GMV – The COVID-19 Recession

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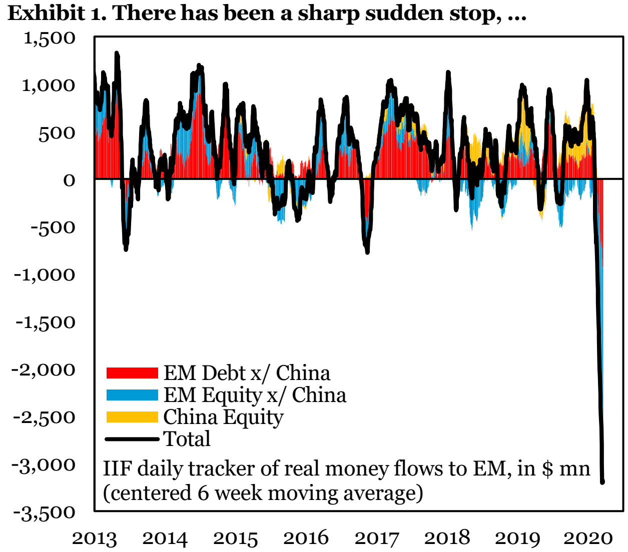
- We downgraded 2020 global growth from 2.6 to 1.6 percent two weeks ago, …
- given a sharp contraction in China in Q1 and slowing activity in the United States.
- Since then there has been a profound sudden stop across major capital markets, …
- sparked by the building COVID-19 shock, falling oil prices and mounting credit stress.
- We today downgrade our global growth forecast further to less than one percent, …
- a risk we had flagged two weeks ago given the elevated uncertainty around COVID-19.
- We now forecast recession in the United States, the Euro zone and Japan in H1 2020, …
- though we maintain our baseline for recovery in the second half of 2020.

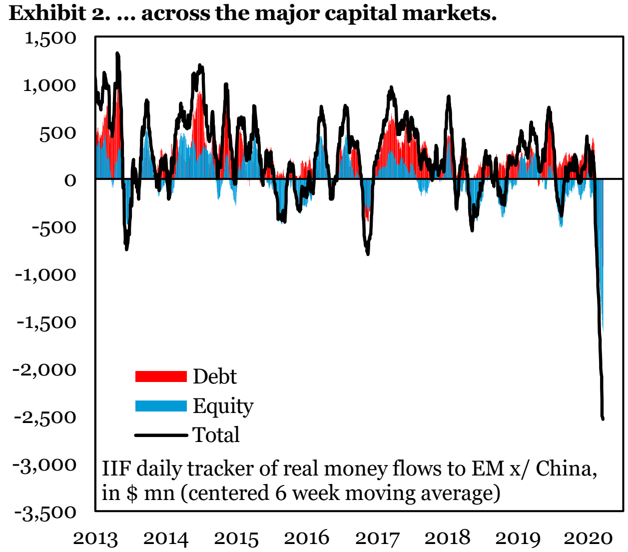
Two weeks ago we downgraded our global growth forecast for 2020 from 2.6 to 1.6 percent. China was a key driver underlying this change, given the sharp drop in Q1 activity resulting from aggressive quarantine measures. Assuming recovery in subsequent quarters, we cut annual average growth from 5.9 to just below 4.0 percent. We also downgraded US growth, cutting annual average growth from 2.0 to 1.3 percent, on the assumption that the COVID-19 shock takes Q2 growth to zero, but that outright recession is avoided. Since then, the picture has changed drastically. The OPEC price war destabilized already fragile markets. Sharp oil price declines and mounting COVID-19 uncertainty combined to yield a sharp *"sudden stop,"* which we documented in last week's ***Global Macro Views***. Because of this sudden stop, we are now downgrading global growth further to 0.4 percent. Our latest revisions put the US, Euro zone and Japan in recession in H1 2020, though we maintain our expectation for recovery in H2. The main argument in favor of an H2 recovery is that the virus should abate by summer, so that the *"fear factor"* holding back global demand will fade. But the severity of the *"sudden stop"* in global capital markets means that recovery could be slower. Downside risks to our forecast therefore very much remain and – with our numbers evolving almost daily – uncertainty around our projections is high.

Exhibit 1. There has been a sharp sudden stop, …



Source: Haver, IIF

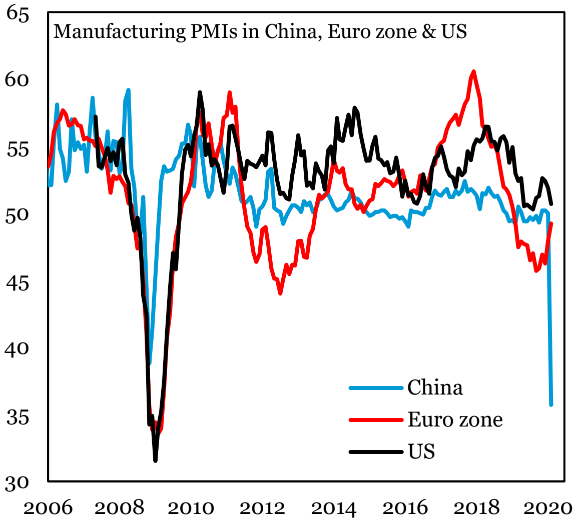
Exhibit 2. … across the major capital markets.



Source: Haver, IIF

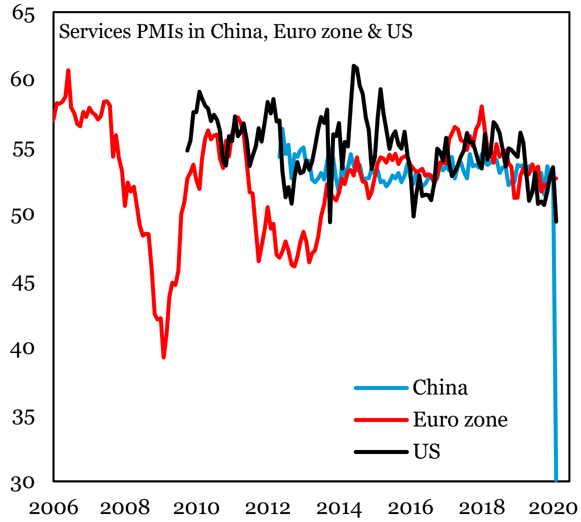
Since we revised down global growth two weeks ago, the sudden stop across global capital markets has been a game changer. We have documented unprecedented outflows across EM (Exhibit 1), which look to be concentrated outside of China (Exhibit 2). This sudden stop has been accompanied by rising stress in US credit markets and indications of a Dollar shortage in the Euro zone and Japan. The initial COVID-19 shock in China, the epicenter of which was Q1, has thus morphed into a much bigger shock for the rest of the world, the full force of which will hit in Q2, with the effect on manufacturing (Exhibit 3) and services (Exhibit 4) likely to be more spread out and delayed than in China.

Exhibit 3. The COVID-19 shock is spreading, ...



Source: Haver, IIF

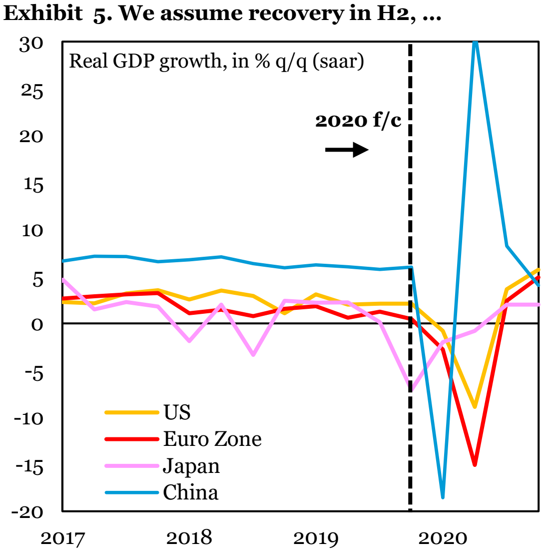
Exhibit 4. ... to the US and Euro zone with a lag.



Source: Haver, IIF

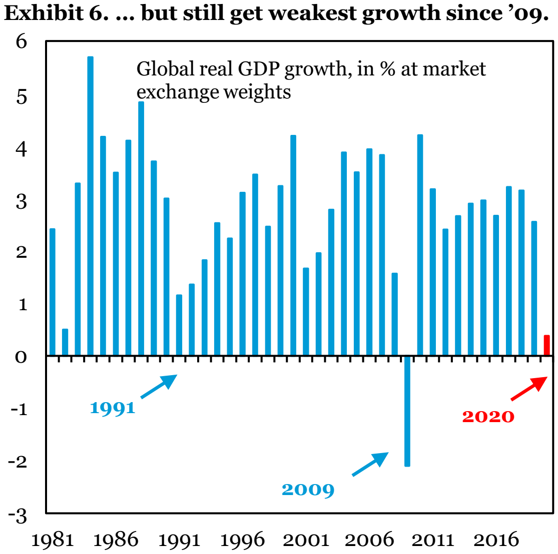
Given the drag from social distancing and other measures, we expect US GDP to fall -0.8 percent quarter-on-quarter (annualized) in Q1, followed by a bigger drop of -8.9 percent in Q2 (Exhibit 5). The US is thus already in recession, with annual average growth of -0.4 percent. We expect a 2020 contraction of -2.8 percent in the Euro zone and -1.5 percent in Japan, which – along with China growth of 3.5 percent – puts global growth at 0.4 percent (Exhibit 6). The key assumption underlying these forecasts is for recovery in H2, which in turn assumes that the virus abates by the summer and that credit stress does not prove too destructive. Risks are therefore still to the downside. We will be publishing a series of pieces next week on country-level forecasts and whether frontier markets can dodge the global growth slump.

Exhibit 5. We assume recovery in H2, ...



Source: Haver, IIF

Exhibit 6. ... but still get weakest growth since '09.



Source: Haver, IIF

