

GLOBAL ECONOMIC OUTLOOK

• Hoping for Better

The renewed wave of virus infections and associated restrictions in several advanced markets have dampened fourth-quarter growth prospects. However, promising developments surrounding vaccination and fiscal support in Europe give us hope that 2021 will be a better year than the one that is about to end. We expect the global economic recovery to find firmer footing after the first quarter of 2021.

While there is light at the end of COVID tunnel, frictions between the world's two largest economies over trade and technology and potential disruptions at borders between the U.K. and the European Union are two major downside risks.

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

United States

- The U.S. labor market illustrates an economy losing momentum. The unemployment rate only improved from 6.9% to 6.7% in November, while the labor force participation rate fell. Job creation is far below the pace needed for a fulsome economic growth cycle. Workers in highly impacted sectors, like hospitality and tourism, appear to be sitting out the recovery until a vaccine brings their former industries back to life. We do not expect a second recession, but the year is ending in a patch of slow growth.
- As we go to press, discussions of another round of fiscal stimulus are continuing. Areas of compromise include a renewal of the Paycheck Protection Program for small businesses and a supplement of \$300 per week for workers who remain unemployed. Deliberations over liability protections and support for state and local governments remain contentious. Any additional stimulus will support the recovery, and the sooner it passes, the better.

Eurozone

- Renewed restrictions on activity to contain the spread of COVID-19 ahead of the holiday season are likely to dampen holiday spirits and economic activity. Incoming data like the composite Purchasing Managers' Index (PMI) and the economic sentiment indicator are pointing toward a contraction in real gross domestic product (GDP) in the fourth quarter. The short-term outlook remains dark, but beyond that, positive news on the vaccine front should support a faster return to normalcy.
- European nations have averted one significant economic risk. EU leaders agreed on the €1.8 trillion multi-year EU budget, including a €750 billion recovery fund, after Poland and Hungary dropped their objections. Though modest in size, the package clears the path for much needed fiscal support to the hardest hit member states. In another positive development, the European Central Bank increased the size of its bond purchasing program by €500 billion, extending it through at least March 2022.

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United Kingdom

- U.K. real GDP remains on course to contract in the fourth quarter, although the decline is set to be far smaller than was seen in spring. Stringent restrictions hindered the economy over the last two months: November's services PMI fell to a five-month low of 47.6, while new car registrations dropped 27.4% year-over-year. While we have downgraded our current year GDP growth forecast, we have also upgraded next year's forecast to reflect a rapid vaccine-led boost to consumption.
- The Brexit sword is still hanging over the British economy. With a little more than two weeks remaining until the end of the transition period, Brexit negotiations remain gridlocked over the level playing field and fisheries. A thin free trade agreement (our base case) might help avert the worst potential economic outcomes, but even then, trade would remain disrupted in the near term owing to lack of operational clarity and preparations by businesses.

Japan

- Even though Japan has managed the COVID-19 outbreak better than most advanced economies, its economy has suffered from weak external demand amid the renewed wave of COVID-19 infections and lockdowns abroad. That said, the economy continues to recover from the pandemic-induced contraction and encouraging news of an effective vaccine should help sustain that momentum into next year. Amid the somewhat improving outlook, the Bank of Japan is likely to stay on the sidelines throughout 2021.
- Faster vaccine rollout has increased the likelihood of Japan hosting the postponed Tokyo Olympics next summer, but likely with limitations on visitors and spectators, as several visiting nations would still be in the early stages of inoculating their populations. As a result, we expect the Olympics to deliver only a modest boost to Japan's GDP next year.

China

- China, the first major economy to emerge from COVID-induced economic shock, will continue to recover in the fourth quarter and beyond, underpinned by improving domestic and external conditions. Recovery is becoming more broad based as household consumption, which was lagging until recently, has started catching up. The recently signed Regional Comprehensive Economic Partnership trade agreement will boost China's regional trade further.
- U.S.-China decoupling will likely continue under the Biden administration. China will continue to rely on state-led corporations to support growth, but will face enhanced pressure to reforms by further opening its economy. The strength of China's currency may also present a headwind to export growth.

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Global Economic Forecast – December 2020

	2018	2019	2020F	2021F
United States				
Real GDP (Q4-Q4 % change)	2.5	2.3	-2.4	4.7
Unemployment Rate, EOP (%)	3.8	3.5	6.6	5.7
Inflation (CPI, Q4-Q4, %)	2.2	2.0	1.1	1.8
Policy Rate (Top), EOP (%)	2.50	1.75	0.25	0.25
Eurozone				
Real GDP (Q4-Q4 % change)	1.2	0.9	-6.9	5.0
Unemployment Rate EOP (%)	7.9	7.5	9.0	9.3
Inflation (CPI, Q4-Q4, %)	1.9	1.0	-0.2	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	-11.0	7.5
Unemployment Rate EOP (%)	4.0	3.8	6.2	6.6
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	-2.7	3.6
Unemployment Rate EOP (%)	2.4	2.3	3.4	3.0
Inflation (CPI, Q4-Q4, %)	0.8	0.5	-0.9	0.3
Policy Rate, EOP (%)	-0.10	-0.10	-0.10	-0.10
China				
Real GDP (Q4-Q4 % change)	6.4	6.0	5.5	4.8
Unemployment Rate EOP (%)	3.8	3.6	4.8	3.4
Inflation (CPI, Q4-Q4, %)	2.2	4.3	1.0	2.4
Policy Rate, EOP (%)	4.31	4.15	3.85	3.85
Exchange rates (EOP)				
	Dec-2020F	Mar-2021F	Jun-2021F	Sep-2021F
EUR/USD	1.21	1.22	1.23	1.25
GBP/USD	1.31	1.31	1.32	1.33
USD/JPY	104.0	103.0	103.0	102.0
USD/CNY	6.55	6.52	6.50	6.47
	<i>F: Forecast</i>	<i>EOP: End of period</i>		