Global economic growth

Global economy already set for historic contraction

Tiger index suggested collapse in activity before the height of the coronavirus crisis

Kristalina Georgieva, IMF managing director, said that 170 of its 189 member countries would suffer falling output per head in 2020 © AFP via Getty Images

Chris Giles in London YESTERDAY

The global economy was facing the worst collapse since the second world war as coronavirus began to strike in March, well before the height of the crisis, according to the latest Brookings-FT tracking index.

The index comes as the IMF prepares to hold virtual spring meetings this week, when it will release forecasts showing the deepest contraction for the global economy since the 1930s great depression.

With confidence indicators falling off a cliff, financial markets in turmoil and real economic indicators plunging, bankruptcies and job losses will leave deep scars on the world economy and hinder its healing for a long time to come, the data suggest.

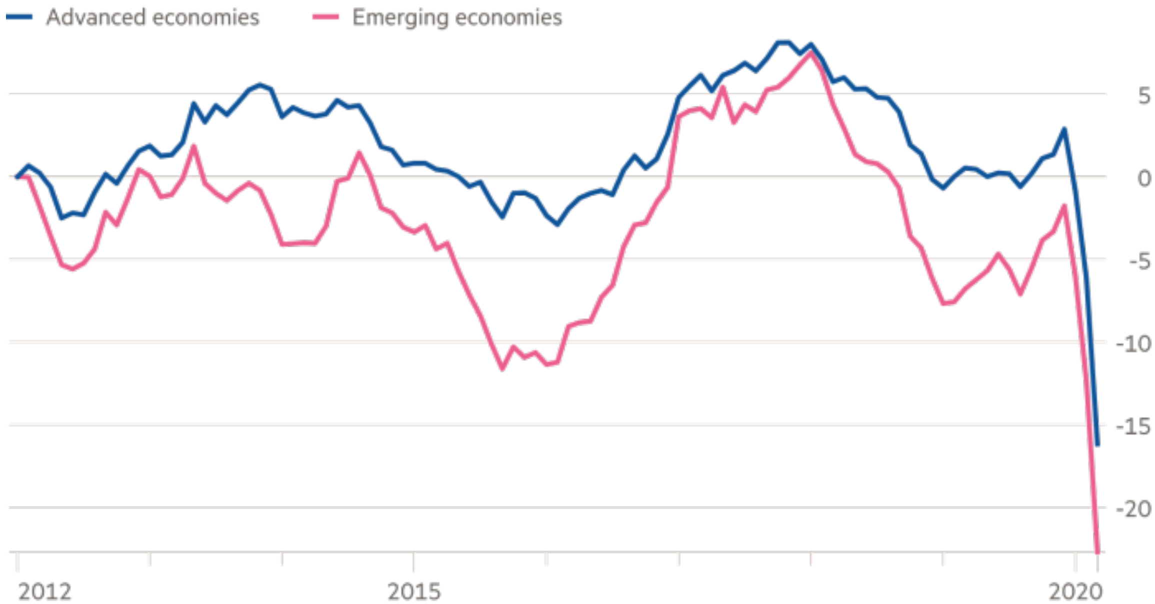
Kristalina Georgieva, IMF managing director, said that 170 of its 189 member countries would suffer falling output per head in 2020. "The bleak outlook applies to advanced and developing economies alike. This crisis knows no boundaries. Everybody hurts," she said.

Three months ago, the fund had expected increases in prosperity in 160 countries.

With no country immune from the Covid-19 crisis, a recovery once the lockdowns have been eased is likely to be slower than hoped, said Professor Eswar Prasad of the Brookings Institution, who railed at the lack of a co-ordinated policy response from governments.

A global economy on the cliff edge

Composite index of relative strength of a range of indicators



Source: Brookings Institution

"The inability of national governments to come together even at such a critical time to forge a common front against the pandemic highlights a dangerous fracturing of international co-operation. This is further damaging business and consumer confidence, which are already in free fall," Prof Prasad said.

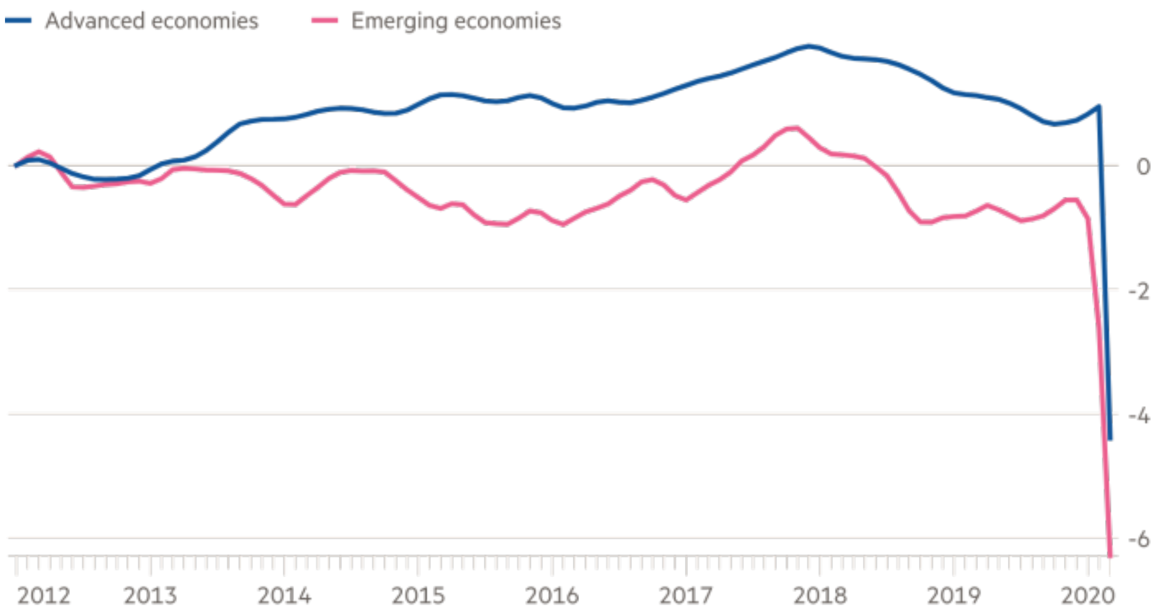
"The US economy has come to a virtual standstill . . . France, Germany and the UK face historic recessions as all indicators of activity and trade tumble," he added.

The Brookings-FT Tracking Index for the Global Economic Recovery (Tiger) compares indicators of real activity, financial markets and investor confidence with their historical averages for the global economy and for individual countries.

It showed historically large declines across financial indicators, real economic data and confidence indicators in March, well before the worst effects on the economies of most countries.

Confidence has fallen off a cliff

Index compared with previous levels of confidence data



Source: Brookings Institution

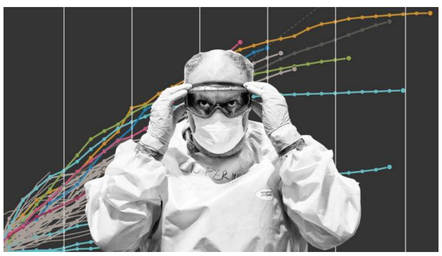
Only in China are the data stabilising, having fallen steeply much earlier after it suffered first from lockdowns after coronavirus emerged in Wuhan.

Prof Prasad said: “In some respects, China’s command economy is built to better withstand such massive shocks compared to market economies. But the economy is hardly out of the woods yet, especially with unemployment rising, domestic and external demand likely to remain weak, and given the risks of a second wave of infection.”

Many other emerging economies have to deal not only with a health and economic crisis, but also with capital flight worse than in the 2008-09 global financial crisis and a sudden slump in demand for their exports.

The Tiger index's gloomy reading is in line with other economic indices and forecasts, which increasingly point to the most difficult moment for the global economy in almost a century.

Editor's note



The Financial Times is making key coronavirus coverage free to read to help everyone stay informed. Find the latest here.

The Peterson Institute of International Economics forecast US unemployment would reach almost 20 per cent in the second quarter of this year and the eurozone would suffer a 12 per cent drop in gross domestic product.

In the UK, the National Institute of Economic and Social Research forecast that by the end of the second quarter, UK output would be 25 per cent lower than at the start of the year, before beginning to recover.

Economists are divided on the speed of any recovery once the lockdowns are lifted, although they all agree that this will depend on the continued risks from the Covid-19 pandemic and health systems in many countries.

Karen Dynan of the Peterson Institute put herself on the positive end of the spectrum with the belief that recoveries would be reasonably strong, although she said there would be “setbacks” as lockdowns were gradually relaxed.

“I see a peak in the unemployment rate around 20 per cent but that comes down pretty quickly in the third and fourth quarters, so it is in single digits by the start of next year,” she said.

Prof Prasad was less optimistic. “Demand has been ravaged, there are extensive disruptions to manufacturing supply chains, and a financial crisis is unfolding simultaneously,” he said.

“Unlike the 2008-09 crisis that was triggered by liquidity shortages in financial markets, the crisis now unfolding involves more fundamental solvency issues for many firms and industries beyond finance.”

With central banks increasingly active and governments preparing historically large insurance packages for households and companies, the IMF will say this week that there is likely to be a “partial recovery” in 2021. But Ms Georgieva warned that the outlook could still get worse if the pandemic continued to spread around the world.

Sign up to the weekly Martin Sandbu’s Free Lunch email