Growing signs of deep and prolonged global recession

Nick Beams
21 July 2020

The chief executive of PNB Paribas Asset Management, one of Europe's largest investment firms, has said the global economy is facing the "mother of all recessions" as the impact of the COVID-19 pandemic spreads around the world.

Reporting on his remarks, the *Financial Times* said CEO Frédéric Janbon had "poured cold water on the idea of a swift recovery from the pandemic," pointing to what he called "a very, very substantial drop in activities in pretty much all of the economies around the world."

Janbon said a V-shaped recovery was unlikely and predicted a long recession before any upturn in economic activity, adding that the escalation of the stock markets since the middle of March did not reflect underlying global economic conditions.

"The huge rally we have seen over the course of the few months from the low point in March is probably a bit fast and probably does not take into account the risk of a second wave," he said, pointing to the rise in virus infections worldwide.

The reference to a "second wave" is something of a misnomer. In the US, Latin America and many other parts of the world the first wave is still growing. Moreover, even if the virus is brought under control, its impact on the economy will be long lasting. Millions of jobs have been destroyed and will not be coming back.

The *Wall Street Journal* reported at the weekend that many large US companies have determined the measures they took in March and April are not going to be sufficient. The increase in COVID-19 cases and related shutdowns have dashed hopes for a quick recovery.

Consequently, businesses from airline companies to restaurant chains are shifting their strategies "turning furloughs into permanent lay-offs, de-emphasizing their core businesses and downsizing production indefinitely."

Amid sweeping job cuts in the airline industry,—American Airlines has said 25,000 jobs are at risk and United is looking to axe 36,000 staff—Delta said it had shelved plans to add more flights over the summer and did not expect business flying to return to pre-pandemic levels.

The article cited remarks by Pret A Manger chief executive Pano Christou on the announcement by the sandwich chain that it had suffered an 87 percent drop in US sales and was planning to close 20 stores. "We cannot defy gravity and continue with the business model we had before the pandemic," he said.

Summing up the overall situation, the article noted: "Executives who were bracing for a months-long disruption are now thinking in terms of years. Their job has changed from riding out to reinventing. Roles once thought core are now an extravagance. Strategies set in the spring are obsolete."

That is, processes already underway, in the US and around the world, before the pandemic struck, are now being accelerated by it. Whole industries are undertaking a major restructuring in which millions of jobs will be destroyed. Those who remain will be forced to accept lower wages and conditions under the threat of unemployment as governments start to withdraw the limited support packages put in place in March.

The effects of the crisis range across the entire economy. Bloomberg reported yesterday that global real estate investment fell by 33 percent in the first half of the year. So far the Asia-Pacific region has been hardest hit with investment down by 45 percent from a year earlier.

With international tourism at a virtual standstill, hotel investment plunged by 59 percent in the first half of the year. Investment in retail properties dropped by 41 percent.

The decline in trade is delivering devastating blows to export-dependent economies, most sharply expressed in the massive contraction in the economy of Singapore, which sits at the centre of the trading lanes of the Southeast Asian region.

According to data released by the island state's Ministry of Trade and Industry last week, gross domestic product (GDP) in the second quarter declined by 41.2 percent from the previous three months.

Japan, the world's third largest economy, after the US and China, is predicted to announce a 20 percent contraction in GDP on an annualised basis in the second quarter compared to the previous three months.

The International Monetary Fund has said it expects global gross domestic product to contract by 4.9 percent this year with the total loss of output for 2020 and 2021 to reach $12.5 trillion.

China recorded a 3.2 percent increase in GDP for the second quarter, following a 6.8 percent contraction in the first. The rise was largely a result of decisions by the central government to increase the amount local authorities can borrow for infrastructure projects that led to an increase in steel production. However, retail sales fell by 3.9 percent.

Liu Aihua, a spokeswoman for the National Statistics Bureau, said the figures showed a "gradual recovery," but pointed to "mounting external risks and challenges" due to the continued spread of the coronavirus.

Despite signs of some revival, the Chinese economy is not going to be able to play the same role it did after the 2008 financial crisis when a massive stimulus package, the result of government spending and increased debt, provided a boost for raw material exporting economies around the world.

In Europe, the European Central Bank (ECB) has forecast a contraction of close to 13 percent in the second quarter with a rebound in the third. But following a meeting of its governing council last week, ECB president Christine Lagarde warned that the loss of income and jobs, as well as "exceptionally elevated uncertainty," would weigh on consumer sentiment and business investment.

Leaving the ECB's monetary policy on hold, while announcing it would continue with its asset purchasing program of €1.35 trillion until June next year, Lagarde urged leaders of the European Union to waste no time in reaching agreement on a €750 recovery fund for countries hit by the pandemic.

EU leaders then held their second longest meeting in history. Starting on Friday and reaching into the early hours of Tuesday morning, it was marked at times by bitter exchanges before reports emerged they were "closing in" on a deal.

The main conflict was with the so-called "frugal four"—the Netherlands Austria, Denmark and Sweden—that demanded a significant reduction in the allocation of grants to economically weakened countries from the €500 billion proposed in the initial French-German plan.

The intensity of the disputes led Italian Prime Minister Giuseppe Conte to comment at one point that failure to strike a deal could lead to the "destruction of Europe's single market." The rift may have been covered over for now but divisions are certain to re-emerge under conditions of deepening recession.