Simon Ward, Economic Adviser at Janus Henderson, provided his macro-economic outlook to clients this week. One of the key takeaways was his prediction that there would be a 5% increase in inflation in 2021, which will mark the beginning of a multi-year upswing:

"The current economic message is still positive, so assuming a successful roll-out of vaccines, I expect the global economy to grow strongly next year. However, I am concerned that this strength will be accompanied by a significant pick-up in inflation into 2022. Near term, I think markets are at risk from a temporary loss of monetary support."

"In my view, there will certainly be an inflation pick-up on the back of this monetary surge. How far this pick-up goes and whether it will be sustained, will depend on the extent to which monetary trends normalize over coming quarters."

"I will be watching the broad money data particularly closely over the coming months. Unless there is a period of contraction in broad money to offset the big surge that occurred in Q2 and Q3 this year, in my view this coming pick-up in inflation into 2022 won't just be a temporary blip, it will mark the start of a multi-year upswing in inflation."

Q: **You expect a significant inflation pick-up in 2021 and 2022, what level could it reach?**

"In terms of G7 consumer price inflation, I think a level of 5% is quite likely to be reached at some point in 2021 or in 2022. If you look back to the period before the GFC, there was a smaller pick-up in broad money growth around that time. That was associated with a rise in G7 inflation to around 4%. The broad money pick-up has been much stronger on this occasion, so I think the peak level of inflation is likely to be higher.

The key for me is whether it is going to be sustained at these high levels and that will depend on what happens to the broad money numbers over the coming months. My bias is to think that these numbers will stay relatively strong, and so, unlike the pick-up in inflation around the GFC, this is likely to be a sustained upswing."

Q: **How can inflation increase with unemployment so high and likely to get higher?**

"The pick-up in inflation will be driven by commodities. I think the next stage will be an attempt by businesses to raise prices to recoup some of the costs that they have incurred during the crisis. If the world economy grows as much as I think is possible next year, I think labour markets will retighten, surprisingly quickly. In the US we have already seen a huge reversal in unemployment as people who are temporarily laid off have returned to work. There are still a lot of people in the US who are still on temporary layoff. So, as those people get reemployed, the unemployment rate will come back down to its pre-crisis level.

There are similar developments elsewhere in the world, in the Eurozone we have seen a sharp drop in the use of short time working schemes, in Germany vacancies are still very high by historical standards, the same is true of Japan. I don't think we are in a post-GFC kind of environment where the labour markets remain weak for many years. I think by late next year, we could very well be back to where we were in 2019, with shortages of labour starting to occur again and putting upward pressure on wage costs."

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Notes to editors

Janus Henderson Group (JHG) is a leading global active asset manager dedicated to helping investors achieve long-term financial goals through a broad range of investment solutions, including equities, fixed income, quantitative equities, multi-asset and alternative asset class strategies.

Janus Henderson has approximately US$358.3bn in assets under management (at 30 September 2020), more than 2,000 employees, and offices in 28 cities worldwide. Headquartered in London, the company is listed on the New York Stock Exchange (NYSE) and the Australian Securities Exchange (ASX).