

GLOBAL ECONOMIC OUTLOOK

• Lives and Livelihoods

After weeks in lockdown, many major economies are easing restrictions to reboot economic activity. Unfortunately, they are faced with a difficult tradeoff between lives and livelihoods. A slow reopening will limit a renewed viral outbreak, but will also prolong the stress on workers and firms.

The economic impact of COVID-19 has started to fully materialize, with major countries experiencing contractions in the first quarter. The second quarter is likely to be far worse. Economic activity is expected to recover in the second half of the year, but will be graded by four curves. Policymakers will continue to deploy additional support measures, but the room for further large scale stimulus is diminishing.

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

United States

- The “Great Lockdown” has hit the U.S. economy hard. Real gross domestic product (GDP) contracted by 4.8% on an annualized basis in the first quarter, as lockdowns took effect in March. The U.S. economy is likely to register a record contraction in the second quarter. Although we expect the recovery to begin in the third quarter, we don’t expect GDP to return to its late-2019 level until 2022. A second wave of virus spread is a major downside risk.
- Both the U.S. Federal Reserve and Congress have taken substantial steps to underpin the economy and the financial markets, but more fiscal and monetary measures may be needed. Fed Chair Powell reaffirmed his commitment to do “whatever it takes” to ensure a robust economic recovery and pledged to keep interest rates at their lower bound until that recovery has been achieved. The Fed has also underscored the need for additional spending and not just lending.

Eurozone

- Despite the announcement of a phased reopening across the eurozone, data releases have painted a gloomy picture of economic activity. First-quarter results varied by country, but all members of the common currency area suffered contractions and all are braced for a brutal second quarter. Unemployment is expected to peak at levels higher than those seen during the 2013 crisis. The economic situation in vulnerable countries, like Italy, is a major concern.
- The European Central Bank (ECB) continues to underpin the eurozone economy with a massive asset purchase program. Last month, it expanded banks’ access to ultra-cheap liquidity. A German court ruling threatens the ECB’s flexibility, but we expect the ECB to press ahead. Last week, the Pandemic Crisis Support program was approved. Germany and France have announced their backing for a €500 billion recovery fund to be disbursed in the form of grants, but this is only a small step forward

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considering the scope of the challenge the eurozone economy faces.

United Kingdom

- Unlike other European economies, the U.K. has opted for an extension of the bulk of its lockdown restrictions. This will produce a bigger hit to economic activity than anticipated previously. Unemployment rates are likely to more than double this quarter. Fiscal stimulus has been ample, but Britain still faces Brexit risk. The outlines of a new trade arrangement with the European Union were to have been finalized next month, but this timeline will not be met. For now, Westminster is stubbornly refusing to extend the Brexit timeline, but we believe that a reluctance to impose additional suffering on businesses will prompt a re-think.
- The Bank of England refrained from introducing additional stimulus measures at this month's meeting, pending clarity on the easing of lockdown measures. Disappointing incoming data and lingering risks to the outlook should prompt the central bank to announce an increase of its asset purchases in June.

Japan

- Though the Japanese government appears to be pivoting towards lifting the state of emergency in most parts of the country, Japan is on course for a deeper contraction than many other countries amid a bleak external outlook and faltering domestic demand. Risks of the country slipping back into deflation are rising.
- The Bank of Japan continues to ease monetary policy, announcing increased purchases of government securities, commercial paper and corporate bonds at its April meeting. On the fiscal front, an upcoming supplementary budget is expected to cover rent subsidies for small- and medium-sized enterprises, expansion of employment subsidies and support for larger firms.

China

- The COVID-19 outbreak is having a significant impact on the Chinese economy, as real GDP contracted (-6.8% year-over-year) for the first time in decades. While signs of recovery are emerging with slower domestic spread of COVID-19, we do not expect the economy to rebound strongly. The deteriorating external outlook will limit export demand, and geo-political tensions between China and world powers are emerging as a major uncertainty. Trade is likely to contract in general, and China is at risk for losing share as supply chains are restructured.
- Further fiscal and monetary easing is on the horizon. The People's Bank of China has signaled further easing by putting more emphasis on economic growth and employment. Fiscal policy is set to become more proactive with an extension of temporary tax and fee cuts. The magnitude of these fiscal measures will be unveiled during the upcoming annual session of the National People's Congress later this month.

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Global Economic Forecast – May 2020

	2018	2019	2020F	2021F
United States				
Real GDP (Q4-Q4 % change)	2.5	2.3	-5.1	4.8
Unemployment Rate, EOP (%)	3.8	3.5	10.0	6.5
Inflation (CPI, Q4-Q4, %)	2.2	2.0	-0.1	1.7
Policy Rate (Top), EOP (%)	2.50	1.75	0.25	0.25
Eurozone				
Real GDP (Q4-Q4 % change)	1.2	0.9	-7.7	6.1
Unemployment Rate EOP (%)	7.9	7.5	10.8	8.5
Inflation (CPI, Q4-Q4, %)	1.9	1.0	0.3	1.3
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	-7.0	5.5
Unemployment Rate EOP (%)	4.0	3.8	8.0	5.0
Inflation (CPI, Q4-Q4, %)	2.1	1.4	0.5	1.7
Policy Rate, EOP (%)	0.75	0.75	0.10	0.10
Japan				
Real GDP (Q4-Q4 % change)	0.3	-0.6	-5.5	4.5
Unemployment Rate EOP (%)	2.4	2.3	3.8	2.8
Inflation (CPI, Q4-Q4, %)	0.8	0.5	-1.0	0.6
Policy Rate, EOP (%)	-0.10	-0.10	-0.10	-0.10
China				
Real GDP (Q4-Q4 % change)	6.4	6.0	0.0	5.5
Unemployment Rate EOP (%)	3.8	3.6	4.6	4.0
Inflation (CPI, Q4-Q4, %)	2.2	4.3	1.3	2.1
Policy Rate, EOP (%)	4.31	4.15	3.85	3.85
Exchange rates (EOP)				
	Jun-2020F	Sep-2020F	Dec-2020F	Mar-2021F
EUR/USD	1.09	1.10	1.12	1.14
GBP/USD	1.22	1.23	1.24	1.28
USD/JPY	107.0	108.0	108.0	107.0
USD/CNY	7.07	7.05	7.03	7.00
	<i>F: Forecast</i>		<i>EOP: End of period</i>	