

RESEARCH • DEC 1, 2020

# 2021 Global Economic Outlook: The Next Phase of

## Morgan Stanley

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Morgan Stanley projects strong global GDP growth of 6.4% for 2021—led first by emerging markets, followed by





reopening economies in the U.S. and Europe—in a macro outlook that diverges from the consensus.



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Rising COVID-19 case numbers in the U.S. and Europe make it difficult right now to envision a return to normal. Yet, even as the pandemic drags on, the global economy has proven remarkably resilient.

Following a steep decline in early 2020, the world economy rode a rebound that began in May and remains on track to surpass prepandemic GDP levels by the end of this year—setting the stage for strong post-recovery growth in 2021.

In their 2021 outlook, the economics team at Morgan Stanley Research says the V-shaped recovery that the team forecast in their 2020 midyear outlook is now entering a new self-sustaining phase and is on track to deliver 6.4% GDP growth in the coming

year.

“This projection stands in stark contrast to the consensus, which forecasts 5.4% global growth and worries that the pandemic will have a bigger impact on private-sector risk appetite and, hence, global growth,” says [Chetan Ahya, Morgan Stanley's Chief Economist](#). “We maintain that consumers have driven the recovery, and investment growth—a reflection of the private corporate sector's risk tolerance and a key feature of any self-sustaining recovery—is bouncing back as well.”

### Morgan Stanley Real GDP Growth Forecasts

	2020E		2021E		2022E	
	MS	MS	Consensus	MS	Consensus	
<b>GLOBAL</b>	<b>-3.5</b>	<b>6.4</b>	<b>5.4</b>	<b>4.4</b>	<b>3.7</b>	
<b>DEVELOPED MARKETS</b>	<b>-5.4</b>	<b>5.1</b>	<b>4.2</b>	<b>3.9</b>	<b>2.7</b>	
United States	-3.5	5.9	3.8	4.1	3.0	
Euro Area	-7.2	5.0	5.2	3.9	2.8	
Japan	-5.2	2.4	2.5	2.4	1.5	
UK	-11.4	5.3	5.5	5.5	3.0	
<b>EMERGING MARKETS</b>	<b>-2.0</b>	<b>7.4</b>	<b>6.3</b>	<b>4.7</b>	<b>4.5</b>	
China	2.3	9.0	8.0	5.4	5.4	
India	-5.7	9.8	8.3	6.0	5.6	
Brazil	-4.0	4.3	3.5	2.7	2.5	
Russia	-4.0	3.4	3.0	3.2	2.3	

Source: Bloomberg, Haver Analytics, IMF, Morgan Stanley Research forecasts; Note: Aggregates are PPP-weighted.

Three key factors will characterize the next stage of the V-shaped recovery, says Ahya: synchronized global growth, an emerging-market rebound and the return of inflation. Against this macro outlook, Morgan Stanley strategists urge investors to trust the recovery and overweight equities and credit vs. government bonds and cash ([see the 2021 Strategy Outlook for more](#)).

## Global Growth in Sync

World economies rarely move in lockstep. In fact, a synchronous global recovery, where growth in both developed and emerging markets accelerate in the same year, has happened only a dozen times over the past 40 years—the last in 2017.

The stage could be set for another such sync beginning in the second quarter of 2021. Initially, emerging markets will likely drive global GDP growth; then, as they emerge from winter lockdowns, developed markets could add to that momentum. “By March or April, we expect all geographies and all sectors of the global economy to be joining the recovery,” says Ahya.

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The U.S. economy, for its part, has stayed resilient through the pandemic. Consumer spending has nearly returned to pre-COVID-19 levels, while average personal incomes of U.S. households surpassed prepandemic levels in September, even after the first round of fiscal support expired. These and other factors suggest a sustainable U.S. recovery, even amid a difficult winter, with projected GDP growth of 5.9% in 2021.

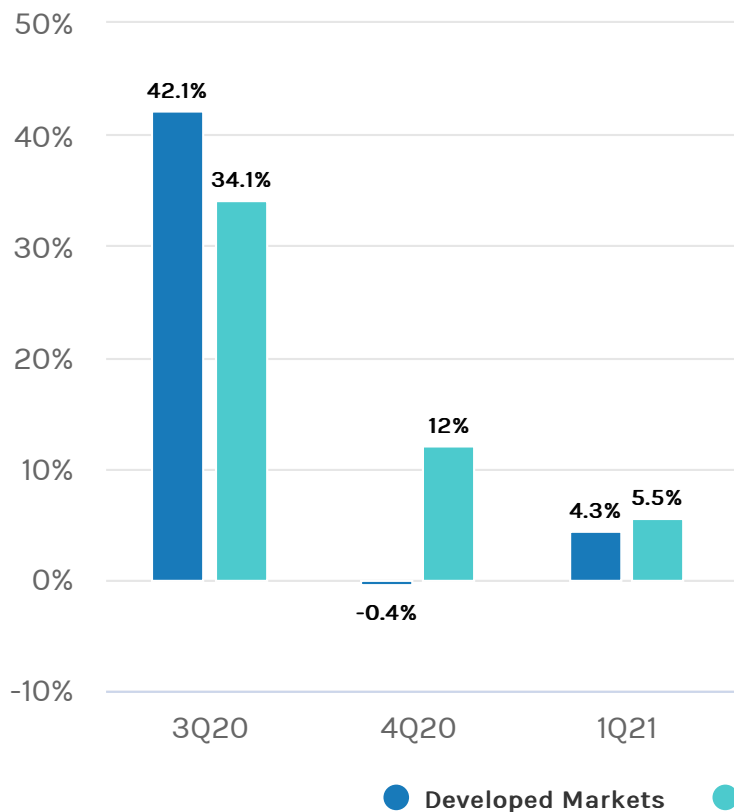
In Europe, where many countries began reimposing COVID restrictions in October as new infection rates climbed, growth is expected to resume as economies reopen. The economics team forecasts 5% GDP growth in 2021, which is slightly below the consensus estimate. The team's 2022 outlook for the euro zone, however, pegs GDP growth at 3.9%, versus a consensus estimate of 2.8%. "With ongoing policy support, the initial rebound should turn into a robust recovery," says Ahya. One notable exception is the UK, where Brexit could slow the pace of recovery.

**Morgan Stanley Economists Forecast  
a Global Synchronous Recovery**  
(Real GDP Growth Forecast (%Q, SAAR))

**THOUGHTS ON THE  
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Source: Haver Analytics, IMF, national sources, Morgan Stanley Research forecasts; Note: Developed markets and emerging markets GDP includes economies under Morgan Stanley coverage, and the real GDP growth is PPP-based GDP-weighted averages

## Emerging Markets Lead the Rebound

Emerging markets, excluding China, have faced numerous cyclical challenges in recent years. Now, with more favorable COVID-19 dynamics in many developing nations, emerging markets could set the pace for global growth.

“Trade-dependent economies, like Korea and Taiwan, are already well into their recoveries, while in the large, arguably more

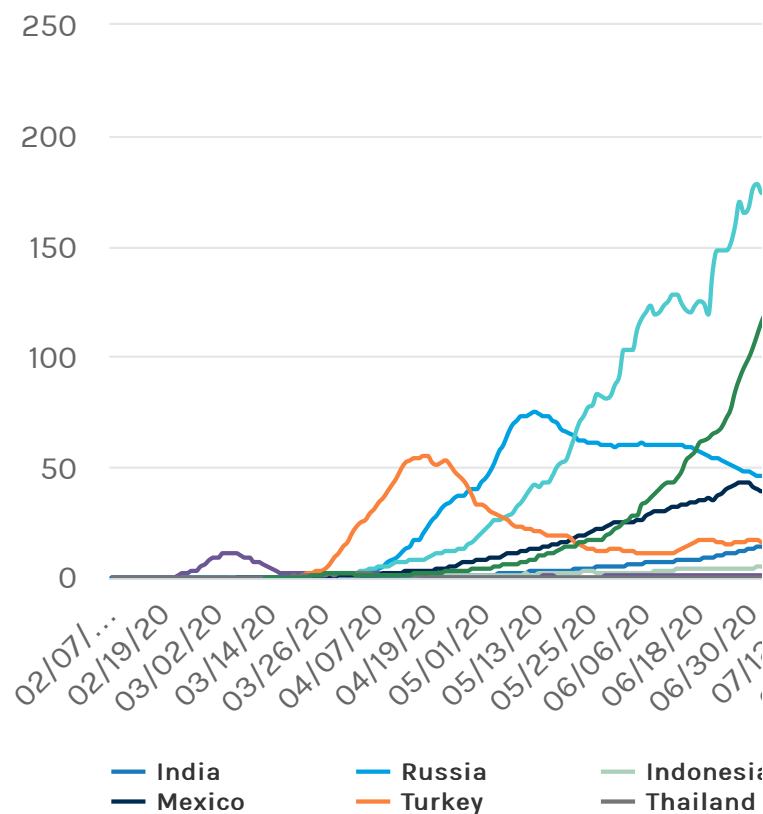
domestic demand-oriented economies, like India and Brazil, a number of indicators have recently exceeded pre-COVID-19 levels and are registering positive year-on-year growth," Ahya says.

Morgan Stanley economists expect this momentum to continue into next year. At the same time, emerging markets should benefit from widening U.S. current account deficits, low U.S. real interest rates, a weaker dollar, and accommodative macroeconomic policies. That adds up to 7.4% GDP growth for emerging markets in 2021, led by a forecast 9.8% improvement in India.

Meanwhile, China, the first to impose COVID-19 closures, has quickly regained ground, as consumption roars back. Morgan Stanley projects that its economy will expand 9% in 2021, before moderating toward 5.4% in 2022.

### **COVID-19 Cases Have Declined In Most Emerging Markets, ex-China**

(Daily new COVID-19 Cases per mil population, 7 day avg as of 11/16/2020)



Source: WHO, CEIC, Haver Analytics, Morgan Stanley Research

## Inflation Regime Change

Nonetheless, every recession leaves its mark and the COVID recession will, as well—with the return of inflation. “When it comes to inflation, we see a very different dynamic taking hold, especially in the U.S.,” says Ahya, noting that the consensus hasn’t fully embraced this concept.

Put simply, the pandemic has caused an unemployment spike to levels not seen in generations, and policymakers are expected to do whatever it takes to create jobs and



return employment to pre-COVID levels as quickly as possible—even as economic output improves. Those stimulus policies will eventually pressure wages upward, lifting inflation.

### U.S. Core PCE Inflation to Cross 2% Faster Than In Past Cycles

(U.S. Core PCE Inflation (3mma, %Y))



Source: Haver Analytics, Morgan Stanley Research forecasts

"These reflationary policies will also have key implications for global growth, and especially for emerging markets, because of a shift in the U.S. savings-investment

balance," Ahya says. The economics team believes that this change in regime will in turn drive U.S. dollar weakness and ultimately set the scene for a reflationary impulse for the rest of the world.

*For more Morgan Stanley [Research](#) on Global Strategy, ask your Morgan Stanley representative or [Financial Advisor](#) for the full report, "2021 Global Macro Outlook: The Next Phase of the V" (Nov 15, 2020). Plus, more [Ideas](#) from Morgan Stanley's thought leaders.*

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