ARBUTHNOT BANKING GROUP PLC

PERSPECTIVES

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The MPC in September: growth seen weaker and inflation higher than in August

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Introduction

As expected, MPC members voted to leave monetary policy unchanged at the meeting ending on 22 September, voting for:[1]

- Maintaining the Bank Rate at 0.1%, unanimously.
- Maintaining the stock of sterling non-financial investment-grade corporate bond purchases, financed by the issuance of central bank reserves, at £20bn, unanimously.
- Continuing with its existing programme of UK government bond purchases, financed by the issuance of central bank reserves, maintaining the target for the stock of these purchases at £875bn. 7/9 MPC members voted for this, whilst Michael Saunders and Dave Ramsden voted to lower the existing programme of bond purchases, reducing the target for the stock of these purchases from £875bn to £840bn. The minutes noted that, as of 22 September, the total stock of assets held in the Asset Purchase Facility (APF) had reached £852bn, including £108bn of the £150bn programme of UK government bond purchases announced on 5 November 2020. This £150bn programme had started in January and the Bank expects it will be completed by around the end of 2021.

Concerning the economy, there was no formal update of the forecast (see table 1 for August forecast). But the Bank commented on recent developments. Of key interest were the observations on CPI inflation, which had "continued to surprise on the upside". The minutes explained that, whilst base effects accounted for the majority of the increase in CPI inflation between July and August, global cost pressures had continued to affect UK consumer goods prices. Moreover, these global inflationary pressures, seen against a backdrop of robust goods demand and continuing supply constraints, had remained strong and there were some signs that cost pressures "may prove more persistent". In addition, the reopening of the economy had led to a further increase in some consumer services prices.

CPI inflation was expected to rise further in the near term, to slightly above 4% in 2021Q4, slightly higher than in August, owing largely to developments in energy and goods prices and they noted the increase in wholesale gas prices since the August Report represented an upside risk to the MPC's inflation projection from April 2022. However, the MPC's central expectation continued to be that "current elevated global cost pressures will prove transitory. Indeed, there were still good reasons to expect material supply responses in commodity and other global markets, pushing down on future input prices and import costs. That said, should the pandemic reinforce the retrenchment of globalisation, there would be less scope for these factors to create future disinflationary pressures. And current elevated inflationary pressures could potentially lead to some second-round effects on consumer prices".

Concerning economic activity, Bank staff revised down their expectations for GDP in 2021Q3 by around 1% since the August Report (from 2.9% growth to 2.1%), leaving the expected level of 2021Q3 GDP around 2½% below its pre-Covid level. This downward revision partly reflected the emergence of some supply constraints on output. On the labour market, they noted that "uncertainty around the outlook had increased". Key questions included how the economy will adjust to the closure of the furlough scheme at the end of September; the extent, impact and duration of any change in unemployment; as well as the degree and persistence of any difficulties in matching available jobs with workers. The MPC commented that the underlying pay growth had picked up, to above its pre-pandemic rate. Finally, the initial assessment by Bank staff on the recent fiscal announcements were that they were likely to be broadly neutral for the growth outlook, as higher spending on health and social care would be funded by an increase in NICs and a rise in dividend tax rates.

On the general direction of monetary policy, the minutes recorded that the MPC had, since 2020H2, guidance in place specifying that "…it did not intend to tighten monetary policy at least until there was clear evidence that significant progress was being made in eliminating spare capacity and achieving the 2% inflation target sustainably. There remained a range of views on the MPC about whether the conditions of that guidance were met, but all members agreed that the previous formal guidance was no longer useful in the present situation". The minutes then added that "…the MPC's remit was clear that the inflation target applied at all times, reflecting the primacy of price stability in the UK monetary policy framework. The framework also recognised that there would be occasions when inflation would depart from the target as a result of shocks and disturbances. In the recent unprecedented circumstances, the economy had been subject to very large shocks. Given the lag between changes in monetary policy and their effects on inflation, the MPC, in judging the appropriate stance of monetary policy, would, as always, focus on the medium-term prospects for inflation, rather than factors that were likely to be transient".

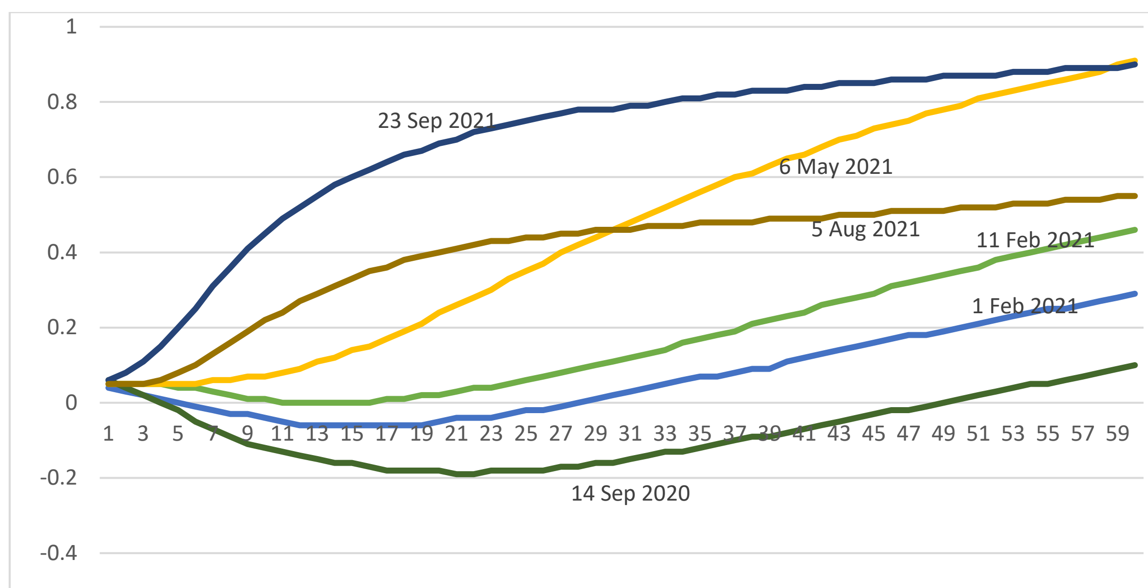
At the August meeting, the MPC had judged that, should the economy evolve broadly in line with the central projections in August's *Monetary Policy Report*, "some modest tightening of monetary policy over the forecast period was likely to be necessary to be consistent with meeting the inflation target sustainably in the medium term". The September minutes noted that "some developments during the intervening period appeared to have strengthened that case, although considerable uncertainties remained". Chart 1 shows that interest rate expectations have firmed significantly since August. Moreover, they specifically picked up after the release of September's minutes. The market now expects a rise to 0.2%-0.25% in 2022Q1, with further possible rises to around 0.5% later in the year.

Table 1 Bank of England: forecast, August, YOY (%), unless otherwise indicated

	2021	**2022**	**2023**	**2024**
GDP	7¼	6	1½	…
Unemployment rate (%), Q4	4¾	4¼	4¼	…
CPI inflation (YOY, %), Q4	4	2 ½	2	…
Household saving ratio (%)	12¾	5½	5½	…
Average weekly earnings (YOY, %), Q4	2½	1¾	2	…
Bank Rate (%), Q3, May in brackets	0.1 (0)	0.2 (0.1)	0.4 (0.4)	0.5

Source: *Bank of England*, "Monetary Policy Report, August 2021", 5 August 2021.
The path for Bank Rate implied by forward market interest rates (May's rates are in brackets).

Chart 1 UK instantaneous OIS forward curve (%), months out to 60 months (5 years), at selected dates



Source: Bank of England, yield curve data, overnight index swap (OIS) rate, latest data, 23 September 2021.

Public sector borrowing in August, the second highest on record…

The ONS estimated that public sector net borrowing (PSNB-ex, excluding public sector banks) in August 2021 was £20.5bn, greater than expected, compared with £26.1bn in August 2020. It was the second highest August borrowing since monthly records began in 1993.[3]

Table 2 shows the major changes in the PSNB between August 2020 and August 2021. Public borrowing is overwhelmingly driven by central government net borrowing (CGNB) and the other components of the PSNB (net borrowing by local authorities, public corporations, public sector pensions and the Bank of England) are relatively modest and are omitted from table 2.

The CGNB was £18.4bn in August 2021, compared with £24.7bn in August 2020, as receipts rose whilst spending fell a tad (table 2):

- CG receipts were estimated to have been £61.2bn, a £5.3bn increase compared with August 2020. Of these receipts, tax revenue increased by £4.1bn to £45.0bn.
- CG bodies spent £79.6bn in August 2021, £1.0bn less than in August 2020. Crucially, interest payments on central government debt were £6.3bn in August 2021, £2.9bn more than in August 2020 (though it was £2.3bn less than the monthly record of £8.6bn in June 2021). The recent high levels in debt interest payments are largely a result of movements in the Retail Prices Index (RPI) to which index-linked gilts are pegged. Within total spending, net investment was £3.4bn in August 2021 (£4.5bn in August 2020).

Table 2 PSNB and main components, August 2020 and August 2021 (£bn)

	August 2020	**August 2021**	**Change**
PSNB, of which:	26.1	20.5	-5.5
CGNB	24.7	18.4	-6.3
CG receipts, of which:	55.8	61.2	5.3
Tax receipts, of which (selected):	40.9	45.0	4.1
VAT	11.6	12.2	0.6
Fuel duty	2.1	2.3	0.2
Stamp duty	0.6	1.0	0.4
PAYE income tax	12.7	14.3	1.6

Self-assessed income tax	1.9	2.2	0.3
Corporation tax	4.1	4.0	-0.1
Other receipts+	14.9	16.2	1.3
CG spending, of which:	80.5	79.6	-1.0
Current expenditure, of which (selected):	73.5	73.5	0
Debt interest	3.4	6.3	2.9
Social assistance	9.9	10.0	0
Procurement	14.8	16.5	1.7
Pay	12.3	12.7	0.4
Transfers to local government	8.2	9.0	0.8
Contributions to EU	0.4	0	-0.4
Subsidies (including CJRS, SEISS, other)	11.8	5.8	-6.0
Depreciation	2.6	2.6	0
Net investment	4.5	3.4	-1.1

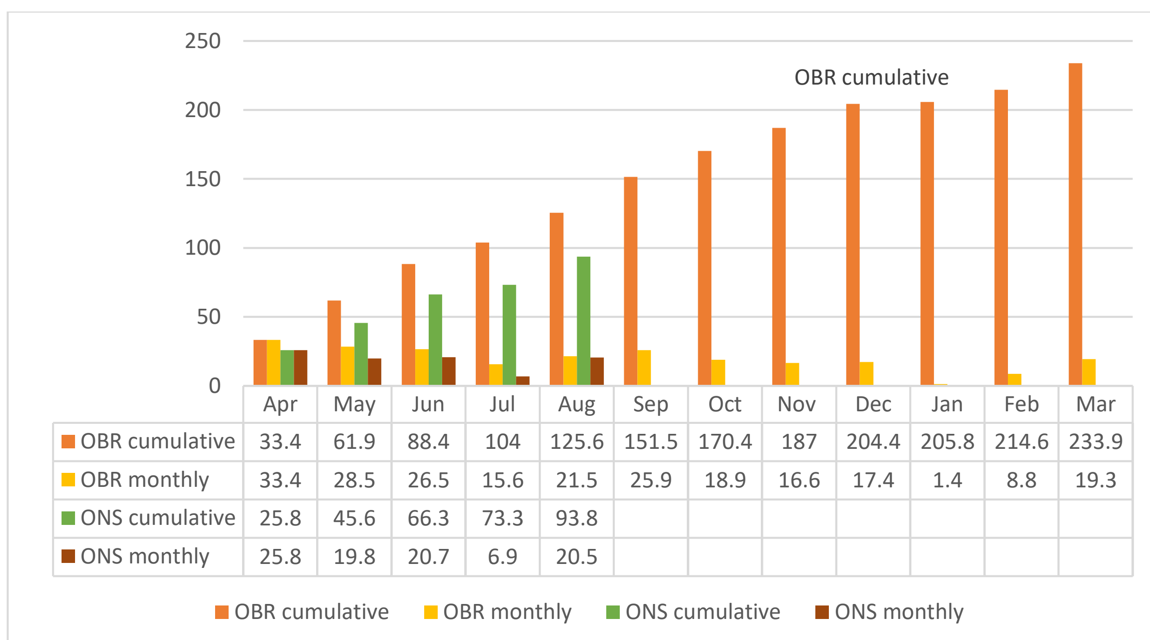
Source: *ONS*, "Public sector finances: August 2021", 21 September 2021. There are rounding errors in the table. +Other receipts = compulsory social contributions + interest & dividends and "other".

…though borrowing undershoots the OBR's projections

The PSNB for the first five months of FY2021 totalled £93.8bn, £88.9bn less than the equivalent period in FY2020. It was, however, the second-highest financial year-to-August borrowing since monthly records began in 1993.

In March 2021 the OBR forecast a total PSNB for FY2021 of £233.9bn and projections based on the OBR's forecast implied borrowing of £125.6bn for April-August 2021 (chart 2). Interestingly, the ONS estimate for April-August 2021 (£93.8bn) undershot the OBR's implied trajectory quite considerably (25%).[4] The OBR's forecast of £233.9bn of borrowing for full-year FY2021 could be undershot by a considerable margin.

Chart 2 Public sector net borrowing (£bn), ONS actuals & OBR forecast, FY2021



Sources: (i) *ONS*, "Public sector finances: August 2021", 21 September 2021; (ii) OBR, *Economic and fiscal outlook*, March 2021.

The ONS reported that the PSNB was now estimated to have been £325.1bn in FY2020, an increase of £27.1bn compared with the ONS's previous estimate, largely as a result of recording, for the first time, expected expenditure of £20.9bn on calls under the government loan guarantee schemes. This was equivalent to 15.5% of the UK's gross domestic product (GDP), the highest such ratio since the end of World War Two, when it was 22.4% in FYE 1945 (FY1944). The OBR expected borrowing of £327.4bn for FY2020 in March 2021.

The Chancellor's fiscal rules…

The Government's fiscal "targets" were modified in March 2021 Budget, when the Chancellor calibrated his Budget decisions in order to deliver:[5-6]

- A current budget very close to balance (as in March 2020), but the previously stated goal of achieving that by the third year of the forecast period was effectively dropped.
- An "underlying" (excluding the Bank of England) public sector net debt (PSND)/GDP ratio very close to stable in the "medium term". The Treasury's focus on stabilising debt had, therefore, shifted from headline debt (including the uneven effects of the Bank of England) to "underlying" debt (excluding the Bank of England). The Bank of England's (BoE's) contribution to debt is largely a result of its quantitative easing activities via the Bank of England Asset Purchase Facility Fund (APF) and Term Funding Scheme (TFS).

The OBR analysed these two "targets" for the March 2021 Budget, along with two targets from the March 2020 Budget:

- A threshold for the ratio of debt interest to revenues (DIR) of 6%, above which action would be taken to put the debt-to-GDP ratio on a downward path.
- A ceiling on public sector net investment (PSNI) as a share of GDP of 3% on average over the five-year forecast period.

It has been widely reported that the Chancellor will be revisiting the fiscal rules in the upcoming Budget (27 October 2021) in order to impose more fiscal discipline.[7-8] It has been reported that he may aim to reduce the debt/GDP ratio and reinstate the objective of balancing day-to-day spending within 3 years.[9]

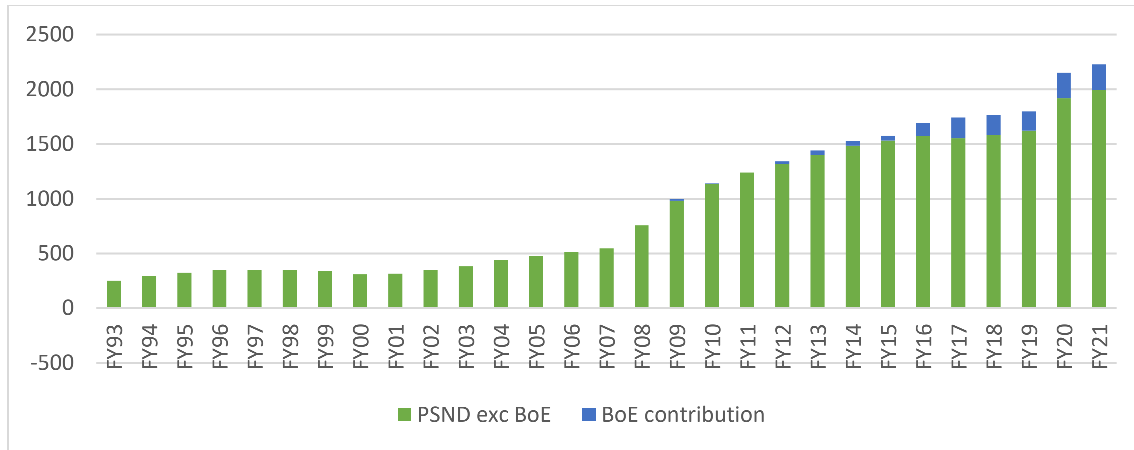
…and the public sector net debt/GDP ratios

Monthly updates are freely available for two of the metrics relating to the fiscal rules, as currently expressed: the PSND/GDP ratios and the ratio of debt interest to revenues.

Firstly, the PSND (excluding public sector banks, but including the Bank of England) was £2,202.9bn (97.6% of GDP) at end-August 2021.[10] In comparison, the "underlying" PSND (excluding the Bank of England) was £1,966.6bn (87.1% of GDP) at end-August 2021. Note the increase in the total PSND/GDP ratio was very sharp in FY2020, whilst the increase in the "underlying" PSND/GDP ratio, whilst still sharp, was not quite so sharp, see charts 3a and 3b. Suffice to say, the debt/GDP ratio, on both indicators (the total and the "underlying"), are still very elevated.

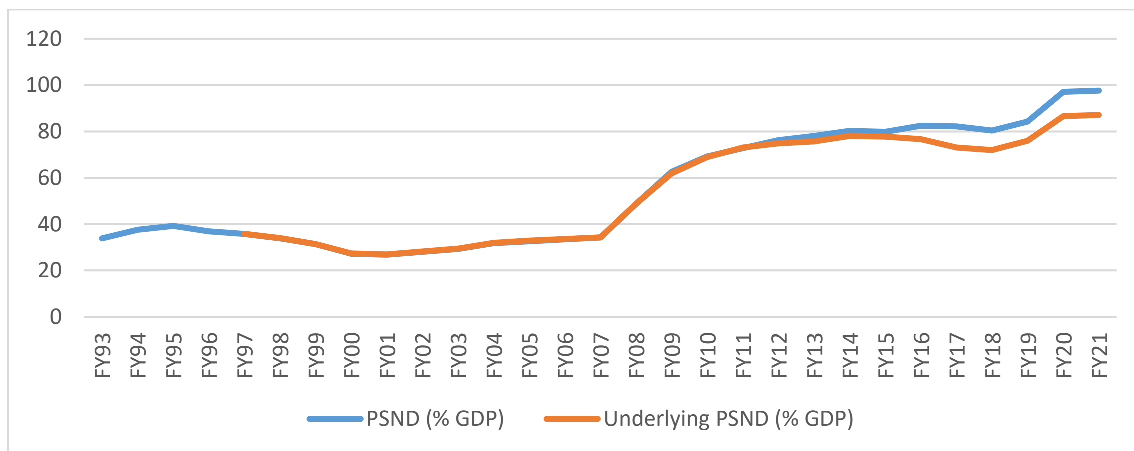
Secondly, the public sector debt interest to revenue ratio (DIR) in the rolling 12-months to August 2021 was 4.0%, compared with 2.9% a year earlier, and below the 6.0% level set by the government as a target.

Chart 3a Underlying PSND (excluding Bank of England) & BoE contribution, FY1993-FY2020 & August 2021 (FY2021) (£bn)



Source: *ONS*, "Public sector finances: August 2021", 21 September 2021, figure 9 for BoE contribution. FY1993-FY2020 to end-March; FY2021 to end-August 2021.

Chart 3b PSND/GDP (%) for FY1993-FY2021, underlying PSND/GDP (%) for FY1997-FY2020 & August 2021 (FY2021)



Source: *ONS*, "Public sector finances: August 2021", 21 September 2021, table PSA1 (underlying data available from FY1997). FY1993/FY1997-FY2020 to end-March; FY2021 to end-August 2021.

Markit suggest slowdown in the recovery

The Markit/CIPS flash UK Composite Output Index eased slightly to 54.1 in September, after August's 54.8.[11] The latest reading was, however, still comfortably above the crucial 50.0 no-change threshold and, therefore, indicated continuing recovery. But the pace of the recovery has, more generally, weakened in recent months, see chart 4. Although both manufacturing and services saw rates of expansion ease in September, the slowdown was more pronounced in manufacturing where production rose only modestly amid severe supply-chain disruption and signs of demand softening. Meanwhile, inflationary pressures showed little sign of abating, with input costs up sharply again. Chris Williamson, Markit's Chief Business Economist, said "…the September PMI data will add to worries that the UK economy is heading towards a bout of 'stagflation', with growth continuing to trend lower while prices surge ever higher".

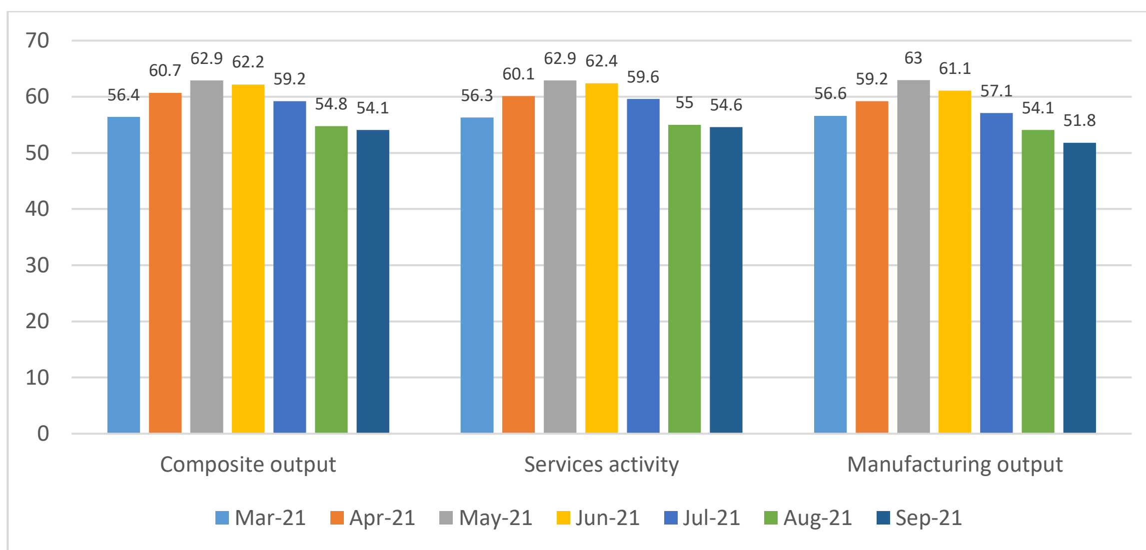
Concerning the component indices:

- The Markit/CIPS flash UK Services Business Activity Index was 54.6 in September, slightly down on August's 55.0. Where business activity increased, companies reported improving customer confidence and an ongoing recovery from the pandemic. Some respondents indicated that increased numbers of

staycations amid restrictions on international travel had boosted domestic service providers. The hotels, restaurants and catering sector posted a particularly strong expansion in activity.

- The Manufacturing Output Index was 51.8 in September, after August's 54.1. The rate of growth in output slowed for the fourth month running and was muted in September, with material shortages the main factor constraining the pace of expansion.
- Note the wider manufacturing PMI was 56.3 in September, after August's 60.1. In addition to slowing output growth, there were also signs of demand softening as the rate of growth in new orders eased to a seven-month low. (The manufacturing PMI is a weighted average of new orders, output, employment, suppliers' delivery times, and stocks of purchases.)

Chart 4 UK Markit/CIPS indices, March-September 2021



Sources: *Markit/CIPS flash UK composite PMI*, "Output growth slows further, while selling price inflation hits record high", 23 September 2021, and earlier releases. The Composite Output Index is a weighted average of the Manufacturing Output Index and the UK Services Business Activity Index, which are comparable indices.

The Fed flags up tighter policy…

As expected, the Fed made no policy changes at its September meeting (21-22 September).[12] But the FOMC flagged up possible interest rate rises in 2022, whilst tapering clearly moved up the agenda, possibly starting in November.

The Fed's statement said:

- "The Committee decided to keep the target range for the federal funds rate at 0-¼% and expects it will be appropriate to maintain this target range until labour market conditions have reached levels consistent with the Committee's assessments of maximum employment and inflation has risen to 2% and is on track to moderately exceed 2% for some time".[13] Crucially, as can be seen from the forecasts below, the projected appropriate policy path for the federal funds rate showed an increase to 0.3% by end-2022 (with half the FOMC member thinking it was right to raise rates in 2022).
- "Last December, the Committee indicated that it would continue to increase its holdings of Treasury securities by at least $80bn per month and of agency mortgage-backed securities by at least $40bn per month until substantial further progress has been made toward its maximum employment and price stability goals. Since then, the economy has made progress toward these goals. If progress continues broadly as expected, the Committee judges that a moderation in the pace of asset purchases may soon be warranted". In other words, tapering may soon be warranted. Concerning the timing of the tapering, Fed Chair Jerome Powell said "…while no decisions were made [on timing], participants generally view that…a gradual tapering process that concludes around the middle of next year is likely

to be appropriate".[14] There are heightened expectations that the start of tapering will be announced at the November meeting.[15]

…and changes to the economic forecast

Turning to the forecast, the GDP annual growth projection was revised down for 2021 (fourth quarter) to 5.9% (compared with 7.0% in June), with growth tempered by the Delta variant of Covid (chart 5a).[16] There were few changes to the unemployment rate forecast, which now reads 4.8% for 2021 (modestly higher than in June), falling to 3.8% in 2022 and 3.5% in 2023 (these projections also relate to the fourth quarter), see annex table 1.

The projections for PCE (personal consumption expenditures) inflation were revised up again, especially for 2021 (fourth quarter), when inflation is expected to rise to 4.2%, but it was expected to fall back to 2.2% in 2022 (chart 5b). The FOMC statement commented that "inflation is elevated, largely reflecting transitory factors".[17] As Fed Chair Jerome Powell explained "…inflation is elevated and will likely remain so in coming months before moderating. As the economy continues to reopen and spending rebounds, we are seeing upward pressure on prices, particularly because supply bottlenecks in some sectors have limited how quickly production can respond in the near term. These bottleneck effects have been larger and longer lasting than anticipated, leading to upward revisions to participants inflation projections for this year. While these supply effects are prominent for now, they will abate, and as they do inflation is expected to drop back toward our longer-run goal. The median inflation projection from FOMC participants falls from 4.2% this year to 2.2% next year".[18]

Finally, the projected appropriate policy path for the federal funds rate was unchanged at 0.1% until end-2021, but then showed an increase to 0.3% by end-2022 (with half the FOMC members thinking it was right to raise rates in 2022), to 1.0% by end-2023 and to 1.8% by end-2024 (chart 5c). In March 2021 the appropriate federal funds rate was projected to remain at 0.1% until end-2023.

Chart 5a FOMC: US GDP growth (%), Q4 (YOY), March 2021, June 2021, September 2021

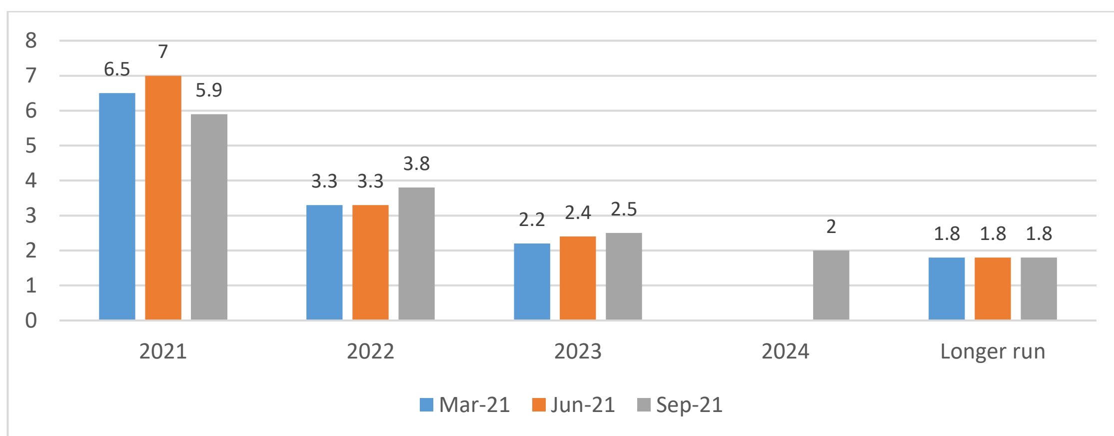


Chart 5b FOMC: PCE inflation (%), Q4 (YOY), March 2021, June 2021, September 2021

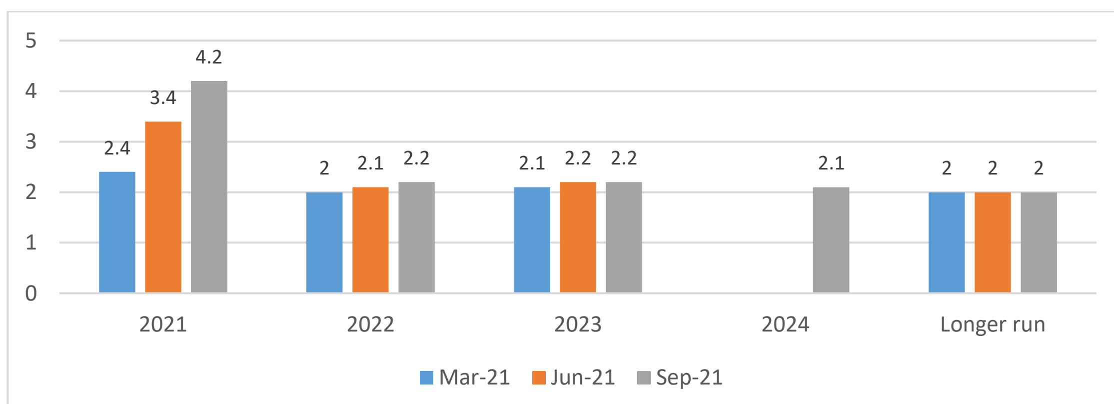
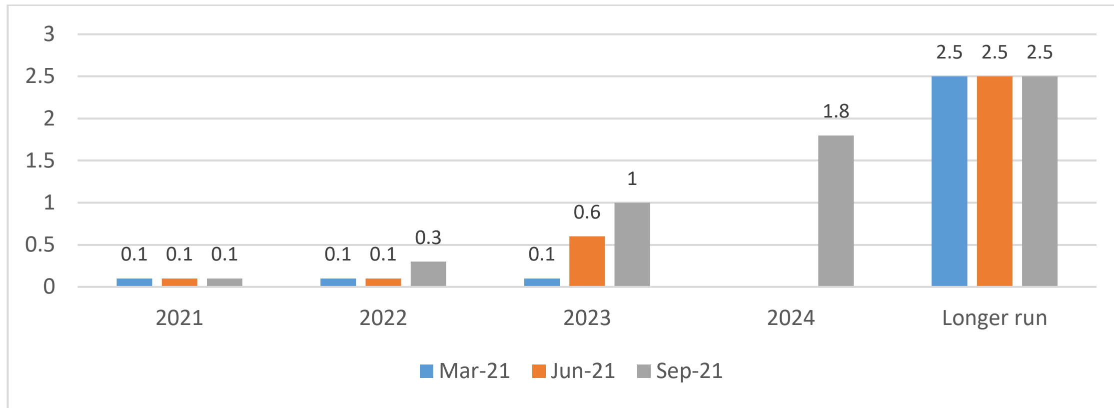


Chart 5c FOMC: appropriate Federal funds rate (%, end-year), March 2021, June 2021, September 2021



Source: *FOMC*, "FOMC projections materials: the summary of economic projections (SEP)", 22 September 2021, and previous, median estimates. See annex table 1. These are the economic projections of Federal Reserve Board members & Federal Reserve Bank presidents under their individual assessments of projected appropriate monetary policy.

The OECD's interim forecast…

The OECD's latest report noted that economic growth had picked up this year, helped by strong policy support, the deployment of effective vaccines and the resumption of many economic activities.[19] Moreover, a strong rebound in Europe and the likelihood of additional fiscal support in the US in 2022 should boost growth prospects in the advanced economies. They estimated that global GDP had surpassed its pre-pandemic level, but output and employment gaps remained in many countries, particularly in emerging-market and developing economies where vaccination rates were low.

The OECD now expects that global GDP growth will be 5.7% in 2021 (5.8% in May) moderating to 4.5% in 2022 (4.4% in May). The main GDP projections are shown in charts 6a and 6b and annex table 2. The most notable revisions were to the US (where reduced growth of 6.0% is now expected for 2021) and the Eurozone (where growth has been revised up for 2021, with a better outlook for France and Italy, but a downgrade for Germany); and a moderation in the expected recovery rate in the UK for 2021.

Chart 6a OECD GDP forecasts for 2021 & 2022, May 2021 & September 2021 forecasts: world & selected non-European economies

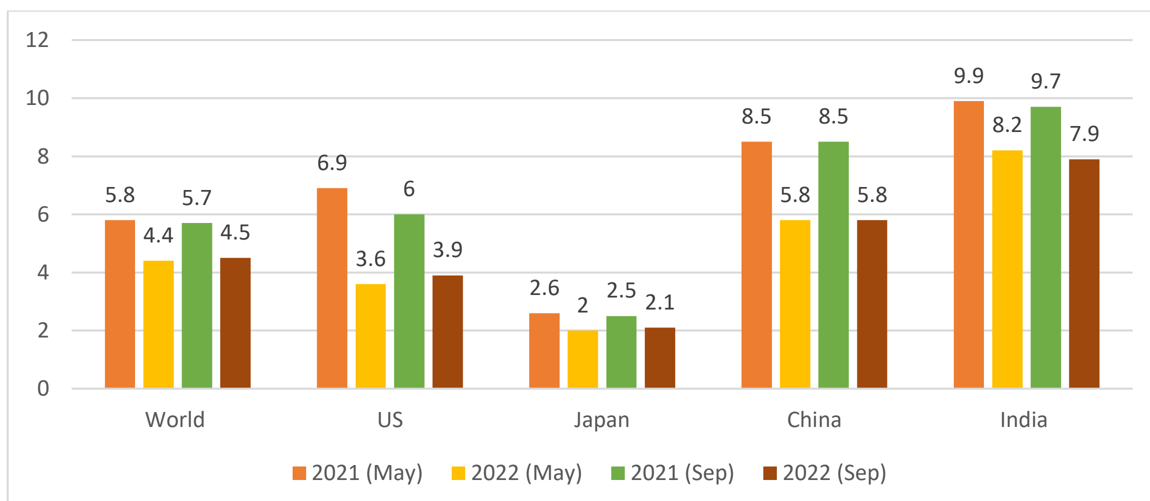
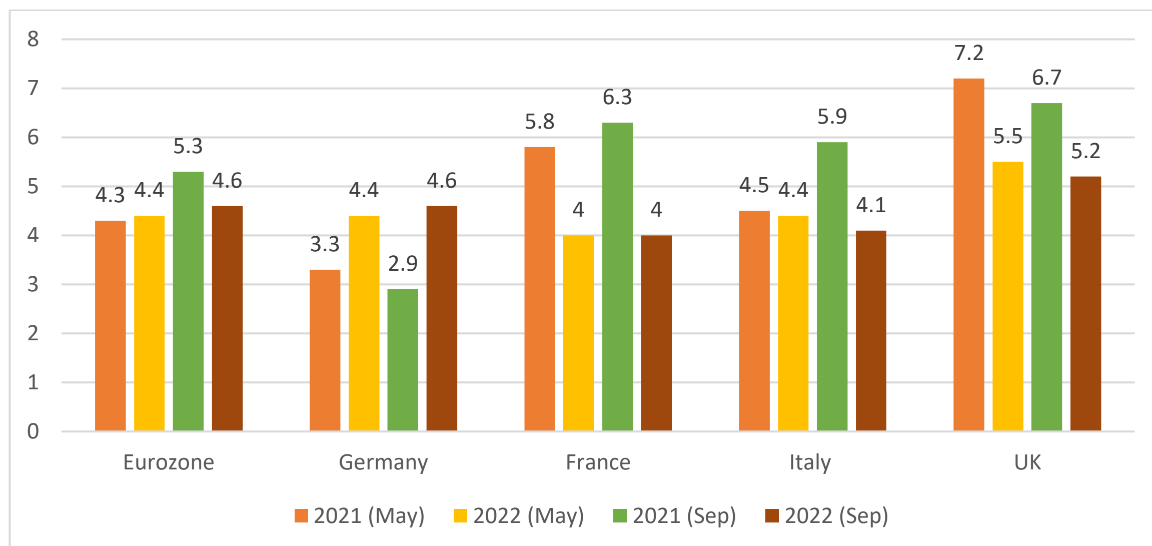


Chart 6b OECD GDP forecasts for 2021 & 2022, May 2021 & September 2021 forecasts: Eurozone & the UK



Sources: (i*) OECD,* "Economic Outlook, May 2021, preliminary version", 31 May 2021; (ii) *OECD*, "Economic Outlook, Interim Report, September Report, Keeping the recovery on track", 21 September 2021. See also annex table 2.

The OECD commented at some length on the pick-up in global costs. They noted that the sharp rebound in global demand, supply disruptions and depleted inventories had pushed up commodity prices and transportation costs around the world, particularly in North America and Europe. Global commodity prices in July and August 2021 were around 55% higher (YOY). Oil prices had rebounded to their pre-pandemic level; metals prices had surged, due to strong demand in China and developed economies; and global food prices had risen to their highest level in a decade, amidst strong demand and weather-related disruptions to production in key food exporting economies. Containerised freight rates had also soared in 2021, whilst vessels were currently used at almost full capacity and containers remained scarce. All in all, higher commodity prices and shipping costs were adding around 1.5 percentage points to annual consumer price inflation across the G20 countries.

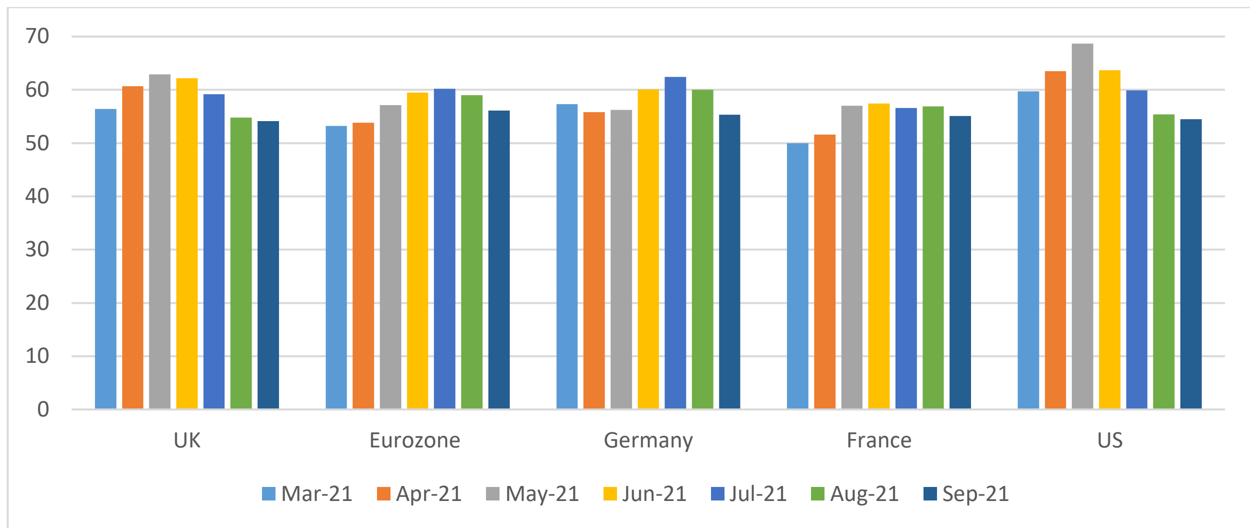
…and Markit surveys show slowing growth in both the Eurozone and the US

Markit's flash indices for September have also been released for the Eurozone and the US (chart 7).

They suggested that Eurozone business activity grew at a reduced rate in September, reflecting the peaking of demand growth in 2021Q2, supply chain bottlenecks and concerns over the ongoing pandemic. Business expectations for the coming year were also knocked by rising worries over the impact of the Delta variant on demand and supply chains, contributing to a further moderation in the rate of job creation. The Composite Output Index slipped in the month to 56.1, after August's 59.0.[20] Within the Eurozone, Germany's Composite Output Index slipped to 55.3 in September, after August's 60.0.[21] The survey indicated ongoing supply disruptions to manufacturing production, while the service sector lost momentum following its recent strong rebound. France's Composite Output Index was 55.1 in September (56.9 in August).[22] Whilst rates of expansion lost steam in both manufacturing and services, the slowdown at the former was particularly notable in September.

The US Composite Output Index eased to 55.4 in August, after July's 59.9.[23] The slowdown was led by a cooling of demand in the service sector, linked in part to the Delta variant spread. However, while manufacturers had seen far more resilient demand, factories faced growing problems in sourcing enough supplies and labour to meet orders. Supply chain delays showed no signs of easing, with another near-record lengthening of delivery times in September, and factory output growth weakened.

Chart 7 Markit PMI Composite Output Index, selected countries, March-September 2021



Sources include: (i) *Markit, Flash Eurozone PMI*, "Eurozone flash PMI points to slower growth as bottlenecks curb activity and input price gauge hits 21-year high", 23 September 2021; (ii) *Markit, Flash US PMI*, Private sector output growth hampered by severe supply chain hold-ups and capacity shortages", 23 September 2021.

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1. *Bank of England*, "Monetary policy summary and minutes of the MPC meeting ending 22 September 2021", 23 September 2021.
2. *Bank of England*, "Monetary Policy Report, August 2021", 5 August 2021.
3. *ONS*, "Public sector finances: August 2021", 21 September 2021.
4. OBR, *Economic and fiscal outlook*, March 2021.
5. OBR, *Economic and fiscal outlook*, March 2021.
6. Ruth Lea, "A Budget of two halves: a big boost for FY2021, but large tax increases pencilled in for FY2023, FY2024 and FY2025", *Arbuthnot Banking Group*, 8 March 2021, discussed the Treasury's latest approach to fiscal targets.
7. *Daily Telegraph*, "Profligacy cannot go on indefinitely", 18 September 2021.
8. *Daily Telegraph*, "Sunak's bid to reassert his Thatcherite ideals with new fiscal rules risks another tax raid", 18 September 2021.
9. *Daily Telegraph*, "Sunak's new fiscal rules risk forcing more tax rises", 18 September 2021.
10. Note that the ONS has warned that their monthly GDP estimates for recent periods are based on official (OBR) projections and are subject to revision. The GDP denominator for each observation of the debt ratio represents 12 months (6 months before the said end-month and 6 months after the said end-month). For example, GDP for 2020Q1-2020Q4 was the denominator for the PSND at end-June 2020 (end-2020Q2).
11. *Markit/CIPS flash UK composite PMI*, "Output growth slows further, while selling price inflation hits record high", 23 September 2021. The Composite Output Index is a weighted average of the UK Manufacturing Output Index and the UK Services Business Activity Index, which are comparable indices.
12. *Federal Reserve Board, "*Federal Reserve issues FOMC statement", 22 September 2021.
13. It should be noted that, whilst the Fed's inflation objective is for 2% over the longer-run, this objective was relaxed in August 2020 to be an "average" of 2% inflation, rather than a 2% fixed goal, giving more flexibility. The Fed appears content for PCE (personal consumption expenditures) inflation to run above 2% for a limited time.
14. *Federal Reserve Board*, "Transcript of Chair Powell's Press Conference" 22 September 2021.
15. *Daily Telegraph*, "Federal Reserve prepares to begin unwinding QE in November", 23 September 2021.
16. *Federal Reserve Board*, "FRB and FOMC release economic projections from 21-22 September FOMC meeting", 22 September 2021.
17. *Federal Reserve Board, "*Federal Reserve issues FOMC statement", 22 September 2021.
18. *Federal Reserve Board*, "Transcript of Chair Powell's Press Conference" 22 September 2021.
19. *OECD*, "Economic Outlook, Interim Report, September Report, Keeping the recovery on track", 21 September 2021.
20. *Markit, Flash Eurozone PMI*, "Eurozone flash PMI points to slower growth as bottlenecks curb activity and input price gauge hits 21-year high", 23 September 2021.
21. *Markit, Flash Germany PMI*, "Growth of German economy slows in September", 23 September 2021.
22. *Markit, Flash Eurozone PMI*, "Growth continues to lose steam as supply constraints bite", 23 September 2021.
23. *Markit, Flash US PMI*, Private sector output growth hampered by severe supply chain hold-ups and capacity shortages", 23 September 2021.

Annex

Table 1 Federal Reserve: economic projections June 2021, September median estimates

	2021	**2022**	**2023**	**2024**	**Longer run**
GDP % change, Q4 (YOY):					
Jun 2021	7.0	3.3	2.4	…	1.8
Sep 2021	5.9	3.8	2.5	2.0	1.8
Unemployment rate, Q4 (%):					
Jun 2021	4.5	3.8	3.5	…	4.0
Sep 2021	4.8	3.8	3.5	3.5	4.0
PCE inflation (%), Q4 (YOY):					
Jun 2021	3.4	2.1	2.2	…	2.0
Sep 2021	4.2	2.2	2.2	2.1	2.0
Core PCE inflation (%), Q4 (YOY):					
Jun 2021	3.0	2.1	2.1	…	Na
Sep 2021	3.7	2.3	2.2	2.1	Na
Projected appropriate policy path, Federal funds rate (%), end-year:					
Jun 2021	0.1%	0.1%	0.6%	…	2.5%
Sep 2021	0.1%	0.3%	1.0%	1.8%	2.5%

Source: *FOMC*, “FOMC projections materials”, 22 September 2021. PCE = personal consumption expenditures, core excludes food & energy. The Federal funds rate is the midpoint of the targeted range. These are the economic projections of Federal Reserve Board members & Federal Reserve Bank presidents under their individual assessments of projected appropriate monetary policy.

Table 2 OECD GDP forecasts, growth rates (%)

	September 2021			**May 2021**		
	2020	2021	2022	2020	2021	2022
World output	-3.4	5.7	4.5	-3.5	5.8	4.4
World trade	…	…	…	-8.5	8.2	5.8
US	-3.4	6.0	3.9	-3.5	6.9	3.6
Eurozone, of which:	-6.5	5.3	4.6	-6.7	4.3	4.4
Germany	-4.9	2.9	4.6	-5.1	3.3	4.4
France	-8.0	6.3	4.0	-8.2	5.8	4.0
Italy	-8.9	5.9	4.1	-8.9	4.5	4.4
Japan	-4.6	2.5	2.1	-4.7	2.6	2.0
Canada	-5.3	5.4	4.1	-5.4	6.1	3.8
UK	-9.8	6.7	5.2	-9.8	7.2	5.5
China	2.3	8.5	5.8	2.3	8.5	5.8
India	-7.3	9.7	7.9	-7.7	9.9	8.2

Sources: (i*) OECD,* “Economic Outlook, May 2021, preliminary version”, 31 May 2021; (ii) OECD, “Economic Outlook, Interim Report, 21 September 2021”.