ECONOMIC & INVESTMENT OUTLOOK 2021

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BRUSSELS, 04/12/2020

BNP PARIBAS FORTIS

The bank for a changing world

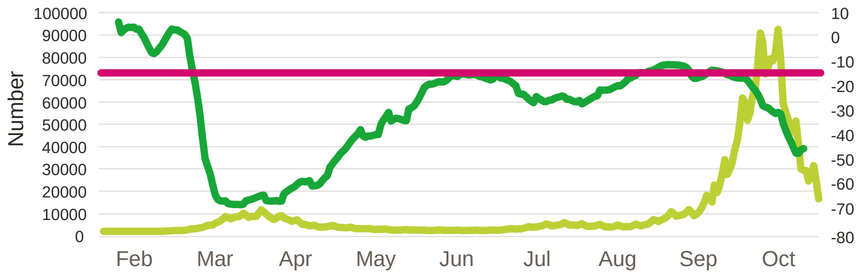
AGENDA

#BNPPFOUTLOOK

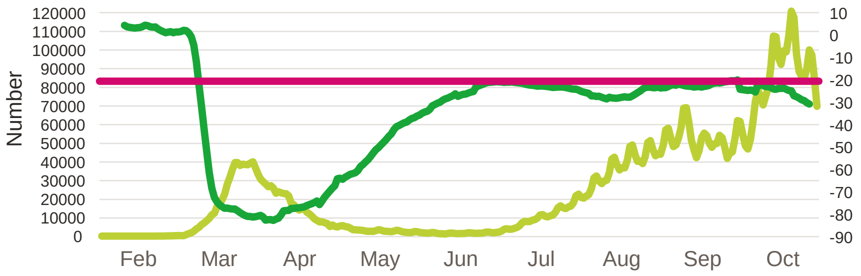
CHAPTER 1
SETTING THE SCENE

MOBILITY AND INFECTIONS: -10% / -20% IS SPEED LIMIT

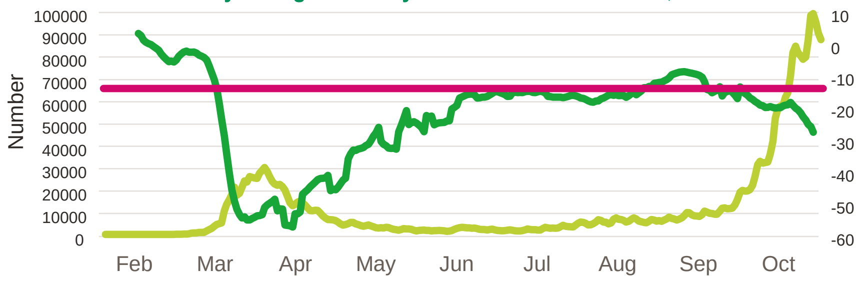
Belgium: Google mobility versus confirmed cases, 2020



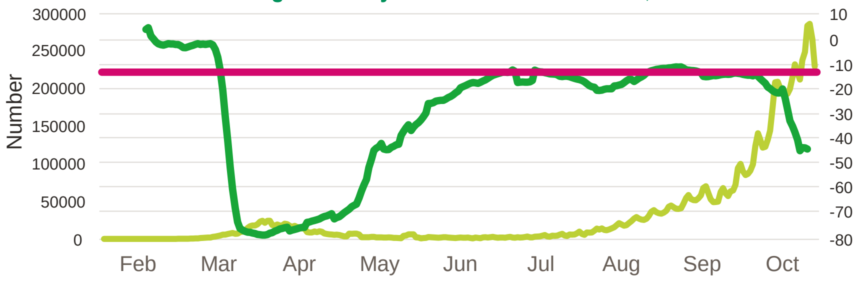
Spain: Google mobility versus confirmed cases, 2020



Germany: Google mobility versus confirmed cases, 2020



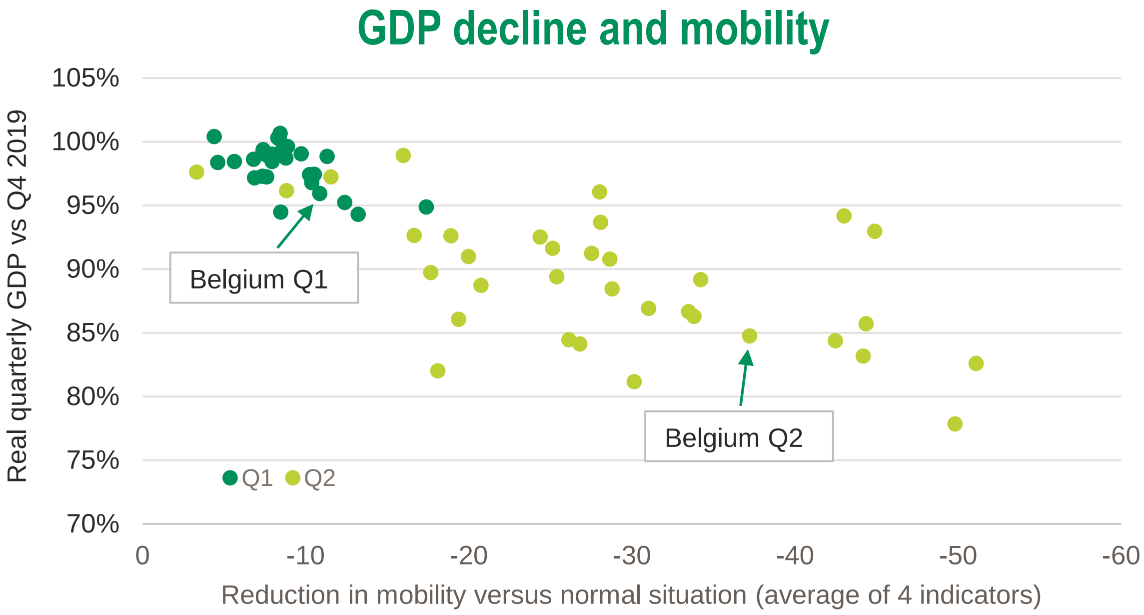
France: Google mobility versus confirmed cases, 2020



Mobility, Length of Stay, (Retail & Recreation + Transit Stations + Workplaces)/3, mean(The Whole Country, 7), The Whole Country, rhs
Coronavirus Disease (COVID19) Pandemic, Confirmed Cases, Aggregate, lhs

Sources: BNP Paribas Fortis, Macrobond

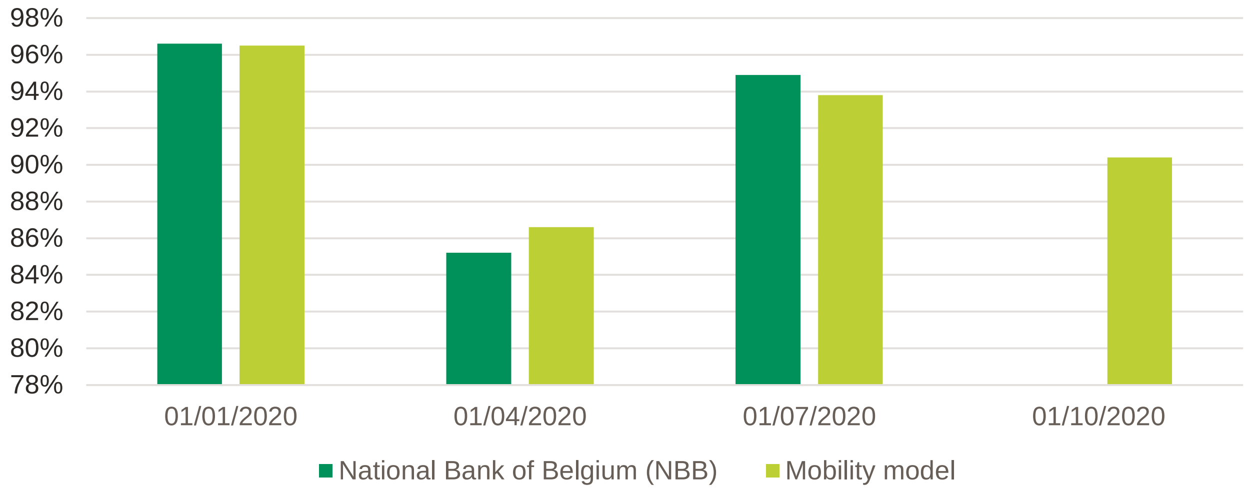
MOBILITY AND INFECTIONS: PREDICTING GDP REAL TIME?



Sources: BNP Paribas Fortis, Eurostat, Google

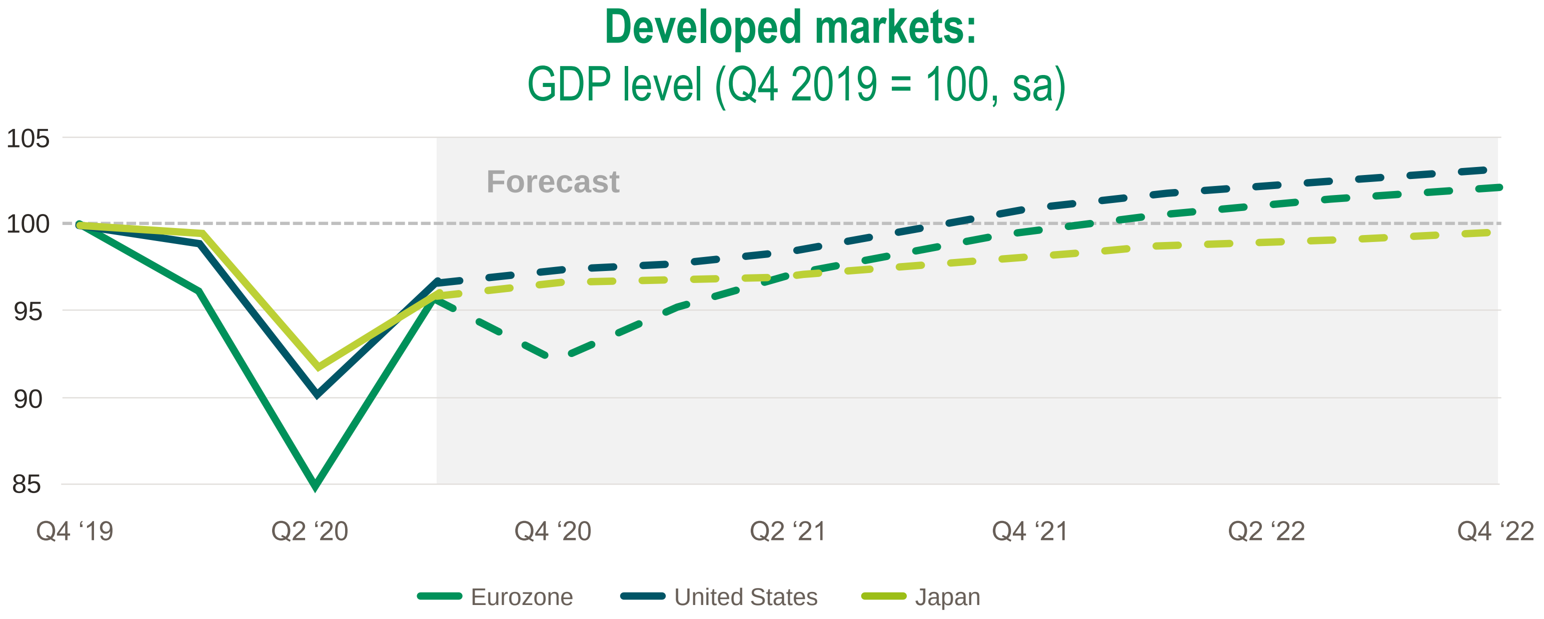
MOBILITY AS AN INDICATOR

Mobility as real-time measure of GDP decline



Sources: BNP Paribas Fortis, Eurostat, Google

DOUBLE DIP: NOW INEVITABLE



Sources: National statistical offices, BNP Paribas forecast (dashed lines)

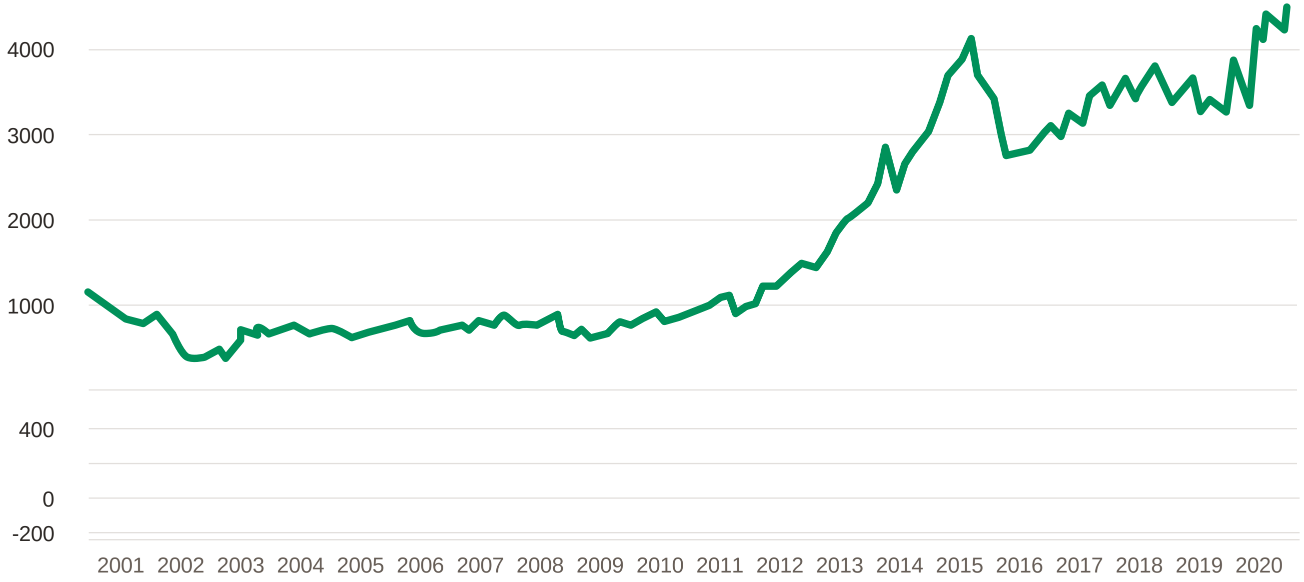
CHAPTER 2
GAME CHANGER

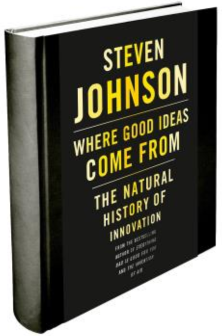
MARKETS SURGE AS PFIZER VACCINE PREVENTS 95% OF COVID CASES!

A GOLDEN AGE OF BIOTECH

SERENDEPITY AND LONGEVITY

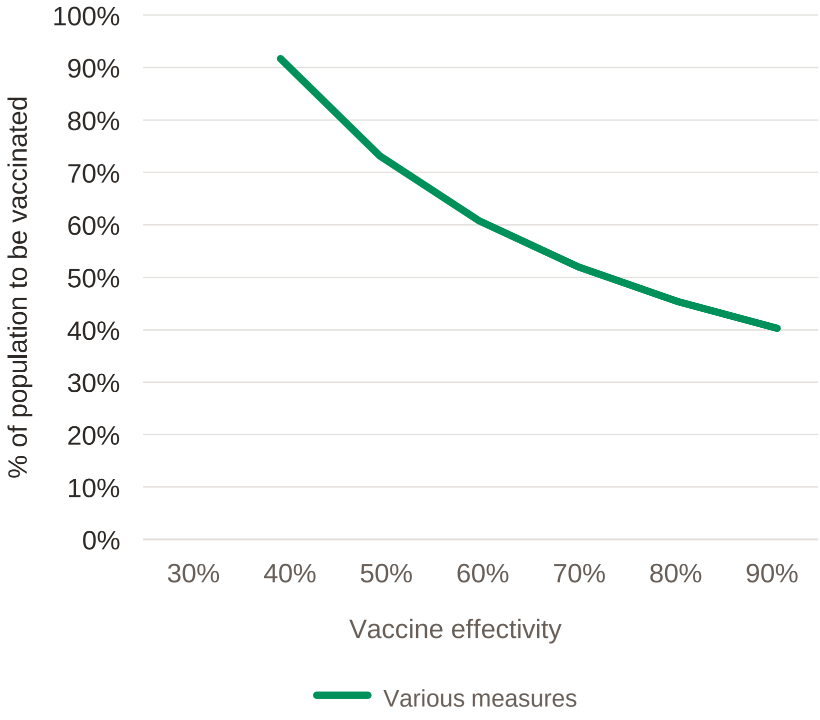
Nasdaq Biotech Index



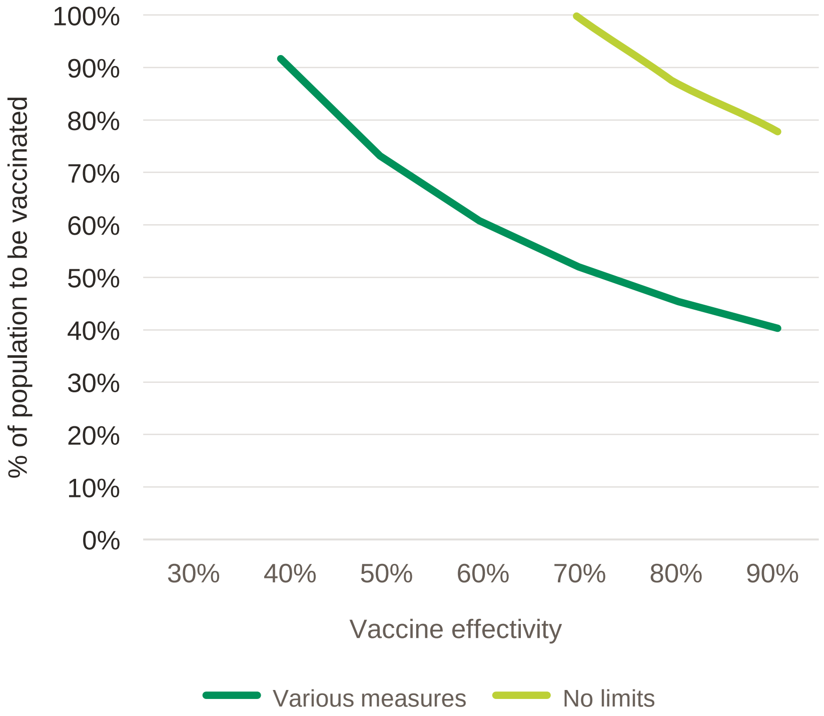


Source: Bloomberg

BETTER VACCINE: FEWER PEOPLE NEED TO GET IT

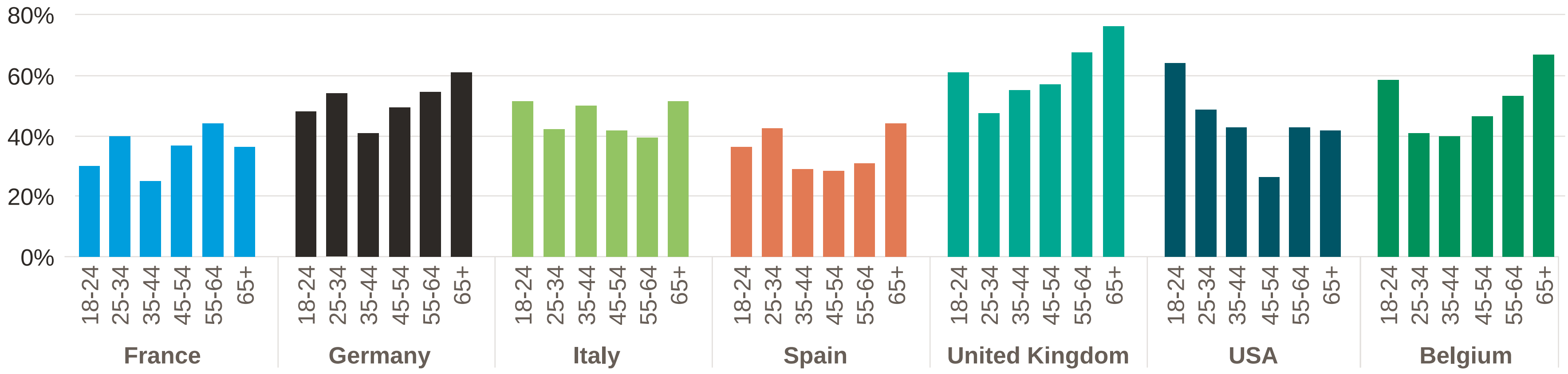


BUT THIS IS WHERE WE WERE EARLY 2020



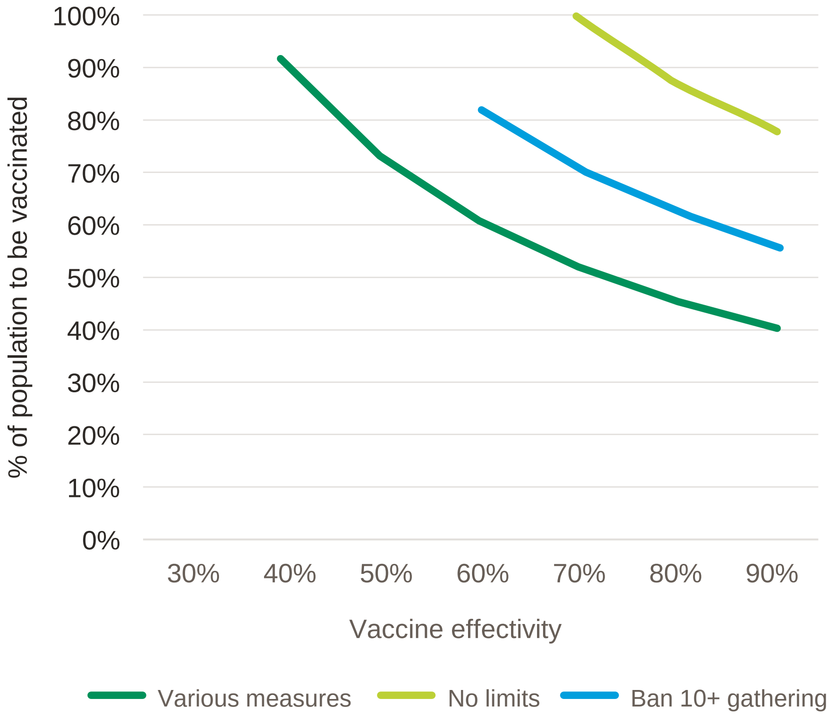
EFFICIENCY VACCINE AND HERD IMMUNITY:
SOME PR STILL TO BE DONE

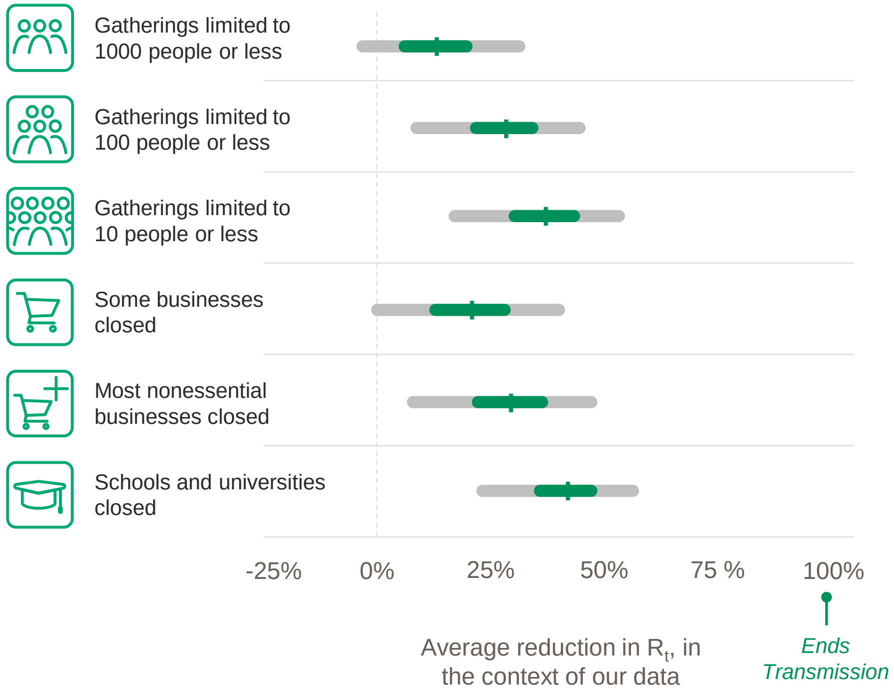
% planning to get vaccinated within 3 months of vaccine being released (October data)



Sources: dbDig Survey, Sciensano

REASONABLE MEASURES: 90% EFF = 60%+ VACC !





LIGHT AT THE END OF THE TUNNEL?

WHILE LOGISTICAL DIFFICULTIES, A VACCINE WOULD HAVE POSITIVE IMPLICATIONS FOR THE ECONOMY THROUGH VARIOUS CHANNELS:

- Sentiment effect
  - Confidence holds up in spite of 2nd wave?
  - Market impact
- Reduced need for lockdown after vaccine roll-out … but short term maybe more stringent measures + most vulnerable might restrict themselves more.
- More positif vaccine results will boost confidence further, negative will be discarded.

Belgium:

Google mobility versus financial situation next 12m

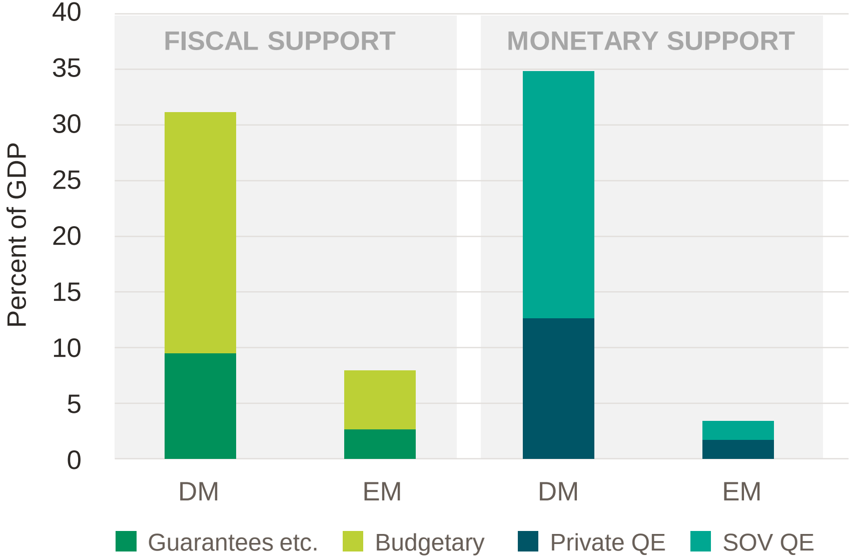
Sources: BNP Paribas Fortis, Macrobond

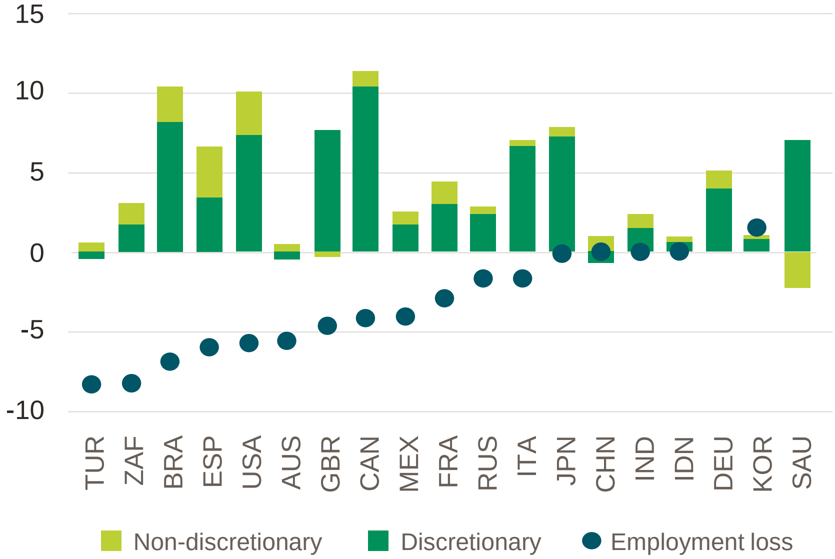
CHAPTER 3

CONTINUED MONETARY & FISCAL SUPPORT

PREMATURE WITHDRAWAL OF DISCRETIONARY SUPPORT – BIS ?

Big policy support in First Wave





Source: BIS estimates

RISK OF SCARRING

RISK OF SCARRING

K-RECOVERY

- Services versus industrial
- Rich versus ‘poor’ / more indebted countries
- Educational attainment / skilled
- Young versus old

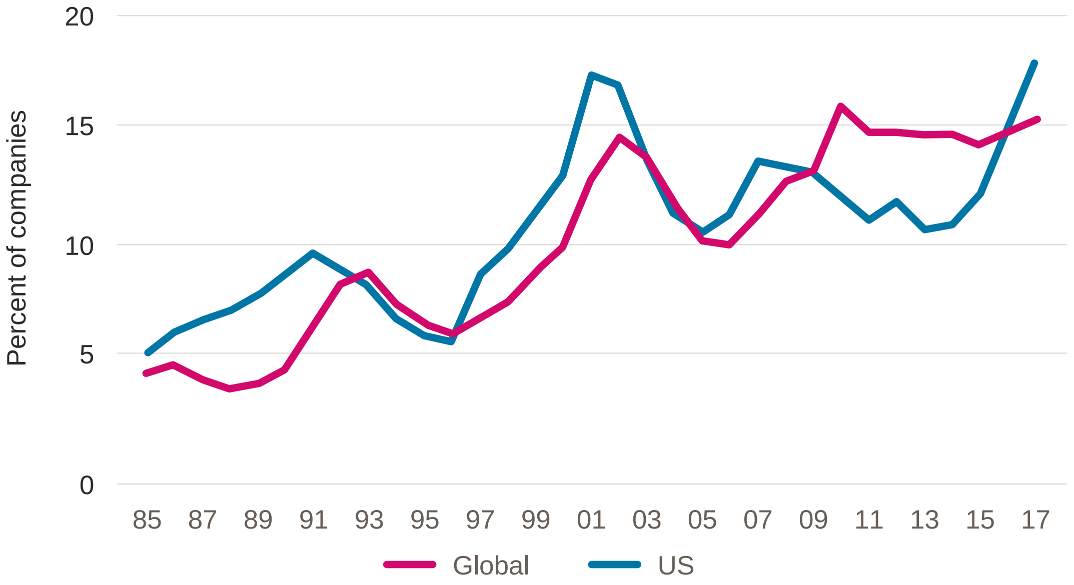
LONG TERM SCARRING

Weak demand undermines supply potential

- Capital spending and productivity
- Long-term unemployment

RISK OF SCARRING

Rise of the zombies before COVID



Source: BIS estimates, listed companies only

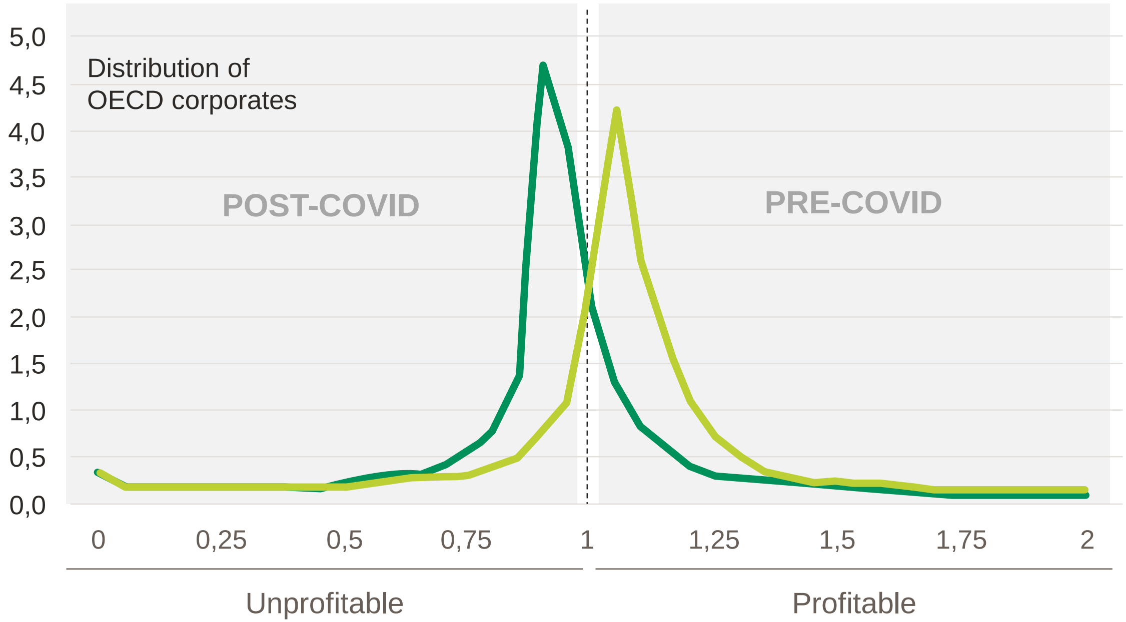
LONG TERM SCARRING

Weak demand undermines supply potential

- Capital spending and productivity
- Long-term unemployment
- Zombification

RISK OF SCARRING

OECD corporates running at a loss



Source: BIS estimates

LONG TERM SCARRING

Weak demand undermines supply potential

Capital spending and productivity

Long-term unemployment

Zombification

Business failures/credit deterioration

CONTINUED ‘SMART’ SUPPORT NECESSARY

END ASAP HEALTH CRISES: invest testing, contact tracing, prepare roll-out vaccine, ...

SUPPORT household and firms (targeted)

ENSURE DURABLE RECOVERY

- Reforms
- Invest in education, technology (government, digital divide), green ....
- Productivity increasing investments

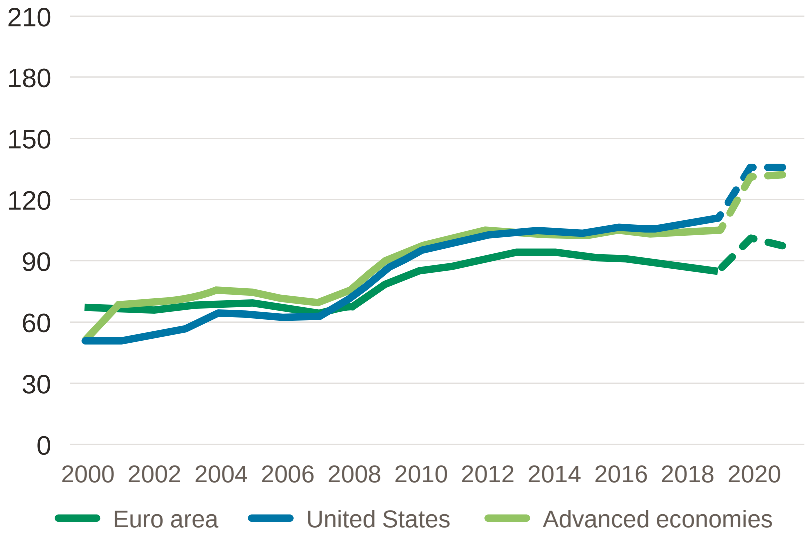
PREPARE POST-PANDEMIC WORLD

- Promote investment / hiring expanding sectors
- Training opportunities unemployed

CHAPTER 4
SOLVING THE DEBT PROBLEM

THE DEBT PROBLEM:
WILL IT JEOPARDISE MONETARY DOMINANCE?

General government gross debt (% of GDP)



Source: European Commission Economic Forecast Spring 2020 and IMF. Dashed lines are projections.

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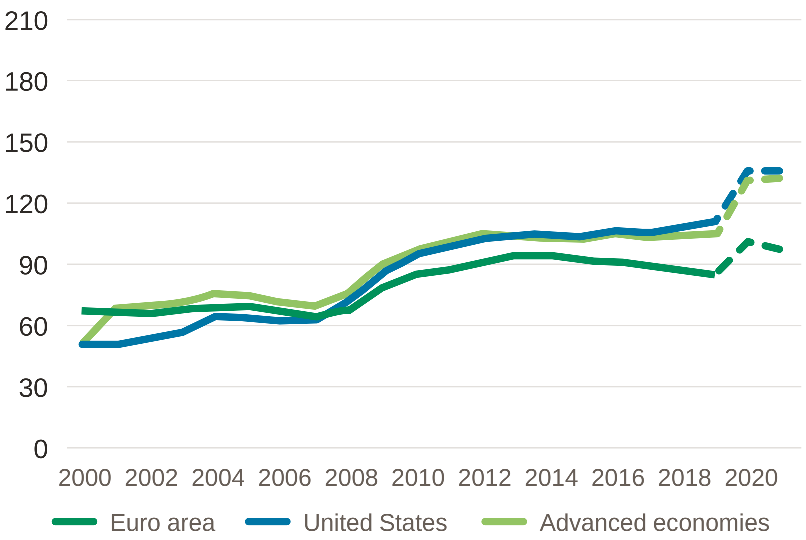

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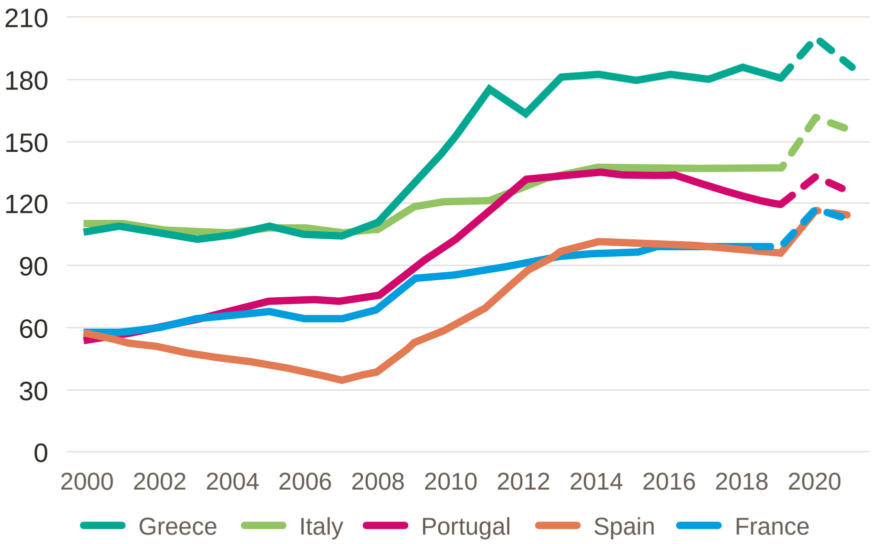


Source: European Commission Economic Forecast Spring 2020. Dashed lines are projections.

SOLVING THE DEBT PROBLEM: THE ORTHODOX WAY

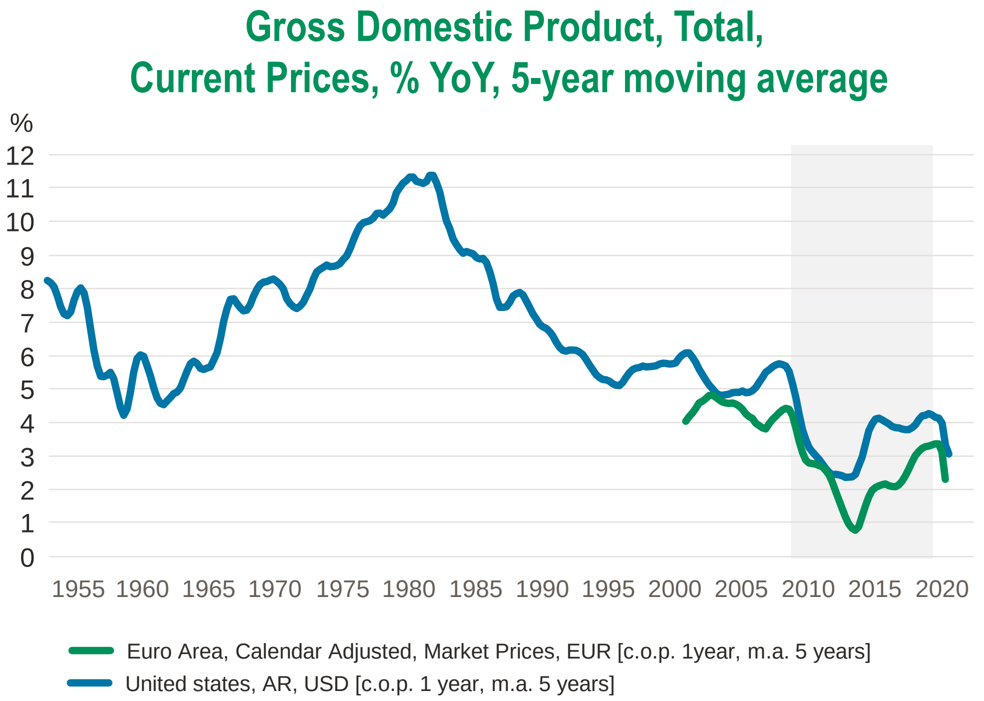
RUN PRIMARY SURPLUSES, INTRODUCE STRUCTURAL REFORMS AND HOPE EASY MONETARY POLICY CAN SUPPORT THE BUDGETARY ADJUSTMENT

SOLVING THE DEBT PROBLEM: THE ORTHODOX WAY

RUN PRIMARY SURPLUSES, INTRODUCE STRUCTURAL REFORMS AND HOPE EASY MONETARY POLICY CAN SUPPORT THE BUDGETARY ADJUSTMENT

Result

- Weakest economic expansion in modern history
- Increased inequality + populism
- Undershooting of inflation targets
- Yields slumped to 700-year lows (= evidence wrong policy mix)



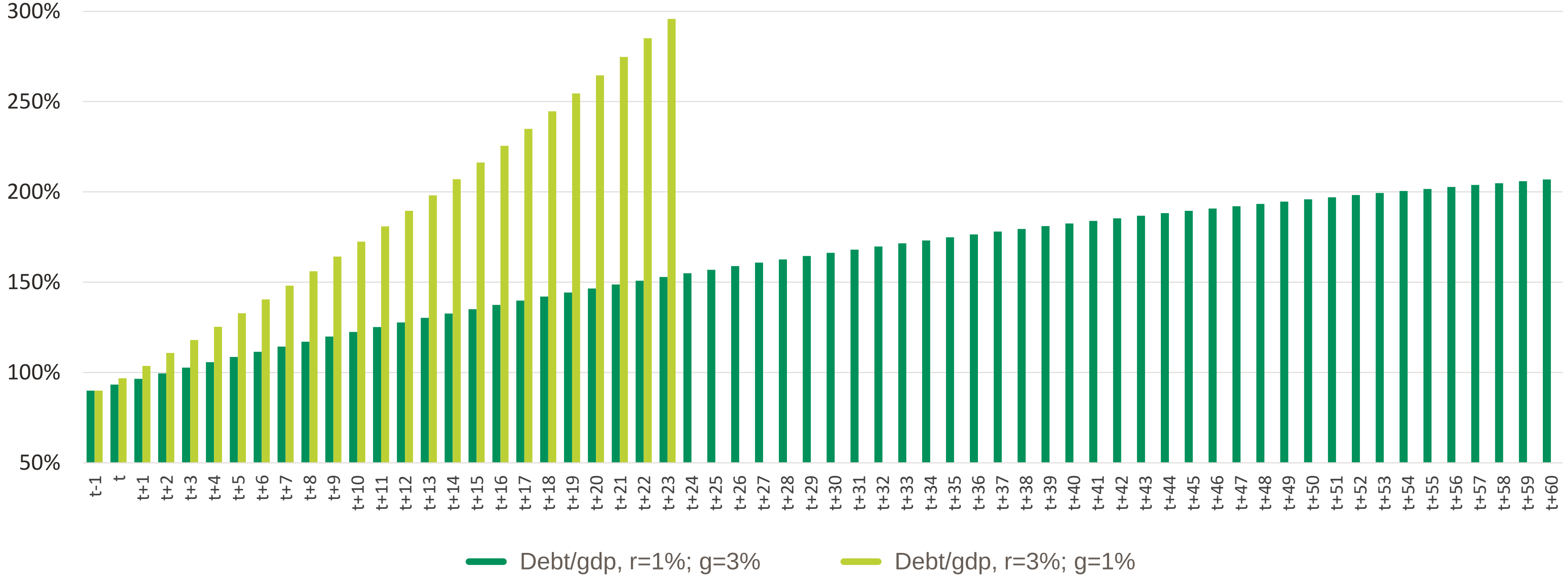
SOLVING THE DEBT PROBLEM: THE UNORTHODOX WAY

Run primary surpluses, introduce structural reforms and hope easy monetary policy can support the budgetary adjustment

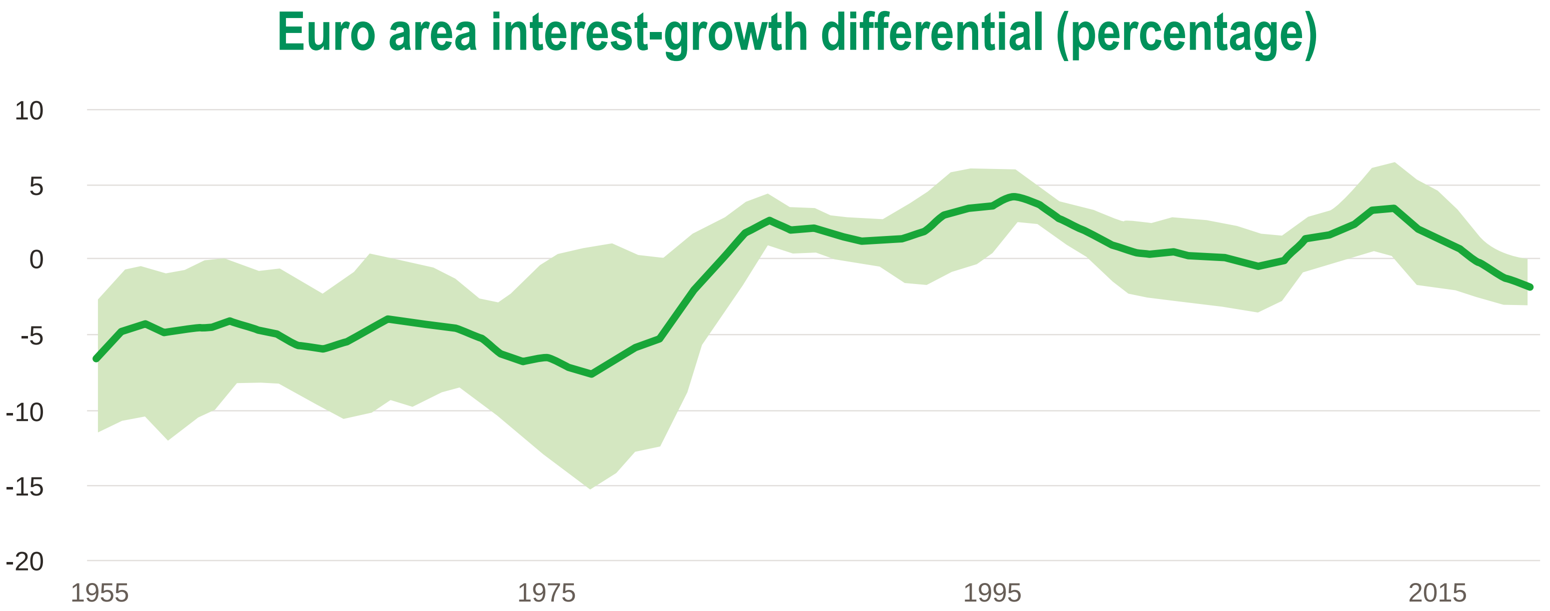
Default on the debt either directly in the form of write-downs, or indirectly via unanticipated inflation and financial repression

SOLVING THE DEBT PROBLEM: R – G IS KEY

Debt to gdp dynamics at yearly 5% deficit: r must be < g to stabilise debt



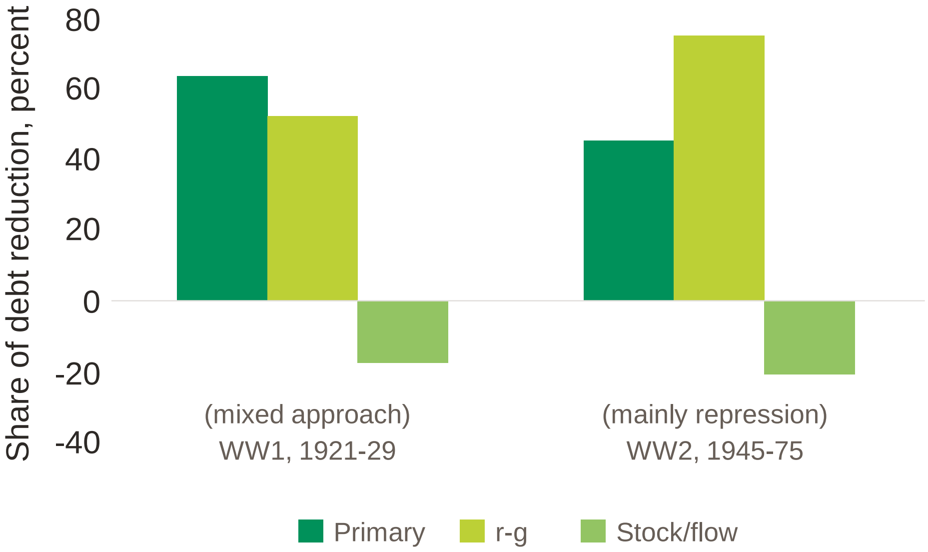
SOLVING THE DEBT PROBLEM: R – G IS KEY



Note: Long-term interest rate on government debt minus nominal GDP growth. The grey band represents the minimum and maximum values among DE, FR, IT and ES.
Source: European Commission's AMECO database and Jorda et al. (2017), "Macrofinancial History and the New Business Cycle Facts", in NBER Macroeconomics Annual 2016, Vol. 31, edited by Martin Eichenbaum and Jonathan A. Parker. Chicago: University of Chicago Press.

SOLVING THE DEBT PROBLEM: THE ORTHODOX VERSUS UNORTHODOX WAY

How they financed the wars



Source: Eichengreen et al (2019)

DEFAULT ON THE DEBT EITHER DIRECTLY IN THE FORM OF WRITE-DOWNS, OR INDIRECTLY VIA UNANTICIPATED INFLATION AND FINANCIAL REPRESSION

Situation 1945-70: supply shock

- Post-war rebuilding + reintegrate military
- Productivity boost wartime tech
- Baby boom

Only occasional bouts of inflation
Yield caps only briefly necessary

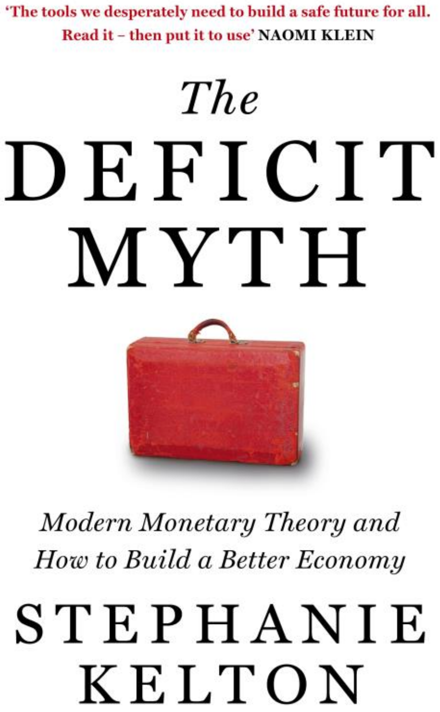
Capital markets closed

Banking sector regulated

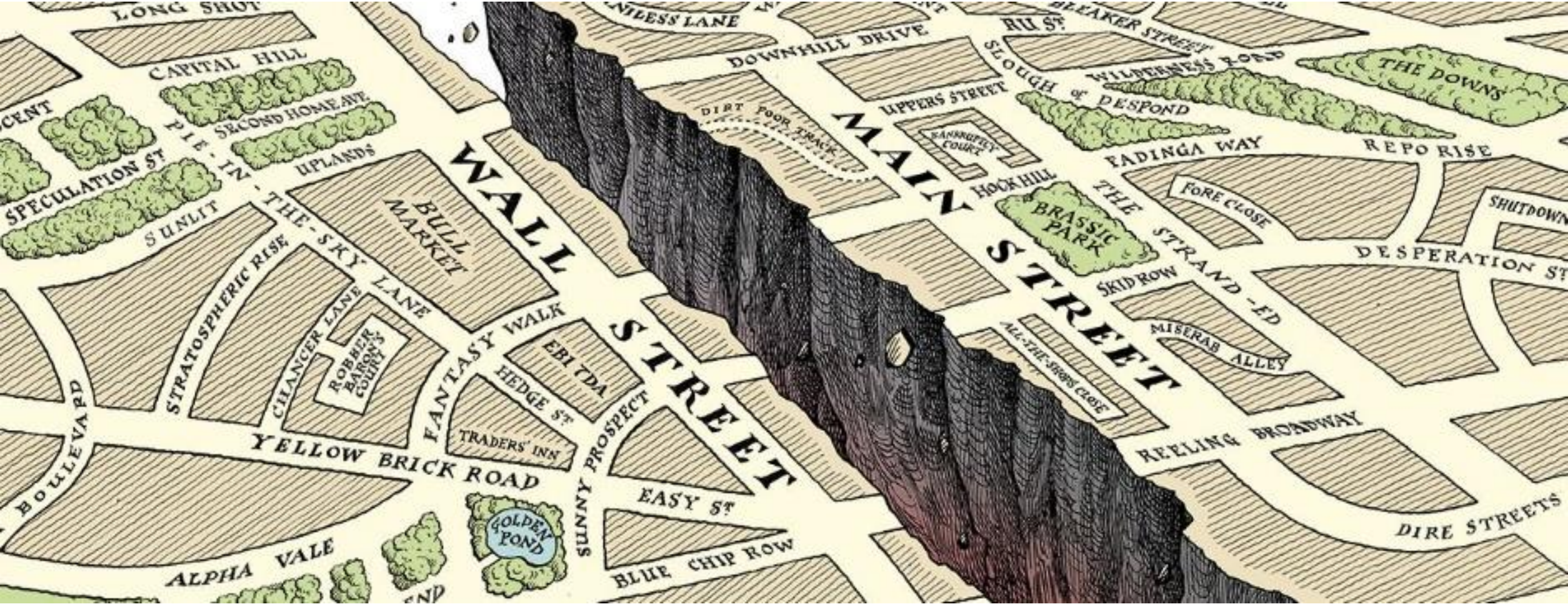
FROM UNORTHODOX TO RADICAL:
MODERN MONETARY THEORY

	Fiscal policy takes responsibility for full employment and price stability	Fiscal takes responsibility for debt sustainability
Monetary policy takes responsibility for price stability and full employment		**Consensus approach** (macroeconomy on track towards equilibrium)
Monetary policy takes responsibility for debt sustainability	**Functional finance approach** (macroeconomy on track towards equilibrium)	

THE MAGIC MONEY TREE



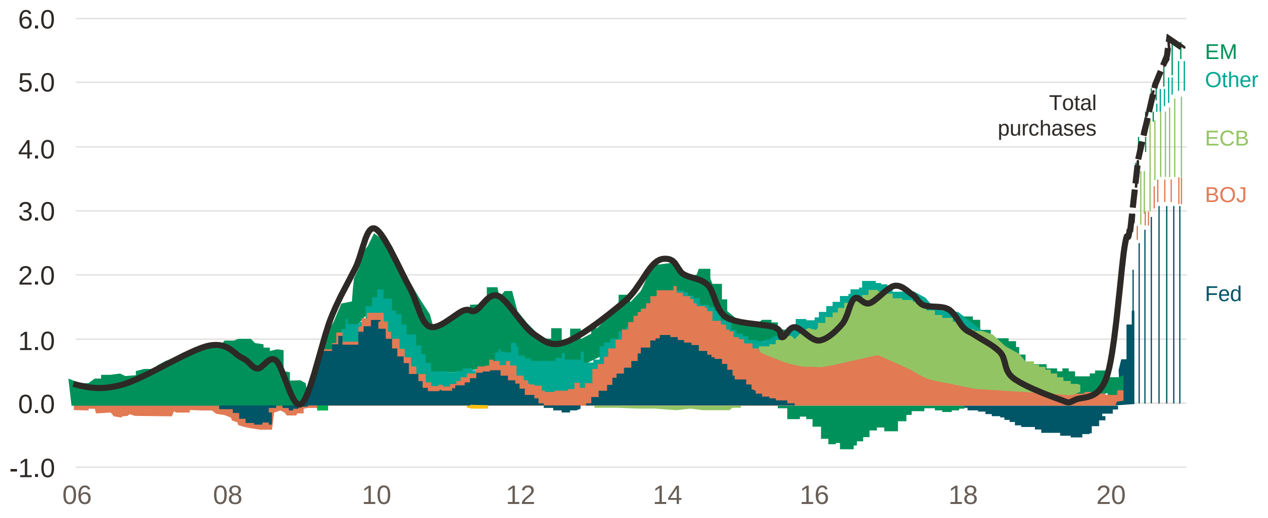
A DANGEROUS GAP



THE GAP BETWEEN THE ECONOMY AND THE MARKET

An unprecedented wave of liquidity…

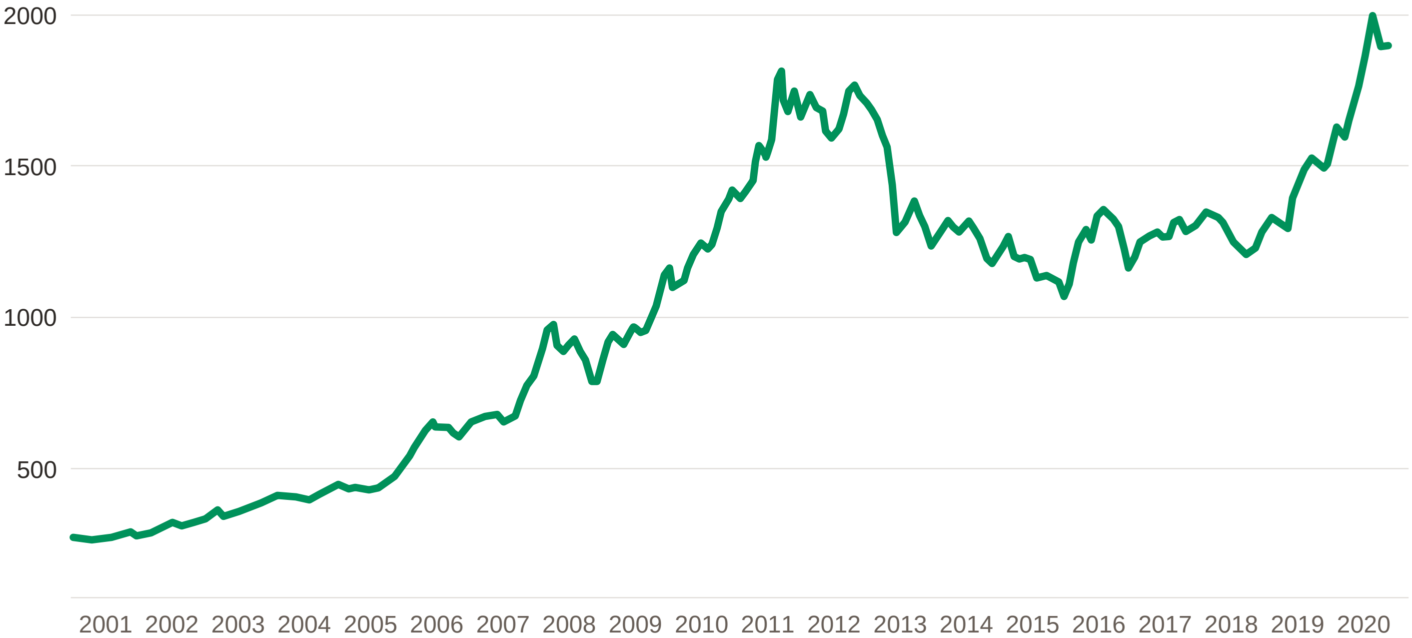
Global central bank securities purchases, 12m rolling, $tn



Source: National central banks, Citi Research. Projections based & CB announcements.

AND A NEW WILD CARD

A REAL ASSETS WORLD



Source: Bloomberg

POST-CORONA WORLD – LISTED REAL ESTATE
RESIDENTIAL REAL ESTATE – OUR FAVORITE SEGMENT

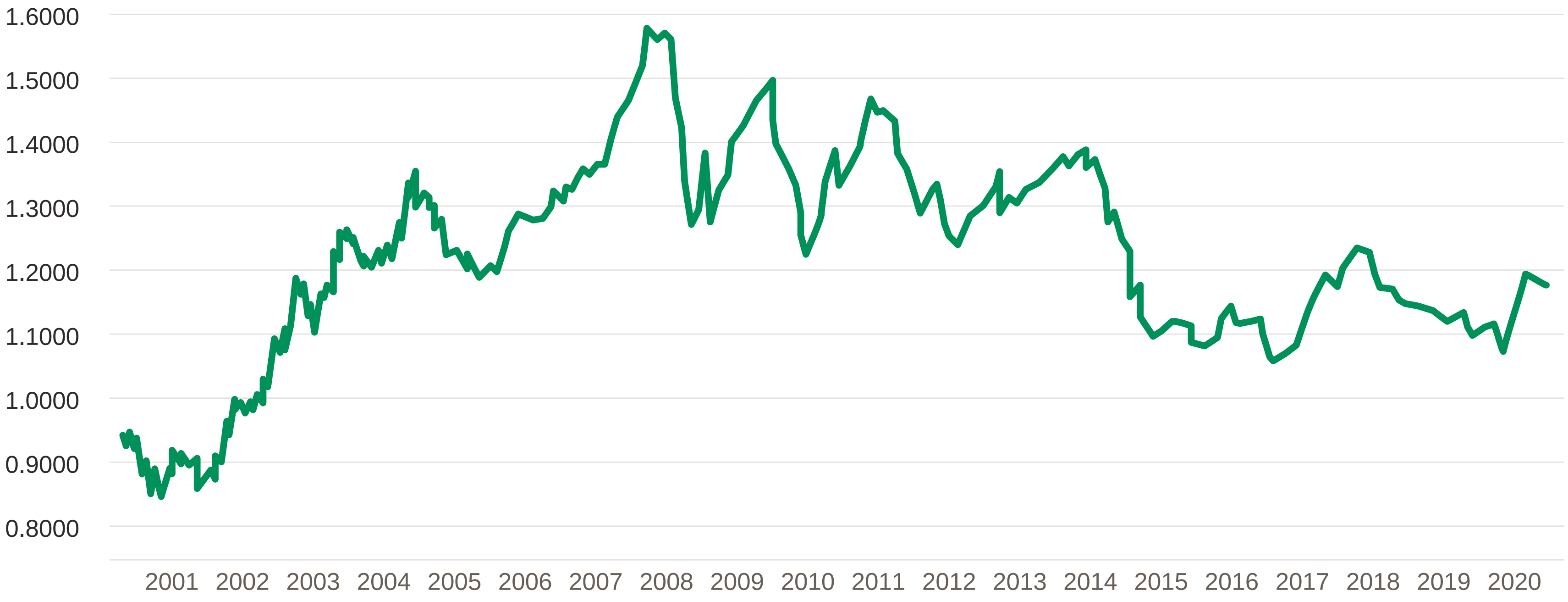
HOME
as an office

HOME
as a classroom

HOME
as a social place

HOME
as a gym

EURUSD



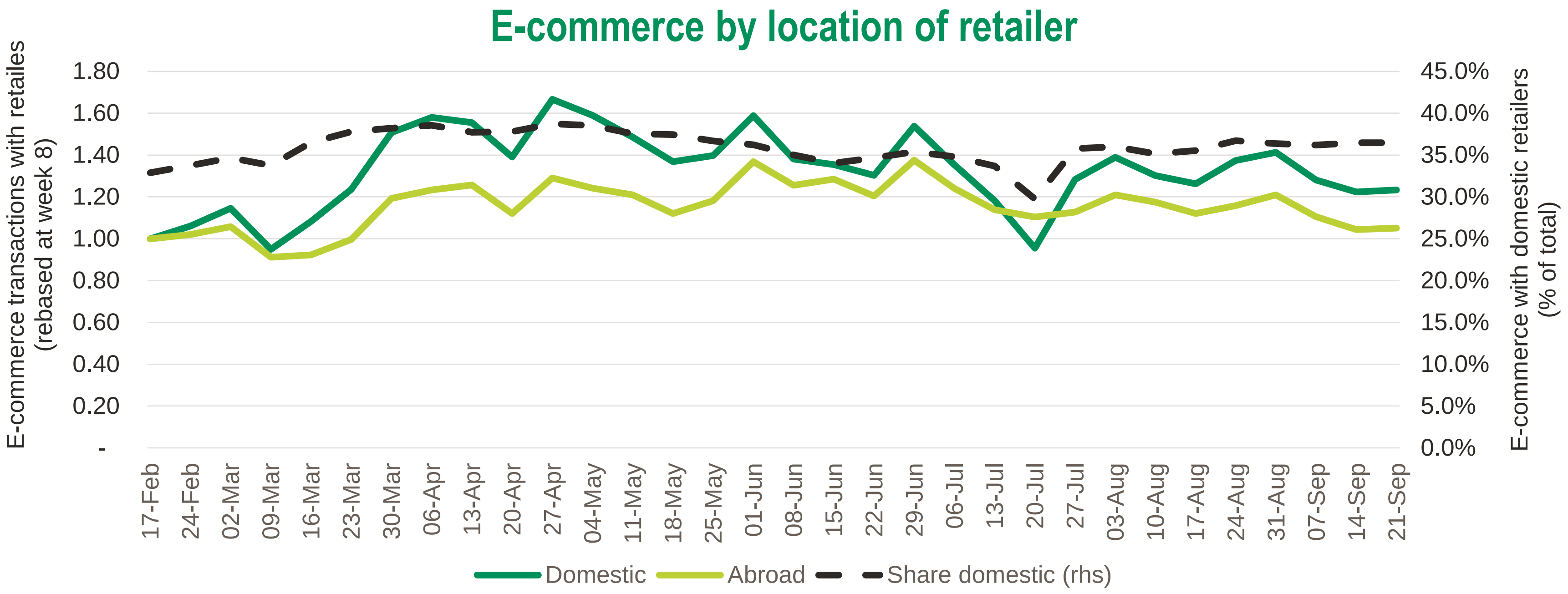
Source: Bloomberg

CHAPTER 5

POST CORONA WORLD (VALUE GROWTH)

#BNPPFOUTLOOK

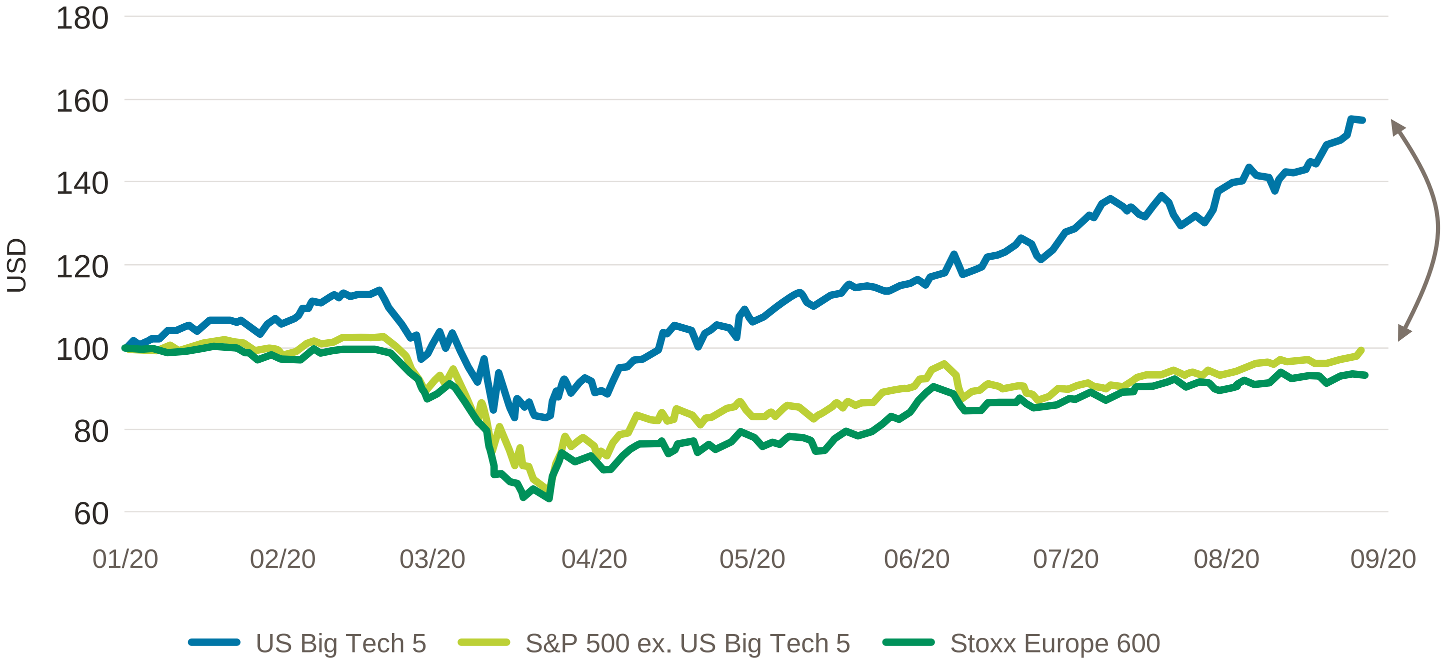
E-COMMERCE HELPS... SOMEWHAT



Source: BNP Paribas Fortis

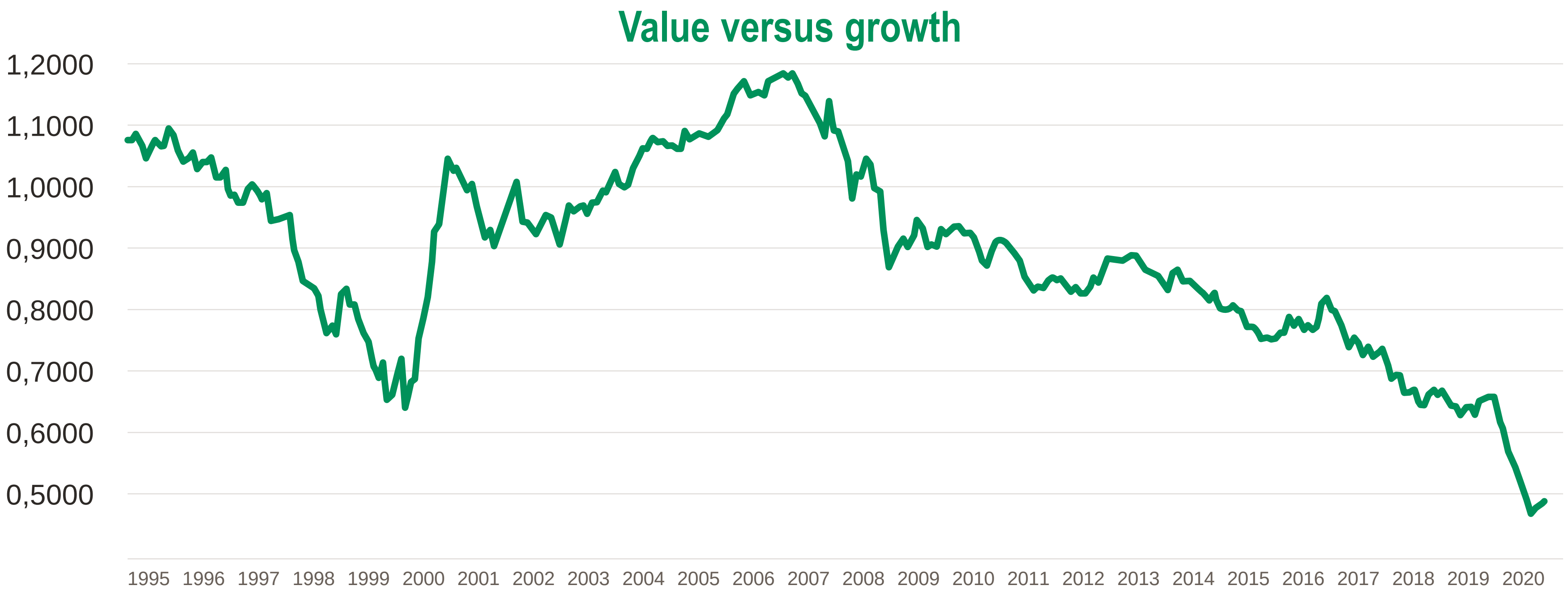
LONG TERM TRENDS AND REAL ASSETS

IS THERE A TECH BUBBLE?



Source: Datastream, Kepler Cheuvreux

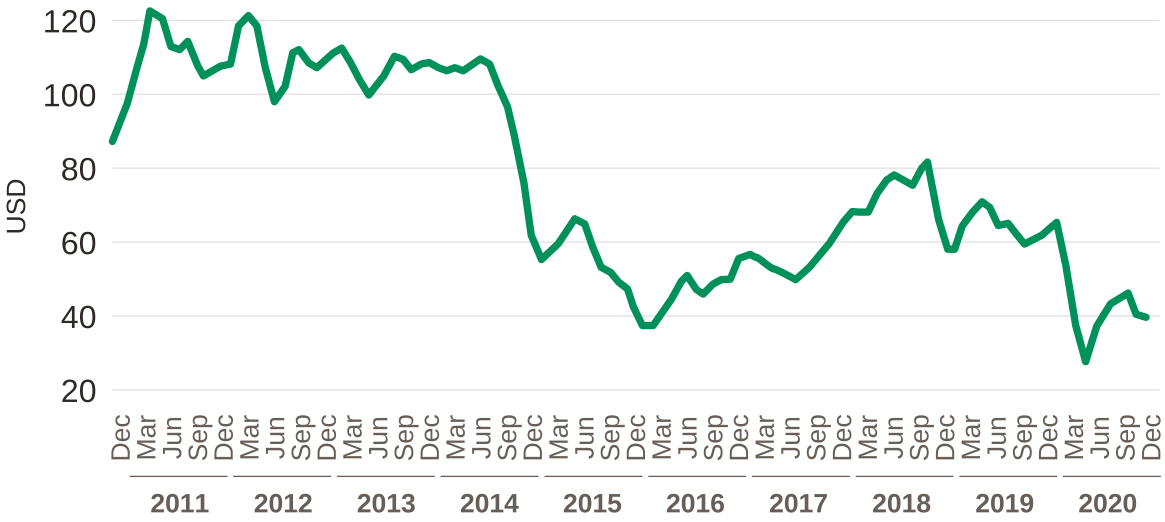
A BARBELL OF TECH AND GROWTH



Source: Bloomberg

ENERGY

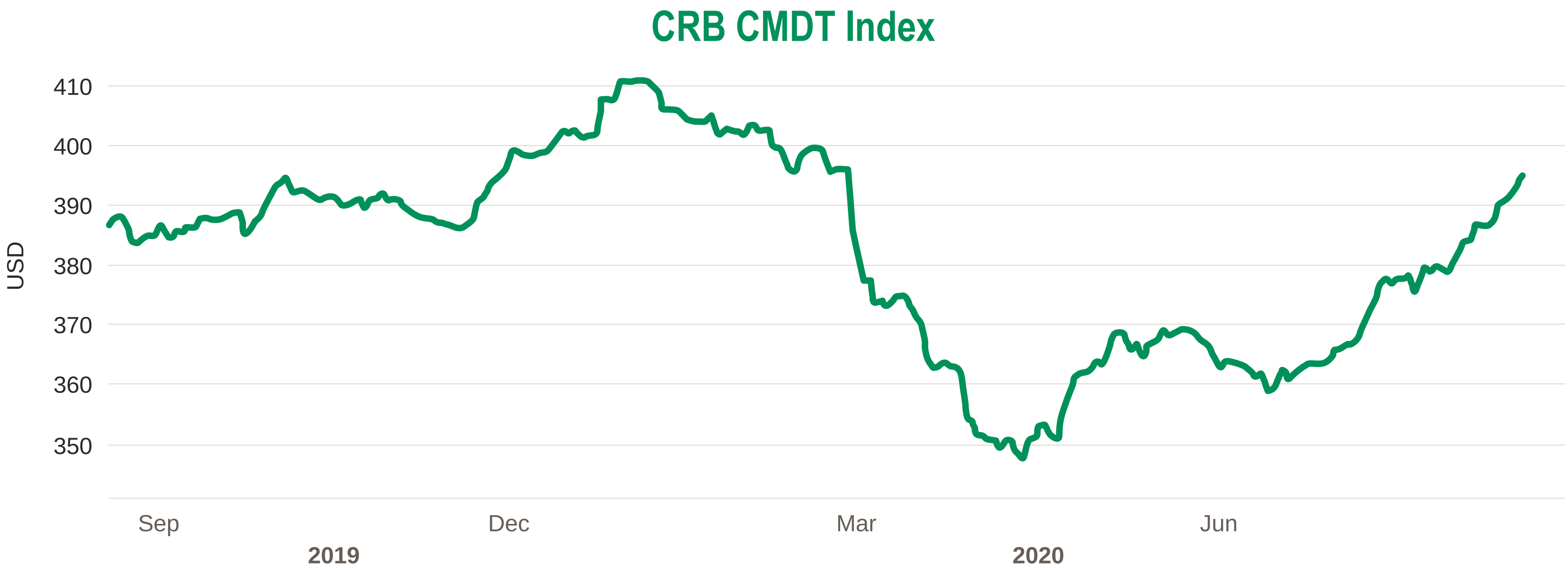
Oil: Production cuts, demand slowly recovers
Green: Accelerating



Source: Bloomberg

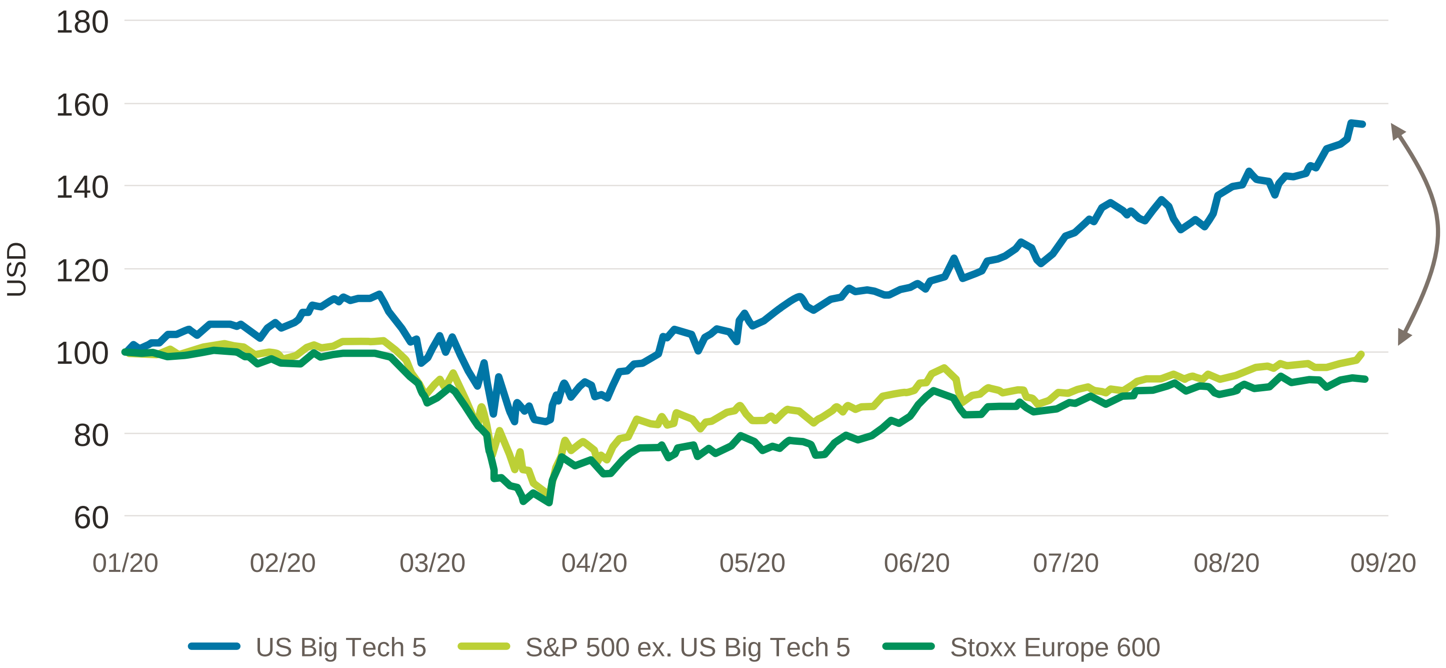
COMMODITY PRICES

Off the lows, but following the stock markets with some delay



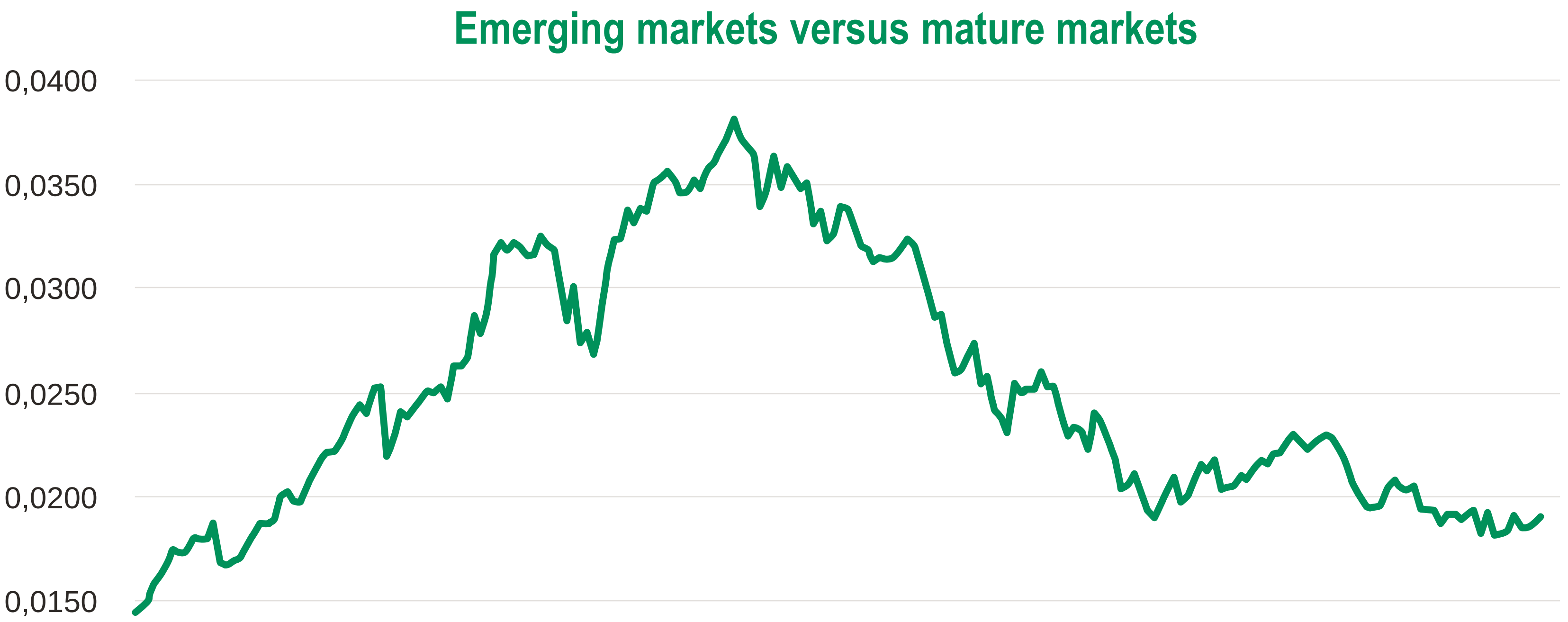
Source: Bloomberg

IS THERE A TECH BUBBLE?



Source: Datastream, Kepler Cheuvreux

WHEN WILL EMERGING MARKETS OUTPERFORM?



Source: Bloomberg

TO (HARD) BREXIT OR NOT TO (HARD) BREXIT…

EURGBP

Brexit is back! Year end target of 0.87, but short term swings not unlikely

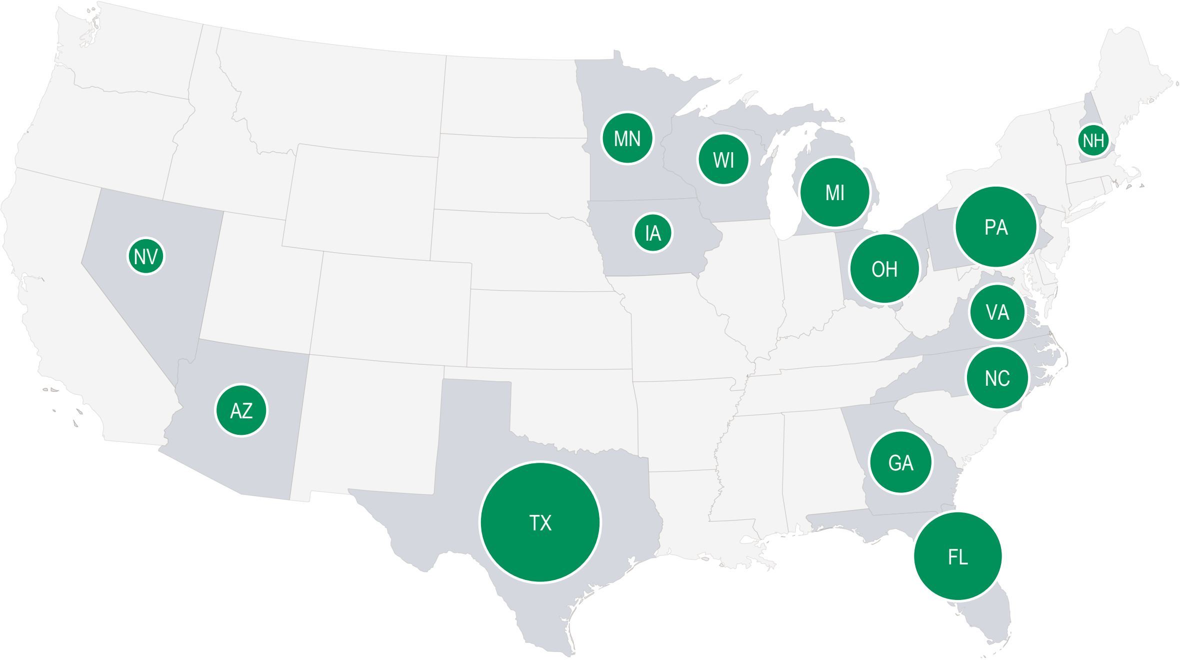
Source: Bloomberg

US ELECTIONS

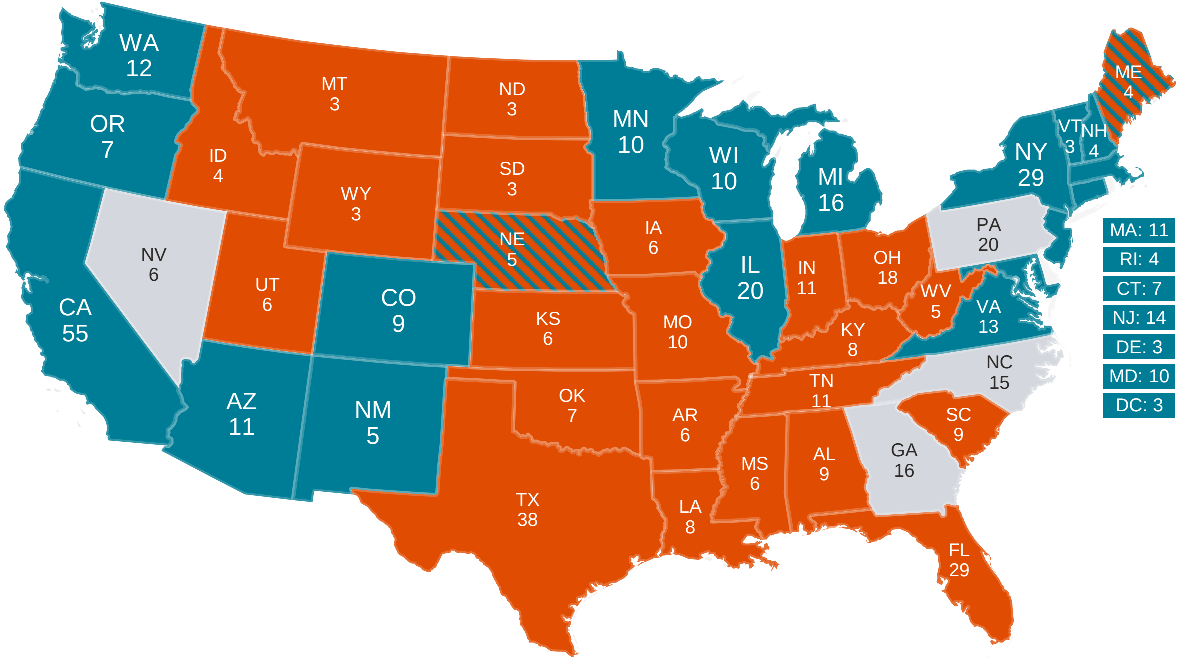
Swing States …. Where the elections really take place

State	Biden	Trump	Who won in 2016?
Arizona	48.2%	44.8%	Trump by 3.6%
Florida	47.8%	46.7%	Trump by 1.2%
Georgia	45.2%	46.5%	Trump by 5.2%
Iowa	46.0%	46.0%	Trump by 9.5%
Michigan	49.2%	44.0%	Trump by 0.2%
Minnesota	50.4%	41.0%	Clinton by 1.5%
Nevada	49.0%	43.7%	Clinton by 2.4%
New Hampshire	48.0%	42.5%	Clinton by 0.4%
North Carolina	47.0%	46.2%	Trump by 3.7%
Ohio	49.0%	45.7%	Trump by 8.2%
Pennsylvania	49.6%	43.9%	Trump by 0.7%
Texas	44.6%	48.2%	Trump by 9.1%
Virginia	51.3%	40.3%	Clinton by 5.4%
Wilsconsin	49.8%	44.3%	Trump by 0.8%

Source: Real Clear Politics



US ELECTIONS



Source: CNN

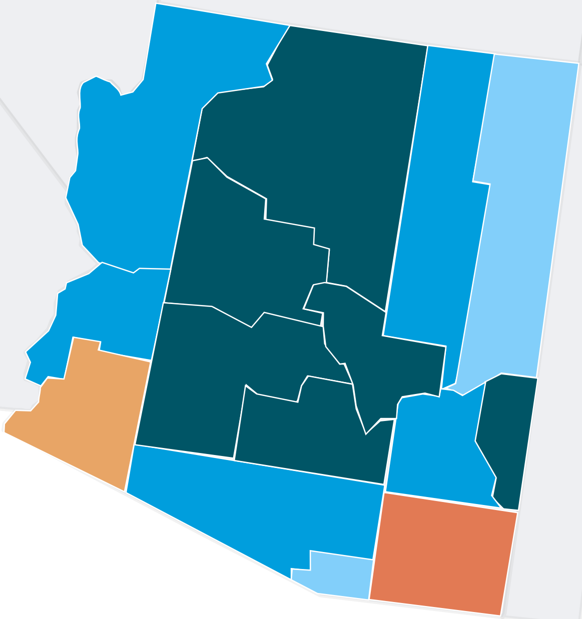
DEMOGRAPHICS FAVORING THE DEMOCRATS

DEMOCRATIC GAINS

Democratic Sen. Kyrsten Sinema performed better than Hillary Clinton in all but two Arizona countries in her 2018 victory.

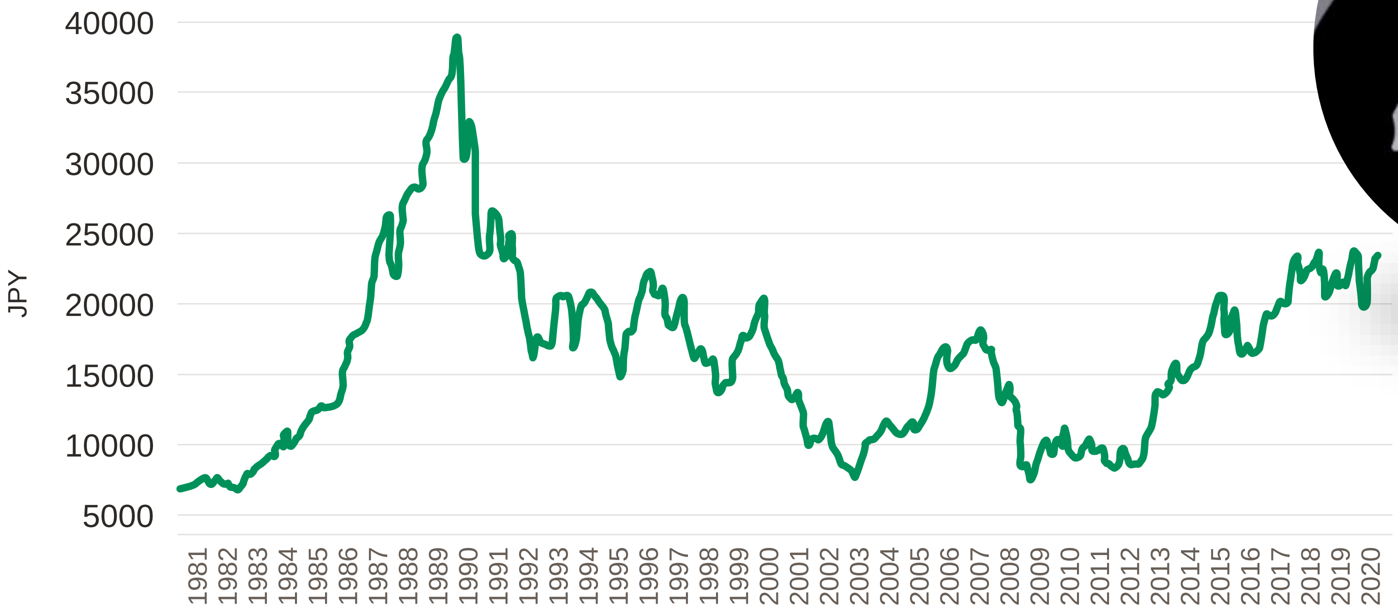
Change in Democratic vote share between 2016 presidential and 2018 Senate elections

-5 -2.5 0 +2,5 +5 +7.5
ppts



VALUE IN JAPAN?

Nikkei 225



Source: Bloomberg

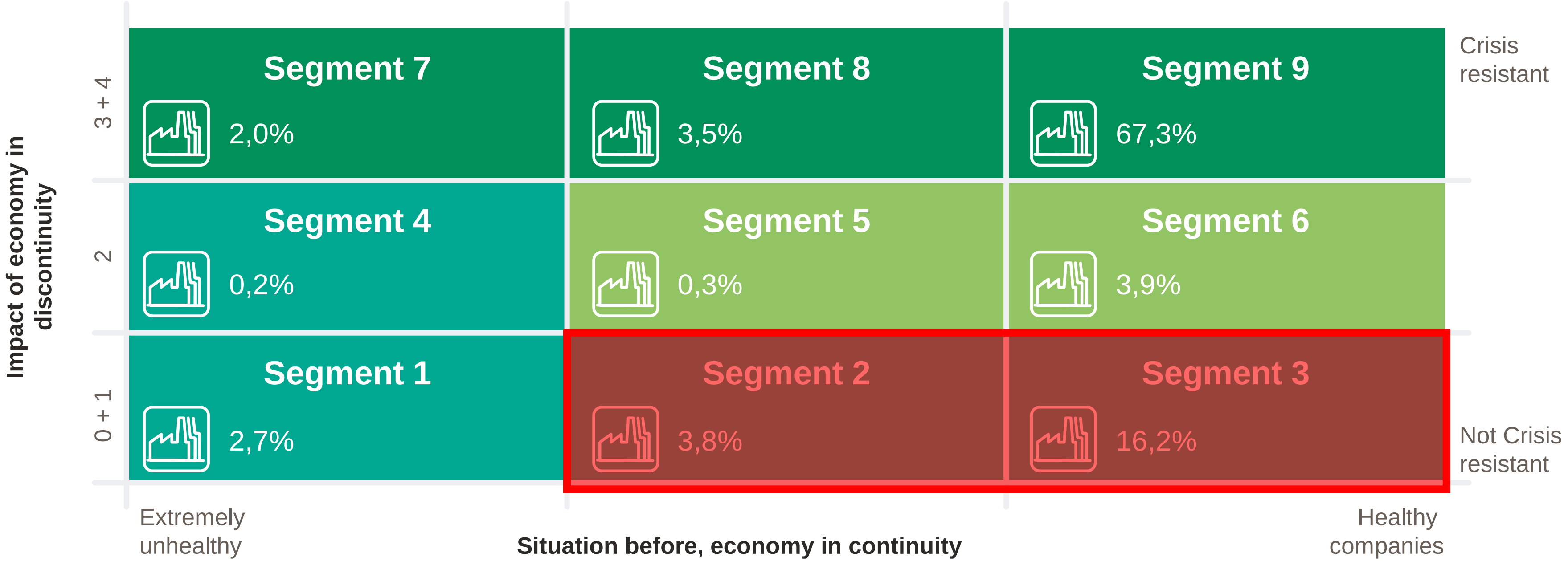
CHAPTER 6
BELGIUM

OUTLOOK

Components of growth	2019	2020[1]	2021[2]	Back at Q4 2019
Total GDP	1,7	-7,2	3,8	Q4 2022
Private consumption	1,5	-8,1	7,4	Q3 2021
Public consumption	1,7	-1,6	4,1	Q3 2020
Fixed investment	3,4	-12,2	4,7	> 2022
Exports	1,0	-5,3	12,8	Q4 2021
Imports	0,8	-5,8	13,9	Q4 2021

(1) Estimate
(2) Forecast

IMPACT OF THE COVID-19 CRISIS AND SUPPORT MEASURES (9-GRID RESULTS)



Sources: Graydon

IMPACT OF THE COVID-19 CRISIS **AND SUPPORT MEASURES** (9-GRID RESULTS)

Employees | Injection need

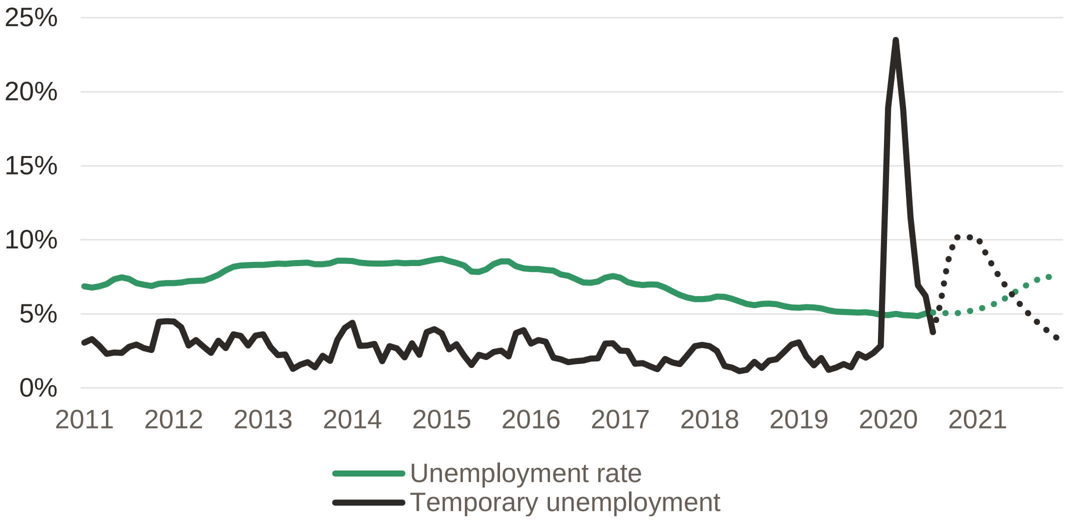
Impact of economy in discontinuity	Extremely Unhealthy		Healthy companies	
3 + 4	**Segment 7** Employees: 89.251	**Segment 8** Employees: 45.450	**Segment 9** Employees: 2.372.483	Crisis resistant
2	**Segment 4** Employees: 3.393 Injection need: 774 Million	**Segment 5** Employees: 4.688 Injection need: 346 Million	**Segment 6** Employees: 99.573 Injection need: 7 Billion	
0 + 1	**Segment 1** Employees: 32.426 Injection need: 2 Billion	**Segment 2** Employees: 39.894 Injection need: 2 Billion	**Segment 3** Employees: 308.065 Injection need: 68 Billion	Not Crisis resistant

Situation before, economy in continuity

Sources: Graydon

TEMPORARY UNEMPLOYMENT

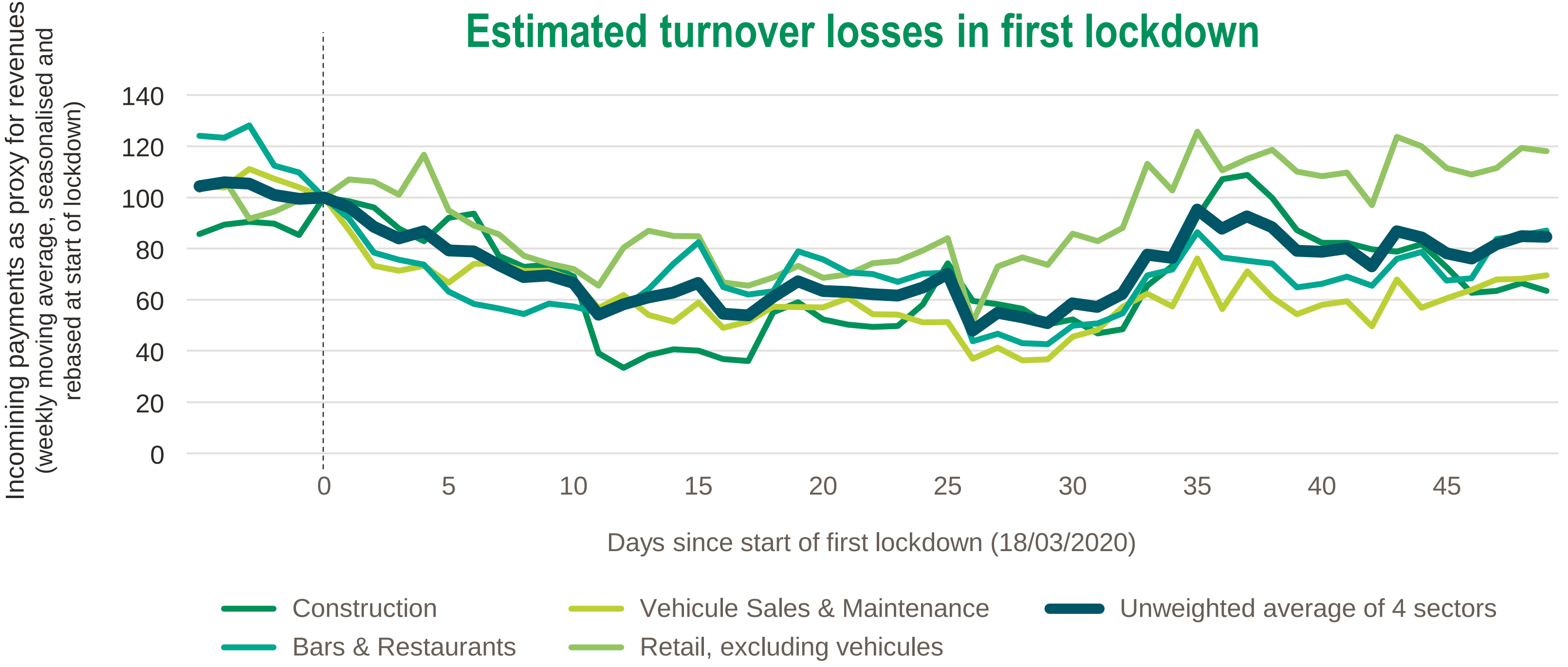
% unemployment rate & temporary unemployment



Unemployment rate	2020	2021	2022
Full year	5,1%	6,2%	7,1%
Q1	5,0%	5,2%	7,4%
Q2	5,0%	5,6%	7,2%
Q3	5,1%	6,5%	7,0%
Q4	5,0%	7,3%	6,8%

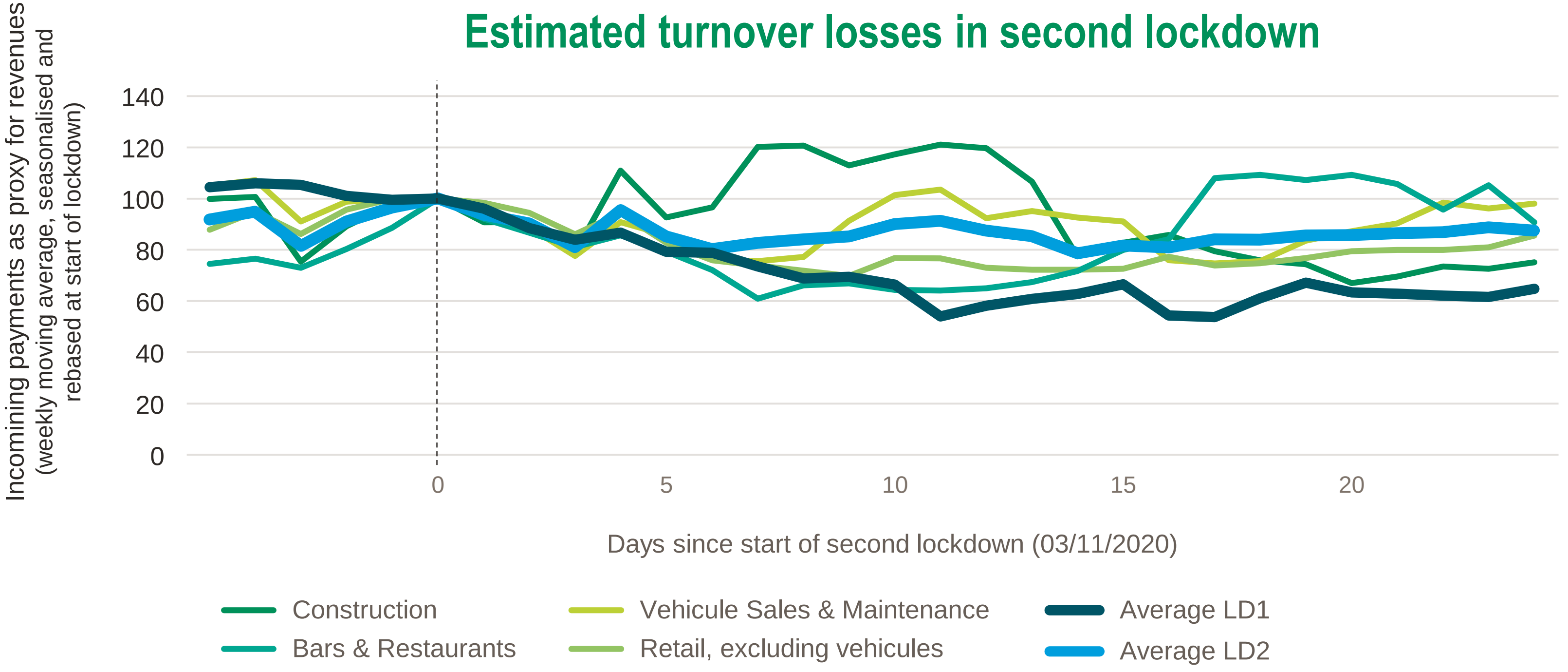
Source: NBB, RVA, BNP Paribas Fortis

REAL TIME – FIRST LOCKDOWN



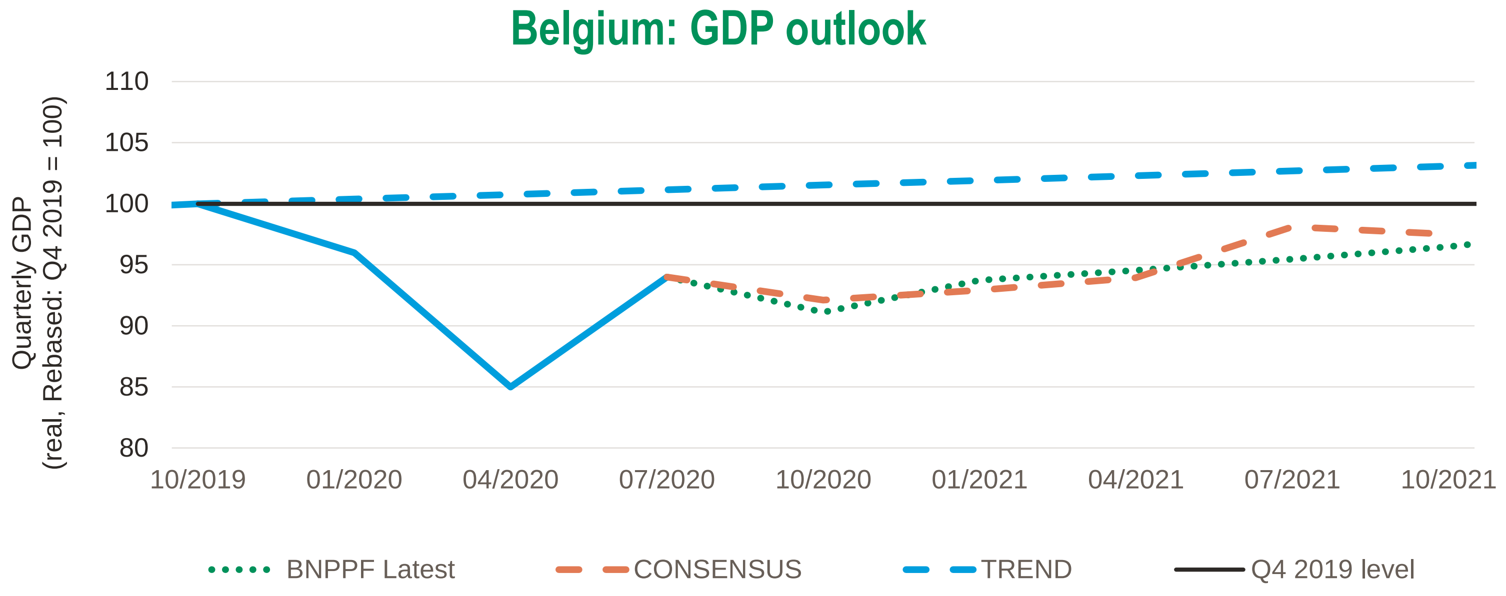
Source: BNP Paribas Fortis

REAL TIME – SECOND LOCKDOWN



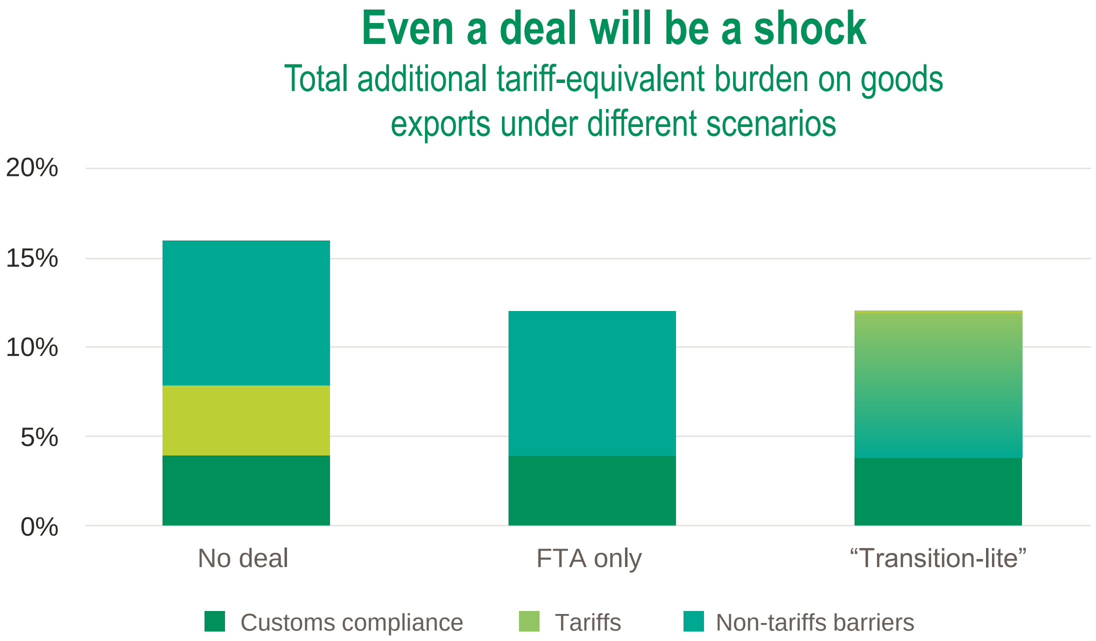
Source: BNP Paribas Fortis

BELGIUM: GDP OUTLOOK



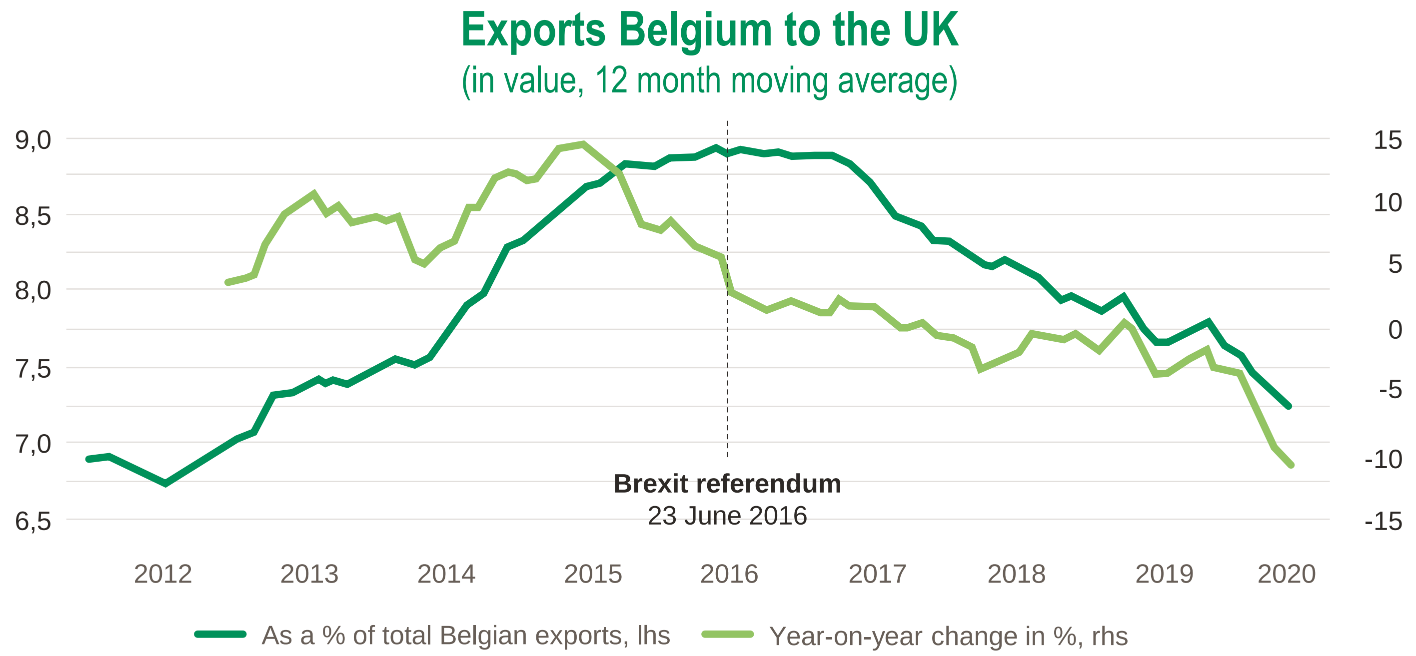
Source: BNP Paribas Fortis, NBB, Focus-Economics

BREXIT COSTS



Sources: European Commission, University of Sussex, various academic sources

IT'S ALREADY HAPPENING



Source: NBB

PROSPECTS

GDP growth (YoY%)	2020	2021	2022
World	-4,0	5,6	4,0
USA	-3,6	3,7	3,2
China	2,0	8,6	5,3
Eurozone	-7,5	5,6	3,9
Belgium	-7,2	3,8	3,8
EURUSD (eoy)	1,19	1,25	1,30
Eurozone ECB	-0,5%	-0,5%	-0,5%
Fed funds target	1,75%	0,1%	0,1%
German Bunds 10Y	-0,55%	-0,20%	0,10%
Brent oil (USD, eoy)	44	59	

Source: BNP Paribas Fortis

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