One Year After the Pandemic Struck, Global Economy About to Boom

The reversal in fortunes will benefit all regions of the world, forecasters say.

By Tim Smart April 13, 2021

AFTER SUFFERING THE worst downturn since World War II, the global economy is poised for a synchronized recovery the likes of which has not been seen since 2017.

Led by the United States, which is expected to see a rate of growth not experienced since the heydays of the mid-1980s, all regions of the world are projected to see significant improvements from the pandemic-driven dive they took in 2020.

"World economies rarely move in lockstep," Morgan Stanley noted in its global economic forecast published in December. "In fact, a synchronous global recovery, where growth in both developed and emerging markets accelerate in the same year, has happened only a dozen times over the past 40 years – the last in 2017."

The bank is forecasting a 6.4% increase in global gross domestic product this year. In the United States, the estimate is for 5.9% growth, while the eurozone will come in at 5%, the United Kingdom at 5.3%, Japan at 2.4%, China at 9% and India at 9.8%.

The reversal of fortune is staggering given the depths to which the global economy plunged a year ago, the result of many countries essentially closing their doors in the second quarter as the coronavirus raged across continents. "Second-quarter GDP growth turned negative for every one of the 37 countries in the OECD (Organization for Economic Cooperation and Development)," Goldman Sachs said in January. "More broadly, 86% of the nearly 200 countries for which the IMF (International Monetary Fund) has released updates are expected to see their GDP decline in 2020."

And the virus will leave lasting scars. As of February, about 10 million people remain unemployed in the U.S., and women's participation in the labor force dropped 2 percentage points from February 2020 to February 2021. Meanwhile, the Pew Research Center reported in March that the global middle class likely lost 54 million people while the ranks of the poor grew by 131 million on account of the pandemic.

Still, the speed of the recovery will likely be equal to the speed of the decline, Goldman Sachs noted, with every one of the OECD countries posting positive GDP in the third quarter.

The Recession Was Not a Normal One

Two reasons account for this turnaround. One is that the recession brought on by COVID-19 was not a financial crisis or the result of economic imbalances, as many prior recessions were. The other is the sheer scope of the governmental response was unprecedented. Globally, monetary and fiscal stimulus – ranging from central banks cutting interest rates to near zero levels and pumping cash into their economies through the purchases of government securities to trillions of dollars in direct payments made to residents – totaled $21 trillion last year, according to Goldman Sachs. That is roughly equal to the entire GDP of the U.S., the world's largest economy.

In April, the IMF raised its forecast for global GDP growth to 6% from its prior estimate of 5.5% issued in January.

"Even with uncertainty about the path of the pandemic, a way out of this health and economic crisis is increasingly visible," Gita Gopinath, the IMF's chief economist, said in a press briefing last week. "What we are seeing is multi-speed recoveries around the world."

Gopinath noted the rosier forecast is largely the result of improved outcomes for the world's most advanced economies, noting though that "recoveries are diverging" among and between countries.

World Economies Will Diverge on Path to Pre-Pandemic Prosperity

While most economies will return to their pre-pandemic levels this year or by early 2022, gains will be spread unevenly. "At one end of the spectrum is the Chinese economy, which is already bigger compared to its pre-pandemic size," PwC Senior Economist Barret Kupelian wrote in January. "On the other end are mostly advanced economies which are either service-based (U.K., France, Spain) or more focused on exporting capital goods (Germany, Japan) and are unlikely to recover to their pre-crisis levels by the end of the year."

Although most of the advanced economies resorted to fiscal stimulus and easy credit to stem the effects of the coronavirus, the particular nature of the politics and social policy of some countries produced divergent outcomes. In the U.S., with its more flexible labor markets, a lot of pain was felt by workers as unemployment hit a record high 14.8% last April. That became a main focus of the Federal Reserve Board and Congress.

"That flexibility creates 'yo-yos' in production and employment," Julia Friedlander, deputy director of the GeoEconomics Center at The Atlantic Council, said last month. That required the U.S. to spend aggressively to prop up the labor market. "That's not the case in Europe, where furlough schemes have kept employment stable."

President Joe Biden is trying to bring the U.S. closer to having a more robust social safety net – including an expanded child tax credit in his American Rescue Plan and proposals like free community college, universal pre-kindergarten and a national paid leave program coming later this year.

After four years in which the U.S. retreated from the world stage and even withdrew from key global organizations, Goldman Sachs said that one theme for 2021 is U.S. economic preeminence. That is "supported by economic strength, abundant natural resources, human capital advantages, and a vibrant, innovative and efficient private corporate sector."

Although Goldman and others do see inflation ticking up, they believe the slack in the labor market and reduced capacities in some key industries will present powerful headwinds.

In the eurozone, Goldman sees Germany outperforming early given its strong industrial base and a pickup in global trade, while France, Italy and Spain lag until catching up later in the year. Aiding Europe is the similar low inflation picture found in the U.S., along with expansionary fiscal policy in the form of aid to workers and loan guarantees to the private sector. "Taken together, these elements imply that eurozone GDP will grow at an above-trend pace of 4.6% this year."

Then there's the U.K., which saw its GDP drop around 11%, the sharpest annual decline in 300 years. And the country is struggling with its post-Brexit future, which has hampered exports and some cross-border services.

Then there's Asia. Japan is likely to benefit from its traditional prominence in exports of electronics and industrial machinery as global trade gathers strength. China, where the coronavirus first surfaced, recovered the quickest and its economy actually returned to pre-pandemic levels last summer. "Our projection for 2021 is for Japan to experience its strongest growth in more than a decade as businesses significantly ramp up overall production to meet the global demand for cars, electronic goods and capital equipment," says **Bernard Baumohl, chief global economist at The Economic Outlook Group.**

Emerging markets, meanwhile, enter 2021 with momentum, having learned lessons from past crises and quickly moving to provide fiscal and monetary stimulus. The strong recovery in the world's largest economies "will provide a tailwind for emerging market exports," Goldman Sachs predicts.

So, what could go wrong?

Well, as always, geopolitical concerns abound with China's rising presence both militarily and economically. Relations among key players, such as between the U.S., Russia and China, could destabilize markets. Inflation, despite the best guesses of forecasters, could surprise to the upside And there is always the possibility of another virus, or variant of COVID-19, catching fire.

Still, given some of the most pessimistic assessments of the virus's effect on the economy that surfaced early on, 2021 is looking a whole lot better than 2020.

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