

TEKNIKFÖRETAGEN

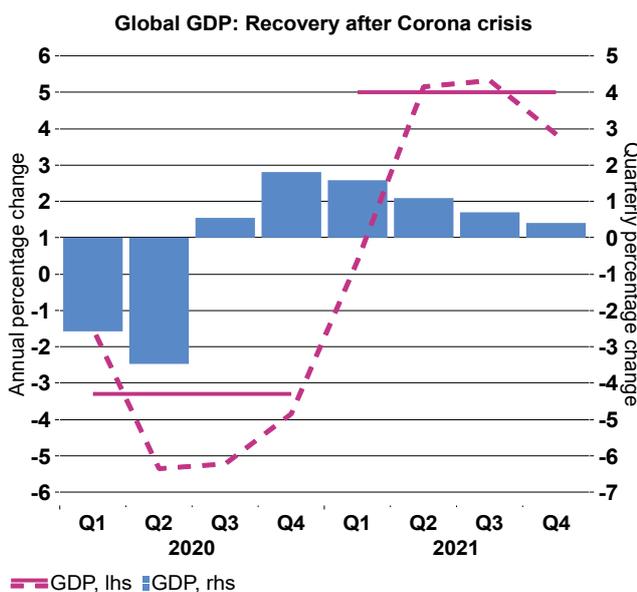
Summary Economic Forecast

MAY 2020

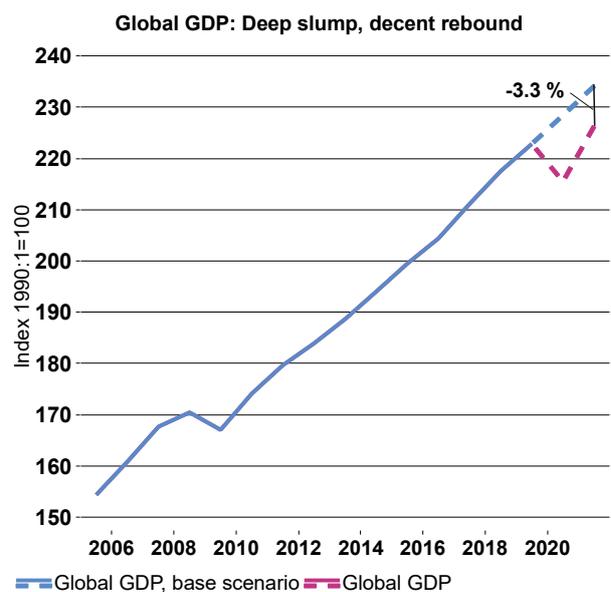
Rebound after free fall

The Corona pandemic, or rather the actions taken to combat the virus, have thrown the global economy into the steepest tailspin since the Great Depression of the 1930s. The situation is extremely uncertain, making detailed forecasting pointless, instead we outline three scenarios. In the main scenario we expect global GDP to drop by approximately 3.5 percent in 2020 and then rebound in 2021. The sharpest drop in activity occurs right now in the second quarter. We then expect a stabilization in Q3 followed by a gradual acceleration late this year and in the first half of 2021. While the global economy escapes a total collapse, it will still take a bigger hit than during the Great Recession in the wake of the financial crisis 2008-2010. Unemployment has already skyrocketed way above previous peaks, for instance in the US, and a further deterioration can be expected on this front.

The prerequisites for this relatively benign scenario are that recent careful steps towards reopening societies prove successful. In particular it is crucial that a second wave of infections can be avoided. In that case the process can continue, people are allowed/willing to return to their working places and take part of everyday economic life again. This scenario will also allow mending severed delivery chains and a restart of crippled manufacturing industries.

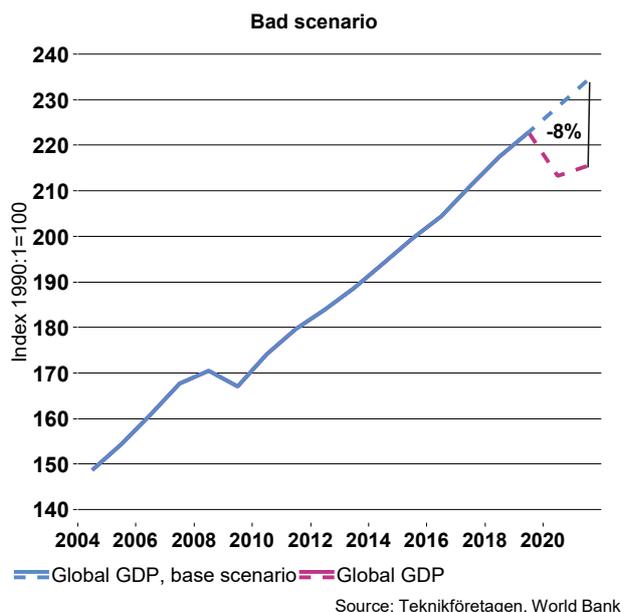
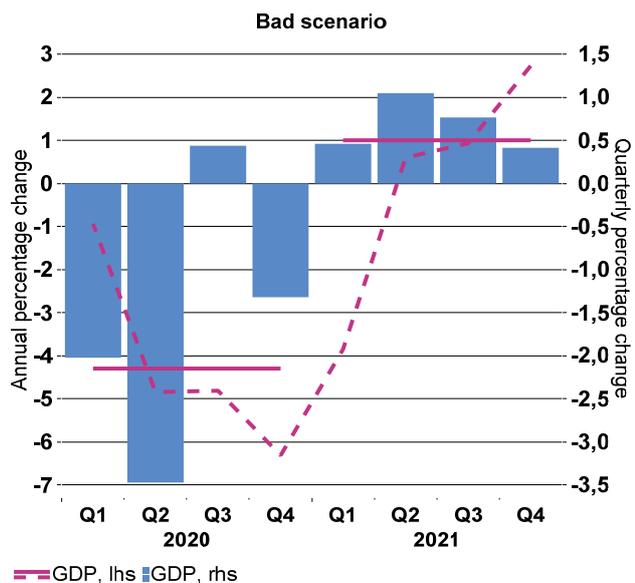


Källa: Teknikföretagen, World Bank

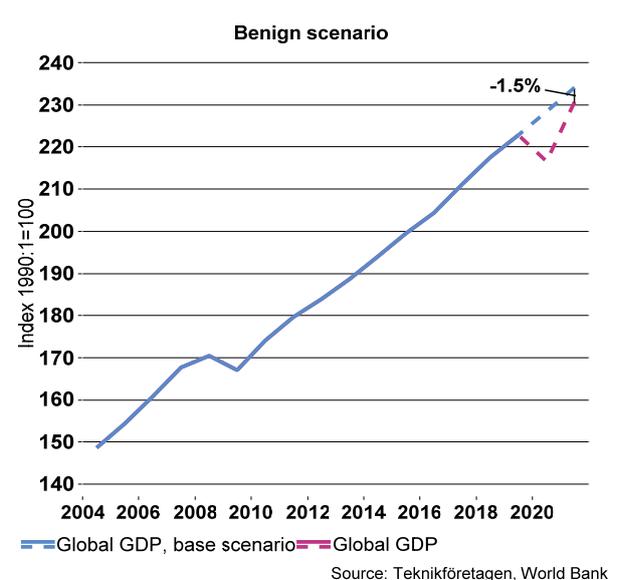
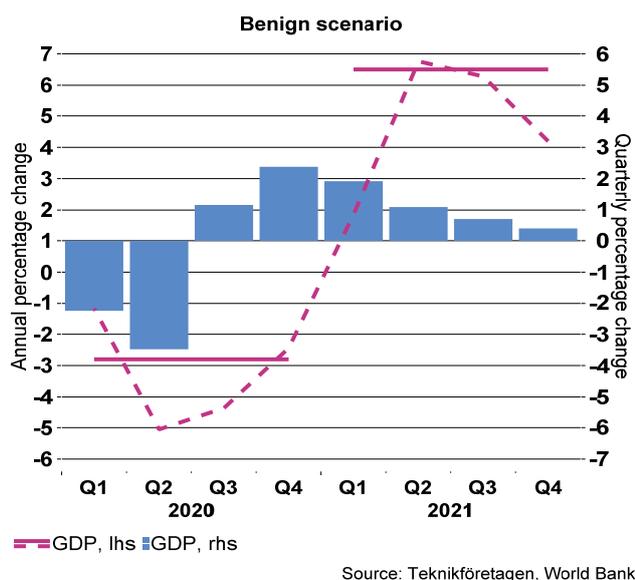


Source: Teknikföretagen, World Bank

In a graver and “bad” scenario, reopening fails and/or a second Corona wave hits hard and provokes a new wave of shutdowns. In this case significant sectors of the economy suffer from financial strain/go bankrupt, creating substantial credit losses and turning the Corona crisis into a financial crisis. Timing is crucial, the longer economies are shutdown, the greater the risk of a catastrophic scenario. In this case both 2020 and 2021 will turn out to be lost years in terms of economic growth.



Finally, the probability of a more benign scenario is not zero. In case the reopening proves to be a great success and consumption gets a kick-start, the economy might get back to normal faster than expected. In this case we expect global GDP to have regained lost ground already in late 2021.



Being a small open economy highly dependent on growth in global trade of goods and services, GDP growth in the Swedish economy will be hard hit in 2020. Unique this time is also that the service sector is expected to be more negatively affected compared to other episodes of negative economic shocks. GDP-growth in the Swedish Economy is expected to fall by 5,2 percent in volume this year, by far more than the contraction in 2009 or in the aftermath of the financial crisis in the early 1990:ies. The rebound in GDP is not expected to reach the average GDP level of this year in 2021 as we only foresee a growth rate of 4 percent next year.

➤ HARSH TIMES FOR MANUFACTURING

Growth of global industrial production continued to decelerate in 2019 after two successful years with rather high business activity. All in all, the volume of production in global manufacturing grew by a modest 0,8 percent in 2019 which was well below the average of 2018-2019. There were some signs by late 2019 and early 2020 that business activity was about to improve slightly. The forecast from Teknikföretagen in November of 2019 assumed a gradual pick up of growth in manufacturing industry in 2020, but after a rather weak first half year. In a sense this is also the case at present, although the downturn in the second quarter will be extremely severe.

The shutting down of economies and industries will naturally have an enormous negative economic impact that is hard to assess and predict at present. But we expect a considerable drop in industrial production during the first half year in 2020. Hopefully a gradual normalization with lifted restrictions can be the case in the second half, with a certain rebound of production volumes.

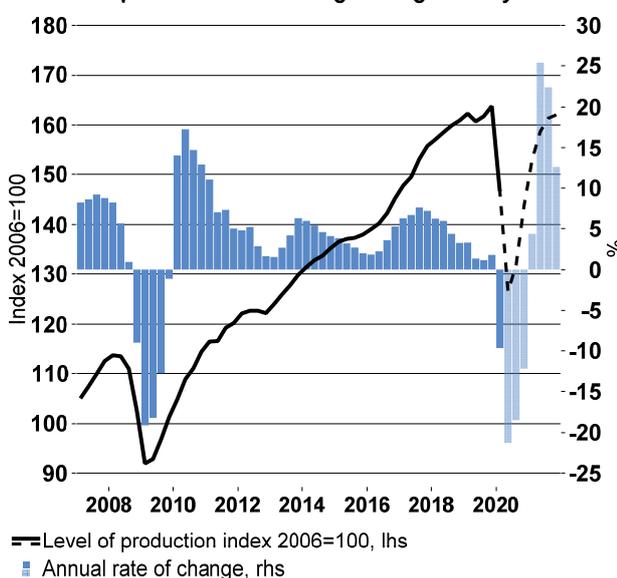
Hardest hit by far at the moment is the global motor car industry that more or less has come to a standstill. Positively, many producers have tried to or will try to resume production in April or May. Since value chains in motor car industries, domestically or globally, span from iron-ore mines, steel, metals, metal goods, rubber, plastics to sophisticated services, the impact on other sectors is considerable. Despite a gradual upstart, long lasting effects will prevail since we don't foresee a quick return to previous all-time high production levels in the motor car industry, neither globally nor in Sweden.

Another sector that will be hard it, is producers of investment goods, i.e. machinery and equipment. We foresee a drop in global gross fixed investment of nine percent in volume in 2020, which is considerably more than during the financial crisis 2009 (-3,6 percent). This will have a profound negative impact on global production of machinery and equipment, where we expect a reduction of production by 10 percent in 2020. A recovery is expected in 2021, conditional on a gradual normalization in the latter part of 2020.

There are always sectors in manufacturing that are doing rather well, even in time of crisis, such as pharmaceuticals, food and medical equipment industries. Consumer durable goods or investment goods are generally instead the hardest hit. Consequently, production in engineering industry in almost all countries around the globe is expected to contract more than total manufacturing in 2020. On the other hand, the rebound in engineering industry is expected to be stronger than for total manufacturing industry in 2021.

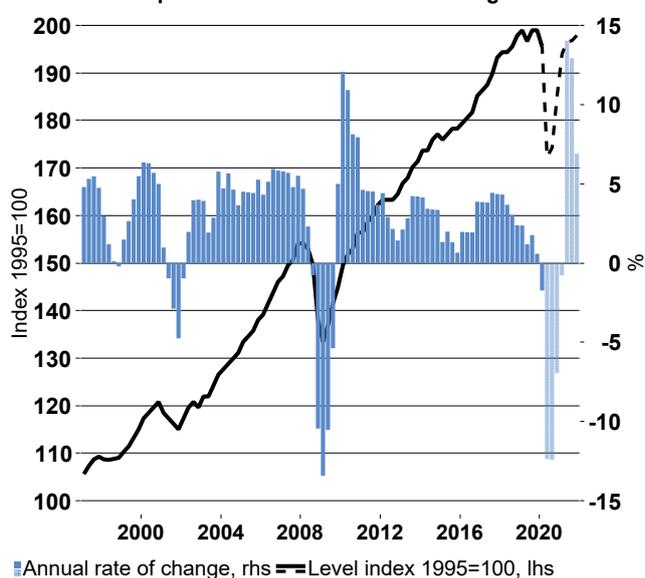
Our predictions are based on three different scenarios. The most likely scenario implies that production in the Swedish manufacturing industry will decrease by 10 percent and by 15 percent in the engineering industry in 2020. Hardest hit is the motorcar industry followed by investment goods. The corresponding numbers for 2021 is growth of +7 and +12 percent respectively. Global industrial production is expected to contract by 11 percent in 2020 and by 13 percent in the engineering industry.

Volume of production. Global engineering industry 2007-2021



Source: Nat Stat, calculations Teknikföretagen

Volume of production. Global manufacturing 1995-2021



Source: CPB, Worldbank, calc. Teknikföretagen

TEKNIKFÖRETAGEN SUMMARY ECONOMIC FORECAST

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