A FRAGILE ROAD TO RECOVERY

GLOBAL ECONOMIC OUTLOOK
September 2020

BUSINESS SWEDEN
THE SWEDISH TRADE & INVEST COUNCIL

Foreword

A FRAGILE ROAD TO RECOVERY

Following a harrowing and at times almost apocalyptic first half of the year, the Covid-19 crisis entered a new phase over the past couple of months. The concerns around risks of widespread disruption to global supply chains – in light of the imposed restrictions to limit the virus spread – have all but abated. Countries have one after the other opened up their economies and eased restrictions. The wheels of industry have started to churn while parts of the services sector continue to run at half-speed. While the pandemic has clearly plunged the global economy into a deep recession, the recovery has indeed begun. The retail sector and industrial production have regained strength worldwide, as have confidence indicators such as purchasing managers' indices. All the evidence seems to suggest that the worst is behind us.

The European economy has been worst affected by the Covid-19 pandemic but North America has also suffered a heavy blow. The outlook is somewhat brighter in parts of Asia where the virus transmission was successfully stopped in its tracks. China, Vietnam, South Korea and Taiwan are all expected to hit positive GDP growth figures for 2020. While most economies are expected to record positive quarterly growth as we move forward, it will take a long time before GDP is back at pre-crisis levels despite massive stimulus packages from central banks and governments. Uncertainty around how the pandemic will evolve continues to be high, but it seems plausible at least that sweeping restrictions and full lockdowns could be avoided. Should this be the case, it is expected that 40 per cent of the world's countries will have reclaimed 2019 GDP levels by the end of next year. Around 80 per cent of all countries are expected to have bounced back to pre-crisis levels the following year. Although the consensus is that the larger European economies will not be back at pre-crisis levels until well into 2022, global GDP is expected to rebound to its pre-crisis level during the second half of 2021, largely thanks to a strong recovery in Asia and to a certain extent in North America.

On the downside, it is also clear that the recovery will be protracted and fragile with large overhanging risks. The pandemic's trajectory is currently the single largest risk facing the world. Moreover, the eagerness to ease restrictions risks prolonging the recovery. A second wave of Covid-19 would risk having lasting negative effects on the global economy. It is also believed that many economies that were hit hard during the first outbreak of Covid-19, not least several highly indebted countries in Europe, will suffer substantial economic damage during a possible second wave. If trade levels were to plummet again, weak global demand would have a large impact on small open economies that are highly dependent on exports. The Nordic countries are typical examples but the same is true for several countries in Southeast Asia. Once again shutting down entire economies is an extreme measure which we currently do not foresee as being likely.

Other overhanging events in the global economy that should be monitored during this autumn are the increasing geopolitical tensions, trade conflicts, the US-China technology war, the possibility of a no-deal Brexit and the US presidential election in November.

While the worst effects may be behind us, the fragility of this recovery cannot be denied. Let's hope the autumn winds do not blow too hard.

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THE GLOBAL ECONOMY

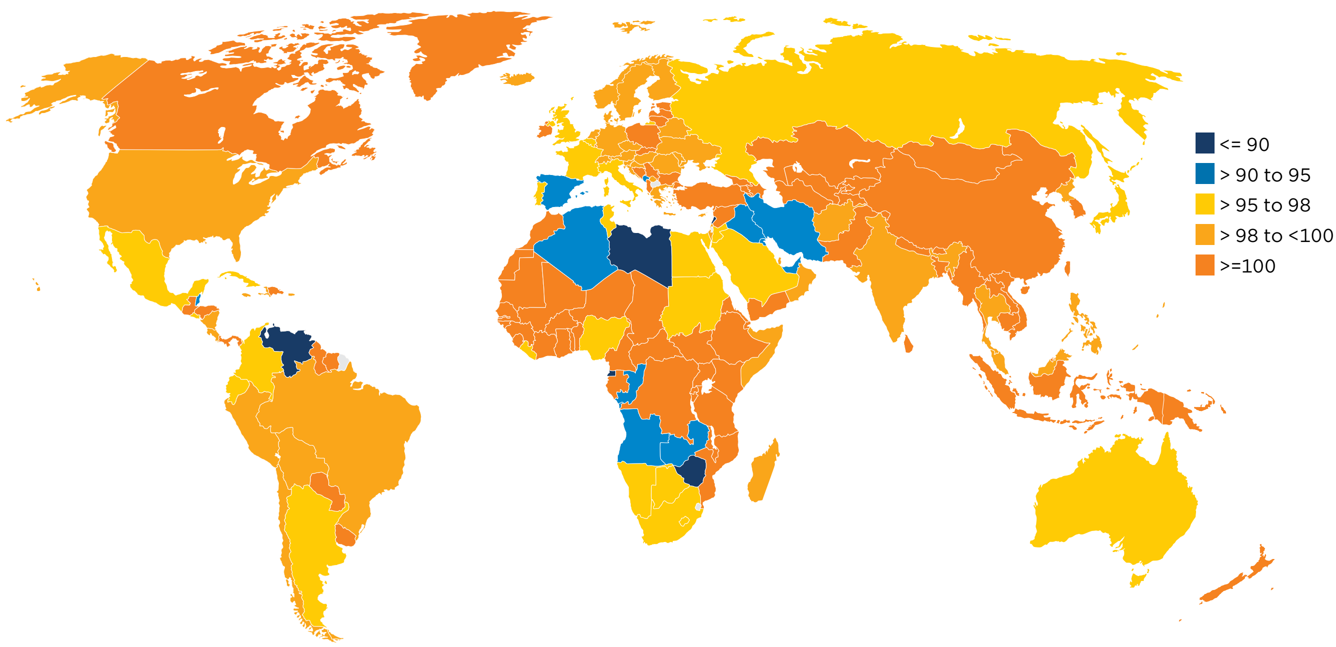
PROTRACTED AND SHAKY RECOVERY

The first half of 2020 was tough for the global economy with GDP falling to unprecedented levels. In the beginning – between January and March – the spread of coronavirus and the disruption it caused was mainly concentrated to China and to some extent South Korea. China adopted severe methods to slow the transmission of the virus with a lockdown that caused large sections of industry production to come to a standstill over several weeks. Given the high demand for intermediate goods made in these factories, both regionally and in the rest of the world, countries were deeply concerned about the outbreak in China and its possible consequences for the global economy. In other words, the initial fears related more to supply chain disruption than public health restrictions. In addition, there was clearly a lot of concern in China's neighbouring countries, which are heavily dependent on China, for how the measures would affect demand, particularly when it comes to Chinese tourism.

In early March it soon became obvious that the novel coronavirus would not only be a problem isolated to China and its immediate region. The virus had continued to travel the world and a global pandemic was by then a fact, with deep consequences for public health and the economy. To an extent, the negative economic effects indeed did relate to supply chains being disrupted as was feared, but by the end of March it had become clear that from an economic perspective the pandemic's severe blow to demand would be far more serious. Another important factor in countries such as Spain, France and India, all of which entered a full lockdown, was that not only retail, hotels and restaurants were forced to close, but also production facilities in manufacturing.

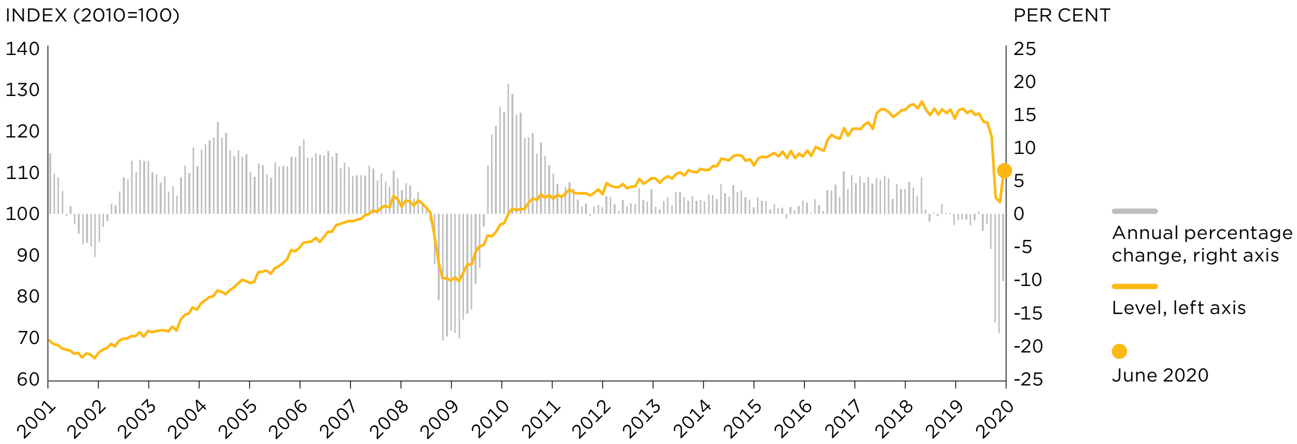
The global Covid-19 crisis is unique in the sense that it developed in such a dramatic way during a very short time period. By all accounts, the most severe downturn took place between March and May. Global statistics for industrial production and retail confirm that global growth began to recover toward the end of the second

ECONOMIC RECOVERY RATE, GDP 2021 COMPARED TO 2019 LEVELS, CONSTANT PRICES, PER CENT



Sources: Oxford Economics, Business Sweden (2020)

GLOBAL TRADE



Sources: Macrobond, Business Sweden (2020)

quarter. Another boost to the recovery appears to have taken place in July while forward-looking indicators such as purchase managers' indices (PMI) affirm that the pace of recovery more or less abated in August. Nonetheless, a relatively impressive recovery by normal standards is expected for the third quarter, even though it will take many quarters before world economies recapture pre-crisis GDP levels. The situation is somewhat more fragmented in Asia than in Europe and North America, as both the outbreak and recovery developed earlier in China.

Although GDP is expected to make a significant recovery during the third quarter, the road ahead will most likely be long and bumpy, lined with challenges and setbacks. By the end of 2021, it is estimated that just 40 per cent of the world's countries (in a full-year calculation) will have reclaimed 2019 GDP levels. By 2022, however, it is estimated that roughly 80 per cent will have reclaimed pre-crisis levels. While many of the larger economies in Europe are not expected to bounce back to pre-crisis levels until well into 2022, it is estimated that global GDP will be back at its pre-crisis level during the second half of 2021, largely thanks to a strong recovery in Asia and North America.

2019 was a weak year for global trade, partly hampered by the US-China and Japan-South Korea trade conflicts, which meant that negative growth – just below 0 per cent – was recorded for the full year. In the period January to May 2020, global trade decreased by no less than 17 per cent in the wake of Covid-19. A slight recovery was noted in June when global trade increased by almost 8 per cent compared to the previous month, which altogether (January to June) resulted in a performance of -11 per cent. It is estimated that the recovery will be sustained during the autumn, with a few possible setbacks, and then gradually approach pre-crisis levels of growth. Whether global trade will recapture its pre-crisis level already this year is still unknown.

The global recovery is very fragile and will be heavily dependent on supportive monetary and fiscal policies. There is more uncertainty than normal in the prognosis for the coming quarters, and much of it is linked to the pandemic's development. If countries around the world fold under public pressure and lift restrictions too early, sparking a surge in transmission and then reimposed restrictions, the recovery risks being prolonged by a couple of quarters. However, this scenario is not deemed to have any lasting impact on global GDP over a couple of years. Another possible scenario is a second wave of transmission by the end of 2020 or early 2021 that prompts large-scale restrictions and lockdowns. Such a scenario would most likely affect confidence and risk perception among businesses and households, and not only plunge the global economy back into recession but also cause more lasting effects, resulting in lower GDP over several years.

UNIQUE ECONOMIC STANDSTILL IN EUROPE

In Europe, an initial scarcity of intermediate goods in industry, due to supply chain disruptions, was followed by a dramatic fall in both European and global demand. The shutdown of

REGION	Real GDP growth, %			Share of global GDP, 2019 (%)
	2019	2020	2021	
Global*	**2.8**	**-4.4**	**5.7**	**100**
Sweden	1.3	-4.0	4.1	1
Asia & Oceania	3.8	-2.0	6.0	37
Europe	1.5	-7.3	5.7	25
North America	2.0	-4.1	4.0	28
South America	0.2	-7.1	5.5	4
Africa	2.4	-7.0	6.3	3
Middle East	1.2	-7.3	3.8	3

*GDP at purchasing power parity (PPP).
Note: Due to rounded figures, shares do not amount to 100.
Sources: Oxford Economics, Business Sweden (2020)

several European countries during March and April to limit the spread caused an economic standstill that is unprecedented in modern history. The successive easing of restrictions on freedom of movement as well as the possibilities to resume business activity has again liberated the economy which is also being supported by huge government crisis- and stimulus packages. Confidence indicators for the business sector increased to normal levels during the summer and real time statistics showed a substantial increase in economic activity. Policymaking is focused on returning to social and economic normality and to combat the virus spread with local and regional measures. But the signs of recovery are from a very low level and with great uncertainty.

RAPID RECOVERY IN ASIA

Asia's economies are showing severe strain from the Covid-19 pandemic and many Asian countries will be recording a record fall in GDP this year. Only a few countries in the region can expect positive GDP growth for 2020, including China and Vietnam. At the same time, it appears that Asia will recover relatively fast compared to many European economies, much thanks to the strong recovery in China. The negative economic effects were partly caused by the imposed restrictions to limit the spread, but have also come as a result of reduced demand in the Asian economies. The large discrepancies can be explained by the varying level of exports, price effects and supply constraints (for example supply chain disruptions and lack of workforce due to restrictions).

As in many parts of the world, the economy in several Asian countries began to recover toward the end of the second quarter. Apart from China, the North Asian economies such as South Korea and Taiwan, along with Vietnam are in the lead in the race to recapture pre-crisis growth. India, Indonesia and the Philippines have a considerably longer road to travel before they bounce back. The recovery in Japan has all but stalled, and Singapore, Thailand and Malaysia are somewhere in between. But overall, it appears that the Asian economies will recover relatively rapidly and return to pre-crisis levels already during 2021, excluding India, Thailand and Japan.

SEVERE BLOW TO NORTH AMERICAN ECONOMIES

The pandemic has dominated the political agenda ever since it began to get a foothold in North America in early March. It was clear early on that the United States was vulnerable. The country's federal system means that measures to combat the virus are largely decided and implemented at the state or local level, which complicates a unified national policy response. The situation is compounded by difficulties in coordinating messaging and measures between the many public and private providers in healthcare, nursing homes and the education system. While new infections are still widespread in the US they have been declining. The spread is moving through lower age groups which puts less strain on the healthcare system.

When the pandemic escalated in mid-March, the Canadian government adopted a hard lockdown policy with quarantine rules for entry into the country. During late spring, the shutdown was gradually lifted in Canada which did not prevent the spread of coronavirus from declining sharply during the summer, along with the number of deaths per day. With 73,000 deaths, Mexico has been the world's fourth most vulnerable country so far. The number of new infections and the number of deaths per day are both declining, but from high levels.

The Covid-19 crisis has hit the North American economies hard causing a severe drop in GDP and rising unemployment, especially during the second quarter of this year. During the summer (May onwards) when restrictions were eased, retail, industrial production and the labour market recovered. A return to pre-crisis levels in Mexico will probably not happen until well into 2022 and the US is likely to rebound toward the end of 2021. Canada, however, is expected to return to pre-crisis levels sometime in mid-2021.

LIMITED ROOM TO MANOEUVRE FOR MONETARY POLICY

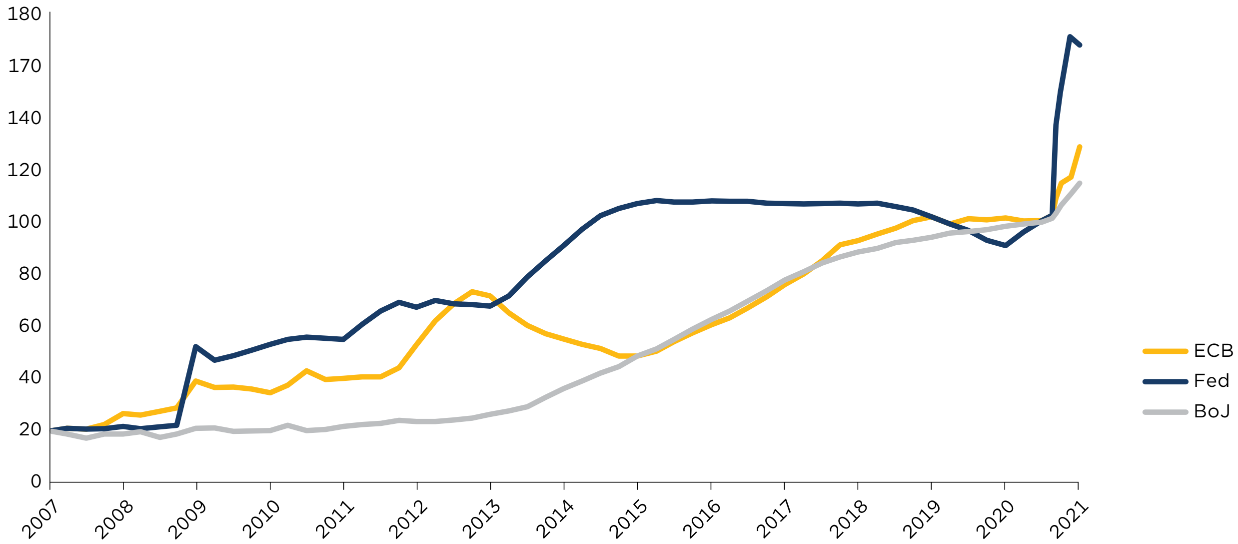
The US Federal Reserve (the Fed) has signalled that it is changing its inflation target. Having previously set the inflation target at 2 per cent, it is now adopting an average inflation target instead. In other words, allowing inflation to rise above 2 per cent without raising the interest rate has been deemed acceptable, provided that it has been preceded by a period of below 2 per cent inflation. The impacts of this new monetary policy remain to be seen. Most likely, there will be no significant real economic effects in the short term, but it probably paves the way for low interest rates for a long time to come, extending well beyond the current crisis. In its decision on September 16, the US Federal Reserve accounced it will leave the interest rate unchanged at 0–0.25 per cent. Previous statements regarding the inflation target were also reaffirmed and the Fed confirmed that it does not intend to raise the interest rate until full employment has been reached and inflation is permanently above the 2 per cent target. The Fed also announced that it had not decided on any adjustments to its bond purchasing programme. Analysts differ in their views on whether the monetary policy decision is to be considered expansive, but Jerome Powell, the US Federal Reserve's Chairman, stresses that the decision testifies to the central bank's determination and confidence in achieving the goal. According to the Fed's own forecast, however, this is not expected to happen until around 2023.

In several currency areas, interest rates are now down to such low levels that the central banks' ability to stimulate the economy with the policy rate may be seen as non-existent, or limited at the very least. Many countries have had low policy rates for a long time, some ever since the global financial crisis more than a decade ago. This has prompted more unconventional methods such as the purchasing of financial assets (primarily government bonds and corporate bonds), known as quantitative easing. Bond purchases by central banks lead to a rise in the price of bonds and creation of capital in the financial system. This leads to lower interest rates and cheaper loans, which in turn increases demand from companies and households. As a consequence of the monetary policy pursued in recent years, many central banks such as the Federal Reserve, the European Central Bank (ECB) and the Bank of Japan (BoJ) have amassed very large balance sheets. The Fed has increased its bond holdings by almost 70 per cent since the beginning of the year, the corresponding figure for the ECB is 30 per cent, while the BoJ has expanded its balance sheet by 15 per cent since the beginning of the year. It is more or less unknown which risks, if any, will result from this policy. Whether or not there is a limit to how much central banks can allow these balance sheets to expand is equally uncertain. So far, it doesn't seem as if the ceiling has been reached.

The low policy rates (in some cases negative) and the large balance sheets nevertheless limit the central banks' ability to effectively stimulate the economy. It is not implausible that several central banks will find it difficult to reach their inflation targets for the foreseeable future. This may give fiscal policy a more important role when it comes to supporting the recovery in coming quarters. A possible obstacle in this context is that opportunities for stimulating the economy using fiscal policy are also limited in many countries. It all depends on what the starting point is in terms of public finances. The high level of public debt in some countries risks making fiscal stimulus less effective, partly because interest rates could rise as a result of reduced confidence and increased supply of bonds, but also because debt can affect confidence among companies and households in terms of the long-term stability of public finances, leading to increased savings.

THE CENTRAL BANKS' BALANCE SHEETS

INDEX (JAN 2020=100)



Sources: Macrobond, Business Sweden (2020)

IN DEPTH

MAJOR DOWNSIDE RISKS

Although the outlook for the global economy has stabilised somewhat in recent months, the current forecast is still burdened by a high degree of uncertainty. The global economy has been hit hard by the shutdown measures in response to the pandemic. Never before has the world seen an exogenous shock of this kind where both supply and demand are simultaneously affected. It is still very uncertain how the pandemic has fundamentally affected the economies as well as how it will develop in the future. Forecasts are always subject to a certain degree of uncertainty, but in this situation one can justifiably speak of genuine uncertainty. Given this high uncertainty and the difficulty in assessing its extent, exploring alternative scenarios to the main forecast is an appropriate response. In this in-depth section, we present two alternative scenarios based on an analysis by Oxford Economics. The first scenario looks at the impacts of lifting restrictions too soon due to growing impatience, and the second explores the repercussions of a second wave of Covid-19 that leads to new shutdowns.

In the baseline forecast presented in this report, we assume that the pandemic will gradually be brought under control and that a second wave with extensive restrictions and shutdowns can be avoided during the autumn. Although restrictions and physical distancing will continue to burden economies worldwide, they will make a strong recovery in the second half of 2020 and in 2021. Overall, in this scenario, global GDP will shrink by 4.4 per cent in 2020 in the baseline forecast and then grow by 5.7 per cent in 2021, which means that global GDP will have regained its pre-crisis level by the end of 2021.

PREMATURE EASING OF RESTRICTIONS DUE TO IMPATIENCE RISKS PROLONGING THE RECOVERY

Growing fatigue around restrictions and social distancing is a significant risk that may lead to restrictions being lifted too early from a public health perspective. Consequently, infections will spike once again which, in turn, leads to the inevitable enforcement of new restrictions well into late autumn. This is a major risk that may already be materializing in some countries, not least in Europe (e.g. Spain, Austria, Denmark). So far, however, the assessment is that this will not dominate developments during the autumn.

In this alternative scenario, the recovery which has only just begun will be very moderate until the end of 2021. Compared to the baseline forecast, global GDP will shrink further by 1.4 per cent in 2020 and 1.8 per cent in 2021. However, the effects on the global economy are mainly short-term and the differences between the two scenarios will decrease already by the end of 2021. After another three years (2025), the gap will almost completely have been closed. Consumer prices (CPIs) will have a weaker development than in the baseline forecast and central banks will therefore lower interest rates in the countries where it is reasonable to expect that an interest rate cut will have an effect on economic activity. In several advanced economies, where interest rates are already at zero or even below, measures will primarily focus on supporting demand by expanding balance sheets and by launching bond purchasing programmes.

SECOND WAVE BRINGS GREATER RISK OF LASTING NEGATIVE EFFECTS

According to the third quarter risk survey from Oxford Economics, a second wave of Covid-19 poses one of the greatest risks to the economy. This clearly warrants an analysis of all the related effects.

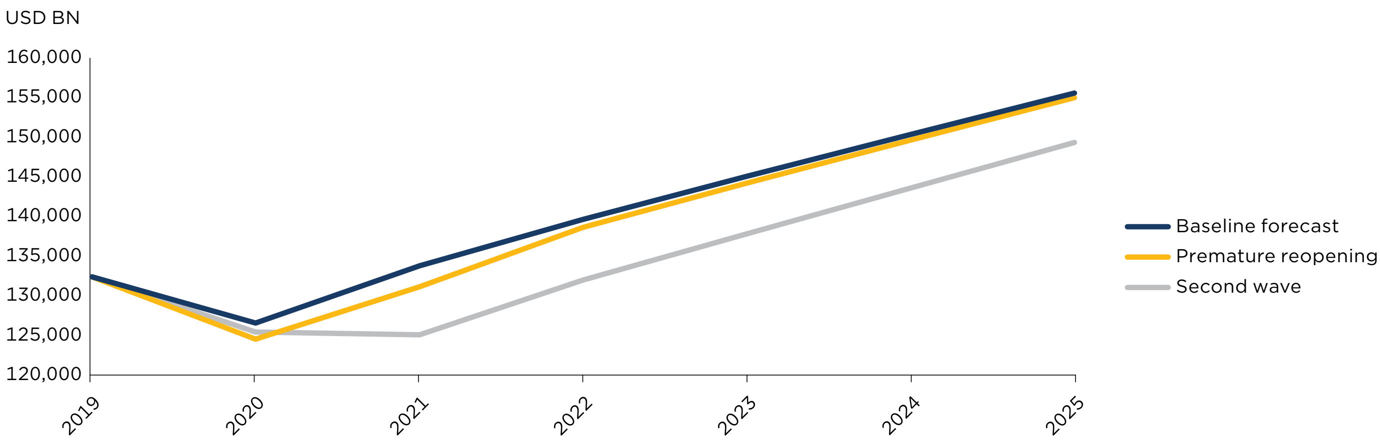
In this scenario, the pandemic regains momentum and impacts many countries in late 2020 and early 2021 involving far-ranging restrictions and lockdowns, in some areas repeating the developments earlier this spring. The financial markets would react strongly and immediately to the new lockdowns, stock prices drop and interest rates on government bonds would fall as risk aversion increases. Large "safe" currencies such as the US dollar are strengthened against the currencies of more vulnerable emerging economies. The impact on the Swedish krona is difficult to assess, so far the krona has performed well through the crisis. While a second wave will certainly have serious consequences, the exact nature of effects for the global economy is less certain. However, it is believed that the krona will be somewhat stronger against the dollar in this scenario, compared to the main forecast.

In all likelihood it will be difficult to counteract the downturn with the same strong monetary and fiscal stimulus packages seen during the first wave, especially given that public debt has already skyrocketed in many countries. Central banks that still have room to effectively lower interest rates will do so. Overall, the scope among developed economies is limited, which is why a more likely monetary policy response in this scenario is the further expansion of purchasing programmes. It should be noted, however, that zero is not a bottom limit for the policy rate.

Once again, the global economy will shrink slightly in the last quarter, following a temporary recovery in the third quarter. Global GDP will fall sharply in the first quarter of 2021, by a further 6 per cent compared to the baseline forecast. Most of the economies that were hit hard during the first wave, especially highly indebted countries in Europe, are expected to suffer major economic damage from a second wave. When world trade falls sharply again, weak global demand will be a heavy blow for small, open and export-dependent economies. The Nordic countries are a case in point, as are several countries in Southeast Asia.

The recovery in this scenario will be very protracted. Confidence as well as risk appetite among households and companies will hit rock bottom. Corporate loans will be more expensive in this scenario, which will have a further dampening effect on investment. Activity in the economy risks being severely restrained even in the medium term. Even after five years, the current assessment is that global GDP will be 5–6 per cent lower than the baseline forecast.

GLOBAL GDP, USD bn, constant 2015 prices



Note: Refers to PPP adjusted GDP.
Sources: Oxford Economics, Business Sweden (2020)

THE SWEDISH ECONOMY AND EXPORTS

RECOVERY IN SWEDEN'S ECONOMY

The Covid-19 outbreak has plunged the Swedish economy into a deep recession. During the second quarter of this year, GDP fell by almost 8 per cent at an annual rate. Despite the government's and the Riksbank's measures to support the private sector, unemployment has risen above 9 per cent. But judging from the purchasing managers' index and other confidence indicators, there are signs that suppressed economic activity has reached a turning point and that we will return to positive growth figures in the coming quarters. Nonetheless, it will probably be some time before unemployment falls back down. Among all the companies that have taken advantage of the furloughing schemes and short-term redundancies, new recruitment is only likely to take place when the current workforce has reached capacity. Just like the other Nordic countries, Sweden's economy has overall coped with the crisis relatively well and GDP is so far expected to shrink by just below 4 per cent in 2020. Next year's growth forecast of just over 4 per cent means that Sweden's GDP will be back at its pre-crisis level already next year.

The crisis has been severe and has affected most industries in terms of declining production, primarily due to reduced domestic and foreign demand, but also supply disruption to an extent. The automotive sector is the hardest hit in manufacturing. This was the sector that suffered the most from supply chain disruptions in the early stages of the crisis as some production facilities came to a standstill over several weeks. In the construction industry, the decline so far has been relatively moderate compared to several other European economies that implemented lockdowns. The same is true of the services sector in general, even though some businesses have been hit very hard including hotels and restaurants, transport services as well as various businesses in the culture, entertainment and recreation sectors, all heavily affected by restrictions to limit the spread. The situation for the retail sector is somewhat more mixed.

Several confidence indicators show that the Swedish economy is recovering. One example is the barometer from Sweden's National Institute of Economic Research, which measures sentiment in the economy. It fell sharply in April and then recovered in June and July but is still well below normal levels. Swedbank's Purchasing Managers' Index (PMI), which is usually considered one of the most important indicators of the growth outlook, strengthened markedly during the summer months and is now up to pre-crisis levels, well above 50 which is the dividing line that determines whether the economy is in an expansion phase. However, the fact that the economy is growing does not mean that the sharp decline in GDP has recovered. Business Sweden's Export Manager Index (EMI) has also improved significantly and reaffirms the assessment that Sweden's economy has bottomed out and is now in a recovery phase.

Both fiscal and monetary policy have focused on supporting companies and households during the crisis. In addition to adopting supportive buying measures, primarily the purchasing of government bonds, the Riksbank has offered corporate loans (via banks) at a low interest rate and, for certain loans, eased the requirements for collateral. Finansinspektionen, Sweden's financial supervisory authority, has lowered the countercyclical capital buffer requirement for banks to zero and temporarily eased amortisation rules for households. The government has adopted a number of measures to mitigate the effects of the Covid-19 crisis including direct aid and tax cuts totalling SEK 200 billion in 2020. The measures include support for:

Municipalities and regions (approx 1/5)
Targeted and general contributions

Companies (approx 3/5)
- Reduced employer contributions and payroll costs
- Availability of financial aid
- Short-term working
- Compensation for sick-pay costs
- Compensation to property owners for reduced rents in specific industries

Households (approx 1/5)
- Abolished qualifying day for sickness in health insurance
- More generous terms in unemployment insurance
- Abolished income ceiling in public support scheme for students

Beyond these measures, steps have been taken to boost liquidity including the introduction of deferral of tax payments. The Swedish Export Credit Corporation and the export credit agency EKN have also increased limits for credits and guarantees. Several of the above measures have been instrumental in the efforts to counteract the economic downturn during the crisis. The government has also announced cyclical supportive measures for 2021 at a total value of just above SEK 100 billion. These investments in 2021 will be aimed at supporting municipalities, regions, companies and households. The budget for 2021 also includes proposed environmental- and infrastructure investments.

SLOW RECOVERY FOR SWEDISH EXPORTS

The Covid-19 outbreak has had a severe negative impact on global trade. During the first half of this year, world trade shrank by 11 per cent – a dramatic decline in historic terms that since the 1990s is only surpassed by the fall during the global financial crisis of 2008. It is of course inevitable that a sharp decline in world trade has a major impact on Swedish exports, which fell by 15 per cent during this period. Exports have been hit hard as explained in Business Sweden's Export Managers' Index for the second quarter, which collapsed to levels on par with or even below financial crisis levels. It is estimated that total Swedish exports will decrease by 6.9 per cent this year, and goods exports by slightly less, 6.5 per cent, while exports of services will decline slightly more, 7.6 per cent which isn't even half of the decline seen during the global financial crisis. Total exports will next year increase by 3.8 per cent. Services exports will be the largest contributor and are expected to increase by 6.5 per cent, while goods exports are expected to grow modestly by 2.6 per cent in 2021.

Sweden's export industry has struggled to cope with very weak global demand, and to some extent with supply chain disruptions. On the other hand, Swedish export companies have not suffered as much from limited workforce availability, a major issue in many other countries during the lockdowns. In China, France, the United Kingdom and Germany, industrial workers were prevented from going to work by government-imposed restrictions. In contrast, no similar compulsory restrictions were introduced in Sweden during the spring which meant that staffing at production facilities in Sweden was never really a problem.

The evidence suggests that Swedish export companies have already come through the worst period, even though global demand is set to remain weak. Economic activity has gradually begun returning to normal in many countries and, as such, demand has slowly begun to recover. The general consensus that Sweden's export industry has entered a recovery phase was reaffirmed by the Export Managers' Index for the third quarter, which clearly indicated an improvement. Notably, the index for expected export demand rose markedly for Europe which is reassuring as more than 70 per cent of Swedish exports go to Europe. In most of Sweden's key markets abroad, the Purchasing Managers' Index (PMI) has substantially improved in recent months. This is an indication that the economies are beginning to recover. But although exports have begun their recovery, total Swedish exports for 2020 are expected to decline compared to 2019 levels. Exports will probably not reach pre-crisis levels until early 2022.

The coronavirus crisis has had a similar impact on the export of goods and services, both declining by approximately 15 per cent during the second quarter. Services exports are expected to recover somewhat faster than goods exports both this year and next, but the weak first quarter for services exports means that 2020 results for the full year will show weaker development than goods exports, compared to 2019. A significant contributing factor to the expected faster recovery for services is the ongoing shift to 5G.

Sweden's export markets started to recover during the summer, but the pace of recovery will differ between countries and regions. Swedish export growth will therefore be fragmented given the varying pace of recovery worldwide. Exports to Africa will see the greatest decline in 2020, at the same time just 1.7 per cent of Swedish exports go to the African continent which means that total export figures are not affected to any large extent. The most moderate decline is expected for exports to Asia, primarily due to the comparatively favourable economic development in China, which is by far the largest destination for Swedish exports in Asia (close to 5 per cent of Swedish exports go to China). In all, export markets are indeed recovering – but the fastest rate of recovery is happening in Asia.

SWEDISH GOODS EXPORTS, BY REGIONAL DESTINATION

REGION	Constant prices, percentage change		Share of Swedish exports 2019, %
	2020	2021	
Europe	-6.6	3.6	73.6
Asia & Oceania	-4.1	6.5	11.9
North America	-8.8	6.8	9.6
South America	-7.4	7.6	1.3
Africa	-14.4	5.2	1.7
Middle East	-10.4	8.5	1.9
Global	-6.5	2.6	100

Note: Due to rounded figures, shares do not amount to 100.
Sources: Oxford Economics, Statistics Sweden, Business Sweden (2020)

EUROPE

SLOW RECOVERY IN THE WAKE OF THE CORONAVIRUS CRISIS

The coronavirus pandemic and its devastating consequences for the European economy have dominated 2020, at a time when countries were still dealing with the fall-out of the global financial crisis in terms of public debt. An initial shortage of intermediate goods in industry due to supply chain disruptions was followed by a dramatic fall in demand, in Europe and globally. The shutdown in most European countries in March and April to limit the spread of infection led to an economic stalemate that is unprecedented in modern times, not least in the southern European countries that depend heavily on tourism. The gradual lifting of restrictions on freedom of movement and business operations has again freed the economy, which has undergone change in terms of extensive crisis- and stimulus packages and expansionary monetary policy. Business confidence indicators increased consistently to normal levels during the summer, while real-time statistics indicate a sharp increase in economic activity. Sentiment among European consumers has also improved, although a gloomy outlook still prevails. A full recovery to pre-crisis levels is not likely until the end of next year, or possibly some time into 2022. The objective of the stimulus policy is to facilitate a return to social and economic normality and to combat the new spread of infection uising local and regional measures. Nonetheless, the recovery is fragile and will be from historically low levels.

GDP figures for the euro area in the second quarter show a massive drop of just above 12 per cent compared to the first quarter. This reflects an abyss-like fall in economic in April, followed by a rebound in May and June when most European countries reopened. The European economy continues to recover, but Europe is still the region with the largest GDP loss of 7.3 per cent for the full year 2020. Both the downturn and upturn can largely be attributed to large fluctuations in private consumption. Large parts of the consumer-oriented services sector came to a standstill, particularly the hotel and restaurant sectors. Government bans on public gatherings prevented most national and international sports and cultural events from taking place. At the same time, demand in the business community for business travel and trade fairs, training and conferences ceased altogether. The airline industry lost virtually all of its customers. The only alternative to bankruptcy for airlines, was government and other investor loan guarantees or capital.

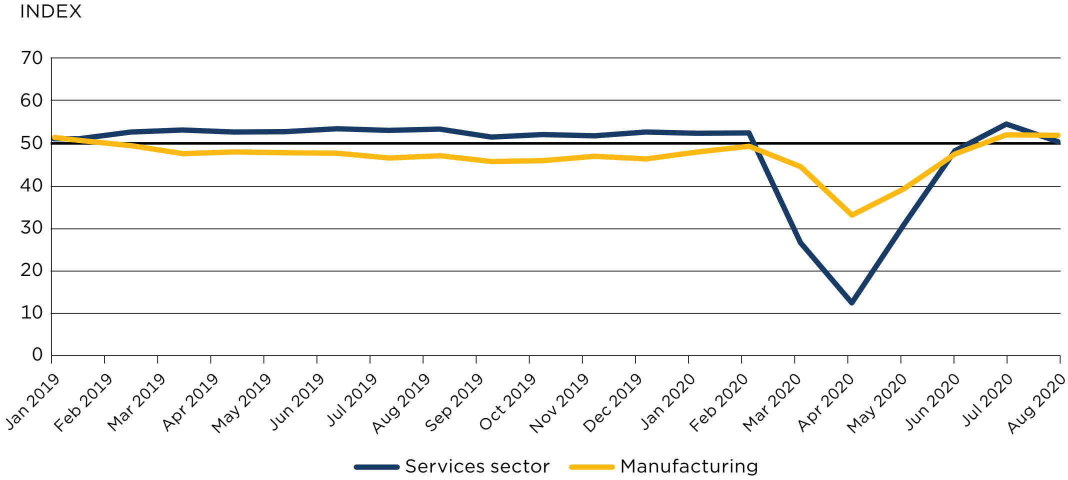
PROPPING UP THE LABOUR MARKET

The crisis has also put a major damper on Europe's export-oriented industry, especially automotive, machinery and chemicals manufacturing. The World Trade Organization (WTO) predicts a 15 per cent drop in global goods trade by the end of 2020, which is a large contributor to forecasts expecting a 10 per cent drop in industrial production in the euro area. Business Sweden's survey from May of the 800 largest Swedish export companies illustrates the uncertain future prospects: 60 per cent of respondents stated that they had decided to postpone investments as a result of the pandemic[1].

The sharp drop in demand from households and businesses has forced many companies to lay off staff. However, an unemployment spike has so far been tempered by extensive national furloughing schemes and temporary reductions in working hours for employees in struggling businesses. The measures have probably contributed to the fact that unemployment in the euro area grew only marginally from 7.2 to 7.9 per cent between March and July. A more problematic issue is the decline in number of hours worked, falling by 4 per cent in the euro area in the first quarter of 2020 compared to the fourth quarter of 2019, and by a further 13 per cent in the second quarter.

On 23 April, EU finance ministers approved a crisis package for the Union totalling EUR 540 billion. The SURE (Support to Mitigate Unemployment Risk in an Emergency) programme provides a total of EUR 100 billion in borrowing opportunities and intends to support member states' ability to sustain employment through temporary redundancies and reduced working hours. By the end of August, 15 EU countries had applied for loans of more than EUR 80 billion, with Italy, Spain and Poland borrowing three quarters of the amount. In a newly created guarantee fund, the European Investment Bank (EIB) offers new lending opportunities of up to EUR 200 billion

PURCHASING MANAGERS' INDEX, EURO AREA



Note: >50 indicates expansion, <50 indicates contraction.
Sources: Macrobond, Business Sweden (2020)

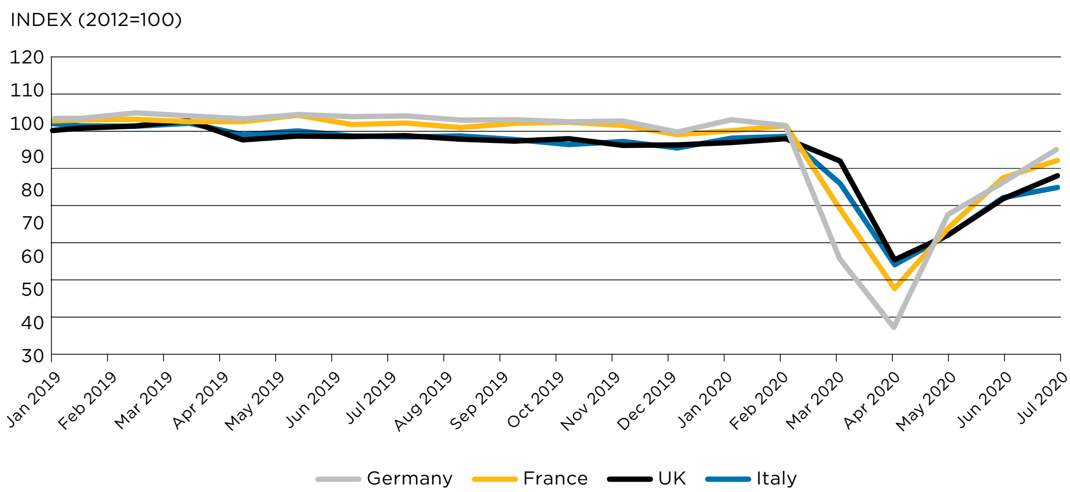
to mainly small and medium-sized enterprises. The European Stability Mechanism (ESM) – a financial institution set up in 2012 – will allow euro area countries to borrow up to 2 per cent of GDP, totalling EUR 240 billion.

On 21 July, EU heads of government agreed on a recovery package – Next Generation EU – amounting to EUR 750 billion evenly distributed between grants and loans, with Italy as the main beneficiary, and the EU's long-term budget for 2021–2027 of EUR 1,074 billion. In response to the revised inflation outlook following the coronavirus crisis, the European Central Bank, ECB, has pledged to buy securities worth EUR 1.3 trillion by June 2021.

The economic situation in Europe looks brighter in September. The Purchasing Managers' Index for the euro area climbed to just over the 50 mark, which is the dividing line between optimism and pessimism, for both manufacturing and the services sector. Retail sales are back at pre-pandemic levels. But national conditions for a recovery vary greatly. During the summer, tourism-intensive countries such as Italy, Spain and Greece suffered major income losses.

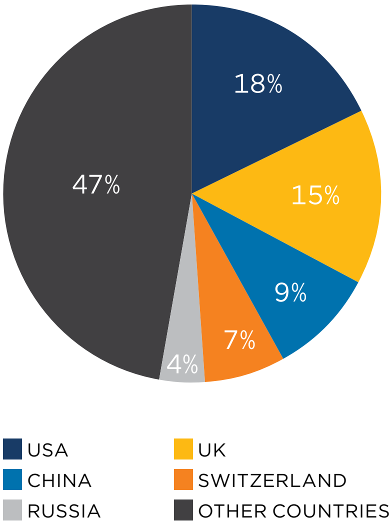
For Europe as a whole, the GDP loss is expected to be 7.3 per cent for the full year. The forecast expects to see a 5.7 per cent growth rebound in 2021. That said, there is an overhanging risk that the outlook will deteriorate if the growing number of infections seen in early autumn continue to accelerate resulting in full or partial lockdowns. There are additional concerns, too, including an escalation of the US-China technology war and the possibility of a no-deal Brexit on 31 December 2020.

INDUSTRIAL PRODUCTION, EUROPE



Sources: Macrobond, Business Sweden (2020)

EU GOODS EXPORTS, 2019



Sources: Eurostat, Business Sweden (2020)

BRIGHTER HORIZON FOR GERMANY, EUROPE'S GROWTH ENGINE

Germany has suffered from the pandemic just like the rest of Europe. Compared to the other major EU economies, however, the decline has not been as steep. Germany's relatively moderate and time-limited measures to stop the spread meant that lockdown was not as disruptive. The forward-looking indicators show signs of a robust recovery towards the end of 2020. In June, Chancellor Angela Merkel's government launched a new EUR 130 billion stimulus package with both permanent and temporary measures, including a reduction in sales tax which comes into force late this year.

Government measures have prevented unemployment from soaring, although the unemployment figure did rise from 5.1 per cent in March to 6.4 per cent in August. Nearly 7 million employees were furloughed in May and that number declines only slowly given the weak labour market. Loss of income, increased crisis savings and uncertainty about the economic future have dampened household demand.

The business community has entered a recovery phase. Markit's Purchasing Managers' Index climbed from a low of 17.4 points in April to 55.3 in July, and then fell back to 54.4 points in August. The sub-index for manufacturing was 52.2 for the same month. The German think tank Ifo's monthly business climate survey shows a similar trend, with the index rising sharply from April to near normal levels by the end of the summer – and then a flattening out in August. However, the analyst index ZEW indicated in September a continued strong recovery both in Germany and the euro area.

Production in Germany's export-oriented industry plummeted during the worst months of the crisis due to falling global demand. Despite ongoing recovery, production is expected to fall by almost 10 per cent this year. For the automotive sector, which is critical, the pandemic represents a major setback as companies struggle with costly investments to advance electrification and digital transformation.

Germany's GDP is expected to fall by 5.8 per cent in 2020, from a marginal 0.6 per cent growth in 2019. The forecast for 2021 is that Germany will see a 5.3 per cent GDP rebound with reinvigorated private consumption, investment and exports.

The situation in France is more gloomy. The country's hard lockdown in the spring led to a steep fall in economic activity, particularly as consumption levels plummeted. The subsequent rise in household confidence indicators stagnated in July and August. In July, President Macron launched a EUR 100 billion economic recovery package, but its ability to countervail the economic downturn has been thrown into question, with critics saying it came too late and lacked detail.

Investments in France are expected to fall by 14 per cent and exports by as much as 17 per cent for the full year. France's decline in GDP is expected to be as high as 10.1 per cent. Economic recovery in 2021 is expected to provide a 7.0 per cent boost in GDP, primarily driven by renewed steam in private consumption and healthy investment growth.

A NO-DEAL BREXIT AFTER ALL?

The UK economy is in a vulnerable position. With 42,000 deaths recorded from Covid-19, the country is the hardest hit in Europe, also illustrated by the fact that Prime Minister Boris Johnson himself fell ill with severe symptoms. The GDP decline of just over 22 per cent in the first half of 2020, compared to the second half of 2019, was the largest drop in Europe after Spain.

The UK government has rolled out stimulus packages in steps amounting to almost GBP 192 billion. Among the measures, the state covers 80 per cent of redundancy costs for 9 million employees in the business sector. Industrial production is expected to fall by 10 per cent for the full year, while investments will fall by just over 13 per cent. Exports are down by 11 per cent and imports are down by almost one-fifth, almost 18 per cent. The forecast for the United Kingdom is a GDP loss of 9.7 per cent this year, followed by strong growth of 8.5 per cent in 2021.

The pandemic has also meant that negotiations on the future relationship between the UK and the EU after Brexit have been downgraded and delayed. Negotiations have also hit stalemate on issues such as fishing and the UK's forthcoming state aid rules. An agreement needs to be negotiated by the beginning of November in order to be ratified by all parliaments before the transition period ends on 31 December 2020.

In Covid-19 stricken Italy, GDP is expected to fall by 9.7 per cent this year, while next year's forecast indicates a rebound with 6.1 per cent growth. Unemployment increased to 8.8 per cent in June, but may in reality be almost 15 per cent, counting furloughed workers and people who have left the labour market. The government's budget deficit is estimated to be 13 per cent this year, at the same time as the country's public debt rises to a high level of 160 per cent of GDP.

The Spanish economy is expected to shrink by 11.6 per cent in 2020 followed by an expansion of 6.6 per cent next year. Exports will fall by just over 20 per cent for the full year, largely due to the collapse of the tourism sector which is the most important exporter of services and alone accounts for 12 per cent of GDP.

MODERATE IMPACT IN EASTERN EUROPE AND THE NORDICS

The transmission rate for infections in Central and Eastern Europe has been significantly lower than in Western Europe and the lockdowns have been more limited in scope. Despite this, the region's reliance on the European export market – especially Germany – has dragged the economies down into full-blown crisis. Overall, the decline is nevertheless more moderate than in Western Europe, and the region is receiving extra support for its recovery given that Eastern European countries are some of the largest beneficiaries of the EU's new recovery package. It is worth noting, however, that the spread of infection picked up at an alarming rate toward the end of the summer.

Poland's GDP is expected to fall by 3.5 per cent this year, before expanding again by 4.7 per cent in 2021. In Hungary – the region's hardest hit country – GDP will fall by 6.2 per cent in 2020 though it is expected to bounce back by 6.5 per cent next year. The Czech Republic is expected to see GDP drop by 6.1 per cent this year followed by a 5.7 per cent increase in 2021. The recovery here is fuelled by private consumption, rising investment and an improving export market that will elevate the whole Central and Eastern European region.

The Russian economy is expected to shrink by 4.8 per cent in 2020, followed by a more modest expansion of 2.9 per cent next year. The recovery is underpinned by rising oil prices after they hit rock bottom in March.

Compared to the rest of Europe, the economies of the Nordic countries are recovering relatively well from the crisis. However, weak demand from the rest of the world is holding back a full recovery given that the Nordics are highly export-dependent. Sweden's GDP loss will be 4 per cent this year, after which growth will return and is expected reach 4.1 per cent in 2021 (for more see section on Sweden's economy). Denmark's GDP is expected to fall by 3.9 per cent this year, followed by a relatively rapid rise of 3.9 per cent next year. The faster pace of recovery can be partly explained by the fact that food and pharmaceuticals make up a large share of Danish exports, which are less sensitive to cyclical fluctuations in the economy. The Norwegian economy will shrink by 2.7 per cent in 2020 and increase by 2.6 per cent in 2021. Finland's economy will decline by 3.8 per cent this year, and the upswing next year will be 1.9 per cent.

ASIA

RECOVERING RAPIDLY

The trade disputes between the United States and China, as well as between Japan and South Korea, put a damper on sentiments in the global economy last year – which was already in a slowdown. Global trade growth was negative, just below zero, last year. For a region that is so heavily dependent on trade, adverse effects were inevitable. The region's GDP growth fell from 4.6 per cent in 2018 to 3.8 per cent in 2019. Most of the Asian countries witnessed a weakening economy last year and in many cases, especially in East Asia, the decline was linked to falling demand in China. The Chinese economy, which has been investment- and export-driven in recent decades, is being rebalanced to focus more on private consumption. This not only reduces total demand in the economy but, to a much greater extent, demand from abroad as import volumes are slightly lower for consumption than for investments and exports. This recalibration of the Chinese economy will also have a negative impact on the rest of the region.

This year's economic development is heavily defined by the pandemic and in several countries the GDP drop will be historic. Positive GDP growth can only be expected in a few countries such as China and Vietnam. The outbreak started in China but the country was also successful in its efforts to bring the virus under control at a relatively early stage. China's growth decline during the first half of the year was therefore more moderate than most analysts were expecting. While there are significant challenges, such as sluggish private consumption and demand from abroad, the recovery is expected to continue and the economy will gradually strengthen over the remainder of the year. GDP growth is expected to be 2.3 per cent this year and 7.6 per cent next year. Vietnam's positive growth figures are largely explained by its very successful efforts to combat the spread of infections which meant that restrictions could be lifted already on 23 April. However, GDP growth is still hampered by weak demand from the rest of the world.

The fact that China's economy looks set to improve in the coming quarters is good news for other countries in the region. Today, about half of total goods trade takes place with other Asian countries, with China as the growth engine. Small and open economies with a high export dependence such as South Korea, Singapore and Taiwan are greatly affected by developments in China, although larger countries such as Japan, Vietnam and Indonesia also have strong trade bonds with China. Looking ahead to when the pandemic enters a less acute phase and no longer paralyzes large parts of the global economy, developments in the US-China relationship will need to be closely monitored as this risks disrupting the region's economic development, as the trade dispute did in 2019.

The Asian economies have generally been moderately affected by the outbreak in public health terms (though India stands in stark contrast), but the economic consequences have nevertheless been significant. The adverse effects were partly caused by the adopted measures to limit the spread, but also by reduced demand from abroad. In addition, the Covid-19 crisis has hit exports in the Asian economies very differently. The large disparities seem to have resulted from varying export composition, price effects and supply constraints. In several Southeast Asian economies (e.g. Indonesia, Malaysia, Thailand and Vietnam) raw materials and energy exports make up a significant share of total exports, and the decline in demand has therefore greatly affected these countries. Recently, demand has picked up and so a certain level of export recovery can be discerned in these countries. In Northeast Asia, the nature of the manufacturing sector has also undoubtedly played a key role. In South Korea and Japan, which both have significant automotive industries, the effects were very noticeable when global vehicle sales plummeted in March. In Taiwan, on the other hand, which has a very small automotive industry, the effects were barely noticeable.

How successful countries have been in preventing the virus from spreading is obviously an important factor that accounts for the disparities in Covid-19 effects in Asia. In India and the Philippines protracted lockdowns have hampered exports, while Vietnam's relatively successful response and ability to keep production and supply chains intact facilitated better export performance.

Varying impact of the crisis on export of semiconductors in Taiwan and South Korea

Looking at certain segments in more detail is important to understand the disparities in how the crisis has affected Asian exports. Taiwan and South Korea – the largest exporters of semiconductors – provide a good case study. While Taiwan's exports of semiconductors have been relatively unscathed through the crisis, export levels in South Korea have notably dropped. The answer to this lies in the area of specialty in manufacturing. South Korea primarily manufactures chips for memory cards (DRAM, NAND), while Taiwanese semiconductor manufacturers focus on making chips for a wide range of applications (apart from chips they also make processors for smartphones, graphics, networks etc). Given that global sales of chips for applications other than memory cards have been significantly higher, Taiwan's exports have fared better in the crisis than South Korea's exports.

CHINA'S INVESTMENT-DRIVEN RECOVERY SET TO EXPAND DURING AUTUMN

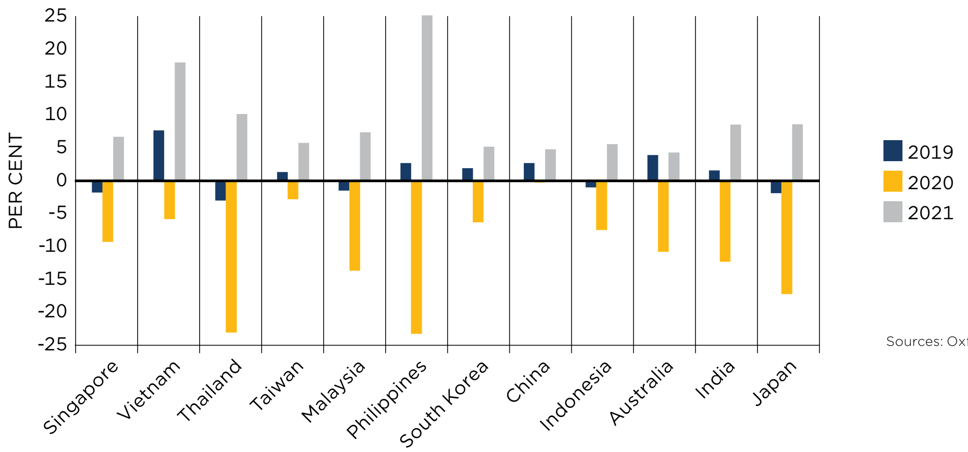
As far as can be determined, the outbreak of Covid-19 started in Hubei Province in China with the first case being reported in Wuhan on 31 December 2019. Until the end of March, China was the worst affected country both in public health terms and economic terms. The Chinese government also undertook strong measures to limit the spread of infection. Entry and exits were stopped in Wuhan – the regional capital of Hubei and the epidemic epicentre – as well as in 15 other cities in the province which is home to more than 60 million people in total. These measures were followed by partial lockdowns in 80 more cities including Beijing and Shanghai, China's two largest cities. In total, some 760 million people were affected by the measures. As a result, production in many parts of China came to a complete standstill over a couple of weeks and demand, private consumption and investment fell sharply. GDP shrank by almost 7 per cent year-on-year in the first quarter of 2020, the first negative growth figure recorded in China in the past 40 years.

In China's case, the strict measures appear to have been effective and the spread had more or less tapered off by early March. Society gradually began to open up and people returned to their workplaces. Confidence indicators, such as the Purchasing Managers' Index, fell sharply in February but recovered some of the fall already in March, and in May the index was even higher than before the crisis. This indicates optimism in the Chinese market. The fact that the economy turned around so early was reflected in the surprisingly healthy GDP performance in the second quarter. The recovery has so far been underpinned primarily by infrastructure and real estate investments. China's continuing recovery during the autumn is also seen as being mainly investment-driven, although household consumption is expected to pick up as the labour market strengthens. As the global economy and world trade gradually recover, export growth is also expected to improve during the autumn.

For the first time since China began its economic reform process in the late 1970s, it was decided at the National People's Congress meeting on 22 May that a growth target would not be set for 2020. By not explicitly stipulating a growth target, decision-makers can focus on promoting stability and security in key areas such as employment, the financial sector, food production etc. In addition to the long-term motives behind the reorientation of economic policy goals, the government also emphasised that setting a growth goal would risk conflicting with previous decisions to fight Covid-19 at any cost.

Economic policy is expected to support the recovery nonetheless. The initiatives launched so far include tax cuts, transfers to the household sector and infrastructure investments. Monetary policy has also contributed to recovery and, by all accounts, will continue to do so during the autumn, albeit to a lesser extent. On the whole, the weak growth for 2020 from a Chinese perspective is expected to be followed by strong GDP growth in 2021, including a very healthy recovery for household consumption and exports.

ASIAN EXPORTS, CONSTANT PRICES, ANNUAL CHANGE IN PER CENT



Sources: Oxford Economics, Business Sweden (2020)

RECOVERY LOSES STEAM IN JAPAN

By international comparison, the public health impacts in Japan have so far been relatively moderate. Despite this, Japan took strong action early on to curb the outbreak, and the state of emergency announced in mid-April was not lifted until the end of May. During the second quarter in particular, Japan's economy was burdened both by these measures and by weak demand from abroad. In June, a recovery trend was clearly noticeable, but frequent data indicate that the recovery abated already in July. This is likely to be explained by lingering concerns for new outbreaks. If not stalled, the recovery has at least lost momentum among some of Japan's most important trading partners including the United States and South Korea, which hampers the prospects for Japanese exports. This year, GDP is expected to shrink by 5.6 per cent and growth next year is expected to be modest at 2.6 per cent, a long way from recapturing pre-crisis levels in 2021. Judging by developments it may take until the end of 2022 before GDP is back at its pre-crisis level.

Household consumption, which was hit hard during the Covid-19 crisis, made an impressive recovery in June and retail trade largely returned to pre-crisis levels. However, various mobility indices (e.g Google summary indicator and Apple summary indicator) as well as Purchasing Managers' Index for services all levelled off in July, which indicates that the recovery has lost steam. On the other hand, unemployment has continued to decline in recent months, but the number of applicants per job vacancy has risen sharply. When government employment subsidies expire at the end of the third quarter, labour market conditions risk a severe deterioration, resulting in declining domestic demand. The resurgence of infections and the clear risk of reinstated restrictions on movement and activity obviously poses an additional threat to recovery.

In stepwise efforts, the Japanese government has launched extensive stimulus packages amounting to a total of 10 per cent of GDP in the spring. The measures include support for both households and companies and are likely to have helped mitigate the effects of the pandemic. If these are not followed by further measures, however, there is a significant risk that demand and the labour market situation will weaken when current stimulus packages expire. The Bank of Japan will most likely not change interest rates even if the economy continues to weaken. On the other hand, it is conceivable that they will continue to support corporate lending as well as purchasing government bonds, stock exchange funds and real estate funds. To date, the central bank's measures have not been sufficient to prevent inflation from declining in the second quarter.

There is no reason to believe that economic policy will change tack after the resignation of Prime Minister Abe, at least not in the near future. Abe's successor and close ally Yoshihide Suga will inevitably have to pursue a very expansionary fiscal policy to mitigate the negative economic effects of the pandemic. Even the more long-term economic policy that Abe pursued to get out of the secular stagnation, that has kept the Japanese economy in an iron grip for a couple of decades, will be difficult for Abe's successors to simply abandon. However, the country faces a major challenge with a public sector debt ratio that is among the highest in the world.

INDIA'S RECOVERY SPEARHEADED BY RURAL AREAS

India is one of the countries worst affected by the virus outbreak. In mid-September, India set a record for the highest number of new cases in a single day, with almost 100,000 cases. In total, there have been 5.5 million confirmed cases, which puts it in second place among the most affected countries, after the United States. Over 1,000 people a day die from confirmed Covid-19 and a total of 88,000 people have died since the outbreak reached India at the end of January. Initially, the death toll was relatively low in India, which experts said to have been due to under-reporting. But to the extent to which the figures can be considered representative, India's demography has also been highlighted. Compared to many other countries, India has a relatively young population. The fact that the death toll has nevertheless increased recently is said to be partly due to the fact that the virus has largely shifted from the large cities to the small towns and rural areas where healthcare capacity is significantly lower.

On March 25, Prime Minister Modi put all of India in a lockdown which was supposed to last three weeks, a measure that affected 1.3 billion people. The restrictions were far-reaching. No residents were allowed to leave their homes, all companies were ordered to close down, all transport was stopped. By the end of August, only 17 per cent of restaurants in the big cities were still open and schools, which have also been closed since March, are not expected to open any time soon.

The strict measures have so far hit India's economy hard and GDP is expected to fall by 10 per cent this year. Next year, GDP growth will be around 9.2 per cent. Although a gradual opening up of society led to a clear recovery of economic activity in the summer, a resurgence in the spread means that the economic outlook this autumn that does not look too bright. A possible sign that the recovery will not lose steam entirely is that, so far, it has emanated from rural areas rather than cities. Any reinstated lockdown is unlikely to hamper rural development to the same extent that it disrupts cities, given consumer patterns and sectoral structure (most people are employed in agriculture) and so the risk is lower.

The Indian economy has so far during the crisis not benefited from fiscal policy in any significant way. Unfortunately, the scope for comprehensive support packages appears to be very limited. Lending institutions such as Moody's and Fitch have downgraded the Indian economy and their outlook on the future of the Indian economy is quite bleak. It is therefore unlikely the Indian government will open the coffers and increase spending. In addition, the budget deficit will be substantial given the reduced tax revenues caused by the crisis, which of course also limits the scope for extensive fiscal expansion through discretionary measures. Any meaningful support via monetary policy does unfortunately not appear to be likely. Consumer prices have risen several months in a row, exceeding the Indian central bank's inflation target of 2–6 per cent, which will make it difficult to pursue an expansionary monetary policy.

THE ASIAN ECONOMIES ARE UNSYNCHRONISED

In most of Asia, decision-makers have adopted the strategy of strict lockdowns and extensive restrictions to curb the spread. This has affected both domestic demand and production capacity. The pandemic has also had a severe effect on travel and tourism, which has particularly burdened the services sector. A sharp drop in demand from other parts for the world has also hit many Asian economies hard. Supply chain disruptions have affected economic development during the first half of the year, particularly the first quarter.

Like elsewhere in the world, activity rebounded in June, but the recovery appears to have slowed in July. The Asian economies are moving at unsynchronised speed. The North Asian economies such as South Korea and Taiwan seem to be (apart from China) the countries moving fastest towards pre-crisis levels. Indonesia and the Philippines, on the other hand, seem to be facing a much longer road ahead. Singapore, Thailand and Malaysia are somewhere in between.

In South Korea, the recovery in the coming quarters is expected to be largely driven by private consumption, supported by fiscal stimulus, and by exports benefiting from the improved situation in China. In Taiwan, Singapore and the Philippines, the recovery appears to be primarily investment-driven. Looking specifically at the Philippines, the recovery is largely underpinned by public construction investment. In Thailand, the recovery is largely driven by private consumption supported by major fiscal policy initiatives.

Domestic imbalances will hamper the recovery in several Asian countries. Both private and public debt have increased as a result of steady growth and low interest rates. Countries such as South Korea and Malaysia have high household indebtedness, 99 and 83 per cent of GDP, respectively. This high level of debt increases sensitivity to interest rate hikes and risks crowding out other expenses such as private consumption. In Japan, government debt is expected to reach an almost unimaginable 240 per cent of GDP this year, and the debt ratio is expected to increase slightly further next year before abating.

The debt level among non-financial corporations in China has risen sharply over the past decade, gradually approaching 160 per cent of GDP. Public debt is still at a manageable level, close to 50 per cent as a share of GDP, but is increasing at an alarmingly high rate and is expected to reach just over 75 per cent of GDP in 2024, not considering the Covid- 19 crisis[2].

EXPORTS' SHARE OF GDP, %, 2018	
Singapore	178
Vietnam	84
Malaysia	69
Taiwan	67
Thailand	65
South Korea	42
Philippines	30
Australia	23
Indonesia	21
India	19
China	19
Japan	19

Note: Some countries have exports exceeding 100 per cent of GDP due to high import figures. Imports affect GDP negatively.
Sources: Oxford Economics, Business Sweden (2020)

NORTH AMERICA

CASTING OFF THE PANDEMIC

The battle against coronavirus has dominated the political and economic agenda in the United States, Canada and Mexico since the beginning of the year.

With 6.7 million people infected and 200,000 dead, the United States is the worst affected country worldwide. The outbreak first had its epicentre in New York City and then gradually shifted to other parts of eastern and western United States, only to gain momentum in the even more vulnerable southern states which have a greater proportion of poverty and poorer public health. Initially concentrated to urban areas, the outbreak has reached many rural areas where the average age is higher and public health levels are lower. As such, infection rates have increased in states such as North Dakota, Oklahoma and Wisconsin. Overall, the US nursing homes are most vulnerable and account for up to 40 per cent of deaths.

It became clear early on that the United States was in a vulnerable position. The country's federal system means that measures to combat the virus are largely decided and implemented at the state or local level, which complicates a unified national policy response. The situation is compounded by difficulties in coordinating messaging and measures between the many public and private healthcare providers, nursing homes and the education system.

The delayed action by President Trump and his government and the politicisation of the pandemic are further aggravating factors, where the upcoming presidential election also plays a role. The debate over the use of masks in public spaces divided Democrats and Republicans and the polarisation was reflected in the different responses in different states. In April, both Republican and Democratic governors issued quarantine rules for entry from other states. Republican governors, however, were consistently more sceptical of other measures to limit infections and tended to open up more quickly, even as they faced clear evidence of increasing transmission.

The spread of coronavirus is nonetheless declining in the US. From a peak of 70,000 cases per day at the end of July, the daily figure was 50,000 cases in mid-September. The number of deaths per day has decreased from just over 1,000 to 800 during the same period. During the peak at the end of April, more than 2,000 people died per day. New infections are still widespread but have entered the lower age groups, putting less strain on healthcare.

In Canada, more than 130,000 people have tested positively and 9,000 people have died.

At the start of the outbreak in mid-March, Prime Minister Justin Trudeau's government decided on a strict lockdown and quarantine rules for entry into the country. The restrictions were gradually lifted later in the spring. The infection rate dropped sharply during the summer and so did the number of deaths per day.

With 73,000 deaths in mid-September, Mexico is the fourth most affected country in the world (in terms of deaths). Both the number of new cases and deaths per day are declining, but from high levels.

FREE TRADE AGREEMENTS AND FRICTION

North America's new free trade agreement USMCA (United States-Mexico-Canada Agreement) entered into force on 1 July after being ratified by the US Congress in February and by Canada in March. Mexico ratified the agreement as early as June 2019. The agreement replaces the previous free trade agreement NAFTA.

The USMCA is a milestone for President Trump as Democrats and US unions were initially opposed to the agreement. After ratifying the agreement Mexico was forced into concessions related to labour laws, in order to meet Democrat demands in the US Congress. Canada's and Mexico's willingness to oblige the United States should be seen in the light of the fact that three quarters of their exports of goods go to the US market.

The bilateral trade exchanges between Canada and Mexico are very small. Just over one per cent of Canada’s exports go to Mexico, which in turn sends just 3 per cent of its exports to the Canadian market.

The political relationship between the United States and Canada remains tense. Trudeau chose not to attend the official launch of the USMCA, which was attended only by Trump and Mexican President Andrés Manuel López Obrador (AMLO). In early August, Trump announced that the United States would impose 10 per cent punitive tariffs on imports of Canadian aluminium, to which Canada immediately responded with punitive tariffs on U.S. aluminium products. The countries are in a dispute over the detainment of a senior official of the Chinese telecom company Huawei, currently held in Canada, for whom the United States is seeking extradition. Trump has also criticised Canada for not honouring its financial commitments to NATO, the military alliance.

Relations between the United States and Mexico, on the other hand, improved during the year. Trump has toned down his rhetoric around the infamous border wall with Mexico. President AMLO has complied with US demands to increase efforts to prevent Central American refugees to enter the United States via Mexico.

North America's GDP is expected to fall by 4.1 per cent in 2020 and then recover with a growth of 4.0 per cent in 2021.

GROWTH AMID UNCERTAINTY

The pandemic hit the US economy after a long period of steady growth. A slowdown in the economy was nevertheless noticeable already at the end of last year with weak development in industrial production, largely driven by stagnant exports and a declining rate of investment.

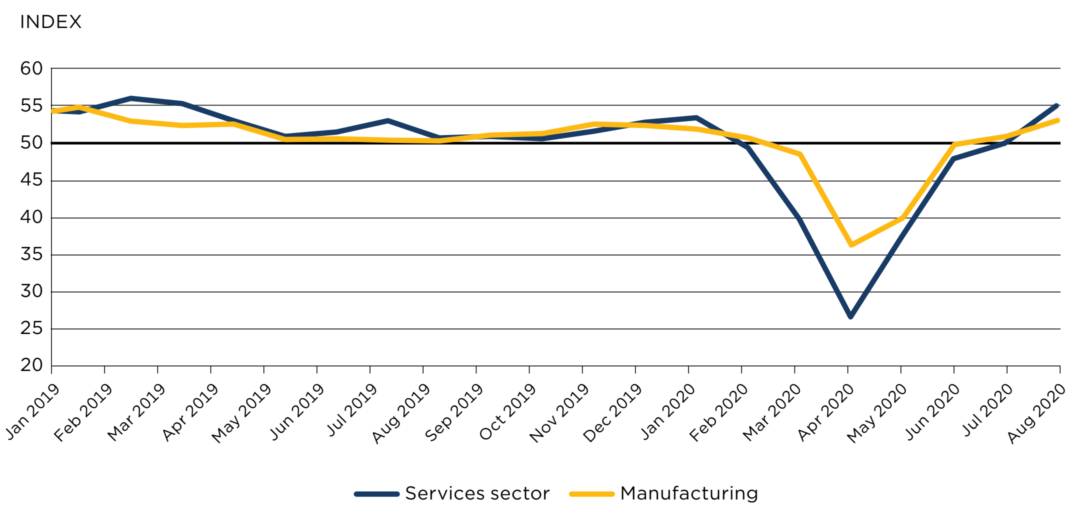
On 21 January, the first case of Covid-19 was confirmed in the United States. On March 13, Trump declared a national emergency due to the rapid spread. By that time, the effects of the pandemic – initially supply chain disruptions and then a dramatic fall in demand – had already stalled the US economy. The number of newly registered unemployed amounted to 6.6 million during the week ending March 28, a peak that can be compared with 670,000 registered new unemployed in the worst week of the global financial crisis.

On March 27, Trump signed The CARES Act (Coronavirus Aid, Relief, and Economic Security), a USD 2,000 billion aid package, equivalent to 10 per cent of US GDP. The support package included direct federal payments in the form of checks of USD 1,200 for adult low- and middle-income earners and USD 500 per child. Unemployed people were entitled to a benefit of an extra USD 600 a week over an extended period of time, which also included an estimated 15 million freelancers and people working in the "gig economy". In addition, the measures included USD 350 billion in government-guaranteed loans to small businesses and USD 500 billion in aid to affected businesses, as well as an additional USD 100 billion in aid to hospitals at the frontline of the epidemic.

The US Federal Reserve lowered the interest rate by 100 points to 0–0.25 per cent at a special meeting held on March 15. The Fed also announced future purchases of USD 700 billion in securities while lowering bank reserve requirements to 0 per cent. On April 9, the Fed announced that it would increase lending by up to USD 2.3 trillion to support businesses and households.

Congressional Republicans and Democrats left Washington for summer break without agreeing on a second support package for the economy, in a situation where the extra income support for the unemployed was phased out at the end of July for over 30 million Americans. The gap between

PURCHASING MANAGERS' INDEX, USA



Note: >50 indicates expansion, <50 indicates contraction.
Sources: Macrobond, Business Sweden (2020)

the parties' respective proposals is likely to be too wide – the Republicans have proposed USD 1,000 billion and the Democrats USD 3,000 billion – for Congress to be able to approve before the presidential election on 3 November.

In August, President Trump launched the Lost Wages Assistance programme bringing an additional USD 400-a-week unemployment benefit, where states are expected to put up 25 per cent of payments. It is unclear whether the financing will work as state finances are already under heavy strain from lost tax revenues.

The American labour market is once again flexing its dynamic qualities and has developed significantly better than expected during the summer. Unemployment reached 8.4 per cent in August after a peak of 14.7 per cent in April. The employment growth primarily took place in retail, in business services and the leisure and hospitality industries, which reflects the fact that activities and consumption among households and businesses are beginning to return to normal.

The Purchasing Managers' Index increased from 27.0 in April to 55.4 in August, where the sub-index for the services sector reached 55.0 and manufacturing 53.1. Although the recovery continued over the summer, it lost some momentum during July and August.

The forecast for the US economy has been gradually adjusted upwards during the year, in line with a more positive development than expected, not least in the labour market and in terms of disposable income of households.

The US GDP loss is expected to remain at 3.7 per cent during a 2020 which has been fraught with dramatically declining and then rising domestic demand. The so-called Phase 1 agreement, which was signed in January between the United States and China with a view to improve the countries' trade relations, is considered by both parties to be a success. Exports are still expected to plummet by almost 14 per cent this year. Next year, the US economy is expected to grow by 3.7 per cent in an accelerating expansion, with private consumption and investment as the main drivers.

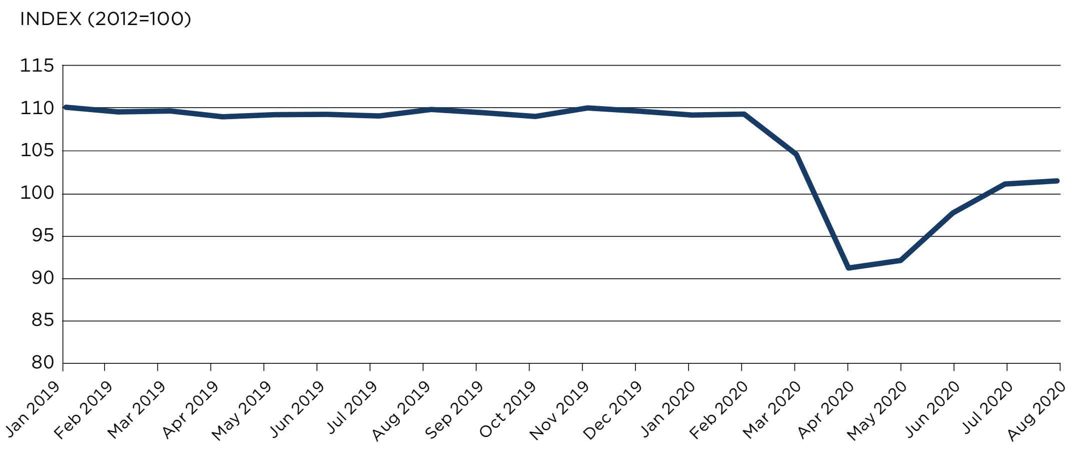
WITH AND WITHOUT CRISIS PACKAGES

The heaviest burden for Canada's economy is the sharp decline in private consumption. Canada lost 3 million jobs between March and April, though 1.7 million were regained as the labor market recovered. Investments are falling and industrial production and exports are feeling the effects of declining demand in the United States.

The government's crisis package amounts to a total of CAD 300 billion, with government wage subsidies and increased unemployment benefits being key components. Despite the public stimulus, the economy is expected to fall by 5.1 per cent this year, and then rise by 6.2 per cent in 2021.

Mexico's services sector is faltering under the government's travel restrictions and calls for social distancing. Private consumption is falling sharply and both industry and exports are suffering from weak US demand. However, the ongoing US recovery is expected to boost the Mexican economy in the second half of the year. The government's reluctance, however, to support the economy with public stimulus weakens the recovery. Mexico is expected to see a sharp fall in GDP of 8.9 per cent this year, followed by an increase of 5.3 per cent in 2021.

INDUSTRIAL PRODUCTION, USA



Sources: Macrobond, Business Sweden (2020)

BRAZIL – A CASE OUTLIER

Brazil has the third highest rate of infection in the world following the US and India, so far with 4.5 million confirmed cases by mid-September. By number of deaths – almost 140,000 – Brazil is the second worst affected country after the United States. In contrast to how most countries have responded, the controversial President Bolsonaro and his government have decided not to adopt any specific measures to curb the spread. With the support of the Supreme Court, Brazil's 26 states have instead led efforts to maintain social distancing and coordinate healthcare needs.

Despite this, the government's popularity has increased with the launch of an exceptionally large economic stimulus package. Just over a third of households with the lowest incomes have received direct financial support from the government – corona vouchers – in a programme that will remain until year end. Household income and consumption have been sustained, but question marks remain over how the support package should be financed.

An already large structural budget deficit is expected to increase to a massive 18 per cent and government debt to rise above 90 per cent of GDP. Brazil's GDP loss is expected to be 4.6 per cent this year, after which the economy will rebound and expand by 3.9 per cent in 2021.

On the heavily affected South American continent, Venezuela's economy is in free fall. Argentina and former fast-growing Peru are recording a double-digit percentage decline in GDP for the year. The growth forecast for South America is a GDP loss of 7.1 per cent in 2020, followed by a rebound with 5.5 per cent growth in 2021.

APPENDIX

COUNTRY	Swedish goods exports, current prices			GDP growth, constant prices, %			Inflation (CPI), %
	Exports 2019, SEK bn	Change 2018–2019, %	Share of Swedish exports 2019, %	2019	2020f	2021f	2019
Europe							
Sweden				1.3	-4.0	4.1	1.8
Denmark	105.7	5.7	7.0	2.3	-3.9	3.9	0.8
Estonia	12.9	4.9	0.9	4.9	-3.2	5.5	2.3
Finland	107.9	7.0	7.1	1.1	-3.8	1.9	1.0
France	61.7	-0.7	4.1	1.5	-10.1	7.0	1.1
The Netherlands	79.9	-5.7	5.3	1.6	-4.8	3.6	2.6
Italy	41.7	3.3	2,8	0,3	-9,7	6,1	0,6
Latvia	5.1	8.9	0.3	2.2	-5.2	6.4	2.8
Lithuania	10.9	10.9	0.7	3.9	-1.5	4.1	2.3
Norway	162.4	7.1	10.7	1.2	-2.7	2.6	2.2
Poland	49.0	1.7	3.2	4.2	-3.5	4.7	2.2
Russia	21.9	9.6	1.4	1.3	-4.8	2.9	4.5
United Kingdom	82.2	0.5	5.4	1.5	-9.7	8.5	1.8
Czech Republic	12.8	4.3	0.8	2.3	-6.1	5.7	2.8
Germany	159.8	1.8	10.6	0.6	-5.8	5.3	1.5
Spain	30.4	1.3	2.0	2.0	-11.6	6.6	0.7
Americas							
USA	120.9	23.4	8.0	2.2	-3.7	3.7	1.8
Brazil	9.5	18.8	0.6	1.1	-4.6	3.9	3.7
Chile	3.8	6.5	0.2	1.0	-5.4	5.0	2.3
Colombia	1.3	29.7	0.1	3.3	-8.4	6.2	3.5
Canada	11.6	5.6	0.8	1.7	-5.1	6.2	2.0
Mexico	7.4	16.4	0.5	-0.3	-8.9	5.3	3.6
Asia, Oceania							
Australia	17.6	1.3	1.2	1.8	-4.3	2.0	1.6
India	12.8	1.5	0.8	4.9	-10.0	9.2	3.7
Indonesia	3.6	-15.3	0.2	5.0	-2.7	5.7	2.8
Japan	25.0	12.7	1.6	0.7	-5.6	2.6	0.5
China	71.6	6.8	4.7	6.1	2.3	7.6	2.9
Malaysia	3.2	8.4	0.2	4.3	-6.2	6.5	0.7
South Korea	14.1	-2.3	0.9	2.0	-1.0	2.9	0.4
Thailand	4.6	10.7	0.3	2.4	-6.6	5.1	0.7
Taiwan	4.9	4.7	0.3	2.7	0.0	2.6	0.6
Vietnam	1.9	7.9	0.1	7.0	2.3	8.0	2.8
Middle East, Turkey and Africa							
United Arab Emirates	8.8	63.4	0.6	1.7	-8.5	3.3	-1.9
Saudi Arabia	8.8	10.0	0.6	0.3	-6.1	4.0	-2.1
South Africa	8.5	10.2	0.6	0.2	-9.2	5.4	4.1
Turkey	13.1	-7.9	0.9	0.9	-4.1	5.0	15.2

Sources: Statistics Sweden, Oxford Economics, Business Sweden (2020)

END NOTES

1 See Business Sweden's report "Sweden's exports in the eye of the storm" (2020).
2 In IMF's latest forecast from April 2020 certain variables were left out, including public debt, in light of the substantial uncertainty around the pandemic's development.

2020 379 ENG

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