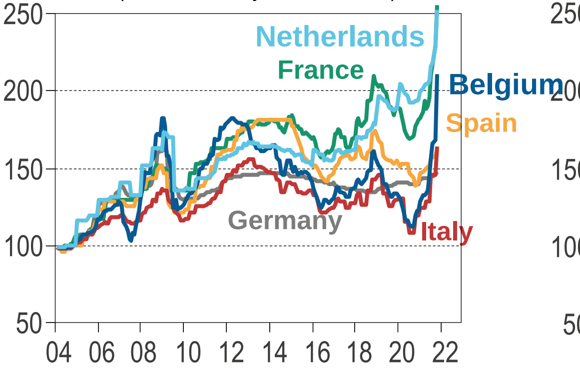




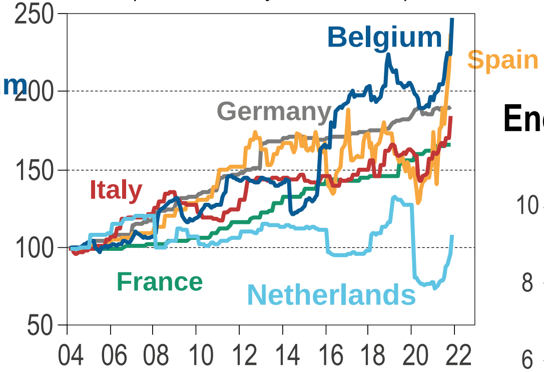
 Sources: Refinitiv Datastream, Candriam

The rise in energy prices should not excessively curb household spending

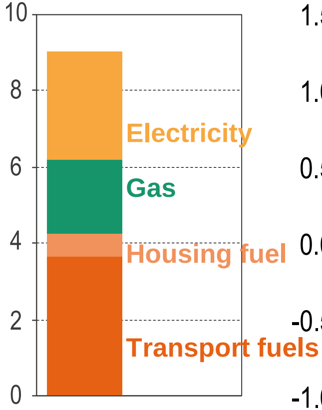
Gas prices
(CPI, January 2004 = 100)



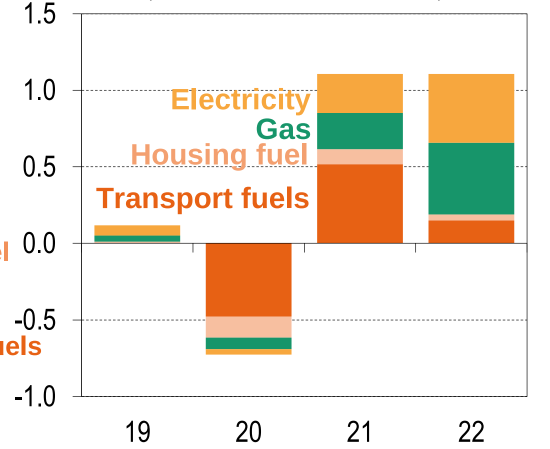
Electricity prices
(CPI, January 2004 = 100)



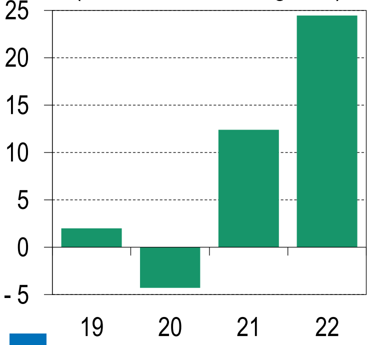
Energy share in CPI
(%, 2021)



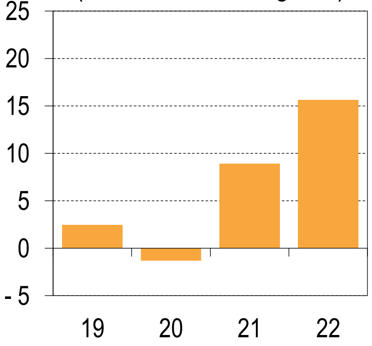
Impact on the euro area CPI of energy prices remaining at their recent peak
(CPI, % annual contribution)



Euro area gas price
(CPI, annual average, %)



Euro area electricity price
(CPI, annual average, %)

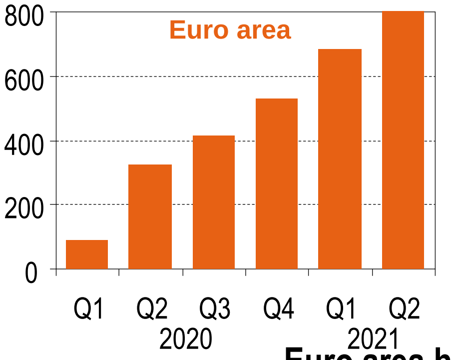


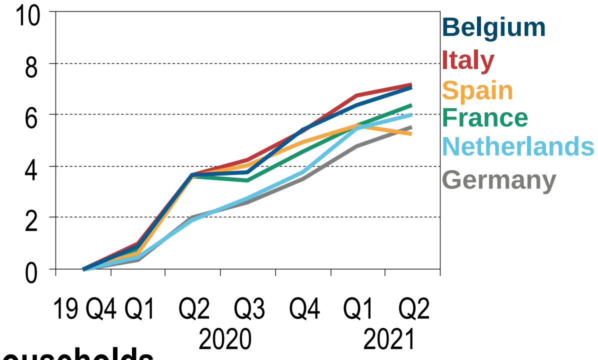
December 2021

Sources: Refinitiv Datastream, Eurostat, Candriam

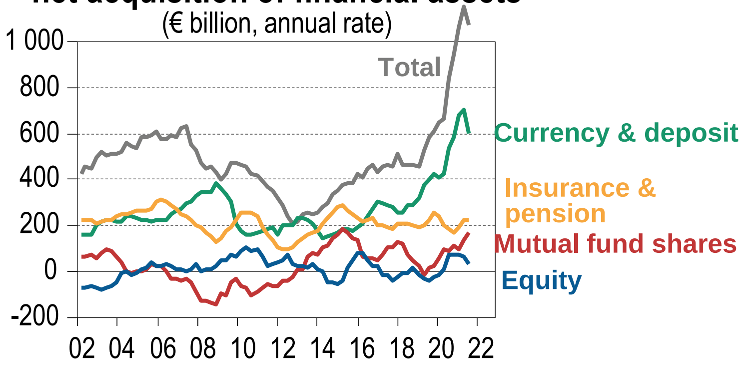
Accumulated savings surplus and measures taken by governments should help cushion the purchasing power shock for households…

Households cumulated excess financial savings since Q4 2019





Euro area households net acquisition of financial assets



Main measures taken by governments

Germany: 50% reduction of the fee on renewable energies in 2022 (i.e. -10% on the final price of electricity)

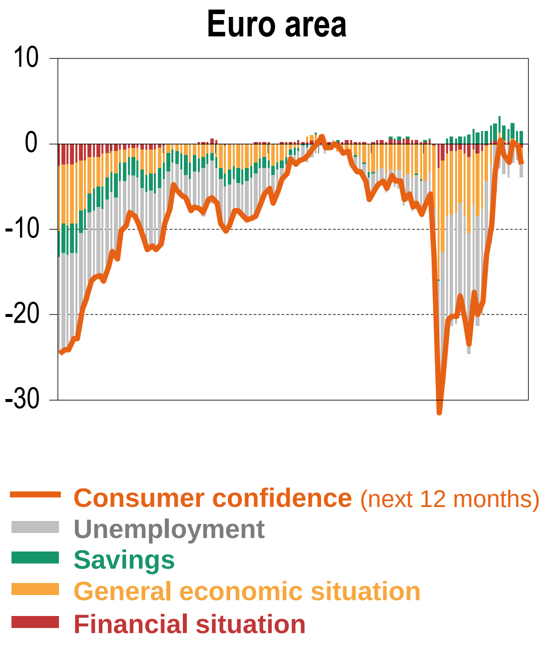
France:
Gas prices capped between December 2021 and March 2022
Electricity price increase limited to 4% in early 2022
Energy vouchers for low-income households

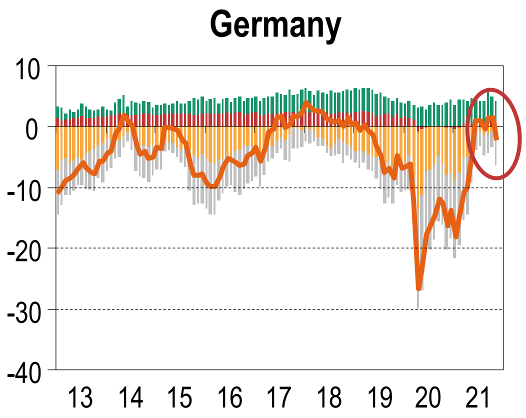
Italy:
Removal of infrastructure costs for electricity
66% reduction in infrastructure costs and reduction of VAT to 5% for gas
Support for low-income households

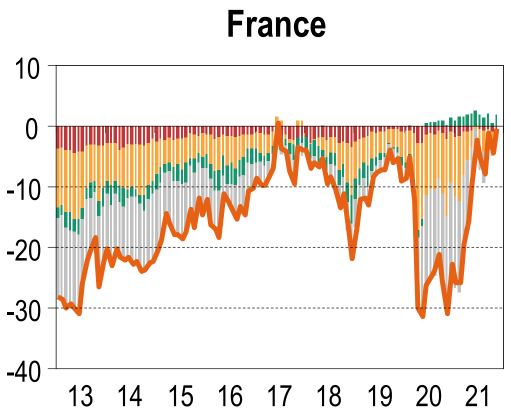
Spain:
VAT cut to 10% and other electricity taxes cut
Gas price increase limited to 4.4% in September and tariff freeze until April 2022

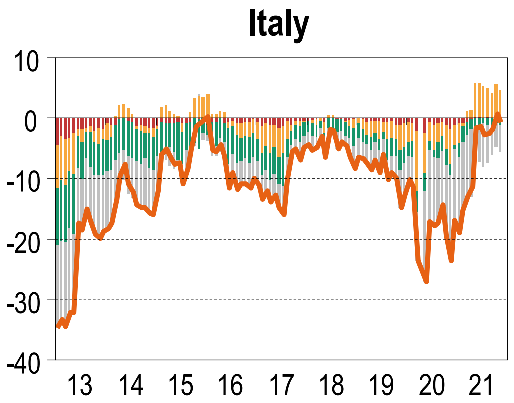
Sources: Refinitiv Datastream, European Commission, Candriam

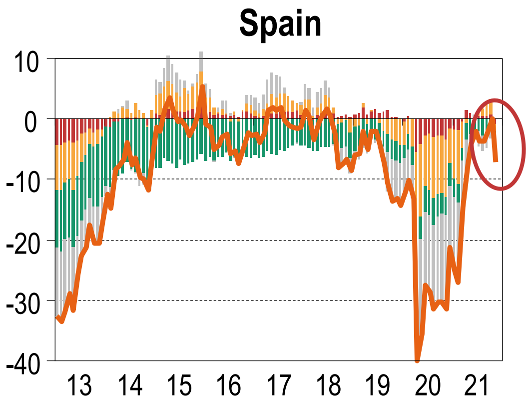
For the time being, consumer confidence is holding pretty well







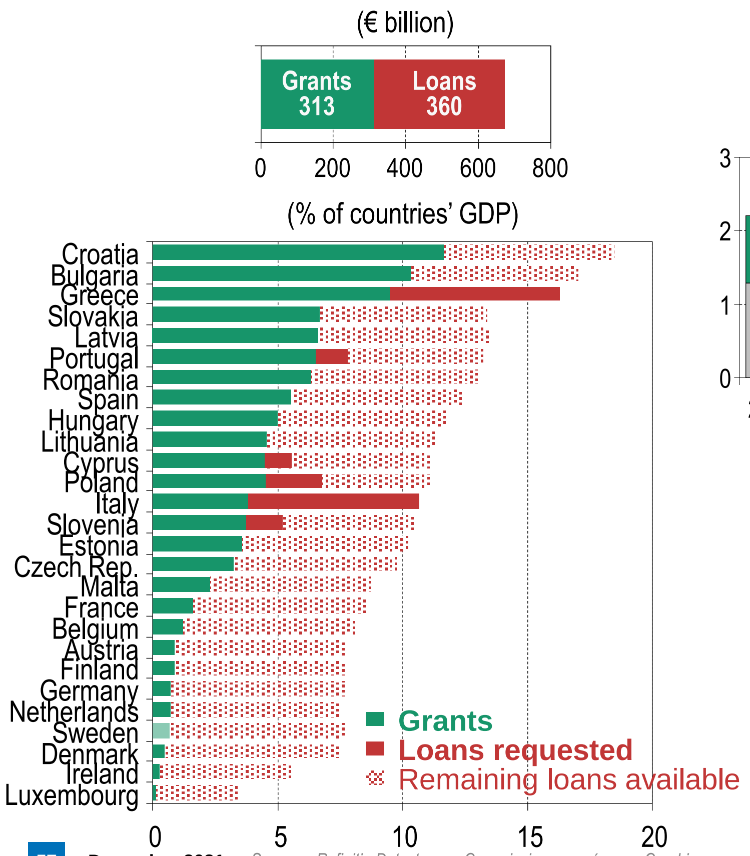




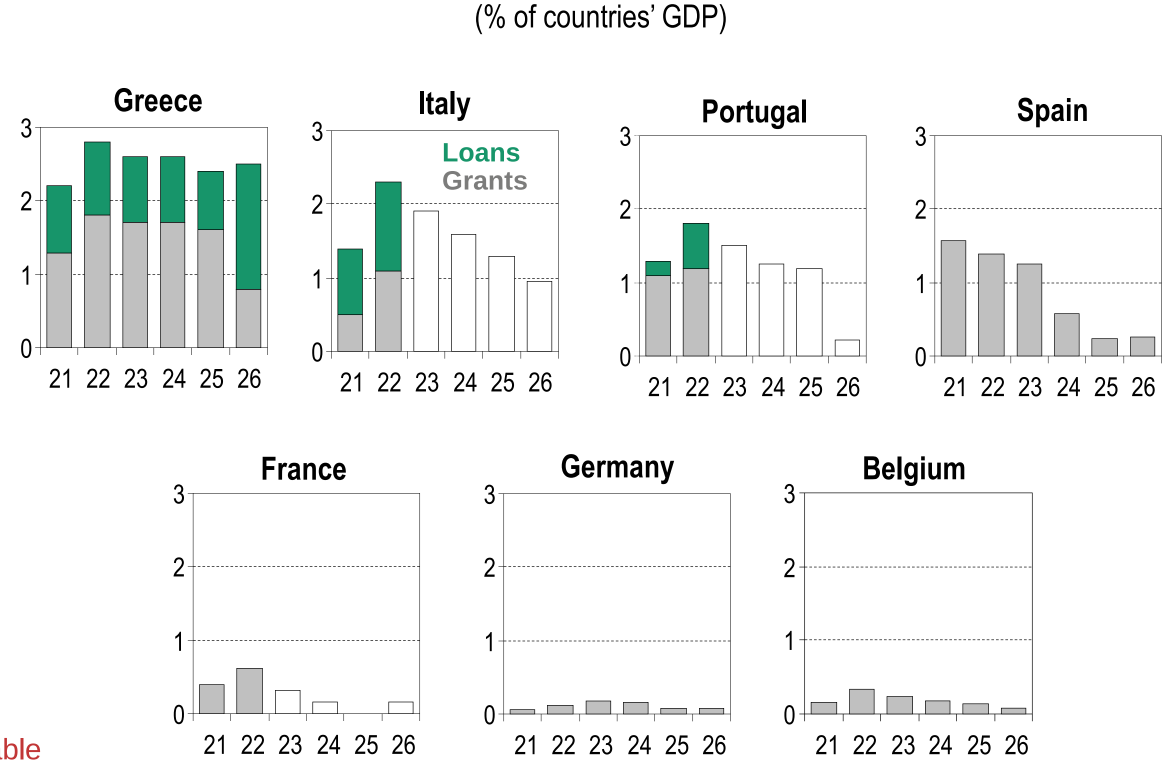
Sources: Refinitiv Datastream, Candriam

Public investment will support growth in 2022, in Southern countries in particular

Recovery and Resilience Facility (RRF)



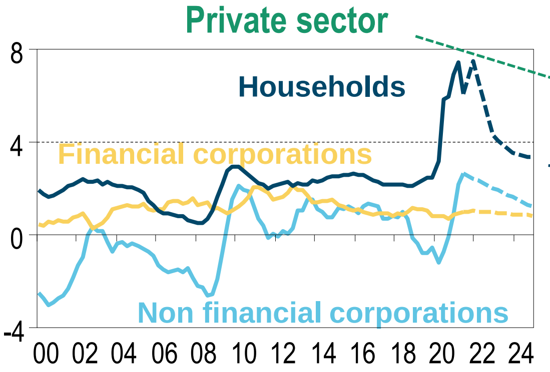
Expected cash disbursement from the RRF funds

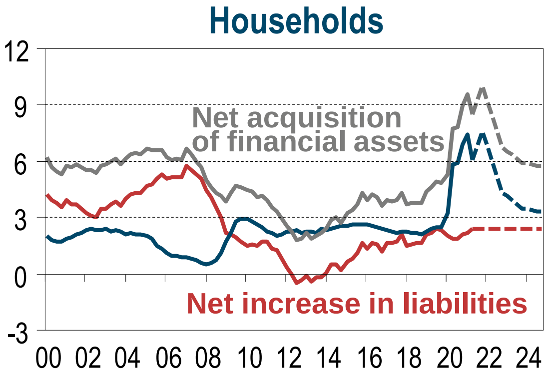


Sources: Refinitiv Datastream, Commission européenne, Candriam

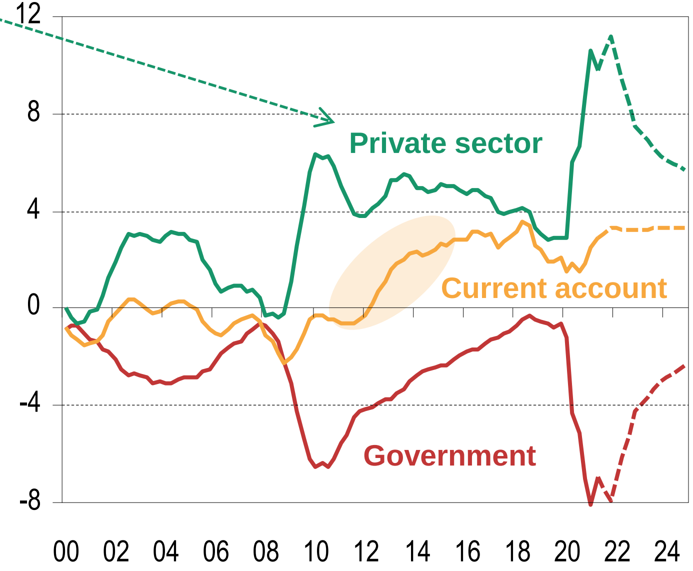
October draft budgetary plans are consistent with a gradual decline in households financial savings (I)

Euro area net lending (+) or borrowing (-)
(% of GDP, 4Q moving average)





Net lending or borrowing

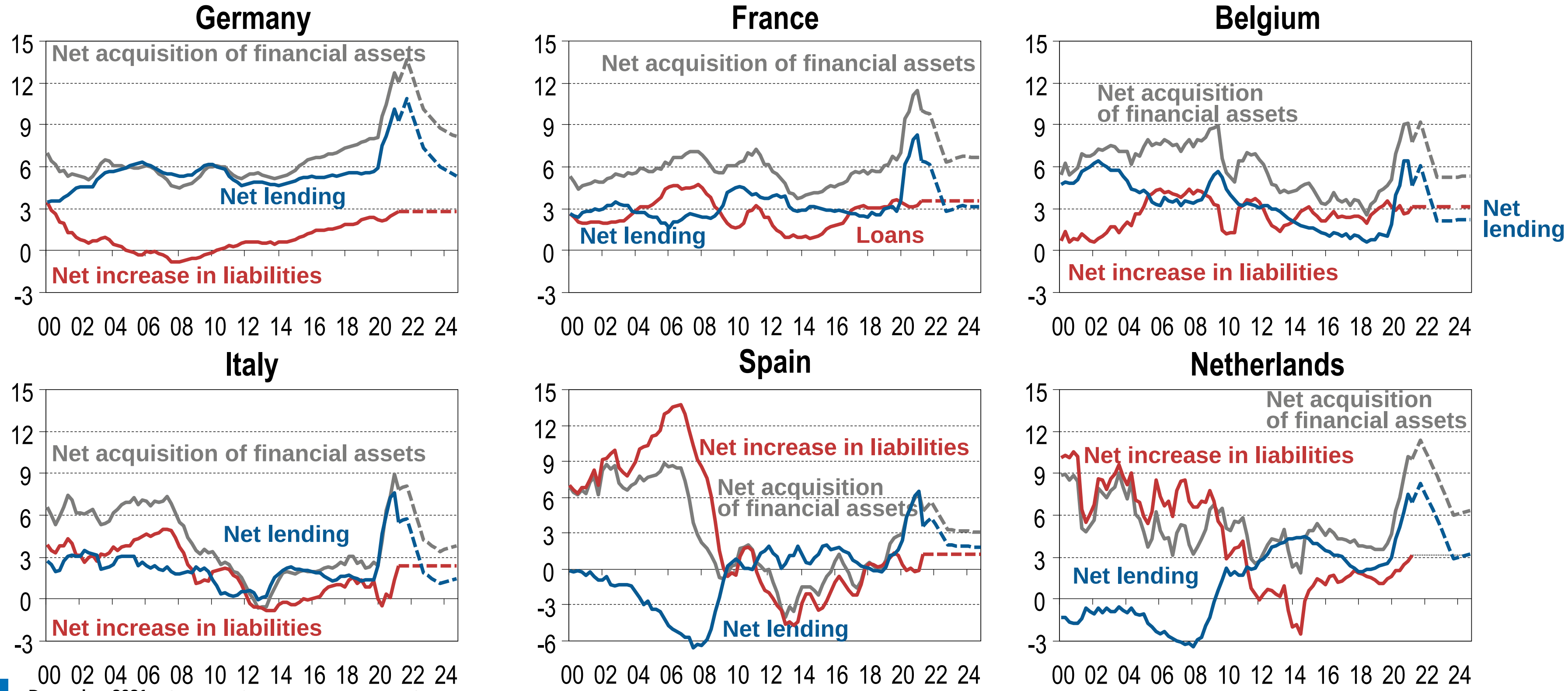


 December 2021 *Sources: Refinitiv Datastream, Eurostat, Candriam*

October draft budgetary plans are consistent with a gradual decline in households financial savings (II)

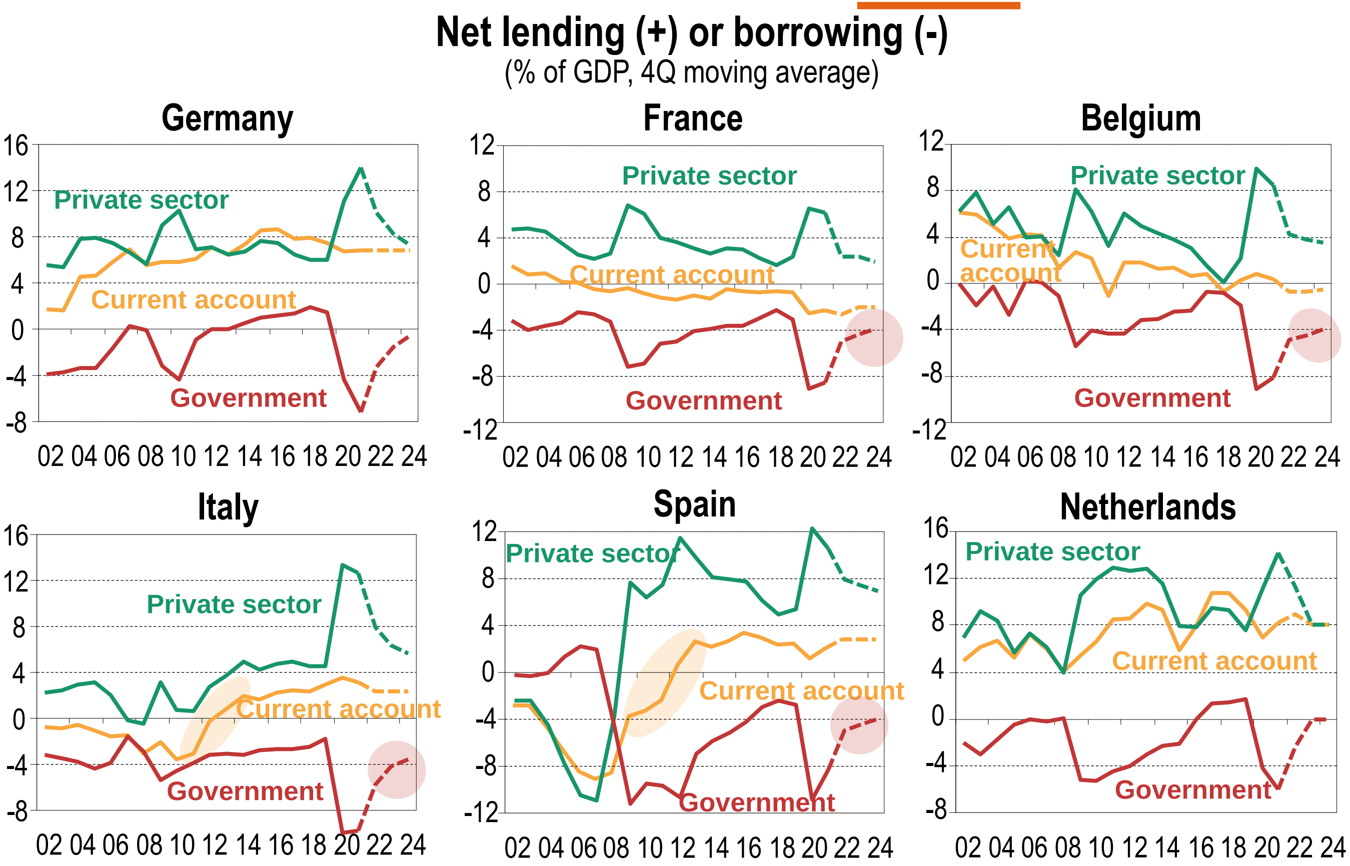
Households net lending (+) or borrowing (-)

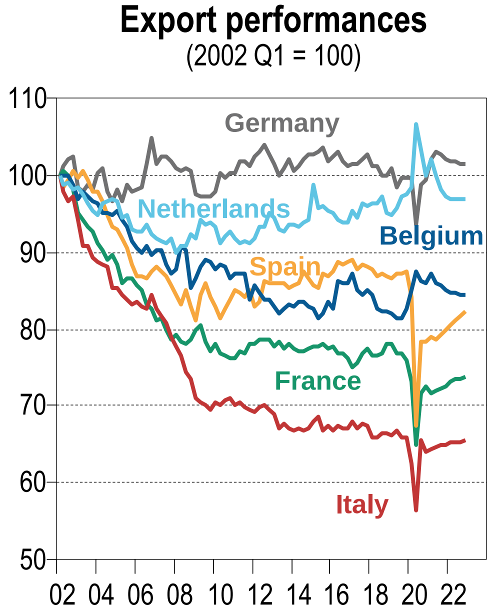
(% of GDP, 4Q moving average)



 Sources: Refinitiv Datastream, Eurostat, Candriam

This implies that many countries will still have a public deficit higher than 3%... even in 2024!





 December 2021 Sources: Refinitiv Datastream, Eurostat, Candriam

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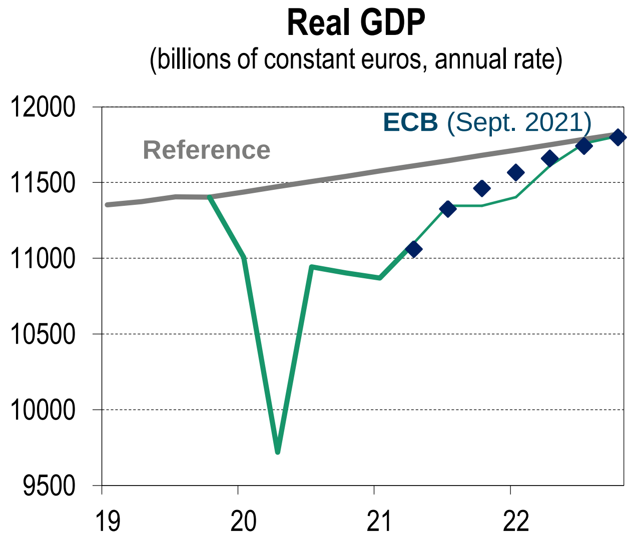
The slow rebalancing of public deficits should allow growth to be slightly above 4% in 2022… but discussions around the new Budget rules are likely to be heated…

"[…] The lessons from the financial crisis should serve as a cautionary tale. At that time, Europe declared victory too soon and we paid the price for that. And we will not repeat the same mistake."
Ursula von der Leyen,
EC President, September 15 2021



GDP growth

2020 = -6.5%
2021 = 4.8%
2022 = 4.3%

 December 2021 *Sources: Refinitiv Datastream, ECB, Candriam*

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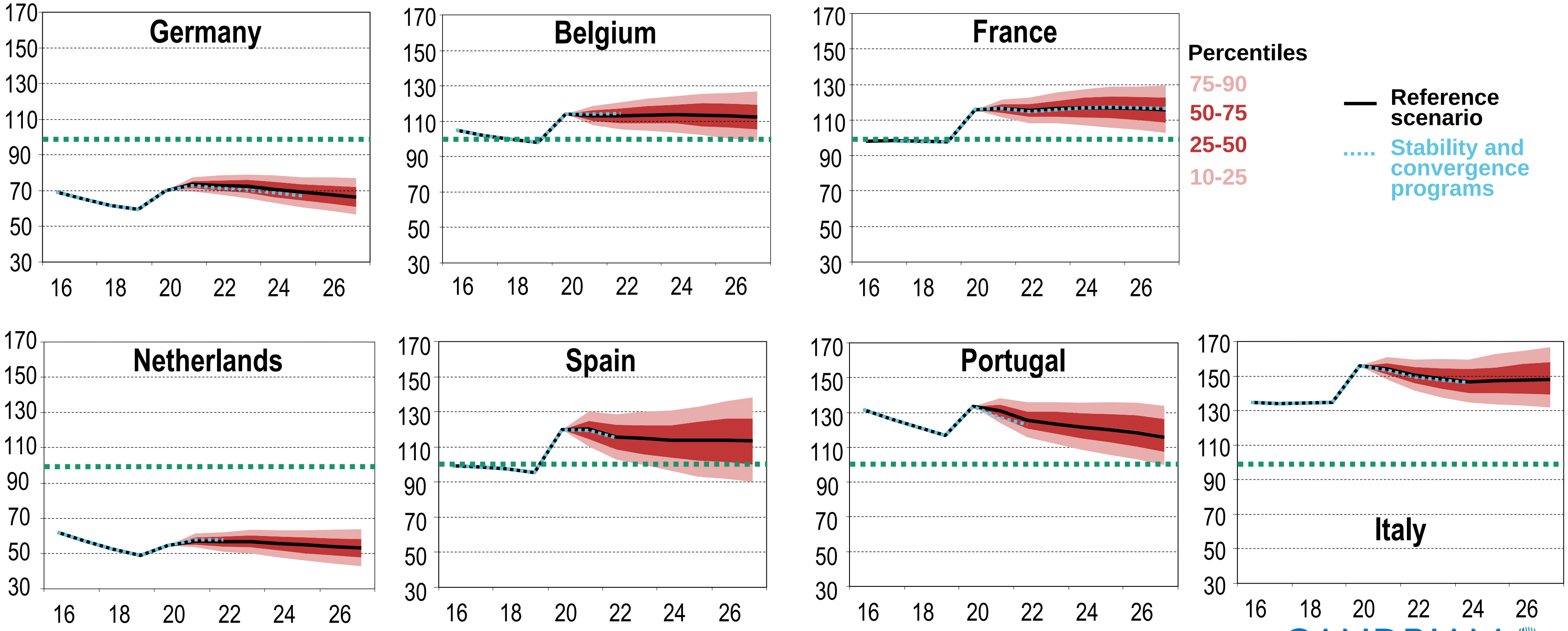
… the more so since the "great debt divide" is here to stay for many more years!

Medium term projections of public debt to GDP ratios

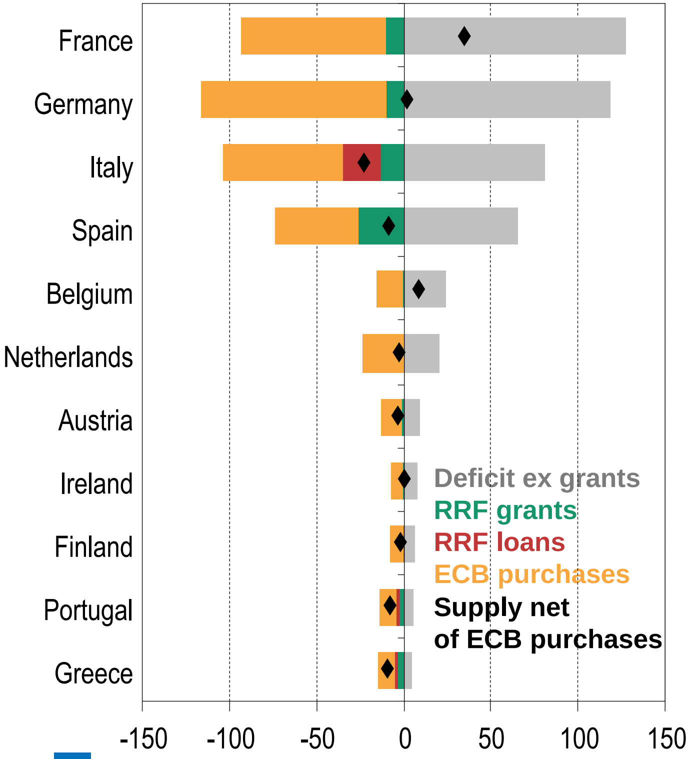
(%)



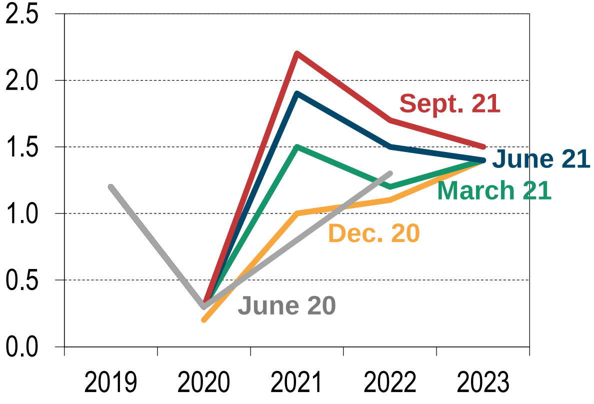
 December 2021 Sources: Refinitiv Datastream, Eurostat, Candriam

Even if it starts to taper in March 2022, the ECB has good reasons to remain accommodative

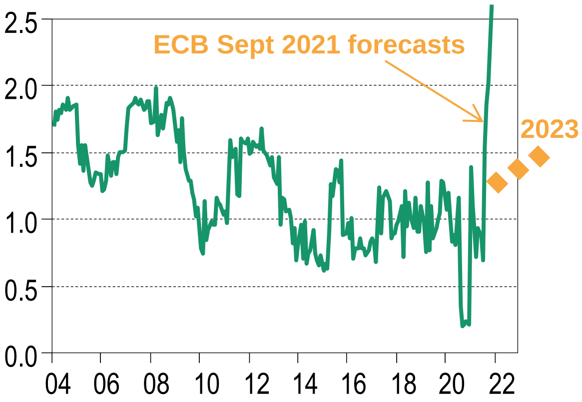
Supply of government bonds in 2022 net of ECB purchases
(€ billion)



ECB inflation forecasts
(% year on year)



Core inflation and ECB forecasts
(% year on year)



 December 2021 *Sources: Refinitiv Datastream, ECB, Candriam*

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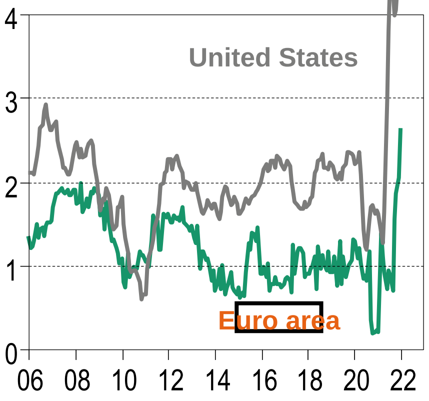
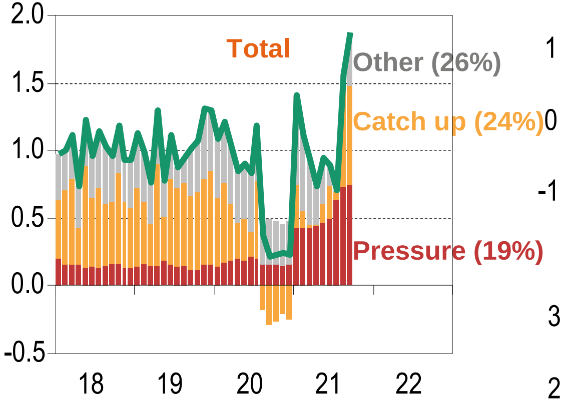
Inflation may remain "higher for longer"…

Euro area core inflation
(% year on year, CPI)

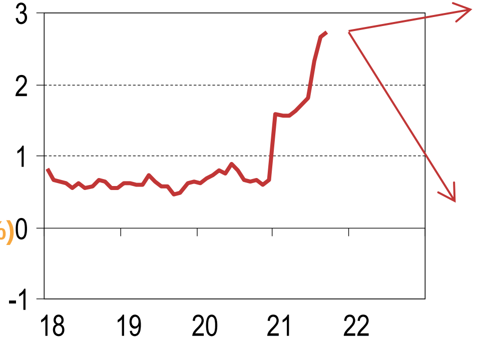
Core inflation

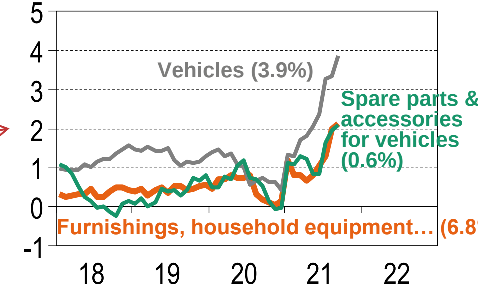


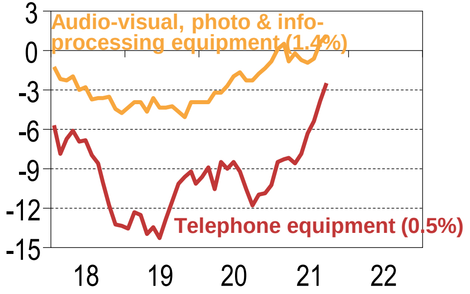
Contribution to core inflation



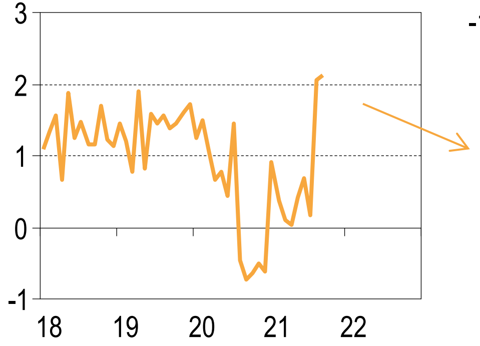
"Pressure" sectors

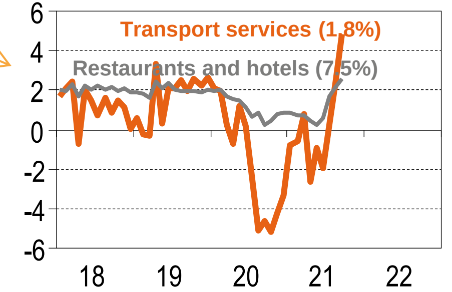






"Catch-up" sectors



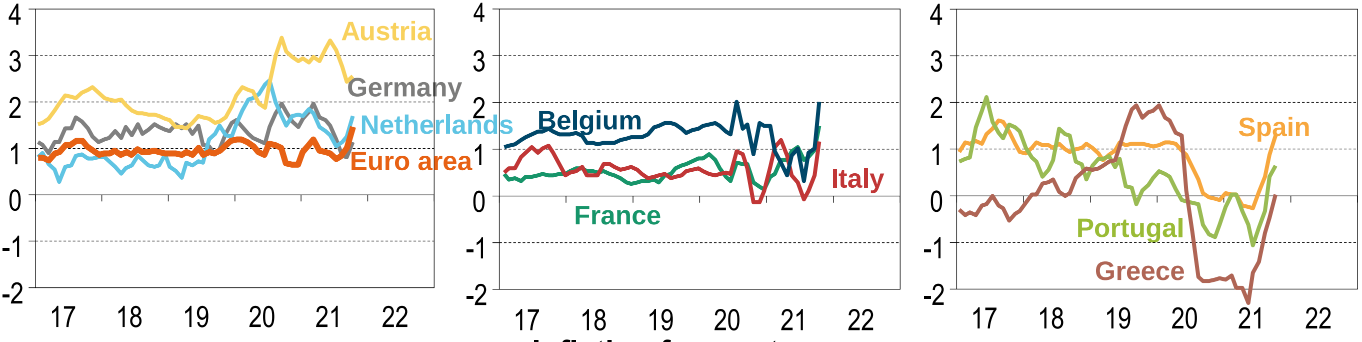


Sources: Refinitiv Datastream, Eurostat, Candriam

… but up to now at least, it has not been driven by wage increases…

Core CPI ex tax effect

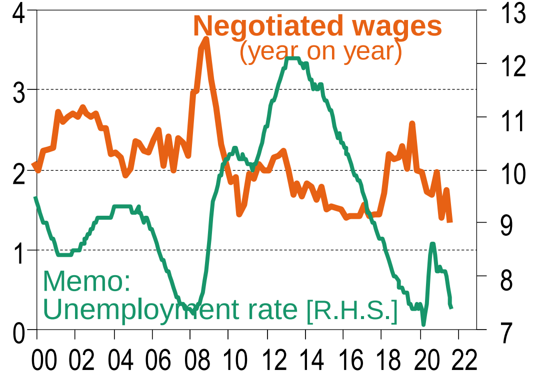
(% year on year, 3 months moving average)



Negotiated wages

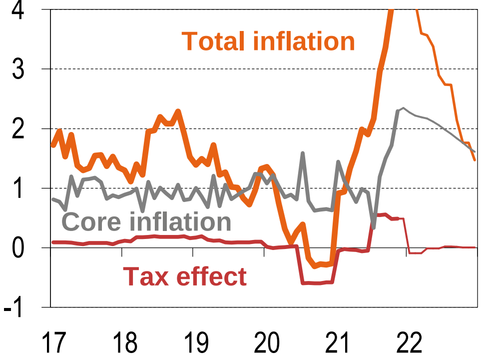
(%)

Euro area

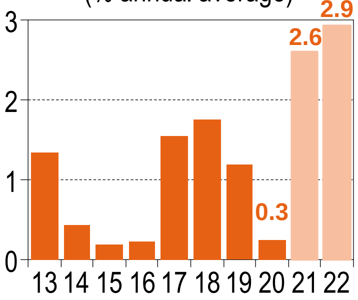


Inflation forecast

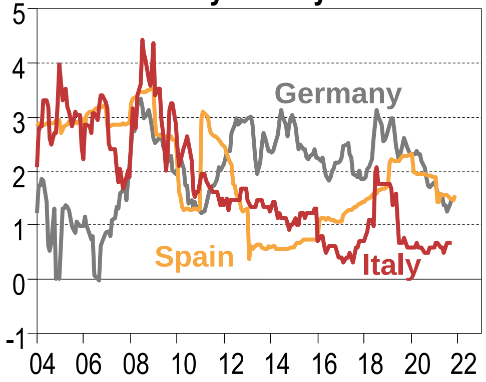
(% year on year)



(% annual average)



By country

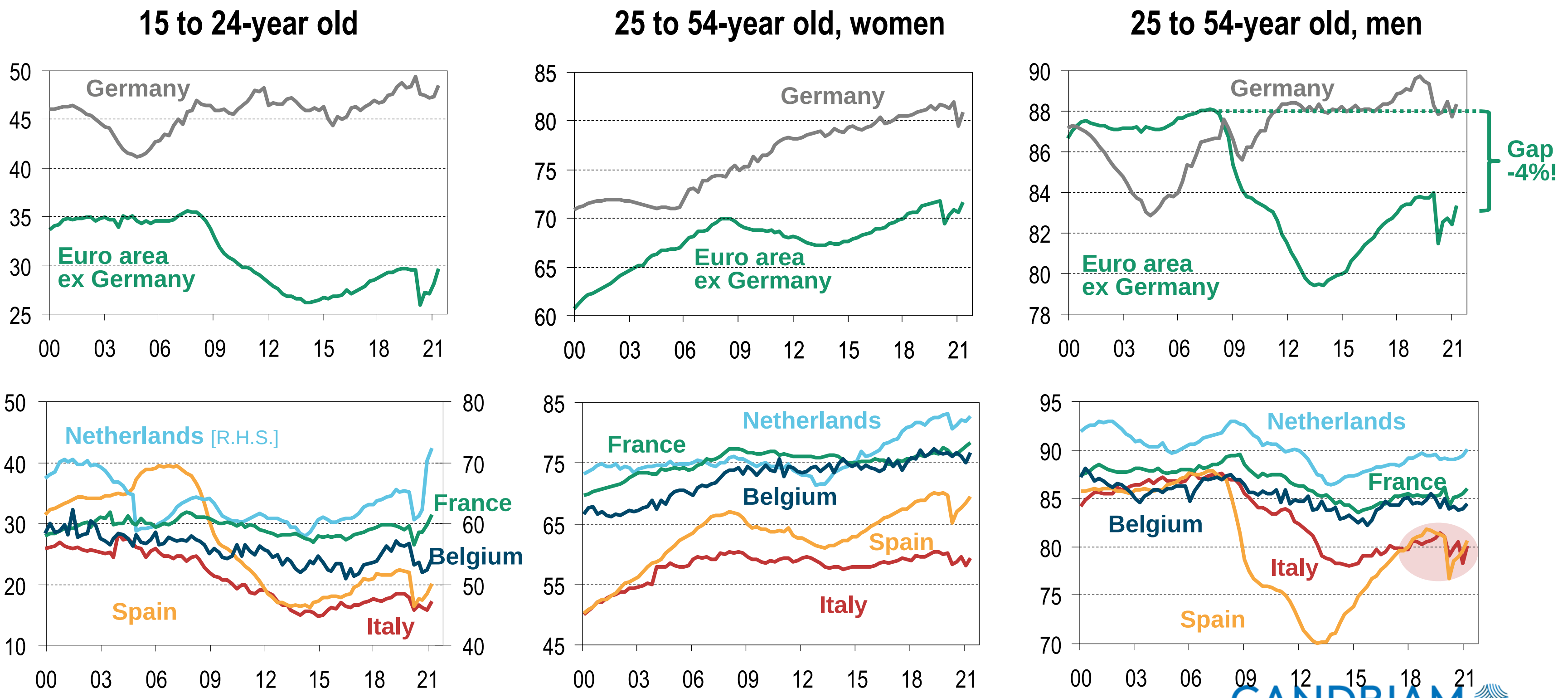


 Sources: Refinitiv Datastream, Candriam

Despite labor market improvements, the euro area is still far from full employment

Employment rates

(%)

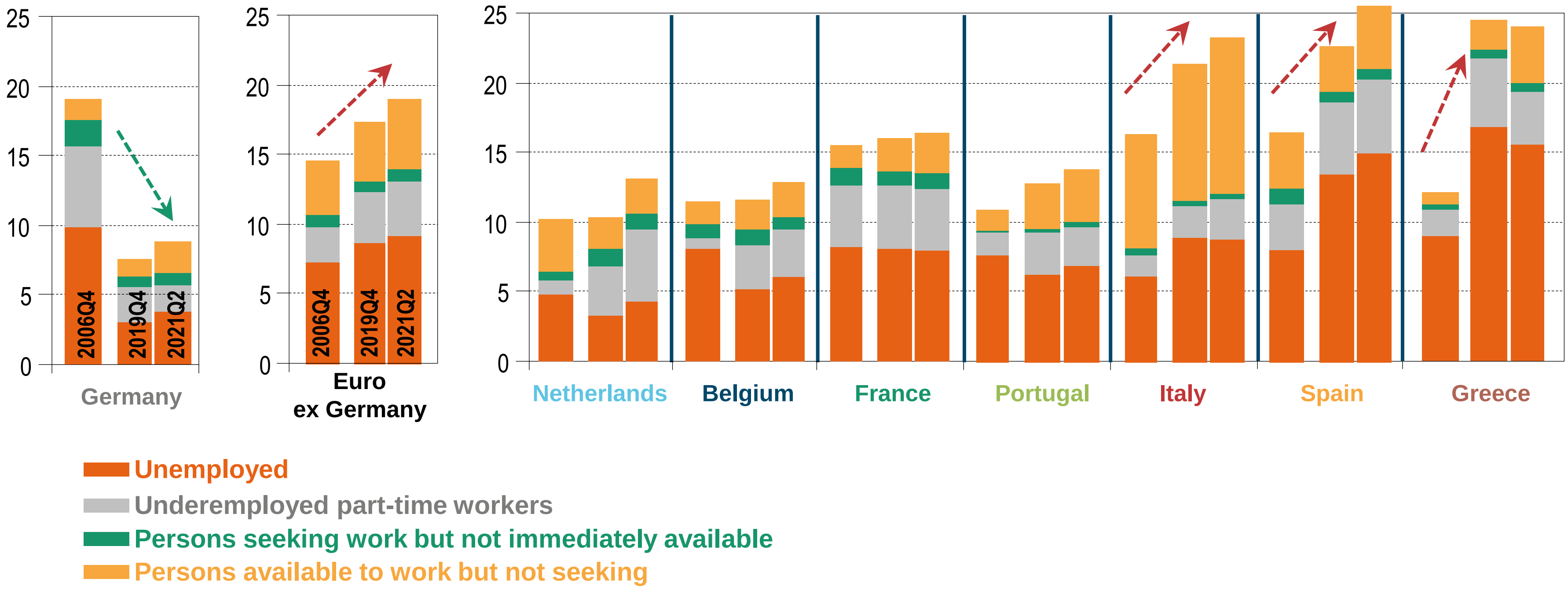


 Sources: Eurostat, Candriam

Within the area, the employment divide is pretty worrying!

Measures of underemployment

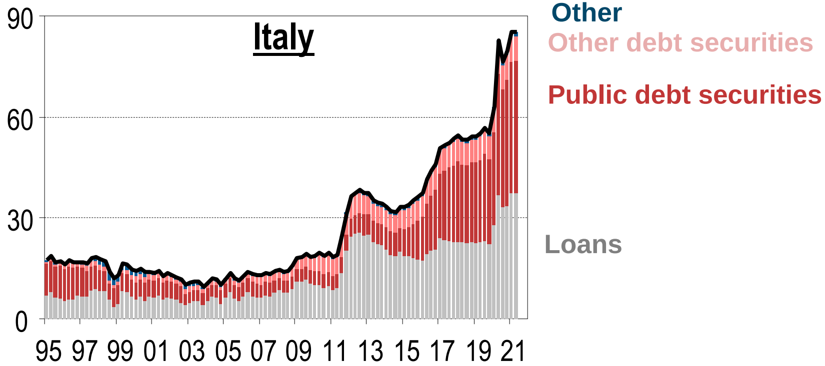
(% of augmented labor force)

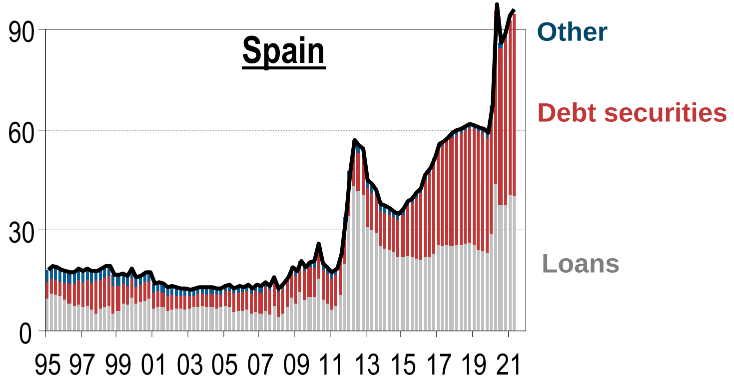


 Sources: Eurostat, Candriam

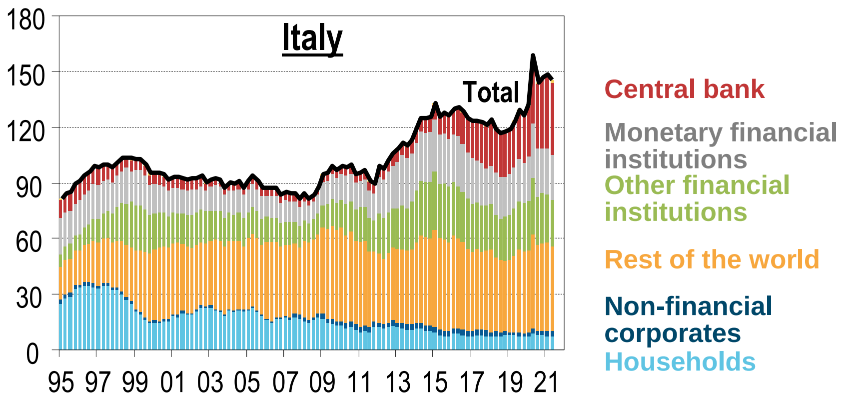
Memo: despite growing ECB bond buying, a substantial part of Italian and Spanish public debt is held by the "rest of the world"

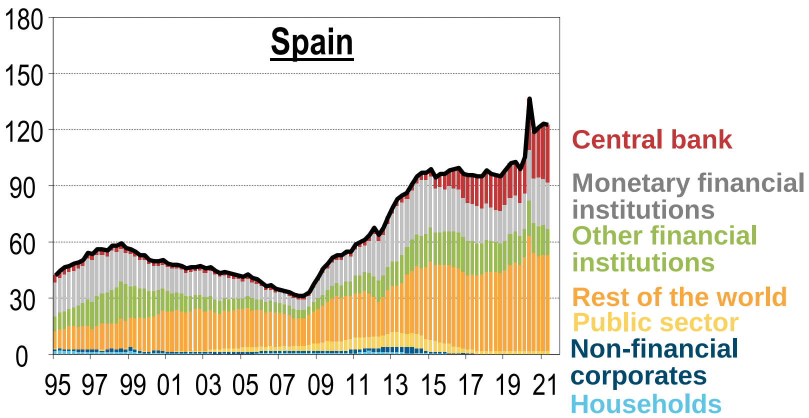
Central banks' assets
(% of GDP)





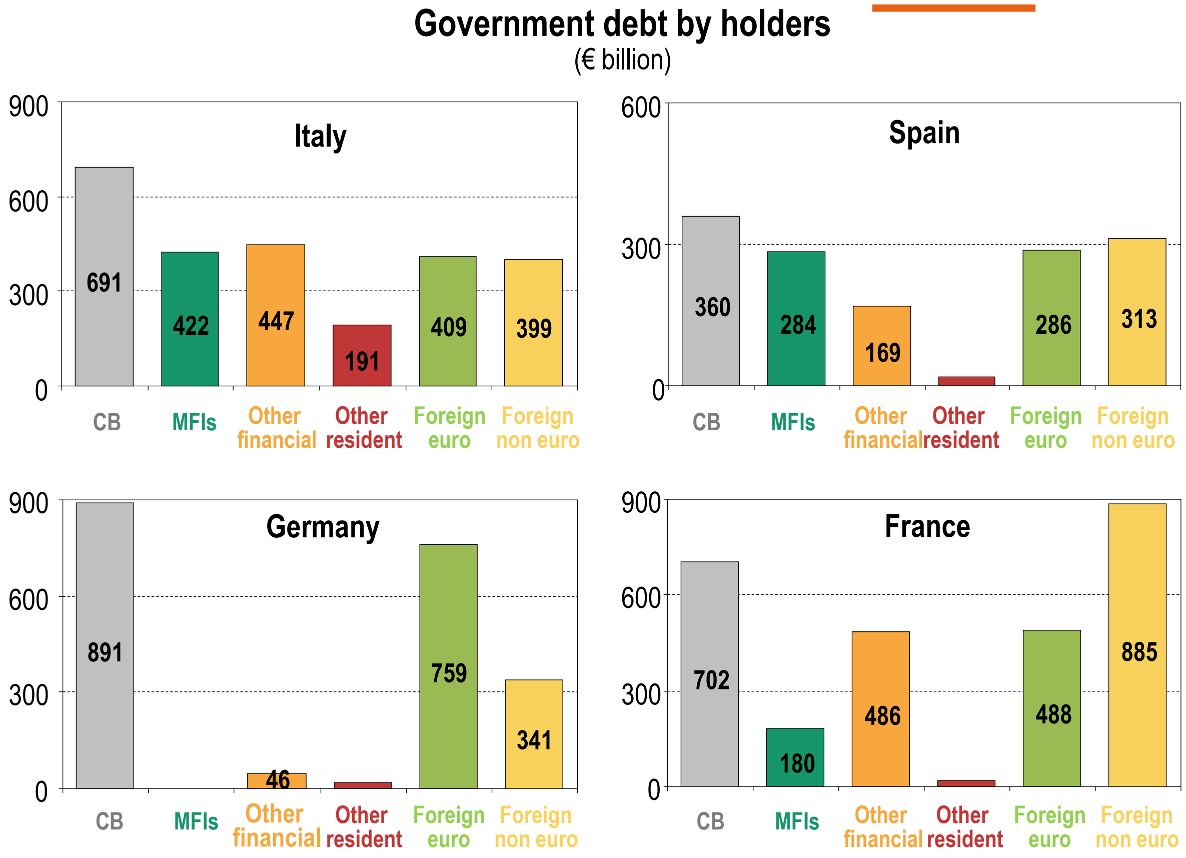
Holders of government debt securities
(% of GDP)

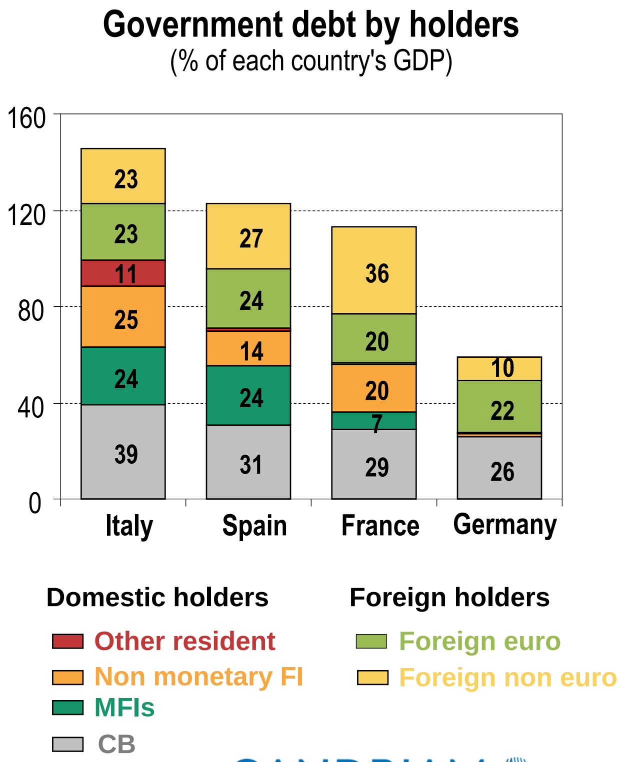




 Sources: Refinitiv Datastream, Candriam

Memo: except for France, a large chunk of the "rest of world" government debt holders are euro area residents





 Sources: Refinitiv Datastream, Candriam

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