

Global economy watch: Predictions for 2021

Global economy projected to grow at record speed

In our main scenario we expect the global economy to expand by around 5% in market exchange rates, which is the fastest rate recorded in the 21st century. Our projection is conditional on a successful deployment and spread of effective COVID-19 vaccines and continued accommodative fiscal, financial and monetary conditions. Nevertheless, the next three to six months will continue to be challenging, particularly for the Northern Hemisphere countries going through the winter months as they could be forced to further localised or full economy-wide lockdowns (as recently displayed in the UK). (...)

...but the recovery will be uneven across sectors, countries and income levels.

By the end of 2021 or early 2022, we expect the global economy to revert to its pre-pandemic level of output. However, this picture masks an uneven pattern. At one end of the spectrum is the Chinese economy, which is already bigger compared to its pre-pandemic size. On the other end are mostly advanced economies which are either service-based (UK, France, Spain) or more focused on exporting capital goods (Germany, Japan) and are unlikely to recover to their pre-crisis levels by the end of the year. In these economies, growing but lower levels of output is projected to lead to push up unemployment rates. In its December 2020 economic outlook, the Organisation for Economic Co-operation and Development (OECD) projects an unemployment rate of around 7% in its member states compared to pre-pandemic levels of around 5.5%. Most of the jobs affected are likely to be those at the bottom end of the earnings distribution which is likely to exacerbate income inequalities.

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Global economy watch: Predictions for 2021. PwC Global. URL:

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(accessed on 12/02/2021)