

Developed Economies Record Sharpest Postwar Contractions in Q2 2020

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The COVID-19 pandemic is still expanding throughout the world, without any sign of an end. As of August 20, the global COVID-19 infection toll stood at 22.26 million, with the death toll at 0.78 million, according to the World Health Organization. Among regions, the Americas posted the largest infection toll at 11.89 million, followed by 3.87 million in Europe, indicating that the pandemic is serious particularly in the United States, Europe and South America. By country, the United States recorded the highest infection toll at 5.43 million, followed by 3.41 million in Brazil. Following the two largest countries in the Americas were India (2.84 million), Russia (0.94 million), South Africa (0.6 million), Peru (0.55 million), Mexico (0.53 million), Colombia (0.49 million), Chile (0.39 million) and Spain (0.37 million). Originating from the outbreak in China, the pandemic has brought about great damage in Europe and the United States and expanded to the rest of the world.

In the face of the rapid COVID-19 expansion, major Western countries suppressed economic activities and restricted human and goods traffic through such powerful means as lockdowns to prevent expansion of infection. Japan declared a state of emergency, asking citizens to voluntarily restrict traffic and economic activities, though without compulsory lockdowns. Around May, many countries concluded that the infection expansion had peaked out while failing to end, gradually reopening businesses and easing or lifting traffic restrictions. The most important matter in many countries at present is how to balance economic activities with prevention of COVID-19 expansion. However, powerful economic suppression and restrictions on human and goods traffic implemented until May had grave impacts, as shown by economic indicators published one after another in major countries.

In Japan, the Cabinet Office in its preliminary report on August 17 stated that the nation's real gross domestic product in the second quarter of this year contracted 7.8% from the previous quarter. The annualized contraction was given at 27.8%, representing the steepest postwar economic plunge, surpassing 17.8% in the first quarter of 2009 after the September 2008 failure of Lehman Brothers. The preliminary report showed that private consumption accounting for a majority of GDP posted an 8.2% decline. Net exports dropped 18.5% and nonresidential private investment decreased 1.5%. Both domestic and external demand collapsed, indicating that the COVID-19 pandemic exerted immense impacts on economy, society and civic life.

However, European and U.S. GDP contractions were even steeper than that in Japan. The annualized GDP contraction came to 32.9% in the United States, 40.3% for the eurozone including Germany and France and 59.8% in the United Kingdom, against 27.8% in Japan. Those economic contractions were unprecedentedly sharp. Many Western countries saw remarkably rapid expansion in COVID-19 infection and death tolls and critically ill people and implemented lockdowns known

as far more powerful economic restrictions than in Japan, suppressing economic and social activities. This apparently contributed to their steep economic contractions. As Japanese, European and U.S. economies shrank substantially, the global economy deteriorated further. China posted the first ever quarterly negative economic growth in the first quarter of this year when the outbreak expanded, but it recorded positive growth in the second quarter by successfully containing the outbreak in the early stage. In any country, future economic growth would depend on whether the pandemic would be successfully contained or whether the containment would be sustained.

The annualized economic contractions such as 27.8% in Japan and 32.9% in the United States looked remarkable in media, leading some people to misunderstand that Japanese and U.S. economies in 2020 would shrink 20-30% from the previous year. The annualized contraction rates assume that the quarter-to-quarter contraction would remain unchanged over four quarters. If an 8% quarter-to-quarter contraction continues over four quarters including the first one, for example, GDP would be 92% of the previous quarter's level in the first quarter, 84.6% in the second quarter, 77.9% in the third quarter and 71.6% in the fourth quarter, resulting in an annual contraction at 28.4%. The 28.4% is the annualized rate. Many Japanese, European and U.S. economies in the third quarter of this year are expected to post positive growth rates in reaction to substantial contractions in the second quarter. In this sense, economic contractions in 2020 would be far milder than the annualized rates for the second half.

Anyway, however, Japanese, European and U.S. economies in 2020 will shrink from the previous year. In its World Economic Outlook released in June, the International Monetary Fund forecast that the global economy in 2020 would contract 4.9% and that the economy would shrink 8.0% in the United States, 10.2% in the eurozone and 5.8% in Japan. Actual economic conditions indicate that economic contractions could be greater than forecast by the IMF. While the IMF expects that the global economy would grow 5.4% in a V-shaped recovery in 2021, the current pandemic status and future uncertainties lead me to view the possibility of IMF forecast as considerably optimistic.

Pessimistic analysts cite a U-shaped or slow one, an L-shaped one including a prolonged recession and a K-shaped one in which economic growth would be patchy in the world. In such situation, each country is endeavoring to devise how best to balance economic growth with prevention of the pandemic's expansion.

Ahead of the U.S. presidential election attracting global attention, a recovery from the COVID-19 disaster and economic issues are the biggest matter of interest to U.S. voters. Whether Donald Trump or Joe Biden wins the election, economic recovery measures would be the biggest challenge for the next U.S. administration. In the European Union led by European Commission President Ursula von der Leyen, a recovery from grave economic and social damage is the largest urgent challenge. It is taking advantage of the European "Green Deal" for the recovery. In Japan as well, recovery from the COVID-19 disaster is the largest challenge involving civic life. In any country, the success or failure of the recovery from the disaster would be directly linked to economic, social and political stability. We will have to closely watch relevant future developments.

The largest postwar economic contractions in the second quarter of this year have exerted great influence on international energy markets. Final consumption crashed for all energy goods including oil, gas/LNG, coal and electricity, leading to oversupply and weaker prices that have

squeezed the energy industry and caused cost and investment cuts. From the third quarter and on, the fate of the pandemic will continue to exert influence on the global economy and the international energy situation.

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