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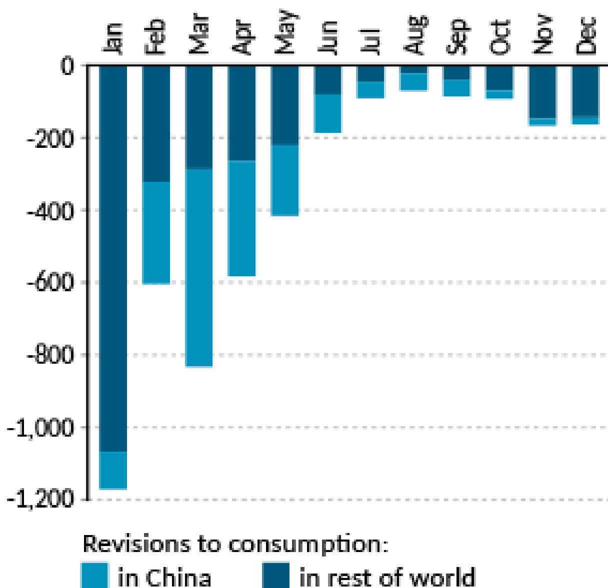
Macroeconomics: clear risks to global growth in 2020

Across the world, there are signs that global trade tensions are easing: the US and China have signed "Phase One" of a trade agreement, which – importantly – avoids further escalation of the almost two-year trade war between the two countries (although on the downside, it also leaves most tariffs in place); the new United States – Mexico – Canada deal has passed into law in the US, with only Canada left to approve it; and a hard Brexit was avoided.

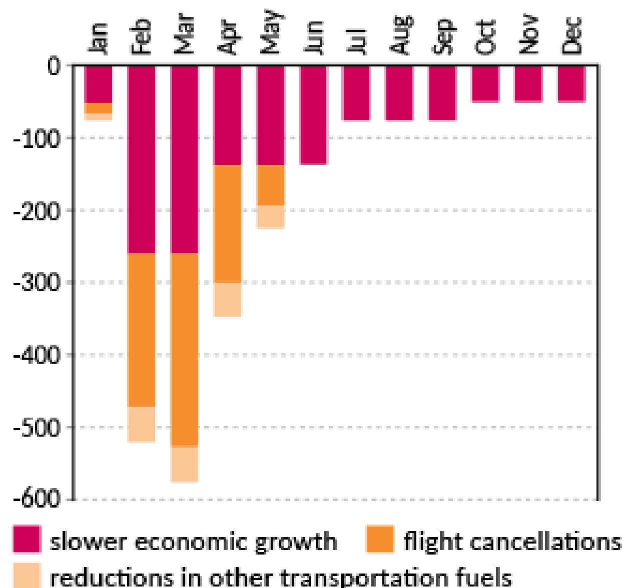
These developments have helped push global growth projections for 2020 up to 3.3%, from just 2.9% in 2019 – the lowest figure since the global financial crisis. Growth in 2019 was heavily affected by the trade war and is part of the explanation for the percentage point drop in the International Monetary Fund's (IMF's) projection for 2018, from 3.9% in its January 2019 World Economic Outlook to the 2.9% in its latest report.

These projections were published before the coronavirus (COVID-19) outbreak, and BIMCO therefore expects a adjustment downwards in the next update. The longer the outbreak remains uncontained, the larger the expected drop in growth, the knock on effects of which will be felt by industries across the world.

Revisions to global petroleum consumption forecast (2020)
Thousand barrels per day



Coronavirus-related changes to China petroleum consumption (2020)
Thousand barrels per day



Source: BIMCO, US Energy Information Administration

Europe

Germany's Purchasing Managers' Index hit an 11-month high of 45.3 in January and, although this still represents a reduction in manufacturing activity, it continues a trend of slowing contraction. Export orders for goods have also continued to decline, although in January they posted the smallest fall in more than a year. The downturn is, in particular, being driven by a poorly performing car industry, whereas the rest of the economy is faring better; the German government forecasts growth of 1.1% this year, up from 0.6% in

2019. This higher growth is supported by easing trade tensions, greater government investment and growing domestic demand.

Structural changes in the car manufacturing sector, including new emissions standards, have seen producers invest heavily in new technologies on the one hand, while low international demand for German cars has meant production figures falling to 4.7 million – the lowest for more than 20 years, and 9% down on those of 2018.

Now the UK has left the EU, the next round of negotiations to determine the future trading relationship between the two entities can start in earnest. The UK government has set a tight deadline for an agreement to be reached by the end of the year, potentially limiting the scope of any deal and harming trade between the two. The IMF forecasts UK growth of 1.4% in 2020 and 1.5% in 2021, but these figures are dependent on a smooth and gradual transition into the country's new trading relationship with the EU27. In 2018, 45% of total UK exports went to the EU and 53% of imports came from the bloc, so it is clear these negotiations are critical to the UK economy.

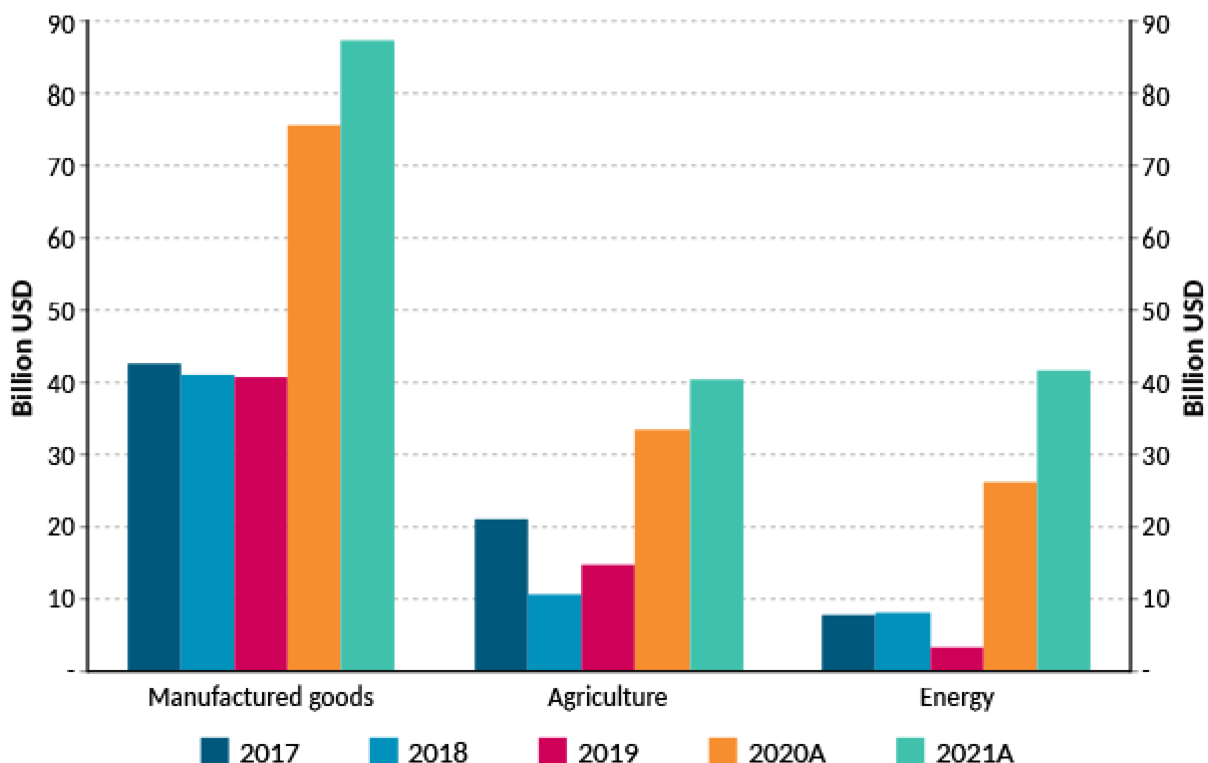
Growth in France slowed overall in 2019 to 1.2%, with a fall recorded in the Q4 figure, as strikes over pension reform affected transport, investment and manufacturing. Both imports and exports fell, with inventory being used up rather than new goods produced to meet demand.

US

Real GDP increased by 2.3% in 2019 – a deceleration of growth compared with 2018 (+3.1%) – as the 2017 tax cuts failed to sustain the growth levels the White House had expected. The slowdown comes as a result of lower investment, which fell from growth of 5.1% in 2018 to 1.8% in 2019, in part caused by the trade war with China. More directly, trade has suffered. The year saw little or no growth in goods, with exports up just 0.2% – a similar figure to imports. This compares with 4.3% growth in 2018.

The US will hope to see its exports grow in 2020 and 2021, as a result of its "Phase One" agreement with China. The deal sets out a list of commodities that China has agreed to buy more of from the US to reduce its trade surplus with the country. The goods detailed are manufactured, agricultural and energy related, with each sector set to get a boost from increasing exports. However, it may be the case that, instead of total exports increasing, overall volumes of US exports remain static, with the share to China increasing. While this would deliver a boost to shipping because of the longer sailing distances, it could limit the positive impact on highlighted sectors.

For its part, the US halved tariffs (from 15% to 7.5%) on USD 112 billion dollars of goods, which were implemented in September 2019, and cancelled tariffs on USD 160 billion of items, scheduled to take effect in December 2019.



According to the deal, exports of some items are set to more than double in 2020 and 2021, compared with 2017 figures. There are, however, limits on how much China can boost its imports without growing demand. Some of the extra imports may head straight to government reserves, but BIMCO remains sceptical of China's ability to increase its imports sufficiently, as well as the US' ability to deliver.

Asia

GDP growth in China fell to 6.1% in 2019 – still within the Chinese government's 6%-6.5% target – after expansion slowed to 6% in the fourth quarter. Economic growth in China has been slowing in recent years, although adding 6% on top of the world's second largest economy, still represents a big expansion, a bigger expansion, in fact, in real terms than the higher growth rates of earlier in the decade.

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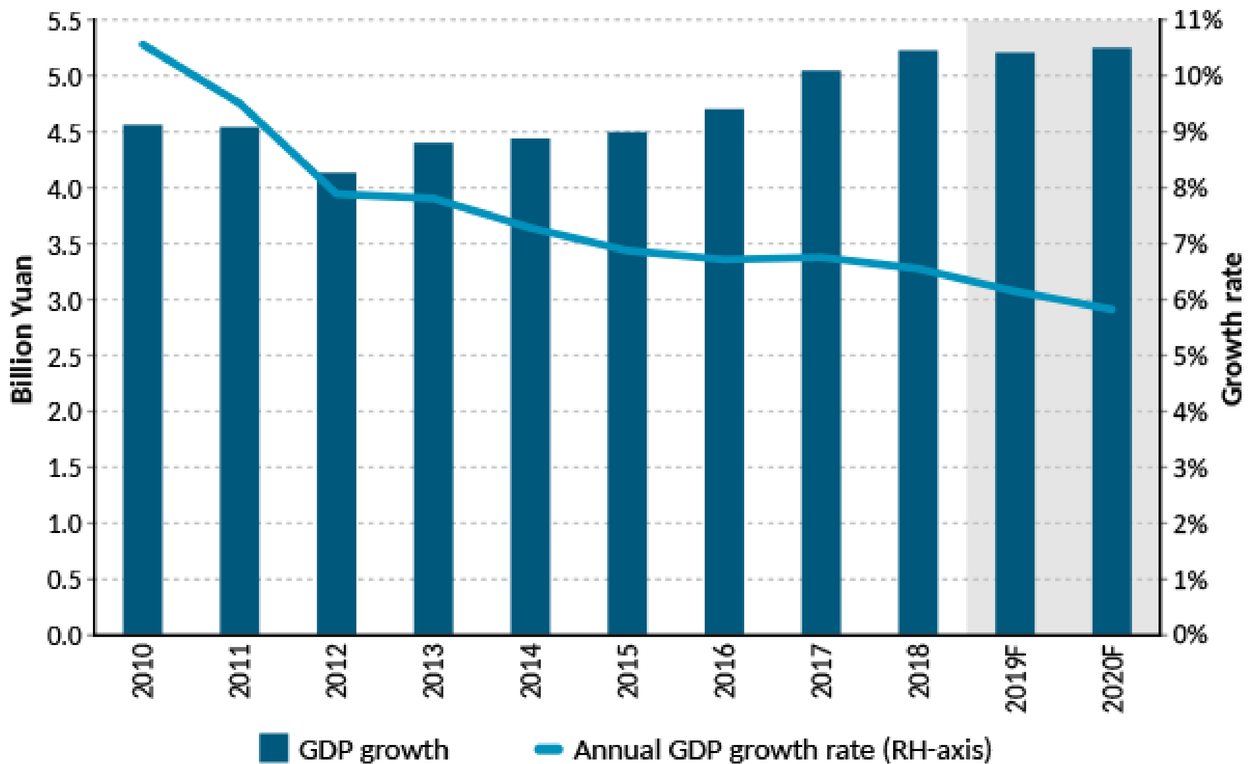
Chinese GDP growth in constant prices

2010-2020F



Source: BIMCO, IMF

Note: Based on data from WEO October 2019.

BIMCO expects that when the official growth target is announced it will be lower than the 6% the government had been considering before the coronavirus outbreak. The virus also casts further doubt on China achieving its goal of doubling the size of its economy between 2010 and 2020, something that was already looking doubtful. Based on IMF data, China needs growth of 6.2% in 2020 to achieve its stated aim.

The extension of the Chinese Lunar New Year holiday in an attempt to limit the spread of the virus, and limits on inter-city travel that prevented workers returning home from holidays in the west of the country, has had a marked impact on the Chinese economy, including its industrial production.

The shipping industry has already had to cope with delays in Chinese ports and in other countries as quarantine measures have been imposed. Furthermore, the industry will be hit by lower trading activity in China. The Chinese government will need to initiate far-reaching stimulus measures to counteract the economic effects of the virus once it has been contained. China has already halved tariffs, from 5% to 2.5%, on USD 75 billion worth of imports from the US, originally implemented in September 2019.

Other countries in the region, such as Japan and South Korea – both of which saw low growth in 2019, with Japan’s falling by 6.3% in Q4 2019 on an annualised basis – could feel the knock-on effects of the coronavirus crisis. It has the potential to harm both countries’ exports and disrupt supply chains, given the interconnectedness of manufacturing in the region.

The Indian economy has experienced a marked slowdown in economic growth. After 6.8% growth in 2018, the IMF estimates that it fell to 4.8% in 2019. The government plans to introduce a range of stimulus measures that the IMF expects to boost growth to 5.8% in 2020. The projection for this year has been revised downwards by 1.2 percentage points between the October 2019 and January 2020 editions of *World Economic Outlook*, reflecting a slowdown that is more pronounced than expected.

Outlook

Strengthening global growth could be derailed by a range of factors this year. The coronavirus threatens not only the Chinese economy, but potentially that of the entire world. With factories and offices closed for prolonged periods, it could also affect the "Phase One" agreement between the US and China, especially if China finds itself unable to increase its imports from the US by the amounts detailed in the deal.

Compared with 2003, when China was faced with the threat of the SARS virus, its economy has expanded enormously and is much more connected with the rest of the world. Back then, China accounted for just 7% of global imports by volume; by 2019 its share was 22%. Significant disruption to the world's second-largest economy now has a knock-on effect on the rest of the world, given China's substantial presence in global trading. Dry bulk and tanker trades are directly affected by a lowering of Chinese demand and, given the importance of Chinese imports, disruptions to these segments will affect the entire market. While demand for containerised exports out of China depend on other countries, the prolonged shutdown in the country's manufacturing sector limits its ability to meet this demand, thereby harming the containerised shipping sector.

The possibility remains of a further escalation in trade tensions. The majority of tariffs between the US and China remain in place and, as we have seen previously, relationships can quickly turn sour. BIMCO believes it is highly unlikely that a deeper trade deal addressing the underlying problems the US has with China, will be negotiated seriously before the US presidential election in November.

In addition to the US-China trade war, there are mounting concerns about a potential battle between the US and the EU. France has recently – and narrowly – avoided having tariffs slapped on some of its exports after postponing plans for a digital tax, which would primarily hit the large American tech companies. Other European nations, as well as Canada, are also considering a similar tax and, despite being US allies, could all face retaliatory tariffs.

For shipping, the fact that tariffs have become a go-to weapon for the current US administration creates a risk of slowing tonne-mile demand growth. Unless alternative trading partners can be found – which becomes increasingly hard, the more countries on which you impose tariffs – the volumes may be lost completely. This would slow exports of the affected goods and potentially any imports used in their production process.