

GLOBAL ECONOMIC OUTLOOK

• Uncharted Waters

COVID-19 continues to wreak havoc on global financial markets and the global economy. Nations and cities around the world are in lockdown. Vast amounts of economic activity have come to a standstill.

As a result, most major world economies are expected to suffer outright contraction in 2020. Policymakers have moved with a greater sense of urgency to add support, but these efforts have struggled to keep pace with the pandemic. Economic activity in developed markets is expected to recover in the second half of the year, but the shocks in some parts of the world could last longer. Though the oil price war has ended with a record deal to cut production, a slump in demand will continue to weigh on oil prices and, in turn, its producers.

Following are our views on how major world economies will fare this year and next.

United States

- Viral contagion in the U.S. is still rising, and a good portion of the country's economic activity has been halted. The U.S. economy is 68% consumption. When consumers stay home, the disruption is immediate and severe. The greatest risk of lasting economic damage will come from worker layoffs and employer closures, defaults and bankruptcies. Unemployment claims are surging while credit spreads remain elevated.
- To respond, the U.S. Federal Reserve has reduced overnight rates and launched programs to extend credit and repair liquidity in the financial markets. Three rounds of fiscal stimulus have passed, and more may follow. The near-term disruption will be substantial, but we expect a return to trend growth in late 2020.

Eurozone

- The outbreak of COVID-19 across eurozone economies has pushed the area into recession. Growth drivers like domestic demand and tourism have dropped like stones. Outbreaks in Italy and Spain have been cause for major concern. Germany's reliance on external demand will be a major hindrance. Unemployment rates for the eurozone are likely to peak at levels never seen before. Recent survey data confirms the severe shock to sentiment, presaging declines in hard data ahead.
- Colossal challenges posed by the outbreak have forced the European Central Bank to adopt a massive asset purchase program that covers an expanded range of assets and countries. These supports should help ease some strain, but region-wide fiscal relief is still missing. Agreement was reached late last week on the contours of stimulus, but it may take time to reach areas of greatest need.

United Kingdom

- Strengthened restrictions on movement announced by the British government are

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causing significant disruptions to economic activity. As a result, we expect unemployment rates in the U.K. to more than double by midyear. The threat has prompted a coordinated monetary and fiscal policy response. The Bank of England lowered its overnight rate to 0.10%, commenced £200 billion of quantitative easing, and agreed to temporary monetary financing of government spending. Parliament announced a £330 billion emergency rescue package for businesses and enhanced benefits for those most affected by the pandemic.

- The only silver lining in all of this for the U.K. is that Brexit worries will take a backseat. Overwhelmed by the outbreak and reluctant to impose additional burdens on businesses, the U.K. government may re-think its stance of not seeking an extension to the transition period beyond December 2020.

Japan

- On the back of a dismal end to 2019 and disruptions in global markets and supply chains, the Japanese economy suffered the further indignity of the postponement of the 2020 Summer Olympics until 2021. Tokyo was recently forced to implement a lockdown, and other prefectures have followed. A recession is assured.
- Recent government stimulus measures won't be enough to avoid a downturn, but should set the stage for recovery. The Bank of Japan (BoJ) has announced additional easing measures to soften the fallout of COVID-19. And hopefully, the Summer Olympics will come off successfully next year.

China

- While the domestic spread of COVID-19 is slowing, the global outbreak is weighing on China's export-dependent economy. Containment measures caused severe disruption. Authorities are trying to ramp up economic activity, but global demand for China's output has been severely damaged. A surge in bad debts and corporate defaults (from a record high in 2019) is a further challenge for policymakers. Overall, China is likely to enter a technical recession, which may not be reflected in the reported headline numbers.
- Chinese policymakers have been deploying a mix of monetary and fiscal easing measures. Targeted required reserve-ratio cuts are aimed at providing credit to struggling corporations, while infrastructure projects will keep workers employed. Some are suggesting that China will offer significant aid to struggling emerging economies, but we suspect they will need their resources to deal with problems at home.

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Global Economic Forecast – April 2020

	2018	2019	2020F	2021F
United States				
Real GDP (Q4-Q4 % change)	2.5	2.3	-4.0	2.9
Unemployment Rate, EOP (%)	3.8	3.5	8.5	6.5
Inflation (CPI, Q4-Q4, %)	2.2	2.0	0.5	1.5
Policy Rate (Top), EOP (%)	2.50	1.75	0.25	0.25
Eurozone				
Real GDP (Q4-Q4 % change)	1.2	0.9	-5.2	2.7
Unemployment Rate EOP (%)	7.9	7.5	13.2	12.4
Inflation (CPI, Q4-Q4, %)	1.9	1.0	0.3	1.4
Policy Rate, EOP (%)	0.00	0.00	0.00	0.00
Deposit Rate, EOP (%)	-0.40	-0.50	-0.50	-0.50
United Kingdom				
Real GDP (Q4-Q4 % change)	1.5	1.1	-4.9	3.0
Unemployment Rate EOP (%)	4.0	3.8	8.6	7.2
Inflation (CPI, Q4-Q4, %)	2.1	1.4	0.5	1.8
Policy Rate, EOP (%)	0.75	0.75	0.10	0.10
Japan				
Real GDP (Q4-Q4 % change)	0.3	-0.6	-3.0	2.2
Unemployment Rate EOP (%)	2.4	2.3	3.3	2.8
Inflation (CPI, Q4-Q4, %)	0.8	0.5	-0.7	0.6
Policy Rate, EOP (%)	-0.10	-0.10	-0.10	-0.10
China				
Real GDP (Q4-Q4 % change)	6.4	6.0	2.0	5.5
Unemployment Rate EOP (%)	3.8	3.6	4.3	4.0
Inflation (CPI, Q4-Q4, %)	2.2	4.3	1.3	2.1
Policy Rate, EOP (%)	4.31	4.15	4.05	4.05
Exchange rates (EOP)				
	Jun-2020F	Sep-2020F	Dec-2020F	Mar-2021F
EUR/USD	1.11	1.13	1.14	1.15
GBP/USD	1.24	1.27	1.27	1.28
USD/JPY	109.0	108.0	108.0	107.0
USD/CNY	7.05	7.00	7.00	6.95
	<i>F: Forecast</i>		<i>EOP: End of period</i>	