

GLOBAL ECONOMIC OUTLOOK

IMMINENT BOUNCE BACK
FROM COVID-19?

EDC Economics

June 26, 2020

Insights on the world's key economies GDP growth, commodity prices, interest rates and exchange rates.



EXECUTIVE SUMMARY

GLOBAL ECONOMIC OUTLOOK: IMMINENT BOUNCE-BACK FROM COVID-19?

By Peter Hall

Vice-President and Chief Economist, EDC



No part of our planet has been spared the ravages of the COVID-19 pandemic. Pundits have struggled to keep pace with its swift and devastating march, and it has made economic forecasts quite jealous of the mayfly's 24-hour lifespan: predictions of near-term growth have been mostly obsolete before the ink is dry. Certain key prognosticators actually gave up, preferring to wait out the wackiness. Instead of abandoning our efforts, EDC Economics went into perpetual forecasting mode to stay on top of rapid developments.

Digesting economic developments has been a three-fold task:

1. anticipating and reacting to the cordless bungee-plunge in key indicators;
2. incorporating the deluge of dramatic policy announcements; and
3. tracking real-time data on the coronavirus itself.

Information on all three fronts has moved wildly in the few weeks of the pandemic's reign. Things seem to be stabilizing on all three fronts now, but we remain on high alert.

COVID's economic mayhem has given rise to a wide variety of possible recovery paths, usually characterized by a letter of the alphabet. First it was "V"—a short, sharp decline and an equally short, sharp recovery. This one's less popular now. Others, including the Fed, favour a "U"—a sharp drop, followed by a pause of varied duration, and then a sharp recovery. Fewer see the dreaded "L"—a sharp drop followed by a very lacklustre partial recovery—as a today's outcome.

EDC's summer Global Economic Outlook favours a check-mark shape: a sharp drop followed by a sharp, although partial rebound, followed by a weaker return to pre-COVID-19 levels as smaller, second-wave outbreaks impede the recovery. This view sees world output not back to prior levels by the end of 2021. High-frequency data are sending encouraging signals that the rebound has begun.

Our forecast calls for the world economy to shrink by 4.3% this year, a number that was almost unthinkable just weeks ago. Fully developed economies are harder-hit, collectively shrinking by 5.4%. By all appearances, emerging economies get off with a lighter 3.6% decline. However, against what they expected to grow by, it's also quite a nasty shock for them.

EXECUTIVE SUMMARY (continued)

GLOBAL ECONOMIC OUTLOOK: IMMINENT BOUNCE-BACK FROM COVID-19?



Next year couldn't be more different. Revival that begins in the second half of 2020 boosts global growth to 6.9%, fed by a 7.2% gain in emerging markets and a 6.1% increase in the developed world. Canada, France and the United Kingdom sustain sharper drops this year, with the latter two rebounding in 2021 just ahead of average. The United States gets off more lightly, down 5.0% this year and back up by 6.9% in 2021.

Monetary policy will be highly stimulative through this period, with interest rates on hold at close to the zero lower bound until 2022. Fiscal measures will be gradually withdrawn as the recovery takes hold, but the delay in getting out funds, together with a reticence to spend them, will cause some public spending measures to kick in precisely as recovery takes hold.

Commodity prices will make a slow march back to pre-COVID-19 levels over the medium term horizon. Oil prices will see no rushed rebound, as price gains will bring sidelined shale and other non-conventional supplies back into circulation. As such, official supply restrictions will not initially lift West Texas Intermediate (WTI) prices much above US\$35 per barrel. Metals also face ample supply conditions, and as such, near-term price gains will be muted.

Canada's outlook will be one of the weakest among OECD nations, for a number of reasons. Unlike the rest, Canada's consumer and housing markets entered the downturn in a fundamentally weak position. Moreover, our dependence on trade and sectors like autos, aerospace and oil and gas, further weaken our near-future prospects. Interest rate increases will lag behind the Fed by about six months, and the Canadian dollar will average US\$0.73 this year and US\$0.75 in 2021.

Globally we've been drowning in red ink for weeks now, and forecasts for world activity are still being revised down. At the same time, the first encouraging signs of rebound are following return-to-work programs in first-wave countries, like China and South Korea. Glimmers of hope are also evident in the latest labour force data for Canada and the U.S. We expect further good news as we move through mid-year. Much will depend on the continued success of COVID-19 containment—on that front, so fair so good. We'll all be happy to put this episode behind us.

A handwritten signature in black ink, consisting of a large loop and a few strokes.

KEY ASSUMPTIONS

Given rapidly changing global events, there's a much higher-than-usual degree of uncertainty around this forecast, which incorporates information available as of June 5, 2020.

COVID-19

The base case forecast assumes that necessary social distancing measures currently being taken by affected countries will be effective at curtailing the spread of the virus. As such, the forecast assumes strict containment measures begin to ease gradually in a phased-in approach most countries throughout the remainder of 2020.

China-United States trade dispute

The forecast assumes the Phase One trade agreement signed in January 2020 remains in place over the near term. Moreover, given the accumulating negative economic impacts of the tariffs, both parties are assumed to reach a more meaningful resolution after the U.S. election, which by mid-2021, removes a significant percentage of the tariffs imposed since 2017.

Oil

Despite an unprecedented agreement on April 12 among 23 countries to restrict OPEC+ production, supply will greatly exceed global oil demand through the first half of 2020. The forecast incorporates a gradual rebalancing of the market, but has a lower global oil price relative to our previous forecasts due to the buildup of oil in storage during the first half of 2020 as economies entered lockdown periods.

Brexit

The forecast assumes the United Kingdom and European Union eventually agree on an orderly transition, based upon a comprehensive trade agreement, which includes essentially “free trade” on most goods and services traded between the EU and United Kingdom. However, we assume that COVID will result in the current “status quo” persisting into the medium-term.

U.S. 2020 election

The forecast for the U.S. economy is based on long-term fundamentals and policies currently in place. Any updated policies coming from the presidential election, to be held in November 2020, will be incorporated after enacting legislation is passed.

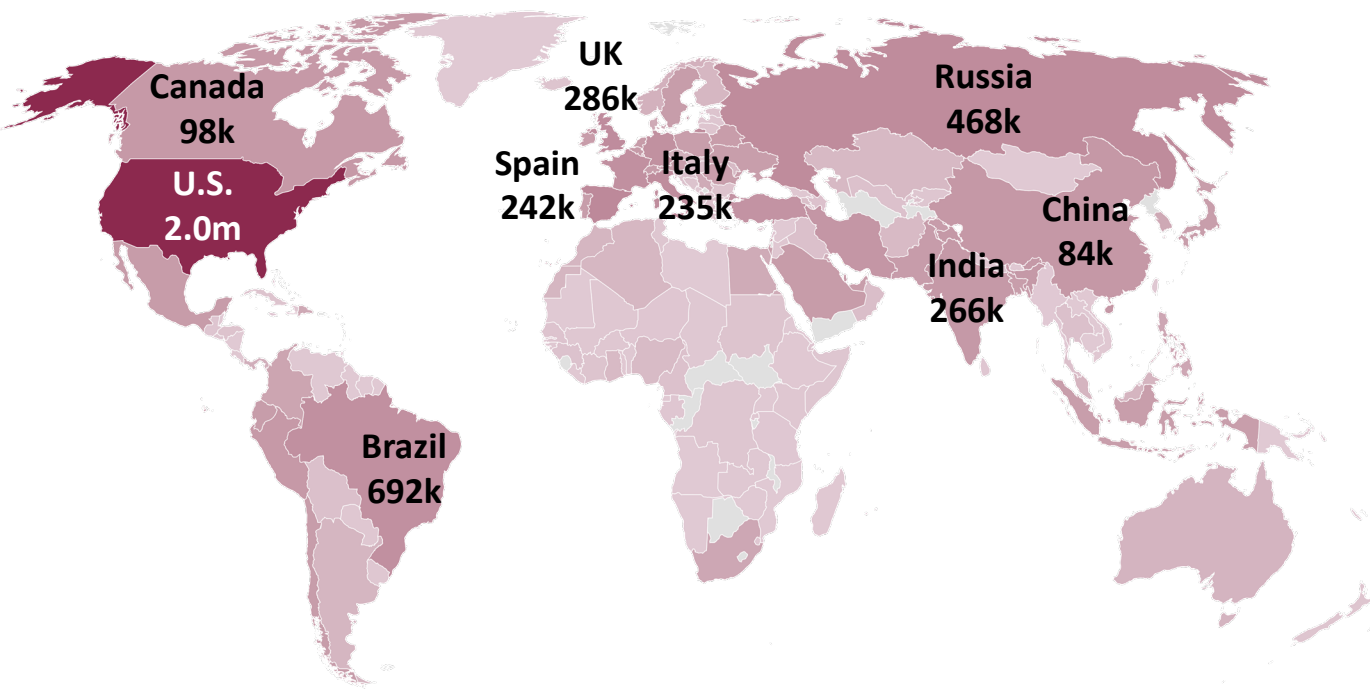
RECENT DEVELOPMENTS



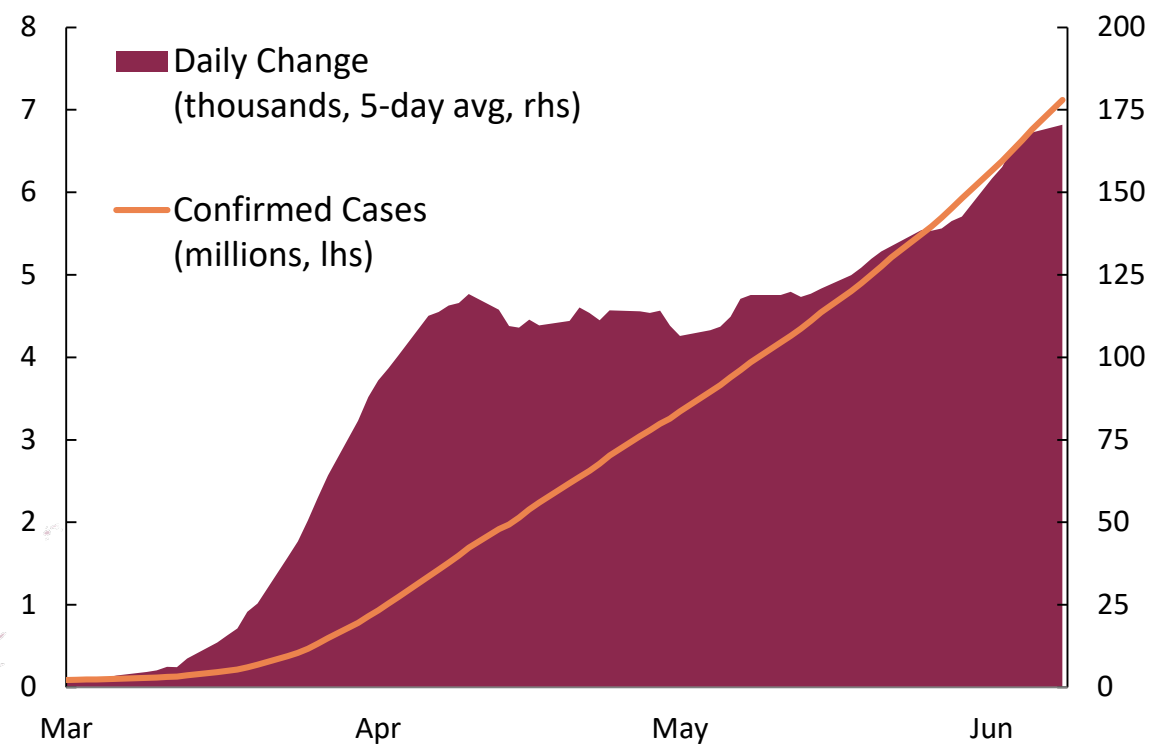
CONFIRMED COVID-19 CASES

As of June 8, 2020

7.0 million
World total



Global Confirmed Cases

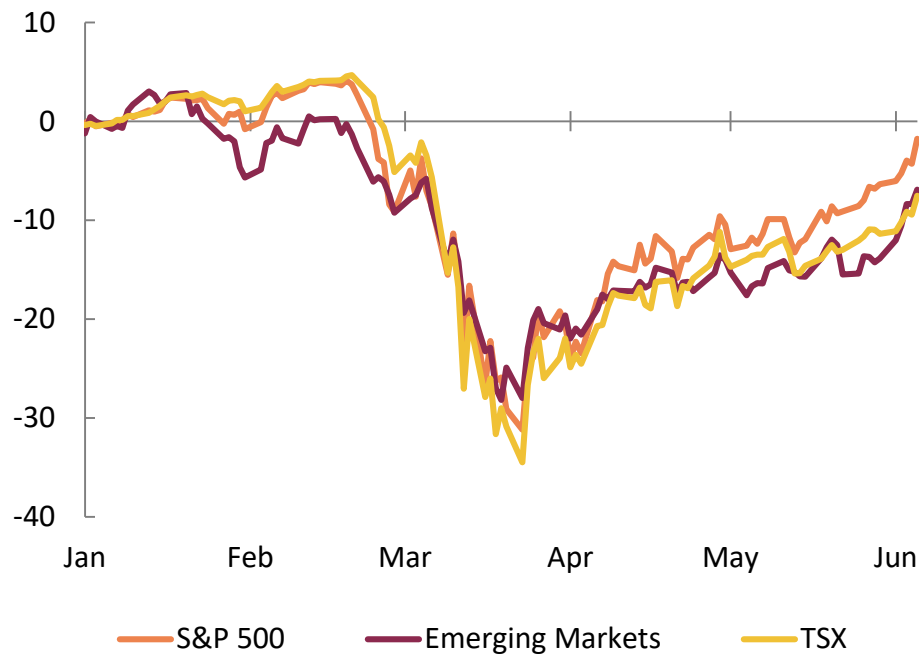


FINANCIAL MARKETS

Equity markets have largely recovered from the COVID-19 crash; while bond spreads are improving, but remain elevated.

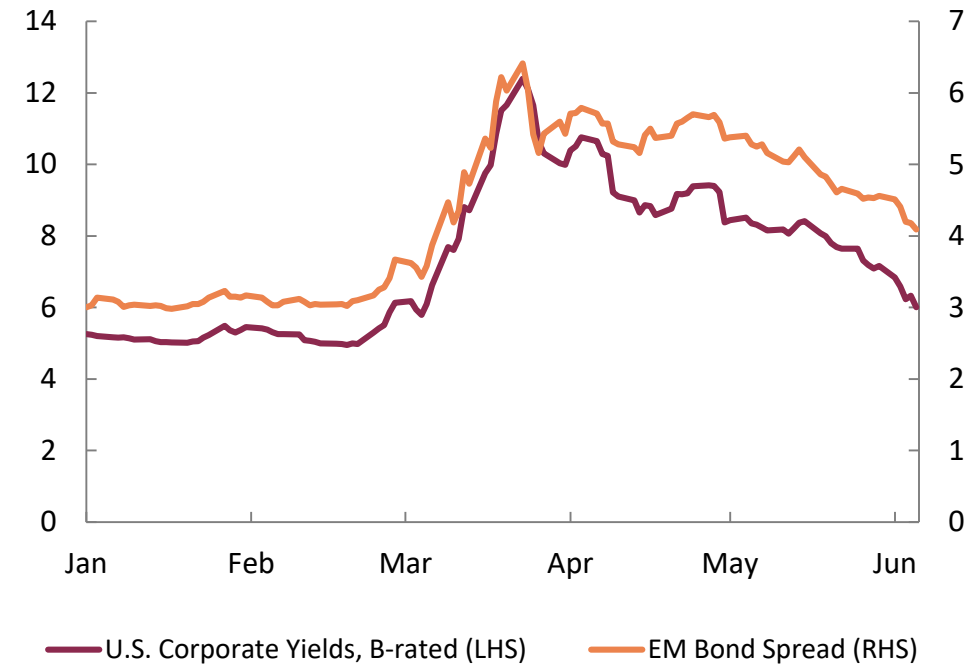
Global Stock Markets

% change since Jan. 1



Global Debt Markets

%

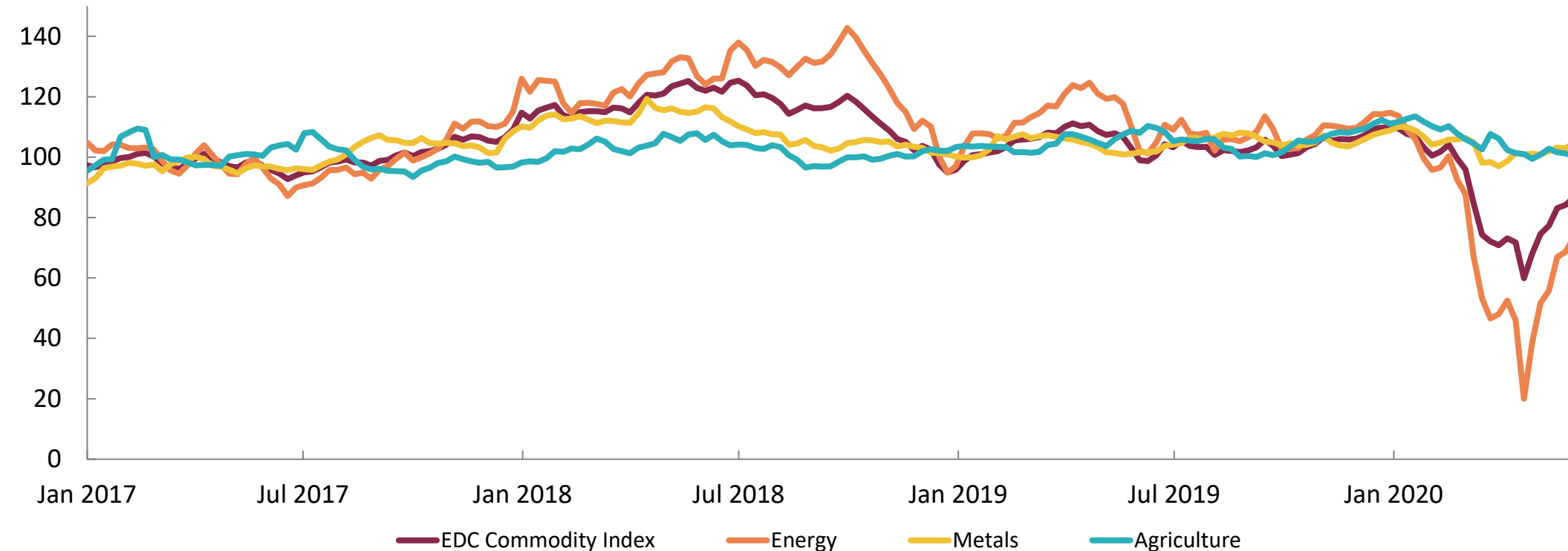


COMMODITY PRICES

Reduced global demand for commodities has weighed on commodity prices, especially energy.

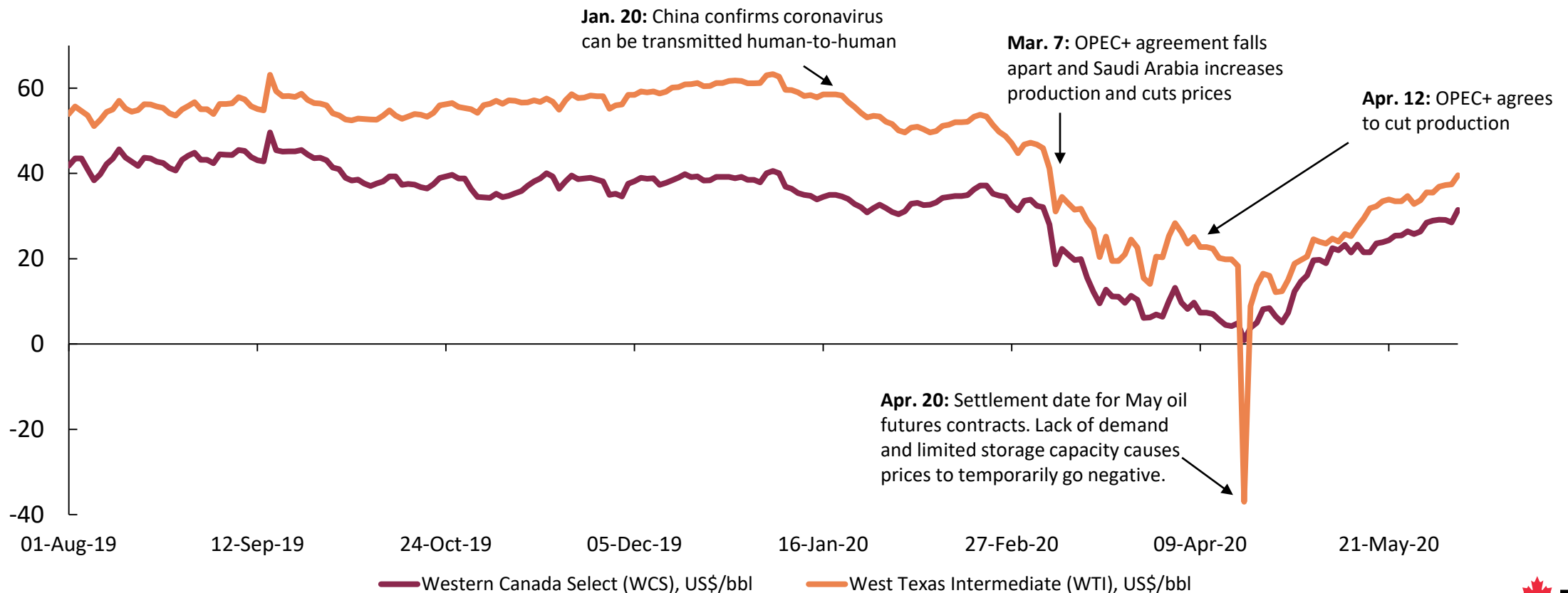
EDC Commodity Indices

2017 = 100



OIL PRICES

Oil prices collapsed amid depressed demand and a temporary price war that increased supply, but prices have strengthened noticeably since the end of April.

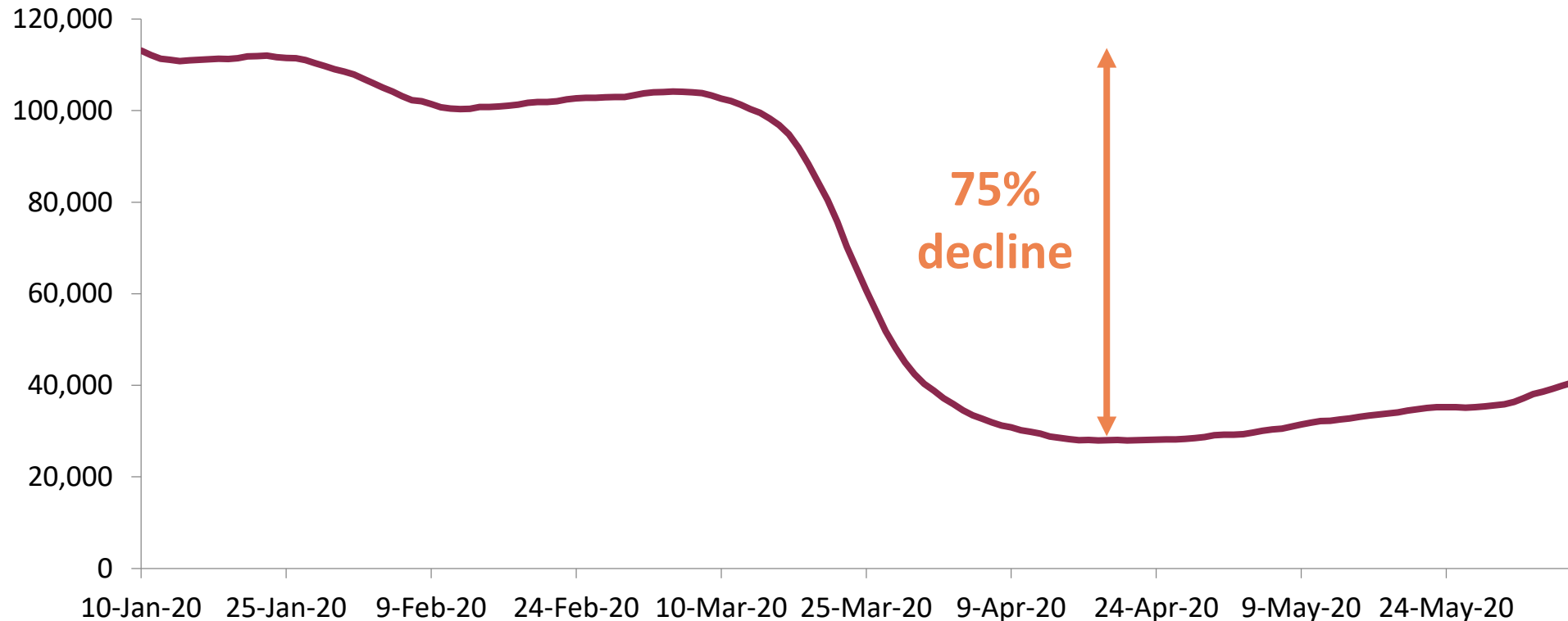


INTERNATIONAL AIR TRAVEL

Travel restrictions grounded most international air travel, which has barely picked up hitting a trough in April.

Daily active commercial flights

weekly global average

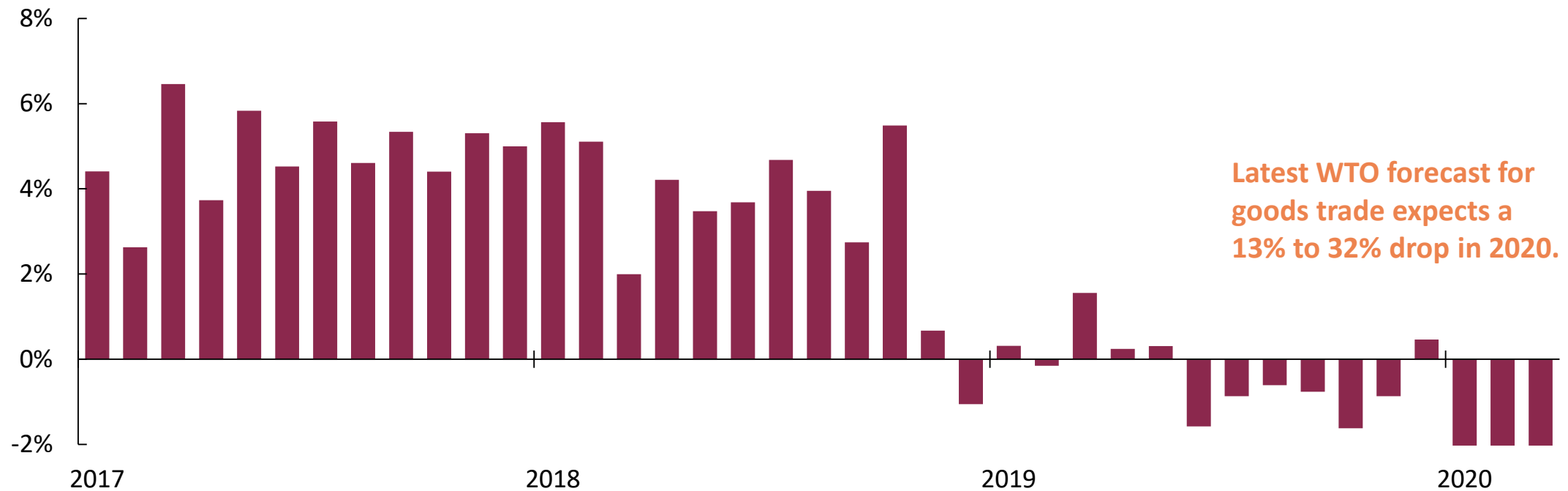


GLOBAL MERCHANDISE TRADE

Trade was shrinking before COVID-19, as trade wars and policy uncertainty were negatively affecting activity.

Global merchandise trade volumes

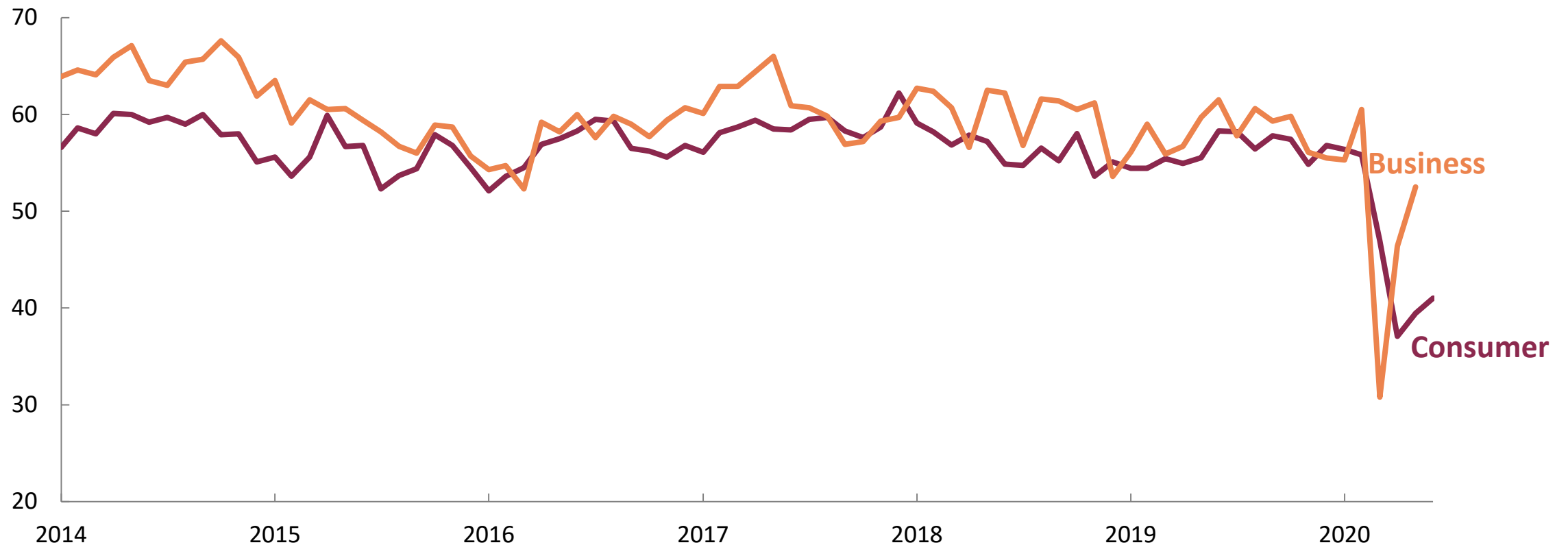
annual % change



CONFIDENCE

Canadian consumer confidence remains depressed, but business confidence has improved.

Business and consumer confidence indices



Notes: 50+ = positive consumer sentiment. Consumer sentiment is weekly, aggregated monthly using last value. June value corresponds to the first week of June.

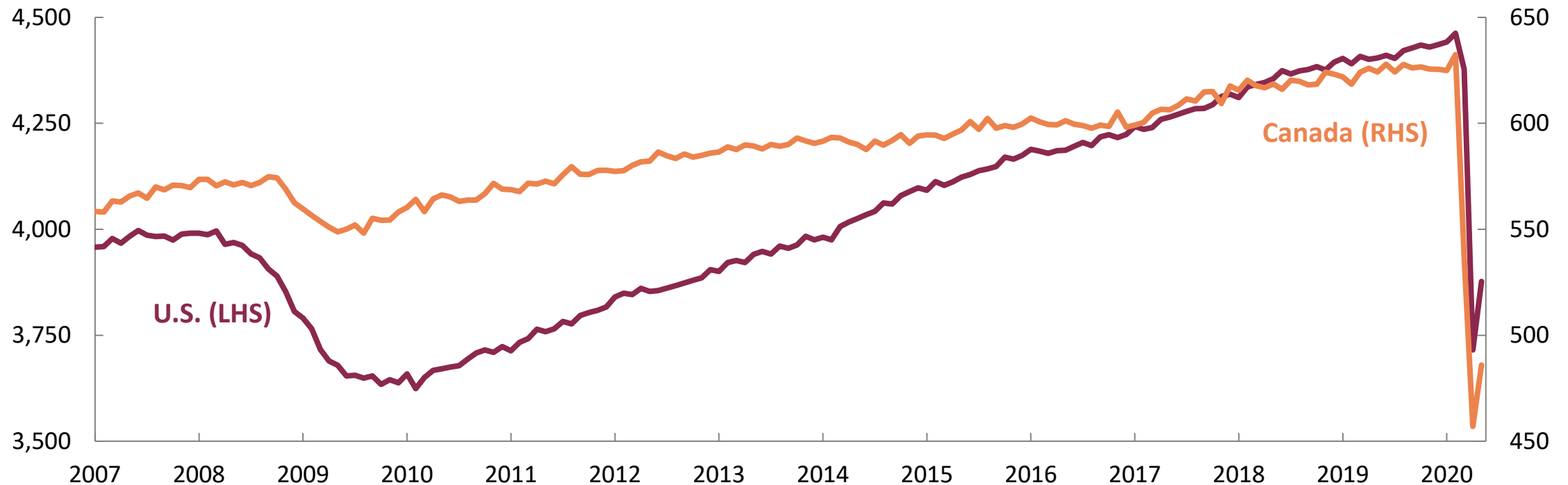
Sources: Nanos Canadian consumer sentiment index, CFIB business barometer

LABOUR MARKET

During lockdowns in March and April, the total hours worked fell by historic amounts in the U.S. and Canada, however, as containment measures began to ease in May, there were unexpected rebounds in the data.

Total weekly hours worked

Millions, monthly

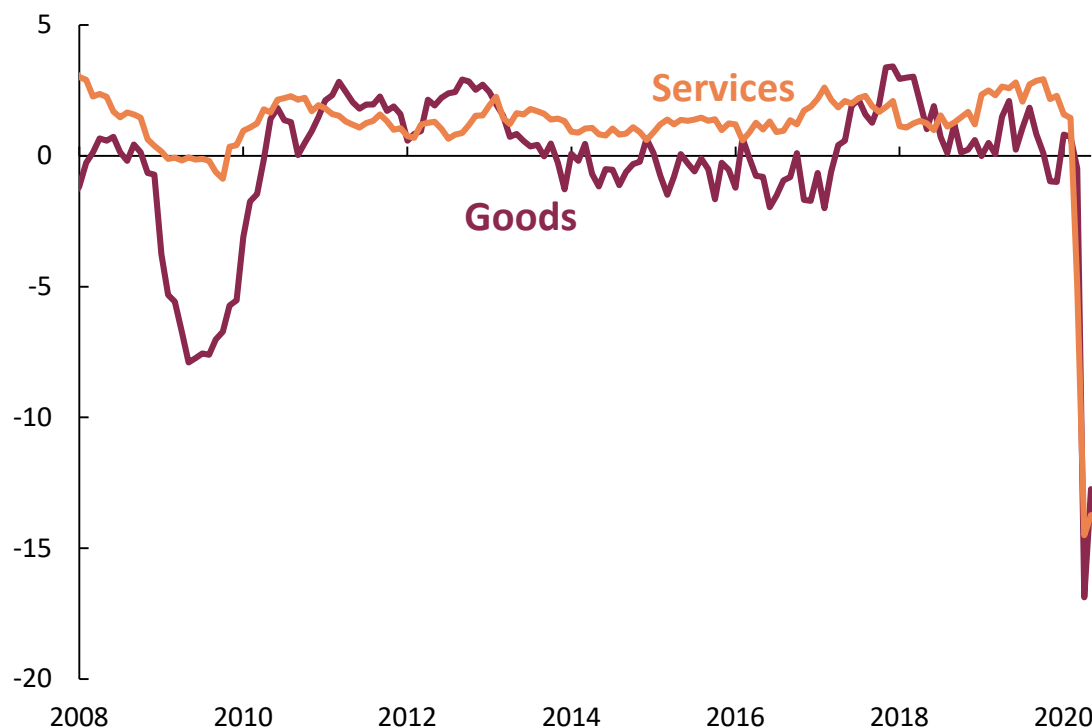


LABOUR MARKETS CONTINUED

Services sector employment, which held up reasonably well in past Canadian recessions, has been hit particularly hard, in areas such as restaurants, retail and recreation.

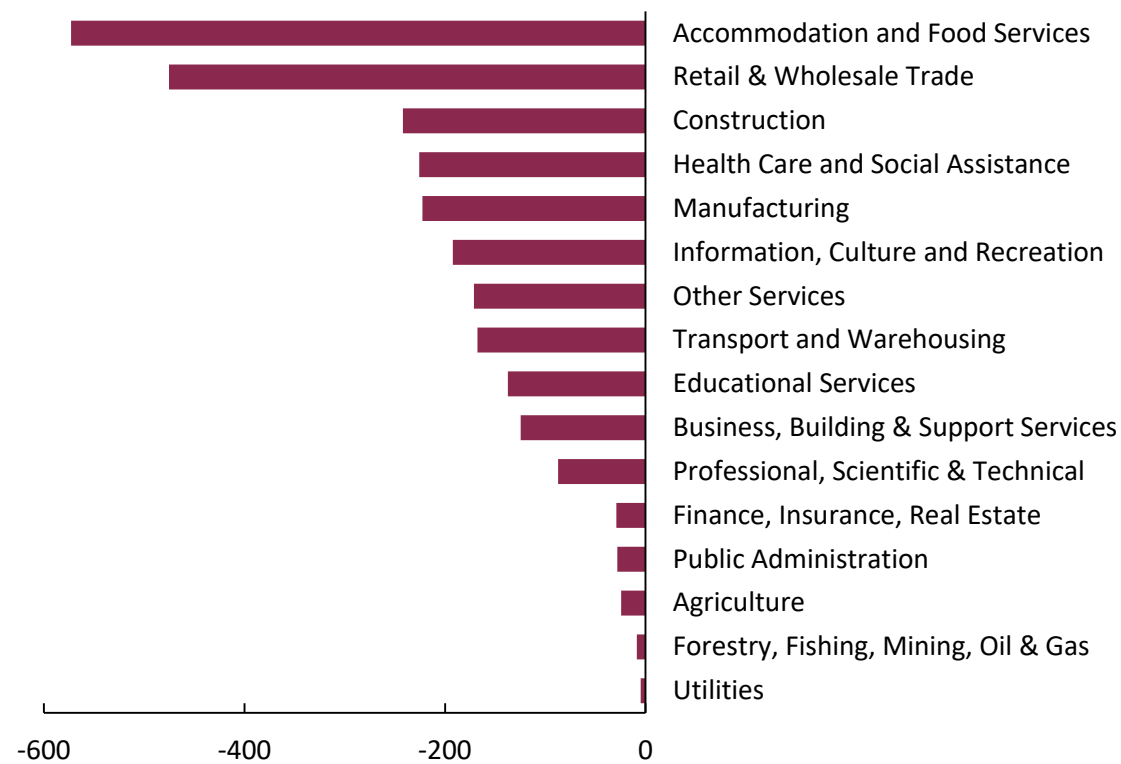
Goods and services employment

year-over-year % change



Employment Changes, by Sector

February to May 2020, Thousands

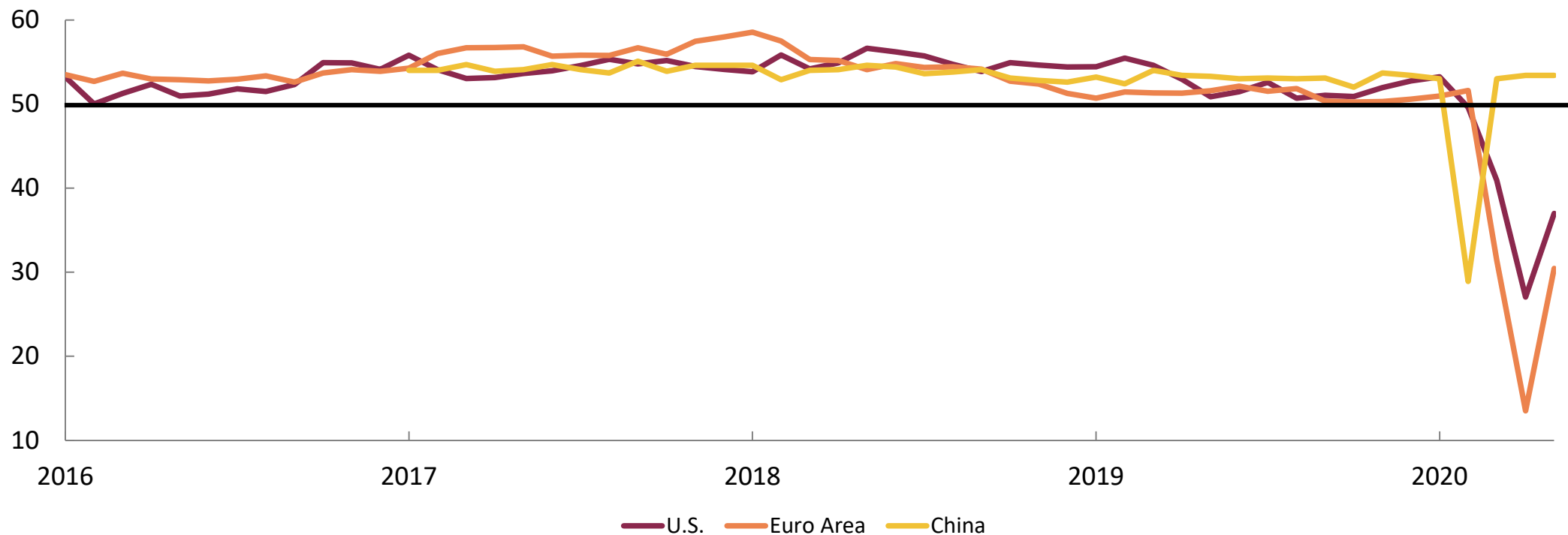


PURCHASING MANAGERS' INDICES

Orders tanked first in China during their lockdowns, followed by Europe and then North America. They have since picked up in China, but not in most other regions.

Purchasing managers' indices

50+ = expansion



UNPRECEDENTED GLOBAL POLICY RESPONSE

Central bank interest rate cuts and various large-scale asset purchase programs, followed by massive expansions in direct support for households and businesses in order to maintain liquidity.

Monetary policy

U.S. Federal Reserve

150 bps rate cuts to effective lower bound (ELB) of 0.0-0.25%

Bank of Canada

150 bps rate cuts to ELB of 0.25%

European Central Bank

Operating at ELB of -0.5%

Bank of England

65 bps rate cuts to ELB at 0.1%

Bank of Japan

Already operating at ELB at -0.1%

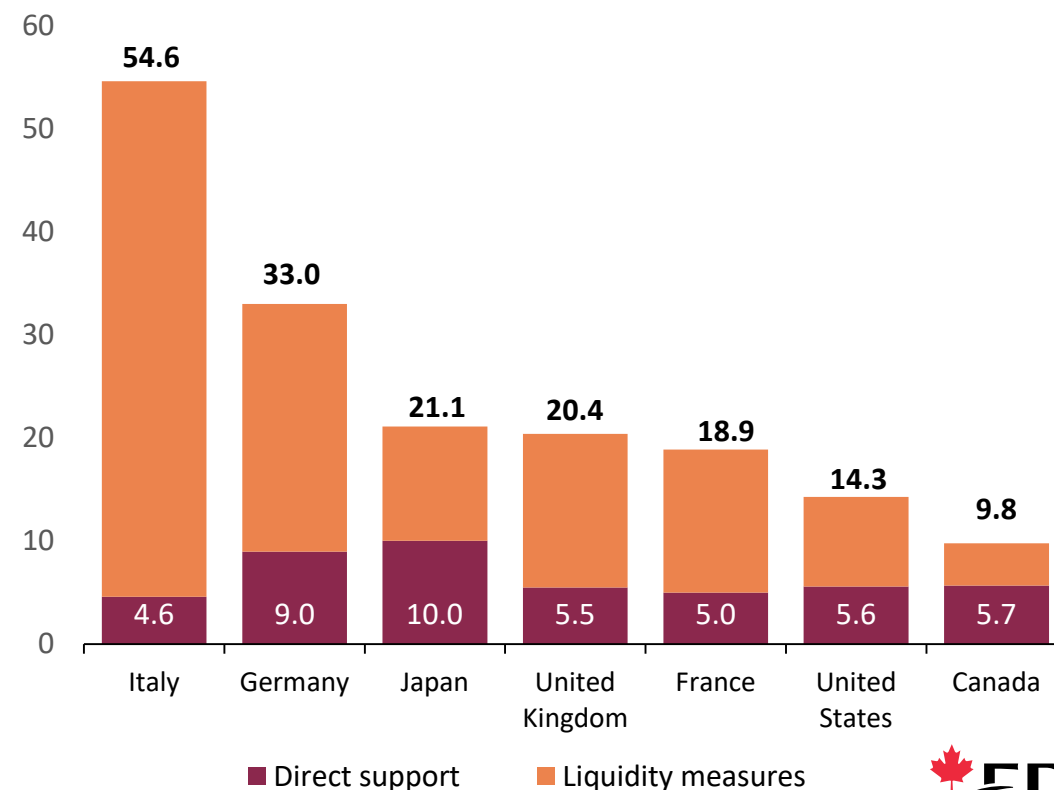
People's Bank of China

Various term lending rates cut to ease financial conditions

Central bank asset purchases have grown rapidly across the world, at roughly double the scale of the 2008-09 global financial crisis.

G7 Fiscal Policy Responses to COVID-19

% of GDP, US\$ PPP

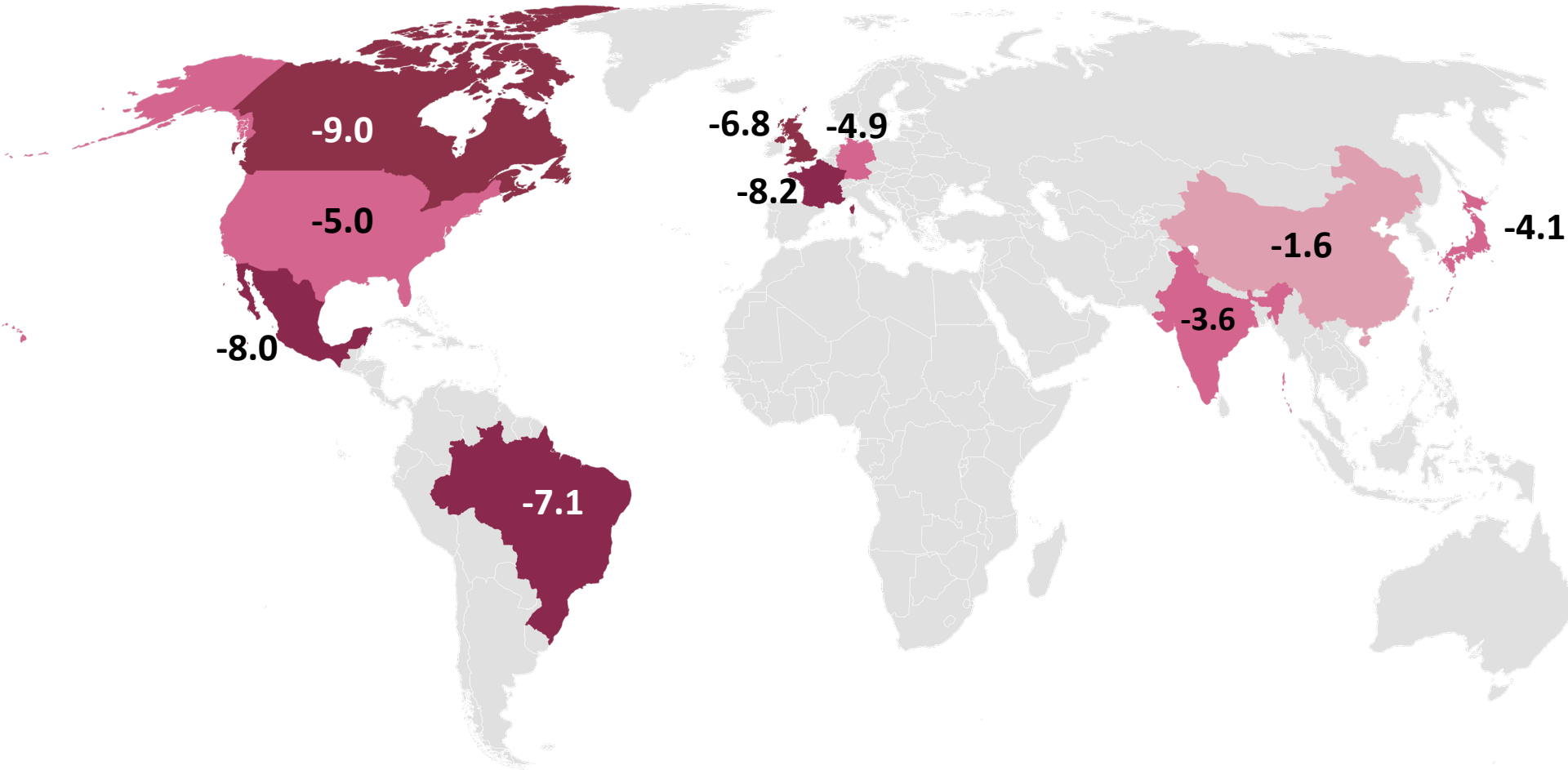


GLOBAL ECONOMIC OUTLOOK



2020 GROWTH OUTLOOK

Real GDP growth, %



-4.3%

World

-5.4%

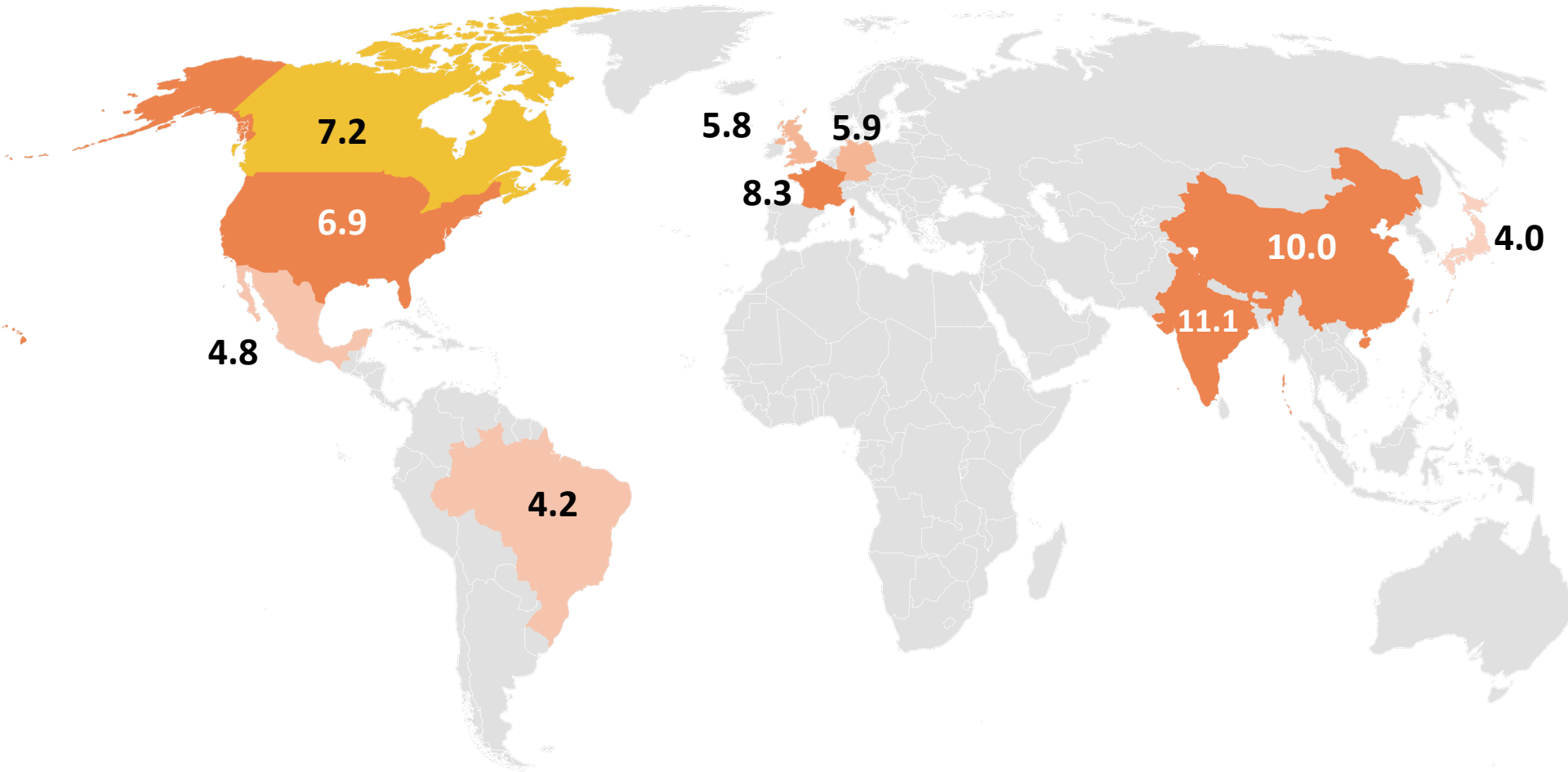
Developed

-3.6%

Emerging

2021 GROWTH OUTLOOK

Real GDP growth, %



6.9%

World

6.1%

Developed

7.2%

Emerging

REAL GDP GROWTH

Global Economic Outlook (Annual % change)	2019	2020*	2021*
Developed countries	1.7	-5.4	6.1
Canada	1.7	-9.0	7.2
United States	2.3	-5.0	6.9
Eurozone	1.2	-6.2	6.4
Germany	0.6	-4.9	5.9
France	1.5	-8.2	8.3
United Kingdom	1.4	-6.8	5.8
Japan	0.7	-4.1	4.0
Emerging countries	3.7	-3.6	7.2
China	6.1	-1.6	10.0
India	4.2	-3.6	11.1
Brazil	1.1	-7.1	4.2
Mexico	-0.3	-8.0	4.8
Total World	2.9	-4.3	6.9

Note: * denotes the forecast period.

Source: EDC Global Economic Outlook, June 2020

CHANGES FROM PREVIOUS FORECAST

Global Economic Outlook Real GDP Growth (percentage point change)	2020*	2021*
Developed countries	-1.2	0.5
Canada	0.4	2.0
United States	-1.3	0.4
Eurozone	-1.8	1.8
Germany	-0.9	0.1
France	-2.5	2.4
United Kingdom	-0.3	0.0
Japan	0.3	0.0
Emerging countries	-1.7	0.8
China	0.9	1.0
India	-2.4	3.1
Brazil	-4.1	-0.5
Mexico	-4.2	0.3
Total World	-1.5	0.8

Note: * denotes the forecast period.

Source: EDC Global Economic Outlook, June 2020 relative to April 2020.

CURRENCIES AND INTEREST RATES

Global Economic Outlook		2019	2020*	2021*
Currency	Exchange Rate			
U.S. dollar	USD per CAD	0.75	0.73	0.75
Euro	CAD per EUR	1.49	1.53	1.51
Euro	USD per EUR	1.12	1.12	1.13
Interest Rates, annual average				
Bank of Canada, <i>Overnight Target Rate</i>		1.75	0.56	0.25
U.S. Federal Reserve, <i>Fed Funds Target Rate (Upper limit)</i>		2.14	0.39	0.10
European Central Bank, <i>Policy Interest Rate</i>		0.00	0.00	0.00

Note: * denotes the forecast period.

Source: EDC Global Economic Outlook, June 2020

COMMODITY PRICES

Global Economic Outlook	2019	2020*	2021*
Brent Crude Spot , <i>USD / bbl</i>	64.36	36.54	41.05
West Texas Intermediate , <i>USD / bbl</i>	56.99	32.02	36.55
Western Canada Select , <i>USD / bbl</i>	43.30	20.70	27.05
Natural Gas , <i>USD / MMBtu</i>	2.57	1.84	2.12
Gold , <i>USD / troy ounce</i>	1,392	1,646	1,448
Copper , <i>USD / tonne</i>	6,002	5,373	5,688

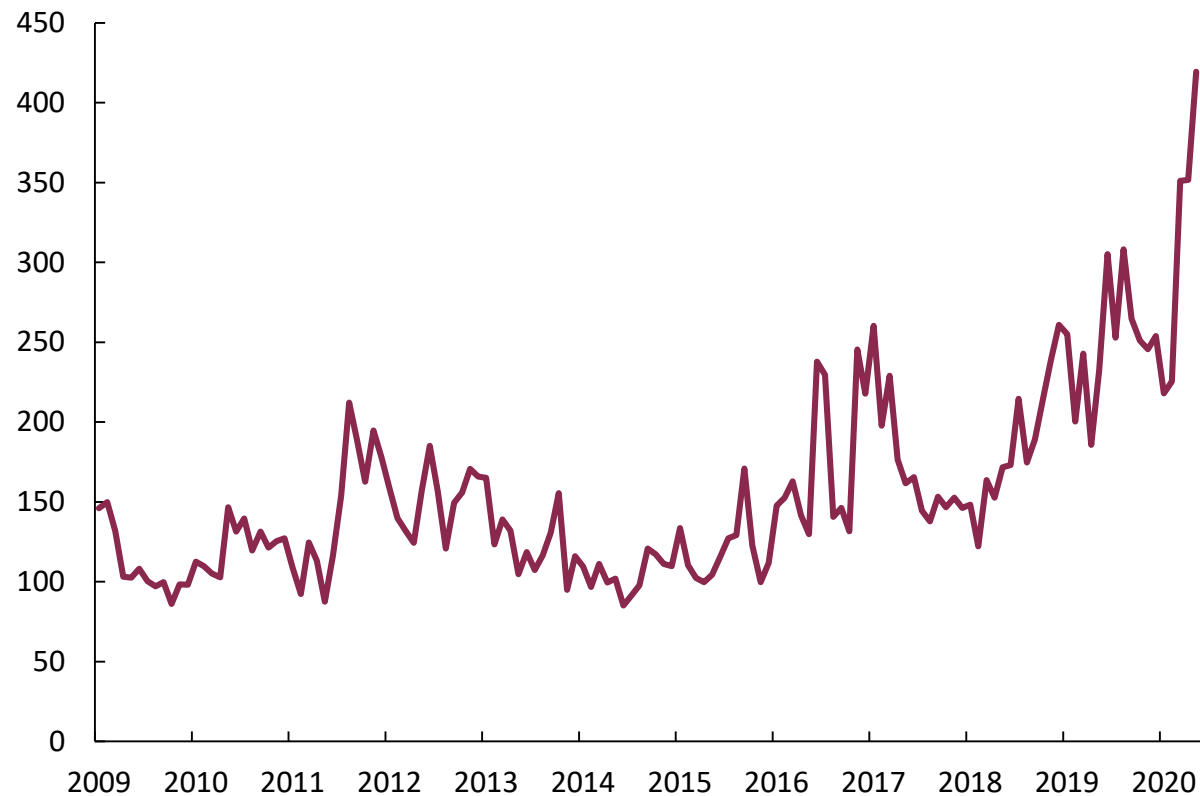
Note: * denotes the forecast period.

Source: EDC Global Economic Outlook, June 2020

UNCERTAINTY AND RISKS

Economic Policy Uncertainty Index

Mean = 100



Measures of global economic uncertainty have reached all-time highs during the COVID-19 pandemic.

- There's an exceptionally high degree of uncertainty around this forecast, due to the severity and spread of the pandemic, its interdependence on containment efforts (which have had sudden, widespread economic impacts), as well as the scale and efficacy of unprecedented policy responses.
- This report represents EDC's base case economic forecast, as of June 5, 2020, and is based on assumptions described above. There are significant risks to this base case, both to the upside and the downside.

DISCLOSURE

Ce document est également disponible en français.

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