

GMV – COVID-19 and Global Growth



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- We made our “no recession” call last year with a high degree of conviction, ...
- because data pointed to an end of the inventory overhang in manufacturing.
- What is now going on with the global scare around COVID-19 is very different, ...
- given that severity of the spread and resulting economic fallout are uncertain.
- We revise China growth to just below 4.0% this year and US growth down to 1.3%, ...
- with global growth conceivably approaching 1.0% (down from 2.6% last year).
- It goes without saying that uncertainty around these forecasts is unusually high.
- Low growth EMs like Mexico and South Africa should ease monetary policy, ...
- with the Fed’s emergency rate cut providing a good opportunity to do so.

Our “no recession” call last year was made with high conviction, because hard data persuaded us that the inventory correction in global manufacturing was near an end. What is now going on with the global scare around COVID-19 is very different. The range of potential outcomes is large and depends on the spread of the virus and resulting economic fall-out, all of which are highly uncertain at this stage. We revise our forecast for US growth to 1.3 percent this year, down from 2.0 percent previously, and revise China to just shy of 4.0 percent (from 5.9 percent previously). Global growth could conceivably approach 1.0 percent, far below the 2.6 percent last year and the weakest since the global financial crisis. We have been focused on low growth in EM, where the challenges are now mounting due to COVID-19. Countries like Mexico and South Africa should use their monetary policy space to ease, with the Fed’s emergency rate cut an opportunity to do so without too much currency weakness.

Exhibit 1. Last year was about weak manufacturing.

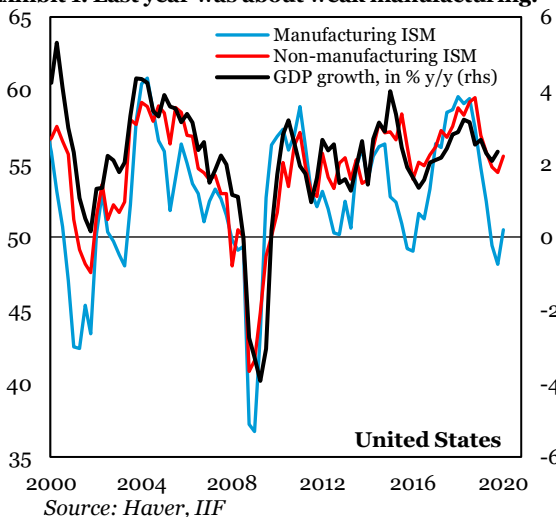
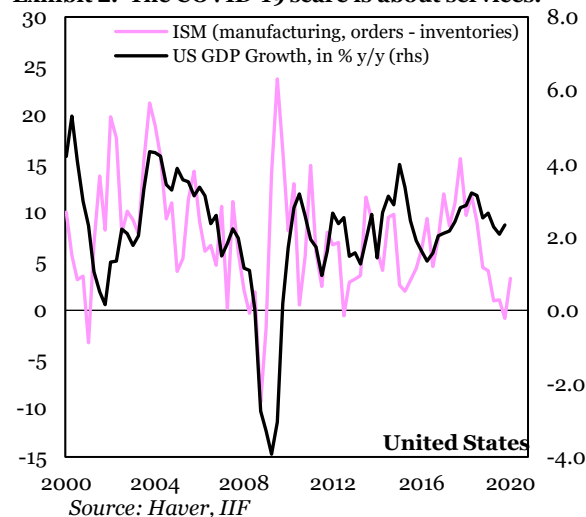
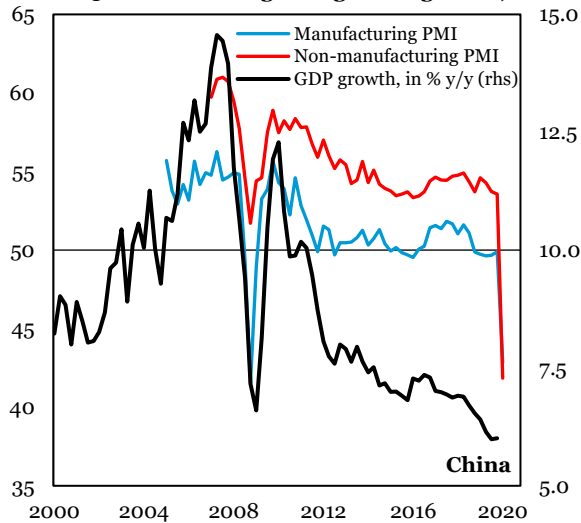


Exhibit 2. The COVID-19 scare is about services.



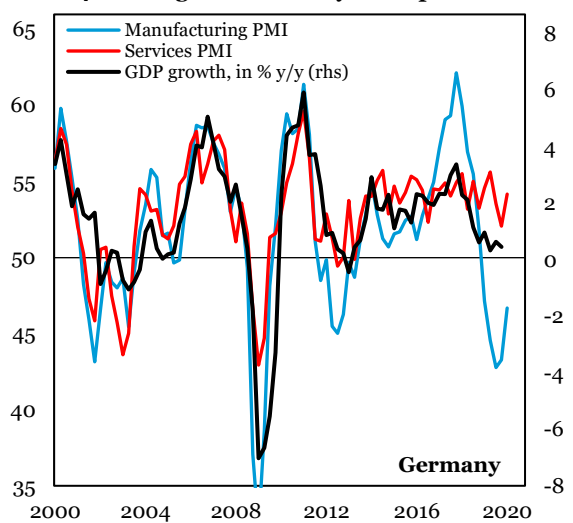
Our “no recession” call last year was based on hard data, which showed that weak manufacturing was due mainly to an inventory overhang, rather than supply chain disruptions due to tariffs. We held our view with high confidence, in part also as the services side of the economy looked robust enough (Exhibit 1) to withstand the rebalancing in manufacturing (Exhibit 2). The global COVID-19 scare is different. There are obviously supply disruptions to manufacturing – delivery times in the manufacturing PMIs are up a lot – but the epicenter of potential fallout for the economy is services, where the severity of effects depends on the scale of contagion and resulting containment measures. The range of possible outcomes is large and uncertainty around any forecast bigger than under normal circumstances. We expect China to grow slightly less than 4.0 percent this year, down from a previous forecast of 5.9 percent (Exhibit 3). This revision embeds a drop in GDP of 1.0 percent quarter-on-quarter in Q1 and assumes a rapid recovery thereafter. We revise US growth to 1.3 percent this year, down from 2.0 percent previously, with the epicenter of weakness in Q2. Vulnerabilities abound elsewhere. Germany’s economy remains very weak (Exhibit 4), given structural challenges facing its auto sector. Japan is weighed down by the consumption tax hike in Oct. 2019. And growth across emerging markets was [weak](#) even before COVID-19 became an issue.

Exhibit 3. We are downgrading China growth, ...



Source: Haver, IIF

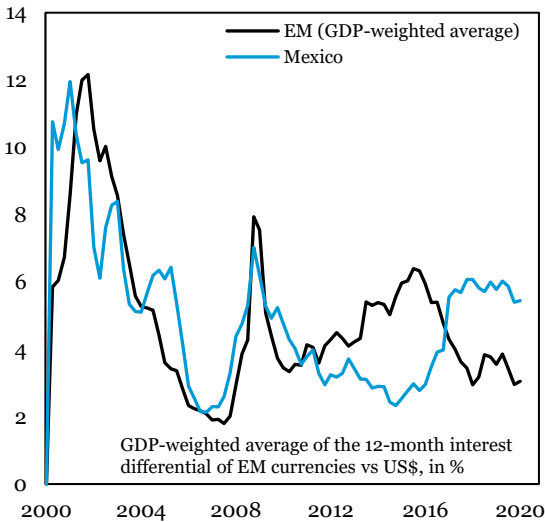
Exhibit 4. ... and growth in many other places.



Source: Haver, IIF

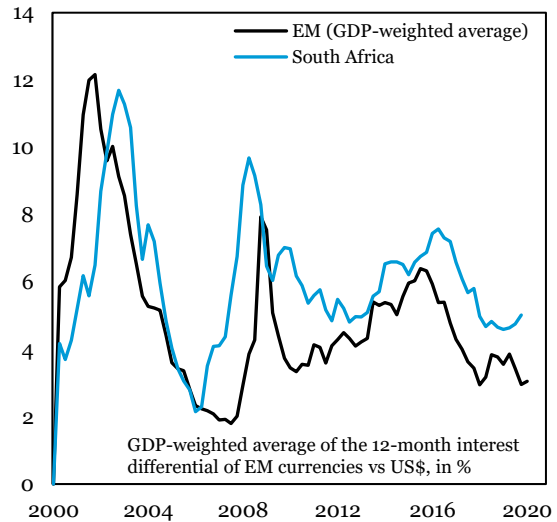
The Fed's emergency 50 bps cut is an opportunity for those EM central banks to cut who had held off so far out of concern their currencies may weaken. This is especially important in high carry, low growth places like Mexico (Exhibit 5) and South Africa (Exhibit 6), but holds more broadly across EM where growth has been weak in many places. Such a (de facto) coordinated easing cycle would help bring growth to EM and buffer the global economy from COVID-19.

Exhibit 5. Low growth EMs like Mexico should cut, ...



Source: Haver, IIF

Exhibit 6. ... using the Fed's rate cuts for cover.



Source: Haver, IIF