A Q3 recovery, what Q3 recovery?

Q3 global forecast 2020

A report by The Economist Intelligence Unit

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A Q3 recovery, what Q3 recovery?

The expected rebound in the third quarter of 2020 will be far less impressive than the headline numbers suggest.

The coronavirus (Covid-19) pandemic will have a huge and lasting negative effect on the global economy; 2020 and 2021 will be lost years in terms of growth, and The Economist Intelligence Unit expects the global economy to recover to pre-coronavirus levels only in 2022. However, this global forecast masks big disparities between countries. Some members of the G7 and BRICS groupings will recover quickly, whereas others will take up t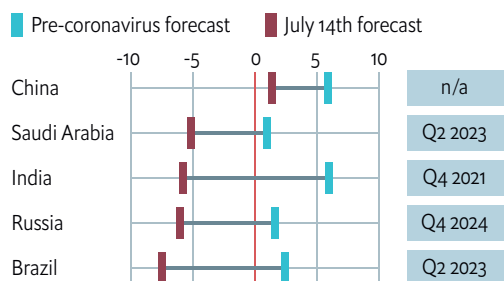o four years to return to pre-coronavirus GDP levels. **China** will be an exception, as we do not expect the country to enter a recession this year.

The pandemic-induced recession has wiped out global GDP during the first half of this year. We believe that most economies will start to recover in the third quarter, posting double-digit rates of quarterly growth. However, their recovery will start from a low base, given the economic shock experienced in the second quarter. This means that impressive rates of quarterly growth in July-September will not mean much. In fact, the output of G7 and BRICS countries in the third quarter of this year will remain low, and in some cases at levels last recorded more than two decades ago.
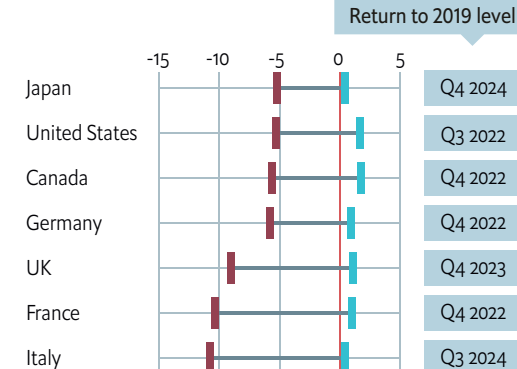
G7 and BRICS countries have lost several years of growth because of the pandemic
Forecast real GDP growth in 2020, % change on a year earlier

BRICS countries

Legend: ▉ Pre-coronavirus forecast ▉ July 14th forecast

Country	Return to 2019 level
China	n/a
Saudi Arabia	Q2 2023
India	Q4 2021
Russia	Q4 2024
Brazil	Q2 2023

G7 Countries

Country	Return to 2019 level
Japan	Q4 2024
United States	Q3 2022
Canada	Q4 2022
Germany	Q4 2022
UK	Q4 2023
France	Q4 2022
Italy	Q3 2024

Source: The Economist Intelligence Unit.

Among G7 and BRICS countries, **India** looks the best placed to recover the fastest. In July-September India's output will be similar to that registered one year ago, which is an impressive performance by international standards; the country will recover to 2019 GDP levels as early as next year. However, there are high downside risks to this forecast, as India is fast becoming a new coronavirus hotspot, and the lack of a social safety net for many workers will have pushed up poverty levels.

Despite a high coronavirus death toll, the **US** economic story also looks broadly positive. The country's third-quarter output will be similar to that registered in the same period of 2017. Its economy should be back to pre-coronavirus GDP levels in 2022, highlighting the flexibility of its labour market. However, there are grave risks to this forecast, as many US states are re-imposing social distancing measures in an attempt to curb a recent rise in number of coronavirus cases.

Beyond these two positive examples, the third-quarter output of most G7 countries will be roughly equivalent to that registered during the same period in 2016. In other words, the coronavirus pandemic has wiped out about four years of economic growth for **Canada, France, Germany** and the **UK**. However, we expect that the recovery in most of these countries will be swift by international standards, owing to generous furlough schemes (which have prevented mass layoffs) and massive fiscal stimulus programmes.

Germany, the EU's traditional growth engine, will be back to pre-coronavirus GDP levels by late 2022. This will be positive news for the rest of the euro zone and eastern European economies, which are highly dependent on Germany's manufacturing sector. Canada and France will also have recovered by end-2022, although high levels of unemployment in both countries will threaten their recovery. The UK is an outlier, recovering only in 2023; this may be because the end of the Brexit transition period in December 2020 will cause a further economic shock.

Brazil, Japan, Russia and **South Africa** form a third group of countries, which will experience a slower recovery. In July-September we expect that their output will have shrunk to levels last recorded in 2009 (Brazil), 2012 (Japan, Russia) and 2013 (South Africa). In turn, the recovery of these economies to pre-coronavirus GDP levels will be slow; output will not be back to 2019 levels before 2023 (Brazil) or 2024 (Japan, Russia and South Africa). Japan is a rich, developed country that will be able to weather the economic crisis. However, less affluent countries such as Brazil, Russia and South Africa will find themselves in a much more precarious situation.

Italy is an outlier among G7 countries. In the third quarter of this year Italy's output will be at levels last registered in 1997. This reflects the combined impact of previously stringent lockdown measures, a bleak outlook for the crucial tourism sector and the lack of fiscal space to boost the economy. Unsurprisingly, Italy's recovery will also be slow, returning to pre-coronavirus GDP levels only in 2024. The country was a thorny issue for the EU before the pandemic started, given its high level of indebtedness. The pandemic will heighten pre-existing political tensions, as Italy increasingly looks like the sick man of Europe.

Real GDP growth rate (%), quarter on quarter

BRICS	2020 Q1	2020 Q2	2020 Q3	GDP back to pre-coronavirus levels in...	Q3 2020 GDP equivalent to...
Brazil	-1.6	-12.1	3.3	Q2 2023	Q4 2009
China	-10.8	12.2	2.5	n/a	n/a
India	0.3	-20	16.4	Q4 2021	Q2 2019
Russia	-0.9	-15.5	11	Q4 2024	Q4 2012
South Africa	-2	-50.9	11.7	Q3 2024	Q1 2013
G7					
Canada	-2.1	-6.7	1.8	Q4 2022	Q3 2016
France	-5.3	-15.5	12.6	Q4 2022	Q4 2016
Germany	-2.2	-8.4	4.1	Q4 2022	Q1 2016
Italy	-5.3	-15	11.5	Q3 2024	Q2 1997
Japan	-0.6	-5.1	0.4	Q4 2024	Q1 2012
UK	-2	-20.6	18.6	Q4 2023	Q1 2016
USA	-5.0	-31.4	13.2	Q3 2022	Q3 2017

Source: The Economist Intelligence Unit

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