

MAKING SENSE OF *THIS* WORLD

22 March 2021



R&R Weekly Column
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Nordic Countries Still Top World Happiness Indices

According to the latest IMF figures, [the global economy lost 4.4% of gross domestic product](#) (GDP) in 2020, as a result of the impact of the Covid-19 virus. This loss in income, however, only measures a fraction of the damage and pain inflicted on the global economy and the world's population by the pandemic. We have discussed several times [in this column](#), and more recently [in an in-depth report](#), how the real impact of the pandemic will need to be evaluated over a number of years to come. We will need to take into account the lasting costs resulting from the loss of economic opportunity and social interaction, the damage inflicted to education and younger generations, and the imbalances in mental health caused by several rounds of lockdown and forced captivity for a social animal such as we are.

After all, income is only a portion of what general welfare is. Economics, back when the discipline was not yet independent from other social sciences, including philosophy, actually got off to a good start in recognizing this fact. Adam Smith, who can be considered the founding father of the discipline, wrote a treaty on the [Theory of Moral Sentiments](#), the aim of which was to describe the motivations behind economic interactions among individuals. Karl Marx, who first theorised the [social struggle](#), the theory of labour value and the conditions of proletariat, was a Hegelian philosopher. John Maynard Keynes wrote memorable pages discussing the [animal spirits behind human decisions to invest, save or consume](#). Even the drier, dominant neo-classical economics put "welfare" and "utility" as the objectives to be maximised by atomistic individuals, or by society as a whole.

When the theorists of "market fundamentalism" took over the discipline in the 1970-80s, [economics became dominated by mathematics](#), and policy-making became dominated by [loss functions](#) expressed in terms of deviations from economic potential and inflation targets. Estimating "welfare," "utility," and -why not- "happiness" was considered far too complicated; market participants, policy makers and economic agents had instead to use proxies such as disposable per-capita income, and other similar statistics. In so doing, we lost the essence of policy-making and economics (itself already labelled [the "dismal science"](#)) which is not the pursuit of maximising incomes, but rather human welfare, or happiness.

Several indicators of this difficult-to-define concept of welfare have been developed over the years. Some took into account, for example, the environmental sustainability of economic actions and their social impact and implications. It is worth mentioning here the work done by Joseph Stiglitz, Amartya Sen, and Jean-Paul Fitoussi on the ["Measurement of Economic Performance and Social Progress"](#), and by Richard Layard from the London School of Economics aimed at ["making personal happiness and wellbeing a goal of public policy."](#)


More recently, [a World Happiness Report](#) has been developed by a group of academic and social organisations, starting from the results of the Sustainable Development Solutions Network (SDSN) and The Center for Sustainable Development at Columbia University, directed by Jeffrey D. Sachs. Its [9th edition, for 2021](#), has just been released. Not surprisingly, alongside indicators of economic performance and employment, a number of other indicators of environmental sustainability, social cohesion and inclusion, family support, and other such variables have been used to measure the "happiness" of countries. The report also uses data from Gallup surveys on quality of life self-evaluations, and on the frequency of experiencing positive and negative emotions.

Looking at the ranking, one immediately sees that nine of the first ten positions on the list are occupied by European countries, with only New Zealand, ranked ninth entering the top ten outside Europe. Among those European countries, once again Nordic countries take the lion's share, behind Finland, which was confirmed as the world's "happiest" country for the third consecutive year. So, we find Finland, Iceland, Denmark, Sweden and Norway occupying positions 1, 2, 3, 6 and 8, respectively. "Germanic" countries are also well placed, with Switzerland, the Netherlands, Germany, and Austria occupying positions 4, 5, 7 and 10 on the list.

Among the continental economies, the US does not perform badly, with a well respectable 14th rank, while China does very poorly, featuring only 52nd. *La joy the vivre* puts France 20th, while Italy's *dolce vita* places the country 25th.


What we learn from this report is that a mix of economic and technological development, social inclusion and cohesion, excellent public services, fairness, lack of corruption and – more recently – a positive response to the Covid pandemic are key factors behind countries' happiness. European Nordic countries, once again, offer the world an example to follow.

Our Recent Publications

 [Flash Review: BOJ Remains Highly Accommodative While Tweaking Its Policy Strategy](#), by Brunello Rosa and Karmen Meneses, 19 March 2021

 [Flash Review: Bank of England Stays Put in March](#), by Brunello Rosa and Fawaz Sulaiman Al Mughrabi, 18 March 2021

 [Flash Review: The Fed Defies Rising Yields by Pledging to Remain Highly Accommodative](#), by Brunello Rosa, 17 March 2021

 [Flash Preview: US Federal Reserve To Pledge Continued Accommodation To Push Back Against Inflation and Tantrum Scares and Excessively Rapid Rise In Yields](#), by Nouriel Roubini, Brunello Rosa and Alessandro Magnoli Bocchi, 15 March 2021

Looking Ahead

The Week Ahead: Manufacturing PMI Data Is Expected To Rise In Both The US And The EZ

In the US, in February, PMI data for: *i*) manufacturing is expected to increase to 59.4 (*p*: 57.9); and *ii*) services is seen to rise to 60.2 (*p*: 59.8).

Still in the US, February's PCE price index is expected to rise to 1.6% y-o-y (*p*: 1.5%); while core-PCE prices are expected to stay unchanged at 1.5%.

In the EZ, in March: *i*) manufacturing PMI is expected to increase to 58.1 (*p*: 54.7); while *ii*) services are likely to remain subdued at 46.0 (*p*: 45.7).

The Quarter Ahead: Vaccines Reach 133 Countries, Supporting The Recovery; CBs On Hold

Over the next two years, the global economy will recover, as: 1) vaccines contain the coronavirus; 2) fiscal policy provides support, especially in the US; and 3) monetary policy remains accommodative even as growth rebounds, containing DM bond yields.

In the US, the country administered its 100 millionth COVID-19 vaccine dose 59 days into Biden's first 100 days in office – a sign of both: *i*) increased supply from vaccine manufacturers, helped by the arrival of a third vaccine, the one-shot vaccine from Johnson & Johnson, which drastically upped the country's supply in March; and *ii*) increased efficiency from state and local health departments.

The US Fed pledged to maintain a highly accommodative stance, while “not extending past March 31 the relief from the supplementary leverage ratio”, *de facto* ending banks' “capital break”, i.e. the “flexibility in what assets they can hold to meet regulatory requirements”.

In Alaska, US and Chinese officials exchanged sharp rebukes in the first high-level talks between the Biden administration and Chinese officials, who accused the US of “inciting countries to attack China”.

After 13 European countries suspended use of the vaccine over fears of a link to blood clots, the European Medicines Agency (EMA) reviewed the jab and found it “not associated” with a higher risk of clots. While Germany, France, Italy, and Spain resumed using the jab, Sweden said it needed a “few days” to decide.

Last Week's Review

Real Economy: Global Recovery Prospects Lifted By Vaccine Deployment And Fiscal Stimuli

In the US, February's retail sales shrank by -3.0% m-o-m (*c*: 0.5%; *p*: 7.6%), marking the biggest decline since the record drop of April 2020, as a result of: *i*) unusually cold weather; and *ii*) winter storms in Texas and other parts of the southern region. February's IP dropped to -4.2% y-o-y (*p*: -2.0%), marking the 18th consecutive fall of industrial output.

In the EZ, March's ‘economic sentiment’ rose by 4.4 pts to 74.0 (*p*: 69.6), the highest reading since February 2004. In addition, the component assessing the ‘current economic situation’ rose by 4.8 pts to -69.8, while ‘inflation expectations’ increased by 8.8 pts to 80.6.

In the US, UK and Norway, during their monetary policy meetings, the Fed (0.25%), BoE (0.10%) and Norges (0.0%) kept their interest rates unchanged.

In the US, due to the: 1) approval of President Biden's USD 1.9tn recovery package; and 2) ongoing COVID-19 vaccination program, the Fed revised up its GDP forecasts for 2021 (to 6.5%) and 2022 (to 3.3%).

In Turkey, after the CBT raised its policy rate above-consensus by 200bps to 19.0% (*p*: 17.0%), President Erdogan removed the CB governor – the third in less than two years – and replaced him with an advocate of lower interest rates.

Financial Markets: Stocks Fell, As Investors Maintained Their Focus On Rising Bond Yields; Gold Rose

Market drivers: investor sentiment fell as bond yields reached their highest levels in over a year. CBs maintained their dovish policy stance to support the economic recovery, as concerns about a resurgence in coronavirus infections in some countries limited upside.

Global equities: closed lower w-o-w (MSCI ACWI, -0.5%, to 671). In the US, the S&P 500 Index fell (-0.8%, to 3,913), as the Fed's decision not to extend its “capital break” for banks triggered: *i*) a rise in bond yields; and *ii*) a sell-off in financial stocks; following the policy announcement, JPMorgan, Wells Fargo, and Bank of America slid more than 3%. In the EZ, shares rose slightly (Eurostoxx 50, +0.1%, to 3,837).

Fixed Income: w-o-w global bonds declined (BAML Global, -0.2% to 290.9), as bond traders looked past mixed economic data and focused instead on the potential for higher inflation; longer-term UST yields increased for the week (+10 bps, to 1.73%).

FX: w-o-w, the USD rose against other currencies (DXY, +0.3%, to 91.919; EUR/USD -0.4%, to 1.190).

Commodities: Oil prices fell (Brent, -6.8% to 64.5 USD/b), on renewed global demand concerns. Gold rose (+1.1% to 1,745 USD/Oz), after the US Fed maintained an ultra-loose monetary policy.



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Abbreviations, Acronyms and Definitions

a	Actual	LN	Northern League, Italy
AKP	Justice and Development Party, Turkey	MSS	Five Star Movement, Italy
ann.	annualized	m-o-m	Month-on-month
ARS	Argentinian Peso	mb	Million barrels
avg.	Average	mb/d	Million barrels per day
bn	Billion	MENA	Middle East and North Africa
BoC	Bank of Canada	MHP	Nationalist Movement Party, Turkey
BoE	Bank of England	mn	Million
BoJ	Bank of Japan	MPC	Monetary Policy Committee
bpd	Barrels per day	NAFTA	North-American Free Trade Agreement
bps	Basis points	NATO	North Atlantic Treaty Organization
BS	Balance sheet	OECD	Organization for Economic Cooperation and Development
c	Consensus	Opec	Organization of Petroleum Exporting Countries
C/A	Current account	p	Previous
CB	Central bank	P2P	Peer-to-peer
CBB	Central Bank of Bahrain	PBoC	People's Bank of China
CBK	Central Bank of Kuwait	PCE	Personal Consumption Expenditures
CBT	Central Bank of Turkey	PE	Price to earnings ratio
CDU	Christian Democratic Union, Germany	PM	Prime minister
CNY	Chinese Yuan	PMI	Purchasing managers' index
CPI	Consumer Price Index	pps	Percentage points
DJIA	Dow Jones Industrial Average Index	pw	Previous week
DJEM	Dow Jones Emerging Markets Index	QCB	Qatar Central Bank
d-o-d	Day-on-day	QAR	Qatari Riyal
DXY	US Dollar Index	QE	Quantitative easing
EC	European Commission	q-o-q	Quarter-on-quarter
ECB	European Central Bank	RE	Real estate
ECJ	European Court of Justice	RBA	Reserve Bank of Australia
EIA	US Energy Information Agency	RRR	Reserve Requirement Ratio
EM	Emerging Markets	RUB	Russian Rouble
EP	European Parliament	SWF	Sovereign Wealth Fund
EPS	Earnings per share	tn	Trillion
EU	European Union	TRY	Turkish Lira
EUR	Euro	UAE	United Arab Emirates
EZ	Eurozone	UK	United Kingdom
Fed	US Federal Reserve	US	United States
FOMC	US Federal Open Market Committee	USD	United States Dollar
FRB	US Federal Reserve Board	USD/b	USD per barrel
FX	Foreign exchange	UST	US Treasury bills/bonds
FY	Fiscal Year	VAT	Value added tax
GCC	Gulf Cooperation Council	VIX	Chicago Board Options Exchange Volatility Index
GBP	British pound	WTI	West Texas Intermediate
GDP	Gross domestic product	WTO	World Trade Organisation
IMF	International Monetary Fund	w	Week
INR	Indian Rupee	w-o-w	Week-on-week
IPO	Initial public offering	y	Year
IRR	Iranian Rial	y-o-y	Year-on-year
JPY	Japanese yen	y-t-d	Year-to-date
k	thousand	ZAR	South African Rand
KSA	Kingdom of Saudi Arabia	2y; 10y	2-year; 10-year



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