The Economist INTELLIGENCE UNIT

Coronavirus sinks global growth prospects for first half of 2020

Q2 global forecast 2020

A report by The Economist Intelligence Unit

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The Economist Intelligence Unit provides world-leading political and economic analysis and forecasts for 197 countries. Our reports examine and explain the important political and economic trends and developments in each country, providing investors and businesses with key takeaways to understand the current situation and the likely future political and economic developments.

Alongside our comprehensive annual data, we provide quarterly forecasts for 50 countries covering 85% of global output. These forecasts, built using our proprietary econometric models, address the growing need for high-frequency data to help set budgets, investments and economic projections.

The EIU's quarterly forecasts include up to 51 headline series for G20 countries, the BRICS grouping (comprising Brazil, Russia, India, China, and South Africa), as well as key emerging markets. These forecasts are updated continuously and projected out two years, or eight quarters. Our quarterly-frequency forecasts make use of a pioneering Global Vector Autoregression (GVAR) technique developed by leading econometricians over the past decade. Such models are believed to have strong forecasting properties, particularly in the short run, and to capture cross-quarter and cross-variable dynamics effectively.

Real GDP growth rate (%), quarter on quarter

BRICS	2019 Q4	2020 Q1	2020 Q2
Brazil	0.5	-1.0	-11.0
China	1.4	-10.9	9.2
India	1.2	5.0	-9.3
Russia	0.4	-0.1	-10.5
South Africa	-0.3	-3.0	-7.7
G7			
Canada	0.1	-0.3	-4.5
France	0.8	-2.0	-10.0
Germany	0.0	-3.0	-10.0
Italy	-0.3	-5.0	-10.0
Japan	-1.8	-0.5	-0.4
UK	0.0	-1.4	-9.3
USA	0.5	-1.3	-5.9

Source: The Economist Intelligence Unit.

Prior to the coronavirus outbreak we expected global real GDP growth to be lacklustre this year, at 2.3% (at market exchange rates). The coronavirus pandemic is a game changer, and we now expect global output to contract by 2.5% this year—an even deeper contraction than during the global financial crisis. The negative effect on growth will come via both demand and supply channels. On the one hand, quarantine measures, illness, and negative consumer and business sentiment will suppress demand. At the same time, the closure of some factories and disruption to supply chains will create supply bottlenecks. The economic shock will be mostly concentrated in the first half of this year, with regional variations that follow the gradual spread of the pandemic across the globe.

We expect a modest rebound in global output in the second half of 2020, provided that the spread of coronavirus is largely contained globally and no second or third waves of the pandemic occur. However, the impact on confidence and demand will be long lasting. A rise in uncertainty will lead to increased precautionary savings among households and delayed business investment. Some consumers may also continue to self-quarantine after governments lift lockdowns for fear of contracting the coronavirus, which will constrict the recovery in private consumption. In a worst-case scenario, sovereign debt crises could take place if efforts to contain the pandemic drain fiscal revenues and drastically increase public expenses across developed countries. This is compounded by the fact that many of the European countries that are among the worst affected by the pandemic, such as Italy and Spain, already had weak fiscal positions before the outbreak. A potential debt crisis in any of these countries would quickly spread to other developed countries and emerging markets, sending the global economy into another—possibly much deeper—downturn.

China was the first country hit by the coronavirus outbreak. After an initially slow response, the Chinese authorities placed Hubei and other provinces on lockdown, significantly restricting economic activity in areas that are crucially important to national and international supply chains. Chinese citizens have cut down on spending, which means that firms working in service sectors such as catering and accommodation have struggled to remain afloat. Recent data also show that industrial output, as well as property and fixed-asset investments, plunged by record-high levels in January-February. This leads us to believe that China's output contracted by 10.9% quarter on quarter in January-March. There are signs that activity in China is now slowly starting to recover, with the Chinese leadership keen to normalise the situation and gradually lift quarantine measures. Against this backdrop, we expect growth to rebound to 9.2% quarter on quarter in April-June. However, this will mainly be due to base effects, and we believe that China's full-year growth will be a mere 1%.

Across Europe, the containment measures adopted to slow the spread of coronavirus will lead all economies to contract in 2020. We believe that **Italy**, which currently reports the highest number of deaths worldwide, saw its output drop by 5% quarter on quarter in the first quarter of this year as lockdown measures severely disrupted economic activity. The picture looks even worse across the entire euro zone for the second quarter, with all countries expected to post a contraction of their output on a quarterly basis. The situation appears especially grim in **Germany**. The country's huge manufacturing sector (which represents a fifth of the economy) is highly export oriented, which means that the country is particularly exposed to both supply chain disruption and sinking global demand. We expect that Germany's output will contract by 10% in the second quarter on a quarterly basis, and by 6% overall this year. The country's recovery will be slower than that of other euro zone countries, such as **France**, where typically more resilient domestic consumption represents a larger driver of growth.

Coronavirus is rapidly spreading in the **US**, which now reports the highest number of cases worldwide. The impact of the pandemic on US growth will be mainly felt during the second quarter of this year, when we expect output to contract by 5.9% quarter on quarter. The US administration's initial response to the coronavirus outbreak was particularly poor and haphazard, allowing the virus to spread quickly. Factoring in the abrupt implementation of measures needed to contain the virus, the steep jump in jobless claims in late March and sluggish progress in accelerating testing for coronavirus, we now expect real GDP to contract by 2.9% in 2020. This is still an optimistic baseline scenario, which would be derailed if containment measures are not lifted by the second half of this year. It also assumes that recent federal stimulus measures—amounting to US$2trn, more than double the size of the stimulus bill approved in response to the global financial crisis—are implemented quickly, giving workers in the services sector access to vital financial support.