GMV – Global Recession

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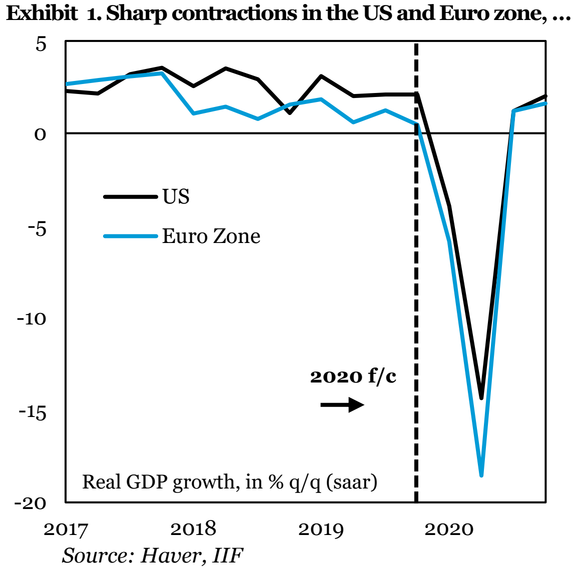
- The global economic outlook has been shifting at lightning speed.
- On March 5 we cut global growth in 2020 from 2.6 to 1.6 percent, ...
- and further downgraded that forecast to just above zero last week.
- But we are still catching up to the intensifying COVID-19 pandemic, ...
- which is being exacerbated by the OPEC price war and credit stress.
- This week sees us roll out our full global forecast in daily publications, ...
- which will discuss in turn regions like LatAm, Asia, CEEMEA and China.
- Our global forecast now stands at -1.5 percent with downside risks.
- The most material downside risks are concentrated in the Euro zone, ...
- and in some *"stressed"* EMs that include Argentina and South Africa.

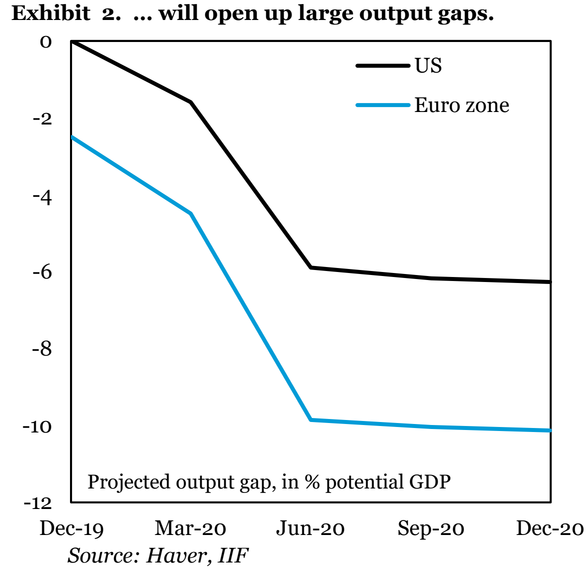
The global economic picture has been evolving at lightning speed. We cut our global growth forecast from 2.6 to 0.4 percent in the last two weeks, but the building COVID-19 pandemic, the OPEC price war and mounting credit stress in advanced and emerging markets continue to reshape the picture in fundamental ways. This week sees us roll out our full global growth forecast, including deep-dives into all the emerging and frontier markets we cover. A series of daily publications will cover country-level dynamics by region, including in LatAm, Asia, CEEMEA and China. Overall, our forecast is now for global activity to fall -1.5 percent, approaching the -2.1 percent contraction in 2009. Underlying this forecast are huge uncertainty and pockets of vulnerability in the global economy. Uncertainty stems from two principal sources. It is as of now unclear how long *de facto* shutdowns in many countries must last to contain the virus. And given the severity of the shock, it is also unclear if consumer and investment activity rebounds quickly once quarantines are lifted. Our forecasts are on the cautious side, but do build in some recovery in H2 2020. Pockets of vulnerability are concentrated in the Euro zone, where we forecast a recession as deep as in 2009, and in some emerging markets – including Argentina and South Africa – that entered 2020 in a weakened state. All this adds up to still material downside risks to our global forecast.

Exhibit 1. Sharp contractions in the US and Euro zone, ...



Source: Haver, IIF

Exhibit 2. ... will open up large output gaps.



Source: Haver, IIF

Following our forecast update last week, we further downgraded our US and Euro zone outlooks, where we now see 2020 growth at -2.8 and -4.7 percent, respectively. The details of these forecasts are worth discussing, as they illustrate the huge degree of uncertainty. We foresee negative growth in Q1 in both and then large contractions in Q2 (Exhibit 1), i.e. both are already in recession. Much of the uncertainty around our forecasts revolves around H2, however. We pencil in a return to growth in H2, assuming abating quarantines and recovering consumer and business confidence. Whether these assumptions are justified, remains to be seen and the resulting uncertainty pervades all our forecasts. What seems clear at this stage is that the Euro zone is getting hit with greater force, given that it entered 2020 with weak growth and a legacy output gap, that could grow to 10 percent of potential GDP by end-2020 (Exhibit 2).

Exhibit 3: IIF Global Growth Forecasts

Real GDP Growth, change y/y (%)	**2016**	**2017**	**2018**	**2019**	**2020 Oct**	**2020 Mar**
World	**2.7**	**3.2**	**3.1**	**2.6**	**2.6**	**-1.5**
Mature Markets	**1.6**	**2.2**	**2.2**	**1.6**	**1.5**	**-3.3**
G3	1.6	2.2	2.2	1.7	1.5	-3.4
United States	1.6	2.2	2.9	2.3	2.0	-2.8
Euro Area	2.0	2.4	1.8	1.1	1.2	-4.7
Japan	0.6	1.9	0.8	0.9	0.2	-2.6
Emerging Markets	**4.3**	**4.7**	**4.5**	**3.8**	**4.2**	**1.1**
EM x/China	**3.0**	**3.4**	**3.2**	**2.3**	**3.1**	**0.0**
Latin America	**-1.2**	**1.3**	**0.7**	**-0.1**	**1.2**	**-2.7**
Argentina	-2.1	2.7	-2.5	-2.4	-1.6	-3.1
Brazil	-3.3	1.3	1.3	1.1	2.0	-1.8
Mexico	2.9	2.1	2.0	-0.1	1.2	-2.8
CEEMEA	**2.6**	**2.9**	**2.5**	**1.5**	**2.1**	**-0.5**
Russia	0.3	1.8	2.5	1.2	1.8	-1.3
Turkey	3.2	7.5	2.8	0.9	2.2	0.6
South Africa	0.4	1.4	0.8	0.2	1.1	-2.5
Asia/Pacific	**6.5**	**6.3**	**6.1**	**5.5**	**5.5**	**2.4**
China	6.7	6.8	6.6	6.1	5.8	2.8
India	9.0	6.6	6.8	5.3	6.7	2.9
Indonesia	5.0	5.1	5.2	5.0	5.1	2.7

Our global growth forecast now stands at -1.5 percent (Exhibit 3), with a contraction of 3.3 percent across mature markets and growth of only 1.1 percent in EM, which, excluding China, is flatlining. Risks are considerable in a few places. Argentina has suffered falling GDP for two years now, and COVID-19 will exacerbate things in 2020. Mexico struggled to grow last year and will likely see a deep recession this year, given its close ties to the US economy. South Africa entered 2020 with an overvalued currency, a persistent current account deficit and anemic growth. A deep downturn is the likely result in 2020, given the sharp sudden stop in EM inflows. Underlying all these forecasts is profound uncertainty as to how virulent the COVID-19 pandemic will be in EM. Large urban centers and limited testing are material downside risks.