

WORLD ECONOMIC OUTLOOK – JULY 2020

HOW DID WE DO LAST TIME – September 2019 ?

There was a better outcome on the USA-China trade deal than predicted but currently there appears to be some US dis-satisfaction with the situation indicating we were not completely wrong in forecasting a less than complete trade deal. Trump seeking Chinese help with re-election and the Bolton book suggest no coherent USA strategy. So contrary to our previous assertion that the Chinese would prefer to deal with Democrats, another erratic Trump presidency could possibly advance Chinese alternative positions. Absent a clear Democratic victory in November, the future does NOT look rosy. A clear Democratic win in November (Presidency, Senate and House) would promote a more coherent Western response to the Chinese challenge and more business certainty world-wide which could help the economic recovery. Finally, financial markets did not head as far south as predicted – yet!

CURRENT OUTLOOK

The following relates to a WORLD recovery. As its largest economy, the USA is very important for the world's chances of a return to normalcy but not the only consideration.

Four scenarios are postulated for the next 6-9 months:

1. BT or a “bathtub” recovery: continued new Covid-19 cases, no new drugs, prolonged unemployment and slow growth if any. Only a 10% probability or chance for BT given the more immediate response of the IMF, World Bank and other initiatives if this looks likely. But can they do more? Financial markets down 20%+ (10% probability).
2. VR or a V-shaped or sharp recovery from current levels, new/effective drugs, collaborative fiscal stimuli by the US, Japan, Germany, UK and others (10%).
3. UR or a U-shaped recovery with a few more months of reduced activity (35%).
4. NN or the “new normal” with some reversals but slow, steady growth from now on in employment, economic activity and trade back to pre-Covid-19 levels (45%).

Individual countries with fundamentally sound economies and other good policies could recover faster but to reiterate, the above applies to the world economy. For the alternative scenarios, the first two have equal likelihood, UR is between 3 and 4 times “more likely” than VR and NN is significantly or one third “more likely” than UR (see *Structuring Probability Assessments*).

Note that we have a 90% chance of a steady or faster recovery (VR + UR + NN) so optimism prevails here. A refocus on vaccines for Chinese/novel viruses is required for continued world prosperity in the future. This is predicated on increased world mobility and the importance of China for world-wide tourism, with or without restrictions and/or more testing. And in any event, it appears that social distancing, masks, frequent hand sanitation and minimal hugging and kissing will be part of our futures.

Australia needs to emulate NZ's reticence of any criticism of China. Effectively both countries are dependent on Chinese imports and are reliable suppliers of goods the Chinese need. Why change a winning strategy? But the Chinese are part of the group and have their own agenda as the Hong Kong initiative, irrespective of world opinion, demonstrates. However, assuming this Australasian demeanour, the recovery down-under should lead the rest of the world.

Word Count 534 as of July 2020.