A Raging Virus in Europe, Italy standing out….

22 October 2020 *Ilze Gouws: EDI, Head of Economics*

Key Points:

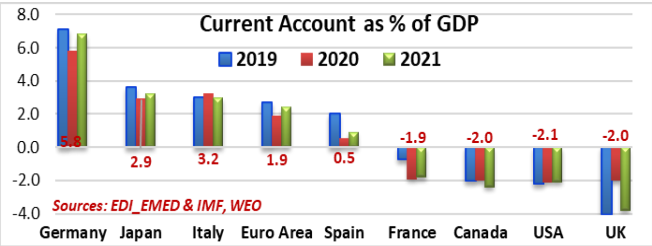
- Increasing debt burdens
- Uncertainty in forecasts
- Narrowing in global trade
- Eurozone in biggest recession
- Italy cases soar to new record

In summary:

The ongoing COVID-19 pandemic has thrown the public finances of most countries into disorder and triggered unique policy responses around the world. Many nations have engaged in some form of fiscal stimulus. Increase in government spending and decline in government revenue have combinedly led to a surge in government debt, sharply heightening the risk of a sovereign debt crisis. Many economies could become trapped in a vicious cycle of high debt and low growth. Developed countries may be less prone to financing issues yet, thanks to the extraordinary monetary accommodation by leading central banks, but poorer ones are likely to find their debt burden increasingly difficult to handle.

The uncertainty around the virus are extremely challenging on forecasts. Moreover, a second wave is becoming more probable in the Northern Hemisphere as winter is approaching. The current trade restrictions, political uncertainty, and the lack of a vaccination are also spurring uncertainty.

Current Account and Trade

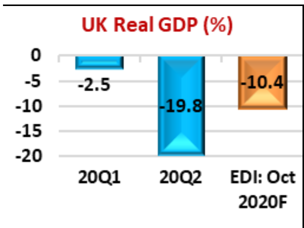


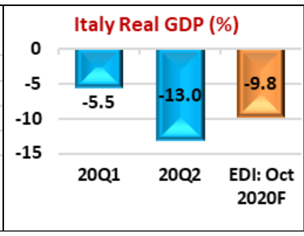
Pronounced weakness in domestic demand may provide a false sense of security against the backdrop of improving global imbalances. The IMF stated that as a consequence of a reduction in international trade current account deficits and surpluses are projected to shrink in 2020 to the lowest level in the past two decades. The IMF WEO October 2020 figures (*accompanying graph*) revealed that some deficits, though narrowing in 2020, are expected to widen again in 2021, a clear indication of the recovery in trade channels.

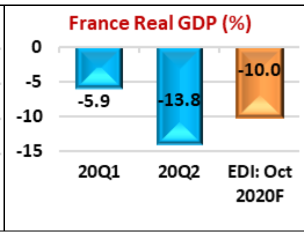
The narrowing in global trade in 2020 reflects a sharp fall in the tourism and travel sectors. Countries where these sectors account for a larger share of GDP are expected to suffer bigger declines in activity during 2020 to 2021 compared with pre-pandemic forecasts. Our panel expects growth in trade volumes to rebound in 2021 but will remain well below the pre-crisis trend. The latest WTO data revealed a 9.2% fall in world merchandise trade volume for 2020 which is a bit more optimistic than the April 2020 WTO forecast of 12.9%.

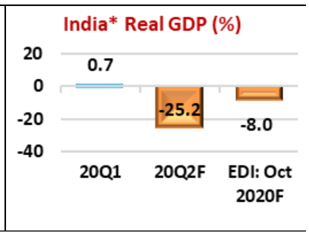
Real GDP Growth Update

We expect the recovery period from the crisis to be long, uneven, and uncertain. As indicated in the accompanying graphs, the impact of the pandemic can clearly be seen in the 2020Q2 official released figures. Most analysts hope to see a rebound in the official 2020Q3 figures as restrictions have been relaxed, however the latest new surge in cases, put a damper on expectations. Our panel forecasted a real GDP growth contraction of 10.4% for the UK in 2020, followed by France with -10.0%, Italy at -9.8% and India contracting at 8.0% this year. Earlier this week, Italy had to tighten rules again after the surge in new coronavirus cases.

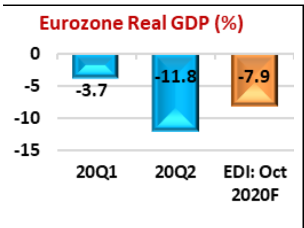


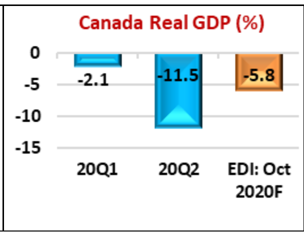


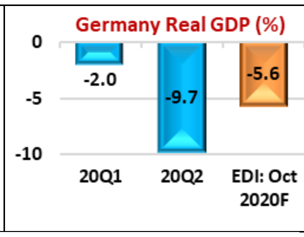


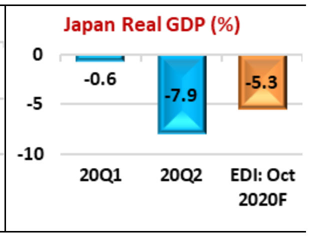


The Eurozone economy entered its biggest recession ever after a 11.8% shrink in 2020Q2. According to Eurostat (Oct release), among the member states, the sharpest declines were recorded in Spain (-17.8%), Croatia (-14.9%) and Hungary (-14.6%) in 2020Q2, while the lowest declines were observed in Finland (-4.4%), Estonia(-5.6%) and Lithuania (-5.9%). Industrial production in the EU increased only modestly in August and is significantly below the level prior to the crisis. The industrial sector appears to have stalled and, with the surge in new infections, it is likely to have a dampening effect on consumer activity. Our panel of forecasters expect the Eurozone to contract by 7.9% in 2020.

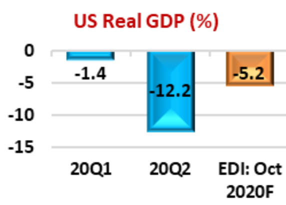


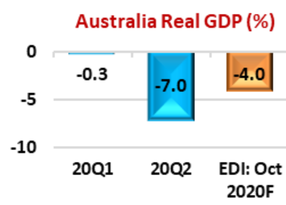






Industrial production in the US also showed a downward trend of 0.6% from August to September, the first monthly decline since April. Figures released by the Bureau of Economic Analysis (BEA) on 2 October stated that real GDP decreased in all 50 states and the district of Columbia, revealing a real GDP contraction for the nation at an annual rate of 31.4% in 2020Q3. Poverty rates in the US are rising, as government aid decreases despite ongoing economic distress caused by the pandemic. Many countries have entered a technical recession after two consecutive quarters of GDP contracting. China is on track to be the world's only major economy to grow this year. China's recovery from the pandemic continued in 2020Q3 and showed signs of expansion in September as consumer spending accelerated.





With the resurgence of COVID-19 cases in many countries, there is considerable uncertainty around the possibility of future mitigation measures that may curtail economic activity, which may not be fully factored into current figures.

2020Q1 and Q2 data from official sources and 2020F is the latest full year forecast by EDI_EMED panel of forecasters

To see all our Economic Products, visit our website or contact:

Ilze Gouws: **Cell: +27 (0) 82 7823 750**
E-mail: **i.gouws@exchange-data.com**