In 2020, global economic activity is forecast to fall by 4.4% due to COVID-19. If containment measures are gradually relaxed over the outlook period, economic growth in 2021 is forecast to recover to 5.2%.

Risks: Containment measures lingering, subsequent waves of COVID-19, potential medical breakthroughs, and resurfacing trade tensions.
Summary

- The COVID-19 pandemic, and subsequent containment measures, have significantly affected world industrial production and economic growth. The IMF assumes that the recovery will be unsteady and uneven across economies. The rollout of an effective vaccine will be influential.
- The economic downturn has been limited by significant stimulatory policies. Governments have imparted fiscal stimulus to support businesses and workers, while central banks around the world have pushed down official interest rates and bought large amounts of debt.
- The IMF expects that world economic activity contracts by 4.4 per cent in 2020, before growing by 5.2 per cent in 2021 and 4.2 per cent in 2022.

Global economic outlook

The IMF is forecasting a contraction in the world economy of 4.4 per cent in 2020, as COVID-19 containment measures negatively affect economic activity. This forecast is less pessimistic than the 4.9 per cent decline in the IMF’s previous release in June 2020. This revision reflects June quarter economic activity declining by less than expected in many advanced nations, and June quarter Chinese economic growth surpassing expectations. Nonetheless, the economic recovery from the COVID-19 pandemic remains highly uncertain, as COVID-19 cases remain elevated in a number of nations, and some Eurozone governments have recently introduced containment measures against renewed COVID-19 outbreaks.

Governments around the world have introduced fiscal packages to address the widespread job losses and reduced working hours. Other measures have generally been aimed at supporting affected businesses and spending on health care. As COVID-19 cases have fallen in some countries, governments have announced further stimulus measures designed to facilitate the economic recovery. Some of these recovery packages include considerable green stimulus, which is likely to materially affect resources and energy demand over the outlook period. To accompany these fiscal stimulus measures, central banks around the world have reduced official interest rates, and many central banks have ramped up quantitative easing programs. Despite these policies, prospects for the economic recovery are uncertain. Economic output over the outlook period is likely to be driven by the evolution of the pandemic, with risks arising from the possibility of renewed outbreaks, further containment measures, and an effective vaccine rollout.

In the December quarter 2020, there were reports of promising preliminary results for numerous COVID-19 vaccines. However, the timing that these vaccines will receive government authorisation remains uncertain, as does the pace that sufficient doses can be distributed around the world. Despite considerable uncertainty regarding the precise time that an effective vaccine(s) becomes available, it appears increasingly likely that this will occur sometime in 2021. This presents considerable upside risks for economic growth in 2021 and 2022.

Global trade is recovering from the earlier disruptions posed by falling consumer confidence and supply disruptions. Global merchandise export volumes in September rose by 1.5 per cent month-on-month, with these trade volumes only 1.8 per cent lower than pre-COVID-19 levels. Advanced economies’ exports rose by 2.1 per cent month-on-month to be 3.1 per cent lower than December 2019 volumes. Emerging economies’ exports rose by 0.3 per cent month-on-month, and are now 0.7 per cent above December 2019 volumes. Historically, global trade volumes growth is closely correlated to industrial production growth (Figure 2.1). It is likely that the peak impact on trade and industrial production was in May 2020, with the fall in the year to May comparable in magnitude to the global financial crisis. However, the COVID-19 induced downturn seems likely to be briefer in duration.

Government-imposed containment measures have had a significant impact on labour markets, particularly in the service sectors. Employment and business activity have also faced pressures from supply chain disruptions and lower consumer demand.

The global Services Purchasing Managers Index (PMI) declined to 52.2 in November, down from 52.9 in October. This was the fifth consecutive monthly reading above 50, indicating month-on-month expansion. These
growth readings follow the historic lows recorded in April and May, the peak impact of COVID-19 containment measures on the global services sector.

**Figure 2.1: Industrial production and world merchandise trade**

![Industrial production and world merchandise trade](image)


Although the largest economic impacts of the COVID-19 pandemic have been in the services sector, the global manufacturing sector has been significantly impacted by supply chain disruptions and falling household demand. The global manufacturing PMI was below 50 for most of the first half of 2020, falling to a historically low 39.6 in April. In November, the index rose to 53.7, a 33-month high. This was the fifth consecutive month above 50, although manufacturing performance across countries has recently diverged. For the 30 nations where data was available, 19 registered expansions and 11 contractions. Most of Australia’s major resources and energy export markets registered expansions (Figure 2.2).

The IMF expects global economic activity in 2021 to increase by 5.2 per cent. Advanced economies are forecast to grow by 4.8 per cent, and developing economies are expected to grow by 6.0 per cent (Figure 2.3). In 2022, global economic growth is likely to moderate to 4.2 per cent.

**Figure 2.2: Manufacturing PMI**

![Manufacturing PMI](image)

Source: Bloomberg (2020)

**Figure 2.3: GDP growth**

![GDP growth](image)

Source: Bloomberg (2020); IMF (2020)
Major trading partner economic outlook

China is Australia’s only major export market with projected growth in 2020

In the September quarter of 2020, the Chinese economy grew by 2.7 per cent quarter-on-quarter. The Chinese economy has recovered rapidly from the COVID-19 induced contraction of 10 per cent in the March quarter, posting 12 per cent growth in the June quarter. This rebound was a result of containment measures being rapidly relaxed during April, and a government-led infrastructure drive (Figure 2.4).

The Chinese government has introduced significant fiscal stimulus. In addition to an infrastructure drive, the Chinese government has granted tax relief and increased unemployment benefits. Fiscal stimulus has also been accompanied by interest rate cuts by the People’s Bank of China (PBOC). The PBOC has also cut the bank reserve requirement ratio, increased the money supply, and provided funds to increase the capacity of commercial banks to lend to small businesses. As a result, Chinese bank lending hit a record high in the first half of 2020.

Figure 2.4: Chinese residential buildings construction and prices

The Chinese manufacturing PMI increased marginally to 52.1 in November, the ninth consecutive month the index has been in expansionary territory. Chinese industrial production in October increased by 6.9 per cent year-on-year, the seventh consecutive month of growth, driven by resilient export demand and the government-led infrastructure drive. The demand side recovery has been much slower, with retail sales declining on a year-on-year basis for much of 2020 prior to the 0.5 per cent increase recorded in August. Retail sales increased by 4.3 per cent in October, as household discretionary spending recovered.

Chinese exports have been resilient throughout 2020, propped up in the first half of the year by strong export demand for medical goods. In later months, Chinese export demand has benefited from recovering global consumer demand, with November customs data showing that Chinese exports grew by 21 per cent year-on-year. This growth was largely driven by increasing demand for electronic goods and work-from-home equipment. Chinese imports rose by 4.5 per cent in November, as Chinese household demand recovered. Chinese imports of resources and energy commodities were buoyant throughout 2020, as China capitalised on low prices to import key resources and energy products, notably oil and gas.

The IMF is forecasting the Chinese economy to grow by 1.9 per cent in 2020, making it one of the few economies where economic growth is anticipated. Chinese economic growth is expected to recover to 8.2 per cent in 2021, before moderating to 5.8 per cent in 2022.

The US economy faces a delayed recovery from COVID-19

The US economy grew by a record 7.4 per cent in the September quarter. This followed a 9.5 per cent decline in the June quarter, which was the largest decline on record. Despite the record growth rate in the September quarter, economic activity remains 3.5 per cent below the December 2019 quarter. Ongoing services sector impacts are likely to weigh on the economic recovery, as will high COVID-19 case numbers.

President-elect Biden has signalled an intention to make some large shifts in US policy priorities once he takes office. These include an intent to re-join the Paris Climate Accord and to shift trade policy. If these shifts are
made, they could materially affect global mineral demand, particularly in the medium to long term.

US COVID-19 cases have recently hit fresh highs, with significant variation in case numbers and in the level of restrictions across regions. Even in the states where COVID-19 containment measures have eased rapidly, economic harm caused by behavioural responses to the virus is ongoing.

In October, industrial production grew by 1.1 per cent month-on-month, but remains 5.6 per cent below the February level. Manufacturing output rose by 1.0 per cent in August, but was 6.7 per cent lower than in February. The US unemployment rate declined to 6.7 per cent in November, after peaking in April at a record high 15 per cent. Unemployment remains significantly higher than before the COVID-19 pandemic, as does the number of people filing for unemployment benefits (Figure 2.5).

Employment has fallen starkly in the services sector, particularly in the leisure and hospitality and retail trade sectors. Reduced service sector employment is likely to push down US consumer demand for 2020 and 2021, particularly for large consumer durables.

**Figure 2.5: US initial jobless claims and unemployment rate**

The US government has introduced around US$3 trillion worth of stimulus to address the impacts of COVID-19. The largest package was signed in late March, and committed US$2 trillion for household payments, support for local and state governments, and financial assistance for large businesses, including aircraft producers and airlines. Negotiations for further fiscal stimulus are ongoing as of 8 December 2020, as the number of new COVID-19 cases has surged and containment measures are reintroduced in many states. The size and timing of any further fiscal stimulus packages remains uncertain.

The persistence of the COVID-19 pandemic in the US — and consequent concerns for US economic growth — has seen the US dollar depreciate sharply since June 2020. The lower US dollar has given support to commodity prices.

The IMF forecasts the US economy to grow by 3.1 per cent in 2021 and 2.9 per cent in 2022.

**EU government stimulus to drive economic recovery**

Eurozone GDP in the September quarter increased by 13 per cent quarter-on-quarter, following a 12 per cent decline in the June quarter (Figure 2.6). Despite the strong September quarter reading, economic activity remains 4.3 per cent lower year-on-year, and is 8.7 per cent lower in Spain, 5.8 per cent lower in Germany and 4.3 per cent lower in France. The ongoing economic recovery is likely to be constrained by rising COVID-19 cases and the subsequent tightening of containment measures in the December quarter.

Since August 2020, Eurozone COVID-19 cases have risen rapidly and have recently surpassed the peak case numbers from April. As a result, various EU member state governments have re-introduced containment measures in the December quarter. Thus far, these measures remain relatively targeted, potentially lowering the impact on economic activity.

Eurozone industrial production in September declined by 0.4 per cent on a monthly basis, following the 0.6 per cent increase in August. Although industrial production has generally increased in recent months, these
gains have not yet reversed the declines from earlier in 2020, with industrial production in September still down by 6.8 per cent year-on-year. Germany, a key manufacturing country in Europe, registered an annual 8.7 per cent decline in industrial production in the year to September.

Forward looking indicators suggest that manufacturing activity is recovering. The Eurozone manufacturing PMI declined to 53.8 in November, and has been denoting month-on-month expansion since July. Although the manufacturing sector expansion is likely to be somewhat affected by the introduction of fresh COVID-19 containment measures, the largest impacts are likely to be felt in the Eurozone services sector.

The services PMI was 41.7 in November, down from 46.9 in October. The hospitality and retail sectors have been affected by tightening containment measures and household behaviour responding to escalating COVID-19 case numbers. With fresh containment measures coming into effect throughout October and November, the Eurozone services sector will likely contract in the December quarter.

**Figure 2.6: Eurozone GDP and Composite PMI**

In July 2020, European Union members agreed to a fiscal stimulus package totalling €750 billion, to address the economic impacts from the COVID-19 pandemic. This package consists of €390 billion worth of grants and €360 billion of low-interest loans. Almost a third of this €750 billion is earmarked for climate initiatives consistent with Paris Agreement targets.

These fiscal policies have been accompanied by expansionary monetary policy, with the European Central Bank keeping interest rates at negative levels throughout 2020. Furthermore, in March 2020, the central bank introduced a pandemic emergency purchase programme that targets securities, and ramped up their quantitative easing programme introduced in 2019. These programs were later increased in both size and duration. The outcome of ongoing Brexit negotiations will have implications for EU and UK growth.

The IMF forecasts that the Eurozone economy contracts by 7.6 per cent in 2020. Economic growth is forecast to be 5.0 per cent in 2021, and 3.3 per cent in 2022. However, these IMF forecasts were finalised before COVID-19 containment measures were re-introduced in October, so are likely to be revised lower.

**Japanese GDP is set to fall despite significant fiscal stimulus measures**

Japanese GDP in the September quarter rose by a record 5.0 per cent quarter-on-quarter. This follows a fall of 8.2 per cent in the June quarter. Economic recovery in September was largely driven by a 4.7 per cent increase in private consumption, with retail sales rebounding as containment measures were relaxed and citizens spent government issued stimulus checks. Exports also increased, as global automobile demand recovered, and a shift towards working from home in many economies boosted semi-conductor exports. However, capital expenditure fell by 3.4 per cent from the June quarter, suggesting business confidence remains subdued. The IMF expects Japan’s economy to contract by 5.3 per cent in 2020.
In response to the downturn, the Japanese government has introduced further fiscal stimulus measures, building on the December 2019 package (which pre-dated the COVID-19 pandemic). Following the resignation of Prime Minister Abe in August 2020, new Japanese Prime Minister Suga is looking to introduce a new fiscal package to stimulate economic activity.

The Japanese manufacturing PMI increased marginally to 49.0 in November, although it still suggests a month-on-month contraction. In October, Japanese industrial production increased by 3.8 per cent month-on-month, driven by vehicle production. Despite the strong growth, industrial production remained 3.2 per cent lower year-on-year.

The IMF expects the Japanese economy to grow by 2.3 per cent in 2021. Growth is then expected to moderate to 1.7 per cent in 2022.

‘Zoom Boom’ supporting South Korean exports and income
South Korean economic activity increased by 2.1 per cent quarter-on-quarter in the September quarter, although it remains 1.3 per cent lower year-on-year. The economic recovery has been driven by significant fiscal stimulus and a 16 per cent quarter-on-quarter increase in exports. Trade has grown due to the ‘Zoom Boom’ that has increased demand for remote working equipment, benefitting South Korean exports of semi-conductors and electronic goods. The IMF expects the South Korean economy to contract by 1.9 per cent in 2020.

The South Korean manufacturing PMI increased to 52.9 in November, the highest reading since February 2011. Industrial production in October was unchanged month-on-month, but was 2.7 per cent lower year-on-year. Manufacturing output declined by 1.3 per cent month-on-month, while services output increased by 1.2 per cent.

In 2019, heightened trade tensions between South Korea and Japan disrupted regional supply chains, affecting both economies. These tensions appeared to be easing in late 2019 and early 2020. However, in June 2020, the South Korean government announced that it was re-opening its WTO complaint against Japan. A renewal of South Korean-Japan trade tensions could pose risks to economic activity in both nations.

The IMF forecasts that the South Korean economy will grow by 2.9 per cent in 2021 and 3.1 per cent in 2022.

Rising COVID cases and resulting containment measures affecting India
Indian GDP increased by 23 per cent in the September quarter, following the record contraction of 30 per cent in the June quarter (Figure 2.8). This economic recovery was driven by higher consumer spending and capital investment. The IMF is forecasting the Indian economy will contract by 10 per cent in 2020.

Indian economic activity fell by more than other emerging economies in the June quarter, largely due to stringent COVID-19 containment measures and relatively limited fiscal and monetary policy relief. In April 2020, the Indian government introduced containment measures including a three week lockdown, which was extended until 30 June for some areas. Following 30 June, state governments have introduced their own
containment measures, creating disparities across regions. In recent months, some localised restrictions have persisted, although containment measures have generally eased. The Indian government has been limited in its scope for fiscal stimulus due to high debt levels.

The scope for interest rate cuts is also constrained, due to a string of previous interest rate cuts in 2019, which aimed to address illiquidity in the financial sector. With food prices already soaring, there are concerns that additional interest rate cuts could stoke inflation. These inflationary concerns are in contrast to most other economies, where inflation remains relatively low despite widespread monetary stimulus.

The Indian manufacturing PMI declined to 56.3 in November, but remained at values suggesting expansion for the third consecutive month. The series suggests strong increases in aggregate new orders, new export orders and output.

The IMF expects Indian GDP to grow by 8.8 per cent in 2021 and 8.0 per cent in 2022.

**Figure 2.8: Indian GDP growth**

![Graph showing Indian GDP growth](image)

**Implications of recent net-zero announcements for Australia uncertain**

In September 2020, China’s Premier announced a net-zero target before 2060. In October, Japan’s new Prime Minister and South Korea’s President committed to net-zero emissions by 2050. These announcements — by Australia’s three largest energy export markets — mark a significant shift in the climate ambitions of these countries.

Substantial uncertainty remains over the policies and plans which will be used to achieve these targets, with more clarity likely to emerge in the coming year. China is finalising its 14th Five Year Plan (2021-2025), which is expected to place climate change at the centre of policy making. The plan will align with China’s long-term strategy, due to be submitted ahead of the COP26 climate change conference in November 2021. Japan’s revised Strategic Energy Plan, expected to be released in mid-2021, will likely encompass stronger efforts to reach a lower-emission energy mix by 2030. South Korea is scheduled to release a revised energy policy for 2020-2034 and a low-emissions development strategy by the end of 2020.

China, Japan and South Korea together accounted for 74 per cent of Australia’s thermal coal exports and 87 per cent of Australia’s LNG exports in 2019–20. However, the implications for Australian coal and gas remain uncertain given the long time horizons and lack of clarity surrounding the policy details. While pre-existing policies enacted by major trading partners have been factored into the current forecasts for thermal coal and gas, most impacts will likely occur beyond the two-year outlook contained in this edition of the Resources and Energy Quarterly.

Investment in coal and gas projects has weakened in recent years, but challenging market conditions have also contributed to this trend. Gas is expected to play an important role as a bridging fuel in the global energy transition (see the gas chapter). However, thermal coal is likely to be more negatively affected, with recent policies accelerating the phase out of coal in Japan and South Korea (see the thermal coal chapter).
Table 2.1: Key IMF GDP assumptions

<table>
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<th>Economic growth&lt;sup&gt;b&lt;/sup&gt;</th>
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Notes: <sup>a</sup> Assumption; <sup>b</sup> Year-on-year change; <sup>c</sup> Calculated by the IMF using purchasing power parity (PPP) weights for nominal country gross domestic product; <sup>d</sup> Indonesia, Malaysia, the Philippines, Thailand and Vietnam. <sup>e</sup> Excludes Hong Kong.
Sources: Bloomberg (2020); Department of Industry, Science, Energy and Resources (2020); IMF (2020)
### Table 2.2: Exchange rate and inflation assumptions

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Notes: a Assumption; b Change from previous period; c Calculated by the IMF using purchasing power parity (PPP) weights for nominal country gross domestic product; e Average of daily rates.