

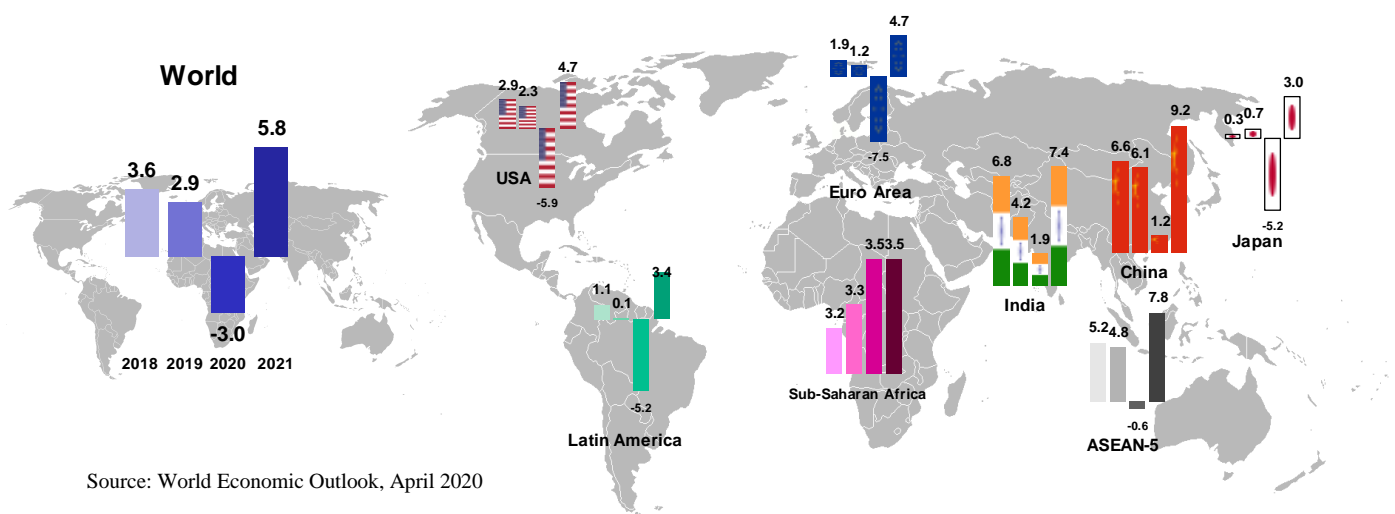


## The Impact of the COVID-19 Pandemic on World Economic Growth

On March 19, the World Health Organization announced that COVID-19 was a global pandemic—the first pandemic since the 2009 outbreak of H1N1 (swine flu). The number of infections and deaths continue to rise sharply across the world, and the outbreak presents a major shock to an already fragile global economic outlook.

Prior to the outbreak, global economic growth was expected to rise by 3.4 percent in 2020 from a post-crisis low of 3.0 percent in 2019 (IMF Economic Outlook – October 2019). Estimates by the IMF now suggest the global economy will contract sharply by 3 percent in 2020, an outcome far worse than during the 2008-09 financial crisis, and an almost complete reversal to the October forecast, which according to the organisation is “an extraordinary revision over such a short period of time.”

### WORLD GDP GROWTH FORECAST, 2018-2021



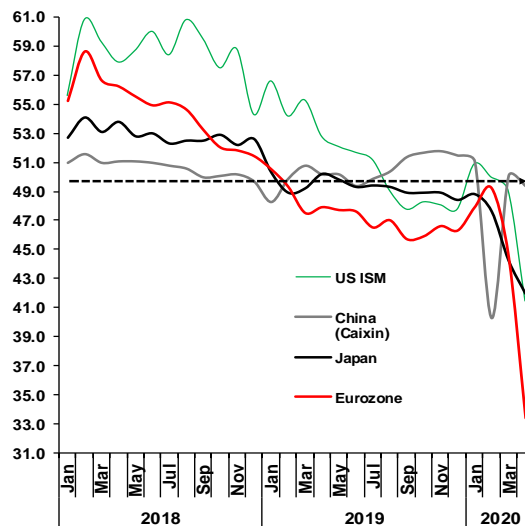
Source: World Economic Outlook, April 2020

Consensus estimates of growth now suggest deep recessions are likely in many advanced economies, while growth in emerging market and developing economies is expected to slow sharply. Weaker growth will also result in reduced copper demand.

Growth in the advanced economy group—where several economies are experiencing widespread outbreaks and deploying containment measures—is projected at –6.1 percent in 2020. Most economies in the group are forecast to contract this year, including the **United States** (–5.9 percent), **Japan** (–5.2 percent), the **United Kingdom** (–6.5 percent), **Germany** (–7.0 percent), **France** (–7.2

percent), **Italy** (–9.1 percent), and **Spain** (–8.0 percent). In parts of Europe, the outbreak has been as severe as in China’s Hubei province. Although essential to contain the virus, lockdowns and restrictions on mobility are extracting a sizable toll on economic activity. Adverse confidence effects are likely to further weigh on economic prospects (see figure below on impact of COVID-19 on manufacturing activity in major copper consuming regions).

**MANUFACTURING PMI’S, JAN 2018 – APR 2020**



Source: IHS Markit Economics

Among emerging market and developing economies, all countries face a health crisis, severe external demand shock, dramatic tightening in global financial conditions, and a plunge in commodity prices which will have a severe impact on economic activity in commodity exporters.

As a matter of fact, copper was one of the hardest hit with prices falling a notable 27 percent over late-January and mid-March to below US\$4,700/tonne, the lowest since 2016Q4. The prospects for commodity prices were already muted when the pandemic hit. Rising trade tensions and slowing growth in China were adversely affecting demand, and most commodities were in ample supply. Now with the pandemic the chances of a meaningful recovery this year are probably less likely despite the disruptions to production and trade.

Overall, the group of emerging market and developing economies is projected to contract by –1.0 percent in 2020; excluding China, the growth rate for the group is expected to be –2.2 percent. Even in countries not experiencing widespread detected outbreaks as of the end of March (and therefore not yet deploying containment measures of the kind seen in places with outbreaks) the significant downward revision to the 2020 growth projection reflects large anticipated domestic disruptions to economic activity from COVID-19.

In **China**, indicators such as industrial production, retail sales, and fixed asset investment suggest that the contraction in economic activity in the first quarter could have been about 8 percent year over year. Even with a sharp rebound in the remainder of the year and sizable fiscal support, the economy is projected to grow at a subdued 1.2 percent in 2020.

### KEY CHINESE INDICATORS, 2020

	Jan-Mar, YoY % Chg.
• <b>Auto Output</b>	-44% ↓
• <b>Power Equipment</b>	-6.9% ↓
• <b>AC Motor</b>	-17.6% ↓
• <b>Household Refrigerator</b>	-19.8% ↓
• <b>Air Conditioner</b>	-27.9% ↓
• <b>Power grid</b>	-27.4% ↓
• <b>Property Investment (Completed)</b>	-7.7% ↓

Source: Antaika, NBS

Manufacturing activity in China – which accounts for half of global copper consumption – collapsed in January and February due to lockdowns (see figure on PMI’s). This had a massive negative effect on all of copper’s end-use markets in China. The latest data by Antaika suggests that in the first three months of the year, auto production was down 44% year-on-year; power grid investment and air conditioner output were over 27% lower; output of household refrigerators and AC motors were down by almost 20%, followed by power equipment which was down 7% year on year. According to the National Bureau of Statistics of China (NBS), total investment in real estate development was 2,196.3 billion yuan, representing a fall of 7.7% year-on-year.

**India** is expected to grow at a modest rate of 1.9% this year. Growth in the **ASEAN-5** region meanwhile is expected to contract by 0.6%. Other regions are projected to experience severe slowdowns or outright contractions in economic activity, including Latin America (–5.2 percent)— with Brazil’s growth forecast at –5.3 percent and Mexico’s at –6.6 percent. Russia’s economy is projected to contract by –5.5 percent, while growth in the Middle East and Central Asia region is expected to decline by –2.8 percent. In sub-Saharan Africa, growth is expected to be down by –1.6 percent.

### Uncertain Recovery in 2021...

Going forward, global growth is expected to rebound to 5.8 percent in 2021. This is predicated on the pandemic fading in the second half of 2020, allowing containment efforts to be gradually scaled back

and restoring consumer and investor confidence. Significant economic policy actions have already been taken across the world, focused on accommodating public health care requirements, while limiting any major setback to economic activity and the financial system. The projected recovery assumes that these policy actions are effective in preventing widespread firm bankruptcies, extended job losses, and system-wide financial strains. The advanced economy group is forecast to grow at 4.5 percent, while growth for the emerging market and developing economy group is forecast at 6.6 percent.

### **...with huge downside risks**

As with the size of the downturn, there is extreme uncertainty around the strength of the recovery. Some aspects that underpin the rebound may not materialize, and worse global growth outcomes are possible—for example, a deeper contraction in 2020 and a shallower recovery in 2021—depending on the evolution of the pandemic and the severity of the associated economic and financial consequences.

### **Comments or Questions**

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