

## Economic & Country Risk

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Presentation

# Global economic outlook

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A Presentation to the World Steel Economic Committee

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September 28, 2020



# Main questions

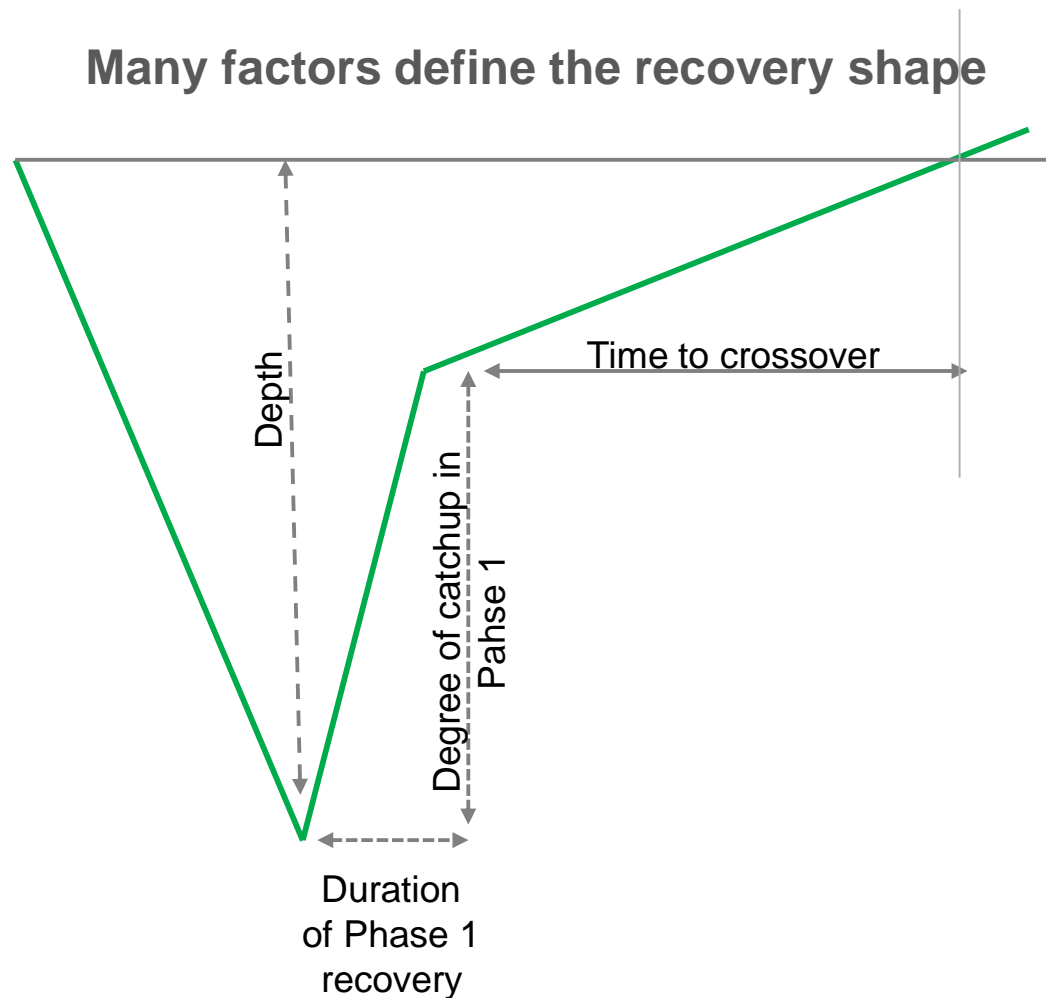
- How fast will the economy recover?
- Are we entering a second wave?
- Will there be long term consequences?
- What are the risks beyond Covid-19?
- What should we expect in selected countries

# How fast will the economy recover?

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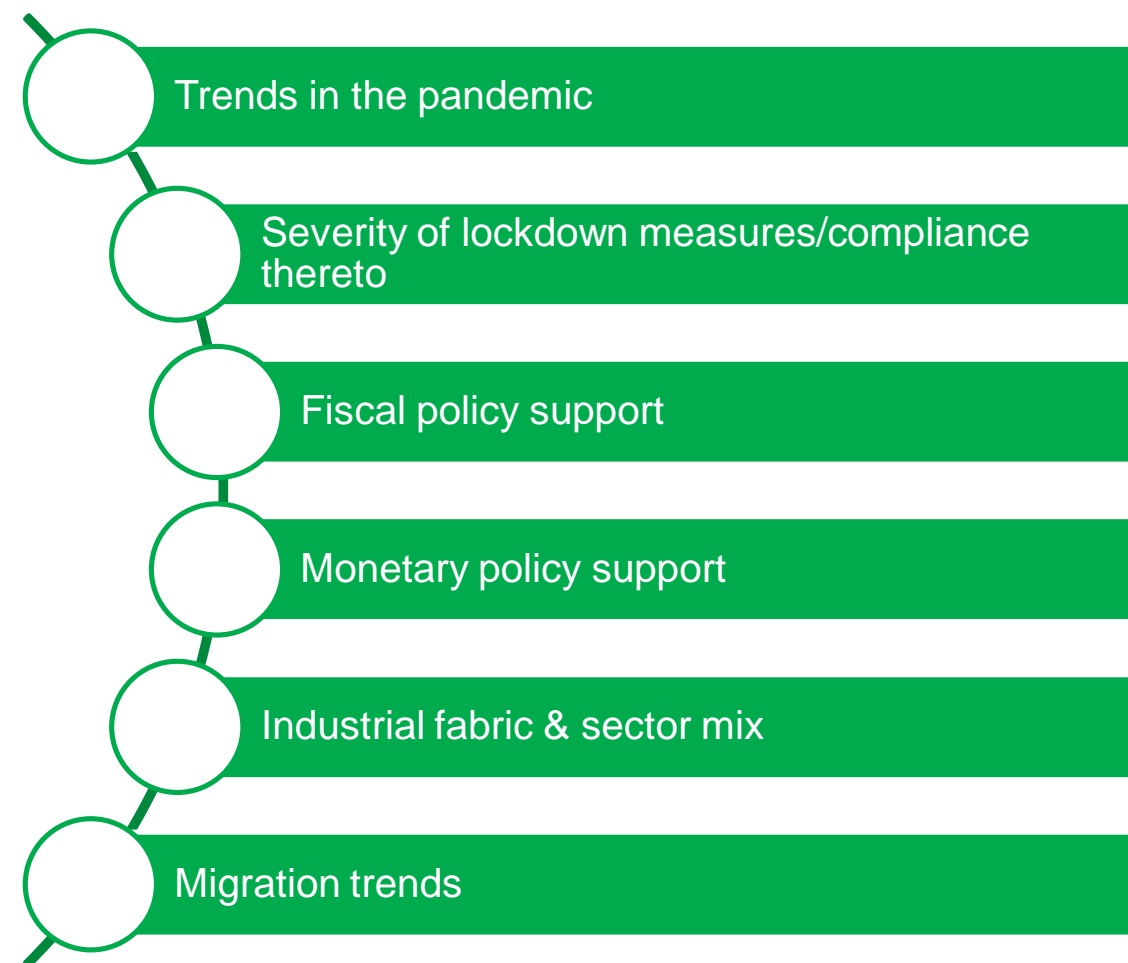
## Factors impacting the recovery path

Many factors define the recovery shape



Source: IHS Markit

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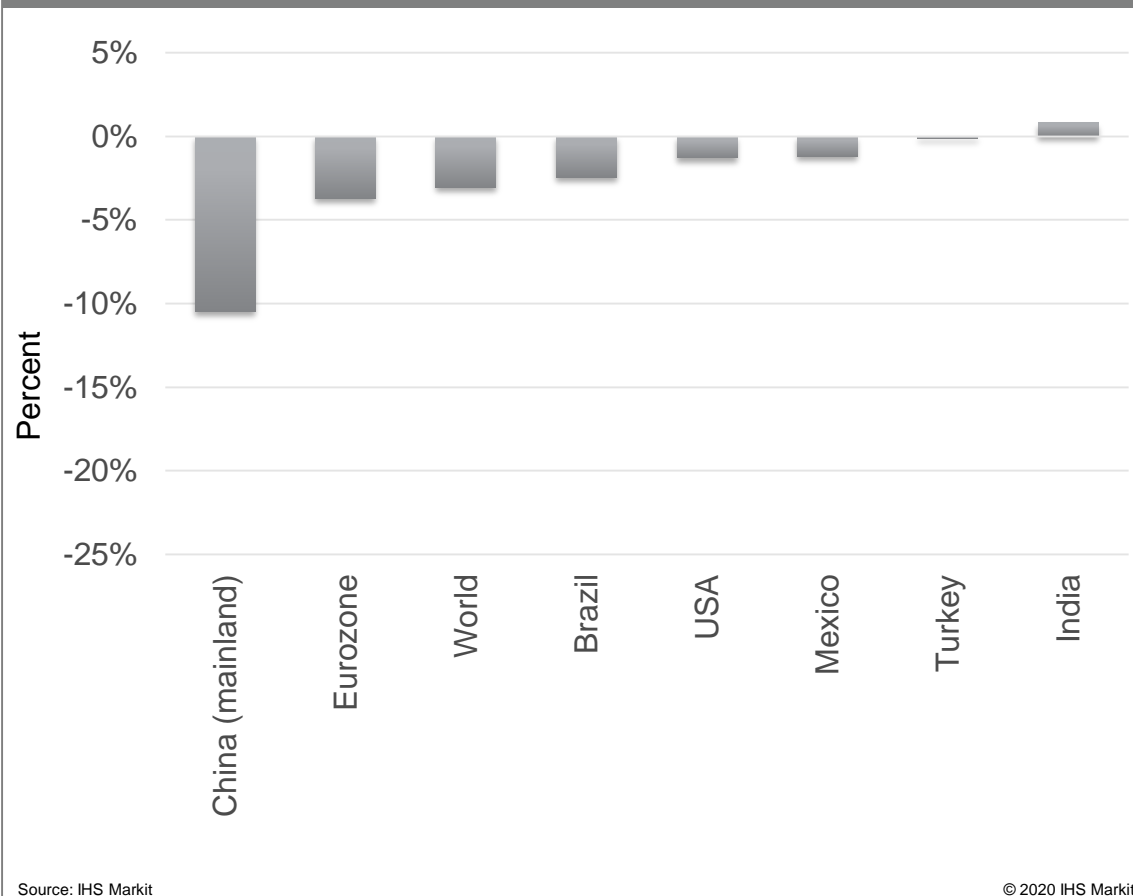


Source: IHS Markit

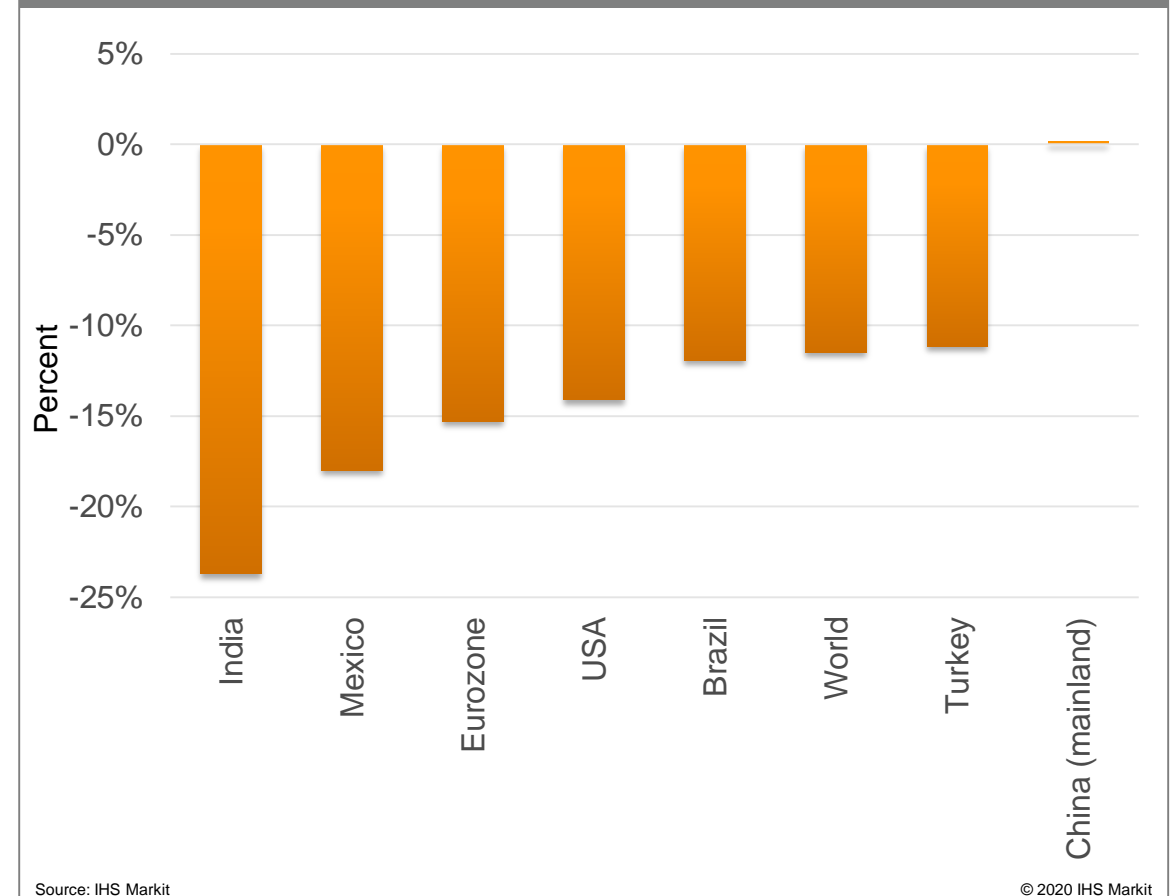
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# What do we see? (2020 Q1 and Q2 versus the pre-pandemic peak)

## Real GDP – 2020q1 versus 2019q4



## Real GDP – 2020q2 versus 2019q4



# A late crossover

Our baseline forecast shows:

- extended albeit incomplete V-recoveries expected in most countries...
- ... with different cross-over point

	2019	2020				2021				2022				2023				2024			
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
USA	1.00	0.99	0.86	0.88	0.90	0.92	0.94	0.96	0.97	0.98	0.99	1.01	1.02	1.03	1.03	1.04	1.05	1.05	1.06	1.07	1.07
Canada	1.00	0.98	0.87	0.90	0.91	0.93	0.94	0.95	0.95	0.96	0.98	0.99	0.99	1.00	1.00	1.00	1.01	1.02	1.02	1.03	1.04
Eurozone	1.00	0.96	0.85	0.91	0.93	0.94	0.95	0.96	0.96	0.97	0.98	0.99	1.00	1.00	1.00	1.01	1.01	1.02	1.02	1.02	1.03
United Kingdom	1.00	0.98	0.78	0.89	0.90	0.91	0.92	0.94	0.94	0.95	0.96	0.96	0.97	0.97	0.98	0.98	0.98	0.99	0.99	1.00	1.00
China (mainland)	1.00	0.90	1.00	1.04	1.04	1.04	1.06	1.07	1.08	1.11	1.12	1.13	1.15	1.16	1.17	1.20	1.21	1.23	1.24	1.25	1.27
Japan	1.00	0.99	0.92	0.95	0.96	0.97	0.97	0.98	0.98	0.99	0.99	0.99	0.99	0.99	1.00	1.00	1.00	1.01	1.01	1.01	1.01
India	1.00	1.01	0.76	0.90	0.95	0.96	0.96	0.97	0.98	0.99	1.01	1.02	1.03	1.05	1.07	1.08	1.09	1.12	1.14	1.16	1.18
Brazil	1.00	0.98	0.88	0.93	0.94	0.95	0.96	0.97	0.98	0.98	0.99	0.99	0.99	1.00	1.01	1.01	1.02	1.02	1.03	1.04	1.05
Russia	1.00	0.99	0.91	0.92	0.91	0.94	0.96	0.96	0.96	0.97	0.97	0.98	0.99	0.99	1.00	1.00	1.00	1.01	1.01	1.02	1.02
World	1.00	0.97	0.89	0.92	0.94	0.95	0.97	0.98	0.99	1.00	1.01	1.02	1.02	1.03	1.04	1.05	1.06	1.06	1.07	1.08	1.09
Nafta (USMCA)	1.00	0.99	0.86	0.88	0.90	0.92	0.94	0.96	0.97	0.98	0.99	1.00	1.01	1.02	1.03	1.03	1.04	1.05	1.05	1.06	1.07
EU27 + UK	1.00	0.97	0.84	0.91	0.93	0.94	0.95	0.96	0.96	0.97	0.98	0.99	0.99	1.00	1.00	1.01	1.01	1.02	1.02	1.02	1.03
Asia Pacific	1.00	0.95	0.94	0.98	0.99	1.00	1.01	1.02	1.03	1.04	1.05	1.06	1.07	1.08	1.09	1.11	1.12	1.13	1.14	1.15	1.16
Latin America	1.00	0.98	0.86	0.91	0.95	0.95	0.96	0.96	0.96	0.97	0.98	0.98	0.99	1.00	1.00	1.01	1.01	1.02	1.03	1.04	1.05
MENA	1.00	0.97	0.88	0.88	0.90	0.93	0.94	0.95	0.96	0.97	0.97	0.98	0.99	1.00	1.00	1.01	1.03	1.03	1.04	1.05	1.06
Africa (3)	1.00	0.99	0.89	0.92	0.93	0.94	0.94	0.95	0.96	0.96	0.96	0.96	0.97	0.97	0.98	0.98	0.99	0.99	0.99	1.00	1.00

Source: IHS Markit

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# Among the factors explaining the different responses is the severity of COVID-19 restrictions

## Overview of IHS Markit's containment index

- The monthly index covers **USA** (state-level and country-level), **Europe & CIS**, and the rest of **G20** (including China, India, Japan).
- The index starts in March (restrictions in Europe and US imposed). Future months assessed based on publicly available plans for easing lockdowns and economists' assumptions.
- It is updated by country economists on a weekly basis.

## Methodology

- Index tracks seven categories of restrictions<sup>1</sup>, which can be assessed as unrestricted ( ) up to severely restricted (✓✓✓).
- Categories have equal weights.
- Raw score is the sum of ✓ for a state / country (minimum 0; maximum 21) with final score adjusted to range from 0 to 100.

## Example

	Raw score (0 to 21)	Final score (0 to 100)	Category of restrictions						
			1	2	3	4	5	6	7
Country 1	3	14	✓	✓	✓				
Country 2	7	33	✓	✓	✓	✓	✓	✓	✓
Country 3	11	52	✓	✓	✓	✓✓	✓✓	✓✓	✓✓
Country 4	14	67	✓✓	✓✓	✓✓	✓✓	✓✓	✓✓	✓✓
Country 5	18	86	✓✓	✓✓	✓✓	✓✓✓	✓✓✓	✓✓✓	✓✓✓

**Legend**

- No restrictions
- Mild restrictions ✓
- Significant restrictions ✓✓
- Severe restrictions ✓✓✓

(1) Schools / childcare (2) Restaurants, bars (3) Non-essential shops, services (4) Public gatherings (5) Internal mobility (6) External borders (7) Other, such as reduced hours to non-essential production stopped

# The IHS Markit containment index shows different paths across countries

IHS Markit Containment Index: Eurozone		2020									
		March	April	May	June	July	August	September	October	November	December
Eurozone	Germany	41	74	53	29	19	19	19	19	19	19
	France	43	81	69	31	19	19	19	19	19	19
	Italy	100	100	74	62	48	48	24	19	19	19
	Spain	49	95	76	62	43	43	24	19	19	19
	Netherlands	38	76	72	48	38	33	24	19	19	19
	Belgium	35	81	69	53	36	33	24	19	19	19
	Austria	48	83	55	29	19	19	19	19	19	19
	Ireland	36	81	71	57	41	38	36	24	24	24
	Finland	35	67	65	43	36	24	19	19	19	19
	Portugal	37	71	62	34	22	19	19	19	19	19
	Greece	35	67	52	34	24	19	19	19	19	19
	Slovakia	37	68	38	29	24	24	19	19	19	19
	Luxembourg	41	72	55	26	19	24	24	19	19	19
	Slovenia	74	84	57	24	29	29	24	19	19	19
	Lithuania	36	67	46	24	27	27	19	22	24	24
	Latvia	24	43	43	27	27	27	19	22	24	24
	Estonia	31	57	46	24	24	24	19	22	24	24
	Cyprus	36	68	43	38	26	19	19	19	19	19
	Malta	34	67	64	57	52	33	19	19	19	19

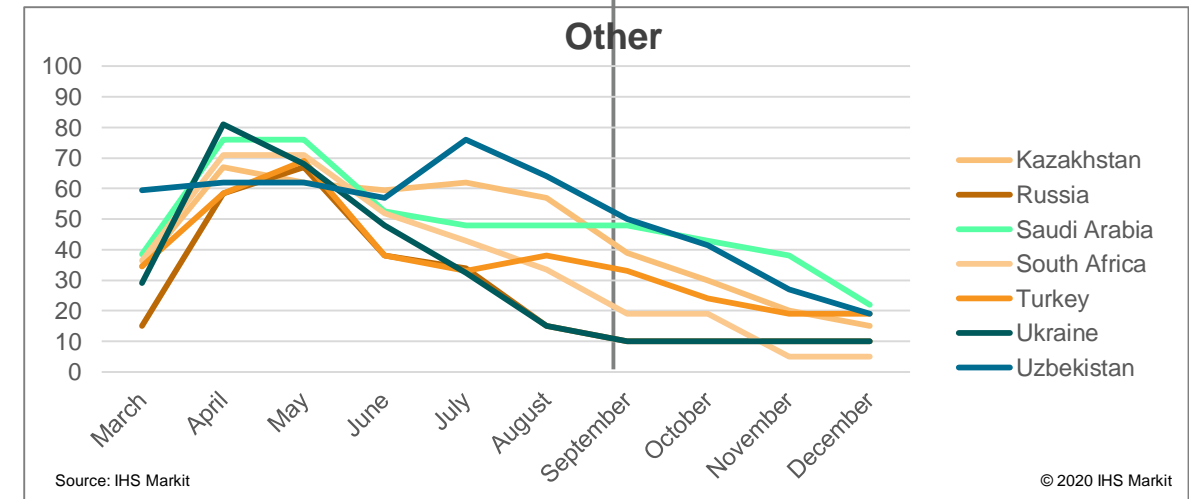
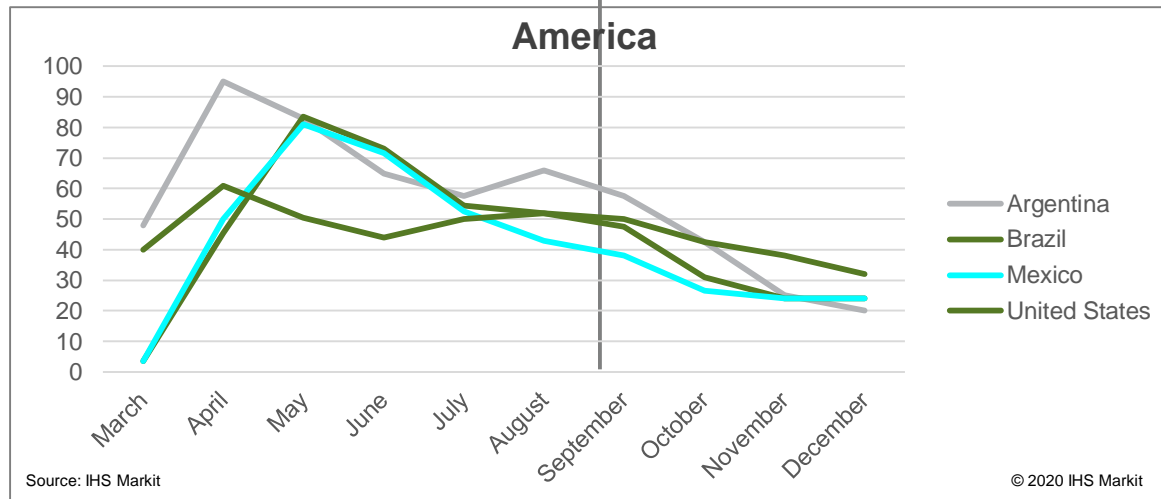
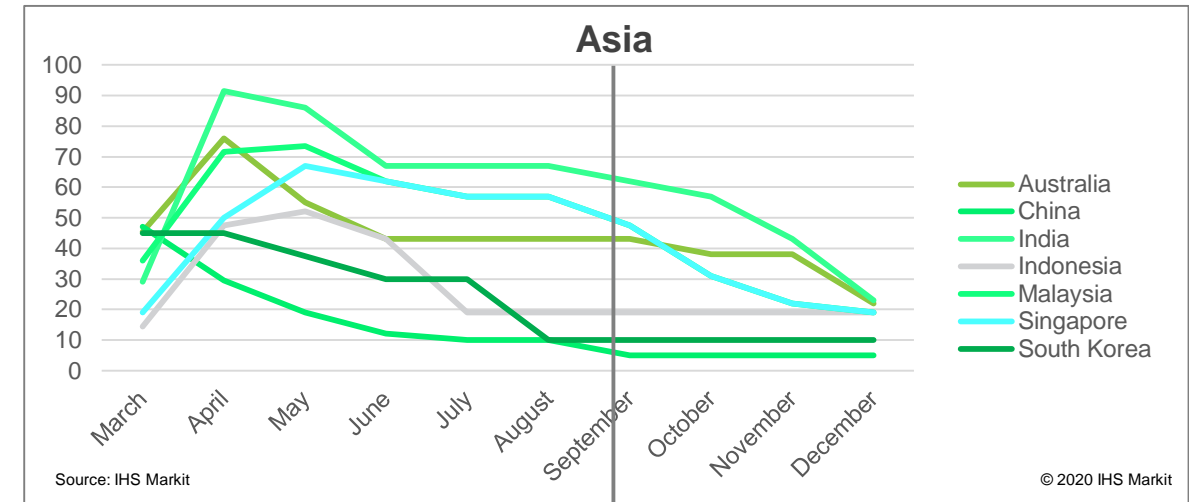
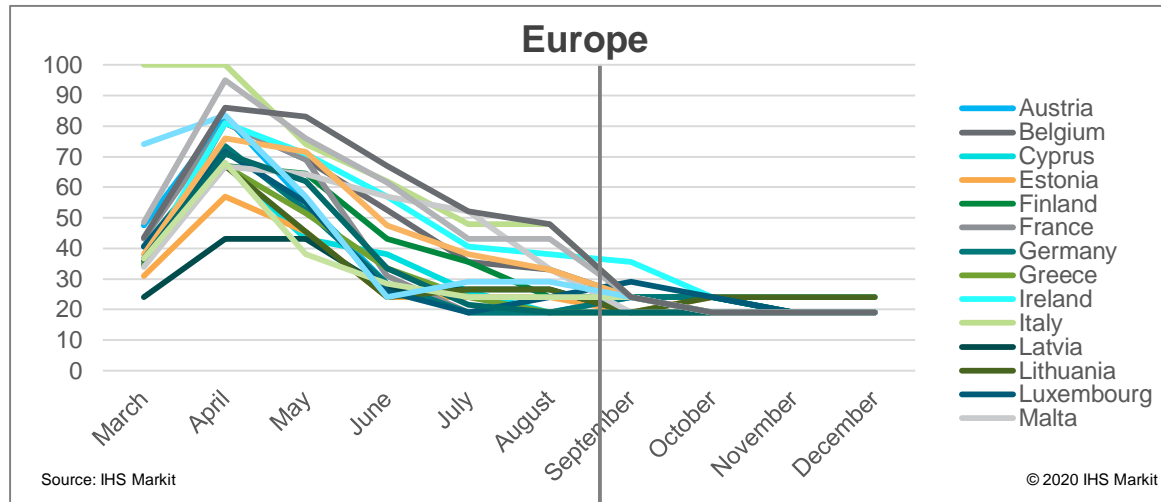
Source: IHS Markit

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- **April was the peak month** for severity of lockdowns (lockdowns mostly imposed in second half of March).
- Continued need for social distancing means some **restrictions likely to remain** until a vaccine / effective treatment is found.
- Only limited tightening of restrictions in our baseline in Q4.

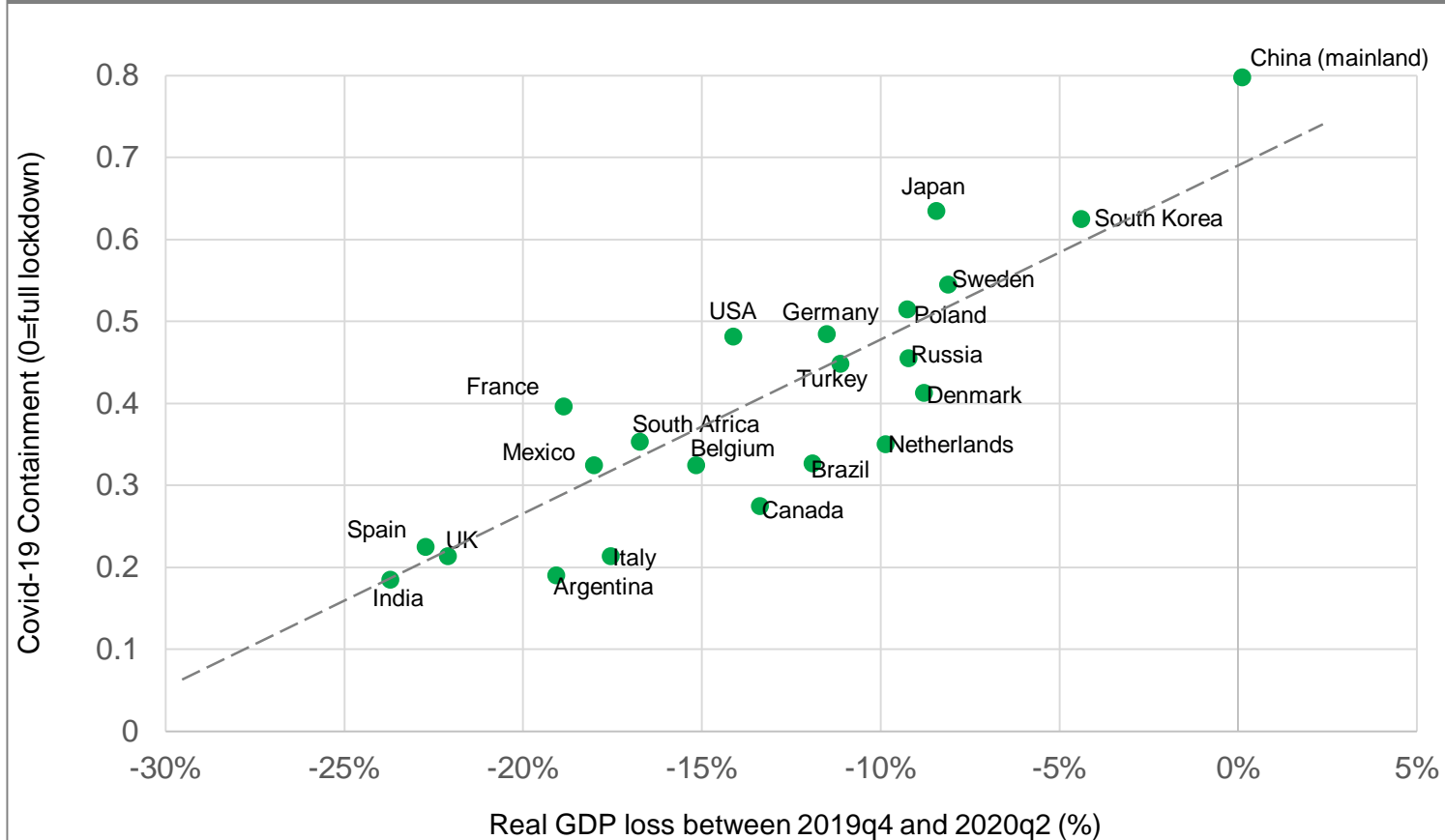


# Our baseline forecast assumes a progressive easing of restrictions, at different paces across countries/regions



# The severity of lockdowns is one of the factors explaining the fall in activity in Q2, but it is not the only factor

Real GDP loss in Q2 vs 2019Q4 versus Covid-19 containment score



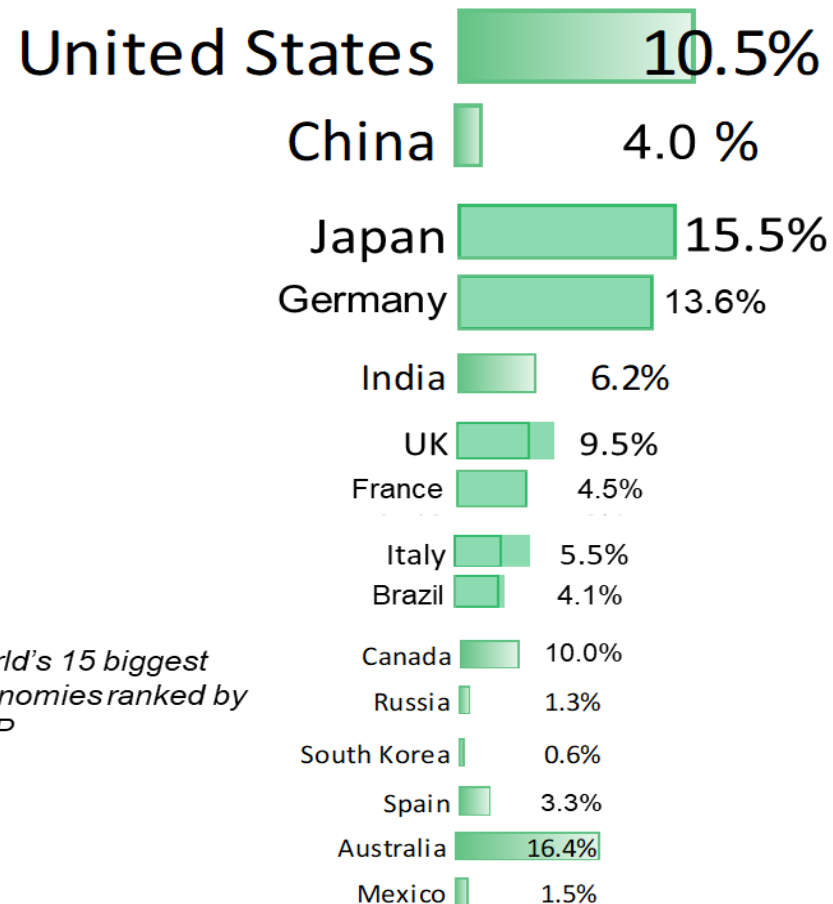
Source: IHS Markit

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- The stronger the lockdown (vertical axis close to zero), the deeper the drop in activity.
- By 2020q2, China had largely lifted the restrictions and its real GDP came back to the 2019q4 level.
- In France and the USA, activity fell more than justified by the sole degree of restriction.
- In Italy, Canada, the Netherlands or Denmark, activity fell comparatively less than the lockdowns would have justified.
- Policy measures will take time to fully filter through. They will continue to impact the recovery path.

# The level and duration of fiscal stimulus, and the monetary policy boost, will also impact the speed and extent of the recovery

Total cost of fiscal effort (exc. guarantees) as a share of GDP

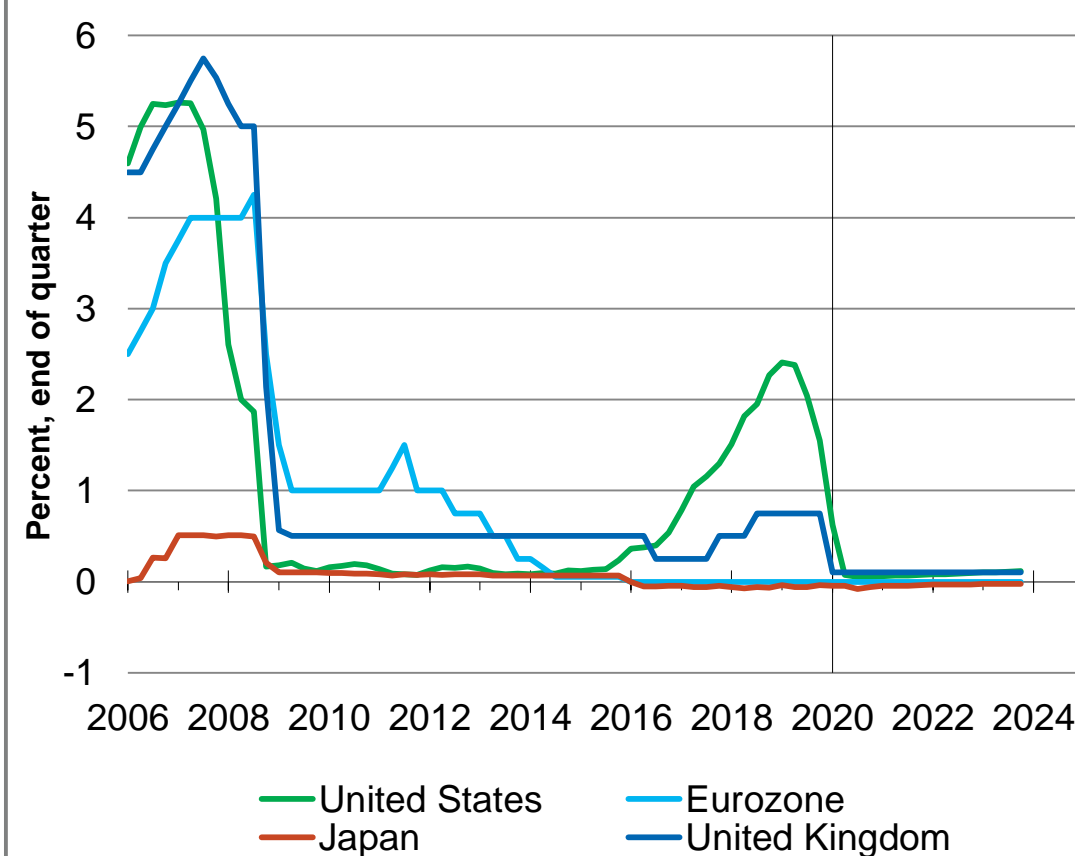


World's 15 biggest economies ranked by GDP

Source: IHS Markit

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Policy interest rates



Source: IHS Markit

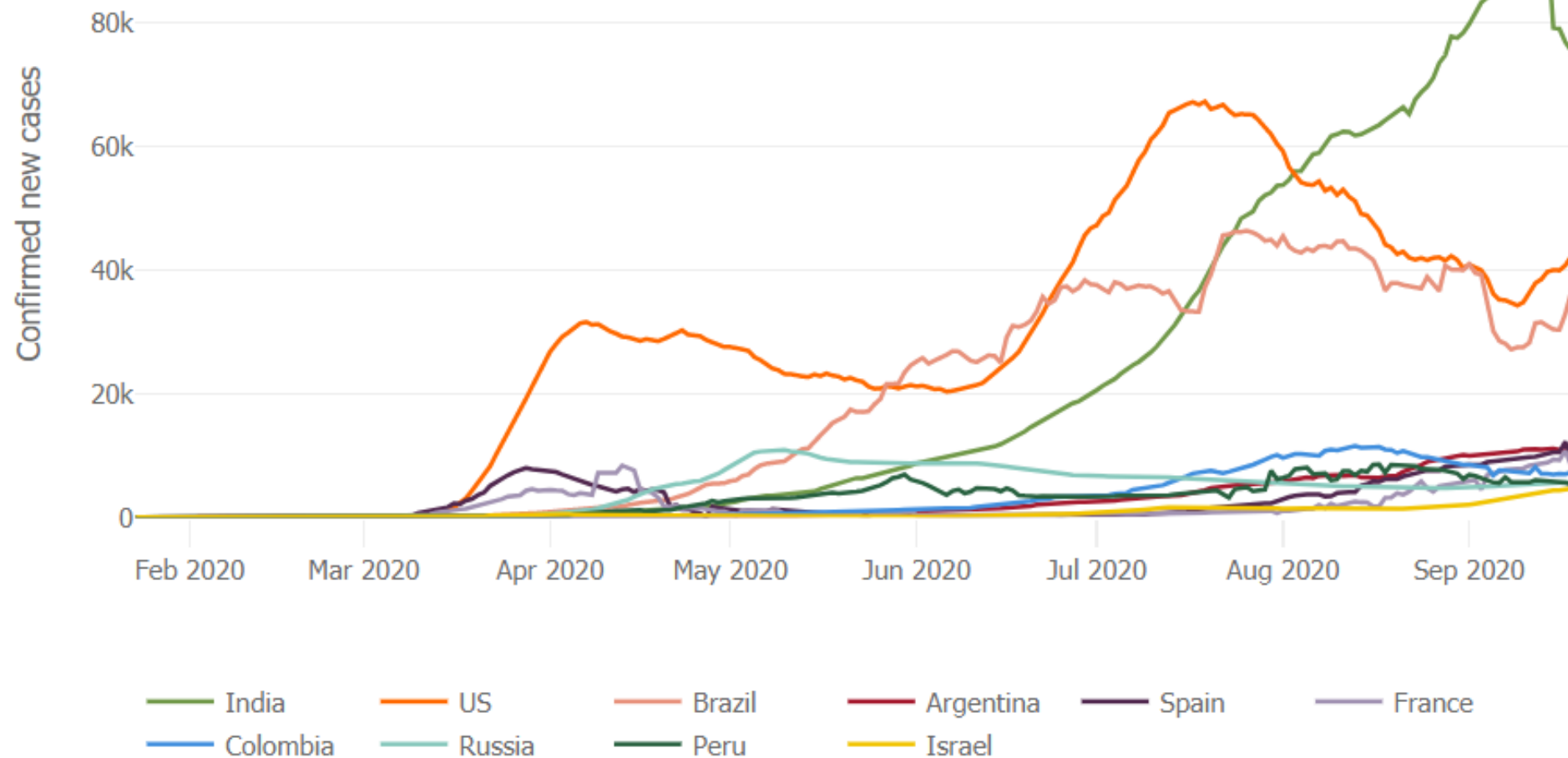
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# Are we entering a second wave?

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# Several countries are seeing new increases in the number of infections

Trend in Covid-19 cases in the 10 most affected countries



Source: John Hopkins

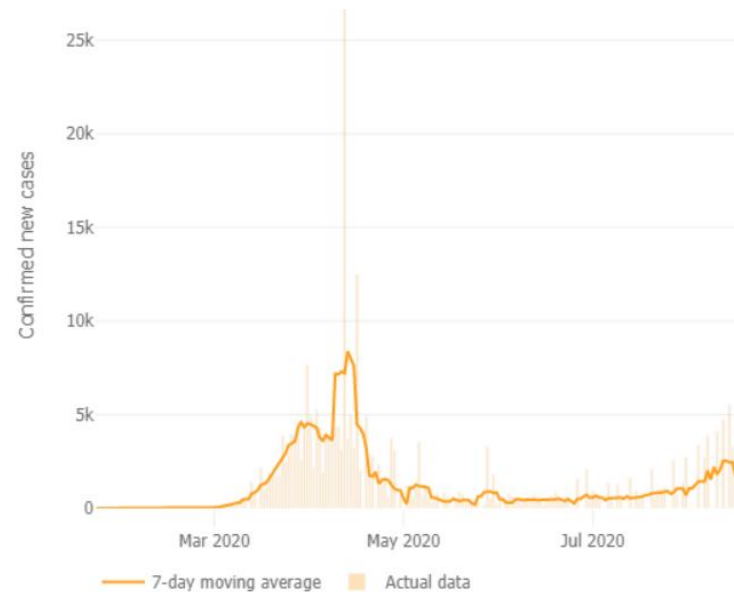
# In Europe, France, Spain and the UK are amongst the most preoccupying countries, but numbers are rising everywhere

## UK



Source: John Hopkins

## France



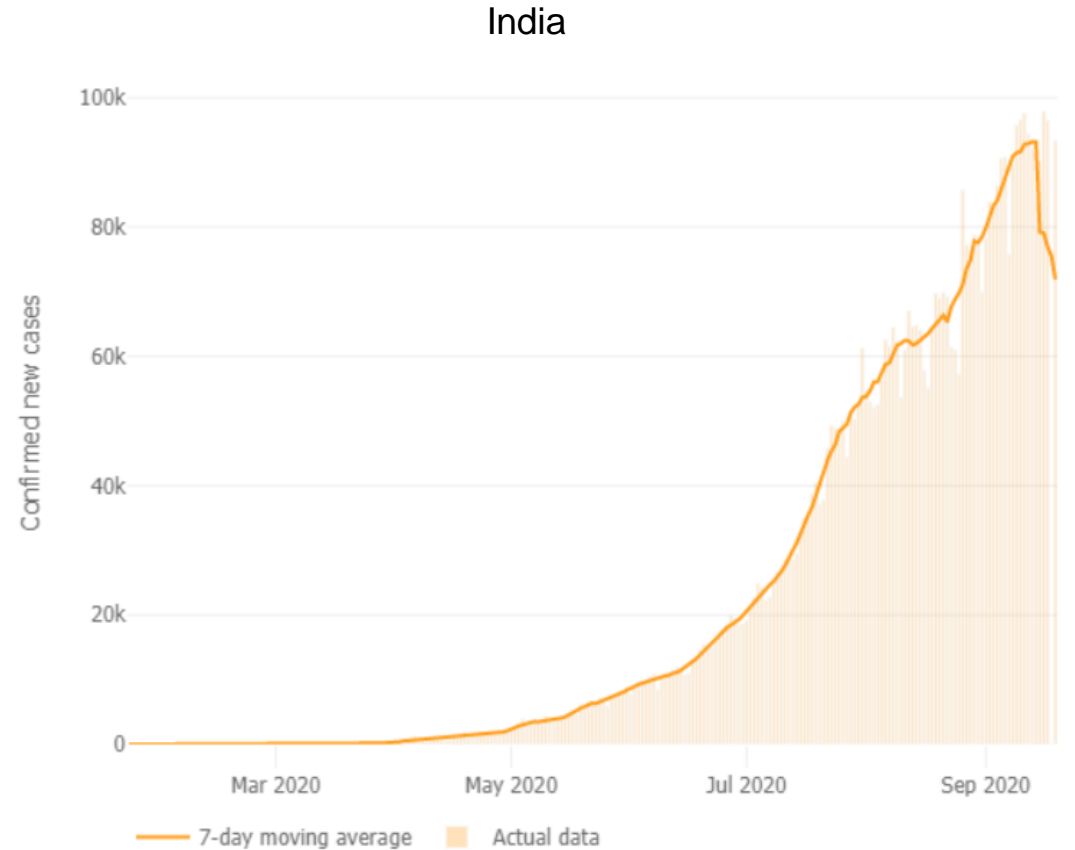
Source: John Hopkins

## Spain

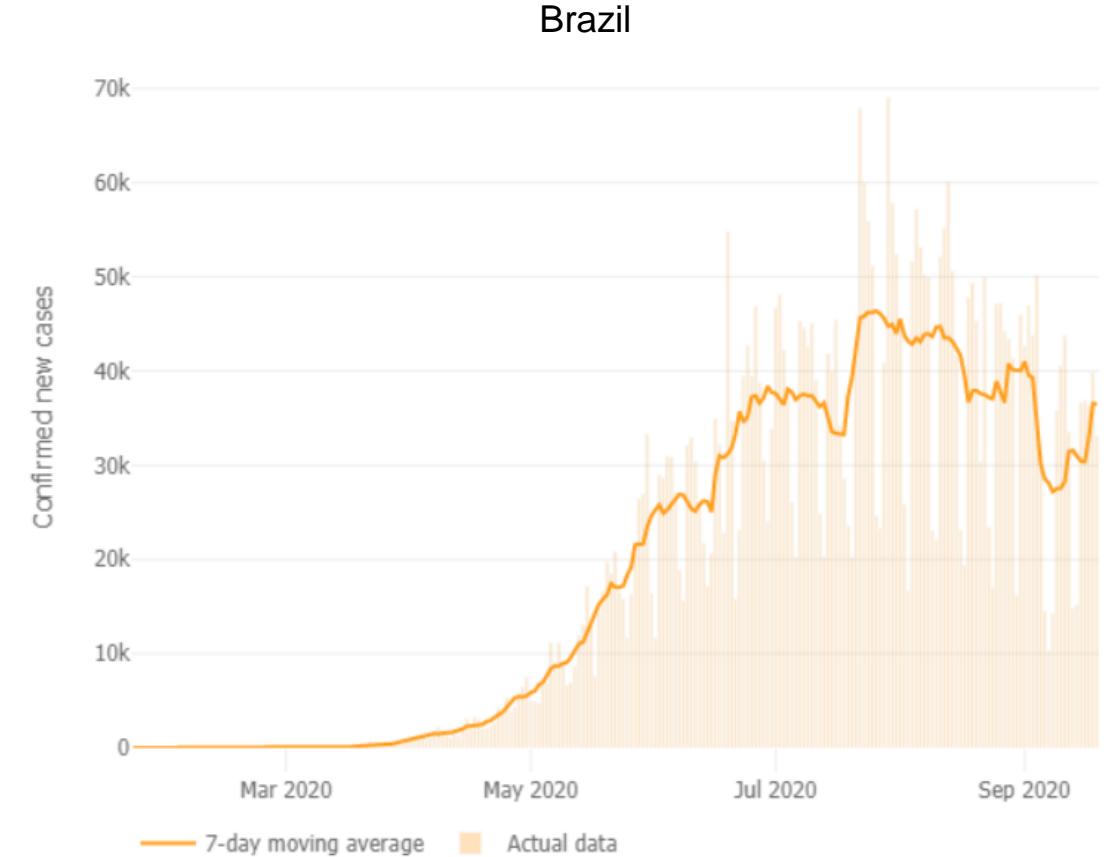


Source: John Hopkins

# India has finally succeeded in reducing the number of new daily cases, but a pick-up is underway in Brazil

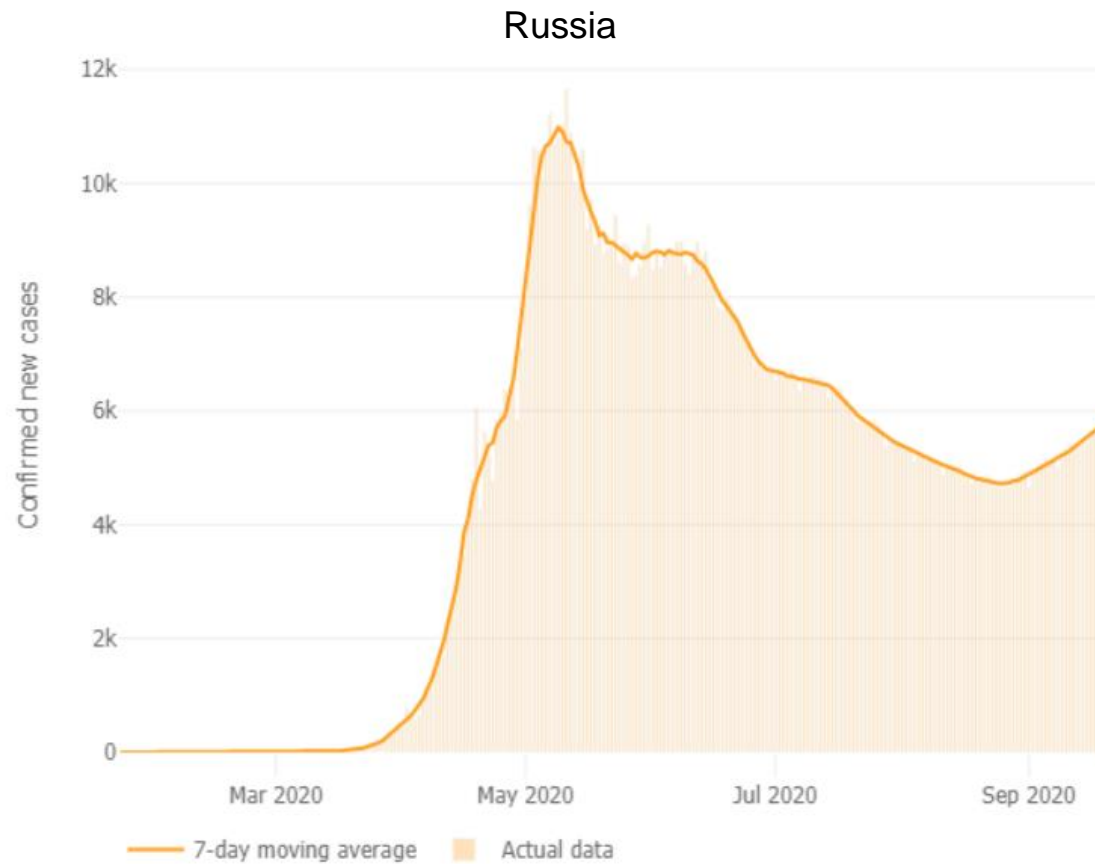


Source: John Hopkins



Source: John Hopkins

# Israel has recently made the headlines after imposing strict lockdowns



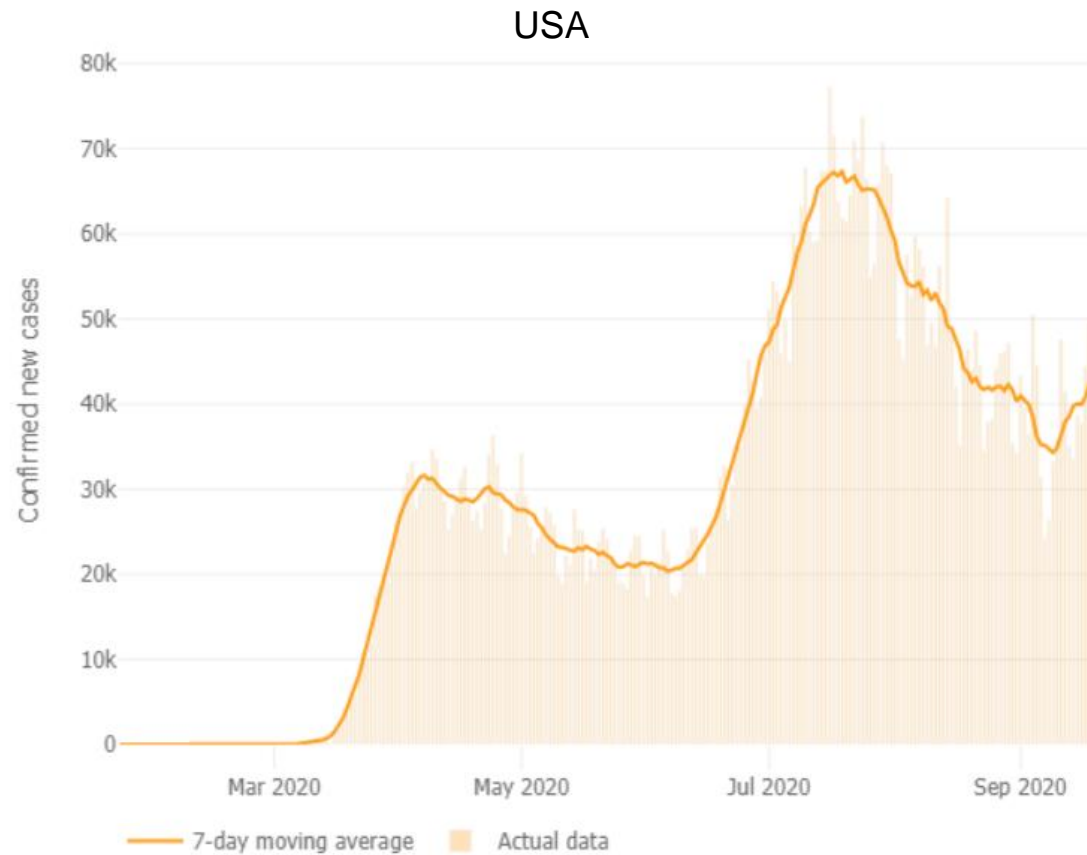
Source: John Hopkins



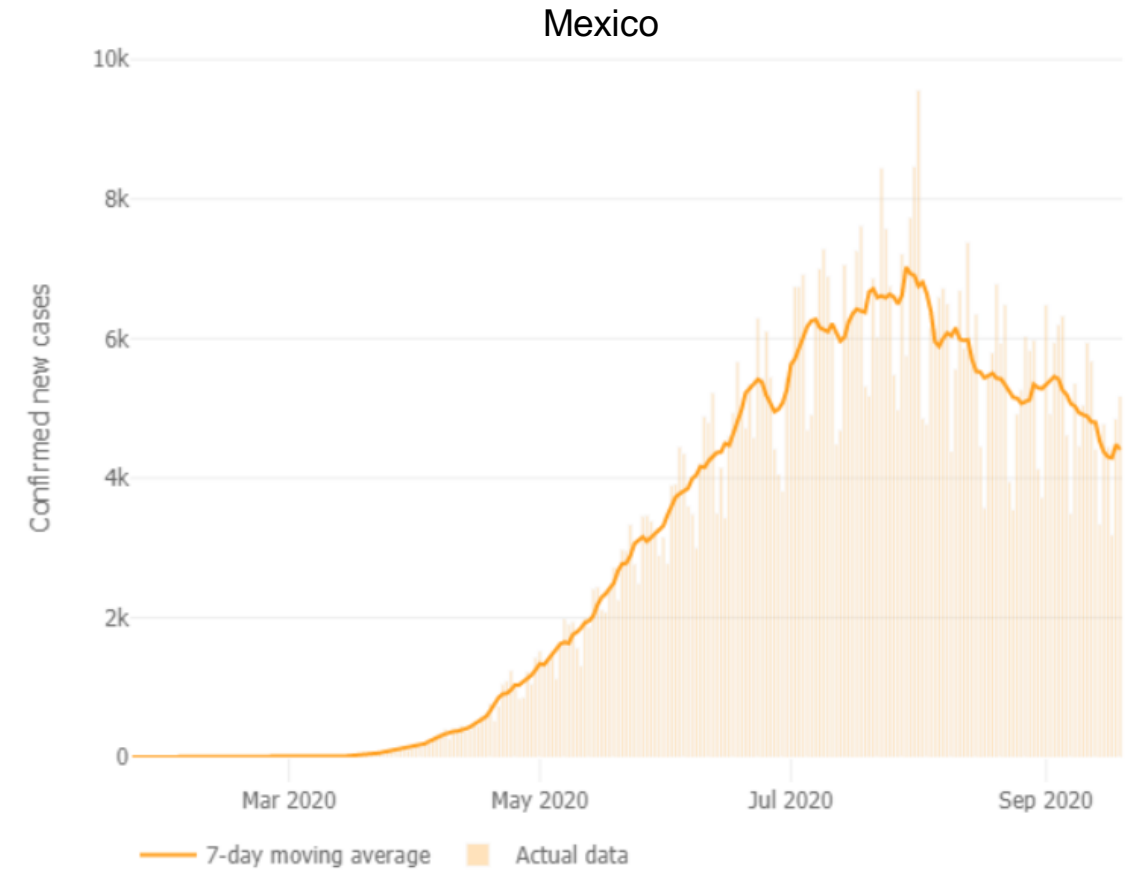
Source: John Hopkins



# The US and Mexico are still struggling to bring the number of new cases down



Source: John Hopkins



Source: John Hopkins

## About the vaccine and risks of a second wave...

- IHS Markit's assumes that we will likely have a **fully approved, effective vaccine** with access to large populations across several countries in the summer of 2021.
  - This is based on assessment of typical development and regulatory timelines, the potential for clinical failures, the build-up of necessary manufacturing and distribution channels, and the global demand to fast-track a vaccine approval.
  - Until mid-2021, we are likely to see **conditional/emergency approvals** of experimental vaccines in subset populations, however, these emergency approvals do not change any fundamental assumptions around the trajectory of the disease, or the ability of countries to reopen broader parts of their economies.
    - We have seen some approvals in China and Russia, and pressure is building in the United States for approvals before the end of 2020. These approvals are limited in nature, however, and based on vaccines with no evidence yet of protective effectiveness against real world infection.
- Momentum is building towards potential Phase III data releases in October and November. These will give the first meaningful insight into:
  - a) The translation of antibody response data seen in some vaccines, into actual effectiveness in preventing transmission and infection;
  - b) Impact on key populations such as the elderly and minorities.
- Regulators are likely to forgo the normal regulatory approval process for vaccines and fast-track potential approvals, hence we will likely have a mix of clinical failures, limited efficacy data or safety signals that will **prevent uptake in broader populations until mid-2021.**

# Will there be long term consequences?

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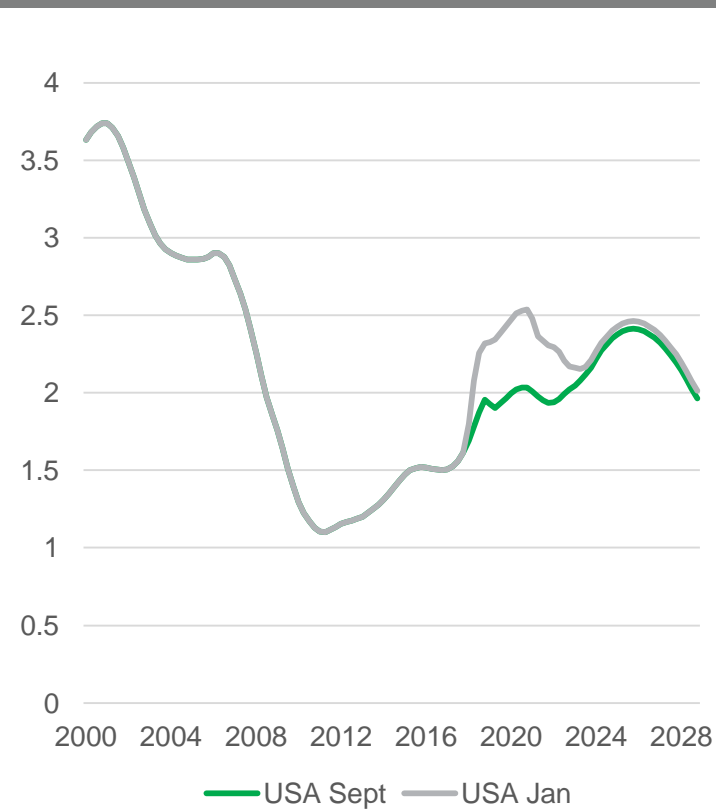
# Potential growth has undoubtedly been negatively impacted

- Potential growth depends on four factors
  - Labor inputs into production
  - Capital stock
  - Energy availability
  - Productivity
- Potential labor inputs have been negatively impacted due to crisis-induced early retirements & discouragement effects
- Capital stock is negatively impacted by the lower investment levels during the crisis, and high(er) rate of bankruptcies and company-closures
- The impact on productivity is undetermined
  - Are people more productive when working from home?

**Key risks are associated with the emergence of a bi-polar society**

# Potential growth is lower post-Covid than in our December 2019 forecast

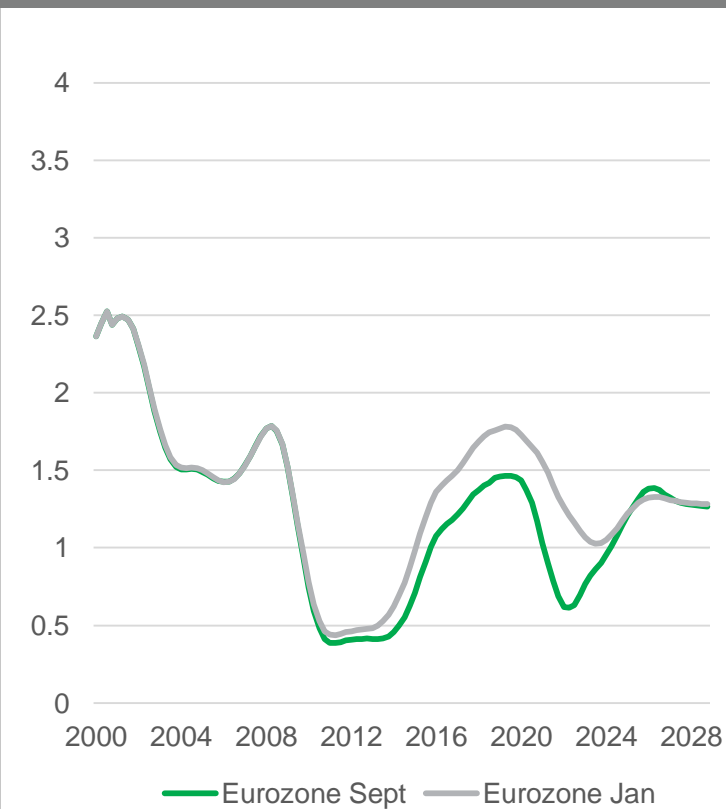
## Potential real GDP growth, USA, %



Source: IHS Markit

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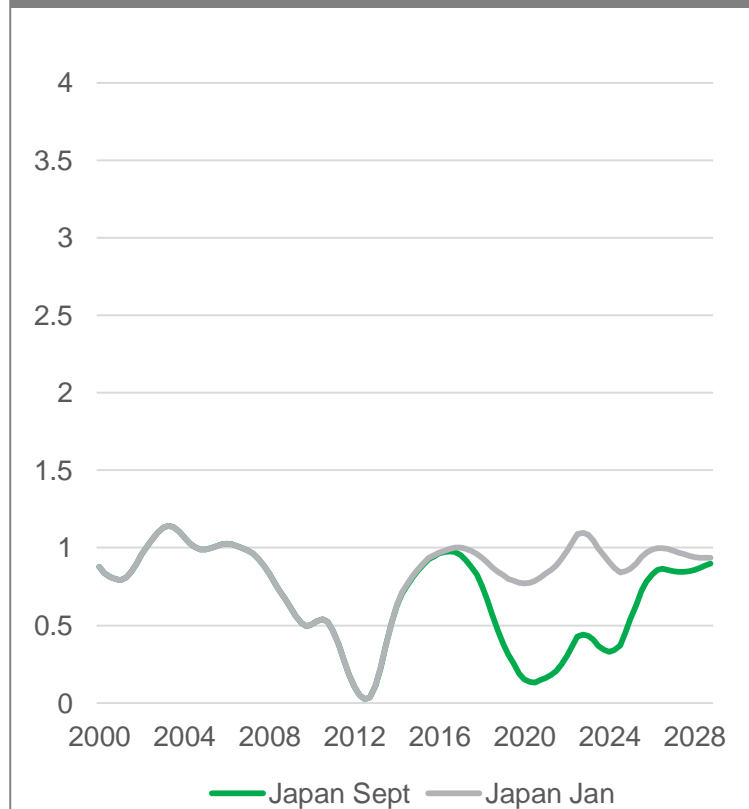
## Potential real GDP growth, Eurozone, %



Source: IHS Markit

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## Potential real GDP growth, Japan, %



Source: IHS Markit

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# What are the risks beyond Covid-19?

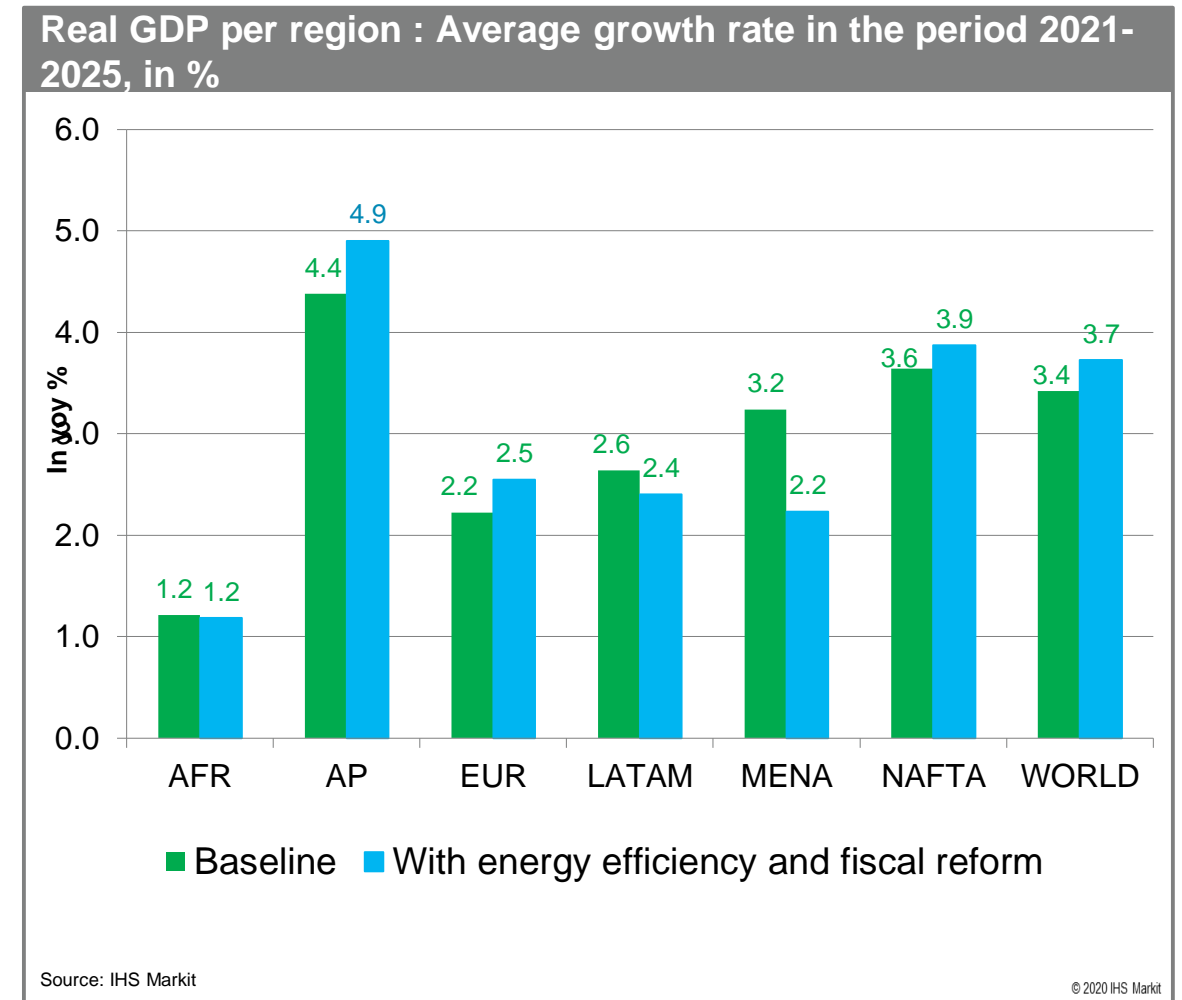
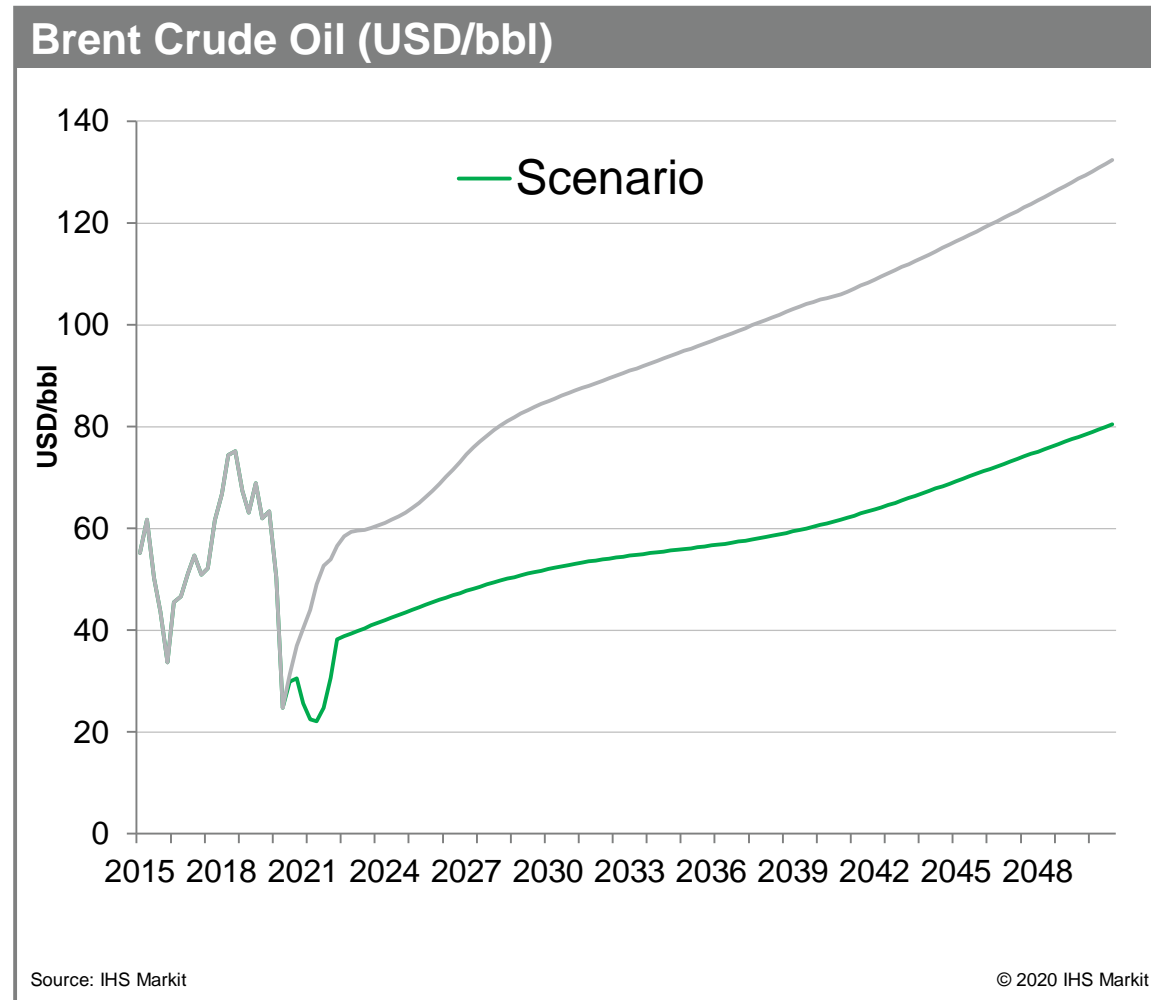
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# What are the risks beyond Covid-19?

- US election and after
- Hard Brexit
- Geopolitical tensions:
  - India/China
  - Turkey/Greece
  - China sea tensions
  - US/China decoupling
  - Middle East
- Banking risks & sovereign debt sustainability
- Social unrest
- Green agenda



# Persistent low(er) oil prices don't significantly boost economic growth, but the new investments in clean energy do provide a positive impulse to growth





# Outlook for selected countries

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# Real GDP growth in major economies – September 2020 forecast

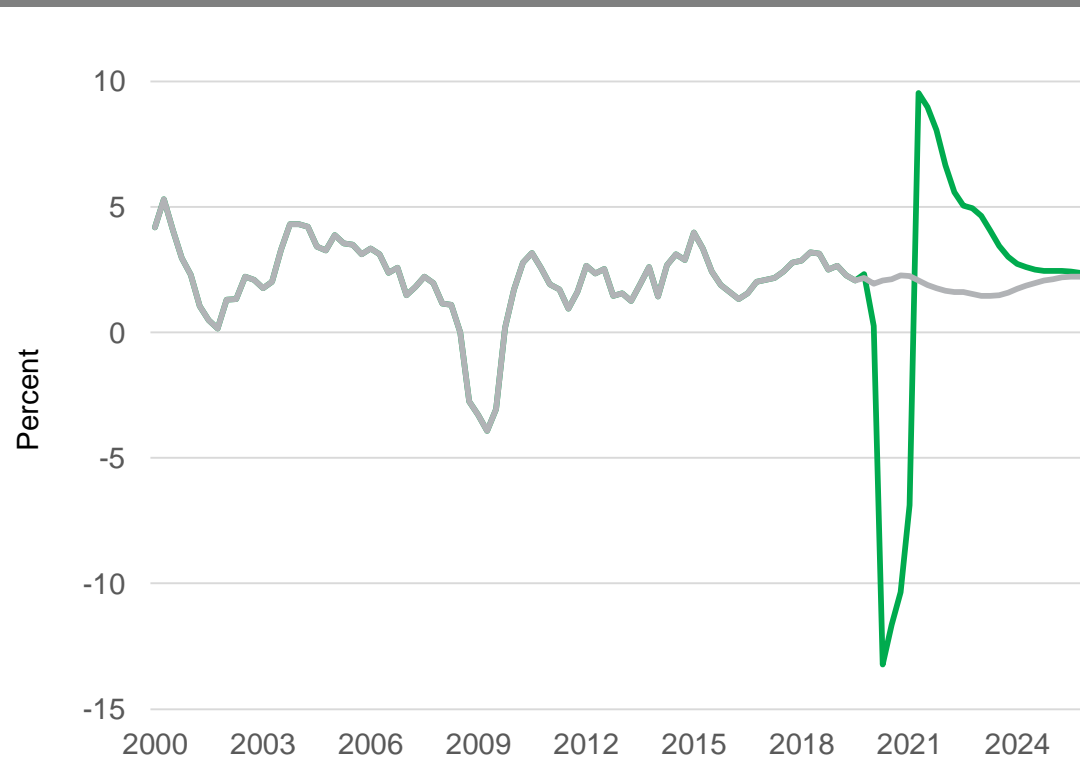
Real GDP					
Percent change	2018	2019	2020	2021	2022
World	3.2	2.6	-4.8	4.3	3.8
United States	2.9	2.6	-4.0	3.5	3.6
Canada	2.0	1.7	-6.4	4.3	3.7
Eurozone	1.9	1.3	-8.5	4.4	3.5
United Kingdom	1.3	1.5	-11.2	4.6	3.3
Mainland China	6.7	6.1	1.7	7.1	5.4
Japan	0.3	0.7	-5.7	2.2	1.3
India*	6.1	4.2	-10.8	9.3	5.4
Brazil	1.3	1.1	-6.4	3.8	2.4
Russia	2.5	1.3	-5.9	2.4	2.2

\* Fiscal years starting 1 April  
Source: IHS Markit

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# US: real GDP and fixed investment recover rapidly but the growth rate never exceeds the pre-pandemic rate

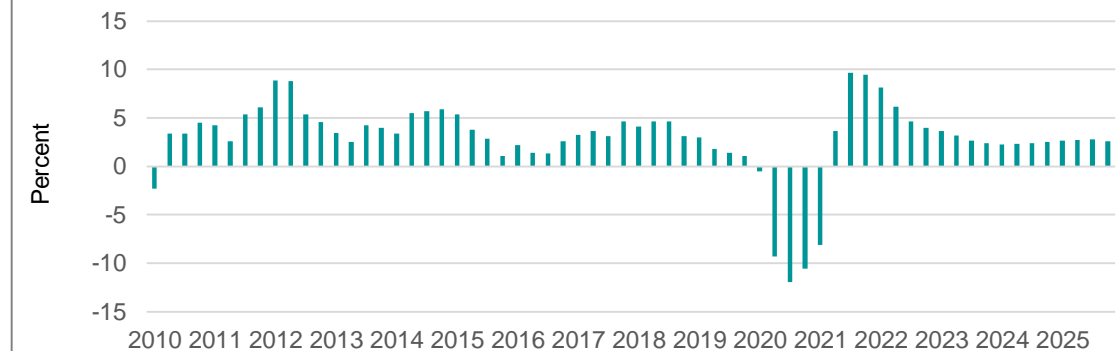
## Real GDP, USA - Jan 2020 vs Sept 2020, %CHYA



Source: IHS Markit

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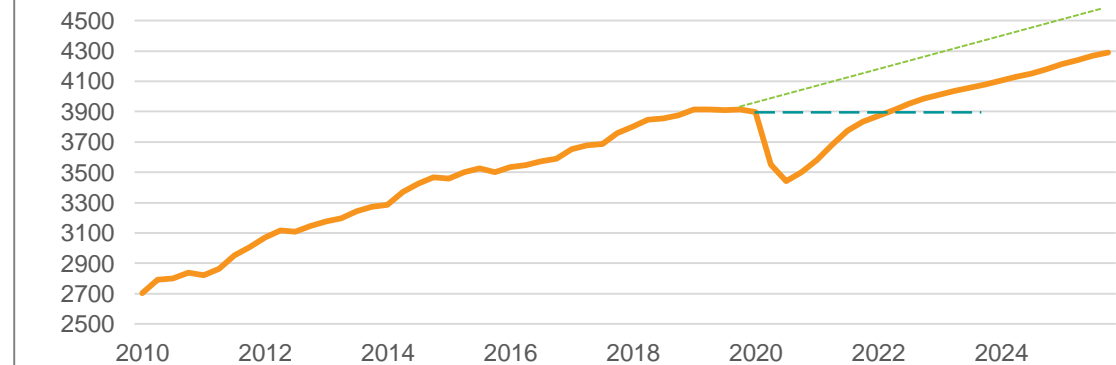
## Real fixed investment, % change from previous year



Source: IHS Markit

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## Real fixed investment, billion USD

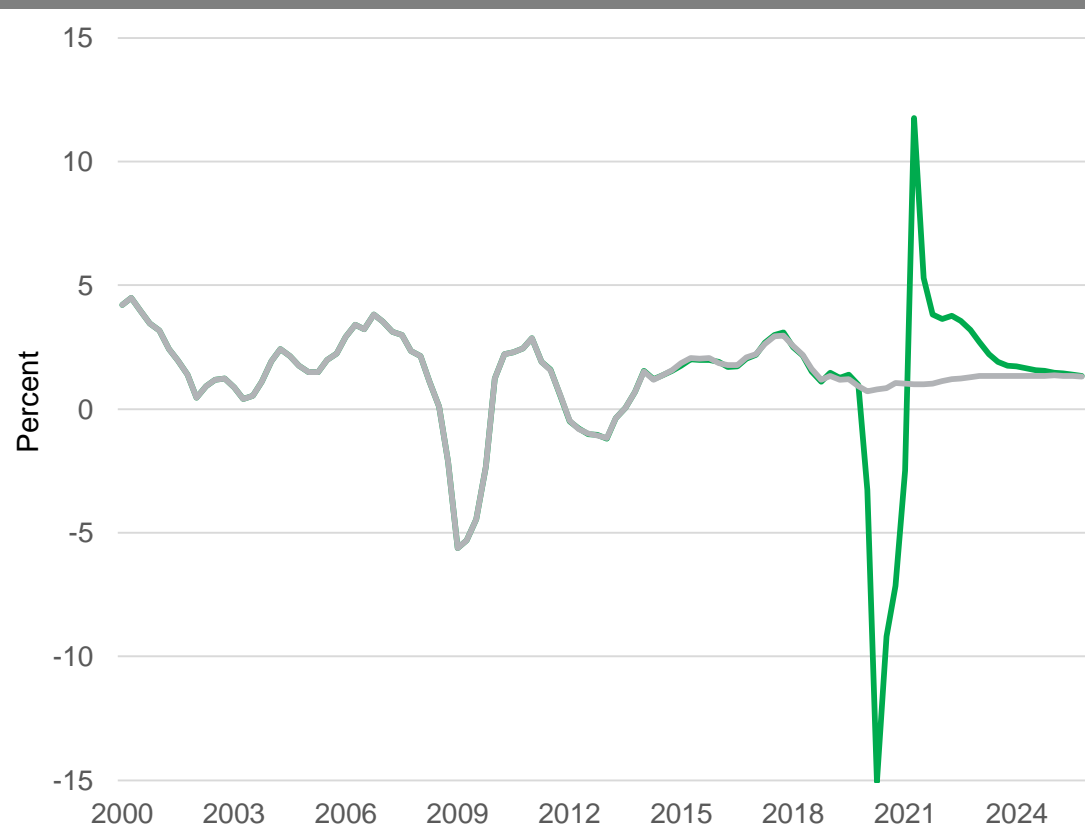


Source: IHS Markit

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# Eurozone: fixed investments remains weak for a prolonged period

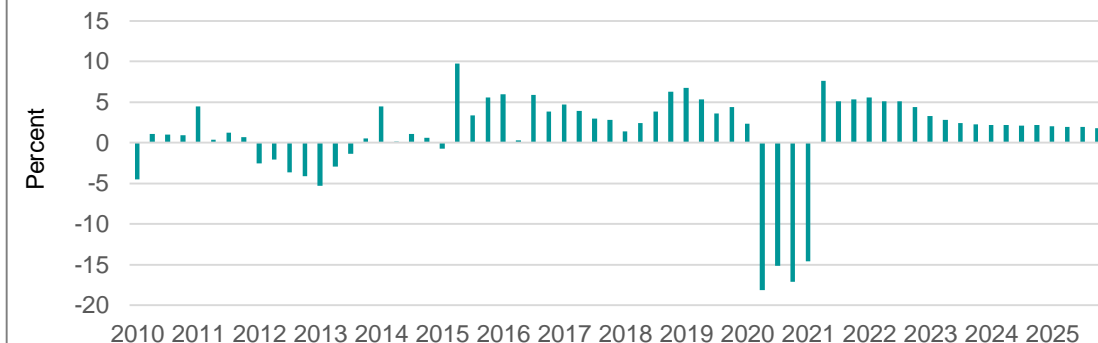
## Real GDP, Eurozone - Jan 2020 vs Sept 2020, %CHYA



Source: IHS Markit

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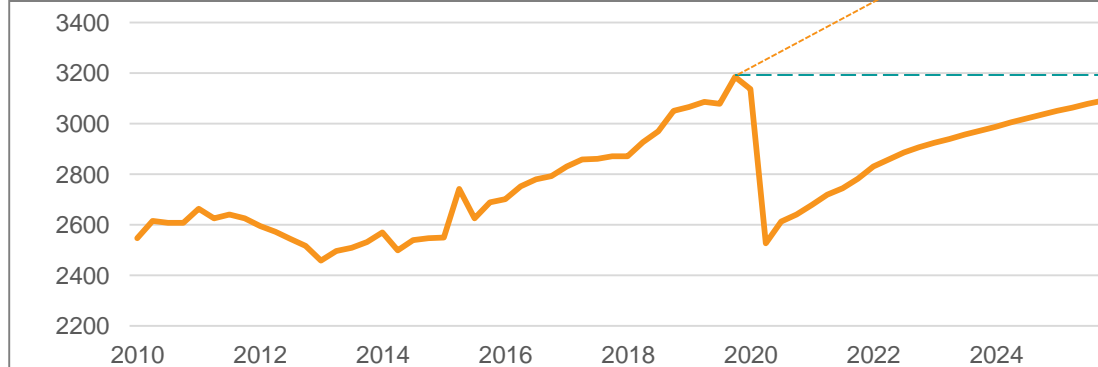
## Real fixed investment, % change from previous year



Source: IHS Markit

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## Real fixed investment, billion USD

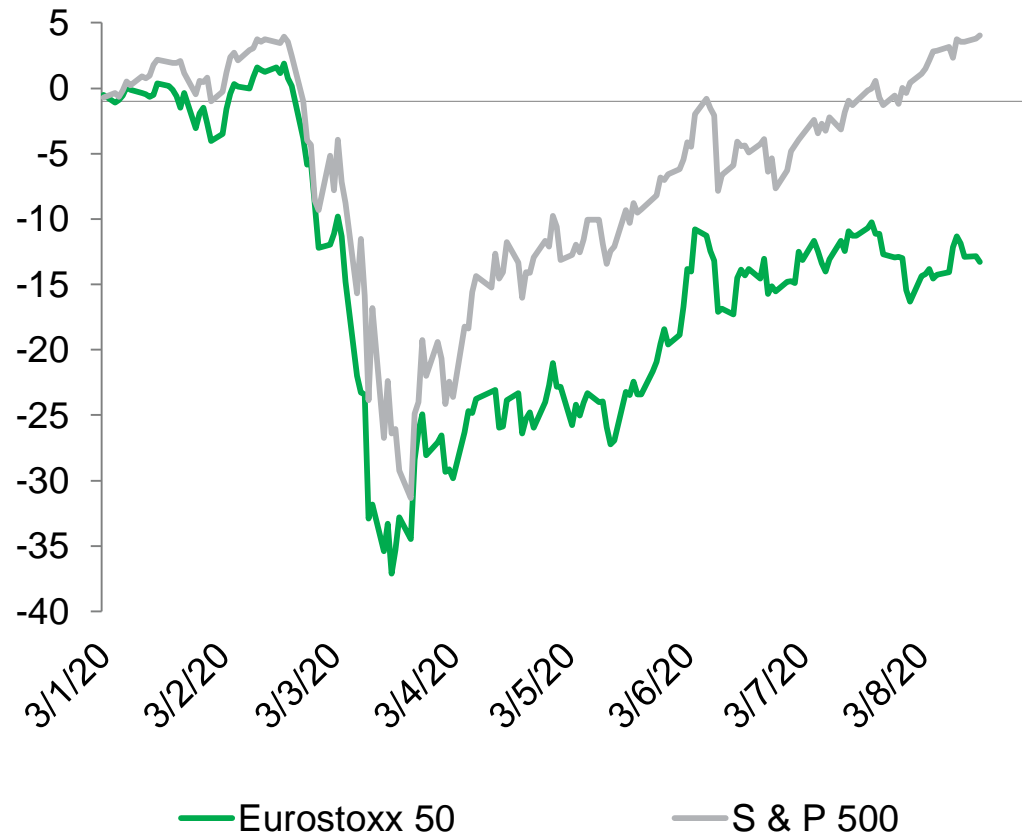


Source: IHS Markit

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# The central banks' actions have contained financial market spillovers, but this benefits the US more than Europe

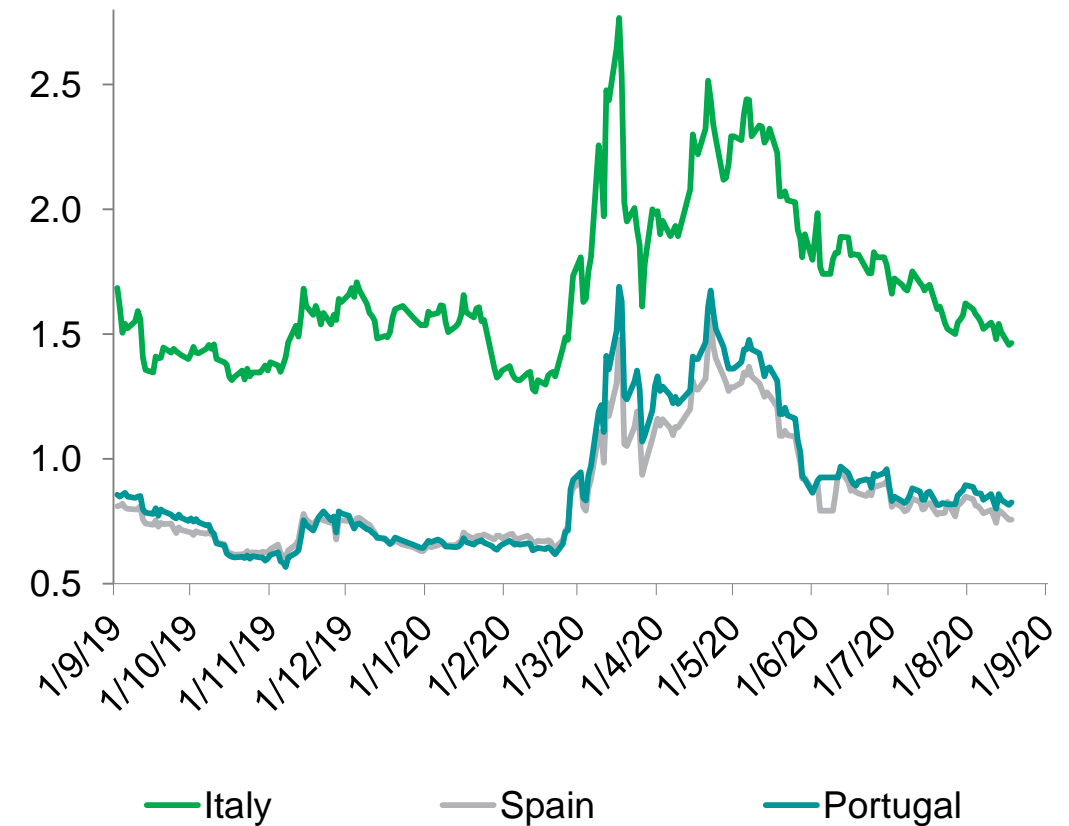
## Change in equity indices year to date (%)



Source: IHS Markit

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## 10-year sovereign yield spreads to Germany (%)

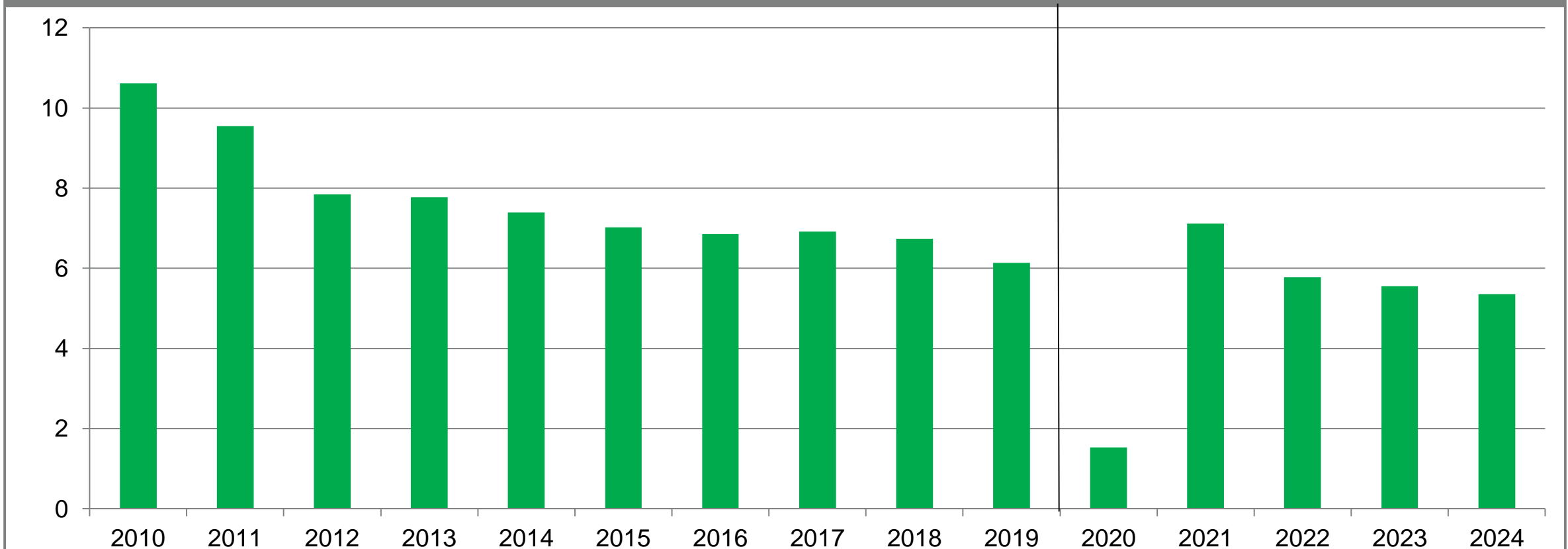


Source: IHS Markit

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# The outlook for mainland China similarly shows an incomplete recovery

China real GDP, percent change (IHS Markit 2020 August forecast)

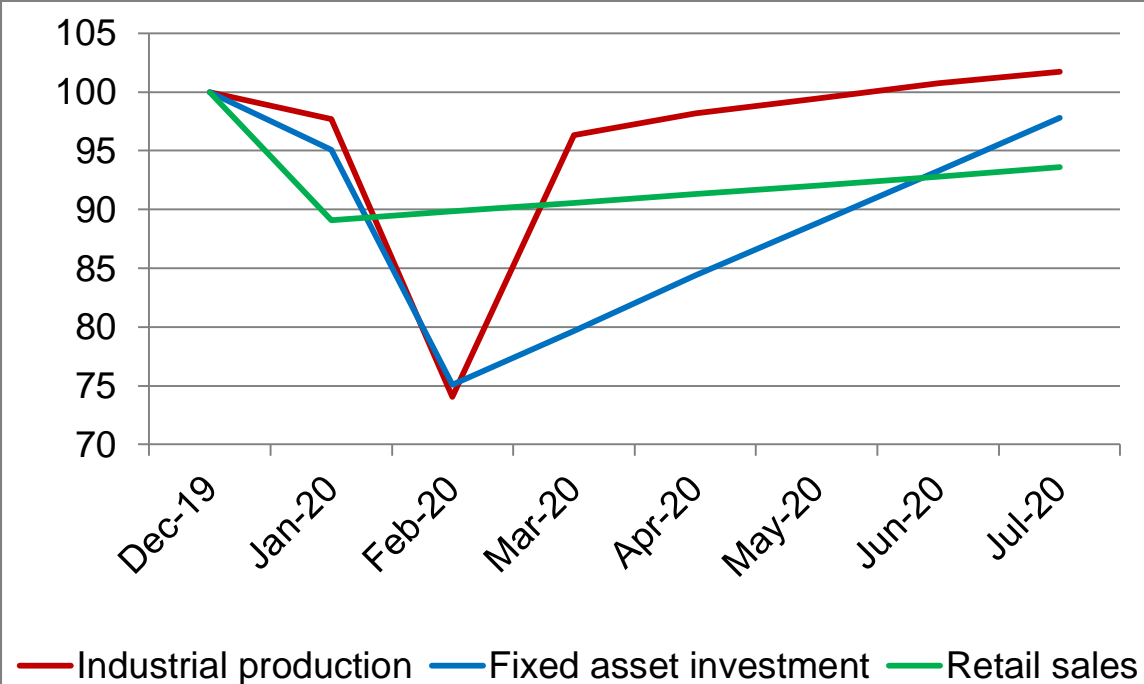


Source: IHS Markit

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# The fiscal reponse is constrained by the debt situation and high incremental capital output ratio (ICOR). Fixed investment lags recovers slowly

Monthly economic activity indicators, seasonally adjusted, 2019 December = 100

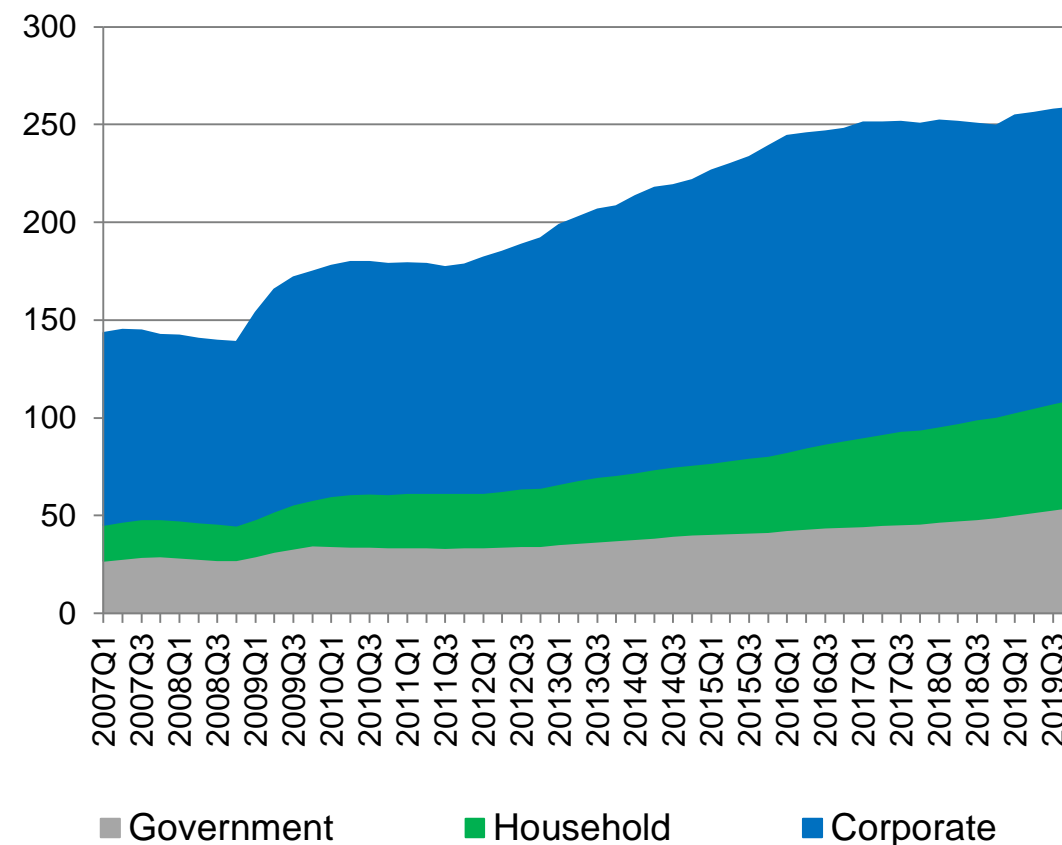


Notes: China National Bureau of Statistics reports seasonally adjusted, month-on-month percent change data for three indicators, industrial production, fixed asset investment, and retail sales.

Source: IHS Markit

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China's debt stock by sector, percent of GDP



Source: Bank for International Settlements

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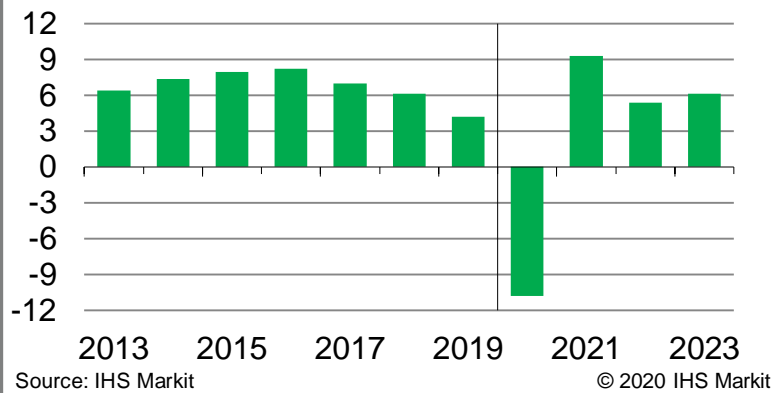
# India's economy has been hard hit by COVID-19

- India currently has 5.4 million COVID-19 cases, the second highest count after the United States (6.8 million), and before Brazil (4.5 million).
- Real GDP is projected to fall 10.8% in 2020 on a fiscal year basis (Q2 2020 to Q1 2021), the first decline since 1979, held back by COVID-19 restrictions and stresses in the banking and nonbank corporate financial company sector.
- Lockdown measures are easing, but not in the largest urban areas that have been classified as “red zones.” Labor supply may restrain the recovery, since workers left cities during lockdowns. Rural areas are recovering rapidly.
- With consumer price inflation picking up to 6.9% y/y in July, the Reserve Bank of India held its policy rate at 4.00% in August. No further rate cuts are likely.
- After the crisis, consumer spending will drive India's growth, reflecting rising urbanization, improved access to credit, and increasing numbers of middle- and high-income households.

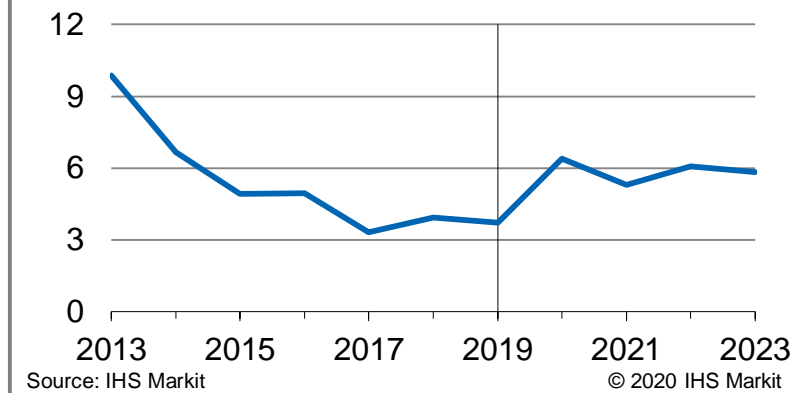


# India outlook summary

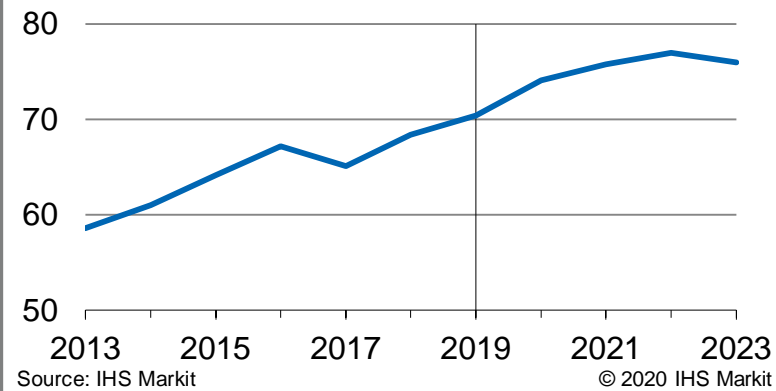
## Real GDP growth (% , fiscal years)



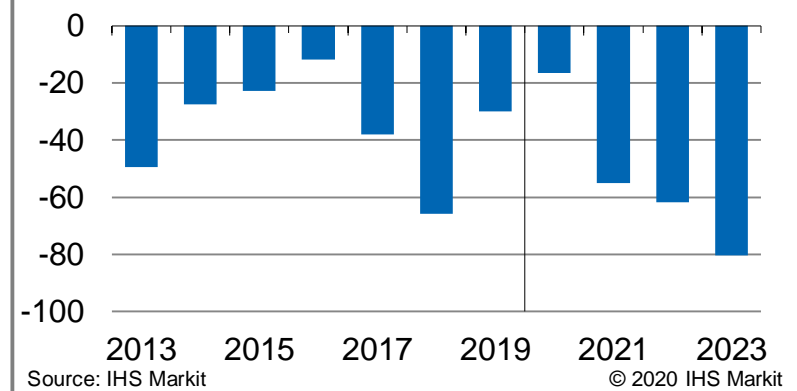
## Consumer price inflation (%)



## Exchange rate per US dollar\*



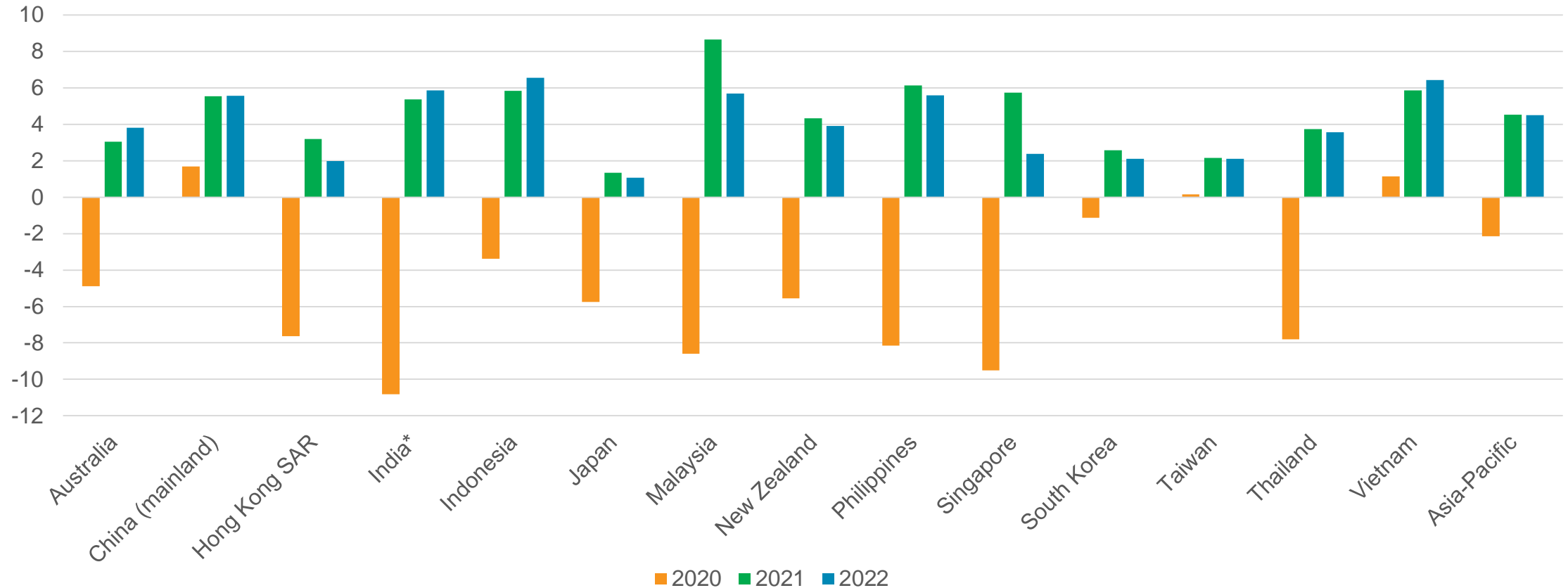
## Current-account balance\*\*



\*Annual average, \*\*Billions of US dollars

# China, South Korea and Vietnam are the three countries which resisted best to the pandemic

Real GDP growth in selected countries in APAC, % change

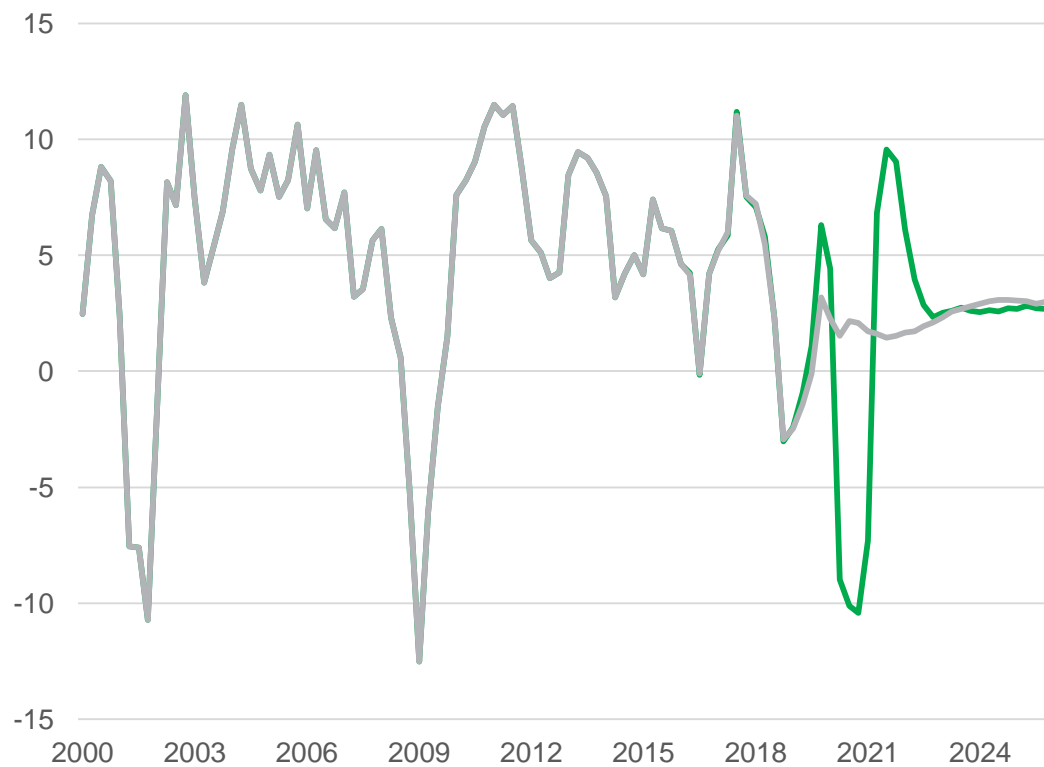


Source: IHS Markit

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# Turkey: the country's dependence on external financing and geopolitical risks will keep investment durably low

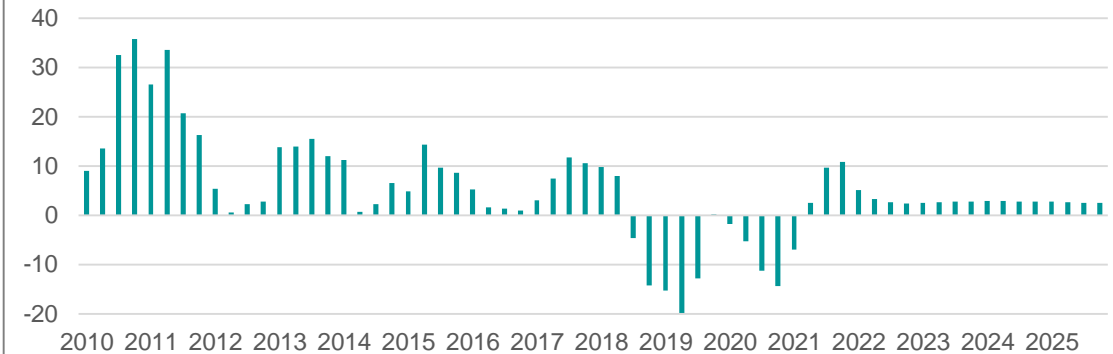
## Real GDP, Turkey - Jan 2020 vs Sept 2020, %CHYA



Source: IHS Markit

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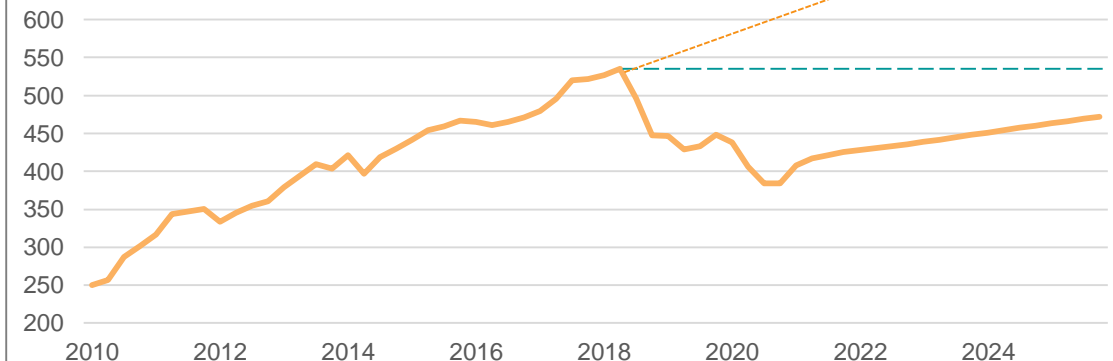
## Real fixed investment, billion TL



Source: IHS Markit

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## Real fixed investment, billion TL

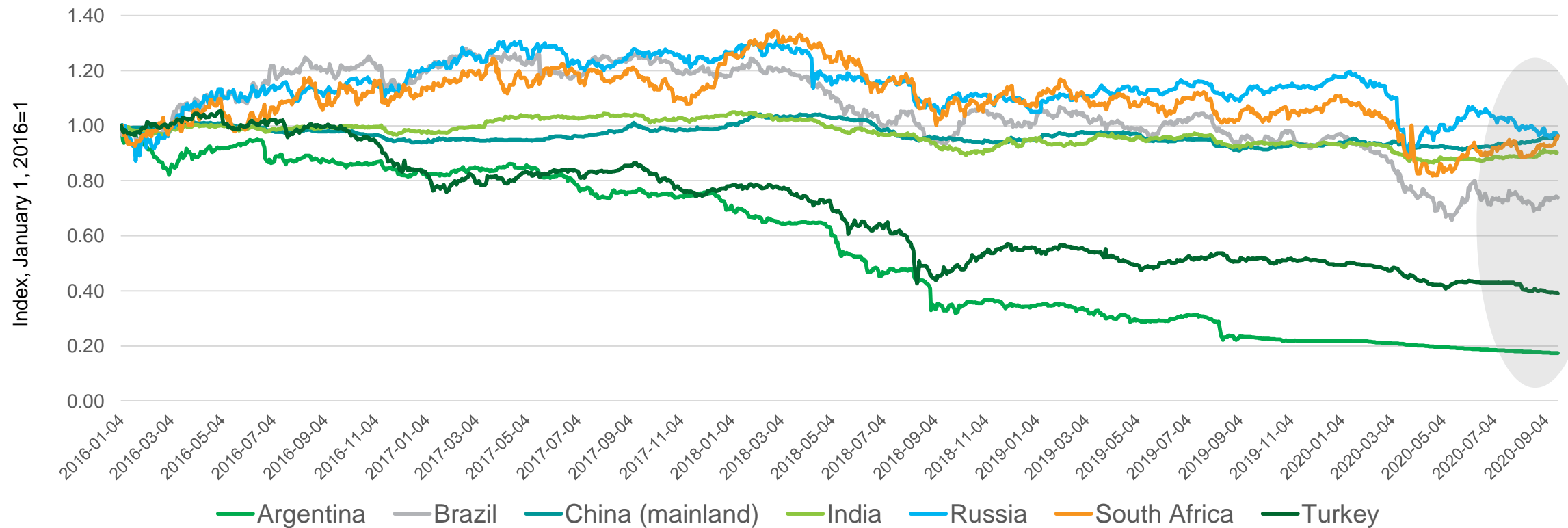


Source: IHS Markit

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# The Turkish Lira has continued to lose value against the USD, unlike Brazil's real or the India rupee

Exchange rate, LCU per USD - Index



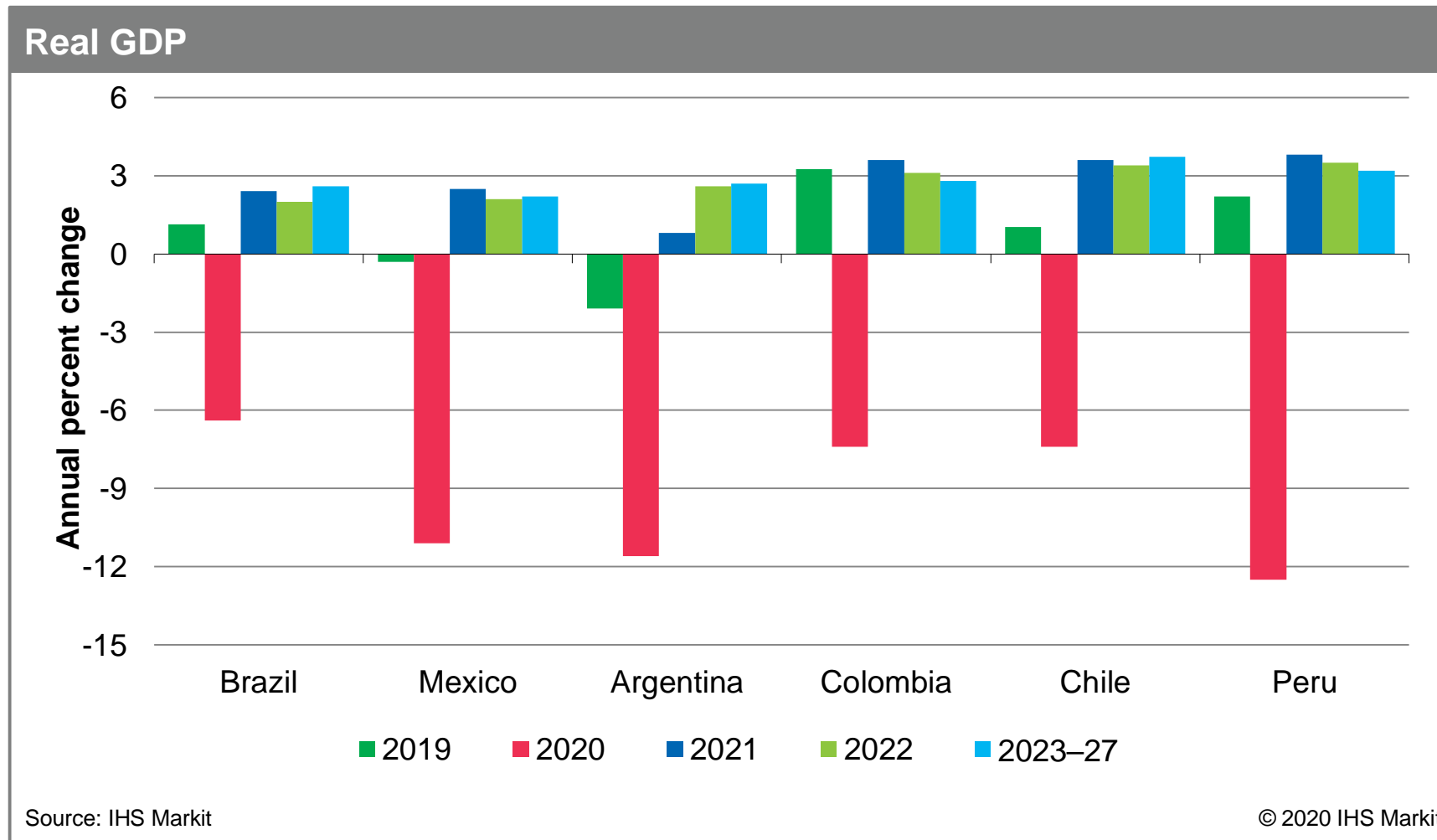
Source: IHS Markit

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# Brazil

- With more than 4.5 million confirmed cases of the COVID-19 virus, Brazil has the third highest infection figure.
- The economy is projected to contract 6.4% in 2020, an upward revision from the 9% drop anticipated in July. Severe lockdown measures had to be implemented by regional governments to contain the virus.
- We estimate that the fiscal stimulus to fight the pandemic amounts to 6.8% of GDP. Although this is higher than the 5.8% announced earlier, which helps support the economy, the strained relations between congress and the executive damage prospects for needed fiscal reforms darken the medium-term outlook.
- With the economy struggling and inflation subdued, the Central Bank of Brazil cut its policy rate from 2.25% to a new low of 2% on 5 August.
- Soybean production and exports are expected to rise in 2020. However, lockdowns have led to a sharp drop in iron ore exports.

# Real GDP growth in Latin America

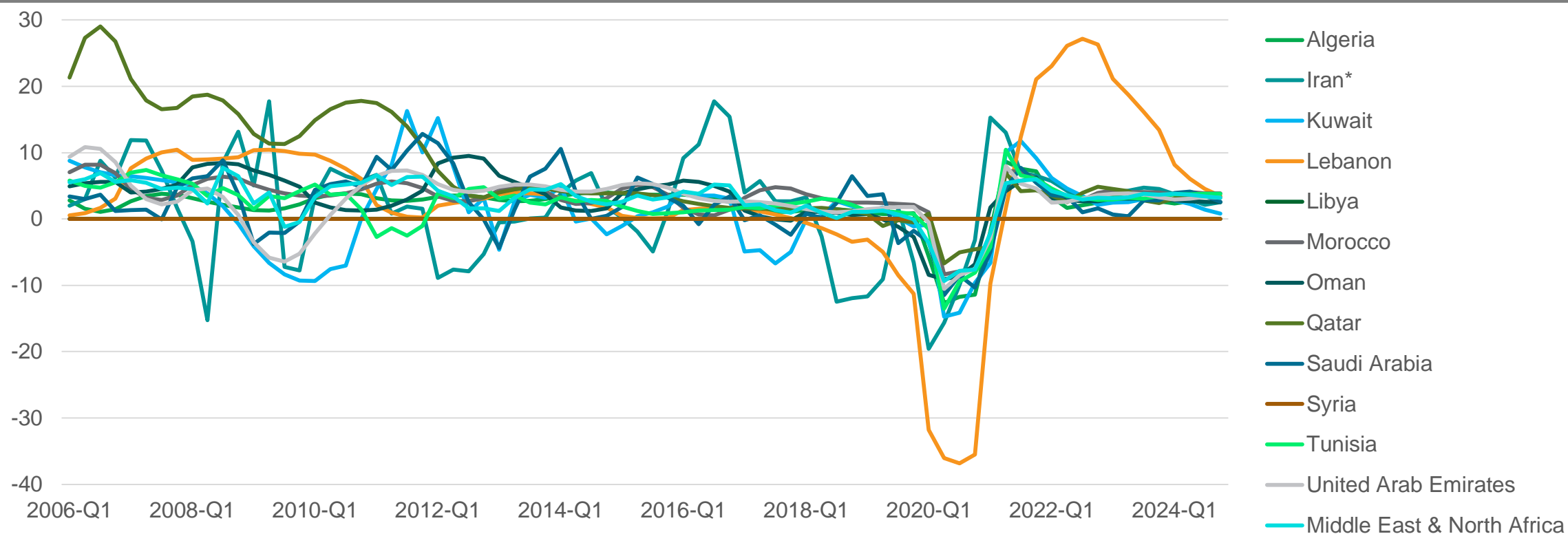


## Mexico's recession is amongst the deepest in America

- Real GDP plunged 17.3% q/q and 18.9% y/y in the second quarter, as non-essential businesses were locked down in April and May. Although recovery is now under way, the economy will contract by 11.1% in 2020.
- Mexico is hit by a triple shock: the COVID-19 virus, low oil prices, and weak demand in the United States—the destination for 80% of the country's exports.
- Losses in remittances, tourism revenue, and automotive exports will exacerbate the drop in domestic demand.
- Lower oil prices hurt public finances but not external accounts as Mexico is now a net oil importer. Mexico's government has not announced any major fiscal program to mitigate the recession.
- With consumer price inflation near its 3.0% target, Mexico's central bank cut its policy rate from 5.0% to 4.5% on 13 August.
- President López Obrador's policies pose contractual risks to the energy, mining, and infrastructure sectors. Security and operational (corruption) risks are also hurting business investment.

## Middle East: Lebanon and Iran experience the deepest recessions, as the pandemic only aggravated other problems

Real GDP across countries in the MENA region, % change from previous year



Source: IHS Markit

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# Summary

- After posting 2.6% growth in 2019, global real GDP is projected to fall by 4.8% in 2020, its worst performance since 1946.
- Massive fiscal and monetary stimuli is being deployed in the major economies. Recovery from the COVID-19 virus pandemic will begin later in 2020, lifting global growth to 4.3% in 2021 and 3.8% in 2022.
- After a deep recession, the US economy started to recover in May, as activity restrictions were eased and retail sales and employment turned up.
- European economies, especially Italy and Spain, will be hard hit in 2020. Rising public deficits and debt will be a long-term burden restraining future growth.
- The Asia-Pacific region will recover earliest from the pandemic and will make the strongest contribution to global growth during the next decade.
- Economic risks include a more severe pandemic, geopolitical conflicts, trade wars, rising debt levels, and political uncertainty in many parts of the world.

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