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Outlining the Global COVID-19 Recession

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Economic Outlook: Global recession in 2020

Very sharp, deep and likely short with partial recovery in 2H

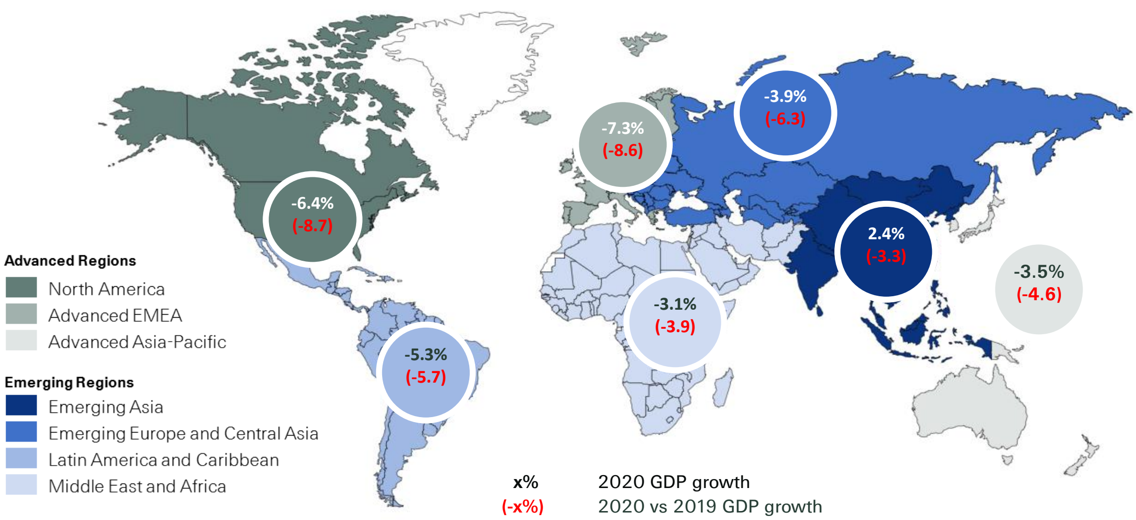
- Far worse **Global recession**[1] than the GFC
- **Output loss to be only partially** recouped in 2H 2020
- **Interest rates will remain very low** with "financial repression" on the rise
- **Rising un-employment** and **bankruptcies** will be inevitable
- **Risks are tilted to the downside**

	Swiss Re Institute				Consensus	
	2019	**2020**	**2021**	**2022**	**2020**	**2021**
Real GDP (% change)						
US	*2.3*	-6.4	4.2	1.9	-4.0	3.9
Eurozone	*1.2*	-7.5	3.8	1.0	-5.7	5.4
China	*6.1*	3.2	7.0	5.5	1.8	7.7
Japan	*0.7*	-4.0	1.5	1.1	-3.3	2.1
CPI (% change)						
US	*1.8*	0.7	1.7	2.3	0.8	1.8
Eurozone	*1.2*	0.2	1.0	0.8	0.4	1.3
China	*2.9*	3.0	2.5	2.5	3.1	2.0
Japan	*0.5*	0.4	1.0	1.0	-0.1	0.2
10y Gov. Bond Yield (%)						
US	*1.9*	1.0	1.0	1.2	0.9	1.4
Eurozone	*-0.2*	-0.6	-0.6	-0.4	-0.4	0.0
China	*3.2*	2.6	2.6	2.8	2.4	2.6
Japan	*0.0*	0.0	0.0	0.2	0.0	0.0

Source: Swiss Re Institute
Note: No Consensus projections available for China, numbers refer to Bloomberg

[1] Please refer to the Appendix for the assumptions for the Baseline.
We do not expect economic activity to return to 100% GDP capacity utilisation this year. Instead we foresee a GDP capacity shortfall of around 4% and 2% by year-end for the US and Eurozone, respectively. The maximum shortfall in capacity utilisation in the US and the Eurozone is in April 2020 at roughly 16% and 18%, respectively

Regional growth in 2020

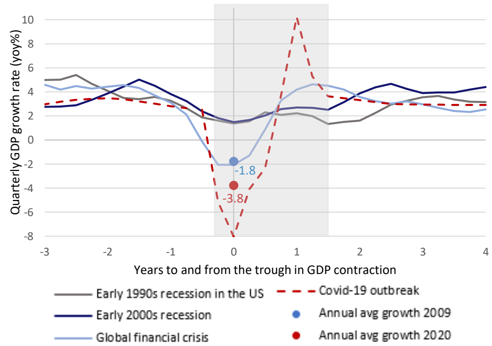


Source: Swiss Re Institute

Recession (I/II): deeper than the GFC and with unusual dynamics

Growth will bounce back but output lost will not be recovered

- Economic **downturn to be felt the strongest in Q1 and Q2. GDP to bounce back in 2H**, but **recovery will be protracted and not bring activity back to its previous expansion path**
- **There are many unknowns** like the **timing and sequencing of exit strategies but risks are skewed to the downside**
- **Recovery factors to watch**:
  1. Time for **supply chains** to recover
  2. **Capacity** build up
  3. **Unemployment** increase
  4. **Corporate defaults**



Shadow box represents the time frame when global yoy GDP growth was computed from the US, Eurozone and China quarterly data for the recession induced by the Covid-19 outbreak. This approximation holds for 2020 and 2021 quarterly data.

Source: Swiss Re Institute

Transmission channels to the economy

❶ Mandatory closures of businesses, shelter-in-place orders, school closures; social distancing; cancellation of travel, conferences, sports events etc.

❷ Supply chain disruptions (e.g. car manufacturers)

❸ Collapsing commodity prices (oil, copper, steel)

❹ Tighter financial conditions impacting corporates, households and sovereigns

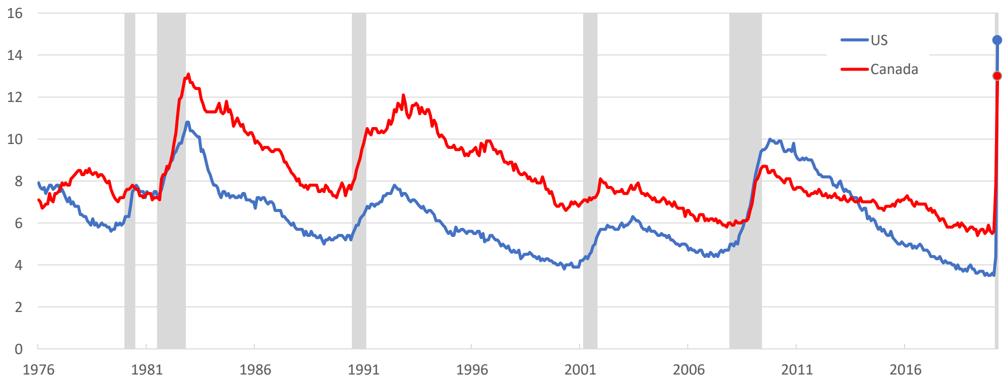
❺ Negative impact of loss of income on consumer spending

❻ Negative sentiment impact on investment and consumer spending

Labor market statistics are the earliest hard indicator this time

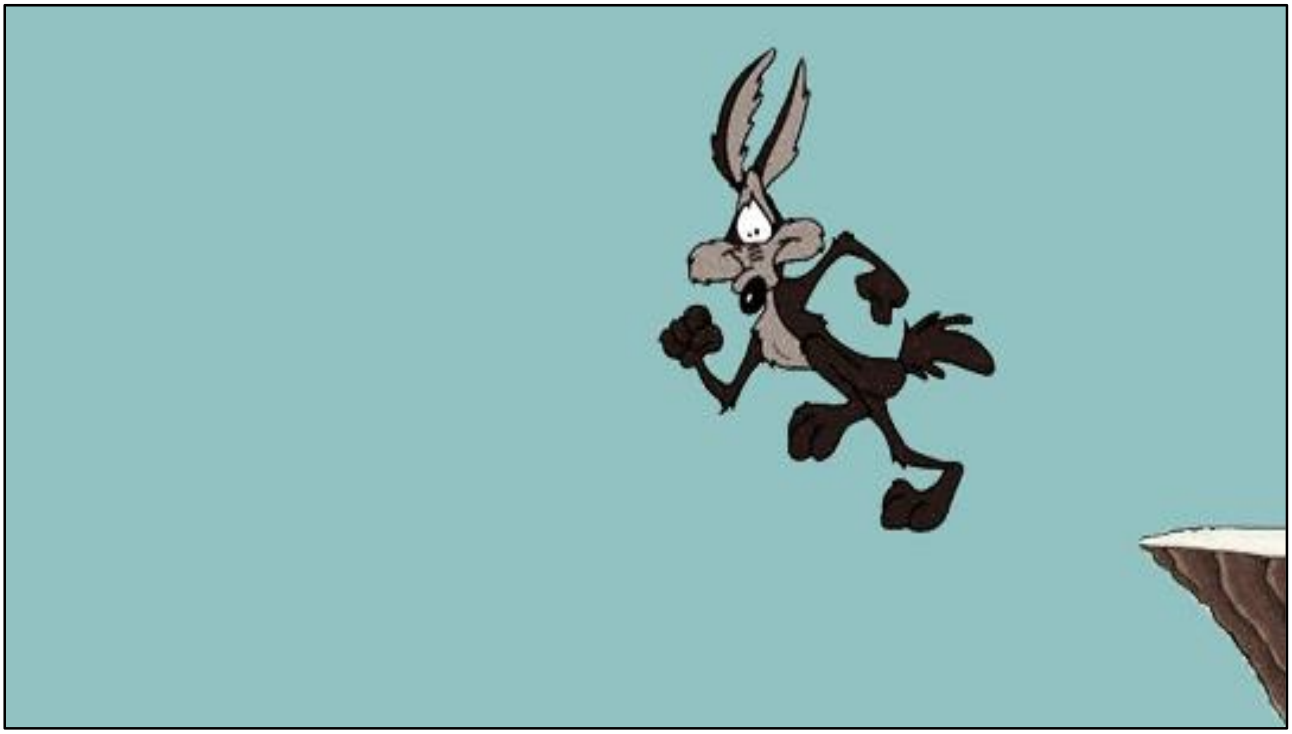
- The April unemployment rates would have been significantly higher if not for unprecedented numbers of people leaving the labor force
- Massive fiscal policy measures buffer the loss of income effect partially

Unemployment rate, %



Poll question: At what rate will unemployment peak?

a) less than 20%
b) 20% to 25%
c) 25% to 30%
d) 30% or more

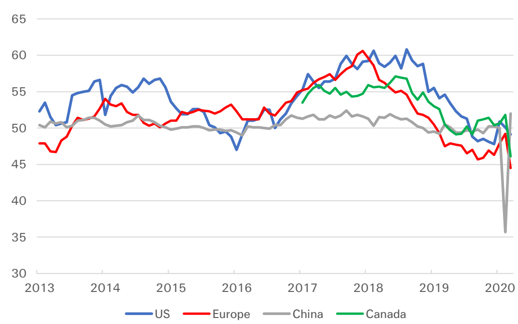


Economic activity has reached bottom in April

- **Capacity shortfall in the US and Canada bottomed in April** (estimated shortfall of roughly 16% and 21%, respectively). The relaxation of lockdown measures will lead to gradual resumption of capacity, reaching a shortfall of around 10% by July and around 5% by year-end; though Canada will lag the US somewhat due to a larger oil sector
- China is ahead on the timeline of recovery, though a very optimistic example one for western countries to match

NY Fed weekly economic indicator

Manufacturing Purchasing Managers Index



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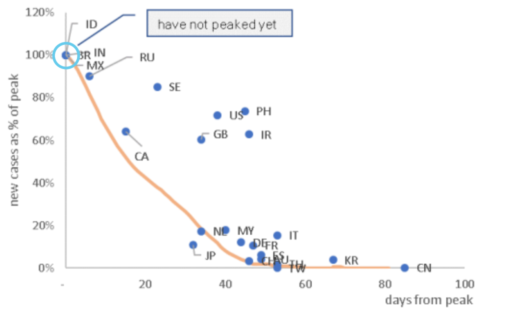
Sources: Federal Reserve Bank of New York, Datastream, Bloomberg, Swiss Re Institute.

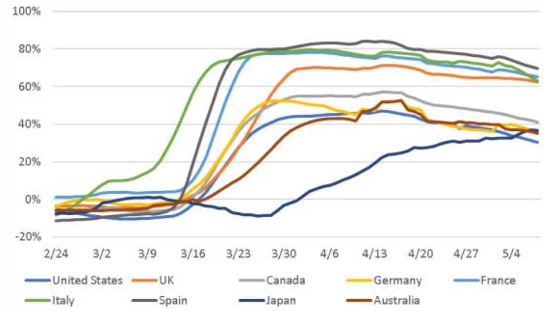
Are we ready to re-open? Most European countries are well advanced along the pandemic curve; North America lags

Relative position of countries on their pandemic curve. Days since and magnitude of new cases vs peak



Source: European CDC via Our World in Data and Swiss Re Institute. Data as per May 19th, based on seven-day moving averages of new confirmed cases.

Mobility index (consisting of Apple and Google mobility metrics)



Sources: Google and Apple mobility data and Swiss Re Institute. The mobility index is based on equal weights of the Google mobility index for retail and recreation, the Googlre mobility index for workplaces and the Apple mobility index for driving.

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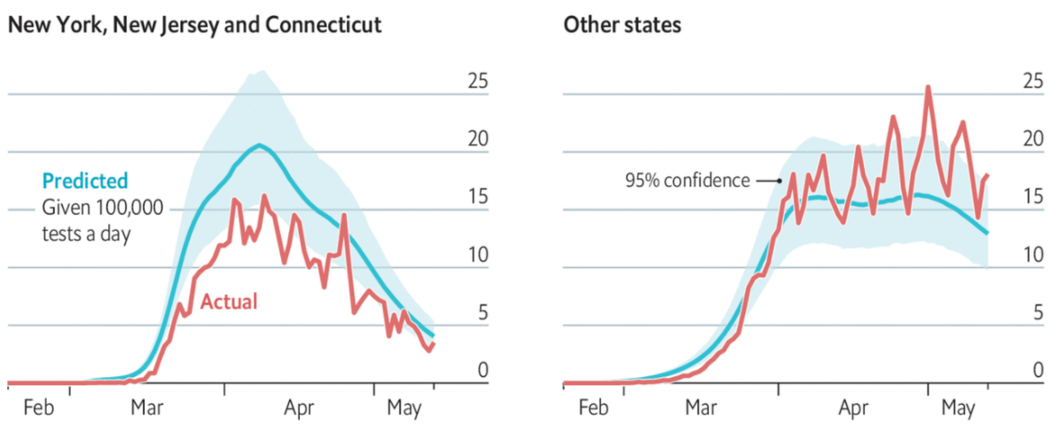
Are we ready to re-open? Diverging trends across states

Number of new cases, daily



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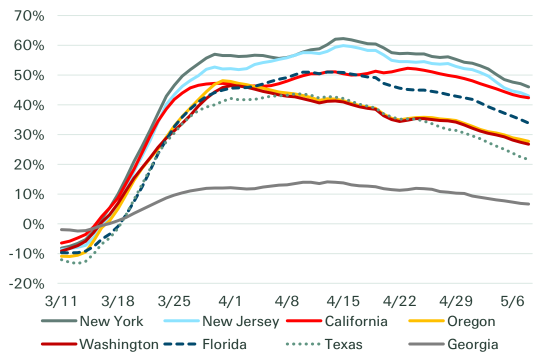
Source: The Economist

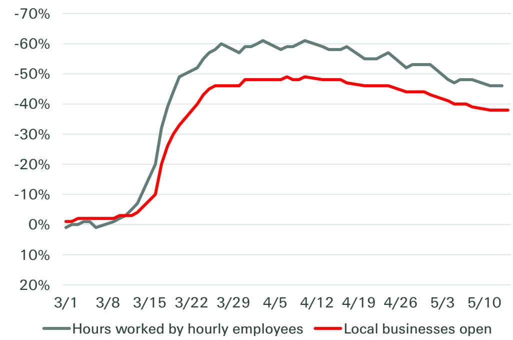
Effective restrictions have peaked in April

Mobility index (consisting of Apple and Google mobility metrics)



Sources: Google and Apple mobility data and Swiss Re Institute. The mobility index is based on equal weights of the Google mobility index for retail and recreation, the Googlre mobility index for workplaces and the Apple mobility index for driving.

Homebase index: local businesses and hourly employees

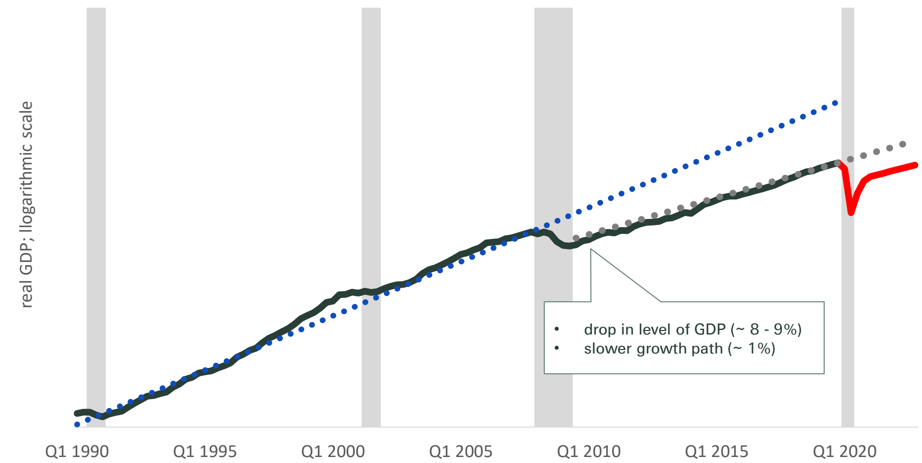


Sources: Homebase, graph shows weekdays only

Poll question: what shape of recovery?

a) V
b) U
c) L
d) W
e) Nike swoosh

What shape of recovery?



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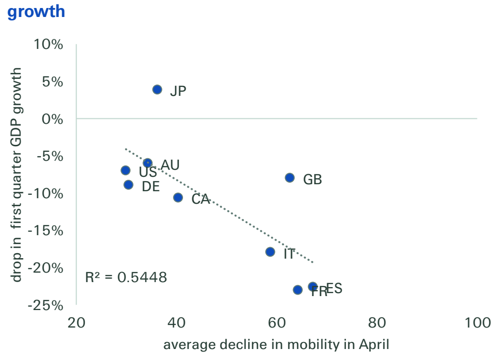
Significant shutdown measures are leading to an unprecedented hit to GDP

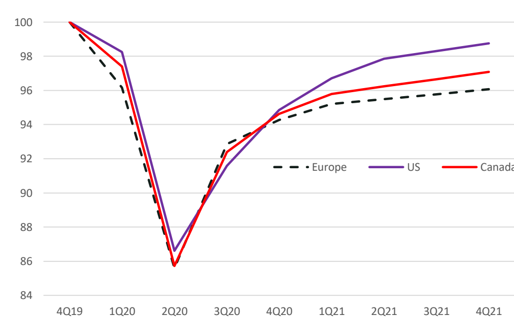
- **Economic activity** as a result of the lockdown measures likely **troughed in April**
- Estimated direct impact on real GDP similar at the trough, but US fiscal measures will enable a swifter and stronger recovery compared to the Eurozone; **Canada faces a double shock** because of a larger **oil sector**

Change in mobility in April vs drop in 1Q 20 GDP growth



Sources: Google mobility data and Swiss Re Institute.

Estimated direct impact on real GDP in the EU, US and Canada (4Q19 GDP level = 100)



The estimated impact of the lockdowns on GDP is obtained by computing the implied sensitivities of available economic activity indicators to the Effective Lockdown Index (ELI) for the different countries. The ELI is essentially a combination of the Oxford government policy stringency index and the Google mobility index.

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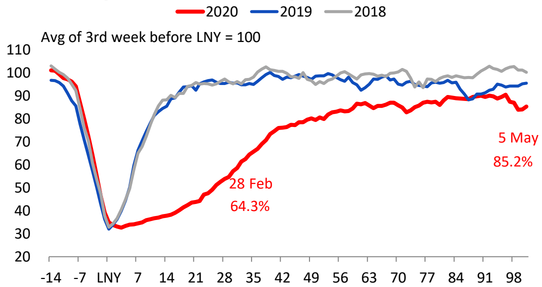
China: A gradual recovery is underway, but still at risk

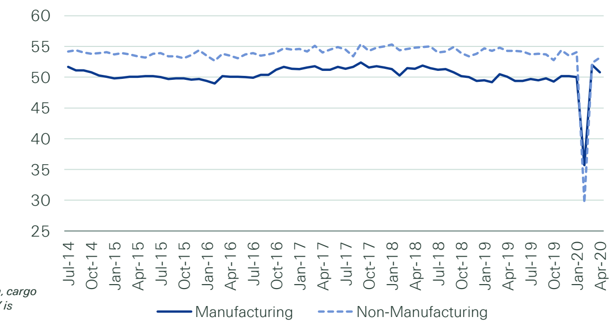
- CICC Production Activity Tracker (PAT) showed **the pace of work resumption nationwide stabilised at around 85% on early May**, pointing to a steady recovery in economic activities in China though still short of the level last year
- The major headwind is **sharply deteriorating global demand**
- The official manufacturing PMI moderated to 50.8 in April whereas Markit manufacturing PMI fell to 49.4 in April, indicating more difficulties facing SMEs. Meanwhile, **the recovery in the service sector remains sluggish**.

CICC Daily Production Activity Tracker (PAT)



Note: This is a consolidated index based on transportation data by railway & road, coral consumption, cargo logistic and number of passengers transported. The average capacity for three weeks before the CNY is defined as 100.
Source: CICC, Swiss Re Institute

Manufacturing and Services PMI (official)



Source: NSB, Swiss Re Institute

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Headwinds to the economic recovery

- The recovery to happen in two stages: **strong and quick initially**, followed by a **more protracted recovery**
- Headwinds to the economic recovery will come from **structural** and **behavioural factors**

Behavioural factors

- Increase in **precautionary savings** for households
- Corporates to aim for **higher cash reserves, more liquidity** and **less leverage**
- **Ongoing social distancing preferences** for more space in restaurants, cinemas, airplanes (?) etc.
- **Less appetite for leisure travel, large events**
- **Business travel** to be replaced by more video conferencing
- Increase in demand for BI, CBI, NDBI, mortality and health insurance (not a headwind!)

Structural factors

- **Rising corporate debt levels; lower credit quality;** fallen angels
- **Higher government debt**
- **Slow rebound in employment** and reduced household income
- Acceleration of structural change toward **digital economy**
- **De-risking of global supply chains**
- **Political tensions** within the Euro zone about the sharing of sovereign debt and risk

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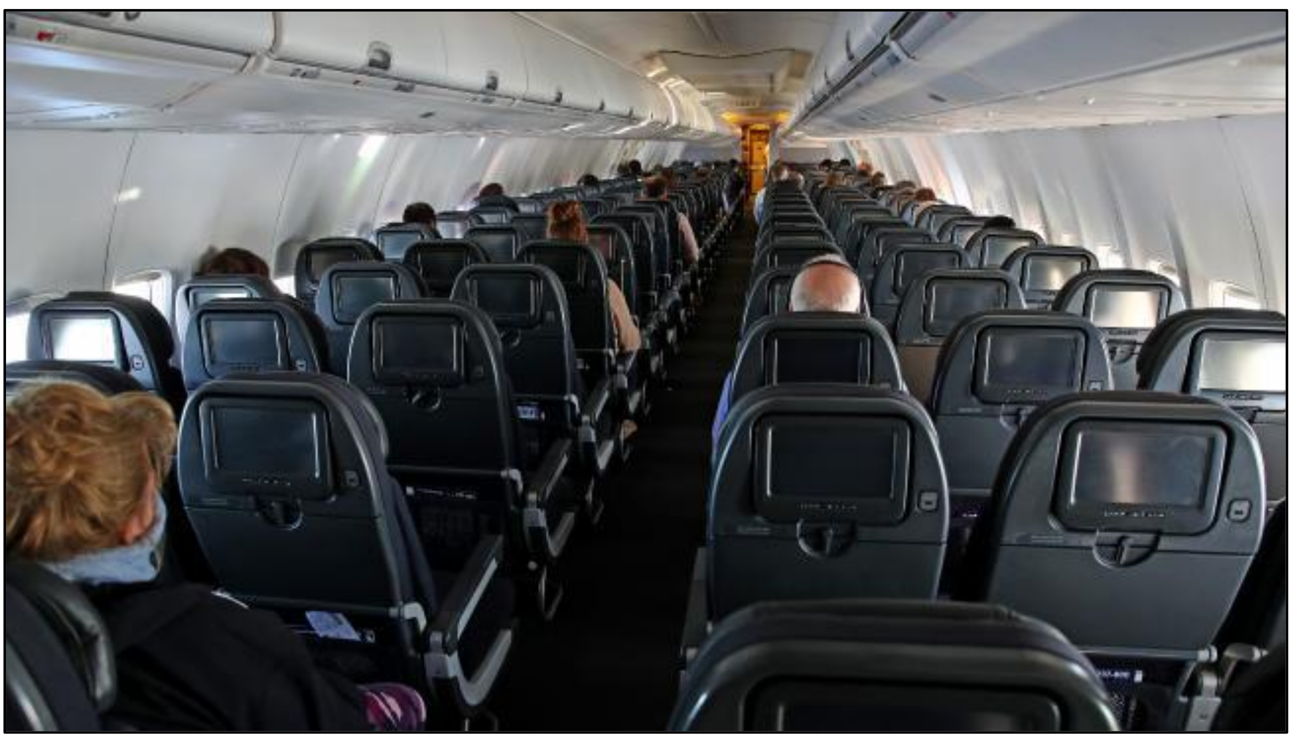
Source: Swiss Re Institute



Poll question: To what percent of pre-covid travel volume will the airline business return in 2021:

a) less than 50%
b) 50% to 75%
c) 75% to 90%
d) 90% to 100%
e) 100% or more

Some bright spots

+ 3.9% **+ 7.3%** **+ 31.3%** **+ 39.9%** **+ 3.4%**

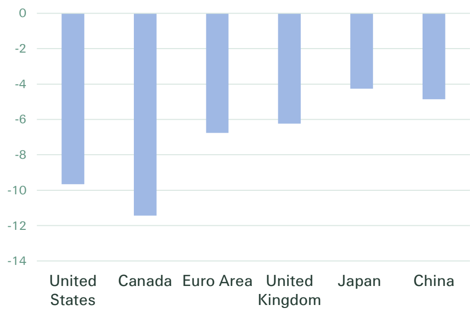
S&P 500: -10.7%

Year-to-date stock performance per May 18th

Record fiscal and monetary policy measures cannot offset the lockdown slump but are expected to enable a smoother recovery phase

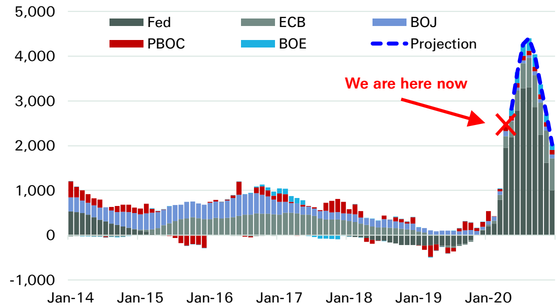
Unprecedented fiscal easing at multiples of GFC stimulus in a much more condensed timeframe
Central banks also employing old and new tools at never-before seen rate

2020 fiscal stimulus as % of GDP



Note: Change in central governments' fiscal balance 2020 vs 2019; does not include loan guarantees
Source: IMF, April 2020 Fiscal Monitor, Swiss Re Institute

Selected central bank QE purchases, 6m rolling average, in USD bn



Source: Datastream

Potential paradigm shifts for the global economy

Covid-19 is likely to bring forward some of the megatrends previously identified

- Fiscal/ Monetary coordination and outright debt monetization
- Peak of globalization and parallel supply chains
- Accelerated digital transformation
- Return of higher inflation?
- Rising nationalization / equity stakes from government in large corporations

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Thank you!

Contact us

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