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World economic outlook in autumn 2020: What sort of recovery after the record economic decline?

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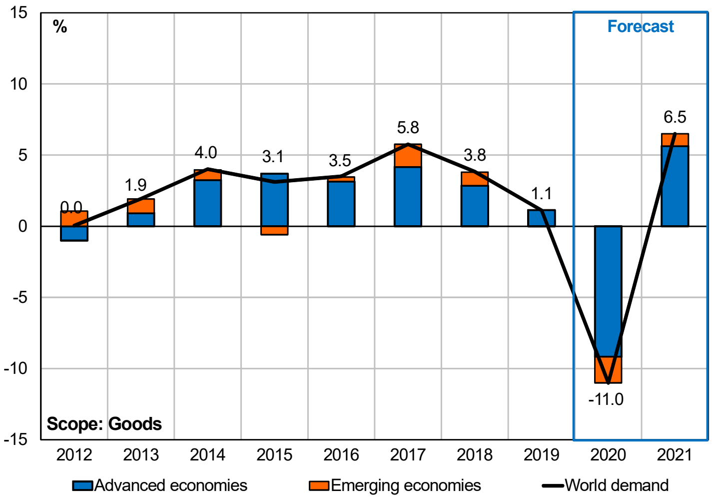
- Global growth is forecast to contract sharply by 4.1% in 2020, on the back of the COVID-19 epidemic and lockdown measures, after slowing to 2.9% in 2019. It is subsequently projected to rebound to 5.2% in 2021, on the assumption that health situation will ease gradually. Emerging economies as a whole are expected to return to their 2019 level of activity by the end of 2021. Advanced economies, by contrast, are likely to experience a deeper shock and a slower recovery.
- In the euro area, economic activity is forecast to decline by a record 7.9% in 2020 due to the severity of the epidemic in the first half of the year. Activity is expected to increase by 6.3% in 2021, but is unlikely to return to pre-COVID-19 levels. The recovery is projected to be uneven across the euro area: Germany is expected to record a smaller hit to activity (a cumulative decline of 1.8%) than Spain (–4.6%) or Italy (–5.0%).
- The UK is predicted to report a sharp contraction in activity in 2020 (–10.5%), owing to the severity of the epidemic and the duration of containment measures, which are also expected to hinder the recovery in 2021, in addition to Brexit. Activity in the United States is likely to slow to a lesser extent than in Europe in 2020 (–5.2%) because of less strict lockdown measures, but the recovery is expected to be constrained in 2021 (+3.0%) by private debt (which would affect bankruptcies and the labour market) and uncertainties around the health situation. In China, growth is projected at 1.5% in 2020 – its slowest pace on record – with the country's highly accommodative economic policy driving a recovery as early as in the second quarter of the year despite the collapse in the first quarter.
- The slump in activity is expected to spur a sharp contraction in global trade in 2020 (–10.0%). World trade is projected to rebound only partially in 2021, growing by 6.1%, and look set to suffer the lasting effects of a partial recovery in advanced economies and protectionist policies that restrict trade.
- This scenario is subject to considerable uncertainty. The recovery in activity will depend on how the epidemic evolves, to what extent the manufacturing base can be preserved, whether the labour market will normalise, and how trade tensions pan out – all sources of uncertainty.

Growth in world demand for French exports



Source : DG Trésor.

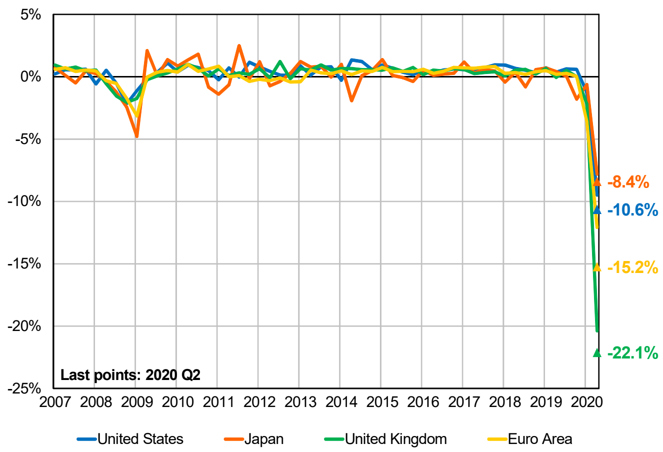
1. Unprecedented decline in activity in the first half of 2020

1.1 Advanced economies record very substantial slump in activity in the first half of the year

After activity decelerated in most advanced economies in 2019, especially in the United States and the euro area, the decline in activity in the first half of 2020 was on an unprecedented scale (see Chart 1), owing to the COVID-19 epidemic and ensuing lockdowns[1]. The hit to activity was reflected in all components of private demand, but generally impacted exports more than domestic demand. The contraction was deeper in the second quarter of the year than the first because of the trajectory of the epidemic, which affected Italy in late February followed by the rest of the advanced countries in March and led to stringent containment measures until May (or late June in the UK). Within the euro area, the slowdown in activity was sharper in Spain due to its significant exposure to tourism, than in Germany, where the epidemic was not as severe[2]. In the US, lockdown measures were less strict than in Western Europe and, as a consequence, activity did not decrease to the same extent. The fall in activity in Japan was more subdued because of the country's less stringent containment measures despite its high degree of exposure to global trade.

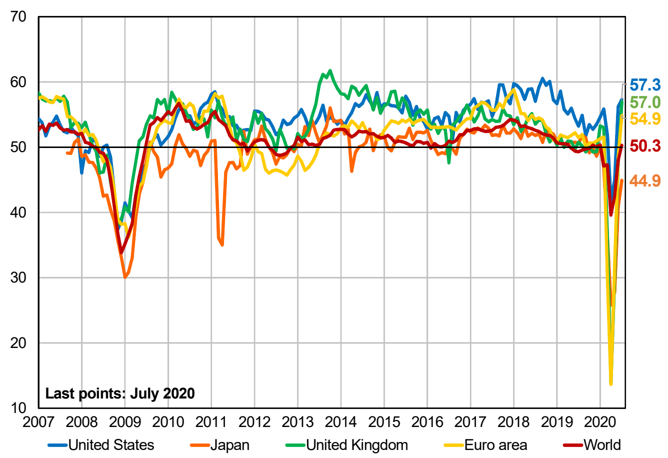
Industrial production fell by 20.0% in advanced economies between January and April. The contraction was particularly sharp in the euro area (–27.8%), but more moderate in the United States (–16.5% in April) and Japan, where industrial production hit a low in May (–12.6%). The service sector, especially recreational activities, was hard hit, reflected by services PMIs reaching unprecedented lows in April, with a particularly sharp fall seen in the euro area (–12.0, its lowest). Since reaching a trough in April, most business indicators have rebounded (see Chart 2). Manufacturing activity picked up again in all economies, but to varying extents at end-June: activity was still down more than 10% from its December level in the euro area (–11.5%), the United States (–11.2%), the United Kingdom (–12.9%) and, more significantly, Japan (–17.5%). In the euro area, although retail sales returned to December 2019 levels, but visits to stores and recreation venues varied from country to country and were below pre-COVID-19 levels. Following an upturn at the end of the second quarter, the latest indicators reveal a fairly gradual recovery, as shown by the moderate expansion of PMIs in July.

Chart 1: GDP growth in the main advanced economies



Sources: National statistical institutes.
How to read this chart: The lines on the chart show the quarterly change in GDP. The triangles show the cumulative decline in GDP in H1 2020.

Chart 2: Business environment in the main advanced economies



Sources: PMI (Markit), ISM (for the US).

(1) See Box 1 for an overview of the length of lockdown measures and their impact on economic activity in each country.
(2) The scale of the crisis also caused major problems in measuring data, which may explain some of the differences. To reflect the shutdown of some government services, certain countries used different indicators to estimate the decline in government consumption in volume, in accordance with Eurostat recommendations. Government consumption fell by 11% in the first half in France and by 18% in the UK, while it was relatively stable in Italy and rose slightly in Germany and Spain.

Box 1: Duration and strictness of lockdowns and the extent of shutdowns of activity in the main advanced economies

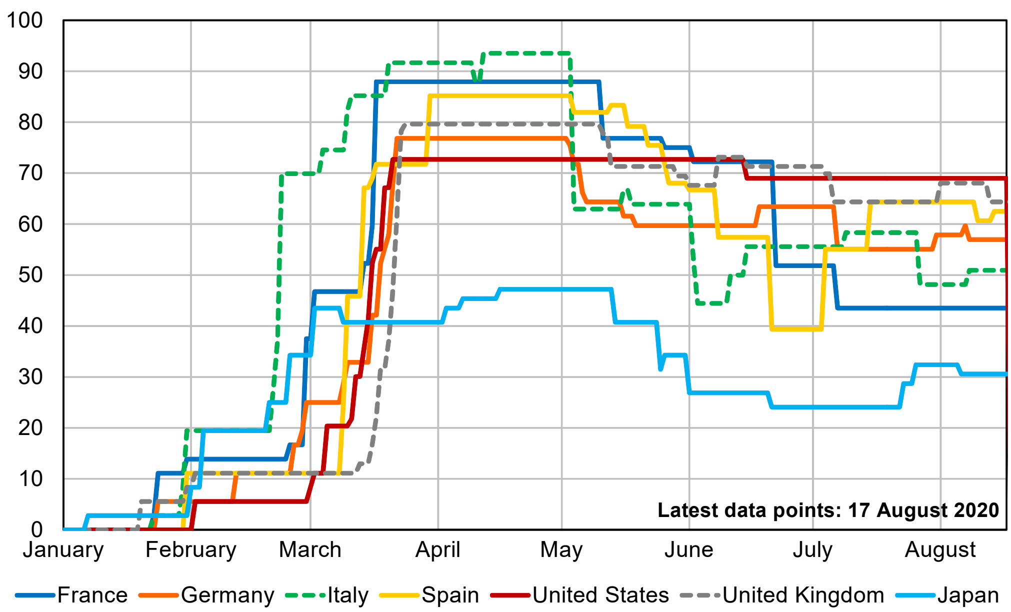
Starting in March, many advanced economies introduced measures to restrict movement, close public venues and non-essential businesses and lock down the population. Reflecting different government strategies, the severity and length of the responses varied from one country to another.

The University of Oxford has compiled a government response stringency index[a] which shows that the lockdown was stricter in Europe than in the United States or Japan between mid-March and mid-June. The speed and the extent to which the virus spread in the United States led to longer lockdown measures. The lockdown was therefore more stringent in the United States over the summer than in Europe. Despite the fact that some restrictions were lifted as lockdown measures were relaxed, other restrictions were maintained and appear to have been increased again in July.

Lockdown measures triggered a fall in economic activity on an unprecedented scale and weighed on both supply and demand. Based on the estimates of national public finance and economic institutions[b], activity declined instantaneously by an average of one-third in France and Spain and by around one-sixth in Germany. While there are no directly comparable estimates available for the United States or Japan, the hit to activity in those countries does not appear as deep because of the less stringent lockdown measures in force in the first and second quarters.

Combining data from the University of Oxford with Q1 and Q2 GDP results reveals a correlation between the intensity of the lockdown and the fall in activity. The stricter the lockdown on average over a quarter, the higher the decline in GDP. However, there are differences between countries which imposed similar lockdown measures, connected in particular to their sectoral exposure and the composition of their manufacturing industry.

Chart 3: Government response stringency index



Source: Oxford COVID-19 Government Response Tracker.

a. The index is based on nine response indicators which measure the level of government action to slow the spread of the epidemic (school closures, workplace closures, public transport closures, restrictions on gathering size, restrictions on internal movement, restrictions on international travel, cancellation of public events, stay at home requirements and public information campaign).

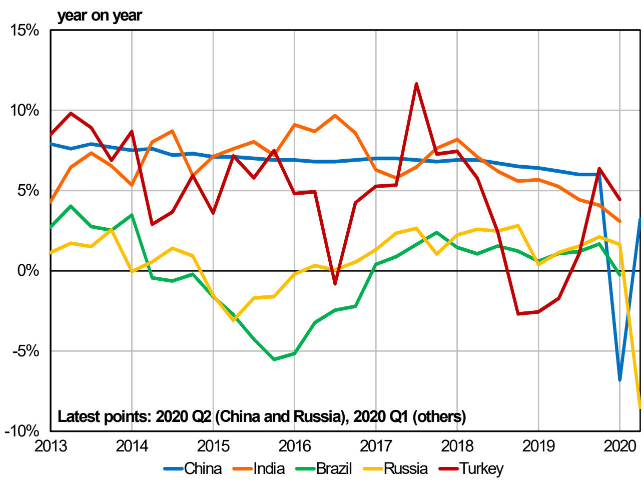
b. INSEE for France, the Bank of Spain for Spain, the OBR for the UK and the IFO for Germany.

1.2 Emerging countries also hard hit by the economic impact of the epidemic, but at different times of the year

The shock of the health crisis in the main emerging economies is unprecedented, but varies across countries in terms of scale and trajectory (see Chart 4). In China, activity is expected to grow at the slowest rate on record in 2020 because of the health measures and a sluggish rebound in household consumption recorded at the end of the second quarter. In Turkey, health measures and the collapse in international tourism severely affected growth and raised pressures on the Turkish lira. India had not reached the peak of the coronavirus epidemic in the summer and is predicted to enter a recession in 2020 after an extremely strict lockdown that was too short. In April, the lockdown put an abrupt stop to consumption and investment, which were already slowing considerably in 2019 amid trouble in the financial sector. In Russia, falling oil prices came on top of the health crisis, leading to an 8.5% decline in GDP year on year in the second quarter after GDP growth of 1.8% in the first quarter. Brazil successively faced an external shock owing to the fall in Chinese demand and commodity prices in the first quarter and an internal shock due to the spread of the coronavirus epidemic and social distancing measures, which led to a severe contraction in activity.

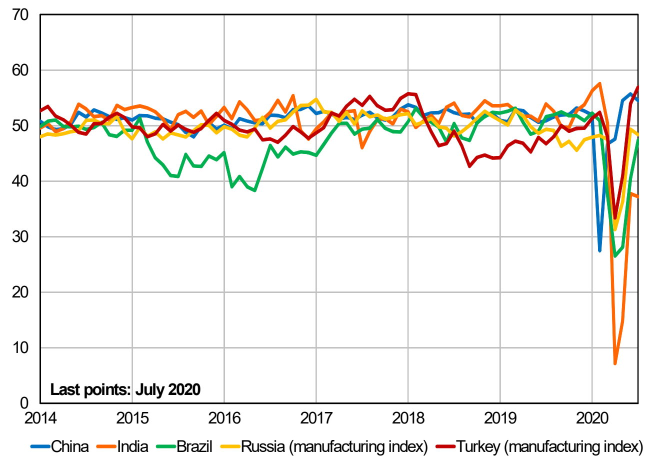
Business surveys point to different speeds of recovery after the shock at the beginning of the year (see Chart 5). In China, PMIs indicated a return to expansion in the manufacturing industry in March and the service sector in May. In Turkey, Russia and Brazil, the global manufacturing PMI rebounded strongly and reached a high in July, however the services PMI was still low in Brazil. In India, the global composite PMI was close to 40 in June and July, suggesting that activity has continued to decline.

Chart 4: GDP growth in the main emerging economies



Sources: National statistical institutes.

Chart 5: Business environment in the main emerging economies



Sources: Global composite PMI (Markit), excluding Turkey and Russia (global manufacturing PMI).

2. Global growth looks set to contract severely in 2020 before picking up in 2021

It is important to note the elevated uncertainty around releasing forecasts at this stage of the year, given the scale of the shock, the many factors on which a recovery is hinged and the heightened uncertainty on many fronts (see Section 4). For example, the forecasts collected for the Consensus Forecasts show an interquartile range of nearly 2% for the GDP growth outlook for the euro area for 2020 and 2021 in August, compared with 0.6% at the start of the year.

Table 1: Growth forecasts[a]

GDP (annual average, %)	2016	2017	2018	2019	2020	2021	Cumulative
					(forecasts, working-day adjusted)		
World growth	**3.4**	**3.9**	**3.5**	**2.9**	**–4.1**	**5.2**	**0.9**
Advanced economies[b]	**1.7**	**2.5**	**2.2**	**1.7**	**–6.2**	**4.3**	**–2.2**
United States	1.7	2.3	3.0	2.2	–5.2	3.0	–2.3
Japan	0.5	2.2	0.3	0.7	–5.3	2.7	–2.8
United Kingdom	1.9	1.9	1.3	1.5	–10.5	7.2	–4.1
Euro area[c]	**1.9**	**2.7**	**1.9**	**1.3**	**–7.9**	**6.3**	**–2.1**
Germany	2.1	2.9	1.3	0.6	–6.0	4.5	–1.8
Italy	1.4	1.7	0.7	0.3	–10.2	5.8	–5.0
Spain	3.0	2.9	2.4	2.0	–12.0	8.4	–4.6
Other advanced economies	2.0	2.8	2.3	1.9	–5.1	3.9	–1.3
Emerging economies[b]	**4.6**	**4.9**	**4.5**	**3.7**	**–2.8**	**5.9**	**2.9**
Brazil	–3.3	1.3	1.3	1.1	–7.3	2.2	–5.3
China	6.8	6.9	6.7	6.1	1.5	7.9	9.5
India[d]	8.3	7.0	6.1	4.2	–4.9	7.3	2.0
Russia	0.3	1.8	2.2	1.3	–5.5	2.9	–2.8
Turkey	3.2	7.4	2.6	0.9	–2.5	5.5	2.9
Other emerging economies	3.7	3.4	3.1	2.5	–4.6	4.6	–0.2
World trade[e]	*2.5*	*6.2*	*4.4*	*0.5*	*–10.0*	*6.1*	*–4.5*
World demande for French exports[f]	*3.5*	*5.8*	*3.8*	*1.1*	*–11.0*	*6.5*	*–5.2*

a. These forecasts were finalised on 20 August 2020.
b. Growth forecasts for advanced economies and emerging economies are based on IMF forecasts (June 2020), corrected using DG Trésor forecasts covering the countries in Table 1 and France, with past figures adjusted for revisions to national accounts.
c. Growth forecasts for the euro area are calculated using DG Trésor forecasts for Germany, France, Italy and Spain and the European Commission's forecasts for the other countries, with past figures adjusted for revisions to national accounts.
d. These forecasts are presented for the fiscal year using the current budget year from April to March of the next year.
e. World trade is calculated based on imports from 39 countries and organisations (Germany, Belgium, Italy, Spain, US, UK, OPEC, Netherlands, China, Switzerland, Japan, Russia, Poland, Turkey, Brazil, Sweden, South Korea, Hong Kong, Singapore, Canada, Morocco, Portugal, Austria, Czech Republic, Hungary, Australia, India, Malaysia, Mexico, Thailand, Ireland, Denmark, Greece, Slovakia, Norway, Taiwan, Finland, Philippines and Argentina), plus France.
f. World demand covers the 39 countries listed above, which account for 86% of French exports.

Source: DG Trésor (August 2020).

2.1 2.1The epidemic is to have severe and lasting effects on the main advanced economies

In the euro area, where the epidemic has been particularly severe, activity is forecast to contract in 2020 by a record 7.9% (after growing by 1.3% in 2019), mainly due to softening consumption, which has suffered directly from the effects of containment measures. The toll on activity is likely to be uneven across countries. This is largely a reflection of the differences in how the epidemic has spread and the duration and intensity of containment measures. The speed of recovery is expected to be different for each country depending on its sensitivity to the COVID-19 shock (sectoral features, exposure to global trade, etc.) and specific structural factors (labour market structure, potential growth, etc.). The COVID-19 crisis is likely to leave deep scars that are predicted to hinder the recovery in activity in the euro area (+6.3% in 2021). Despite sizeable fiscal and monetary measures, activity is not expected to return to its 2019 level at the end of the forecast period, with the main countries varying significantly.

In Italy, the severity of the epidemic is expected to lead to a sharp contraction in activity in 2020, declining by 10.2%. Consumption is predicted to drop markedly, initially because of containment measures and then as consumers increasingly adopt "wait and see" attitudes. The EU's economic stimulus package will likely support the recovery, but Italy's structural problems are projected to slow the pace of its rebound in 2021 (economic growth is forecast at 5.8%), especially weak investment. Labour market adjustment in response to the fall in activity and slow resource reallocation across sectors as a result are expected to undermine domestic demand.

In Spain, activity is projected to collapse in 2020, shrinking by 12.0%, due to the large scale of the outbreak in the country and the economy's reliance on the tourism sector, which accounts for 12% of Spain's GDP. Consumption looks set to be particularly hard hit by the duration and strictness of the containment measures. Spain is expected to recover only partially in 2021 (projected economic growth of 8.4%), supported by the EU's recovery plan. The country's rebound is predicted to be constrained by: (1) a more widespread "wait and see" approach proportionate to the scale of the shock in the first half of the year; (2) lasting problems in the tourism sector and (3) a worsening labour market, with skyrocketing unemployment reported after a massive shift to temporary contracts and reallocation of labour towards other sectors, which could exacerbate existing problems matching skills to jobs in various industries.

In Germany, activity is projected at –6.0% in 2020 after also contracting at the end of 2019. The epidemic was not as severe in Germany and the restrictive measures imposed were shorter and less stringent. As a result, activity and consumption are expected to decline to a lesser extent than in other euro area economies. Consumption is even predicted to be sustained by VAT cuts in the second half of 2020. In contrast, Germany's economy is likely to be penalised by softer external demand because it is open to international trade and geared towards exporting capital goods, for which demand is now weaker amid the uncertain business climate. The current situation is expected to compound the difficulties Germany's industry was already facing pre-COVID-19. Activity is projected to rebound only partially in 2021, gaining 4.5%.

In the US, economic growth fell to 2.2% in 2019 from 3.0% in 2018 against the backdrop of the hard-line US trade policy, which directly impacted international trade and indirectly affected domestic demand by heightening uncertainty. Activity is forecast to decline steeply in 2020 (–5.2%) before making a partial recovery in 2021 (+3.0%), due mainly to corporate bankruptcies againts a background of elevated levels of private debt pre-pandemic, which are expected to weigh on employment. After lockdown measures are lifted, consumption is likely to be held back by a partial rebound in employment and high uncertainty about how the health situation will evolve and whether economic support measures will continue to sustain consumer purchasing power. Investment is set to increase only slightly as uncertainty surrounding the outlook for aggregate demand is lifted. The pickup in global trade is not expected to fully restore US foreign trade, which has been hindered by protectionist measures implemented since 2018.

In the UK,uncertainty surrounding the country's arrangements for leaving the European Union continued to weigh on activity in 2019 (economic growth was 1.5%, after 1.3% in 2018). In 2020, activity is predicted to contract by a similar amount to the hardest-hit countries in the euro area (–10.5%), owing to the country's particularly strict lockdown measures which severely impacted consumption. The recovery in activity is projected to reach 7.2% in 2021, held back by the lasting effects of the health crisis and the UK's withdrawal from the European Union: domestic demand is expected to be hindered by uncertainty, while exports are likely to be adversely affected by the new regulatory environment in 2021.

In Japan, activity is projected to shrink by 5.3% in 2020. The country was not hit as hard as the other main advanced economies because of its less strict containment measures. Private consumption is predicted to suffer a steep decline, while private investment also looks set to fall due to lower company profits and economic uncertainty. Despite fiscal support measures and the easing of the negative effects of the increase in the consumption tax rate, activity is forecast to recover only slightly in 2021, rising by 2.7%. Japan's economic growth will likely suffer in 2021 from the country's elevated exposure to a sluggish international environment and a "wait and see" approach by households.

Box 2: Easing of the policy-mix in the main advanced economies in response to the health crisis

Fiscal and monetary authorities in the main advanced economies have implemented support measures of unprecedented scope and scale to cushion the COVID-19 shock and aid the recovery.

Countries have announced fiscal stimulus packages equivalent to between 4 and 15 percent of GDP (excluding guarantees). In Europe, support measures include short-time work schemes and grants to the hardest-hit sectors. The agreement leading up to the implementation of the Recovery and Resilience Facility in the EU, a fund worth nearly €670 billion combining grants and loans, supports the action of Member States and will provide additional funding for longer-term investments up until 2023. In the US, the policy response mainly focused on enhancing automatic stabilisers, which are structurally weaker than in Europe (especially unemployment insurance), and on providing subsidised loans to small and medium-sized enterprises.

Beyond these differences across individual countries, the fiscal support rolled out in all the advanced economies share a number of measures. Direct transfers to households have helped support purchasing power, partly offsetting their loss of income. Similarly, loan and liquidity support for businesses, like tax and social security contribution deferrals, have been implemented to allow them to withstand the COVID-19-induced liquidity shock. In addition, government guarantee schemes, which help ensure that credit provision continues, were appropriately sized to meet needs.

Central banks reacted swiftly to provide monetary support and stem the tightening of credit conditions. Some central banks with room to manoeuvre cut interest rates and all central banks either resumed or boosted asset purchase programmes. These interventions were supported by additional measures, some of which had never been implemented before, while others built on existing schemes: the Bank of England has extended the use of the government's Ways and Means facility (a pre-existing overdraft), the US Federal Reserve, in close cooperation with fiscal authorities, has supported the real economy by providing a programme of loans to SMEs and mid-tier companies, the Bank of Japan has ramped up its programme to purchase equity exchange-traded funds (ETFs), the European Central Bank has implemented the Pandemic Emergency Purchase Programme (PEPP), and so on. These central banks' balance sheets are expected to grow by more than 15 percent of GDP by the end of 2020[a].

An accommodative monetary policy is predicted to remain in place until the end of the forecast period, with the loosening of credit conditions maintained. In terms of fiscal policy, this scenario includes announcements made up until the end of August (including the EU recovery plan's component for 2021), and a fifth relief package in the US worth $1 trillion (on the low range if a package is indeed voted, as proposed by the Republicans).

a. See Cavallino P. and F. De Fiore (2020), "Central banks' response to Covid-19 in advanced economies", *BIS Bulletin* No. 21.

2.2 Extent of support measures likely to determine the pace of recovery in emerging countries

In China, growth is projected at 1.5% in 2020 – its slowest pace on record – due to containment measures and a muted recovery in private consumption, together with softer global demand and ongoing tensions with the US. While authorities have implemented significant fiscal policy measures and eased monetary policy, the amount of government support is lower than in 2009 because the focus is on debt sustainability. GDP growth nevertheless returned to pre-COVID-19 levels in the second quarter of 2020 and is expected to increase to its historical average quarterly pace, leading to growth of 7.9% in 2021.

Brazil took a blow in the first quarter from lower commodity prices and softer Chinese demand. The health crisis severely affected activity, which was nevertheless cushioned by a sizeable fiscal support package. Economic growth is forecast to contract sharply by 7.3% in 2020 and the country's prospects for recovery in 2021 (+2.2%) appear limited: a sustained rebound in government or private consumption is unlikely now that there is little room for fiscal manoeuvre.

In India, growth slowed to 4.2% in 2019 after reaching 6.1% in 2018. This was attributable to the crisis in the financial sector which weighed on access to credit, eroded confidence and adversely affected investment and construction. Since the epidemic is not under control yet and the lockdown halted activity in the second quarter of 2020, India is forecast to experience a severe recession in 2020 (–4.9%). The recovery in 2021 is predicted to remain moderate (+7.3%) because of the fragile financial sector and limited room for fiscal or monetary manoeuvre.

In Russia, a steep 5.5% decline in activity is forecast in 2020, owing to the twin challenges of COVID-19 and the collapse of oil markets in March. The lockdown measures imposed from April to June impacted domestic activity, but containment of the epidemic to a certain degree paved the way for a recovery in the summer. Russia has been dealing with the health crisis with more room for fiscal and monetary manoeuvre than in the past. The public investment programme will resume in 2021, likely boosting growth to its highest level in ten years (+2.9%).

In Turkey, growth is forecast to be resilient, albeit negative, in 2020, with the economy contracting by 2.5% after the COVID-19 outbreak was quickly contained and highly expansionary economic policies were implemented. The expansionary policy mix is projected to fuel a strong recovery in 2021 (+5.5%). However, the growing macroeconomic imbalances are cause for concern, further highlighting the limits to the sustainability of Turkey's economic model, and could force a policy shift which would negatively impact growth.

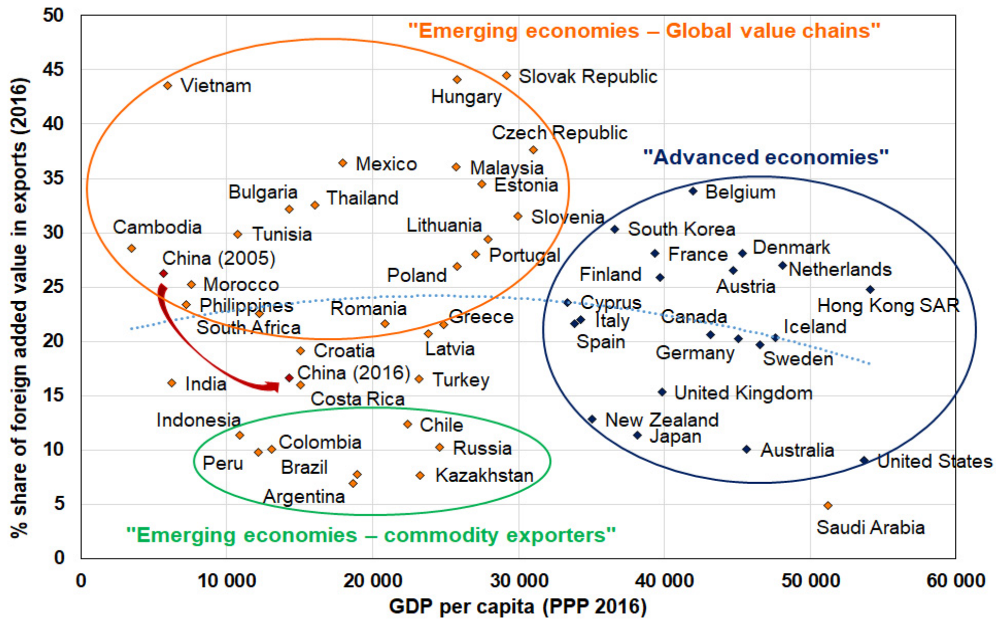
Box 3: Trade integration of emerging countries and the health crisis

The growing trade integration of emerging countries has been a major phenomenon in recent decades. While the share of advanced economies in global exports has decreased from 80% in 1991 to 60% in 2018, that of emerging countries has doubled (from 20% to 40%) and China's share increased six-fold to 13% in 2018, with China graduating from a minor player to one of the world's leading customers and suppliers. China alone has accounted for 16% of the growth in global exports since 1991 and 40% between 2010 and 2018. Imports have followed a similar trend.

As emerging countries engage increasingly in global trade, production chains have become geographically fragmented. An analysis of trade in value-added (TiVA) shows an increase in the share of foreign value-added content in exports.

Furthermore, sectoral specialisation and integration in global value chains appear to go hand-in-hand. While commodity-exporting countries are integrated "upstream", (the value-added exported to a partner country makes up a large proportion of the value re-exported to a third country), countries exporting manufactured products are more likely to be integrated "downstream", (importing inputs, a small share of domestic value-added, re-exporting). A non-linear relationship is observed between the level of economic development and the share of foreign value-added content of exports (see Chart 6).

Chart 6: Level of development and trade integration



Source: OCDE (TiVA).

Countries can be divided into three main categories:

- Commodity-exporting countries with relatively low GDP per capita and a small share of foreign value-added in their exports (commodity exports requiring only few inputs).
- More advanced emerging countries that are more integrated into global value chains: these are mainly countries of Central and Eastern Europe and Southeast Asia.
- Developed countries with higher GDP per capita that are more specialised in producing high value-added goods and services requiring a smaller share of imported value-added

China is different because its GDP per capita growth between 2005 and 2016 has involved "re-shoring" its exported value-added, signalling a gradual shift away from the conventional "processing trade" model towards higher-end manufacturing.

This chart also shows the different transmission channels of a slowdown in global trade to emerging countries. The "emerging countries – commodities" group, which includes Russia, Argentina, Chile and Indonesia, appears the most exposed to the decline in global demand, impacting both the volume and price of their exports. Other emerging countries look more exposed to a slowdown in global trade coming from the "value chains" channel (Asia and Europe). This is the case of Vietnam, Thailand, Malaysia, Mexico, Tunisia, Morocco and Central and Eastern European countries. These countries, which have been more resilient to external shocks in the past, will not escape the crisis and remain heavily reliant on their major trading partners (EU, US and China).

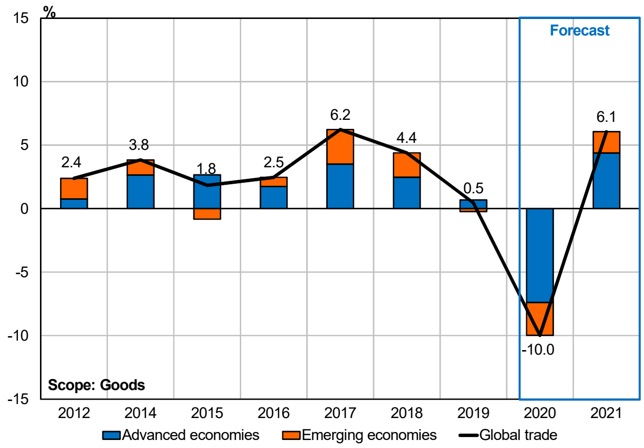
3. COVID-19 epidemic likely to have a lasting impact on world trade

World trade slowed considerably in 2019, rising by just 0.5% over the year, the slowest pace recorded since the great financial crisis, compared with an increase of 4.4% in 2018. Against a backdrop of stronger protectionism and lacklustre Chinese domestic demand, imports to China did not contribute to global trade[3]. Reflecting China's slowdown, trade was also sluggish in the rest of Asia. US imports were at a virtual standstill, constrained by new tariffs and uncertainty about the trade situation, thereby weakening investment. Euro area imports also slowed because of softer markets and specific difficulties, particularly in the automotive industry.

Global trade is forecast to collapse in 2020, contracting by 10.0%. Global trade flows saw a massive decline in the first half of the year[4]. Coronavirus containment measures, which led to partial shutdowns of activity in some sectors, sluggish domestic demand and supply problems were some of the main causes. Advanced economies are projected to contribute significantly to the collapse in global trade (see Chart 7). The partial shutdown of activity in the euro area is expected to have drastic consequences for trade in the area because production chains are deeply integrated. The contraction is forecast to be particularly severe in Italy and Spain, which both imposed some of the strictest containment measures. The decline in US imports is also predicted to contribute significantly to the deterioration in global trade. In 2021, world trade is forecast to recover only partially (+6.1%), supported by the broad-based rebound in domestic demand. Global trade flows are expected to be adversely affected by the partial recovery in activity in advanced economies for a prolonged period, with protectionist measures having a direct impact on foreign markets and an indirect impact by fuelling uncertainty.

World demand for French exports is expected to shrink by 11.0% in 2020, compared with an increase of 1.1% in 2019, before improving by 6.5% in 2021. This contraction is sharper than the decline in global trade as a whole due to the strong exposure of French exports to euro area countries which have been hard hit by the epidemic. Demand for French exports is expected to bounce back when those countries recover in 2021. Additionnaly, demand will be affected by the tenuous recovery of imports in the UK in 2021 after it leaves the EU.

Chart 7: World trade and contributions by area



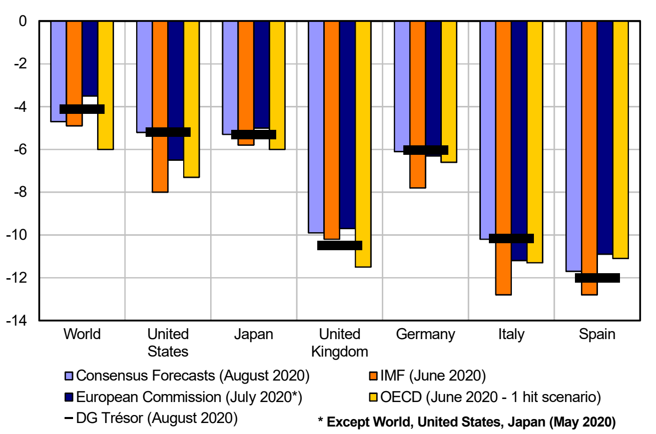
Source: DG Trésor.

Box 4: Comparisons with forecasts by international organisations

This scenario of a sharp contraction in global activity in 2020 followed by a strong recovery in 2021 is consensual though the actual scale and scope vary between forecasters. It is similar to the scenario presented by the IMF in June and the Consensus Forecasts for August, more optimistic than the OECD's single-hit scenario in June and worse than the European Commission's economic forecast released in July.

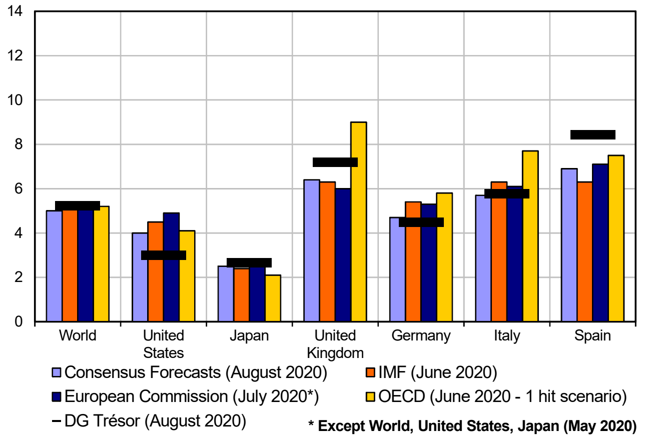
(3) Since China became a member of the WTO in 2001, these imports have contributed an average of 0.7 point to annual global trade growth.
(4) According to the Centraal Planbureau (CPB), global trade in June was down 11.0% on December 2019 levels.

Chart 8: Growth forecasts for 2020



Sources: IMF, OECD, European Commission, Consensus Forecasts, DG Trésor.

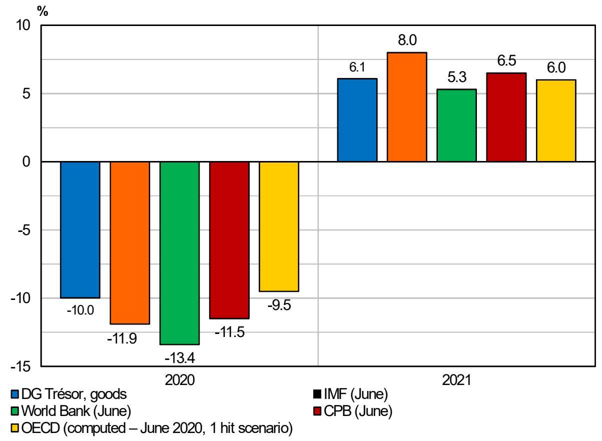
Chart 9: Growth forecasts for 2021



Sources: IMF, OECD, European Commission, Consensus Forecasts, DG Trésor.

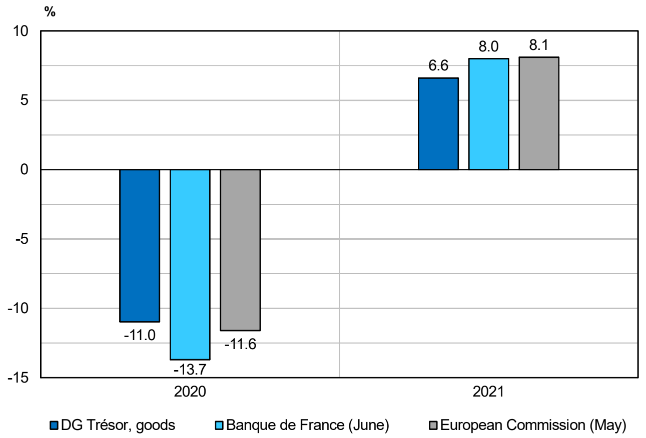
The view of a partial recovery in global trade, owing to the ongoing impact of the COVID-19 epidemic on global activity, is also shared, although the projected depth of the contraction in 2020 varies across organisations.

Chart 10: World trade forecasts



Sources: OECD, CPB, World Bank, IMF, DG Trésor.

Chart 11: World demand forecasts



Sources: European Commission, Banque de France, DG Trésor.

4. Substantial uncertainty on many fronts

This scenario is subject to particularly high risk on many fronts because of the depth of the economic shock and the uncertainty surrounding the evolution of the health situation. All countries are experiencing the following uncertain factors:

- The evolution of the health situation. Quickly developing an effective vaccine or treatment would allow the activity in all countries to return to normal faster than anticipated. Conversely, the pandemic could regain momentum and delay the recovery in some economies.
- The preservation of the manufacturing base and the number of bankruptcies. In addition to how the virus will pan out, there is uncertainty over the forecast horizon about how quickly government support measures will be wound back, what financial position businesses will find themselves in after the crisis and whether credit conditions will change. Lastly, the impact of sectoral restructuring could lead to relatively persistent losses in efficiency.

- The evolution of financial markets, in particular the risk that equity markets will plunge again, after their recovery which outpaced the rebound in the real economy following the collapse in March.

- The resilience of the financial sector, especially banking, amid easing credit conditions and a huge increase in already-high debt levels.

- Trade tensions are still running high and the crisis has reinforced the protectionist narrative. Trade tensions are simmering between China and US over compliance with the "phase one" trade agreement signed in December 2019 and the tensions in Hong Kong, but also between the US and the EU over the aeronautical and automotive industries and possible US retaliation against the digital services tax. The outcome of Brexit is also uncertain despite the exit date getting closer.

Advanced countries are faced with some other uncertain factors:

- The evolution of savings rates. The use of savings built up during lockdown would help consumption recover faster, whereas further uncertainty could result in increased precautionary saving.

- Labour market developments in the medium term. A quicker recovery in activity would speed up changes in employment, while persistent uncertainty would lead to a decline in the working population as jobseekers become discouraged. Resource reallocation across sectors could also fuel unemployment through frictions. Lastly, the reaction of the labour market to the gradual withdrawal of support measures implemented at the height of the crisis, such as short-time working schemes, could change this scenario.

Emerging countries are more affected by these uncertain factors:

- The pace of recovery in China. If the authorities decided to step up government support measures to accelerate the recovery, financial imbalances would be exacerbated, especially the debt levels of state-owned enterprises. The support could turn less effective than anticipated if demand were not high enough or there were not enough market opportunities.

- Emerging economies have had to deal with a triple blow affecting supply, demand and the financial sector, leading to exchange rate depreciation in many countries. The impact of the health and economic crises on levels of public debt (Brazil and India) and private debt (Turkey and China) is a source of risk to growth over the forecast horizon.

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