

# GLOBAL ECONOMIC OUTLOOK

## • Winter is Coming

Major world economies were hoping to put COVID-19 behind them before autumn fell over the Northern Hemisphere, but the virus has risen again with renewed vigor. While the U.S. suffers from a third surge in infections, European nations are struggling to find the right combination of measures to drive down virus numbers without inflicting another major economic injury. Monetary policy support is here to stay, but government support is set to wane in the U.S. and the U.K. The rest of Europe is still chalking out the details of its Recovery Fund.

The strong rebound in economic activity seen in the third quarter won't be sustained; our expectations for the fourth quarter have been lowered. We reiterate our view that a return to pre-pandemic levels of output is a long way off in many economies.

Following are our views on how major world markets will fare during the balance of this year and next.

### United States

- COVID-19 remained a focal point as an outbreak spread through the White House and case counts continued to grow across all states. Cooling temperatures in much of the country will bring more activity indoors, increasing the risk of viral spread and renewed business closures. The risk to the U.S. economy is compounded by a failure to pass further fiscal stimulus. Households facing unemployment and businesses facing weak demand will see their struggles increase without additional relief.
- Many high-frequency indicators that showed recovery over the summer have started to flatten out. The recovery in employment diminished notably from August to September. Sectors like travel and restaurants will be hobbled for a long time to come. Despite these impairments, broad adaptation to living with the virus will support continued growth in the year ahead, albeit at a more modest pace.

### Eurozone

- Health fears are clouding the region's economic outlook. Rising infections and associated re-imposition of control measures in several markets are dampening economic prospects. Although the economy is set to post a strong rebound in the third quarter, incoming surveys and hard data indicate that the recovery is losing steam. German industrial production fell marginally in August, investor confidence fell notably in October and forward-looking measures covering the service sector are in decline.
- The Recovery Fund, a supranational response to the pandemic approved by European leaders in July, has encountered procedural and legal roadblocks. A delay in disbursements will weigh on the recovery of the already fragile region. The minutes of the September meeting suggest that the European Central Bank has kept the door open to new stimulus, although the impact of such support would be limited.

Global Economic Research  
50 South La Salle Street  
Chicago, Illinois 60603  
[northerntrust.com](http://northerntrust.com)

**Carl R. Tannenbaum**  
Chief Economist  
312-557-8820  
[ct92@ntrs.com](mailto:ct92@ntrs.com)

**Ryan James Boyle**  
Senior Economist  
312-444-3843  
[rjb13@ntrs.com](mailto:rjb13@ntrs.com)

**Vaibhav Tandon**  
Economist  
630-276-2498  
[vt141@ntrs.com](mailto:vt141@ntrs.com)

**Brian Liebovich**  
Chief Dealer, Foreign Exchange  
312-630-8021  
[bfl2@ntrs.com](mailto:bfl2@ntrs.com)

## United Kingdom

- Economy activity in the U.K. has entered a weaker phase amid a sharp rise in virus cases. Gross domestic product (GDP) growth softened to 2.1% month-on-month in August, and the retail sector is starting to lose momentum due to additional COVID-19 restrictions. Both manufacturing and services surveys slipped in September. Risks to jobs from reduced business closures and the sunset of the government's furlough scheme will likely lead to a sharp increase in British unemployment rates in the coming months.
- In addition to economic hardships posed by the virus, the British economy also faces the additional elevated risk of a no-deal Brexit. Brexit negotiations are ongoing in spite of the U.K. government's provocative internal market bill; hopes for an agreement have risen. That said, differences over state aid, fishing and governance with the EU persist. Our central view remains unchanged: Brexit negotiations will lead to a thin free trade agreement, but with the deadline just a few weeks away, it is going to be a scramble.

## Japan

- The Japanese economy is improving after taking a large hit in the second quarter, and growth is expected to recover in the third quarter. Business pessimism eased a bit in September, especially among large manufacturers. Industrial production is off its lows but remains in contraction territory. The path back to normal levels of activity will be gradual and uneven.
- The Bank of Japan, at its September meeting, maintained its monetary policy stance while stressing its commitment to easing and its readiness to take further steps should the economy worsen again. The central bank will be coordinating closely with Prime Minister Yoshihide Suga's new administration to target 2% inflation and sustainable growth.

## China

- The recovery in China remains on a firm footing, supported by surprisingly robust exports and investment; household consumption remains a drag on growth. However, the overall outlook isn't too bright, as major demand centers are facing virus-related headwinds and a number of countries are focused on reducing dependence on Chinese supplies in the name of national security and in light of concerns over unfair trade practices.
- The current U.S. administration is trying to decouple from China. Regardless of the U.S. election outcome, momentum will continue toward reshoring. That said, most developed and developing nations will continue to have strong economic linkages with Beijing, at least in the near- to medium-term. Amid external pressure and internal macro imbalances, China is making progress on reforms and opening its economy, but there is a long way to go.

[northerntrust.com](http://northerntrust.com)



@NT\_CTannenbaum

Information is not intended to be and should not be construed as an offer, solicitation or recommendation with respect to any transaction and should not be treated as legal advice, investment advice or tax advice. Under no circumstances should you rely upon this information as a substitute for obtaining specific legal or tax advice from your own professional legal or tax advisors. Information is subject to change based on market or other conditions and is not intended to influence your investment decisions.

© 2020 Northern Trust Corporation. Head Office: 50 South La Salle Street, Chicago, Illinois 60603 U.S.A. Incorporated with limited liability in the U.S. Products and services provided by subsidiaries of Northern Trust Corporation may vary in different markets and are offered in accordance with local regulation. For legal and regulatory information about individual market offices, visit [northerntrust.com/disclosures](http://northerntrust.com/disclosures).

## Global Economic Forecast – October 2020

	2018	2019	2020F	2021F
<b>United States</b>				
Real GDP (Q4-Q4 % change)	2.5	2.3	-3.2	4.0
Unemployment Rate, EOP (%)	3.8	3.5	8.3	6.5
Inflation (CPI, Q4-Q4, %)	2.2	2.0	0.8	1.8
Policy Rate (Top), EOP (%)	2.50	1.75	0.25	0.25
<b>Eurozone</b>				
Real GDP (Q4-Q4 % change)	1.2	0.9	-6.9	4.9
Unemployment Rate EOP (%)	7.9	7.5	9.1	9.5
Inflation (CPI, Q4-Q4, %)	1.9	1.0	0.0	0.9
Policy Rate, EOP (%)	0.00	0.00	0.00	0.00
Deposit Rate, EOP (%)	-0.40	-0.50	-0.50	-0.50
<b>United Kingdom</b>				
Real GDP (Q4-Q4 % change)	1.5	1.1	-7.2	4.9
Unemployment Rate EOP (%)	4.0	3.8	8.4	6.9
Inflation (CPI, Q4-Q4, %)	2.1	1.4	0.4	1.2
Policy Rate, EOP (%)	0.75	0.75	0.10	0.10
<b>Japan</b>				
Real GDP (Q4-Q4 % change)	0.3	-0.6	-4.3	3.1
Unemployment Rate EOP (%)	2.4	2.3	3.6	3.2
Inflation (CPI, Q4-Q4, %)	0.8	0.5	-1.0	0.2
Policy Rate, EOP (%)	-0.10	-0.10	-0.10	-0.10
<b>China</b>				
Real GDP (Q4-Q4 % change)	6.4	6.0	5.0	5.1
Unemployment Rate EOP (%)	3.8	3.6	4.2	3.6
Inflation (CPI, Q4-Q4, %)	2.2	4.3	1.5	2.3
Policy Rate, EOP (%)	4.31	4.15	3.85	3.85
<b>Exchange rates (EOP)</b>				
	Dec-2020F	Mar-2021F	Jun-2021F	Sep-2021F
EUR/USD	1.19	1.21	1.23	1.25
GBP/USD	1.29	1.31	1.32	1.34
USD/JPY	106.0	105.0	104.0	102.0
USD/CNY	6.70	6.60	6.60	6.50
	<i>F: Forecast</i>	<i>EOP: End of period</i>		