

Michelsen, Claus et al.

Article

Coronavirus pandemic plunging global economy into a serious recession

DIW Weekly Report

Provided in Cooperation with:

German Institute for Economic Research (DIW Berlin)

Suggested Citation: Michelsen, Claus et al. (2020) : Coronavirus pandemic plunging global economy into a serious recession, DIW Weekly Report, ISSN 2568-7697, Deutsches Institut für Wirtschaftsforschung (DIW), Berlin, Vol. 10, Iss. 24/25, pp. 280-282, https://doi.org/10.18723/diw_dwr:2020-24-2

This Version is available at:

<https://hdl.handle.net/10419/222917>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.

Coronavirus Pandemic Plunging Global Economy into a Serious Recession

By Claus Michelsen, Guido Baldi, Geraldine Dany-Knedlik, Hella Engerer, Stefan Gebauer, and Malte Rieth

ABSTRACT

The consequences of the ongoing 2020 coronavirus pandemic are leaving deep marks on the global economy. In the first quarter of 2020, global production sank by 15.5 percent over the course of the worldwide lockdown. Since containment measures in many countries were mainly implemented during the second quarter of 2020, the slump in the first half of 2020 is likely to be even more severe overall. Due to the expansive containment measures in many countries and massive limitations on production and sales from March 2020 to summer 2020, DIW Berlin is lowering its forecast for the year drastically from 2.5 percent to -4.9 percent. It is also likely that the significant production losses and the serious slump in the service sector will be unable to be compensated for in 2021. However, for 2021, DIW Berlin expects an increase in global production of 5.5 percentage points. Of course, the possibility of further coronavirus waves poses risks and trade conflict escalations cannot be ruled out conclusively.

Containing the coronavirus pandemic has plunged the global economy into a deep recession (Figure). In the first quarter of 2020, global production declined by 15.5 percent overall and international trade shrunk significantly as well.

It is likely the global recession will intensify over the first half of 2020, as lockdown measures in place since March 2020 have majorly limited economic activity in many advanced and some emerging economies. In many European countries and the United States as well, revenue in service industries such as gastronomy or retail dropped to the double-digit range in March. As stringent lockdown measures in many countries remained in place throughout April and May 2020, parts of the service sector are likely to come to an almost complete standstill in the second quarter of 2020. Moreover, significant production losses have occurred due to supply chain disruptions and a stark decline in employment in many areas, especially in advanced economies. For example, industrial production in the United States and Japan declined by around ten percent each in April 2020.

However, oil prices remain low, which is mildly supporting the manufacturing industries as well as private consumption, at least in economies that import oil. Thus, despite the ceasefire in the OPEC+ price war and slight supply shortages, crude oil prices are still at a very low level.¹

These losses are also likely to leave deep marks on the labor markets. In many countries, appropriate measures, such as expanding short-time working allowances, were taken. However, unemployment in some economies, especially in 2020, is expected to increase significantly. The accompanying loss of income and a higher propensity to save due to uncertainty will probably weaken private consumption noticeably.

It also remains unclear how quickly and to what extent income losses can be cushioned by the rescue packages passed in many countries and by loosening monetary policies. Some

¹ The OPEC+ announced production losses of 9.7 million barrels per day (mb/d) compared to the October 2019 level. Until the end of 2019, losses were at 7.7 mb/d and until the end of April 2020, at 5.8 mb/d. Furthermore, Saudi Arabia and Kuwait have announced voluntary losses for June.

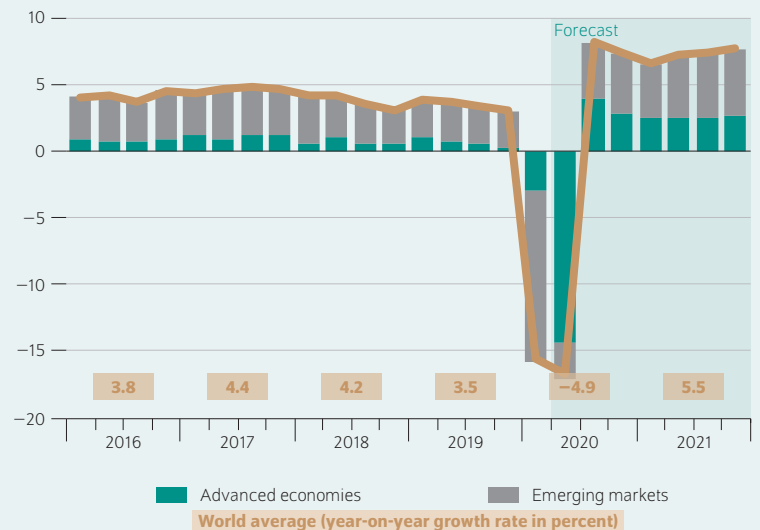
of these packages have reached historic proportions and fiscal and monetary policy is likely to remain expansionary in many regions. Overall, the multifaceted measures will support production.

Thus, following such a strong slump in global production in the first half of 2020, an initially slow recovery can be expected over the further course of the forecast. However, this forecast presumes most countries will successfully contain the coronavirus. Under this presumption, existing containment measures will be eased over the further course of 2020 and replaced with targeted measures, thus avoiding a second wave of the coronavirus. Presumably, then, in 2021, these targeted measures will be gradually phased out.

The coronavirus pandemic has resulted in a need for societal adaptations, such as social distancing or working from home, and it can be presumed these measures will remain in place in many countries for some time. As a result, restrictions in the production process will only gradually be resolved in many countries, thereby preventing a rapid normalization of production. Following major losses of revenue in the first half of 2020 and the subsequent gradual reduction of production restrictions, companies will have little incentive to invest despite favorable financing conditions. Moreover, it is likely that investments that have already been planned will be delayed due to the pandemic.

Figure

World real GDP growth Quarter-on-quarter, in percent



Sources: National statistical offices; DIW Berlin Economic Outlook Summer 2020.

© DIW Berlin 2020

Real GDP plummeted due to the spread of the coronavirus and global containment measures in the first half of 2020.

Table

Real GDP, consumer price inflation, and unemployment rate in the world economy

In percent

	GDP				Consumer prices				Unemployment rate in percent			
	Change over previous year in percent											
	2018	2019	2020	2021	2018	2019	2020	2021	2018	2019	2020	2021
Euro area	1.9	1.2	−9.7	5.6	1.7	1.3	0.6	1.0	8.1	7.5	9.4	8.9
without Germany	2.0	1.4	−9.8	7.0	1.7	1.2	0.5	1.1	10.3	9.5	11.9	11.1
France	1.7	1.3	−9.4	7.2	1.9	1.1	0.5	1.2	9.0	8.5	10.1	9.5
Italy	0.7	0.3	−11.2	7.3	1.2	0.7	0.0	0.8	10.6	9.9	11.2	10.6
Spain	2.4	2.0	−11.0	7.2	1.7	0.7	0.2	1.1	15.3	14.1	18.7	17.4
The Netherlands	2.5	1.8	−5.8	5.5	1.6	2.7	0.9	1.5	3.8	3.4	6.0	5.2
United Kingdom	1.3	1.4	−8.9	3.6	2.3	1.7	1.4	2.2	4.1	3.8	7.0	9.6
USA	2.9	2.3	−6.9	4.1	2.4	1.8	0.8	1.1	3.9	3.7	11.6	9.0
Japan	0.3	0.7	−4.6	2.9	0.8	0.6	−0.1	0.2	2.4	2.4	3.3	2.9
South Korea	2.7	2.0	−1.2	2.6	1.5	0.4	0.2	0.4	3.8	3.7	4.4	4.1
Central and Eastern Europe	4.7	4.0	−4.5	4.7	2.2	2.7	2.7	2.8	3.7	3.3	3.4	3.2
Turkey	2.9	0.9	−4.2	0.5	16.3	15.2	11.6	12.0	11.0	13.7	14.8	14.0
Russia	2.4	1.4	−4.4	0.8	2.9	4.5	3.4	4.2	4.8	4.6	4.9	4.9
China	6.7	6.2	−3.2	8.1	1.9	2.4	4.0	3.1	4.1	4.1	4.1	4.1
India	6.7	5.1	−2.6	6.8	3.9	3.7	3.6	3.3				
Brazil	1.3	1.1	−5.0	4.1	3.8	3.8	1.5	2.7	12.3	12.0	13.9	12.5
Mexico	2.1	−0.1	−5.2	2.9	4.9	3.4	1.3	1.6	3.4	3.5	4.9	4.1
Developed economies	2.2	1.8	−7.2	4.2	2.0	1.4	0.7	1.0	4.8	4.5	9.3	8.0
Emerging markets	5.5	4.6	−3.5	6.4	3.3	3.6	3.9	3.6	5.1	5.2	5.6	5.3
World	4.2	3.5	−4.9	5.5	2.8	2.7	2.6	2.6	5.0	4.9	7.1	6.4

Sources: National statistical offices; DIW Berlin Economic Outlook Summer 2020.

© DIW Berlin 2020

The coronavirus pandemic has plunged the global economy into a deep recession in 2020. As a result, global production in 2020 is predicted to decline by 4.9 percent. Recovery will be slow, and overall may barely compensate for losses during the forecast period. In many places, restrictions on production and sales are not being lifted completely. Households and businesses in many countries are suffering enormous losses of income and revenue and are simultaneously incredibly uncertain how the pandemic will play out and about economic development. This uncertainty is likely to continue to put a significant brake on capital demand and consumer goods into 2021, despite favorable financing conditions and fiscal policy support in most economies.

With a global GDP of 5.5 percent in 2021, production will not reach its pre-coronavirus recession level by the end of 2021 in most economies (Table). Compared to the Winter Outlook, DIW Berlin is drastically lowering its forecast for

2020 by 7.4 percentage points from 2.5 to -4.9 percent and increasing its forecast for 2021 by 2.0 percentage points from 3.5 to 5.5 percent.

The current risks are predominantly tilted to the downside. For example, further coronavirus waves could result in a re-implementation of containment measures, which would significantly deepen the recession and increase its length. Moreover, a stronger than expected increase in corporate and personal bankruptcy, together with an increase in loan defaults, could destabilize the financial markets in some regions and endanger the solvency of many countries. Additionally, there are still risks of trade conflicts, such as between China and the United States. However, the Brexit talks between Great Britain and the European Union, in which no progress has been made in the fourth round of negotiations, pose additional trade conflict risks.

Claus Michelsen is head of the Forecasting and Economic Policy Department at DIW Berlin | cmichelsen@diw.de

Guido Baldi is a guest researcher in the Forecasting and Economic Policy Department at DIW Berlin | gbaldi@diw.de

Geraldine Dany-Knedlik is a research associate in the Forecasting and Economic Policy Department at DIW Berlin | gdanyknedlik@diw.de

Hella Engerer is a research associate in the Forecasting and Economic Policy Department at DIW Berlin | hengerer@diw.de

Stefan Gebauer is a research associate in the Forecasting and Economic Policy Department at DIW Berlin | sgebauer@diw.de

Malte Rieth is a research associate in the Forecasting and Economic Policy Department at DIW Berlin | mrieth@diw.de

JEL: E32, E66, F01

Keywords: Business cycle forecast, economic outlook

LEGAL AND EDITORIAL DETAILS



DIW Berlin — Deutsches Institut für Wirtschaftsforschung e. V.

Mohrenstraße 58, 10117 Berlin

www.diw.de

Phone: +49 30 897 89-0 Fax: -200

Volume 10 June 12, 2020

Publishers

Prof. Dr. Pio Baake; Prof. Dr. Tomaso Duso; Prof. Marcel Fratzscher, Ph.D.;
Prof. Dr. Peter Haan; Prof. Dr. Claudia Kemfert; Prof. Dr. Alexander S. Kritikos;
Prof. Dr. Alexander Kriwoluzky; Prof. Dr. Stefan Liebig; Prof. Dr. Lukas Menkhoff;
Dr. Claus Michelsen; Prof. Karsten Neuhoff, Ph.D.; Prof. Dr. Carsten Schröder;
Prof. Dr. C. Katharina Spieß; Dr. Katharina Wrohlich

Editors-in-chief

Dr. Gritje Hartmann; Dr. Wolf-Peter Schill

Reviewer

Dr. Alexander Schiersch

Editorial staff

Dr. Franziska Bremus; Rebecca Buhner; Claudia Cohnen-Beck;
Dr. Anna Hammerschmid; Petra Jasper; Sebastian Kollmann; Bastian Tittor;
Sandra Tubik; Dr. Alexander Zerrahn

Sale and distribution

DIW Berlin Leserservice, Postfach 74, 77649 Offenburg

leserservice@diw.de

Phone: +49 1806 14 00 50 25 (20 cents per phone call)

Layout

Roman Wilhelm, DIW Berlin

Cover design

© imageBROKER / Steffen Diemer

Composition

Satz-Rechen-Zentrum Hartmann + Heenemann GmbH & Co. KG, Berlin

ISSN 2568-7697

Reprint and further distribution—including excerpts—with complete
reference and consignment of a specimen copy to DIW Berlin's
Customer Service (kundenservice@diw.de) only.

Subscribe to our DIW and/or Weekly Report Newsletter at

www.diw.de/newsletter_en