

THE ECONOMIC OUTLOOK GROUP



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ECONOMIC TALKING POINTS

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UNITED STATES –Small Business Optimism Index
JAPAN - GDP and Machine Tools

UNITED STATES – NFIB Small Business Optimism Index

One of the most closely watched monthly reports on business confidence is the NFIB's (National Federation of Independent Business) Small Business Optimism Index.

The latest release shows a slight uptick in confidence last month with the overall index creeping up to 95.8 last month, compared to 95.0 in January. So, yes, it's moving in the right direction --- though from a historical perspective it remains below the 47-year average of 98.

Small businesses have suffered greatly during the pandemic. Since they do not have access to capital markets to raise funds, many have tapped their credit lines to keep financially afloat. These smaller firms know well they are in a race against time. Many have already thrown in the towel. Corporate bankruptcies jumped to a decade high in 2020. But the faster roll out of the vaccines in recent weeks in the US has given small businesses some newfound hope in the economic outlook.

Of the 10 main components in the NFIB index, five improved in February.:

- Hiring plans the next three months**
- Capital expenditure plans next three to six months**
- Outlook for general business conditions six months from now.**
- Current job openings not able to fill right now**
- Actual earnings changes the last three months**

Four showed declines:

- **Plans to increase inventories next three to six months**
- **Sales expectations during next three months**
- **Expected credit conditions during next three months**
- **Outlook for expansion next three months**

...And one showed no change:

- **Inventory satisfaction at the present time**

Of these ten components, two have shown over time to be better leading indicators on the economy: (1) Outlook for general business conditions and (2) Hiring plans the next three months. Both registered improvements.

There is one other noteworthy data point to mention. One subcomponent asks whether small companies plan to raise prices over the next three months. That measure shot up to its highest level since 2008. It's one more indication that we could see a fairly significant pop in inflation this year. But, as we have said before, this should be viewed as a temporary jump in prices to reflect the beginning of a new economic up cycle and the ongoing bottleneck in supply chains. The fundamental forces driving long-term inflation have not changed. Technology, eCommerce, globalization, and demographics will work again to dampen price increases by 2022.

JAPAN - GDP, Household Spending and Machine Tools

In its second look at IVQ GDP, the government just confirmed the economy grew at a double-digit annual pace, though it was less than the initial estimate. GDP expanded at an 11.7% annual rate in the final three months of 2020, one percentage slower than the preliminary estimate.

The slight downgrade was due to a smaller increase in business capital outlays and a decline in spending on inventories. Despite the slightly weaker rebound in Q4, Japan's economic performance for the year remained unchanged. It contracted 4.8% in 2020, a steeper downturn than the US --- but not as bad the Eurozone, UK or Canada.

Our projection for 2021 is for Japan to experience its strongest growth in more than a decade as businesses significantly ramp up overall production to meet the global demand for cars, electronic goods and capital equipment. In a report released today, February orders for machine tools jumped 36.7% from its year ago level. That was the largest year-on-year monthly increase in two years. And while it is true that real household spending fell 6.1% in January from a year earlier, it was because consumers were still staying close to home as the number Covid-19 cases picked up again.

But again, the disappointment in household outlays came as the government maintained its state of emergency to limit the outbreak of the virus. The country's vaccination program has been something of a mess. The Oxford-AstrZeneca and the Moderna vaccines have still not been formally approved for use in the country. So at this juncture, the nation relies entirely on deliveries from Pfizer. There are expectations the government will rush to approve the other vaccines with the goal of covering the entire population by mid-year and in time for the opening session of the Olympics. We view the hefty rebound in machine tools as a sign of future confidence that economic activity will accelerate as both domestic and foreign demand recovers.

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United States																
	I 2020	II 2020	III 2020	IV 2020	I 2021	II 2021	III 2021	IV 2021	I 2022	II 2022	III 2022	IV 2022	I 2023	II 2023	III 2023	IV 2023
Real Gross Domestic Product (GDP):																
%	-5.0	-31.4	33.4	4.1	3.9	4.2	4.6	5.3	3.1	6.2	5.5	4.8	2.8	3.8	3.1	2.9
Personal Consumption Expenditures:																
PCE %	-6.9	-33.2	41.0	2.4	4.4	5.2	4.7	6.0	2.4	5.2	4.1	3.9	4.0	4.1	2.8	3.5
Inflation, end of period, year-over-year:																
CPI %	1.5	0.6	1.4	1.4	1.5	2.0	2.5	2.7	2.5	2.5	2.3	2.2	2.5	2.6	2.6	2.7
Unemployment Rate (end of period):																
%	4.4	11.1	7.8	6.7	6.2	6.0	5.9	5.8	5.8	5.8	5.6	5.4	5.4	4.9	4.4	4.1
Non-farm Payrolls, monthly avg. thousand:																
	-303	-4,427	1,322	283	322	385	370	380	270	285	265	240	185	225	235	250
Treasury 10-yr Note Yield % (end of period):																
	0.63	0.65	0.68	0.91	1.47	1.51	1.60	1.70	1.82	2.05	2.00	1.94	1.90	2.05	2.00	2.10
Federal funds rate % (end of period):																
	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.38	0.88	1.13

GDP Growth - Global Economy																
Country	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023		
US	2.6	1.6	2.2	1.8	2.5	3.1	1.7	2.3	3.0	2.2	-3.5	4.5	5.2	3.2		
Eurozone	1.7	1.4	-0.9	-0.2	1.4	2.1	1.9	2.5	1.9	1.2	-6.8	3.3	2.5	2.0		
United Kingdom	1.7	0.7	0.3	1.8	2.9	2.2	1.9	1.9	1.3	1.5	-9.9	4.4	4.6	3.1		
Japan	4.6	-0.4	1.6	1.5	-0.1	1.1	0.5	2.2	0.3	0.7	-4.8	2.4	2.8	2.2		
Canada	3.1	3.1	1.8	2.3	2.9	0.7	1.0	3.2	2.0	1.6	-5.1	5.4	3.4	2.9		
India	8.4	8.6	6.7	4.9	7.4	8.0	8.1	7.2	6.8	4.8	-8.2	9.1	6.4	5.7		
China	10.5	9.5	7.8	7.7	7.3	6.9	6.7	6.8	6.6	6.1	2.3	6.9	5.7	5.6		
Brazil	7.5	2.7	0.9	2.3	0.1	-3.5	-3.5	1.2	1.2	1.1	-4.1	2.9	2.7	2.4		
Mexico	5.2	4.0	3.9	1.4	2.3	2.7	2.7	2.4	2.1	-0.1	-8.3	3.3	2.8	2.7		
Australia	2.8	2.6	3.6	2.4	2.6	2.5	2.4	2.4	2.7	1.8	-1.1	2.5	3.0	2.7		
Russia	4.0	4.3	3.4	1.3	0.6	-2.8	-0.2	1.6	2.5	1.2	-3.1	2.4	3.3	2.0		
World	4.2	3.1	2.5	2.6	2.8	2.8	2.6	3.4	3.2	2.9	-4.2	4.4	4.2	3.9		