KPMG

mantra
Perspectives from KPMG in India

Global economic recovery: reflections on 2021 and views on 2022

December 2021

By KPMG in India's Mantra Editorial Team
(4 min read)

Key takeaways:

- *In the post-pandemic world, productivity enhancement through digital transformation, achieving supply chain resilience and upskilling workforces are expected to be the major focus areas for businesses.*

The global economy entered 2021 with a positive note and was on track to make substantial progress towards normalcy. But the emergence of a second wave of COVID-19 played out as a stumbling block to that growth prospect. The impact of the second wave was uneven -- while advanced countries that vaccinated a large part of their population were mostly insulated, developing nations were badly hit. With vaccine coverage being ramped up in developing nations and lockdowns relaxed consequently, the natural expectation is that the global economy will extend its growth path. There are headwinds such as supply chain disruptions and resulting price increases, which may perhaps exert pressure on global growth over the near term, but not derail it.

During the first and second waves of COVID-19 pandemic, global consumers' preferences shifted away from services to durable goods, which provided strong support to global trade. Manufacturers of components (semiconductors in particular) struggled to catch up with this new demand. The spread of Delta variant in key manufacturing Asian nations resulted in lockdowns, making the issue of component shortage more acute. Even after the second wave waned, the issue of supply chain disruptions persisted, with port logjams and labour shortages causing delays in supply of intermediate goods. Commodity prices, helped by strong growth in advanced nations, sustained their rally. All these developments began weighing on profit margins. The shortage of crucial components such as semiconductors made production levels stay below demand, thus creating backlogs of uncompleted works. Despite operational challenges and the second wave's impact on Asian nations, global economic growth is expected to register better growth in in 2021 than last year.

A decline in the Delta variant cases, together with high vaccine coverage, improved the growth outlook for leading emerging nations. Advanced economies, on the other hand, are expected to retain their growth momentum. As a result, one can expect the global economy to see broad-based growth in 2022 – the International Monetary Fund (IMF), for instance, pegs the world economy's 2022 economic growth at 4.9 per cent[1]. A new wave of COVID-19 is a key downside risk to this growth prospect. The recent increase in Coronavirus infections in Europe persuaded countries like Austria to impose lockdown measures, which threaten the region's recovery. COVID-19 cases started rising in the U.S. as well. If infections continue to remain high in advanced countries for longer, the negative impact on growth can well spill over into 2022.

[1] The World Economic Outlook, the International Monetary Fund, October 2021, accessed on 26 November 2021

Alternatively, if growth prospects brighten, consumption at a global level will gradually shift from merchandise goods to services. That shift will probably lead to a moderation in global trade of merchandise goods. At the same time, supply of crucial components and parts from leading manufacturing nations could increase. While both could take some pressure off the global supply chains, the issue of container shortage may not end soon, which will add to inflationary pressure. There remains uncertainty on the energy cost front, too. Greater push to green energy transitions could result in a structural under-investment in the global oil and gas sector, which could affect their supply. While that development can increase the chances of prices staying higher, there is a possibility that higher prices would persuade major producing nations with excess capacity to increase supply, which can limit price increases.

Another possible trend that we may notice in 2022 is a departure from pandemic-era monetary stimulus. Many global central banks, including Brazil, Russia, Norway, etc., have started increasing interest rates, and the U.S. Fed unveiled tapering of its asset purchase programme. The pace at which central banks are unwinding monetary stimulus is what matters to financial markets, and the prospect of inflation will be the key determiner of that. If the current inflationary pressure turned out to be transitory, then central banks may go slow on reducing monetary stimulus. In the event of an exact opposite scenario (i.e., prolonged inflation), the need for policy tightening will be considerably high. While central banks are expected to adopt a calibrated approach to reduce monetary stimulus, financial markets may face volatility until market participants' views are properly aligned with intended monetary policy changes

To conclude, despite vaccine coverage, the COVID-19 pandemic still tops the list of risks to global growth. An uncertain inflation outlook together with the prospect of financial market volatility adds to the challenges of the global economy. In this environment, productivity enhancement through digital transformation, achieving supply chain resilience and upskilling workforces are expected to be the major focus areas for businesses.

For more information, read: Indian Economy Insights by KPMG in India