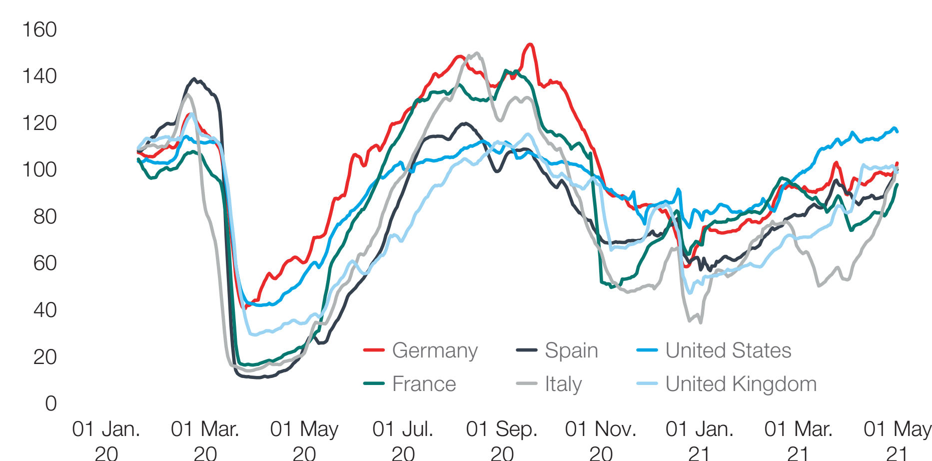
Accuracy

ARE WE BEING OVER-OPTIMISTIC?

May 2021

In this month's Economic Brief, we delve into changes in mobility and economic confidence. We look at how different countries are opening up at different rates and analyse confidence in both the services sector and the manufacturing sector. Finally, we look into recent comments comparing the economic situation in the 2020s with the 1920s to discover if there is some truth to them.

Mobility: the US is out in front



Note: Seven-day average of directions requests per country compared with a baseline volume on 13 January 2020.

Sources: Accuracy & Apple

Mobility has been greatly affected since the official declaration of the COVID-19 pandemic in March 2020 due to the continual lockdowns implemented in various countries across the globe. The graph opposite demonstrates the fluctuations in seven-day average mobility across six Western countries. The starting point corresponds to the seven-day average to 20 January 2020. The US is currently leading the way, after easing many of its lockdown restrictions in light of the success of its vaccination campaign, but the European countries are catching up as they ease restrictions in preparation for the tourist season.

Global PMI: the gradual recovery of the consumer?

	Nov	Dec	Jan	Feb	Mar
Composite	**53.1**	**52.7**	**52.3**	**53.2**	**54.8**
Manufacturing	**55.3**	**54.9**	**54.1**	**54.3**	**55.1**
Consumer goods	*54.1*	*52.7*	*53.1*	*53.1*	*54.1*
Capital goods	*57.8*	*54.1*	*54.5*	*57.8*	*56*
Intermediate goods	*55*	*56.9*	*54.5*	*53.4*	*55.3*
Services	**52.2**	**51.8**	**51.6**	**52.8**	**54.7**
Consumer	*48.7*	*47.6*	*46.4*	*45.8*	*49.8*
Business	*52.8*	*51.2*	*51*	*52.8*	*54.9*
Financial	*53.8*	*59*	*60*	*61.2*	*59.9*

Note: A score of 50 means neutral confidence; a score above 50 means increased confidence; A score below 50 means decreased confidence.

Source: Accuracy & JP Morgan

The table opposite shows the composite Purchasing Managers' Index (a reasonable proxy for economic confidence) as well as its split by manufacturing and services sectors. The data seems to show that confidence in manufacturing has been relatively high for the past few months, scoring well across all sub-segments; confidence in services, however, appears to be consistently behind. When breaking this down, we see that B2C services have been the weakest, whereas business and financial services have been scoring well. This trend may well be due to households acting more prudently in the current climate; indeed households have increased their level of saving by reducing spending in order to face future eventualities. In spite of this, we note that the trend shows increasing confidence and indicates a potential return to more normal spending habits – something that would be a boon to the economy.

Many commentators have drawn parallels between the expected economic rebound over the next few years and the economic boom of the Roaring Twenties of the last century. However, we should remember that there are two sides to the Roaring Twenties: yes, it was a period of great economic growth, but it was also a period of significant inequalities and specific factors – such as monetary instability and reduced international exchanges – that led to a major economic crisis. If we draw the parallel today, we can see two possibilities: (i) the successful digitalisation of the economy, the rise of green infrastructure and a monetary policy that supports the capital markets or (ii) an inability to ensure financial stability and to realise the environmental and digital transition, whilst guaranteeing a sufficient level of economic growth.

After the repeated restrictions imposed on mobility and the pervasive gloom that seems to have become the new normal over the past year and a half, it is not surprising that people wish to capitalise on the new lease of life granted by the progress made in the fight against COVID-19. Yes, we must enjoy the positive trends taking hold, but we must also make sure not to succumb to an excess of optimism.