Global Macroeconomic Monthly Review

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Key Issues and Table of Contents

Leumi Global Economic Forecast, As of November 2020

	2017	2018	2019E	2020F	2021F
GDP – Real Growth Rate					
World	*3.8%*	*3.5%*	*2.6%*	*-4.3%*	*4.6%*
USA	*2.3%*	*3.0%*	*2.2%*	*-4.6%*	*3.6%*
UK	*1.9%*	*1.3%*	*1.5%*	*-9.5%*	*6.9%*
Japan	*2.2%*	*0.3%*	*0.7%*	*-6.4%*	*1.7%*
Eurozone	*2.7%*	*1.8%*	*1.3%*	*-8.4%*	*5.4%*
South East Asia (ex. Japan)	*5.3%*	*5.1%*	*4.4%*	*-3.8%*	*4.4%*
China	*6.8%*	*6.6%*	*6.1%*	*1.8%*	*7.3%*
India	*7.0%*	*6.1%*	*4.2%*	*-9.8%*	*6.9%*
Latin America	*0.9%*	*0.7%*	*-0.6%*	*-7.9%*	*3.7%*
Israel	*3.6%*	*3.4%*	*3.5%*	*-5.5%*	*5.8%*
Trade Volume, Growth (%)					
Global	*5.8%*	*3.7%*	*0.9%*	*-11.6%*	*7.1%*
Interest rates, Year End					
US Fed	*1.25-1.50%*	*2.25-2.50%*	*1.50%-1.75%*	*0.00-0.25%*	*0.00-0.25%*
Bank of England	*0.50%*	*0.75%*	*0.75%*	*0.1%*	*0.1 %*
Bank of Japan-Policy Rate	*-0.04%*	*-0.07%*	*0.0%*	*-0.1%*	*-0.1%*
ECB-Main Refi	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*
Israel	*0.10%*	*0.25%*	*0.25%*	*0.00-0.25%*	*0.00-0.25%*

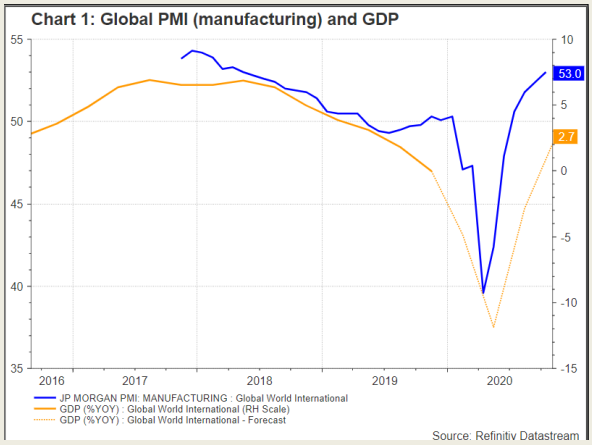
The Global Economy – Overview

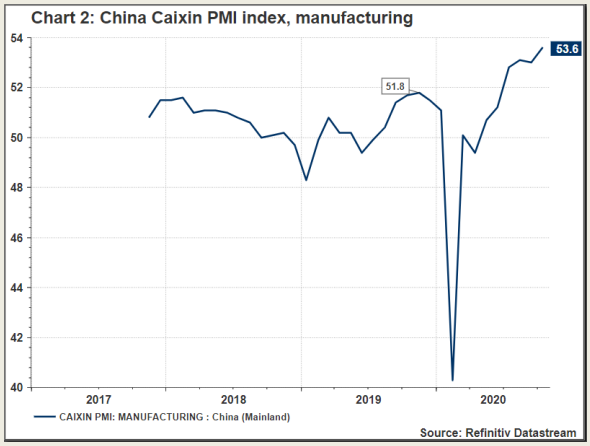
Economic activity: Global GDP is expected to increase modestly in the fourth quarter of 2020, reflecting the tightening of restrictions in a large number of countries. Morbidity in Latin America is on a downward trend and economic activity is continuing to recover. Brazil's economy is expected to recovery more rapidly than that of Mexico.

- Global GDP is expected to continue to grow in the final quarter of 2020, despite the expected slowdown across Europe amid rising morbidity and a tightening of restrictions in a large number of countries. The global PMI of the industrial sector increased in October, representing the sixth consecutive month with an increase in this index, reaching 53.0 points (see Chart 1), indicating the continued growth of global economic activity. The US labor market is recovering faster than in the euro bloc. While the unemployment rate in the US has been on a steady downward trend following the sharp rise in April, in the euro bloc the unemployment rate is still in an upward trend. This indicates slack in the euro bloc labor market and a weakening of demand for labor, despite the support programs provided to labor markets by a number of European governments.
- The coronavirus pandemic continues to spread around the world as the number of daily infections, as well as the number of deaths from the virus, is in the midst of a third wave. The epicenter of global morbidity is now in Europe, but also in the US the number of verified patients is on the rise. In contrast, in Latin America and Asia the number of verified patients has been in a downward trend in recent weeks.
- The recent news of progress towards vaccine for coronavirus is encouraging. However, there are many challenges until the population will be widely vaccinated including: approval of the vaccine by the FDA after a rigorous assessment of the side effects of the vaccine; convincing the public about the safety and effectiveness of the vaccine; the duration of its impact and how often a booster will be needed and; the distribution around the world. Also, accounting for the new mutation of the coronavirus that has been discovered in Denmark will spread to other parts of the world, the effectiveness of the vaccine will also need to be tested toward for this mutation. Apparently, the large scale availability of a vaccine will accelerate the economic recovery in the near term after its global launch, but this is not expected to have a material impact on the outlook for global growth for the medium and long term. In order to rebuild trust and confidence of businesses and consumers, in any that will be reflected in an acceleration of private consumption and fixed asset investments, a clear and reliable exit strategy from the current state of affairs will be required. Moreover, continued loss of human capital in the labor market and other economic scars will be difficult to repair soon and must be considered by policymakers.
- Economic activity continued to recover in the developed economies. Preliminary indicators for October suggest that the US economy is expected to continue to recover rapidly, while growth in the euro bloc is expected to slow against the backdrop of the tightening of restrictions and the light shutdowns imposed in some countries, which may actually shrink GDP in the countries that impose restrictions that will disrupt economic activity. In Britain, retail sales increased in September by 1.5% (m/m) and are now 5.5% higher than before the outbreak of the coronavirus. However, retail sales are likely to be hurt with the conclusion of

support programs for furloughed employees and against the backdrop of a rise in the unemployment rate despite government programs to support the labor market.

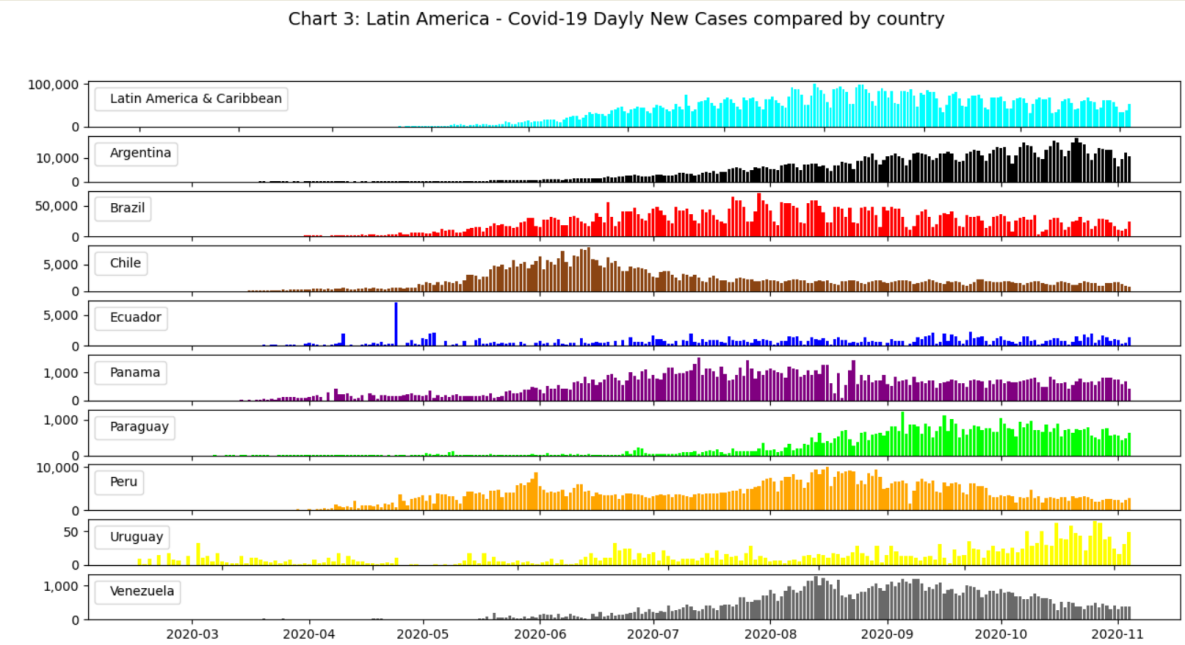
- The PMI of Britain fell in October from 56.5 to 52.1 points, after having declined also in September. The bulk of the decline stems from the services sector, but also the index on industrial activity declined slightly, thus showing the negative effects of the accelerated spread of the coronavirus throughout the country on economic activity. The rise in morbidity in Britain, which has led to a reintroduction of some social distancing restrictions as well as a light shutdown, is expected to hamper a continuation in the recovery of economic activity. We forecast the GDP of Britain will contract in November.
- In Japan, exports increased in September and are expected to reach by year-end the level they were at prior to the outbreak of the coronavirus, which led to the sharp drop in exports. Imports started to recover only slightly, such that the contribution of net exports to GDP is expected to be substantial in the third quarter this year and to even contribute to a recovery in GDP in the fourth quarter. The composite PMI increased only slightly in October, suggesting that growth is expected to slow. Meanwhile, the new orders component increased and now indicates a continuing recovery in exports. Industrial manufacturing increased in September by a sharp rate of 4.0% (m/m) and is now 8% below its level from February this year. The growth stems primarily from durable goods, the manufacture of which spiked upward by a double-digit rate, in contrast to non-durable goods, the manufacture of which increased by less than 2%.
- In Australia, the unemployment rate increased slightly in September, apparently due to the restrictions imposed in Victoria. In our opinion, unemployment is expected to decline in the coming months with the easing of restrictions in Victoria.
- Economic activity in most of the developing countries of the world is continuing to recover. In China, GDP is recovering at a rapid pace, with growth of 4.9% (y/y) registered in the third quarter. Industrial manufacturing is also continuing to recover rapidly, having increased 6.9% (y/y) in September. The PMI for October shows a continued recovery in economic activity, in industry as well as in services (see Chart 2). The recovery in economic activity is also permeating into the labor market, as the unemployment rate declined in September from 5.6% to 5.4%. This is being expressed also in an increase in retail sales, which increased 3.3% (y/y) in September compared to 0.5% growth (y/y) in August, which was the first month this year with positive growth in retail sales in annual terms.





- In India, the PMI figures have been in an upward trend over recent months, and also in October they indicate a faster-than-expected recovery against the backdrop of the decline in morbidity over recent months. The PMI of the industrial sector increased in October to 58.9 points, and the PMI of the services sector increased from 49.8 to 54.1 points, thus showing growth also in services.
- In Poland, GDP recovered rapidly during the third quarter from a rate of -8.2% (y/y) in the second quarter to a rate of -2.5% (y/y). However, this growth occurred before the breakout of the second wave of the coronavirus that is expected to hamper any continuation in the recovery of the economy. In Russia, the rise in morbidity that has led to a tightening in restrictions is likely to weigh on the recovery in economic activity, particularly against the backdrop of the absence of sufficient fiscal stimulus. In the event the upward trend in morbidity will continue, it will likely affect also Russian economic growth in 2021.
- Morbidity in Latin America has been in a downward trend over recent weeks (see Chart 3), except in a small number of countries, such as Colombia and Uruguay, where morbidity is still in an upward trend, and in some it is even at a peak. The decline in morbidity in Latin America has allowed the governments to ease some of the restrictions imposed, and to strengthen economic activity. However, the number of coronavirus cases is still very high, and coupled with strict fiscal policy, which is expected to continue in the coming years, the recovery is expected to be slow, and GDP is expected to remain at a low level compared to the trend it was experiencing prior to the spread of the coronavirus.
- Economic activity in Brazil is recovering at a quicker pace than in Mexico. Industrial manufacturing in Brazil continued to increase in September, signaling continued growth of the economy also at the end of the third quarter. The PMI of the industrial sector in Brazil has been at historic peak levels over the last four months, indicating a rapid recovery in manufacturing, and in October it reached a level of 66.7 points. In parallel, the PMI of the Brazilian services sector increased in September, for the first time since the start of the crisis, to a level above 50 points, indicating a recovery in the services sector. In our opinion, the PMI of the industrial sector in Brazil is too optimistic and indicates an unreasonably high growth rate.
- In Mexico, in contrast to Brazil, the PMI of the manufacturing sector remained below 50 points in October. This index has not yet returned to the levels from before the breakout of the current crisis, yet since May the index has been in a moderate, but steady, upward trend that indicates a continued recovery in economic activity at a slow pace. Mexican GDP increased 12% in quarterly terms in the third quarter, following five quarters in which GDP contracted, yet it remains 8.6% below the parallel period from last year. Industrial manufacturing increased in Mexico in August by 3.3% (m/m), with the bulk of the increase stemming from a recovery in the construction sector, which occurred with a lag following the return of local economic activity.
- Looking ahead, global GDP is expected to contract 4.3% this year and increase by 4.6% in 2021. Most of the damage to GDP in 2020 is expected to occur in the euro bloc and in Latin America, whereas the damage in Southeast Asia is expected to be less severe. Global trade is expected to contract 11.6% in 2020, and to increase 7.1% in 2021.

- According to the IMF, from October, the Latin American countries' response to the spread of the coronavirus is expected to increase the rate of public debt as a percentage of GDP for all the countries in the region. The IMF forecasts that the rate of public debt in Brazil will increase this year to above 100% of GDP, and it will remain at this high level also in 2021. In Argentina, the rate of public date out of GDP is expected to increase to 97%, whereas in Mexico the rate of public debt out of GDP is expected to climb this year to around 65%-66% and to remain at this level in 2021 as well.

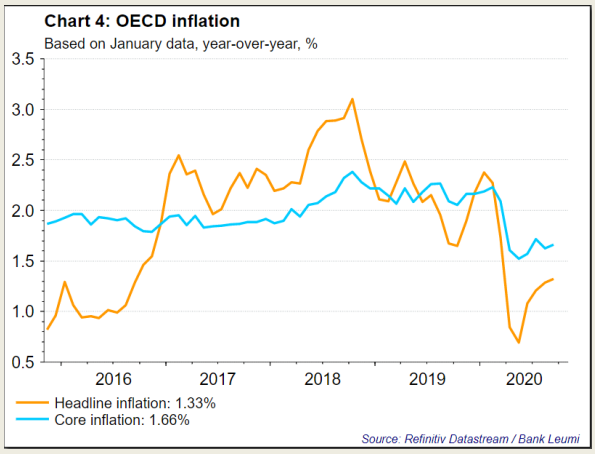


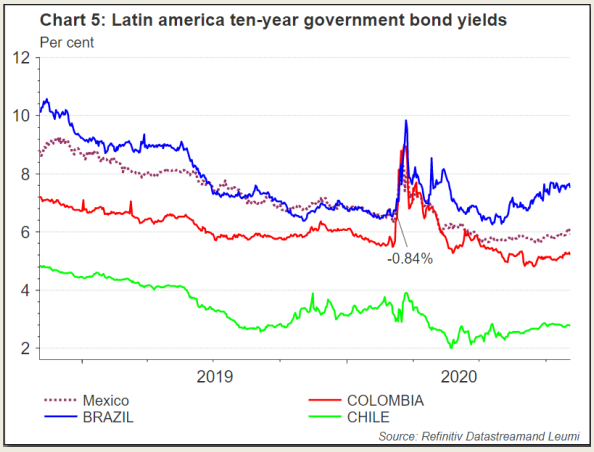
Inflation and monetary policy: inflation in the developed countries remained unchanged in September, while core inflation increased slightly. The central banks in Britain, Australia, and Canada are changing their monetary stimulus mix. The upward trend in the yields of the leading economies in South America has halted against the backdrop of the decline in morbidity.

- Inflation in the developed countries remained mostly unchanged in September. The annual inflation rate in the OECD remained at 1.3% in September (see Chart 4), despite the continued decline in the energy component of the index, which was partly offset by rising food prices. The core inflation rate, excluding food and energy, in the OECD rose slightly in September, from 1.6% to 1.7% in annual terms. In Britain, the annual inflation rate rose in September from 0.2% to 0.5%, but we estimate inflation will remain low against the backdrop of tightening restrictions that are expected to reduce demand.
- A number of central banks around the world are changing their mix of monetary policy. In Britain, the central bank announced in early November that it had increased the size of its government bond purchase plan by £150bn in order to support the economy against the backdrop of the "inevitable" slowdown in the near future. We believe that if there are further closures at some point down the road, even if they are only light shutdowns, then there may be a further expansion of monetary stimulus during 2021. In Canada, the central bank left the interest rate unchanged at 0.25% in October and announced a reduction in the minimum

amount of bond purchases from CA$5bn per week to CA$4bn per week. Bond purchases will focus more on long-term bonds, which have a greater impact on the cost of private and business sector lending. The Bank of Canada estimates that interest rates will remain low until inflation stabilizes at 2%, and this is not expected to occur before 2023. This is despite the fact that the central bank raised its 2022 growth forecast by more than one percent compared to the previous forecast. In Australia, the central bank reduced the interest rate, as well as the target yield-to-maturity on short-term government bonds (three years) from 0.25% to 0.10%. In addition, the Australian central bank announced the purchase of A$100bn of medium- and long-term government bonds in the next six months.

- Yields on long-term government bonds in Brazil, Mexico, and Chile were in an upward trend in the third quarter, against the backdrop of concerns over high morbidity rates. However, in October it appears the markets internalized the downward trend in morbidity, and the upward trend in yields halted (see Chart 5). The halt in the rise in yields in Brazil also recently brought about a minor decline in the medium- and long-portions of the yield curve (2Y-10Y, 5Y-10Y). In Australia, a statement from the central bank on government bond purchases led to a reduction in yields on long-term government bonds.





United States

Economic activity: the rebound of US GDP growth in the third quarter of 2020 stemmed primarily from an increase in private consumption. Preliminary indicators show continued growth in US economic activity in the final quarter of the year, and we forecast GDP will grow 4.0% in the fourth quarter in annualized terms.

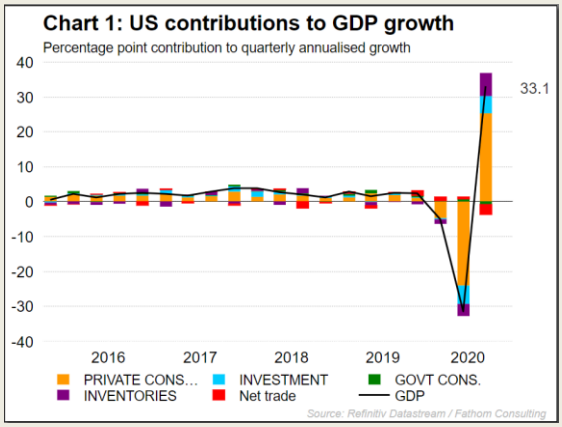
- US GDP increased 33.1% in annualized terms in the third quarter of 2020, against the backdrop of efforts to re-open businesses and to re-start economic activity. Despite the strong temporary growth in the third quarter, GDP remains below the level from the final quarter of last year. The strong growth stemmed primarily from a recovery in private consumption, which is also the component that led to the decline in GDP in the second quarter. Also

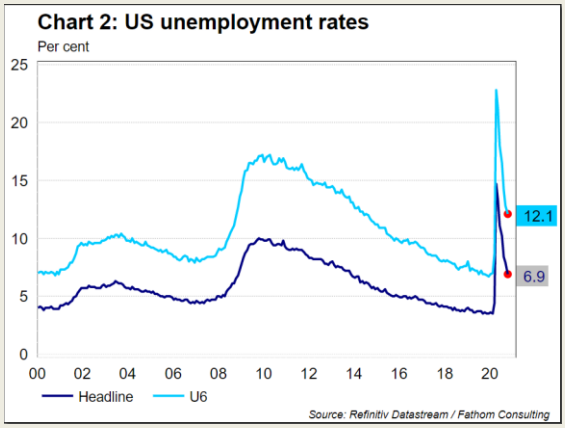
contributing to third quarter growth were increases in inventories, exports, and investments (see Chart 1).

- The recovery in private consumption stemmed from a sharp uptick in durable goods purchases, compensating for the decline in the first half of the year; however, consumption of services remained low due to social distancing restrictions. Investments in business equipment and in residential construction increased to levels higher than those registered prior to the spread of the coronavirus. However, investments in non-residential construction and in government expenditures declined during the third quarter. In addition, net exports were negative, as imports increased at a higher rate than in exports. In our opinion, growth in the fourth quarter of 2020 will be very moderate.
- Preliminary indicators for October (PMI, ISM) show continuing growth in economic activity, in the industrial sector as well as in the services sector, and in recent months these indicators have stabilized at rates above their pre-crisis levels. The ISM manufacturing index for October increased to a two-year peak, reaching 59.3 points, indicating a rapid recovery in industry. The rise in the index stems from an increase in almost all components; however, an especially sharp increase was registered in the new orders component, which reached a 16-year peak. The composite PMI index for October increased from 54.3 to 56.3 points, showing a continued recovery in economic activity in the manufacturing sector as well as in the services sector.
- The strengthening of the labor market in October represents a further sign of the continuing recovery of the economy. The unemployment rate declined sharply to 6.9% (see Chart 2), representing the sixth consecutive month with a decline in the unemployment rate, and the employment report indicates an additional 638,000 jobs in the economy. Meanwhile, substantial increases occurred in employment in the areas of leisure, accommodation, and services, all of which have been the main sufferers in the current crisis. The decline in the unemployment rate occurred in parallel to an increase in the workforce participation rate, which in October reached a rate of 61.7% and remains 1.7% below the level it was at back in February this year.
- The low mortgage rates, together with demand for housing in the periphery, helped to raise housing sales to the highest level in the last 13 years. However, the decline in the inventory of new housing units, together with the high unemployment rate, hampers a continued rise in housing sales. The number of existing home sales increased 9.4% (m/m) in September; however, we forecast the high growth rate in sales is expected to moderate due to the decline in inventory levels. The number of new units sold in September contracted for the first time since April, however the number remains more than 30% above the level from the parallel period in 2019.
- Joe Biden is expected to be the next president of the US. However, President Trump is appealing the election results in a handful of states, basing his claim on problems with respect to mail-in ballots. Absent a change in the announced results, the President-elect, Joe Biden, will need to consider the Democratic Party's diverse political spectrum. In our opinion, Biden's plans to invest large sums in infrastructure development, with an emphasis on green investments, will encounter many difficulties due to the fiscal burden they will entail.

However, he is likely to succeed in his aspirations to increase regulations in order to tighten environmental standards to deal with climate change, an issue that is gaining momentum, and its importance is increasing worldwide. We also estimate Biden will try to wage a trade war with China in a more diplomatic and less aggressive manner than how the Trump administration acted.

- Looking ahead, US GDP is expected to contract 4.6% in 2020, and to increase 3.6% in 2021. GDP is expected to continue to increase in the fourth quarter of this year, yet by a lower rate than that registered in the third quarter, and in our opinion fourth quarter growth will equal 4.0% in annualized terms.

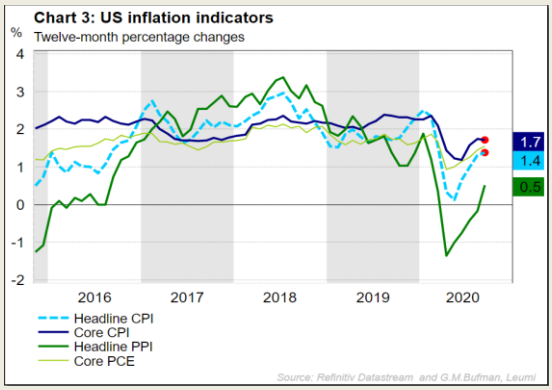


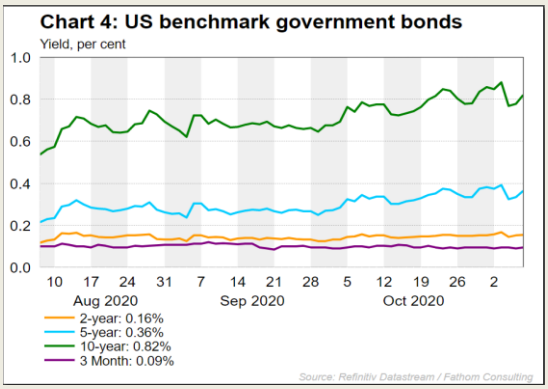


Inflation and monetary policy: the Fed November policy statement was very similar to its previous statement. The consumer price index (CPI) increased slightly in September and the annual inflation rate increased to 1.4%, whereas the core inflation rate remained unchanged. Long-term government bond yields experienced volatility around the election day, but returned to the upward trend they had experienced over recent weeks, prior to the election.

- The policy statement of the Fed in its interest rate decision for November was almost unchanged from its previous statement. Also, the Fed did not make any reference to the US election results. However, from the wording of the statement it can be understood that it is likely the Fed estimates fourth quarter growth will be substantially below the growth that the economy experienced in the third quarter.
- The Fed has indicated that it will use all the tools at its disposal to support the US economy and the labor market, as well as its price stability target. The Fed noted that the continued recovery of the economy will depend substantially on developments with respect to the coronavirus, and that the on-going health crisis is expected to weigh in the short-term on economic activity, employment, and inflation, and poses a substantial risk to the medium-term forecast. However, beyond this, there was no reference to the current, third wave of the coronavirus plaguing the US. In the event the rise in morbidity will lead to the implementation of restrictions in the US, it could have an impact on monetary policy. Furthermore, we estimate the Fed is expected in future interest rate decisions to focus on the low probability for large fiscal stimulus packages.

- The consumer price index rose 0.2% in September (m/m), while the annual inflation rate rose to 1.4% (see Chart 3). The rise in the index was low despite the sharp rise in second-hand car prices, and it comes after sharper rises in the inflation rate in July-August, indicating that the price pressures resulting from the supply side are starting to fade. The core inflation rate remained unchanged in September, reaching an annual rate of 1.7%. The Producer Price Index (PPI) rose in September by 0.4% (m/m) to a positive annual rate, for the first time since April, of 0.5%. The price pressures were broad also in core products, which do not include food, energy, and trade services, as the annual rate of change in producers' prices of core products rose to 0.7%. This comes against the backdrop of the return of economic activity and the increase in consumer spending.
- Long-term government bond yields over recent weeks, prior to the US presidential election, were in a moderate upward trend. On election day the yields, on both medium- and long-term government bonds, fell sharply, but they returned to an upward path after the election (see Chart 4). With the release of the positive results regarding the coronavirus vaccine, the increase in yields and the degree of steepness resumed.



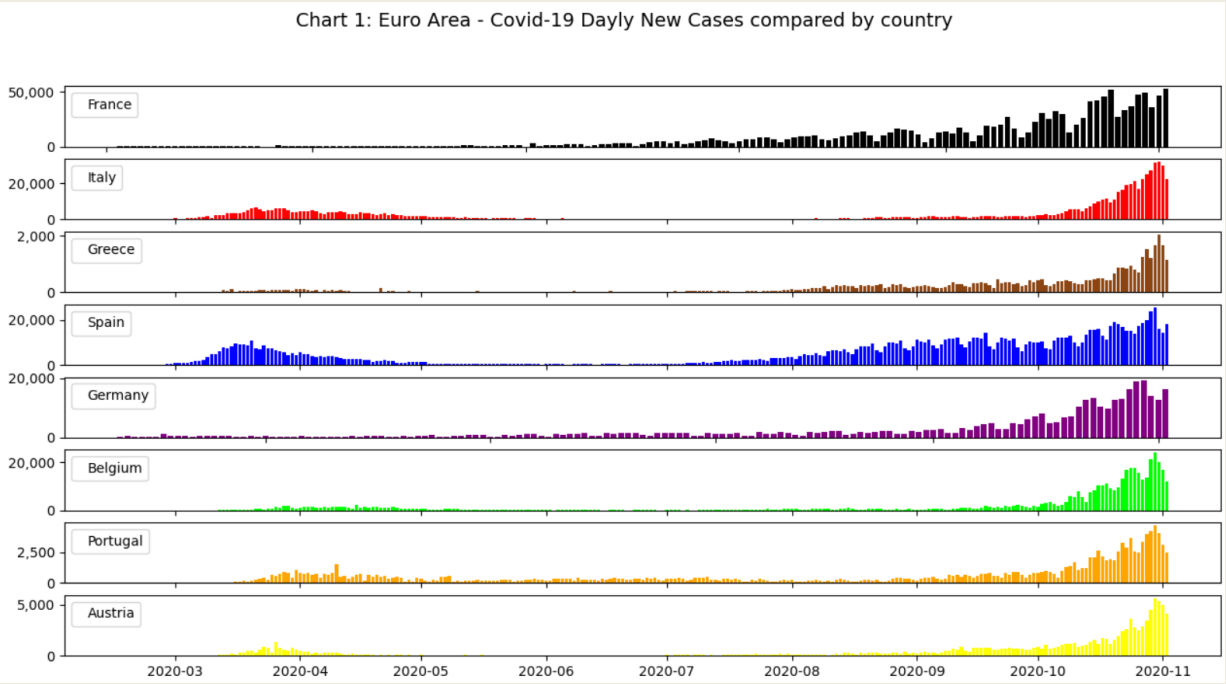


The Euro Bloc

Economic activity: euro bloc GDP increased sharply in the third quarter, following a substantial drop in the first half of the year. A tightening of the restrictions in a large number of euro bloc member countries is expected to lead to a slowdown in growth in the final quarter of 2020, and GDP is likely to contract in countries that tighten restrictions aggressively.

- The GDP of the euro bloc increased by a sharp rate of 12.7% in the third quarter of 2020 (q/q), this after the countries removed the economic shutdowns and eased social-distancing restrictions that were in place during the first half of the second quarter, and now GDP is 4.3% below the level registered in the beginning of 2020. GDP growth in the euro bloc is expected to weaken, and may perhaps contract slightly, in the fourth quarter of 2020, this due to the rise in morbidity in a large number of euro bloc member countries, particularly within the larger economies that are substantially tightening the restrictions in place and even implementing partial economic shutdowns. Industrial manufacturing in the euro bloc slowed in August, yet is continuing to grow.

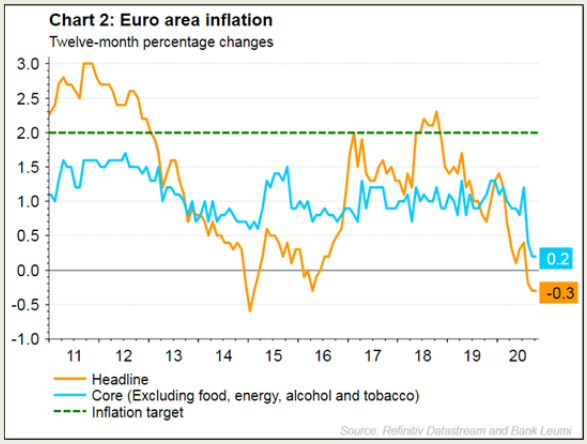
- In our opinion, the impact of the spread of the second wave of the coronavirus on economic activity is expected to be less than that experienced during the second quarter of the year, while the main damage is expected to be felt in the services sector. Consumer confidence in the euro bloc declined in October against the backdrop of the rise in morbidity and the return of social distancing restrictions in some countries. In our opinion, in the event the morbidity will continue to increase, then consumer confidence is expected to continue to decline, particularly against the backdrop of tighter economic restrictions, giving a hint of the difficulty countries will experience in their efforts to continue their recovery in economic activity.
- The preliminary indicators for October show a slowdown in economic activity, which in our opinion, is expected to intensify in the coming weeks with the tightening of restrictions in a large number of countries. The composite PMI of the euro bloc declined slightly in October and indicates a slight slowdown in economic activity. The bulk of the decline in the composite index stems from the services sector, which declined against the backdrop of the spread of the coronavirus throughout euro bloc countries and offset the rise in the index on industrial activity, which is showing continued growth of the manufacturing sector.
- In a breakdown by country, the GDP of the larger economies recovered in the third quarter and increased by greater-than-expected rates. France registered in the third quarter the highest growth rate among the larger euro bloc economies, rising 18.2% (q/q). Spain started to recover as well from the economic slowdown stemming from the imposed aggressive restrictions, as the country's economy grew 16.7% in the third quarter. In Italy, GDP increased during this period by 16.1% (q/q) and is currently 4.7% below the level registered in the beginning of 2020. In Germany, economic activity also started to recover, yet it grew in the third quarter by a lower rate of 8.2% (q/q) and GDP remains 4.2% below the pre-crisis level.
- The IFO business climate index for Germany declined slightly in October and indicates a slowdown in the pace of recovery of the economy. The bulk of the decline in this index occurred in the expectations component, which offset the increase in the index covering current conditions in the economy. This item represents a positive sign that businesses are forecasting positive economic developments and a continued growth in GDP. However, the rise in morbidity in these economies and others within the euro bloc (see Chart 1), which is bringing on a tightening of restrictions and light shutdowns of their economies, is expected to weigh on the recovery in economic activity.
- Looking ahead, the rise in morbidity and the local economic shutdowns will weigh on the recovery in economic activity in the euro bloc, and may even lead to a contraction in GDP in the countries that implement a light general closure or a more rigid but regional closure, and substantially tighten restrictions on social distancing. In our opinion, the GDP of the euro bloc is expected to contract 8.4% in 2020, and to increase 5.4% in 2021.

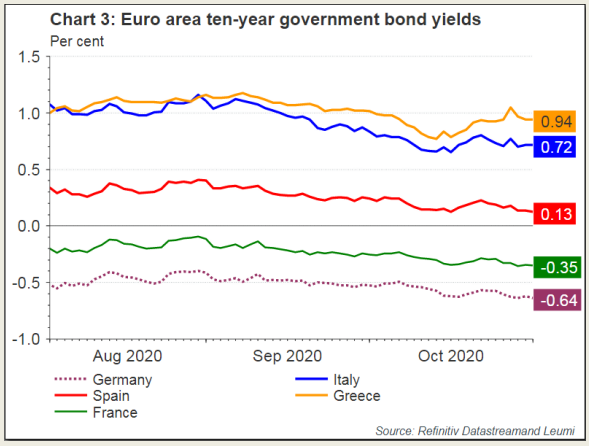


Inflation and monetary policy: the ECB kept its interest rate policy unchanged in October; however, the president of the central bank hinted that an increase in monetary stimulus is possible. October inflation remained unchanged. Yields on the government bonds of Greece and Italy increased in the second half of October against the backdrop of the rise in morbidity.

- The ECB kept its interest rate policy unchanged in its October interest rate decision. The central bank's Pandemic Emergency Purchase Program (PEPP) remained at a total of €1.35tn, and the interest rate on Targeted Longer-Term Refinancing Operations (TLTRO) loans remained unchanged as well. However, there are preliminary signs that it is likely the central bank intends to increase monetary stimulus already starting in December this year. In the interest rate decision, the president of the ECB said the bank will recalibrate its tools as needed, in order to respond to developments in the economy and ensure that financing conditions remain favorable. Tightening restrictions in Britain and France, as well as in other countries in the euro bloc, weigh on the recovery in demand, which jeopardizes the recovery in the inflation rate and may cause it to remain at levels well below the inflation target. Rising morbidity in Europe may lead to an expansion of the ECB's PEPP and also a reduction in interest rates on TLTRO loans, with the aim of helping economic recovery and preventing widening gaps between the major and the smaller economies of Europe.
- A survey of credit terms by the ECB shows that banks tightened credit terms during the third quarter and that they might tighten lending conditions even further in the fourth quarter of 2020, due to the expected slowdown in economic activity amid the spread of the coronavirus across Europe. According to banks in the euro bloc, demand for mortgages is expected to shrink during the fourth quarter, but demand for loans for current consumption is expected to rise.

- The inflation rate in the euro bloc, as measured by the Harmonized Index of Consumer Prices (HICP), remained unchanged in October at an annual rate of -0.3%, and the core inflation rate (excluding energy, food, alcohol, and tobacco) remained unchanged at an annual rate of 0.2% (see Chart 2). This low rate is happening against the backdrop of the increase in morbidity and tightening of restrictions that may have a deflationary effect in the short-term resulting from a slowdown in demand.
- Yields-to-maturity on long-term government bonds in the major economies of the euro bloc have been on a moderate downward trend over recent months, intensifying in the first half of October. In the second half of October, with the rise in morbidity in Greece and Italy, yields on their long-term government bonds increased, while other government bond yields did not change significantly (see Chart 3). The rise in long-term yields in Italy and Greece led to an increase in their yield curves, particularly at the shorter section of the curve (3M-2Y, 3M-10Y, 2Y-10Y) and to a widening in the gap between the yields on long-term government bonds of Italy and Greece, and those from Germany and France. In our view, in the event the ECB will increase the PEPP, then the rise in yields of the government bonds of Italy and Greece is expected to moderate, and their yields may even return to the downward trend they had experienced in the medium-term.





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