# Global Economy Could Suffer $4 Trillion Loss on Tourism Drop

The slump in tourism caused by Covid-19 will cost the global economy more than $4 trillion for 2020 and 2021, much worse than anticipated, as an uneven vaccination rollout crushes developing countries that are highly dependent on international visitors.

The losses this year alone could amount to $1.7 trillion to $2.4 trillion, even as international tourism rebounds in the second half in countries like the U.S., the U.K. and France, which have higher vaccination rates, the United Nations Conference on Trade and Development said in a report.

The study highlights the costly impact from an unequal access to vaccines around the world. Developing countries may account for as much as 60% of the estimated losses to global gross domestic product, according to the Unctad. Estimated losses in percentage of GDP in select regions and countries Source: United Nations Conference on Trade and Development based on GTAP simulation. The report, which was done in collaboration with the UN World Tourism Organization, also shows that the tourism crisis is far from over, with travel restrictions and bans still in place in many regions with low vaccination rates. International tourist arrivals were down 88% in the first quarter this year, compared with the same period in 2019, according to the UNWTO World Tourism Barometer.

The world may not see a return to pre-pandemic arrivals of international tourists until 2023, according to the study.

Countries such as Thailand and Turkey, which rely on foreign tourists to boost their economies, bore the brunt of the impact. The drop in tourism also threatens closely linked sectors such as food, beverages, retail trade, communications and transport.

Overall, the crash in tourism has led to an average rise of 5.5% in unemployment of unskilled labor, hitting a sector that employs many women and young people.

"Tourism is a lifeline for millions, and advancing vaccination to protect communities and support tourism's safe restart is critical to the recovery of jobs and generation of much-needed resources, especially in developing countries," said UN World Tourism Organization Secretary-General Zurab Pololikashvili.

In developed countries, the prospect of a vacation overseas is looking up. A rising number of Americans are planning a trip to a foreign country, according the Conference Board's June consumer confidence index. bloomberg

# Canada Economy Suffers Less From Third Wave Ahead of Rebound

Canada's economy shrank less than expected during a spring surge of Covid-19 cases, continuing its run of surprising strength.

Gross domestic product contracted by 0.3% in April and by a similar amount in May, according to estimates from Statistics Canada released Wednesday. Economists had been anticipating a drop of 0.8% in April.

Despite the contraction, the numbers highlight how well the nation's economy handled successive waves of lockdowns to contain the spread of the virus. That resilience is expected to fuel a strong rebound in the second half of this year. Early evidence points to robust activity in June as restrictions were relaxed and restaurants and other services were allowed to open again.

"June is almost assuredly coming in positive as a result of the reopenings," Jimmy Jean, chief economist at Desjardins Securities, said by email.

Economists are predicting the country will recover to pre-pandemic levels of output in the third quarter, barring any further setbacks with the virus. The contraction in April and May -- driven in large part due to retail closures -- brought output down to about 98.5% of pre-pandemic levels, according to Bloomberg calculations.

The GDP numbers are probably the last in a series of weak economic data from the third wave of the pandemic. Credit card transactions, job postings and other data show the economy has already sprung back to life.

Royal Bank of Canada's spending tracker shows consumer activity in early June was well above pre-pandemic levels. Consumer confidence has been hovering at record highs for more than a month. Job posting data from Indeed Canada show restaurants are ramping up hiring. Mobility data from Google shows Canadians are doing more walking, driving and taking public transportation.

"It's hard to think of a lot of near-term downside risks that could really slow the recovery outside of renewed Covid spread, which looks less and less likely," Nathan Janzen, an economist at Royal Bank of Canada, said by phone before Wednesday's data release.

The Canadian dollar was little changed after the report, trading 0.2% higher at C$1.2385 per U.S. dollar at 9:30 a.m. in Toronto.

The GDP numbers put the economy on track for growth of at least 2% annualized in the second quarter, down from 5.6% in the first three months of 2021. The expansion is seen accelerating to a pace of 9.1% in the third quarter, with a 6% gain in the final three months of 2021, according to a Bloomberg News survey of economists earlier this month. The Bank of Canada has projected growth of 3.5% in the second quarter.

A massive stock of savings accumulated by households will stoke a lot of that growth, as well as plenty of fiscal spending in the system. Increasing vaccination rates have allowed the country to finally reopen restaurants and bars after months of closures.

That positive outcome is likely to be reflected in a Bank of Canada decision on July 14, when the nation's central bank is expected to pare back its stimulus efforts again.

"Another taper in July looks quite likely," Benjamin Reitzes, Canadian rates strategist at BMO Capital Markets in Toronto, said by email.

# The biggest threat to Biden's hot economy could be his own policies

Halfway through 2021, and about six months into the Biden administration, the U.S. economy has by many metrics made a full recovery from the Covid-19 pandemic.

One year ago, nationwide business closures sent the unemployment rate climbing to 13.3%. It's now at 5.8%. Average hourly wages are now higher than they were just before the pandemic.

The stock market is at record highs, and U.S. consumers are now feeling more confident than at any point in the last 16 months. GDP, which swooned 31.4% in the second quarter of 2020, is expected to top 8% in the second quarter of 2021 and herald a new era of business expansion.

So with employment, wages and economic activity up, the S&P 500 reaching new highs, and effective coronavirus vaccines within reach of nearly all U.S. residents, what could possibly derail the Biden economy?

The answer to that question, according to some economists, is Biden himself.

As the president proposes trillions more spending on top of a historic level of stimulus, the risk is that his administration could overheat the U.S. economy and spark a wild spike in prices.

As workers return to the labor force and American consumers rush to spend months of pent-up savings accrued during the pandemic, the risk of overheating is now the greatest hazard for the U.S. economy, said Allen Sinai, chief global economist and strategist at Decision Economics.

"The headwind could be too much of a good thing," Sinai said Tuesday. Perhaps paradoxically, "the headwinds are a consequence of the tail winds," he continued. "In the rush to cushion and save the economy, was too much stimulus supplied?" Having learned from the mistakes of the financial crisis more than 10 years ago, federal lawmakers and the Federal Reserve moved quickly in March 2020 to flush the economy with stimulus.

While Congress and former President Donald Trump worked to pass the $2.2 trillion CARES Act, the Fed slashed interest rates and embarked on a historic effort to flood financial markets with cash by buying billions in mortgage-backed securities and Treasury bonds each month.

But with the markets and American consumers acting as if the Covid pandemic is over, and with the Biden administration lobbying for another trillion dollars for infrastructure, the stage could be set for inflation beyond the Fed's control.

The White House did not immediately respond to CNBC's request for comment.

By most economic metrics, U.S. workers and businesses have staged a robust recovery from the pandemic thanks in large part to an unprecedented policy response by both the Trump and Biden administrations.

The 46th president's critical priorities were on full display in the $1.9 trillion American Rescue Plan Democrats ushered through Congress in March. The Biden relief bill not only authorized billions in additional funding for vaccine deployment, but also refreshed direct economic support in the form of $1,400 stimulus checks and an extension of enhanced jobless benefits.

Thus far, those programs appear to have worked to help the economy accelerate in the second quarter. While total employment is still below pre-pandemic levels, U.S. employers have added back more than 2 million jobs since Biden took office and are expected to narrow that gap further in the coming months. Wages are up 2% over the last year.

The Labor Department's upcoming jobs report, due out Friday, is expected to show that employers added a strong 706,000 positions in June and that average hourly earnings rose 3.6% over the last year, according to economists polled by Dow Jones.

"A lot is going well. I think that the stimulus package really did its job. Trump had a good one, and then Biden had a good one," said Fundstrat Global Advisors policy analyst Tom Block. "The jobs numbers, while they haven't been as big as some would have liked, are pretty darn good. They're moving in the right direction."

Reports from corporate America are also upbeat.

With the first-quarter earnings season over, 86% of S&P 500 companies reported earnings results that were better than expected, the most in any quarter since at least 2008, when FactSet first began measuring.

The second quarter is already shaping up well for C-suite executives: A record-high number of S&P 500 companies have issued positive earnings and sales guidance for the three months ending June 30, according to FactSet earnings analyst John Butters.

The S&P 500, up a dizzying 14% in six months, closed at another record high on Tuesday.

The Atlanta Federal Reserve, which tracks data in real time to estimate changes in gross domestic product, expects GDP to grow at an 8.3% annualized pace for the second quarter.

Like any president, Biden hasn't been shy on sharing news about a hot economy.

"The bottom line is this: The Biden economic plan is working," the president said in late May. "We've had record job creation, we're seeing record economic growth, we're creating a new paradigm. One that rewards work -- the working people in this nation, not just those at the top."

Cloudier skies ahead?

For all the fanfare a vigorous recovery merits, economists are starting to wonder whether the White House's most-recent stimulus efforts are a good idea.

cnbc

# China's economy flashes hints of weakness

BEIJING—Expansion in China's factory sector slowed in June, as export demand weakened while supply bottlenecks held back production, official data showed Wednesday.

Equally worrying, China's services sector, a persistent laggard in the country's post-pandemic rebound that Beijing policy makers are eager to see drive more of the economy, softened as recent coronavirus outbreaks again hindered consumer spending.

The hints of weakness on both fronts come as economists lowered expectations for growth in the world's second-largest economy. In recent weeks, Morgan Stanley and Barclays, among others, have downgraded their forecasts for China's full-year gross domestic product to below 9%, citing the impact of higher raw material prices on production and weaker-than-expected consumption. On Wednesday, China's National Bureau of Statistics said its official manufacturing purchasing managers index fell slightly to 50.9 in June, from 51.0 in May.

The gauge was higher than the 50.7 median forecast expected by economists polled by The Wall Street Journal and remained above the 50 mark that separates expansion from contraction for a 16th straight month. But it marked the lowest reading in four months.Wsj

# Iran oil workers strike for better wages as economy suffers

Thousands of workers in Iran's vast energy industry have gone on strike over the past week to press demands for better wages and conditions at oil facilities, Iranian media reported Wednesday. The widespread demonstrations underscore the mounting economic pressures on the country as it struggles to secure relief from crippling sanctions.

Footage has spread across social media showing construction workers at 60 oil and petrochemical installations, largely in the country's oil-rich south, walking off their jobs in protest. In some videos, cars honk and crowds of workers cheer as they stream into the dusty roads, the refinery's hulking white storage tanks receding behind them. Iranian President Hassan Rouhani vowed Wednesday to "solve" oil workers' grievances and sought to assuage fears over any economic reverberations. He said the labor demonstrations were mainly limited to private construction workers on temporary contracts at the plants and would not hurt Iran's oil production. The protests have not yet reached the state-owned National Iranian Oil Company, where some 200,000 workers receive wages three times as high and better protections under Iran's labor law. "We do not have and we will not have any problem in the production, transfer, distribution and export of oil," Rouhani told his weekly Cabinet meeting. "I promise the workers of the oil industry that their problems will be solved."

The striking workers at remote facilities in the southern desert reaches of the country, where summer temperatures exceed 50 degrees Celsius (122 degrees Fahrenheit), are pushing for wages on par with their counterparts in the state oil company. They also want 10 days off a month to visit their families in far-away cities. The contractors currently receive some $200 a month, just one day off per week and 2 1/2 vacation days a month.

Iran's oil sector, the lifeblood of its economy, has been devastated by the impact of American sanctions over Tehran's nuclear program. Three years ago, then-President Donald Trump pulled America from Tehran's landmark 2015 atomic accord with world powers and returned sanctions on Iran that have slashed its petrochemical exports and clobbered its economy. Diplomats from parties to the deal have been struggling to resurrect the agreement in Vienna.

With the coronavirus pandemic worsening Iran's economic woes, inflation has spiraled over 40%, exacting a heavy toll on ordinary laborers. Workers have staged scattered, low-level strikes in various cities and industries over salary, retirement and pension issues in recent months.

There have been no reports of tough action against the strikers by security forces. Human rights groups have nonetheless raised the alarm, citing the country's dark history of crackdowns on popular unrest. AP