

Four scenarios for the global economy after Covid-19

We map out the hit to the global economy and possible path for recovery under four different coronavirus scenarios



In this fast-moving environment, we need to think in scenarios, rather than pretending to know how the economy will evolve over the next 1 ½ years.

We've developed four scenarios of how the virus, the lockdown measures and consequently the different economies could evolve. Needless to say, even these scenarios cannot try to fully predict reality, but we hope they can provide a benchmark for both the extremes and the middle-ground. In each case, we've laid out some possible health factors that may be driving the scenarios - although we'd emphasise these are not meant to be interpreted as forecasts.

Scenario 1: Our base case

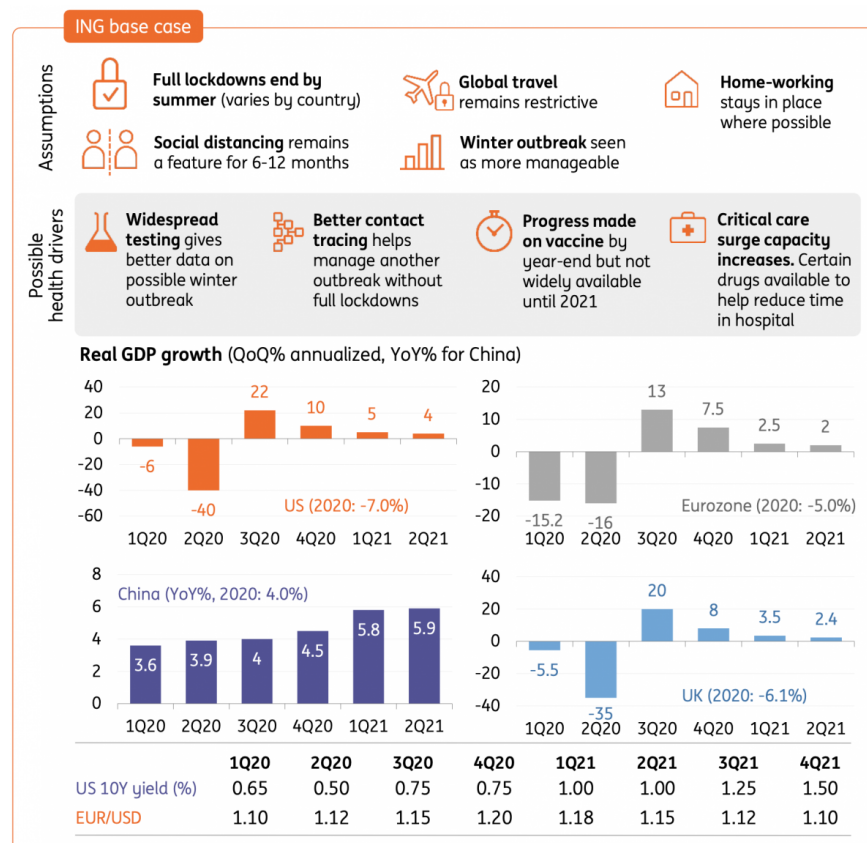
We've discussed our base case, and what that means for the major economies, in other parts of our latest monthly update.

It assumes that the lockdowns eventually manage to flatten the curve, although not entirely. Given socio-economic tensions and the significant economic fallout, the first European governments decide to begin relaxing the lockdown measures at the end of April. Others will follow in May. The return to normality is gradual, and social distancing continues for at least the entire summer.

A proportion of those who can work from home continue to do so for the foreseeable future. Meanwhile, places, where you can socialise (pubs, cinemas etc), begin to open with strict distancing rules in place. Global travel remains restrictive, but a combination of vaccine development, more widespread testing capacity and higher surge capacity within critical healthcare services, means full lockdowns can be largely avoided if the virus spreads again as we approach the northern winter.

As a result, the economic recovery will be u-shaped. Still, most countries will experience a more severe contraction of economic activity than during the financial crisis.

Our base case at a glance



Source: ING

Scenario 2: Winter lockdowns return

This is a slight variation of our base case scenario.

It starts off in much the same way, with a gradual easing of lockdown measures in May and June. However, in this scenario, the virus returns in the autumn and despite more widespread testing efforts and contact tracing, the new spread pushes most economies back into lockdown.

Crisis management is more experienced than in Spring 2020 and containment measures could be more tailor-made, keeping some regions and sectors up and running. For indicative purposes, we're assuming it will take until April 2021 before the virus is back under control and economies, as well as societies, begin to return to normality. This is a 'W-shaped recovery'.

GDP growth would be lower in 2020 but higher in 2021 than in our base case scenario. However, it may well take until late-2022 before most economies have returned to their pre-crisis levels.

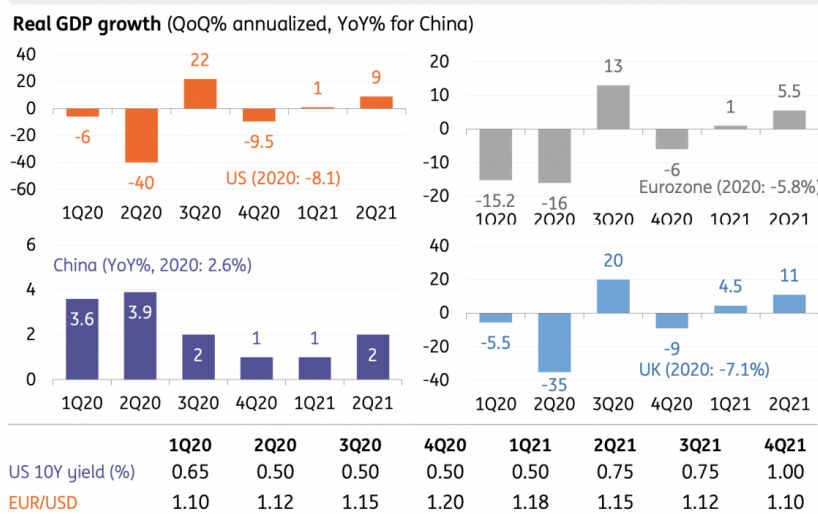
Scenario two at a glance

Assumptions

- Lockdowns end by summer but come back over winter
- Global travel remains restrictive
- Home-working stays in place where possible
- Social distancing remains a feature for 12 months
- Winter outbreak not manageable

Possible health drivers

- Some countries unable to test all people displaying fresh symptoms, reducing visibility on winter outbreak
- Antibody tests show only a small percentage of the population has gained immunity
- Progress made on vaccine by year-end but not widely available until 2021
- Critical care surge capacity increases, but second virus wave larger than the first in some areas



Source: ING

Scenario 3: The 'best' case

In our 'best' case scenario, the Western world follows in the footsteps of China by ending the lockdowns as soon as the curve of new infections has been flattened.

A quick return to normality is assumed to materialise towards the end of April. This scenario also assumes that the virus doesn't come back again in the winter, either because a larger-than-expected proportion of people have already had the virus and built immunity, or because control measures become much more effective.

Even so, some economic losses would not be offset immediately. But government measures like guarantees, liquidity support and short-time work schemes foster a quick and strong rebound, notwithstanding some differences across countries depending on when the lockdown measures end. This is effectively a 'v-shaped' recovery scenario.

In this scenario, most economies would experience a mild recession of some 2-3% year-on-

year but growth in 2021 would accelerate, returning most economies to their pre-crisis levels.

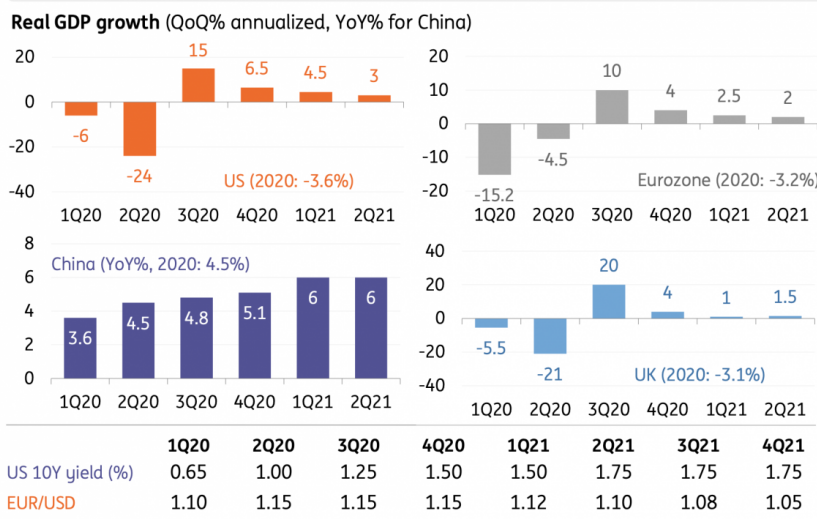
Scenario 3 at a glance

Assumptions

- Full lockdowns end by summer (varies by country)
- Global travel returns close to normal
- Businesses and world trade returns to normal
- Social distancing is phased out over summer
- Winter outbreak seen as less likely

Possible health drivers

- Widespread antibody testing reveals large chunk of population already had virus (so are immune)
- Warmer weather sees case growth drop noticeably over summer months
- Vaccine developed and enters mass-production sooner than thought
- Forthcoming research suggests that immunity to virus should prove long-lasting



Source: ING

Scenario 4: The 'worst' case

To give a sense of how the worst-case scenario for the global economy might look, we assume here that the lockdown measures last until the end of the year.

We're assuming that things return to normal from 2Q21, perhaps if a vaccine is developed and able to be deployed over the winter months. The recovery here may be a little faster and stronger than in the other scenarios, as the virus is assumed to be completely under control. This is an 'L-shaped' recovery. Needless to say, this is an extreme scenario with lots of economic, social and political turmoil, and one that looks pretty unlikely at this stage.

In this scenario, most economies would experience an unprecedented and almost unimaginable contraction in 2Q20 of around 50% quarter-on-quarter annualised. The year 2020 would go down in the history books as the year with the most severe recession on record, seeing most economies shrinking at double-digit rates for the year as a whole.

The rebound in 2021 would be relatively muted and it would take until 2023 before most economies have returned to their pre-crisis levels.

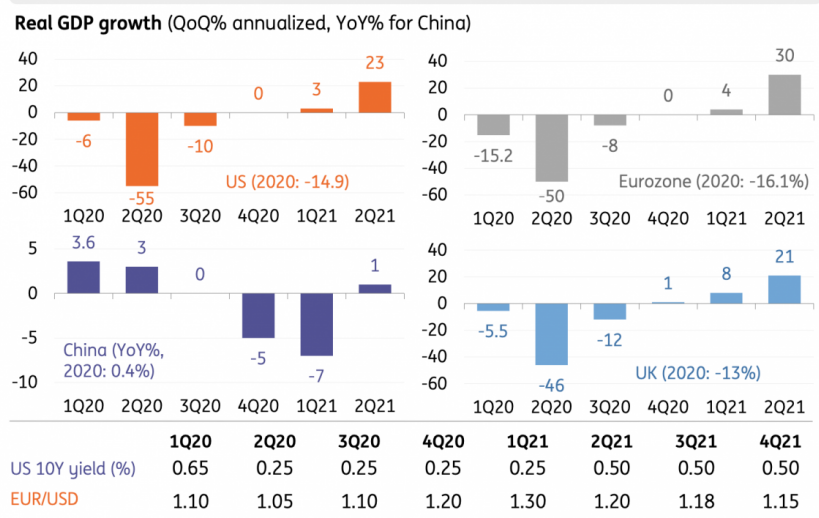
Scenario 4 at a glance

Assumptions

- Lockdowns remain largely in place until year-end**
- Global travel remains restrictive**
- Home-working stays in place where possible**
- Social distancing remains a feature for 12-18 months**
- Winter outbreak not manageable**

Possible health drivers

- Countries unable to test all people displaying Covid-19 symptoms**
- Antibody testing not rolled out to masses. Limited visibility on % of population that is now immune**
- Vaccine unavailable to the masses for 12-18 months**
- Immunity is found to be short-lived and/or virus shows signs of mutating**



Source: ING

Real GDP growth (QonQ% annualised unless otherwise stated) and market forecasts

Scenario 1 – Base case										
	1Q	2Q	3Q	4Q	2020 FY	1Q	2Q	3Q	4Q	2021 FY
United States	-6.0	-4.0	2.2	1.0	-7.0	5.0	4.0	3.5	3.0	3.4
Eurozone	-15.2	-1.6	1.3	7.5	-5.0	2.5	2.0	2.0	2.0	3.2
China (YoY%)	3.6	3.9	4.0	4.5	4.0	5.8	5.9	5.6	5.7	5.8
Japan	-1	-2.6	1.8	2.0	-4.9	0.5	0.9	0.9	0.9	0.9
United Kingdom	-5.5	-3.5	2.0	8.0	-6.1	3.5	2.4	1.5	0.5	2.6
EUR/USD	1.10	1.12	1.15	1.20		1.18	1.15	1.12	1.10	
USD/JPY	107	105	100	100		102	105	108	110	
US 10-year yield (%)	0.65	0.50	0.75	0.75		1.00	1.00	1.25	1.50	

Scenario 2 – Winter lockdowns return										
	1Q	2Q	3Q	4Q	2020 FY	1Q	2Q	3Q	4Q	2021 FY
United States	-6.0	-4.0	2.2	-9.5	-8.1	1.0	9.0	13.5	9.0	1.2
Eurozone	-15.2	-1.6	1.3	-6.0	-5.8	1.0	5.5	2.5	2.5	0.5
China (YoY%)	3.6	3.9	2.0	1.0	2.6	1.0	2.0	4.0	5.0	3.0
Japan	-1.0	-4.4	1.7	-2.2	-1.1	2.9	1.5	1.5	6.0	5.0
United Kingdom	-5.5	-3.5	2.0	-9.0	-7.1	4.5	1.1	5.5	3.0	1.8
EUR/USD	1.10	1.12	1.15	1.20		1.18	1.15	1.12	1.10	
USD/JPY	107	105	100	100		102	105	108	110	
US 10-year yield (%)	0.65	0.50	0.50	0.50		0.50	0.75	0.75	1.00	

Scenario 3 – 'Best case'										
	1Q	2Q	3Q	4Q	2020 FY	1Q	2Q	3Q	4Q	2021 FY
United States	-6.0	-2.4	1.5	6.5	-3.6	4.5	3.0	3.0	2.5	3.4
Eurozone	-15.2	-4.5	1.0	4.0	-3.2	2.5	2.0	2.0	2.0	3.1
China (YoY%)	3.6	4.5	4.8	5.1	4.5	6.0	6.0	5.8	5.9	5.9
Japan	1.7	0.4	0.9	0.9	-0.6	0.9	0.9	0.9	0.9	0.9
United Kingdom	-5.5	-2.1	2.0	4.0	-3.1	1.0	1.5	1.0	1.0	2.1
EUR/USD	1.10	1.15	1.15	1.15		1.12	1.10	1.08	1.05	
USD/JPY	107	105	105	105		108	110	110	112	
US 10-year yield (%)	0.65	1.00	1.25	1.50		1.50	1.75	1.75	1.75	

Scenario 4 – 'Worst case'										
	1Q	2Q	3Q	4Q	2020 FY	1Q	2Q	3Q	4Q	2021 FY
United States	-6.0	-5.5	-1.0	0.0	-14.9	3.0	2.3	2.1	9.0	1.2
Eurozone	-15.2	-5.0	-8.0	0.0	-16.1	4.0	3.0	2.0	1.0	3.3
China (YoY%)	3.6	3.0	0.0	-5.0	0.4	-7.0	1.0	4.0	6.0	1.0
Japan	-1.0	-4.7	-1.1	-1.9	-1.4	2.7	2.1	1.4	6.0	2.0
United Kingdom	-5.5	-4.6	-1.2	1.0	-13.1	8.0	2.1	1.7	6.5	2.3
EUR/USD	1.10	1.05	1.10	1.20		1.30	1.20	1.18	1.15	
USD/JPY	107	110	100	90		95	100	102	105	
US 10-year yield (%)	0.65	0.25	0.25	0.25		0.25	0.50	0.50	0.50	

Source: ING

Note most growth forecasts rounded to nearest whole or half number

Authors

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

James Smith

Developed Markets Economist, UK

james.smith@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information

purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.