Country Report

United States of America

March 2020

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The Economist Intelligence Unit

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Symbols for tables
“0 or 0.0” means nil or negligible; “n/a” means not available; “–” means not applicable

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United States of America

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Briefing sheet

March 2020

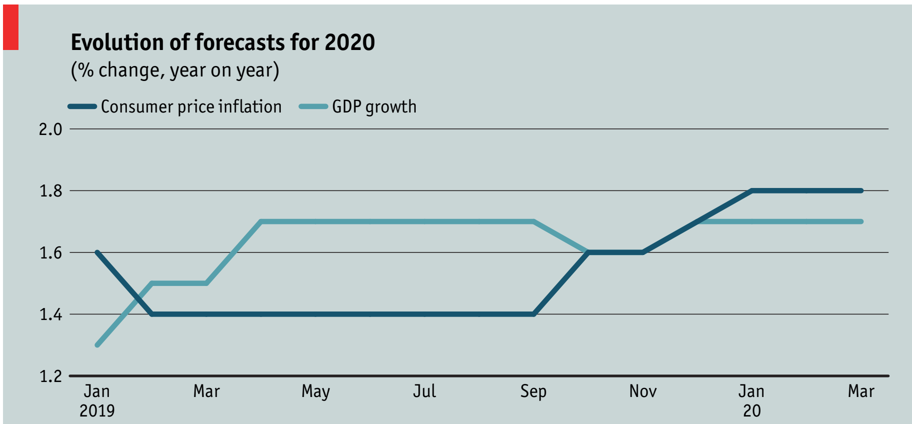
Political and economic outlook

- On February 5th the Republican-controlled Senate (the upper house) voted to acquit the president, Donald Trump, of impeachment charges. Such charges will not resurface as long as Mr Trump remains in office, given strong support for him among the Republican Party.
- For now, The Economist Intelligence Unit expects Mr Trump to win a second term in the November 2020 presidential election. His base remains firm, at about 40% of the electorate, and the Democratic field remains deeply divided.
- Real GDP growth is forecast to slow to 1.7% in 2020, owing to trade policy uncertainty and slowing global growth. We expect GDP growth to recover modestly thereafter, to an average of 2% a year in 2021-24, supported by high levels of public spending.
- The Federal Reserve (Fed, the central bank) cut interest rates three times in 2019, by a total of 75 basis points. We expect the Fed to make a final 25-basis-point cut in June 2020 as policy uncertainty and softer external demand continue to curb business investment.
- The fiscal deficit will widen in 2020 as the 2017 tax cut dents revenue growth. On average, the deficit is forecast to narrow slightly as a share of GDP in 2021-24, but it will remain wide, owing to slower income growth and high public spending.
- The US dollar appreciated against the euro in 2019, and we expect it to remain firm in 2020 as economic growth in the euro zone continues to lag that of the US. The dollar is forecast to depreciate gradually in 2021-24 as euro zone economies strengthen.

Key indicators

	2019[a]	2020[b]	2021[b]	2022[b]	2023[b]	2024[b]
Real GDP growth (%)	2.3[c]	1.7	1.9	2.0	1.8	2.2
Consumer price inflation (av; %)	1.8	1.8	1.9	2.1	1.8	1.8
Government balance (% of GDP)[d]	-4.6[c]	-5.0	-4.8	-4.6	-4.7	-4.4
Current-account balance (% of GDP)	-2.5[c]	-2.7	-2.6	-2.4	-2.3	-2.2
Money market rate (av; %)[e]	2.2	1.5	1.6	1.8	2.0	2.2
Unemployment rate (%)	3.7	4.2	4.3	4.1	4.6	4.4
Exchange rate US$:€ (av)	1.12	1.13	1.16	1.21	1.24	1.24

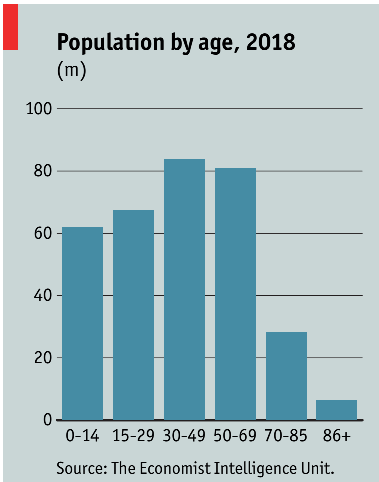
[a] Actual. [b] Economist Intelligence Unit forecasts. [c] Economist Intelligence Unit estimates. [d] Federal government, financial year (October-September). [e] Rate for firms with AA rating.



Source: The Economist Intelligence Unit.

Market opportunities

Source: The Economist Intelligence Unit.



Source: The Economist Intelligence Unit.

Source: The Economist Intelligence Unit.

Key changes since February 6th

- We now consider Bernie Sanders, a Vermont senator, to be the most likely candidate to secure the Democratic nomination. Several credible centrist candidates remain in the race, which is likely to fragment moderate voters and benefit Mr Sanders.
- The February primaries have further splintered the Democratic field. As a result, the Democratic convention in July is likely to be heavily contested. The eventual nominee is unlikely to emerge with a sufficiently united base to defeat Mr Trump.
- We therefore expect Mr Trump to win a second term, supported by the robust health of the US economy and his strong core base. Mr Trump will continue to govern largely by executive action, as Congressional Democrats continue to check his legislative agenda.
- We maintain our forecast that US real GDP growth will average 2% per year in 2021-24. However, we have revised the components of that growth in line with our election call, to reflect higher public spending and weaker private spending and export growth.

The month ahead

- **February 22nd and 29th—Nevada and South Carolina primaries:** If the former vice-president, Joe Biden, does not perform well in the last two early primaries, as we expect, this will be the beginning of the end for his campaign. The South Carolina results will also show how much support Mr Sanders and Pete Buttigieg have among black voters.
- **February 27th—Real GDP (Q4 2019, second estimate):** Initial estimates from end-January put real GDP growth in the fourth quarter at an annualised rate of 2.1%, on a par with the third quarter. Any downgrade, particularly in consumer spending, could be a sign of weakness ahead.
- **March 3rd—Super Tuesday primaries:** Fourteen states will hold primaries on March 3rd. One-third of the total 3,979 pledged convention delegates will be awarded (compared with less than 5% prior to Super Tuesday), which will narrow the field. We expect Mr Sanders to win the largest share of delegates, but not a majority.
- **March 2020—Coronavirus containment:** Based on scientific research on the coronavirus and the Chinese authorities' strong response, we believe that it is likely that the virus will be contained by end-March, allowing for a rebound in the Chinese economy in the third quarter. If this timeline slips, however, we will downgrade our US GDP growth forecast.

Major risks to our forecast

Scenarios, Q4 2019	Probability	Impact	Intensity
The US falls into recession	Very high	High	20
Mr Trump leaves office before the end of his term in 2020	High	Very high	20
The US imposes tariffs on automotive imports	High	High	16
Partisanship in Congress completely handicaps policymaking	Very high	Moderate	15
The US engages in direct military conflict with Iran	Moderate	Very high	15

Note. Scenarios and scores are taken from our Risk Briefing product. Risk scenarios are potential developments that might substantially change the business operating environment over the coming two years. Risk intensity is a product of probability and impact, on a 25-point scale.

Source: The Economist Intelligence Unit.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CANADA
MEXICO
Atlantic Ocean
Pacific Ocean
Gulf of Mexico
Lake Superior
Lake Michigan
Lake Huron
Lake Erie
Lake Ontario
ALASKA
Fairbanks
Anchorage
Juneau*
HAWAII
Kauai
Oahu
Maui
Hawaii
Wahiawa
Honolulu*
Hilo
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NORTH DAKOTA
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Dover*
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Buffalo
Rochester
Albany*
Hartford*
Providence*
Boston*
Concord*
Montpelier*
Augusta*
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0 miles 250 500
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State boundary
Main airport
Capital
Major city
Major town
State capital
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Outlook for 2020-24

Political outlook

Political stability

In December 2019 Donald Trump became the third US president to have been impeached by the House of Representatives (the lower house). The Republican-controlled Senate (the upper house) voted not to hear from witnesses or include any further documentation, making this the only impeachment trial ever to be heard in the US Senate without witnesses. Following an accelerated trial, on February 5th the Senate voted strictly along party lines to acquit the president of all charges. Impeachment will overshadow the legacy of Mr Trump's first term; however, The Economist Intelligence Unit does not expect new charges to emerge in the future, and the impeachment process will not alter Mr Trump's chances of securing a second presidential term in November 2020.

Two outcomes of the impeachment process are becoming clear, which may pose risks to political stability and effectiveness. One is that Mr Trump has emerged from this process emboldened: Congressional Republicans remain unequivocal in their support for the president. It is likely that Mr Trump, feeling vindicated, will take unilateral or erratic policy decisions in line with his core policy leanings—such as withdrawing US troops abruptly from security coalitions in the Middle East, supporting Israeli annexation of more territory in the West Bank, or ramping up tensions with Mexico over immigration issues. The risk of a destabilising policy decision is slightly mitigated in 2020, as the administration will attempt to avoid any economic shocks ahead of the November presidential election. However, we now consider it likely that Mr Trump will secure a second term in office, owing to his strong core support base, the health of the economy and the benefits of incumbency. He is likely to re-enter office with even fewer constraints on his decision-making.

The second outcome is that partisan tensions in Washington DC have reached new heights, and are likely to remain that way. With few exceptions, the House and Senate votes pertaining to impeachment fell strictly along party lines. Each party increasingly focused its attention on the other during the trial; Republicans argued that Democrats, angered by their loss in the 2016 election, were attempting to overturn the results through impeachment, while Democrats argued that Republicans were undermining US institutions and allowing gross abuses of the power in the name of electoral wins. Political stability is likely to improve slightly in 2021 compared with 2019-20, as the conclusion of the impeachment process and the start of a new presidential term will allow the administration to refocus on its core goals. However, it is difficult to envisage a sustained improvement in bipartisan co-operation in the near term, given the acrimony seen in recent months. Mr Trump's polarising style will continue to aggravate divisions between Republicans and Democrats, and this will prove difficult to unwind, even after he leaves office.

Election watch

We now consider it most likely that Mr Trump will win a second presidential term in November 2020. However, this is due as much to the strength of his campaign as to Democrats' likely failure to field a candidate who can unite the fragmented Democratic base. Beyond the traditional benefits of incumbency—since the 1970s, only two of the nine elected US presidents have failed to secure a second term—Mr Trump is supported by several factors. Most importantly, the US economy is in the midst of a record-setting expansion that has brought unemployment levels down to historic lows. Although this growth stemmed from the policies introduced by the previous president, Barack Obama, Mr Trump will be able to campaign effectively on his promises to ease constraints on businesses and keep the economy growing. Mr Trump also benefits from a uniquely firm support base; his approval rating has hovered within a tight band of 40-44% for the entirety of his term thus far—the most stable rating of any president in modern history.

That said, Mr Trump faces more obstacles to election in 2020 than he did in 2016. Although his approval rating has remained steady, it is also lower than any other president's has been since the 1970s (at equivalent points in their terms). Nonetheless, Mr Trump's core base will not waver. The president has focused his campaign on issues such as trade protectionism and tighter immigration control, which play well with his base but have alienated a number of centrist voters who voted for him in 2016—particularly in suburban areas.

This creates an opening for the Democratic Party, but only if it fields a candidate who can unite the fragmented Democratic electorate and appeal to undecided voters and moderate Republicans, which is unlikely. The previous front-runner for the Democratic nomination, the former vice-president, Joe Biden, was widely considered to have the best chance of appealing to moderates and defeating Mr Trump on the national stage. However, Mr Biden performed dismally in the first two Democratic primaries, in Iowa and New Hampshire, which has undermined voters' confidence and donor support at a crucial moment in the race. Several candidates are vying to replace Mr Biden as the leading centrist candidate. Pete Buttigieg, the mayor of South Bend, Indiana, performed well in the first two primaries, but his approval ratings outside the Midwest, and particularly with African-American voters, remain weak. Amy Klobuchar, a senator from Minnesota, also improved her standing considerably in the early primaries. However, both face a major challenge from Mike Bloomberg, the businessman and former mayor of New York City, who will make his first appearance on the ballot on March 3rd, Super Tuesday. These candidates will compete against one another, dividing the centrist vote. Bernie Sanders, a left-wing senator from Vermont, has managed to consolidate support among progressive voters, making him the most likely candidate to secure the largest number of delegates, and therefore the nomination, at the July Democratic convention. However, he will struggle to build bipartisan support for his progressive policies at national level, leaving him vulnerable to defeat by Mr Trump.

International relations

The Trump administration has had a profound effect on US foreign policy and has left the US increasingly isolated. Mr Trump's foreign policy legacy from his first term will be dominated by what he has torn down, rather than what he has built anew. During his first three years in office he has brought about the dissolution of the 2015 Iranian nuclear deal and the Joint Comprehensive Plan of Action, escalated tensions with Iran, withdrawn or deployed US troops from coalition forces in Syria and shaken the foundations of the US-EU alliance.

We expect Iran to remain a major flashpoint in US foreign relations in 2021-24. Tensions will remain high in 2020, following the killing of one of the most senior Iranian military figures, General Qassem Suleimani, in a US air strike in January. It is possible that the two countries will reopen talks on a revised nuclear deal later in Mr Trump's second term, as he has expressed no real desire to drag the US into a foreign conflict and would seize an opportunity to erase Mr Obama's legacy in this area with a new nuclear agreement. However, both governments rule with an impulsive streak, and the risk will persist that a miscalculation could lead them into conflict.

We expect Mr Trump to maintain his disdain for long-standing partners in Europe and North America. There is a particularly high risk that trade tensions will deteriorate seriously between the US and the EU in 2021-24 as the administration seeks to boost US agricultural and manufacturing exports. However, this view of Europe is not widely shared among the Republican establishment, and we expect Congress to check some of Mr Trump's more aggressive impulses. Overall, Mr Trump's freewheeling approach to foreign policy is likely to have a lasting effect as allies work to reduce their reliance on the US in 2021-24.

Democracy Index: United States of America

The US has fallen steadily in the global rankings over the past decade, from 17th place in the 2010 Democracy Index to 25th in 2019. The US has been in the "flawed democracy" category since the 2016 index, which primarily reflects a decline in public trust in institutions. Public frustration with institutions has been building for years; according to Gallup polls, the number of Americans who approve of the way that Congress (the legislature) is doing its job fell to 21% in 2019, compared with 40% in 2000. Donald Trump won the November 2016 presidential election by exploiting this lack of trust and tapping into Americans' anger and frustration with the functioning of their democratic institutions and representatives. His candidacy was not the cause of the deterioration in trust, but rather a consequence of it.

A trust deficit is undermining democracy

The highly partisan nature of US politics has contributed to decline in public trust in institutions in recent years. Republicans and Democrats are increasingly seen as being focused on blocking each other's agenda, to the detriment of policymaking. This trend has worsened under the Trump administration. Mr Trump has not been the dealmaker that he had boasted that he would be, at least not on the domestic front. He has been deliberately provocative in an effort to rally his political and voter base, particularly on issues such as immigration and security. Republicans closed ranks around the president as he faced impeachment by the Democrat-controlled House of Representatives (the lower house) in December 2019, and the fierce polarisation that has characterised Mr Trump's presidency seems more entrenched than ever.

Beyond the issue of rising polarisation, several other factors have contributed to the decline in popular confidence in public institutions. Major political events over many decades have had a negative effect: the Vietnam war, the Watergate scandal, the Iraq wars, the financial crisis in 2008-09 and repeated federal government shutdowns. The Economist Intelligence Unit believes that income inequality has also been a major underlying factor. Income inequality is higher in the US than in other rich countries, and has widened since the financial crisis. Studies show that higher income inequality reduces social capital and trust in others—this is linked to a notion of fairness. The IMF finds that income inequality at the bottom of the distribution in the US is particularly important—economically vulnerable and less educated people are more likely to distrust each other. It is no surprise that poorer and less educated voters were attracted by the candidacy of Mr Trump.

Democracy Index

	Regime type	Overall score	Overall rank
2019	Flawed democracy	7.96 out of 10	25 out of 167
2018	Flawed democracy	7.96 out of 10	25 out of 167
2017	Flawed democracy	7.98 out of 10	=21 out of 167

US system of checks and balances has come under strain

On policy matters, Mr Trump's unconventional, freewheeling approach has also strained working relations between the executive and legislative branches of the US government. Most of the major policy actions in 2019—including the escalation of the trade war with China, the abrupt redeployment of US troops from northern Syria and the killing of a senior Iranian general—were taken without consulting Congress. Moreover, Mr Trump has repeatedly called into question the independence and competence of the US judicial system, particularly when his policy directives have been opposed by the courts, most notably on immigration. Although we expect the US system of checks and balances to remain intact, these actions risk undermining public confidence in institutions further. The score for *political culture* was downgraded in the 2018 index as a result of these trends, and an upgrade is unlikely in 2020.

On a positive note, the US scores relatively well for *electoral process and pluralism*, and its score for *political participation* remains higher than it was in the past, reflecting greater representation of women in the 116th Congress (2019-21). Overall, respect for the constitution and democratic values is deeply entrenched as a result of centuries of democratic practice.

Democracy Index 2019 by category

(On a scale of 0 to 10)

Electoral process	Functioning of government	Political participation	Political culture	Civil liberties
9.17	7.14	7.78	7.50	8.24

A free white paper containing the full index and detailed methodology can be downloaded from www.eiu.com/democracy-2019.

Note on methodology

There is no consensus on how to measure democracy, and definitions of democracy are contested. Having free and fair competitive elections, and satisfying related aspects of political freedom, is the sine qua non of all definitions. However, our index is based on the view that measures of democracy that reflect the state of political freedom and civil liberties are not "thick" enough: they do not encompass sufficiently some crucial features that determine the quality and substance of democracy. Our index therefore also includes measures of *political participation*, *political culture* and *functioning of government*, which are, at best, marginalised by other measures.

Our index of democracy covers 167 countries and territories. The index, on a 0-10 scale, is based on the ratings (0, 0.5 or 1) for 60 indicators grouped in five categories: *electoral process and pluralism*; *civil liberties*; *functioning of government*; *political participation*; and *political culture*. Each category has a rating on a 0-10 scale, and the overall index of democracy is the simple average of the five category indices.

The category indices are based on the sum of the indicator scores in the category, converted to a 0-10 scale. Adjustments to the category scores are made if countries do not score a 1 in the following critical areas for democracy:

- whether national elections are free and fair;
- the security of voters;
- the influence of foreign powers on government; and
- the capability of the civil service to implement policies.

If the scores for the first three questions are 0 (or 0.5), one point (or 0.5 points) is deducted from the index in the relevant category (either *electoral process and pluralism* or *functioning of government*). If the score for question 4 is 0, one point is deducted from the *functioning of government* category index.

The index values are used to place countries within one of four types of regime:

- full democracies—scores greater than 8;
- flawed democracies—scores greater than 6, and less than or equal to 8;
- hybrid regimes—scores greater than 4, and less than or equal to 6; and
- authoritarian regimes—scores less than or equal to 4.

Economic policy outlook

Policy trends

Policymaking is likely to be slow and unproductive in 2020 as paralysis sets in related to the approaching November election and the fraught political environment following the impeachment process. Legislative progress is likely to improve slightly in 2021-24, once the bitter fight for the White House is over.

Assuming that Mr Trump wins a second term, we expect him to continue to pursue his policy priorities, including drafting or revising trade legislation with a view to reducing the US's merchandise trade deficit, and introducing stricter immigration curbs. A second Trump administration will also remain focused on removing federal regulation, particularly in financial services and environmental protection. The Trump administration is unlikely to adopt any meaningful legislation or national policy intended to reduce carbon emissions or encourage the transition away from fossil fuels, putting the US at odds with the rest of the world. The US will maintain its adversarial stance against China in 2021-24, but the rivalry between the two will gradually shift away from trade tariffs, spilling over into the financial and telecommunications sectors as both countries compete for technological dominance. More positively, bipartisan co-operation is likely to foster new legislation on infrastructure investment and more affordable drug pricing. A second Trump administration would probably focus again on repealing the Affordable Care Act (Obamacare); however, Republicans will struggle to reach consensus on what a new programme should look like, meaning that little real progress can be expected in the near term.

Fiscal policy

We expect the fiscal deficit to widen to 5% of GDP in 2020, from an estimated 4.6% in 2019, reflecting a slowing economy and higher spending caps approved by the Trump administration. This would be the largest fiscal deficit since 2012, when the country was recovering from the global financial crisis. We have revised our forecasts for 2021-24, on the assumption that Mr Trump wins a second term. We still expect the deficit to narrow slightly from its 2020 peak, but to remain wide, at 4.6% of GDP per year on average (from 3.9% previously). The Trump administration has thus far shown no concern for the expanding deficit, and we expect the administration to continue to raise spending in an effort to shore up slowing GDP growth in 2021-24. Revenue growth has also fallen in the wake of the 2017 tax cuts, which will remain in place throughout the forecast period. For now, we do not expect the Trump administration to introduce further tax cuts—such as temporary payroll tax cuts meant to boost consumer spending—but this remains a downside risk to the fiscal forecast.

Monetary policy

The Federal Reserve (Fed, the central bank) shifted to a dovish stance in the second half of 2019, amid persistent low inflation and looming risks to US economic growth, mainly related to trade policy uncertainty and slowing global growth. The Fed made three 25-basis-point rate cuts in 2019, in July, September and November. The Fed chairman, Jerome Powell, has said that these cuts do not constitute the start of a prolonged easing cycle, and he was slightly more upbeat in his assessment of the US economic outlook in January 2020 than he was in late 2019.

We still expect the Fed to make one final rate cut this year, in the face of weak business investment and external risk factors—particularly the emergence of the coronavirus, which will dent Chinese GDP growth this year. This final cut is likely to come in June, as there will need to have been a fourth consecutive quarter of contracting business investment for the Fed to shift its view of the economic outlook. The Fed is likely to raise interest rates gradually, by a total of 75 basis points between 2022 and 2024 as growth picks up modestly.

Economic forecast

International assumptions

	2019	2020	2021	2022	2023	2024
Economic growth (%)						
Japan GDP	0.8	0.3	0.9	1.1	0.9	1.0
EU27 GDP	1.5	1.3	1.7	1.8	1.8	1.8
OECD GDP	1.6	1.4	1.8	1.9	1.9	2.0
World GDP	2.8	2.9	3.4	3.6	3.4	3.4
World trade	0.8	2.2	3.4	3.7	3.8	3.8
Inflation indicators (% unless otherwise indicated)						
Japan CPI	0.4	0.7	0.9	1.0	1.1	1.2
EU27 CPI	1.4	1.5	1.7	1.9	1.9	1.8
OECD CPI	1.9	1.9	2.0	2.1	2.1	2.0
Manufactures (measured in US$)	0.0	1.7	4.0	4.0	3.5	3.0
Oil (Brent; US$/b)	64.0	63.0	67.0	71.0	73.8	71.0
Non-oil commodities (measured in US$)	-6.2	1.7	3.0	1.4	1.1	1.3
Financial variables						
¥ 2-month private bill rate (%)	0.0	0.0	0.1	0.1	0.2	0.3
€ 3-month rate (%)	-0.4	-0.4	-0.4	-0.4	-0.2	0.0
US$:€ (av)	1.12	1.13	1.16	1.21	1.24	1.24

Economic growth

Real GDP growth moderated to a still strong 2.3% in 2019, according to initial estimates from the Bureau of Economic Analysis. This was largely driven by firm consumer spending, which accounts for about 70% of total GDP growth, underpinned by record-low unemployment and rising wages. However, the benefit of this was partially offset by weak fixed investment, which contracted quarter on quarter in the last three quarters of 2019. Rising production costs, slowing external demand and trade policy uncertainty all weighed on business profits in 2020, and these factors will continue to dampen the outlook for business investment heading into 2020.

Amid continued policy uncertainty in a contentious election year, and softening external demand (partially related to the economic impact of the coronavirus in China), we expect fixed investment to contract year on year in 2020. Assuming that consumer spending remains fairly firm, we forecast a moderate slowdown in overall growth, to 1.7%. If the Chinese authorities fail to contain the spread of the coronavirus by end-March, as we currently expect, this would entail a sharper slowdown in external demand that would prompt us to revise down our US GDP growth.

Our overall forecast for US GDP growth in 2021-24 remains unchanged, at an average of 2% per year. However, we have revised several of the underlying drivers, on the assumption that Mr Trump wins a second term. Most notably, we have downgraded our forecast for investment growth, to an average of 2.3% per year (2% previously); the Trump administration is likely to open new fronts in its trade war, for instance with Europe, which will extend trade policy uncertainty well into the forecast period and encourage caution among businesses. Also in line with this, we have revised down our forecast for US export growth, to an average of 2.4% per year (2.6% previously) in 2020-24. However, we have increased our forecast for government spending growth, to an average of 1.2% (1% previously), reflecting the Trump administration's willingness to expand the fiscal deficit further.

We maintain our forecast that the US will avoid an outright recession in 2020-21, owing in part to the Fed's recent dovish turn. Yet a handful of risks could compound the slowdown and cause a recession. These include a possible crash in high-value tech stocks (a possible side effect of the US and China's competition for technological dominance), a collapse in the poor-quality leveraged loans market in the US, or a failure to contain the coronavirus in 2020.

Economic growth

%	2019[a]	2020[b]	2021[b]	2022[b]	2023[b]	2024[b]
GDP	2.3	1.7	1.9	2.0	1.8	2.2
Private consumption	2.6	2.3	2.3	2.6	2.2	2.6
Government consumption	2.3	1.9	1.2	1.4	1.2	1.1
Gross fixed investment	1.3	-0.7	1.7	2.3	2.5	3.0
Exports of goods & services	0.0	1.4	2.0	2.3	2.7	2.8
Imports of goods & services	1.0	1.8	2.3	3.1	3.7	3.9
Domestic demand	2.4	1.8	1.9	2.2	2.1	2.4
Agriculture	4.0	3.0	2.6	3.0	2.4	2.4
Industry	2.0	0.6	1.0	1.1	0.8	0.8
Services	2.4	2.0	2.1	2.2	2.1	2.5

[a] Economist Intelligence Unit estimates. [b] Economist Intelligence Unit forecasts.

Inflation

Consumer price inflation is likely to remain fairly modest in 2020, at 1.8%, as wage growth begins to moderate compared with 2019 and as the US and China reduce the effective tariff rate through exemptions. The rate of inflation is likely to pick up slightly in 2021, almost meeting the Fed's 2% target, as US and global economic growth begins to recover, helped by greater policy certainty under the next US administration. We then expect inflation to remain at 1.9% per year on average in 2022-24 as the rate of economic growth stabilises and wage growth begins to moderate, easing pressure on prices.

Exchange rates

The US dollar appreciated gradually against the euro during 2019, amid signs of slowing growth in the euro zone. We forecast that the dollar will remain firm against the euro in 2020, as economic activity and interest rates in the euro zone remain lower than in the US. As the euro zone outlook improves, we expect the US dollar to soften gradually in 2021-24.

External sector

The current account will remain in deficit as the strong US dollar (by historical standards) and structural imbalances—such as the shift of low-cost manufacturing to Asia and Latin America—fuel the trade deficit. We expect the deficit to widen to an average of 2.6% of GDP per year in 2020-21, as slowing global economic growth dampens demand for US goods. The deficit is forecast to narrow gradually as a share of GDP, from 2.4% in 2022 to 2.2% in 2024, amid rising US energy exports and modest import growth.

Forecast summary

(% unless otherwise indicated)

	2019[a]	2020[b]	2021[b]	2022[b]	2023[b]	2024[b]
Real GDP growth	2.3	1.7	1.9	2.0	1.8	2.2
Gross fixed investment growth	1.3	-0.7	1.7	2.3	2.5	3.0
Industrial production growth	0.8[c]	-0.6	1.6	1.9	1.8	1.8
Unemployment rate (av)	3.7[c]	4.2	4.3	4.1	4.6	4.4

Forecast summary

(% unless otherwise indicated)

	2019[a]	2020[b]	2021[b]	2022[b]	2023[b]	2024[b]
Consumer price inflation (av)	1.8[c]	1.8	1.9	2.1	1.8	1.8
Consumer price inflation (end-period)	2.1[c]	1.8	2.0	1.9	1.8	1.8
US$ 3-month commercial paper rate	2.2[c]	1.5	1.6	1.8	2.0	2.2
Fed funds target rate (end-period)	1.6	1.4	1.4	1.9	1.9	2.4
Federal government budget balance (% of GDP)[d]	-4.6	-5.0	-4.8	-4.6	-4.7	-4.4
Exports of goods fob (US$ bn)	1,646	1,673	1,744	1,847	1,942	2,038
Imports of goods fob (US$ bn)	2,548	2,596	2,666	2,799	2,938	3,040
Current-account balance (US$ bn)	-530	-588	-591	-571	-557	-546
Current-account balance (% of GDP)	-2.5	-2.7	-2.6	-2.4	-2.3	-2.2
Exchange rate US$:€ (av)	1.12	1.13	1.16	1.21	1.24	1.24
Exchange rate US$:€ (end-period)	1.11	1.13	1.18	1.22	1.24	1.24
Exchange rate ¥:US$ (av)	109.0	106.7	104.6	101.1	97.6	95.4

[a] Economist Intelligence Unit estimates. [b] Economist Intelligence Unit forecasts. [c] Actual. [d] Federal government, financial year (October-September).

Quarterly forecasts

	2019				2020				2021			
	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr
GDP												
% change, quarter on quarter	3.1	2.0	2.1	2.1	1.3	1.3	1.7	2.0	1.8	2.0	1.9	2.0
% change, year on year	2.7	2.3	2.1	2.3	1.9	1.7	1.6	1.6	1.7	1.9	1.9	1.9
Private consumption												
% change, quarter on quarter	1.1	4.6	3.1	1.8	1.9	1.9	2.2	2.6	2.1	2.3	2.3	2.4
% change, year on year	2.5	2.6	2.6	2.6	2.8	2.2	1.9	2.1	2.2	2.3	2.3	2.3
Government consumption												
% change, quarter on quarter	2.9	4.8	1.7	2.7	1.3	1.3	1.7	2.1	0.7	1.0	0.9	1.1
% change, year on year	1.8	2.3	2.2	3.0	2.6	1.8	1.8	1.6	1.5	1.4	1.2	0.9
Gross fixed investment												
% change, quarter on quarter	5.9	-6.6	-0.8	-7.1	7.5	-1.1	0.6	0.5	0.7	3.1	1.9	2.4
% change, year on year	2.9	1.3	0.9	0.2	-0.8	-0.7	-0.7	-0.7	0.2	1.3	2.2	3.1
Exports of goods & services												
% change, quarter on quarter	4.2	-5.7	0.9	1.4	2.2	2.1	2.5	2.8	1.5	1.7	1.7	1.8
% change, year on year	1.2	-1.7	0.2	0.2	-0.3	1.7	2.1	2.4	2.2	2.1	1.9	1.7
Imports of goods & services												
% change, quarter on quarter	-1.5	0.0	1.8	-8.7	5.3	5.3	5.5	5.8	0.2	0.4	0.4	0.5
% change, year on year	2.6	2.6	0.9	-2.2	-0.5	0.7	1.7	5.5	4.2	3.0	1.7	0.4
Domestic demand												
% change, quarter on quarter	2.3	2.4	2.2	0.2	2.8	1.2	1.8	2.1	1.6	2.2	2.0	2.2
% change, year on year	2.8	2.9	2.1	1.8	2.0	1.6	1.5	2.0	1.7	2.0	2.0	2.0
Consumer prices												
% change, quarter on quarter	0.2	0.7	0.5	0.6	0.3	0.4	0.4	0.5	0.4	0.5	0.6	0.7
% change, year on year	1.6	1.8	1.8	2.0	2.1	1.7	1.7	1.6	1.7	1.8	2.0	2.2
Producer prices												
% change, quarter on quarter	-0.1	0.8	0.2	0.2	0.2	0.2	0.3	0.3	0.5	0.5	0.6	0.5
% change, year on year	1.9	2.0	1.6	1.1	1.4	0.8	0.9	1.0	1.3	1.7	2.0	2.2
Exchange rate US$:€ (av)												
Average	1.14	1.12	1.11	1.11	1.12	1.12	1.13	1.13	1.13	1.13	1.13	1.13
Interest rates (%; av)												
Fed funds target rate (end-period)	2.4	2.4	1.9	1.6	1.6	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Long-term bond yield	2.7	2.3	1.8	1.8	1.6	1.6	1.5	1.6	1.7	1.8	1.8	1.9

Note. For GDP and its components, % change quarter-on-quarter figures are annualised growth rates.

Data and charts

Annual data and forecast

	2015[a]	2016[a]	2017[a]	2018[a]	2019[b]	2020[c]	2021[c]
GDP							
Nominal GDP (US$ bn)	18,225	18,715	19,519	20,580	21,429	22,197	23,040
Real GDP growth (%)	2.9	1.6	2.4	2.9	2.3	1.7	1.9
Expenditure on GDP (% real change)							
Private consumption	3.7	2.7	2.6	3.0	2.6	2.3	2.3
Government consumption	1.9	1.8	0.7	1.7	2.3	1.9	1.2
Gross fixed investment	3.4	1.9	4.2	4.6	1.3	-0.7	1.7
Exports of goods & services	0.5	0.0	3.5	3.0	0.0	1.4	2.0
Imports of goods & services	5.3	2.0	4.7	4.4	1.0	1.8	2.3
Origin of GDP (% real change)							
Agriculture	6.6	4.8	-1.5	-1.4	4.0	3.0	2.6
Industry	2.4	-0.1	3.0	3.2	2.0	0.6	1.0
Services	3.0	1.9	2.4	3.0	2.4	2.0	2.1
Population and income							
Population (m)	321.3	323.9	326.5	329.2	331.9[a]	334.6	337.1
GDP per head (US$ at PPP)	56,715	57,783	59,787	62,516	64,574	66,349	68,348
Recorded unemployment (av; %)	5.3	4.9	4.3	3.9	3.7[a]	4.2	4.3
Fiscal indicators (% of GDP)							
Public-sector balance[d]	-2.4	-3.2	-3.5	-3.8	-4.6	-5.0	-4.8
Public-sector debt interest payments	1.2	1.3	1.4	1.6	1.9	2.2	1.7
Public-sector primary balance	-1.2	-1.9	-2.1	-2.2	-2.8	-2.8	-3.0
Net public debt	72.5	76.1	76.0	77.4	79.7	82.3	84.2
Prices and financial indicators							
Exchange rate US$:€ (average)	1.11	1.11	1.13	1.18	1.12	1.13	1.16
Consumer prices (average; %)	0.1	1.3	2.1	2.4	1.8[a]	1.8	1.9
Producer prices (av; %)	-0.9	0.4	2.3	2.9	1.7[a]	1.0	1.8
Stock of money M1 (% change)	7.3	7.5	8.5	4.4	4.4	4.3	4.7
Stock of money M2 (% change)	5.8	6.8	5.7	3.9	8.2	4.5	5.7
Fed funds target rate (end-period: %)	0.4	0.6	1.4	2.4	1.6	1.4	1.4
Current account (US$ bn)							
Trade balance	-762	-750	-805	-887	-902	-923	-922
Goods: exports fob	1,511	1,457	1,554	1,674	1,646	1,673	1,744
Goods: imports fob	-2,273	-2,207	-2,359	-2,562	-2,548	-2,596	-2,666
Services balance	263	247	255	260	241	229	241
Primary income balance	204	199	226	254	240	212	200
Secondary income balance	-113	-124	-115	-117	-109	-107	-111
Current-account balance	-408	-428	-440	-491	-530	-588	-591
International reserves (US$ bn)							
Total international reserves	118	117	123	126	–	–	–

[a] Actual. [b] Economist Intelligence Unit estimates. [c] Economist Intelligence Unit forecasts. [d] Federal government, financial year (October-September).

Source: IMF, *International Financial Statistics*.

Quarterly data

	2018				2019			
	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr
Federal government finance (US$ bn)								
Revenue	727.5	1043.8	787.9	771.2	736.1	1101.6	853.4	806.5
Expenditure	1102.2	1051.2	959.8	1090.2	1108.3	1157.5	1090.6	1163.1
Balance	-374.7	-7.4	-171.9	-318.9	-372.2	-55.9	-237.3	-356.6
Output[a]								
GDP at current prices (annualised; US$ bn)	20,163	20,510	20,750	20,898	21,099	21,340	21,543	21,734
GDP at chained 2005 prices (annualised; US$ bn)	18,438	18,598	18,733	18,784	18,927	19,022	19,121	19,220
GDP at chained 2005 prices (% change, year on year)	2.9	3.2	3.1	2.5	2.7	2.3	2.1	2.3
Industrial production index (2012=100)	106.7	107.9	109.3	110.3	109.8	109.2	109.5	109.5
Industrial production (% change, year on year)	3.7	3.4	4.9	4.0	2.9	1.1	0.2	-0.8
Employment, wages and prices[a]								
Employment (m)	154.9	155.6	155.9	156.6	156.7	156.9	157.8	158.6
Unemployment actual (m)	6.57	6.38	6.13	6.15	6.30	5.92	5.93	5.81
Unemployment rate (%)	4.1	3.9	3.8	3.8	3.9	3.6	3.6	3.5
Average hourly earnings (US$)	22.4	22.6	22.8	23.0	23.2	23.4	23.6	23.8
Consumer prices (1982-84=100)	249.2	250.6	251.9	252.7	253.3	255.2	256.3	257.8
Consumer prices (% change, year on year)	2.2	2.7	2.7	2.2	1.6	1.8	1.8	2.0
Producer prices, finished goods (1982=100)	115.1	115.9	116.6	117.4	117.3	118.3	118.5	118.7
Producer prices (% change, year on year)	2.8	3.0	3.1	2.8	1.9	2.0	1.6	1.1
Financial indicators								
Exchange rate ¥:US$ (end-period)	106.2	110.7	113.5	109.7	110.7	107.8	108.1	108.7
Exchange rate US$:€ (end-period)	1.23	1.17	1.16	1.15	1.12	1.14	1.09	1.12
Exchange rate US$:£ (end-period)	1.40	1.32	1.31	1.28	1.30	1.27	1.23	1.33
Fed funds target rate (end-period; %)	1.63	1.88	2.13	2.38	2.38	2.38	1.88	1.63
10-year Treasury bond rate (av; %)	2.76	2.92	2.93	3.03	2.65	2.33	1.80	1.79
M1 (US$ bn, period average)	3,636	3,670	3,679	3,731	3,734	3,812	3,861	3,963
M1 (% change, year on year)	6.7	4.5	3.3	3.1	2.7	3.9	5.0	6.2
M2 (US$ bn, period average)	13,907	14,046	14,165	14,310	14,476	14,654	14,910	15,280
M2 (% change, year on year)	4.1	3.9	3.8	3.5	4.1	4.3	5.3	6.8
S&P 500 share price index (1941-43=10)[b]	2,641	2,718	2,914	2,507	2,834	2,942	2,977	3,231
S&P 500 share prices (% change, year on year)[b]	11.8	12.2	15.7	-6.2	7.3	8.2	2.2	28.9
Sectoral trends[a]								
New orders: manufacturing (US$ bn)[a]	1,472.7	1,493.7	1,522.1	1,504.9	1,501.8	1,481.2	1,495.3	1,486.7
Housing starts, private (‘000)	330.0	315.0	309.0	296.0	304.0	314.0	321.0	361.0
Foreign trade (US$ bn)[a]								
Exports fas	408.6	424.9	417.5	415.0	415.7	411.3	410.5	408.1
Imports cv	-626.6	-628.3	-642.1	-643.9	-630.6	-632.5	-627.8	-607.6
Trade balance	-218.0	-203.4	-224.6	-228.9	-214.9	-221.2	-217.3	-199.5
Foreign payments (US$ bn)								
Merchandise trade balance[a]	-220.7	-206.4	-227.9	-232.3	-216.7	-223.2	-219.6	n/a
Services balance[a]	67.6	66.4	64.5	61.2	60.3	64.1	62.2	n/a
Primary income balance[a]	66.4	62.8	64.7	60.1	56.9	66.6	68.7	n/a
Net transfer payments[a]	-27.3	-30.1	-27.0	-32.8	-36.6	-32.7	-35.5	n/a
Current-account balance[a]	-114.0	-107.3	-125.7	-143.9	-136.2	-125.2	-124.1	n/a
Reserves excl gold (end-period)	115.3	114.1	112.7	114.8	114.1	117.3	116.6	118.4

[a] Seasonally adjusted. [b] Standard & Poor's 500 composite index; end-period.

Sources: Government Printing Office, *Economic Indicators*; Department of the Treasury, *Monthly Treasury Statement*; IMF, *International Financial Statistics*.

Monthly data

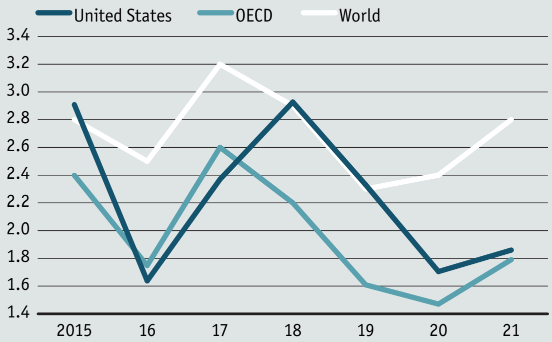
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Exchange rate US$:€ (end-period)												
2017	1.08	1.06	1.07	1.09	1.12	1.14	1.17	1.18	1.18	1.16	1.18	1.20
2018	1.25	1.22	1.23	1.21	1.17	1.17	1.17	1.17	1.16	1.13	1.14	1.15
2019	1.15	1.14	1.12	1.12	1.12	1.14	1.12	1.10	1.09	1.12	1.10	n/a
LIBOR rate on 3-month deposits (%)												
2017	1.0	1.0	1.1	1.2	1.2	1.3	1.3	1.3	1.3	1.4	1.4	1.6
2018	1.7	1.9	2.2	2.3	2.3	2.3	2.3	2.3	2.3	2.5	2.6	2.8
2019	2.8	2.7	2.6	2.6	2.5	2.4	2.3	2.2	2.1	2.0	1.9	n/a
Prime lending rate on short-term loans (%)												
2017	3.8	3.8	3.9	4.0	4.0	4.1	4.3	4.3	4.3	4.3	4.3	4.4
2018	4.5	4.5	4.6	4.8	4.8	4.9	5.0	5.0	5.0	5.3	5.3	5.4
2019	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.3	5.2	5.0	4.8	n/a
Fed funds target rate (end-period; %)												
2017	0.63	0.63	0.88	0.88	0.88	1.13	1.13	1.13	1.13	1.13	1.13	1.38
2018	1.38	1.38	1.63	1.63	1.63	1.88	1.88	1.88	2.13	2.13	2.13	2.38
2019	2.38	2.38	2.38	2.38	2.38	2.38	2.38	2.13	1.88	1.63	1.63	n/a
Budget revenue (US$ bn)												
2017	344.1	171.7	216.6	455.6	240.4	338.7	232.0	226.3	348.7	235.3	208.4	325.8
2018	361.0	155.6	210.8	510.4	217.1	316.3	225.3	219.1	343.6	252.7	206.0	312.6
2019	340.0	167.3	228.8	535.5	232.1	334.0	251.3	228.0	374.1	245.5	225.2	n/a
Budget expenditure (US$ bn)												
2017	292.8	363.8	392.8	273.2	328.8	428.9	275.0	334.0	340.8	298.6	346.9	349.0
2018	311.8	370.9	419.6	296.2	363.9	391.1	302.1	433.3	224.4	353.2	410.9	326.1
2019	331.3	401.2	375.8	375.2	439.8	342.4	371.0	428.3	291.3	380.0	434.0	n/a
Budget balance (US$ bn)												
2017	51.3	-192.0	-176.2	182.4	-88.4	-90.2	-42.9	-107.7	7.9	-63.2	-138.5	-23.2
2018	49.2	-215.2	-208.7	214.3	-146.8	-74.9	-76.9	-214.1	119.1	-100.5	-204.9	-13.5
2019	8.7	-234.0	-146.9	160.3	-207.8	-8.5	-119.7	-200.3	82.8	-134.5	-208.8	n/a
M1 (% change, year on year)												
2017	9.5	8.4	9.4	7.9	8.7	8.6	9.4	8.1	7.5	8.2	8.3	7.9
2018	7.8	6.2	6.1	6.0	4.0	3.6	3.7	2.7	3.7	3.2	2.0	3.9
2019	2.5	3.8	1.8	3.3	3.6	4.7	5.0	4.4	5.5	5.5	6.7	n/a
M2 (% change, year on year)												
2017	6.5	6.3	6.4	6.2	6.1	5.8	5.7	5.5	5.3	5.1	4.7	4.8
2018	4.4	4.1	4.0	3.8	3.9	4.2	4.0	3.9	3.7	3.4	3.3	3.7
2019	4.2	4.1	4.0	4.0	4.3	4.7	5.0	5.2	5.6	6.5	7.1	n/a
Industrial production (seasonally adjusted; % change, year on year)												
2017	0.0	0.4	1.9	2.8	3.0	2.6	2.4	2.0	2.1	3.3	4.0	3.5
2018	3.2	3.9	3.9	3.7	2.9	3.4	4.0	5.3	5.4	4.1	4.0	3.8
2019	3.6	2.8	2.2	0.7	1.7	1.0	0.4	0.4	-0.2	-0.8	-0.5	n/a
Retail sales volume (seasonally adjusted; % change, year on year)												
2017	4.4	2.6	3.3	3.9	3.7	3.5	3.3	3.0	3.9	4.4	4.8	4.5
2018	3.6	3.8	3.8	3.3	4.4	3.8	4.2	4.5	3.0	3.4	3.2	1.3
2019	3.2	2.5	3.9	3.7	3.2	3.7	3.7	4.5	4.5	3.7	3.5	n/a
Stockmarket index (S&P 500, 1941-43=10)												
2017	2,279	2,364	2,363	2,384	2,412	2,423	2,470	2,472	2,519	2,575	2,648	2,674
2018	2,824	2,714	2,641	2,648	2,705	2,718	2,816	2,902	2,914	2,712	2,760	2,507
2019	2,704	2,784	2,834	2,946	2,752	2,942	2,980	2,926	2,977	3,038	3,141	n/a

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Consumer prices (% change, year on year)												
2017	2.5	2.7	2.4	2.2	1.9	1.7	1.8	2.0	2.2	2.0	2.2	2.1
2018	2.1	2.2	2.3	2.4	2.8	2.9	2.9	2.7	2.4	2.5	2.2	1.9
2019	1.5	1.5	1.9	2.0	1.8	1.7	1.8	1.7	1.7	1.8	2.0	n/a
Consumer price index excl food and energy (seasonally adjusted; 1982-84=100)												
2017	250.5	251.0	250.9	251.1	251.4	251.7	252.0	252.6	252.9	253.5	253.9	254.4
2018	255.1	255.6	256.1	256.5	257.1	257.4	257.9	258.1	258.6	259.0	259.5	260.0
2019	260.6	260.9	261.3	261.8	262.2	262.9	263.6	264.2	264.7	265.0	265.5	n/a
Price index for personal consumption expenditure excl food and energy (2000=100, % change, year on year)												
2017	1.9	1.8	1.6	1.6	1.6	1.6	1.5	1.4	1.5	1.6	1.7	1.7
2018	1.7	1.7	2.0	2.0	2.1	2.0	2.1	2.0	2.0	1.9	2.0	2.0
2019	1.8	1.6	1.5	1.6	1.5	1.6	1.6	1.8	1.7	1.6	1.5	n/a
Producer prices (seasonally adjusted; % change, year on year)												
2017	1.7	2.0	2.2	2.5	2.3	1.8	2.0	2.5	2.5	2.7	2.9	2.6
2018	2.6	2.9	2.9	2.7	3.0	3.3	3.4	3.0	2.8	3.2	2.7	2.6
2019	1.9	1.8	2.0	2.3	2.1	1.6	1.7	1.8	1.4	1.0	1.0	n/a
Unemployment rate (seasonally adjusted; %)												
2017	4.7	4.6	4.4	4.4	4.4	4.3	4.3	4.4	4.2	4.1	4.2	4.1
2018	4.1	4.1	4.0	4.0	3.8	4.0	3.8	3.8	3.7	3.8	3.7	3.9
2019	4.0	3.8	3.8	3.6	3.6	3.7	3.7	3.7	3.5	3.6	3.5	n/a
Average hourly wages (seasonally adjusted; % change, year on year)												
2017	2.3	2.4	2.2	2.2	2.3	2.3	2.3	2.3	2.6	2.2	2.3	2.5
2018	2.5	2.5	2.8	2.8	2.9	2.9	2.9	3.1	3.0	3.2	3.5	3.5
2019	3.4	3.5	3.5	3.5	3.6	3.5	3.7	3.7	3.7	3.8	3.5	n/a
Total exports fas (US$ bn; seasonally adjusted)												
2017	126.7	126.7	126.4	125.9	126.4	127.8	127.7	128.0	129.8	130.5	133.5	137.1
2018	132.9	135.6	140.1	139.6	143.8	141.5	139.2	138.2	140.1	140.6	138.5	136.0
2019	137.1	138.5	140.1	135.6	139.7	136.0	137.2	137.6	135.7	135.1	135.9	n/a
Total imports cv (US$ bn; seasonally adjusted)												
2017	192.9	190.0	190.9	193.0	192.3	193.0	191.9	192.1	194.1	196.9	204.0	208.9
2018	206.8	210.7	209.2	209.0	209.4	210.0	212.3	213.4	216.3	216.7	211.4	215.8
2019	209.4	208.8	212.3	206.9	215.0	210.6	210.0	211.1	206.8	202.2	199.6	n/a
Trade balance fas-cv (US$ bn; seasonally adjusted)												
2017	-66.2	-63.3	-64.5	-67.1	-65.9	-65.1	-64.2	-64.1	-64.3	-66.4	-70.5	-71.8
2018	-73.9	-75.0	-69.1	-69.3	-65.6	-68.5	-73.1	-75.3	-76.2	-76.1	-72.9	-79.8
2019	-72.3	-70.3	-72.2	-71.4	-75.2	-74.6	-72.8	-73.5	-71.1	-67.1	-63.7	n/a
Foreign-exchange reserves excl gold (US$ bn)												
2017	108.1	107.2	107.8	109.0	110.7	111.0	112.6	113.5	112.8	111.6	112.4	112.3
2018	115.2	114.7	115.3	113.5	111.8	114.1	113.7	113.5	112.7	112.5	112.5	114.8
2019	115.3	114.8	114.1	116.2	115.9	117.3	117.8	117.5	116.6	117.8	116.9	n/a

Sources: IMF, *International Financial Statistics*; Haver Analytics.

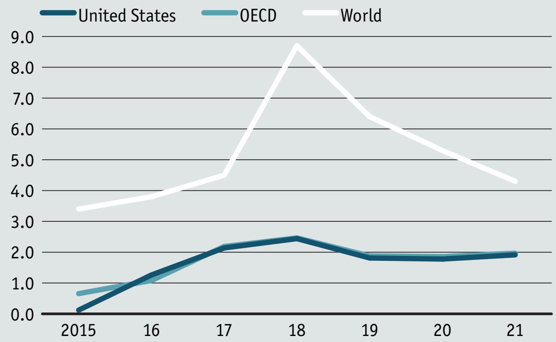
Annual trends charts

Real GDP growth
(% change)



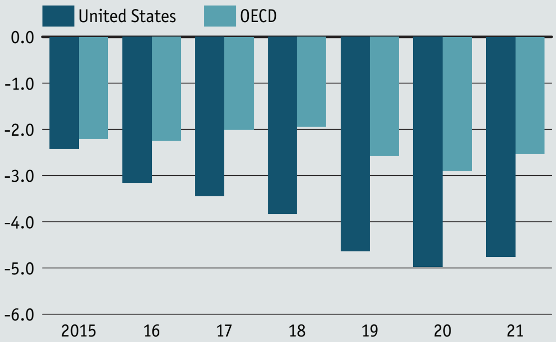
Source: The Economist Intelligence Unit.

Consumer price inflation
(av; %)



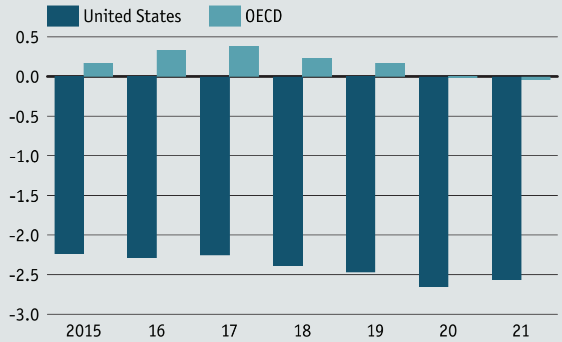
Source: The Economist Intelligence Unit.

Budget balance
(% of GDP)



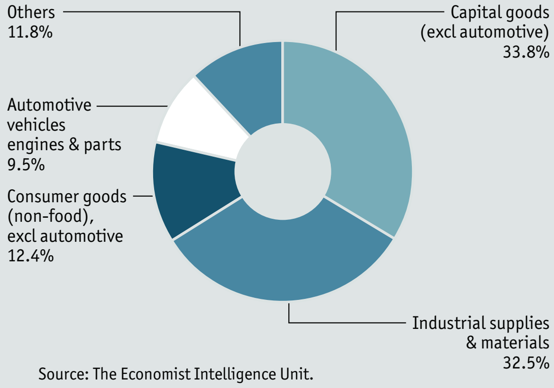
Source: The Economist Intelligence Unit.

Current-account balance
(% of GDP)



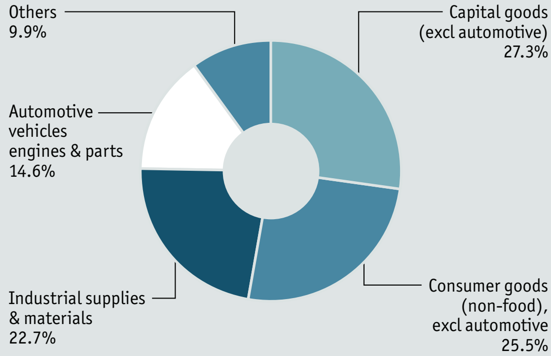
Source: The Economist Intelligence Unit.

Goods exports, 2018
(share of total)



Source: The Economist Intelligence Unit.

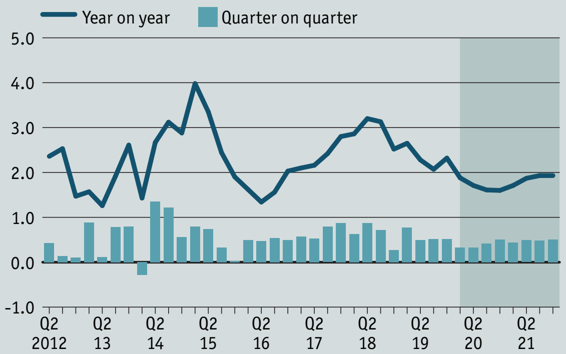
Goods imports, 2018
(share of total)



Source: The Economist Intelligence Unit.

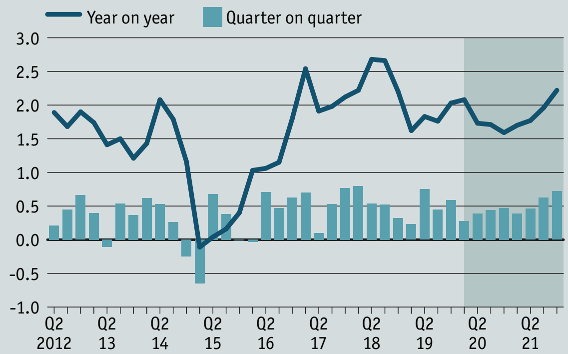
Quarterly trends charts

Real GDP growth
(% change)



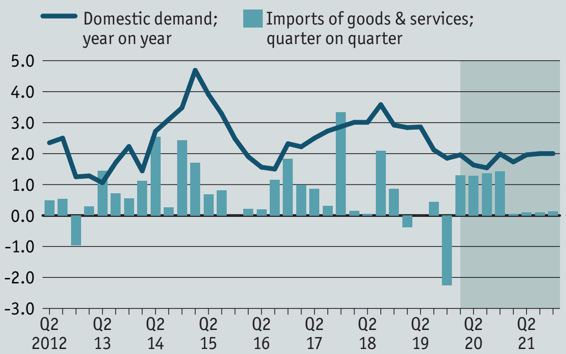
Source: The Economist Intelligence Unit.

Consumer price inflation
(av; %)



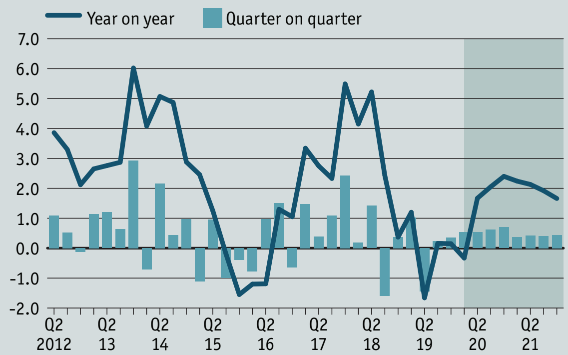
Source: The Economist Intelligence Unit.

Imports and domestic demand
(% change)



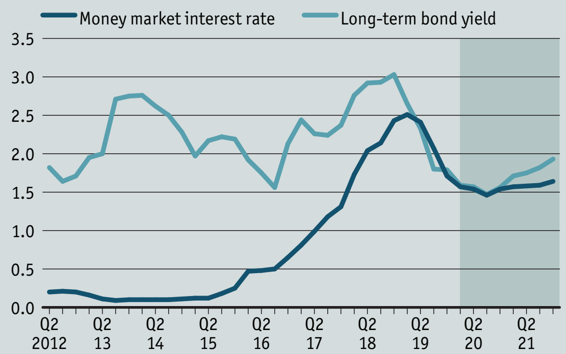
Source: The Economist Intelligence Unit.

Exports of goods and services
(% change)



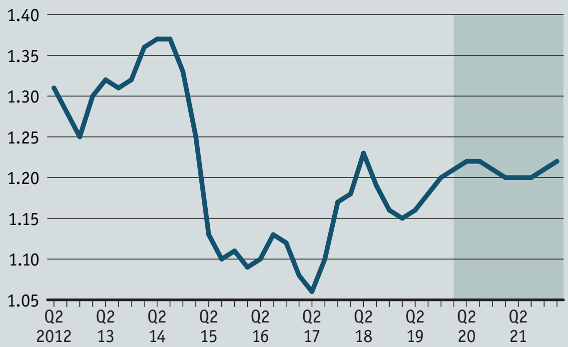
Source: The Economist Intelligence Unit.

Interest rates
(av; %)



Source: The Economist Intelligence Unit.

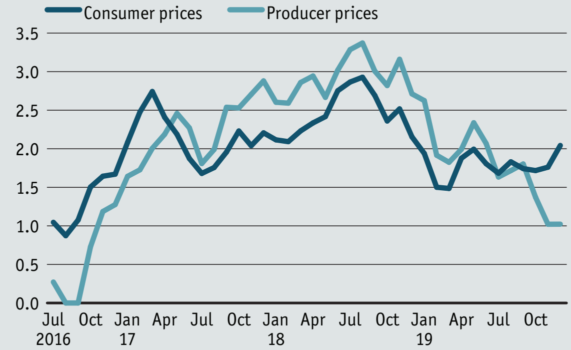
Exchange rate
(US$:€; av)



Source: The Economist Intelligence Unit.

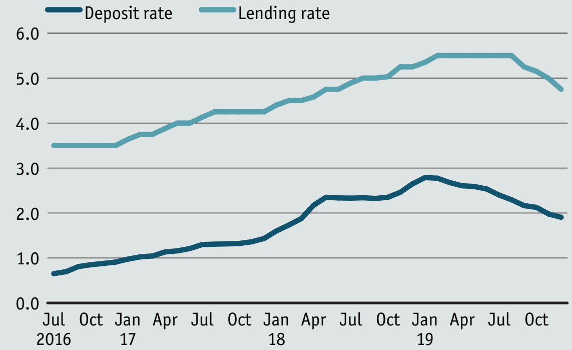
Monthly trends charts

Price inflation
(% change, year on year)



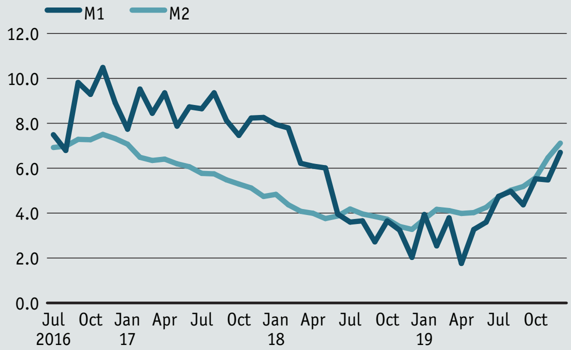
Source: The Economist Intelligence Unit.

Interest rates
(av; %)



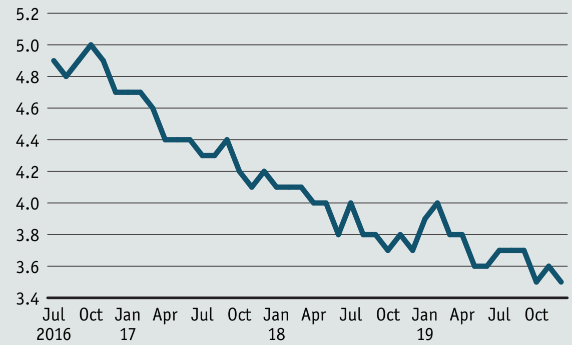
Source: The Economist Intelligence Unit.

Monetary aggregates
(% change, year on year)



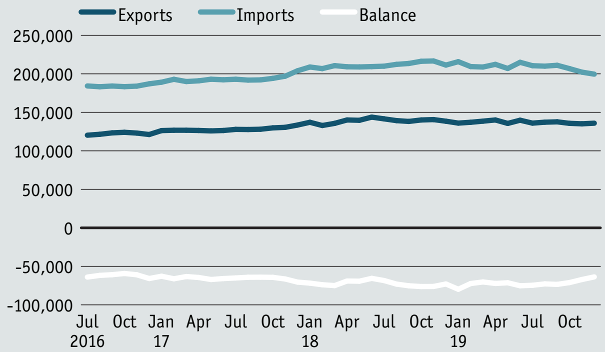
Source: The Economist Intelligence Unit.

Unemployment rate
(%)



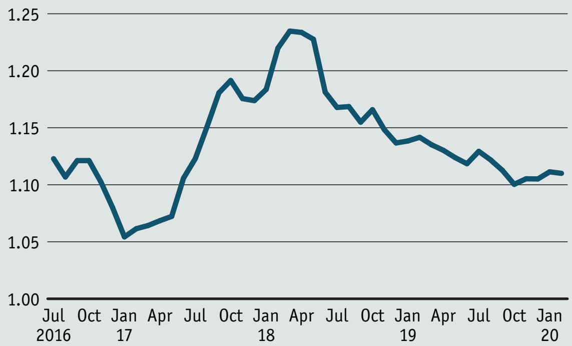
Source: The Economist Intelligence Unit.

Foreign trade
(US$ m; goods only)



Source: The Economist Intelligence Unit.

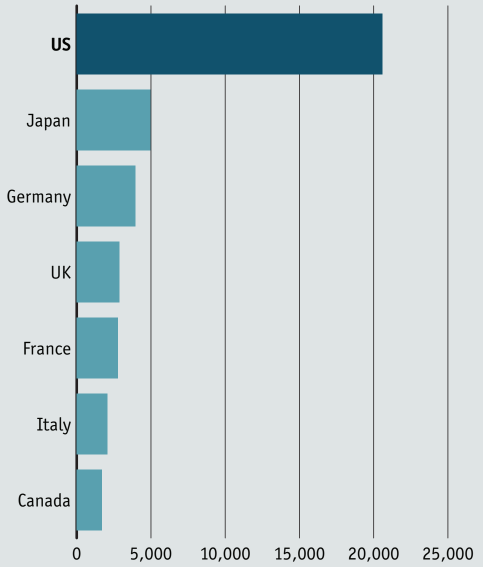
Exchange rate
(US$:€; av)



Source: The Economist Intelligence Unit.

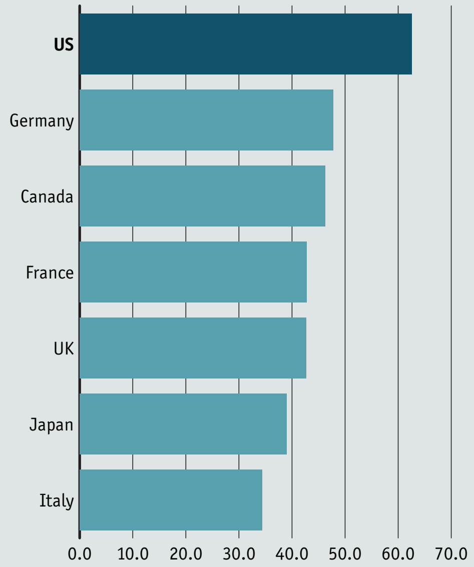
Comparative economic indicators, 2018

Gross domestic product
(US$ bn; market exchange rates)



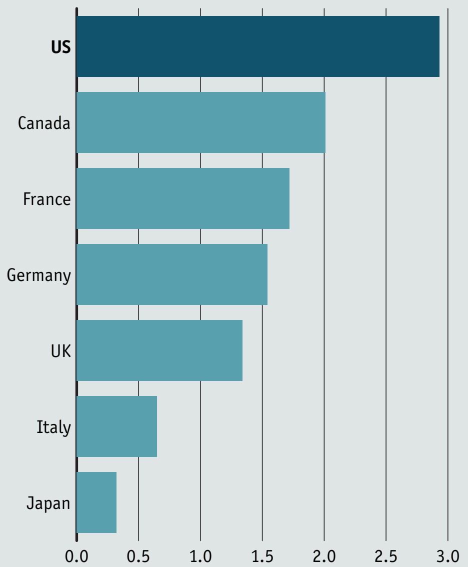
Sources: Economist Intelligence Unit estimates; national sources.

Gross domestic product per head
(US$ '000; market exchange rates)



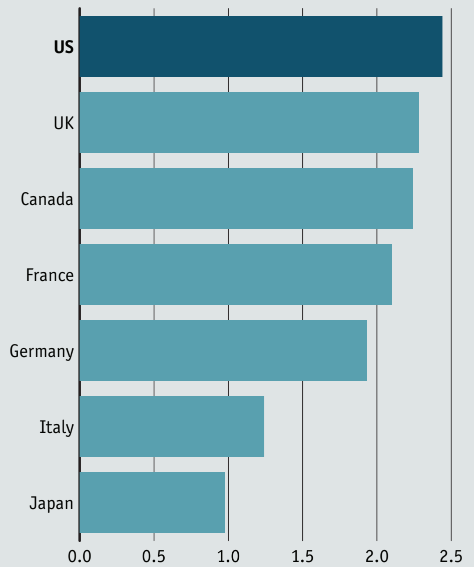
Sources: Economist Intelligence Unit estimates; national sources.

Gross domestic product
(% change, year on year)



Sources: Economist Intelligence Unit estimates; national sources.

Consumer prices
(% change, year on year)



Sources: Economist Intelligence Unit estimates; national sources.

Country snapshot

Basic data

Land area 9,161,923 sq km

Population 329.2m (2018 estimate)

Main urban centres (incl suburbs) Population in millions (July 1st 2013 Census Bureau estimates)

New York	19.9	Houston	6.3
Los Angeles	13.1	Philadelphia	6.0
Chicago	9.5	Washington DC	5.9
Dallas-Fort Worth	6.8	Miami	5.8

Climate Mainly temperate; subtropical in the South

Weather in Washington, DC (altitude 22 metres) Hottest month, July, 21-31°C; coldest month, January, −3-6°C; driest month, February, 69 mm average rainfall; wettest month, August, 99 mm average rainfall

Language English

Measures Previous UK (imperial) system, except

US gallon	=	0.833 UK gallon
US bushel	=	0.969 UK bushel
US short ton	=	2,000 lb

Currency Dollar (US$) = 100 cents
Average exchange rate in 2018: US$1.18:€1

Time Hours behind GMT

Eastern zone	5	Alaska: Hyder	8
Central zone	6	Aleutian Islands west of 169.30°W	10
Mountain zone	7	St Lawrence Island	10
Pacific zone	8	Rest of Alaska	9
Hawaii	10		

Fiscal year The federal government fiscal year, for example for 2020, runs from October 1st 2019 to September 30th 2020. State and local fiscal years can differ

Holidays in 2020 New Year's Day (January 1st); Martin Luther King Day (January 20th); President's Day (February 17th); Memorial Day (May 25th); Independence Day (July 3rd, in lieu); Labour Day (September 7th); Columbus Day (October 12th); Veterans' Day (November 11th); Thanksgiving (November 26th); Christmas Day (December 25th)

Political structure

Official name	United States of America
Form of state	Federal republic
Legal system	Based on the constitution of 1787
Federal legislature	Bicameral: Senate of 100 members directly elected on a plurality (first-past-the-post) system for a six-year term, with one-third of its seats up for election every two years; House of Representatives (the lower house) of 435 members directly elected on a plurality basis for a two-year term. The Senate (the upper house) has the power to confirm or reject presidential appointments, including the cabinet, and to ratify treaties; the House of Representatives has the sole right to initiate revenue bills, but the Senate may amend or reject them
Electoral system	Universal direct suffrage from the age of 18
National elections	The last elections were held on November 6th 2018 (House of Representatives and one-third of the Senate); the next elections will be held on November 3rd 2020 (presidential; entire House of Representatives and one-third of the Senate)
Head of state	Executive president elected by popular vote via an electoral college of 538 members, for a maximum of two four-year terms. On January 20th 2017 Donald Trump (Republican) replaced Barack Obama (Democrat) as president, with Mike Pence as vice-president
State legislatures	Each of the 50 states, except Nebraska (which has a unicameral system), has a bicameral legislature that essentially follows the model of the federal legislature. The states have certain fiscal and legal rights. Some states now limit the number of terms that their elected representatives can serve
National government	The administration is appointed by and responsible to the president; its senior officials are subject to confirmation by the Senate

Cabinet secretaries	**Agriculture**	Sonny Perdue
	Attorney-general	William Barr
	Commerce	Wilbur Ross
	Defence	Mark Esper
	Education	Betsey DeVos
	Energy	Dan Brouillette
	Health & human services	Alex Azar
	Homeland security (acting)	Chad Wolf
	Housing & urban development	Ben Carson
	Interior	David Bernhardt
	Labour	Eugene Scalia
	State	Mike Pompeo
	Transport	Elaine Chao
	Treasury	Steven Mnuchin
Other offices with cabinet rank	**Environmental Protection Agency**	Andrew Wheeler
	Office of Management & Budget (acting)	Russell Vought
	President's Chief of Staff (acting)	Mick Mulvaney
	United States Trade Representative	Robert Lighthizer
Chairman of the Federal Reserve	Jerome Powell	

Recent analysis

The following articles were published on our website in the period between our previous print report and this one, and serve here as a review of the developments that shaped our outlook. They are available in real time on our website. Print-only subscribers can request a free upgrade to web access by sending an e-mail to that effect to eiustore@eiu.com. You will then be able to access all up-to-date Country Report content at any time at www.eiu.com and your print copies will cease

Politics

Updates

March 18th 2020 China revokes credentials of more foreign journalists

Event

On March 18th China announced it would, within ten days, revoke the press credentials of all US staff working for the Wall Street Journal, New York Times and the Washington Post.

Analysis

The developments are part of an ongoing tit-for-tat campaign around the US and Chinese media presence in each other's market. China's Ministry of Foreign Affairs (MOFA) also clarified that China would forbid the expelled journalists from reporting in Hong Kong and Macau.

It is unclear how these prohibitions will be legally implemented, as both territories maintain separate immigration administrations from the mainland and are governed under mini-constitutions that guarantee freedom of speech and of the press. While China has more frequently intervened in Hong Kong's political affairs in recent years, direct intervention in immigration decisions would further erode the "one country, two systems" model governing both territories. It would likely also exacerbate already elevated tensions in the territory between the Hong Kong government and the opposition (including its supporters) and could act as a catalyst for social unrest later in 2020.

More broadly, the latest developments point to an increasingly rapid deterioration in US-China relations, which has been exacerbated by the novel coronavirus outbreak. In recent weeks, Tom Cotton, a US Republican senator, has publicly suggested (without evidence) that the coronavirus is a Chinese bio-weapon. Zhao Lijian, a spokesperson for MOFA, has suggested (also without evidence) via Twitter that the epidemic may have been brought to China by the US armed forces.

These and other similar allegations by US and Chinese political actors are already creeping into mainstream news and social media channels in both countries. Chinese state media, for instance, have recently begun casting doubt on whether the virus began in Wuhan, in an effort to reduce criticism of the government's handling of the crisis. Tighter controls over reporting by foreign media will support this goal. The US president, Donald Trump, has called the epidemic a "Chinese virus", in an attempt to deflect criticism of his administration's own crisis response. These moves will further erode bilateral trust, derailing any potential co-operative effort between the world's two largest economies to mitigate the pandemic and hindering de-escalation of US-China tensions more broadly.

Impact on the forecast

Worsening bilateral tensions in relation to the coronavirus mean that US-China relations will remain strained in 2020-24, even if tariffs are reduced out of economic necessity (although that remains outside of our core forecast).

March 13th 2020 US grants further temporary reprieve to Huawei

Event

On March 10th the Bureau of Industry and Security (BIS) under the US Department of Commerce announced that it would extend the temporary general licence (TGL) given to Huawei, a Chinese telecoms equipment company, for a further 45 days.

Analysis

The US first offered the TGL to Huawei in May 2019, the same month when it placed that company on the US's "entity list" for alleged violations of US export controls. While originally valid for only 90 days, the US has since extended the TGL in August and November 2019 (both for 90 days), and then again in February 2020 (for 45 days). The most recent announcement will extend this timeline for a further 45 days.

The TGL extensions were initially driven by concerns regarding the impact of the US export restrictions on domestic telecoms networks. Many rural US providers depend on Huawei equipment. In its announcement, however, the BIS opened the latest TGL extension to a period of public comment, to determine whether future TGL extensions are warranted. It emphasised that the initial extensions were granted to give users of Huawei products time to shift to alternative equipment, and re-iterated its stance against allowing US technology to be acquired by the company (and its affiliates). Considering that rural providers will have had one year (by May 2020) to find alternative sources, it is unlikely that the BIS will sympathise with arguments highlighting the risk of disruption to domestic telecoms networks.

Other restrictions are also in the pipeline. Beyond the Huawei-specific measures, the US is mulling reducing the de minimis threshold governing US export controls-under which authorities can impose restrictions on certain US-origin-controlled content-from 25% to 10%. It is also considering revising its "foreign direct product" rule, which could enhance US supervision over any foreign-made products that are based on US technology. This could have implications for global chipmakers, as well as major technology-component producing economies, such as Taiwan.

Impact on the forecast

The Economist Intelligence Unit would caution against interpreting these developments as signalling a thaw in US-China technology tensions. There is a high risk that some of these disruptive US regulations will come into force within the first half of 2020, which would increase compliance burdens for both US and international companies. More generally, we expect US-China technology frictions to intensify amid a broader deterioration in bilateral ties in 2020.

March 12th 2020 WHO declares coronavirus outbreak global pandemic

Event

On March 11th the World Health Organisation (WHO) declared that the novel coronavirus (Covid-19) outbreak, which began in China in December, has become a global pandemic.

Analysis

The WHO's decision was based on the spread of the coronavirus worldwide. The pathogen has established a foothold in 114 countries, with a total of more than 126,000 cases as at March 12th. The declaration was also intended to encourage governments to pursue a more co-ordinated approach and to take more decisive action, given expectations that the number of infections will climb further.

March 12th 2020 WHO declares coronavirus outbreak global pandemic (continued)

The WHO's advice to governments remains the same. Countries with no cases, sporadic cases or clusters of cases should focus on tracing, monitoring, isolating and quarantining patients. Those with sustained community transmission should focus on slowing the spread to reduce the strain on healthcare systems. The Economist Intelligence Unit believes that it is still possible for these countries to delay the spread of the outbreak, as seems to be the case in China.

The implementation of social distancing measures by governments may be positive for delaying the spread, but quarantine measures and travel restrictions will have significant economic repercussions. On March 11th the US president, Donald Trump, banned foreign nationals with a history of recent travel to Europe (namely the 26 countries within the Schengen Area) from entering the US for 30 days. These restrictions do not directly target the movement of physical goods-although some cargo flows transported by passenger airlines will be affected-but they will have a negative effect on consumer and business sentiment. This will weigh on transatlantic trade flows, particularly amid the backdrop of simmering US-EU trade tensions.

The latest developments will exacerbate panic across international financial markets. Stock indices have plunged amid the health crisis, and deteriorating market confidence will hurt consumption and investment performance across major economies, further undermining already weak prospects for global growth. This could push some regions-especially those that are exposed to volatility in commodities and currency markets, such as Africa, the Middle East and parts of Asia-to the brink of recession, and some countries in Latin America that are already in recession may slide further into economic turmoil.

Impact on the forecast

We are currently revising down our global growth forecasts for 2020. The WHO declaration raises the risk (to about 30%) that global economic expansion will be even weaker than we currently anticipate. We will address these developments in forthcoming regional analysis pieces.

March 11th 2020 Biden tightens hold on Democratic nomination

Event

On March 10th the former vice-president, Joe Biden, won four out of six primaries, including in the key state of Michigan.

Analysis

The six primaries were a crucial test of support for Mr Biden and his chief rival, a progressive senator from Vermont, Bernie Sanders. Mr Biden amassed a significant lead in the Super Tuesday primaries, kicked off by his landslide win in South Carolina on February 29th. However, Mr Sanders has an enthusiastic following, especially among young, white Democrats, and he was hoping to bounce back in the latest primaries.

Together with Wisconsin, Pennsylvania, Florida and Ohio, Michigan is one of a handful of swing states that will be critical to Democratic fortunes in the November 3rd presidential election. Voters in these states used to be reliably Democratic, but they backed the current president, Donald Trump, in 2016.

Michigan gave Mr Sanders a big boost in the Democratic primary four years ago by narrowly favouring him over his opponent, Hillary Clinton. However, the political landscape has shifted since then. As in 2016, Mr Sanders has presented himself as a populist siding with working-class Americans against big business, free trade and the political elite in Washington. However, unlike Ms Clinton, Mr Biden enjoys wide support among white, working-class voters and has close ties with trade union leaders.

March 11th 2020 Biden tightens hold on Democratic nomination (continued)

As recent primary results show, Democrats also increasingly consider Mr Biden the candidate most able to unify the party against Mr Trump. According to the latest poll by CNN, a US news-based television channel, he leads Mr Sanders by 16 percentage points nationwide. He has an even wider lead in delegate-rich southern states, such as Florida and Georgia, which will hold primaries in the coming weeks.

Although Mr Sanders' chances of winning the nomination have all but evaporated, he could still play an influential role in the run-up to the election. The Democrats' chances of defeating Mr Trump would improve markedly if Mr Sanders decided to withdraw and encouraged his highly mobilised supporters to back Mr Biden. Failure to do so could prolong tensions between the party's centrist and liberal wings.

Impact on the forecast

For now we maintain our view that Mr Trump will draw on his strong support base and the benefits of incumbency to win narrowly in November. However, if Mr Sanders endorses Mr Biden before mid-April, allowing him more time to heal Democratic divisions, we may shift our forecast in favour of the Democrats.

March 4th 2020 Biden outperforms his rivals on Super Tuesday

Event

The former vice-president, Joe Biden, significantly outperformed his opponents in the March 3rd Super Tuesday primaries, winning nine of the 14 state elections, according to initial results, and taking the lead in the delegate count.

Analysis

Mr Biden's campaign has experienced a sea change in recent days. His resounding victory in the February 29th South Carolina primary, and the ensuing withdrawal of two other moderate Democrats, Pete Buttigieg and Amy Klobuchar, have shifted the narrative around Mr Biden's electability.

Mr Biden performed particularly well in the south and in states with a large African-American population, including Texas (which has a sizeable 228 delegates), North Carolina, Virginia, Alabama and Kansas. He also won-albeit narrowly-in several states in the north and the Midwest, including Massachusetts and Minnesota. These results bode well for Mr Biden's performance in upcoming races-particularly in states with large African-American populations, when Mr Biden continues outpace other candidates, including Florida (219 delegates) and Georgia (105 delegates).

Bernie Sanders, a liberal senator from Vermont, may have lost his early lead in the delegate count on Super Tuesday, but there is still much to play for. He performed well in states with a track-record of progressive voter support. Crucially, this includes California (415 delegates), which Mr Sanders won with 34% of the vote, as well as smaller states like Colorado, Utah and Vermont. For now, Mr Sanders maintains a lead in the polls in several upcoming high-delegate states, including Michigan (125 delegates) and Ohio (136), which vote in mid-March, and New York (274) and Pennsylvania (186), which vote in April. It is possible that Mr Biden and Mr Sanders will be neck-and-neck in delegate totals at end-March, heightening the stakes of the April races.

The other major outcome of Super Tuesday was the decision by Mike Bloomberg, the former New York City mayor, to withdraw and endorse Mr Biden. This has removed the last obstacle to Mr Biden's effort to establish himself as the leading moderate Democratic candidate. It should also improve Mr Biden's changes in several crucial primaries-including Florida and New York-where Mr Bloomberg was polling high.

March 4th 2020 Biden outperforms his rivals on Super Tuesday (continued)

Impact on the forecast

The race for the Democratic primary will be a close race between Mr Biden and Mr Sanders. For now, we expect the ensuing battle between moderate and progressive Democrats to be fierce, which increases the likelihood that Donald Trump, with a solid support base and the benefits of incumbency, will narrowly win a second term.

March 4th 2020 US introduces restrictions on Chinese journalists

Event

On March 2nd the US announced new restrictions on Chinese journalists, in retaliation for the expulsion of three foreign journalists in February.

Analysis

Mike Pompeo, the US secretary of state, said in a statement that the restrictions would be applied to five state-owned media outlets that the US had previously designated as functionaries of the Chinese government. The five agencies-which include Xinhua, CGTN and China Daily-will be subject to a personnel cap on Chinese nationals that limits their total US-based staff to 100 (from 160 at present) by March 13th.

Mr Pompeo indicated that the cap is intended to mirror unofficial caps that China has placed on foreign reporters for years, saying that the US intends to establish a "long-overdue level playing field". The caps do not place restrictions on the content published by these entities; nevertheless, the US actions are the first such moves against foreign media organisations operating in the US, and risk sparking more retaliation against US press outlets operating in China, following the recent expulsion of several journalists working for the US-based Wall Street Journal.

The latest developments align with our forecast that the broader US-China relationship will continue to deteriorate in 2020-24, despite the recent pause in the trade war brokered by the first-phase trade deal. We have already highlighted the risks that could prompt the deal to unravel this year, stemming from the coronavirus outbreak (and its impact on China's ability to meet the ambitious purchase pledges under the first-phase accord), as well as adjacent tensions in technology and finance. Growing cultural friction, amplified by the media, will add another dimension to these strains, particularly as questions around China start to feature more prominently in advance of the US presidential election in November.

Impact on the forecast

Growing US attention to declining Chinese press freedom-as well as other human rights issues, ranging from the mass internment policies in Xinjiang to the ongoing political turbulence in Hong Kong-will weigh on the health of the US-China relationship in 2020, particularly before the US presidential election. These developments, however, are already incorporated into our international relations forecasts for both countries.

March 3rd 2020 Stunning reversal for Joe Biden after South Carolina primary

Event

Two moderate candidates, Pete Buttigieg and Amy Klobuchar, have dropped out of the race for the Democratic nomination and endorsed the former vice-president, Joe Biden.

March 3rd 2020 Stunning reversal for Joe Biden after South Carolina primary (continued)

Analysis

This is a remarkable reversal for Mr Biden, whose campaign had floundered after his poor performance in the first three Democratic primaries, in Iowa, New Hampshire and Nevada. Although these early primary states have few delegates to award, they typically set the tone for the rest of the race; only a few presidential candidates in recent decades have managed to clinch the nomination without winning these early contests.

However, several factors have changed the tide for Mr Biden. The first was his landslide victory in the February 29th South Carolina primary, where he won the most votes in every county and nearly 50% of the vote state-wide. Mr Sanders, the left-wing Vermont senator, came in second with just under 20% of the vote. This result has done two critical things. For one, it has changed the narrative around Mr Biden's electability; his approval ratings in several important states have risen in recent days as he increasingly appears to be a viable candidate to beat the president, Donald Trump. In addition, the South Carolina primary has shown that no other candidate can match Mr Biden's popularity among African American voters, a pillar of the Democratic electorate.

Secondly, the momentum of Mr Biden's campaign has been significantly changed by Mr Buttigieg's and Ms Klobuchar's endorsements. We had previously expected them to stay in the race at least until after Super Tuesday, on March 3rd, which would have divided moderate Democratic voters and made it much harder for any single moderate candidate to match Mr Sanders' delegate count.

Mr Biden now appears set to reclaim his position as the leading moderate candidate. He still faces a challenge from the former New York City mayor, Mike Bloomberg. However, Mr Bloomberg continues to poll behind both Mr Biden (particularly in states with large African-American populations, like Texas, Virginia and North Carolina) and Mr Sanders (in other crucial states, like California).

Impact on the forecast

The race for the Democratic nomination is likely to be a close contest between Mr Sanders and Mr Biden, as these recent events have resurrected Mr Biden's campaign. For now, we still expect the eventual Democratic nomination to emerge with too divided a support base to defeat Mr Trump in November 2020.

March 3rd 2020 Pete Buttigieg drops out of Democrat primary race

Event

The former mayor of South Bend, Indiana, Pete Buttigieg, has withdrawn from the race for the Democratic presidential nomination, after winning just 8% of the vote in the February 29th South Carolina primary.

Analysis

Despite having no congressional or gubernatorial experience, Mr Buttigieg managed to go toe-to-toe with his party's heaviest hitters. He also made history as the first openly gay major presidential candidate. He narrowly won the first Democratic caucus, in Iowa, although the delays and disputes over the result reduced the impact of his strong performance. That moment, combined with his nationwide lack of traction with black and Hispanic voters, stalled his progress. That said, at just 38 years old, he would still become America's youngest elected president if he were to run again, and win, in 2024.

March 3rd 2020 Pete Buttigieg drops out of Democrat primary race (continued)

Mr Buttigieg's withdrawal ahead of the critical Super Tuesday primaries simplifies the race, which is shaping up to be a choice between an independent senator from Vermont, Bernie Sanders, and the former vice-president, Joe Biden. In theory, Mr Buttigieg's withdrawal ought to benefit Mr Biden, as the two men occupy similar ideological territory among the more moderate candidates. More of those Democrat voters who supported Mr Buttigieg are likely to switch their allegiance to Mr Biden than to Mr Sanders. However, this boost could easily be equalised if another of the struggling candidates, Elizabeth Warren, drops out after Super Tuesday, as a segment of her supporters are likely to realign with Mr Sanders.

Mr Buttigieg's decision to pull out now, rather than when he ran out of funds, may prove a strategic move. It will be welcomed by those in the party keen to see a more moderate candidate-probably Mr Biden-win the nomination, and could get him a top post in any Biden administration; certainly, a plum role that boosted Mr Buttigieg's profile, either with black voters or in an area where he is currently light on experience, such as foreign policy, would make him an even more credible contender in future races.

Impact on the forecast

We maintain our view that Mr Sanders is most likely to win the Democratic nomination, as the centrist vote remains divided-although Mr Biden has received an unexpected boost by his landslide victory in South Carolina and Mr Buttigieg's withdrawal. We maintain our forecast that the eventual nominee will struggle to unite the fragmented Democratic electorate, paving the way for the incumbent, Donald Trump, to win a second term.

February 24th 2020 Sanders consolidates early lead in Nevada

Event

On February 22nd a Vermont senator, Bernie Sanders, dominated the Nevada Democratic caucus. With 88% of districts reporting, Mr Sanders won 47.1% of the vote, well ahead of the former vice-president, Joe Biden (21%), and the mayor of South Bend, Indiana, Pete Buttigieg (13.7%).

Analysis

Nevada was Mr Sanders' first commanding win, after tying with Mr Buttigieg in Iowa with 26.2% of the vote, and winning narrowly in New Hampshire with a quarter of the overall vote. Mr Sanders' performance in Nevada allowed him to take an early lead in the delegate count, with 31 pledged delegates to the Democratic national convention, followed by Mr Buttigieg with 22.

Only a marginal number of delegates are allocated in the February primaries-less than 5% of the total 3,979 pledged delegates. Yet the early primaries are critical for candidates to build momentum heading into the March Super Tuesday primaries, when more than a third of pledged delegates will be allocated. This momentum is now firmly on Mr Sanders' side, particularly considering that he had the strongest support in Nevada among several major voter groups, including young people (aged 17-29, 65%), Hispanic voters (51%) and independents (50%).

Mr Sanders' early lead is also due to the fragmentation of the Democratic field. Moderate candidates are scrambling to draw support away from Mr Biden, but none have managed to build a critical mass yet. Although Mr Buttigieg has the largest number of delegates of any moderate candidate thus far, his popularity rating among Hispanic and African American voters remains below Mr Biden's and Mr Sanders', which will be a challenge for him in some crucial Super Tuesday states. The former New York City mayor, Mike Bloomberg, is expected to pick up a hefty delegate count when he first appears on the ballot on Super Tuesday.

February 24th 2020 Sanders consolidates early lead in Nevada (continued)

Most of the moderate candidates have enough voter and financial support to keep them in the race until end-March, at least. This will continue to divide the centrist vote in the critical March primaries, allowing Mr Sanders to amass a noticeable delegate lead.

Impact on the forecast

The fragmentation of the Democratic field means that the July convention is likely to be contested. We maintain our view that Mr Sanders will be the nominee, but that he will struggle to unite Democrat voters and appeal to moderate Republicans. This will probably allow Donald Trump, the incumbent president, to win the election without winning the popular vote.

February 19th 2020 Mike Bloomberg qualifies for Nevada debate

Event

The businessman and former New York City mayor, Mike Bloomberg, has qualified at the last minute to participate in the February 19th Democratic debate in Las Vegas, Nevada.

Analysis

Mr Bloomberg has surged in the polls in recent weeks, having only entered the race for the Democratic presidential nomination in November 2019, several months after most candidates. In a national poll published on February 18th by NPR, PBS NewsHour and Marist, 19% of Democrats and Democratic-leaning independents favoured Mr Bloomberg, putting him in second place behind Bernie Sanders, a Vermont senator, with 31%. This was the fourth time that Mr Bloomberg had received more than 10% in a national qualifying poll.

The Democratic National Committee (DNC) changed its qualification rules at end-January, dropping a requirement that candidates must have received donations from hundreds of thousands of individuals-essentially proof of grassroots support-to participate. The policy change benefited Mr Bloomberg, who is self-funding his campaign. This has stoked tensions between Mr Bloomberg and Mr Sanders, whose campaign relies almost exclusively on grassroots support and small donations.

In addition to heavy media exposure and ample financing, Mr Bloomberg has also benefited from declining support for the former vice-president, Joe Biden. Until February Mr Biden was comfortably leading the Democratic field, but his dismal performance in both the Iowa and New Hampshire primaries has seriously undermined voters' confidence in his ability to defeat the incumbent, Donald Trump. Mr Biden slipped into third place in the NPR, PBS NewsHour and Marist poll, with just 15%.

The race for the Democratic nomination could shape up to be a contest between Mr Sanders and Mr Bloomberg. Like Pete Buttigieg, the mayor of South Bend, Indiana, and a Minnesota senator, Amy Klobuchar, Mr Bloomberg is now a serious contender to become the leading centrist candidate. However, he is vulnerable in a number of areas: he faces criticism for sexist and race-related comments, and he will struggle to overcome the legacy of the "stop and frisk" programme introduced when he was New York mayor, which has been heavily criticised for unfairly targeting minorities.

Impact on the forecast

The race for the Democratic nomination remains too close to call, given the unprecedented fragmentation of the field. We maintain our view that the Democratic convention in July will be contested, and that the eventual nominee will emerge without a solid enough base to defeat Mr Trump in November.

February 18th 2020 US raises EU trade tariffs in Airbus dispute

Event

On February 14th the Office of the US Trade Representative (USTR) announced a revision of its tariff actions in a case at the World Trade Organisation (WTO) regarding illegal EU subsidies to Airbus, a European aircraft manufacturer. The USTR's tariffs on imports of EU aircraft will be adjusted to 15% on March 18th, from 10% at present.

Analysis

The tariffs are part of a dispute that has been in progress since 2004 between the US and the EU over their aircraft subsidy programmes (a separate case has been brought to the WTO by the EU regarding illegal US subsidies to Boeing, a US aircraft manufacturer). In October 2019 the WTO authorised the USTR to adopt levies of US$7.5bn on EU imports, in retaliation for the Airbus subsidies. The USTR has been conducting a public consultation on its tariff response since December and was widely expected to revise some of its planned tariff actions on February 14th.

The revisions were limited: in addition to the tariff increase on aircraft imports to 15%, there was a minor change to the list of goods that are subject to the 25% tariff (prune juice was removed and butcher knives added). These changes were less disruptive than they could have been, perhaps in consideration of how much these tariffs might affect the US economy-and in particular the Airbus plants in Kansas and Alabama-in the run-up to the US presidential election in November. However, the move indicates that US-EU trade relations remain strained, despite the respite suggested by the US-French truce over France's digital services tax (DST) in January.

The USTR stated that it remained open to negotiations to reach a settlement on this issue, but our view is that an escalation is more likely than a dialling down of this particular branch of the US-EU trade dispute. In particular, the USTR could step up its tariff actions should the EU move forwards with its own tariffs on Boeing-as we expect it to do-once the WTO reaches a resolution on this case (which is expected by mid-2020). This could lead to a further tit-for-tat escalation, especially if Donald Trump wins a second term as US president in November.

Impact on the forecast

We maintain our view that US-EU trade tensions will remain high in 2020, but that US tariff escalation will remain limited in the run-up to the US election.

February 17th 2020 The first-phase deal comes into effect

Event

On February 14th the first-phase US-China trade deal came into effect.

Analysis

As part of its implementation, both sides reduced some existing tariff rates (from 15% to 7%) that had been introduced in September 2019, although other duties (at 25%) remain in force. Additional protocols governing certain goods imports, standards and the strengthening of the intellectual property (IP) protection framework are expected over the next month.

The latest developments are positive for market sentiment. The US-China Business Council (USCBC), a trade association, notes that 78% of its surveyed membership viewed the deal as beneficial for stabilising the commercial environment. Reduced uncertainty should allow for a mild resumption of bilateral trade later in 2020.

February 17th 2020 The first-phase deal comes into effect (continued)

However, the USCBC added that few of its companies had confidence in the deal's dispute resolution mechanism. In addition, the economic disruption caused by the ongoing coronavirus outbreak now dominates China's policy agenda, which will divert attention away from the country meeting its ambitious purchase agreements under the accord. Both factors raise the risk of the deal falling apart later this year.

There are some mitigating factors to these dangers. We assume that the coronavirus will be under control by end-March, allowing increased focus on trade-deal implementation by the second quarter. In addition, the deal's provisions relating to a "natural disaster or other unforeseeable event" will allow both sides to justify a more flexible approach towards their commitments in the near term. Nevertheless, an extended outbreak or the conclusion by the US president, Donald Trump, that implementation has been insufficient before the presidential election in November would suggest significant downside risks to these assumptions.

Tensions elsewhere continue to simmer. On February 13th the US extended its temporary general licence for a Chinese telecommunications equipment manufacturer, Huawei, for another 45 days (a move tied to existing US export controls). On the same day, however, the US Senate (upper house) introduced legislation to further cut off Huawei from its international suppliers by reducing the de minimis threshold, under which authorities can impose restrictions on certain US-origin-controlled content, from 25% to 10%. Meanwhile, the US Justice Department unsealed a superseding indictment against Huawei on new charges of racketeering and IP theft. Both moves underpin the building US-China technology war, which is emerging regardless of the tariff dispute.

Impact on the forecast

The latest developments align with our forecast that US-China tensions will continue to intensify in non-tariff areas.

February 4th 2020 Senate acquittal draws battle lines for November election

Event

The Republican-controlled Senate (upper house) voted 51-49 on January 31st to bar witnesses and further documentation in the impeachment trial of the president, Donald Trump. All but two of the 53 Senate Republicans-the centrist Mitt Romney of Utah and Maine's Susan Collins, whose seat is among the most vulnerable in November's elections-backed the move to curtail the trial.

Analysis

This is the first impeachment trial where the Senate has not heard from witnesses. Despite swearing an oath of impartiality, Republican congressional leaders have argued that the trial is politically driven and have worked to keep the proceedings as brief as possible. That imperative became even more urgent in recent weeks as the former national security adviser John Bolton revealed that he was willing to testify, and was likely to provide information that would further substantiate Democrats' claims that Mr Trump knowingly abused the power of his office for personal gain.

However, even if further testimony had been allowed, this would not have changed the outcome of the trial. Republican leaders have shifted their defence of the president in recent days, dropping their earlier efforts to refute the evidence and claiming instead that the president's actions, while potentially improper, do not constitute an impeachable offence. Opinion polls have shown a clear majority of voters in favour of allowing witnesses. But Senate Republicans, even those facing tough re-election contests, appear to have taken the view that a prolonged impeachment trial carries more electoral risks than the possible perception of a sham trial.

February 4th 2020 Senate acquittal draws battle lines for November election (continued)

The Senate vote is scheduled for Wednesday February 5th, one day after Mr Trump delivers his annual state of the union address to Congress. The president is likely to focus on the strength of the economy and stockmarket, his tough approach to immigration and his America-first foreign policy: the main planks of his re-election platform. Mr Trump's approval rating, and re-election chances, remains remarkably unaffected by the impeachment process, in today's highly partisan environment.

Impact on the forecast

The vote to curtail Mr Trump's impeachment trial poses serious risks to the re-election of moderate Senate Republicans, including Ms Collins, as well as Colorado's Cory Gardner and Alaska's Lisa Murkowski. However, we do not expect the Republicans to lose enough seats to shift control of the Senate to Democrats in November 2020. The decision to exclude witnesses politicises Mr Trump's impeachment trial further, and creates a risky precedent for future such trials.

February 3rd 2020 What to look for in today's Iowa caucus

Event

Democratic voters in Iowa will caucus on February 3rd. The outcome will have a major impact on the rest of the race for the Democratic nomination.

Analysis

The former vice-president Joe Biden and the Vermont senator Bernie Sanders are within one point of each other in Iowa, with Mr Sanders (22.2%) just slightly ahead of Mr Biden (21%) as of February 2nd, according to the polling agency FiveThirtyEight. The two have been neck-and-neck in Iowa since early November. Although other candidates have occasionally taken the lead-including Elizabeth Warren in September and Pete Buttigieg at end-November-none have managed to retain it.

Given Iowa's unique voting process, caucusing, state-level polling does not tell the whole story. Voters in each precinct submit a form with their preferred nominee. Any candidate that receives less than 15% of the precinct-level vote is considered unviable, and voters can realign themselves with a different candidate. State-level delegates are then awarded to candidates based on the final tally.

There are several important factors to note here. Firstly, the number of state delegates varies by precinct, based on the population density as well as local turnout in recent elections. This could therefore increase the weight of some less densely populated areas, depending on past voter turnout. It will therefore be important to see how the vote is distributed across college towns and major urban centres-which are leaning towards Mr Sanders, but are more densely populated-and more rural areas, which generally lean toward Mr Biden and could take on slightly greater significance.

Secondly, the Iowa polling authorities have said they will release the make-up of the initial vote alignment for the first time. Mr Biden and Mr Sanders enjoy the highest popularity of all the candidates at a national level-about 30% and 20% respectively-but have struggled to gain any new supporters in recent months. The way that voters chose to realign themselves between the first and second rounds in the Iowa caucus could therefore offer crucial insight into how voters will shift support towards the frontrunners at a later stage.

February 3rd 2020 What to look for in today's Iowa caucus (continued)

Impact on the forecast

With the frontrunners within one point of each other and several wildcards at play, the Iowa race remains too close to call. The outcome will lend critical momentum to the winner and provide insight into how voters will shift their support later in the race. Based on this information, we will formalise our forecast for the 2020 election in the coming weeks.

January 29th 2020 Trump reveals Israeli-Palestinian peace plan

Event

On January 28th the US president, Donald Trump, unveiled a much-heralded Israeli-Palestinian peace plan at a White House news conference, flanked by Israel's acting prime minister, Binyamin Netanyahu.

Analysis

Mr Trump's peace plan is unlikely to succeed. The deal recognises a Palestinian state, but reduces its territories to 70% of the current West Bank, all of Gaza and some parcels of Israeli land to the south of Gaza that Israel would transfer to Palestine. Israel would retain complete control of Jerusalem-with a small section in the eastern outskirts given to the Palestinians as a capital-as well as sovereignty over the Jordan Valley and all Jewish settlements. Israel would also retain security control over all of the West Bank. Israel and the Palestinians are due to negotiate final terms over the next four years, during which there will be a limited freeze on settlement development.

Mr Netanyahu claimed that the Israeli cabinet would vote as early as February 2nd to annex the areas delineated in the Trump plan, but this is unlikely. The caretaker government has limited authority to make changes, and Mr Netanyahu will avoid alienating Arab countries on which the US is counting to support the plan. The announcement appears to be timed to help Mr Netanyahu ahead of Israel's general election on March 2nd. However, he is unlikely to pick up votes from the far right, whose leaders condemned the call for a Palestinian state. Benny Gantz, who leads the centrist Blue and White bloc, appealed to moderate right-wing voters whom he hopes to attract from Mr Netanyahu's Likud party. Mr Gantz praised the plan as a good basis for talks, but said that action on it should wait until after the elections.

In an unusual display of unity, the Palestinian Authority (PA), Hamas and Islamic Jihad vehemently condemned the plan. The PA, which broke off formal contact with the US two years ago, will not join negotiations based on the plan. The US's Arab allies, which are being counted on to back the plan and fund most of the US$50bn in Palestinian aid and investment that it envisages, responded coolly. Although initial protests will be limited, the risk of political violence-and the resumption of terrorism-will increase if Israel takes further steps towards annexing Palestinian territory.

Impact on the forecast

We maintain our forecast that US peace efforts will founder, as the Palestinian representatives have no confidence in the US acting an as impartial mediator.

January 23rd 2020 Partisan acrimony marks start of Trump impeachment trial

Event

On January 21st the Senate (the upper house) began the impeachment trial for the president, Donald Trump, amid a tense debate over the rules.

Analysis

The proceedings have quickly devolved into a partisan struggle. Republicans, who hold a 53-47 majority in the Senate, appear keen to keep the hearings as brief as possible and to complete them before Mr Trump's scheduled State of the Union address on February 4th. To that end, they have thus far blocked Democrats' efforts to subpoena witnesses and documents. Republicans have also sought to minimise public scrutiny by condensing the arguments into a 24-hour period, spread over two days. The first day's proceedings wound up close to 2 am.

Nonetheless, the trial is not without potential pitfalls, especially for Republicans. Recent polls show that an overwhelming majority of voters, including Republicans, want to hear from witnesses. Among those whom Democrat senators are keen to call is the former national security adviser, John Bolton, who has said that he would testify if subpoenaed. Democrats still hold a potentially powerful weapon: votes on procedural issues require only a simple majority, and the issue of whether to call witnesses will come up again later in the trial. Senate Democrats are hoping that a handful of moderate Republican senators, including some facing tough re-election fights later this year, will side with them in pushing for witnesses.

This has particularly important implications for moderate Senate Republicans. By pushing to allow witnesses and more time for arguments, Republican senators in swing states will cushion themselves against potential blowback in the November 2020 Senate elections. Several senators, including Susan Collins of Maine-one of the most vulnerable Republicans heading towards November-as well as Colorado's Cory Gardner, Tennessee's Lamar Alexander, Alaska's Lisa Murkowski and Utah's Mitt Romney, have indicated that they may side with Democrats on the issue of witnesses. A vote against these procedural issues could undermine support for them among swing voters in their home states.

Impact on the forecast

Whatever the final decision on witnesses, Mr Trump will be acquitted, given that conviction requires a two-thirds super-majority, which would require a major fissure in Republican ranks. If moderate Republicans vote in favour of expanding the trial's format, this could benefit them at the polls in November and lay the groundwork for more bipartisan co-operation in 2021-24. If not, the risk will increase that the Senate will tip into Democrats' hands-although this is still not our core forecast.

January 21st 2020 US-India trade deal coming soon

Event

On January 17th international media reported that the US and India are close to finalising a trade deal, which will be signed during an expected visit to India by the US president, Donald Trump, in February.

Analysis

While not a comprehensive free-trade agreement, this mini-deal will probably reinstate India's Generalised Systems of Preference (GSP) status, which the US revoked in June 2019. It is also expected to address US concerns relating to market access in the medical technology and agricultural sectors, as well as other outstanding issues linked to tariffs and other trade barriers.

January 21st 2020 US-India trade deal coming soon (continued)

However, the impact of the GSP reinstatement will be minimal. Only around one-tenth of Indian exports to the US are duty-free under GSP, while tariffs on non-GSP covered goods range from 1% to 7%. The deal is also unlikely to withdraw the US's Section 232 tariff actions, which have applied tariff rates of 25% and 10% respectively on Indian steel and aluminium exports since early 2018.

The mini-deal will not address the longer-term structural trade issues between India and the US. The US has long argued for better intellectual property protection and expanded access to the services sector in India. In return, India has demanded friendlier working visa (H1-B) treatment for Indian nationals, in order to boost the country's services exports. Indian information technology consulting outsourcers rely on Indian migrant workers with H1-B visas, but the current US visa quota has curbed their development.

The protectionist instincts of Mr Trump and the Indian prime minister, Narendra Modi, may also derail more meaningful progress after the mini-deal is signed. Mr Trump has launched a trade war with China, withdrawn from major global trade agreements and threatened the US's close economic and security partners with tariffs. Mr Modi similarly withdrew India from the Regional Comprehensive Economic Partnership (RCEP) at the last minute; the country's refusal to participate may still derail the planned signing of the RCEP in February. These administrations' wariness of free trade will keep economic tensions between India and the US high over our 2020-24 forecast period, even as co-operation in other areas-such as politics and defence-continues uninterrupted.

Impact on the forecast

We will update our international relations forecast to reflect that a mini-deal is within reach. However, we do not expect a major increase in bilateral trade volumes in 2020-24.

January 16th 2020 The US and China finally clinch a deal

Event

On January 15th the US and China formally signed their first-phase trade accord in Washington, DC (the US capital).

Analysis

The agreement mirrored The Economist Intelligence Unit's forecast, and covered items spanning intellectual property protection, market access openings, currency and merchandise trade. The US also stated that current tariffs would be maintained, with US media citing a timeframe of ten months-a period roughly equivalent to the timeframe of the US presidential election-as a way to ensure China's commitment. We had expected both developments, with the deal's scope only helping to stabilise business and consumer confidence, rather than engender a rebound. This will keep downward growth pressures strong this year.

The deal outlined a number of large purchase commitments from China, although we expect it to struggle to fully meet these goals. In addition, the artificial demand created by these pledges risks distorting trade flows more generally, including in ways that may be non-compliant under World Trade Organisation rules.

Other provisions are more encouraging. The language on financial sector liberalisation, for example, sets forth a concrete timeline around licensing approvals for US firms; previous licensing delays have allowed for only a few companies to expand their market presence, despite recent openings to the foreign investment framework. The deal nevertheless fails to address China's separate regulations around data flows and capital controls, which may blunt the ability of foreign financial institutions to challenge the incumbency of local players. Other commitments around improving intellectual property protection and guarding against forced technology transfer mirror policies enshrined elsewhere in China's regulatory framework.

January 16th 2020 The US and China finally clinch a deal (continued)

The success of the deal will hinge on China's ability to implement these provisions domestically (or the US's willingness to overlook non-compliance). The agreement contains language on dispute resolution, but this revolves around re-establishing regular dialogue mechanisms to address issues bilaterally. Although the deal is a positive step forward from the current status quo, previous such arrangements (under both the current and past US administrations) have done little to force Chinese trade commitments.

Impact on the forecast

The latest developments were in line with our forecast. However, our expectations that both sides will struggle to make progress on larger issues as part of "phase two" negotiations-such as China's industrial policies-will keep trade tensions elevated. There is a high risk that the current deal might fall apart in 2020, which could prompt a resumption of tariff hostilities, but this is unlikely in the lead-up to the November US presidential election.

China's purchase agreements under the trade deal

	Year 1	Year 2	Combined total
Manufactured goods	US$32.9bn	US$44.8bn	US$77.7bn
Industrial machinery			
Electrical equipment & machinery			
Pharmaceutical products			
Aircraft (orders & deliveries)			
Vehicles			
Optical & medical instruments			
Iron & steel			
Other manufactured goods			
Agriculture	US$12.5bn	US$19.5bn	US$32bn
Oilseeds			
Meat			
Cereals			
Cotton			
Other agricultural commodities			
Seafood			
Energy	US$18.5bn	US$33.9bn	US$52.4bn
Liquefied natural gas (LNG)			
Crude oil			
Refined products			
Coal			
Services	US$12.8bn	US$25.1bn	US$37.9bn
Charges for use of intellectual property			
Business travel & tourism			
Financial services & insurance			
Other services			
Cloud & related services			
TOTAL	**US$76.7bn**	**US$123.3bn**	**US$200bn**

Note. These are additional purchase amounts, which will come on top of the US$ value of US exports to China in 2017.

Source: The Economic and Trade Agreement between the US and China.

January 14th 2020 US rescinds its currency-manipulator designation for China

Event

On January 13th the US Department of the Treasury issued its semi-annual currency report, within which it rescinded its designation of China as a currency manipulator.

Analysis

The US had delayed the latest report, which is normally released in May and October each year. The Economist Intelligence Unit interprets the delay as having been related to the surprise designation of China as a currency manipulator in August, which occurred outside the US Treasury's own parameters for a such a label. Instead, the publication of the report seems to be tied directly to the signing of the first-phase US-China trade accord, which is expected to take place later this week.

The US justified its decision based on the recent strengthening of the renminbi against the US dollar, which has occurred amid firming investor sentiment in advance of the trade accord. These trends have also recently prompted us to revise our own renminbi exchange-rate forecast for 2020, up from Rmb7.05:US$1 on average to Rmb6.95:US$1 (which will be published in the next forecasting round). These factors should help to keep the renminbi relatively stable this year.

Nevertheless, the risk of the trade accord collapsing because of disagreements over implementation-which could result in another round of tariff application-will probably keep investor sentiment towards the Chinese currency relatively cool. As a result, we do not expect the renminbi to register a major strengthening (on average) against the US dollar in 2020.

The recent moves will add further positive momentum to a short period of respite in US-China relations, but we do not expect this to prevent bilateral tensions deteriorating elsewhere. We maintain our forecast that friction in technology, finance and other areas will continue to weigh on the relationship. Indeed, on January 13th the US Treasury finalised its updates to the Committee on Foreign Investment in the US (which screens foreign direct investment based on national security concerns), which will become effective in early February. While not expressly targeting China, the new rules will further squeeze Chinese investment in the US, which has already fallen over the past year owing to heightened regulatory scrutiny. We will explore these trends more fully in a forthcoming analysis piece.

Impact on the forecast

The latest developments align with our expectations ahead of the first-phase US-China trade accord, but do not change our expectation of further deterioration in US-China relations later in 2020.

January 14th 2020 Congress considers war power restrictions

Event

In the coming weeks Tim Kaine, a Democratic senator from Virginia, is expected to introduce a proposal to limit the ability of the president, Donald Trump, to take unilateral military action against Iran, after a similar measure passed in the House of Representatives (the lower house) on January 10th.

January 14th 2020 Congress considers war power restrictions (continued)

Analysis

This attempt to check executive power comes shortly after Mr Trump ordered an air strike that killed one of Iran's most senior military figures, General Qassem Suleimani. The strike prompted a retaliatory attack by Iran and raised tensions throughout the region.

Mr Trump ordered the strike without consulting Congress and with minimal warning. Senior administration officials briefed the House and Senate (the upper house) intelligence committees on January 8th, but many lawmakers said that the information provided was woefully inadequate. The sharpest criticism came from Democratic lawmakers, but a few Republicans-including a Utah senator, Mike Lee, and a Kentucky senator, Rand Paul-also said that the administration had failed to provide satisfying details on the threat that General Suleimani posed.

In recent days Mr Trump has also undermined the administration's previous line that the strike was ordered to prevent General Suleimani from orchestrating an imminent attack, saying on Twitter that this justification "doesn't really matter given his horrible past". The mixed messages coming from the administration are worrying, given that this escalation could have sparked a more severe retaliation from Iran. We maintain our view that the US and Iran are unlikely to engage in a direct, conventional conflict. With tensions running high, however, there is a major risk that a policy miscalculation could accidentally lead the two countries into direct warfare, as illustrated by Iranian forces' unintentional downing of a passenger jet on January 8th.

Given the seriousness of the situation, it is possible that a handful of Republican senators will support the upcoming measure, which would require the president to seek Congressional authorisation before taking further military action against Iran; Democrats only need four Republican votes for it to pass by simple majority.

Impact on the forecast

The Senate measure could pass with minimal Republican support, which would help to ease near-term market jitters. However, we do not expect Senate Republicans to support the bill in large enough numbers to offer a serious rebuke to the president as impeachment looms. Overall, we maintain our view that the US and Iran are likely to avoid direct conflict, owing to the lack of appetite on both sides.

January 12th 2020 Iranian air crash blamed on accidental attack

Event

On January 8th a Ukrainian aircraft crashed shortly after take-off from Tehran, Iran's capital, killing all 176 people on board. The following day Justin Trudeau, the prime minister of Canada, to where most of the foreign passengers were travelling, said that "the evidence suggests that the jet was hit by a surface-to-air missile (SAM) after Iranian forces mistakenly identified it as a threat".

Analysis

Ukrainian International Airlines flight 752 was minutes into a flight to Kiev, the Ukrainian capital, from Tehran's Imam Khomeini International Airport, carrying mainly Iranians and Canadians intending to take an onward flight to Toronto, home to a sizeable Iranian diaspora. The disaster prompted a rare official telephone call between the foreign ministers of the two governments (which severed diplomatic ties in 2012), in which they both pledged to collaborate in determining the cause.

January 12th 2020 Iranian air crash blamed on accidental attack (continued)

However, reaction to the crash was inevitably soon coloured by the acute regional tension that had risen since the US's assassination of Qassim Suleimani, Iran's most important general, five days earlier, and by the fact that it occurred just hours after Iran launched retaliatory air strikes on US-linked sites in Iraq. Both Iran and Ukraine initially blamed mechanical failure, but Ukraine soon recanted; international analysis has increasingly suggested that the plane, a Boeing 737-800, was accidentally targeted by Iran's Russian-made SAMs, which were on high alert for an immediate American reprisal. In a televised address Mr Trudeau confirmed this analysis in his comments, although Iran continues to dismiss these claims. After initial suggestions to the contrary, the Iranian authorities have said that they will share the craft's black box with Ukraine and Boeing, the US manufacturer, and co-operate with governments of other nationals who lost their lives.

Neither Canada nor the US have suggested that the attack was deliberate. Nonetheless, the accident will add to the sense of heightened insecurity in the region caused by the US-Iranian stand-off, and highlights the high risk of a miscalculation escalating the conflict further. It is also damaging for Iran, as the incident undermines the country's attempt to cast itself as a strong military power and as the victim of US aggression.

Impact on the forecast

We expect the risk of such accidents to remain high as Iran and the US continue to pursue their conflict through low-level, asymmetric warfare, while disruption to aviation will increase as other airlines suspend flights to Iran.

January 3rd 2020 US assassinates top Iranian commander

Event

On January 3rd the US killed General Qassem Suleimani, the veteran commander of the elite Quds Force of Iran's Islamic Revolutionary Guards Corps, in a targeted air strike at Iraq's Baghdad International Airport.

Analysis

US and Iranian-linked forces in Iraq had been engaged in a tit-for-tat escalation since late December; first came the killing of a US contractor, which was subsequently punished by air strikes against Khataib Hizbullah (KH), an Iranian-backed militia and the alleged perpetrator, and then the storming of the US embassy in Baghdad on December 31st by supporters of the Popular Mobilisation Forces, a coalition of mainly Shia militias, many with strong Iranian ties, of which KH is a member. However, the loss of General Suleimani, who was answerable directly to Ali Khamenei, Iran's supreme leader, is immense and takes the escalation to a new level, inevitably requiring retaliation from Iran. We expect Iran's retaliation to take the form of attacks by Iran or its proxies against the US's wide-ranging Middle East interests rather than direct war (although the possibility of a miscalculation cannot be ruled out). Over the coming weeks, the US-Iran indirect confrontation will mainly take place in Saudi Arabia, Iraq, Yemen, Lebanon or Syria. Iran's retaliation could also take the form of covert operations-such as cyber-attacks-against US interests.

General Suleimani had been a pivotal figure in Iran's regional military strategy for more than two decades, directing Iranian military operations in Iraq following the US invasion in 2003 and later against Islamic State, and latterly playing a key role in defending the Syrian government in that country's civil war. A statement from the US Defence Department said that the assassination had been ordered by Donald Trump, the US president, on the grounds that the general and his Quds Force had been responsible for the deaths of hundreds of members of the US coalition in Iraq and that he was planning further attacks in Iraq and throughout the region. All US citizens have been advised to leave Iraq, which is being further destabilised by the decision of its two closest allies to stage a proxy conflict on its soil.

January 3rd 2020 US assassinates top Iranian commander (continued)

Impact on the forecast

We still think that an outright war between the US and Iran is unlikely, but the killing of General Suleimani will set off a chain of violent and strictly-targeted strikes that will keep regional tensions extremely high, and further reduce the scope for negotiation between the US and Iran.

December 13th 2019 The US and China agree—in principle—to a deal

Event

On December 12th US media reported that the country's president, Donald Trump, had signed off on a first-phase trade deal with China.

Analysis

This was in line with The Economist Intelligence Unit's expectations that the sides would strike a shallow trade deal in order to prevent the next round of US tariffs, which would have primarily hit Chinese-manufactured consumer goods (including electronics and toys). However, it is noteworthy that the development was announced solely by US media; neither Chinese state media nor the two governments had confirmed these developments at the time of writing. The risk therefore remains that the final text could fail to materialise, putting the threat of tariff escalation back on the negotiating table (although this is not our core forecast).

The reports indicate that the US government will reduce tariffs already in effect as part of the deal, although it would refrain from eliminating these duties. This similarly aligns with our forecast that tariff withdrawal will not occur until after the US presidential election in 2020. In return, the US has reportedly secured a concession by China to buy US$50bn worth of farm products in 2020. This will be in addition to modest adjustments relating to China's existing policies on the financial sector and intellectual property protection.

We had expected this outcome, although the terms of the deal suggest that significant risks will persist into 2020. China's reported purchase pledge is roughly equivalent to double the US dollar value of its agricultural purchases in 2017 (before the trade war). Demand disruption caused by African swine fever (which will affect sales of US soybeans, used primarily for pig feed), as well as efforts by China to diversify its meat import sources (including moves towards France and Brazil), will challenge efforts to ramp up these purchases, even if issued via state-issued directives. Media reports also suggest that the US may re-impose the original tariff rates (as part of a potential "snapback" provision) should China fail to deliver on this pledge, making a resumption of tariff hostilities highly likely.

Impact on the forecast

The latest developments confirm our forecast that both sides would avoid the next round of tariff escalation in mid-December. The relatively shallow nature of the agreement furthermore confirms our expectation that deeper structural issues in the US-China relationship, including in technology and finance, will cause economic friction to intensify in 2020.

December 11th 2019 WTO's dispute-settlement mechanism collapses

Event

On December 10th two of the three remaining judges on the appellate body of the World Trade Organisation (WTO)-the main dispute-settlement body of that institution-retired from service. As a minimum quorum of three judges is required for the appellate body to function, the event effectively marked the collapse of the WTO's dispute-settlement mechanism.

Analysis

The US has had long-standing grievances with the appellate body (and the WTO more generally), even in the face of several WTO cases that it has won recently. These objections also predated the administration of Donald Trump, the current US president.

US concerns over the role of the appellate body-including allegations that it had overstepped its jurisdiction-arose during the presidency of George W Bush (2000-08), whose administration took issue with the body's findings that the US methodology for calculating anti-dumping and countervailing duties (a controversial practice known as "zeroing") were not WTO-compliant. This attitude hardened under the presidency of Barack Obama (2008-12), who blocked the reappointment of two appellate body judges (and obstructed consensus over the appointment of a third) during his time in office.

Mr Trump has since maintained this strategy of blocking appointments. The Economist Intelligence Unit had expected this outcome because of the president's long-harboured hostility towards the WTO. However, the collapse of the dispute-settlement mechanism will not immediately spell doom for either the WTO itself or the future of global commerce. We continue to expect global trade growth (by volume) to rebound modestly into positive territory in 2020, as the world acclimatises to the "new normal" of US-China economic tension and trade demand stabilises across major markets.

Nevertheless, the dissolution of the WTO's main dispute-settlement mechanism will erode important constraints on protectionist bad behaviour. There is now a growing risk that the lack of an international arbiter will allow both existing and future trade disputes to escalate more quickly. This will be particularly critical as the US-China trade war persists into 2020, while emerging disputes elsewhere-such as between South Korea and Japan, France and the US and the EU and Malaysia-weigh on the prospects of trade liberalisation more generally. Without the appellate body, these and other potential trade conflicts will continue to cast a shadow over world trade next year.

Impact on the forecast

We had anticipated that the WTO appellate body would cease to function by December, and have already built this event into our forecasts from 2020 onwards.

Analysis

March 2nd 2020 US and Taliban sign landmark peace agreement

The signing of a peace agreement between the US government and Afghanistan's Taliban rebels paves the way for inter-Afghan peace talks that could lead to a full resolution of the country's long-running conflict and the eventual withdrawal of US troops. The Economist Intelligence Unit believes that there are many obstacles to a genuine peace deal, but that the US is still likely to reduce its presence if the Taliban co-operates on counter-terrorism. There is a high chance the talks will collapse. Therefore, we do not expect a full US withdrawal within this year or next.

March 2nd 2020 US and Taliban sign landmark peace agreement (continued)

The peace agreement between the US government and the Taliban (who were ousted from the Afghan government by a US-led military coalition in 2001) was signed in Doha, Qatar, on February 29th. This should lead to formal talks between the Afghan government, the Taliban and other interested parties in Oslo, the Norwegian capital, from March 10th. It is worth noting, however, how fragile the basis for peace is in Afghanistan. The US was reluctant to be seen to be making concessions to the Taliban, and had insisted on a week-long truce, or "reduction in violence", first. The Taliban, for its part, insisted on signing an agreement with the US government before holding talks with the Afghan government, as it does not recognise the latter.

Can the Afghan government reach the deal?

In many ways, the hard part starts with the Oslo talks. An early sign of this came with a statement on March 1st by the Afghan president, Ashraf Ghani, rejecting the stipulation in the peace deal that the Afghan government release nearly 5,000 Taliban fighters before the talks (with the Taliban also releasing nearly 1,000 government soldiers held by them). Mr Ghani stated that a prisoner exchange could be negotiated in the inter-Afghan talks, but could not be a precondition for talks. Despite this obstacle, at present it seems the talks are still set to go ahead.

However, Afghanistan is a highly diverse country, ethnically and linguistically, and even the political forces that recognise the Afghan constitution are prone to infighting. This is seen in the current dispute between Mr Ghani and the government's chief executive, Abdullah Abdullah, over who won the 2019 presidential election. With political instability acute in elite circles in the capital, Kabul, it seems unlikely that a full peace agreement could quickly emerge that would enable the Taliban to take its place alongside other political groups, contesting power in democratic elections and recognising their results.

Reaching agreement requires an element of give and take. Looking optimistically at the possibility of a peace agreement, a key element in achieving a full conflict resolution could be the role played behind the scenes by the US and Pakistani governments in prodding the Afghan government and the Taliban, respectively, towards peace.

When will the US leave?

A key factor in bringing the Taliban to the table was the US's pledge to reduce its troop presence in Afghanistan from 13,000 to 8,600. A partial withdrawal could begin by the summer, allowing the US president, Donald Trump, to claim partial fulfilment of an election pledge. However, the deal envisages the troop reduction being completed within 14 months and, in any case, a reduction to 8,600 merely returns troop numbers to where they were when Mr Trump took office.

A full US withdrawal-a key aim of the Taliban-is likely only if a full peace agreement is arrived at. In addition, the US has stated that it will nullify the agreement if the Taliban fails to keep to its pledge not to engage in domestic terrorism. It has been widely reported that a side deal with the Taliban would allow US special forces and the CIA to continue operating in Afghanistan after a full withdrawal. This suggests that US involvement in the country in some form has become a permanent fixture, partly because other terrorist groups, such as Islamic State (IS), also operate in Afghanistan. Even so, US political will to extend a long war in Afghanistan appears to be flagging, which could itself encourage the various parties to inch towards peace.

February 27th 2020 Syria, Ukraine, Libya, Yemen: why do these four wars matter?

- **The civil wars in Syria, Ukraine, Libya and Yemen have become battlegrounds for external powers, mainly the US and Russia, to assert their global leadership.**

February 27th 2020 Syria, Ukraine, Libya, Yemen: why do these four wars matter? (continued)

- **Russia is now the main player on the ground in Syria, where the ruling regime looks set to remain in power owing to Russia's support.**
- **The US is not playing a meaningful role in the peace negotiations to settle the Ukraine conflict, which will continue to simmer in the coming years.**
- **Western countries appear divided over Libya, and Russia is seeking to exploit these divisions. The intervention of multiple powers is prolonging this conflict.**
- **In Yemen the US and Russia are waging war against each other by proxy (Saudi Arabia for the US and Iran for Russia). There is little prospect of a durable peace agreement.**

Proxy conflicts were common during the cold war, when the US and the former Soviet Union competed against each other by backing opposing sides in civil wars. After the collapse of the Soviet Union in 1991, Russia retreated from the global stage until the 2010s. Since then Russia has sought to play a greater role in global affairs. It has taken advantage of the vacuum left by the US as the country has retreated from the world stage and pursued an "America first" approach. In recent years civil conflicts in Syria, Ukraine, Libya and Yemen have become increasingly internationalised. The US and Russia, and their regional respective allies, such as Saudi Arabia and Turkey (for the US) and Iran (for Russia), have backed opposing sides and established themselves as crucial partners for prosecuting war and seeking peace. However, in the process they have entrenched divisions and have often prolonged conflicts.

Syria (since 2011): are Mr Al-Assad and Russia winning?

What is the conflict about? The Syrian civil war started in 2011. The ruling regime of the president, Bashar Al-Assad, presents the conflict as a military operation by the Syrian army against rebel terror groups; on the other side, myriad Syrian opposition groups aim to topple the Al-Assad regime.

February 27th 2020 Syria, Ukraine, Libya, Yemen: why do these four wars matter? (continued)

Who do the US and Russia back? Since the start of the war the US has been backing rebels opposed to Mr Al-Assad's regime, for instance by providing arms and training. Many rebels have become associated with jihadi groups, eventually prompting the US to distance itself from them. The US is demanding a political solution (that is to say, Mr Al-Assad's departure) to the conflict. Meanwhile Russia (and its ally, Iran) have provided the Al-Assad regime with financial and military aid since the start of the civil war; Russia became involved militarily in 2015.

What to watch? The US has retreated from Syria in the past few years and is no longer a major diplomatic player in this conflict. Conversely, Turkey, which backs rebel groups, has increased its presence on the ground and seeks to negotiate a settlement with Russia, the other major external player. Mr Al-Assad's regime looks set to remain in power, owing to Russia's support. However, the US-Russia conflict over Syria is not over. First, Syria would become a proxy battleground if US-Iran tensions were to flare up (not our core forecast). Second, US and Russian companies will fight for reconstruction contracts once the conflict is over (provided that Western sanctions against Syria are lifted in the long term).

Ukraine (since 2014): a battle over control of Russia's backyard?

What is the conflict about? In 2014 Russia illegally annexed Crimea from Ukraine and started to back separatist rebels in the Donbas region of western Ukraine. This was in response to Ukraine's attempts to become closer to the EU by agreeing a free-trade agreement; for Russia, preventing Ukraine from joining Western institutions is a priority. Crimea now appears firmly under Russian control. The Donbas conflict is simmering, with regular flare-ups despite the conclusion of the Minsk II peace agreement in 2015; this agreement has never been implemented, as Russia and Ukraine disagree over its specifics.

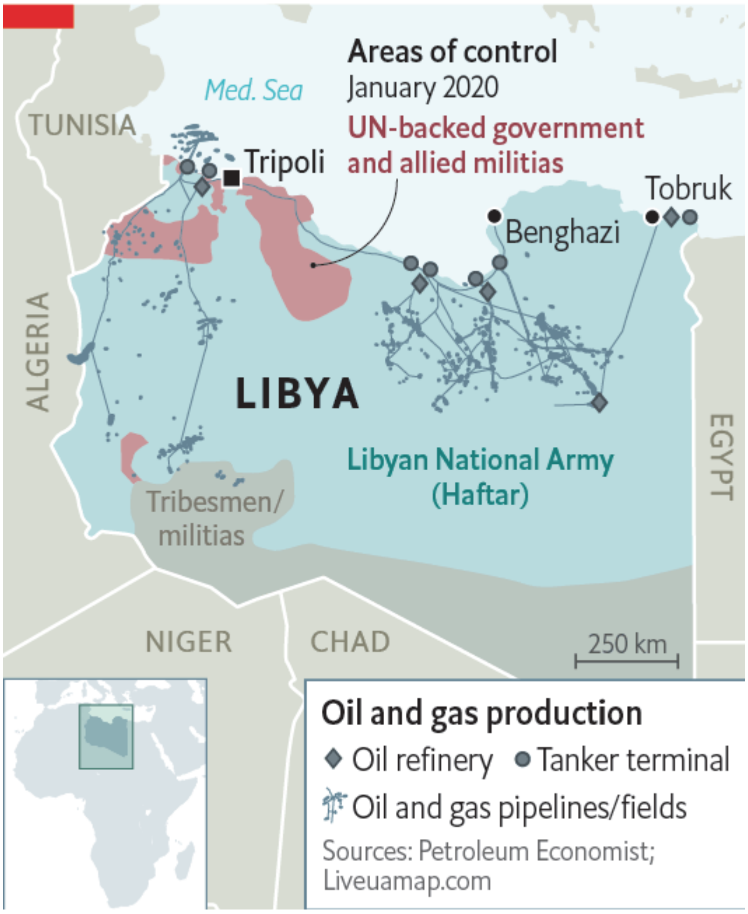
Who do the US and Russia back? The US backs the Ukrainian government by providing financial and military aid, and officially supports Ukraine's demands that Crimea be returned to Ukraine. Meanwhile Russia claims that it is protecting the interests of ethnic Russians in the Donbas region, and that the Crimean population wanted to secede from Ukraine (both dubious claims).

February 27th 2020 Syria, Ukraine, Libya, Yemen: why do these four wars matter? (continued)

What to watch? Dialogue between Russia and Ukraine resumed in July 2019. The first meeting of the Normandy Four-consisting of the heads of state of Germany, France, Russia and Ukraine-in more than three years took place in December in Paris, the French capital. Vladimir Putin, the Russian president; Volodymyr Zelenskyi, the Ukrainian president; and Emmanuel Macron, the French president, are keen to show progress on the foreign policy front to improve their global status. The US does not play a role in these discussions. Negotiations will continue, and Russia and Ukraine will probably agree on de-escalation measures in the coming years. These will, however, fall short of settling the conflict.

Libya (since 2014): who is playing both sides?

What is the conflict about? The Libyan civil war is being fought between two rival governments that seek to control the country and its energy resources: the UN-backed Government of National Accord (GNA, under the leadership of the prime minister, Fayez al-Serraj), and the self-styled Libyan National Army (LNA, under the leadership of Field Marshal Khalifa Haftar).



Who do the US and Russia back? The US backs the GNA, which is recognised by the international community. However, the US also has direct communication channels with the LNA (the US ambassador to Libya met Mr Haftar in February), illustrating divisions among Western countries over Libya. For instance, France also maintains ties with Mr Haftar, who Mr Macron believes represents an ally in the fight against terror. Meanwhile Russia backs the LNA, and Russian private military companies (which often have ties to the Russian government) are present in Libya.

February 27th 2020 Syria, Ukraine, Libya, Yemen: why do these four wars matter? (continued)

However, Russia's involvement in the Libyan conflict is not as prominent as its role in the Syrian and Ukrainian conflicts; in Libya, Russia mostly looks keen to play a role behind the scenes and to foster divisions between Western countries.

What to watch? As in Syria, international involvement has prolonged the conflict by giving local proxies reason, and means, to continue fighting. Turkey has recently become involved in the conflict by providing fighters to the GNA. Russia and Turkey look set to become the most important external players, strengthening their presence in the Middle East and North Africa by positioning themselves in the void left by Western countries.

Yemen (since 2015): the forgotten proxy war?

What is the conflict about? Yemen is the civil war that the West likes to ignore, despite a death toll in excess of 100,000 since 2015 (mostly due to a continuing famine). The conflict involves Iran-backed Houthi rebels opposed by a Saudi-led military coalition supporting the internationally recognised president, Abd Rabbuh Mansour Hadi.

Who do the US and Russia back? The Yemen conflict is peculiar in that the US and Russia are not directly involved. However, the rivalry between the US and Russia plays out in the Yemen civil war, too. On the one hand, Iran is a close ally of Russia; on the other hand, Saudi Arabia is, alongside Israel, the US's most important ally in the Middle East.

February 27th 2020 Syria, Ukraine, Libya, Yemen: why do these four wars matter? (continued)

What to watch? There is little prospect of a durable peace agreement in Yemen, mainly owing to deep mistrust between belligerents. From a global perspective, Yemen (like Syria) would become a proxy battleground if US-Iran tensions were to flare up.

February 27th 2020 Rapport between Trump and Modi cannot solve trade conflict

The US president, Donald Trump, visited India on February 24th-25th. Despite tensions over economic issues, Mr Trump and India's prime minister, Narendra Modi, used the visit to showcase their strong personal tie. However, the failure to resolve ongoing trade disputes, much less complete a limited trade deal, highlight that while India and the US share significant strategic interests, their economic interests remain much further apart. Moreover, while Mr Modi and Mr Trump have similar characteristics and have built a strong personal relationship, a potential Democratic successor to Mr Trump would be likely to take a colder approach to Mr Modi.

Mr Trump's visit took him to Ahmedabad, the capital of Mr Modi's home state of Gujarat, for a rally; the Taj Mahal in Agra, for tourism; and the national capital, New Delhi, for official talks. In Ahmedabad Mr Trump and Mr Modi filled the world's largest cricket stadium with cheering supporters in an event that harked back to the "Howdy Modi" rally in Houston (Texas) in September 2019. Mr Modi has long sought to bring Mr Trump to India, and had reportedly asked him (unsuccessfully) to attend January's Republic Day celebration in Delhi.

Having hosted China's president, Xi Jinping, and Japan's prime minister, Abe Shinzo, Mr Modi was determined to emphasise his diplomatic credentials to his home crowd in Gujarat. For his part, Mr Trump has repeatedly expressed his appreciation for the large crowds mobilised to greet him in Ahmedabad. This trip allows him to burnish his image as a respected statesman ahead of the US presidential election in November.

Strategic interests will drive defence sales and military co-operation

Defence and security co-operation between the two countries is fundamentally driven by a shared concern over China's rapid rise as a major power. In that context, the most significant outcome of Mr Trump's visit-the finalisation of a multi-billion-dollar military helicopter sale to India's armed forces-was an easy option. In recent years the US has emerged as one of India's largest defence suppliers, breaking Russian companies' domination of the market.

The US government has grown progressively more willing to share advanced technologies and weapons systems typically reserved for close allies. Meanwhile, under Mr Modi's premiership, India has become more willing to risk alienating China by joining US-led or US-supported strategic dialogues and regional security initiatives, the most significant being the Quadrilateral Security Dialogue (the Quad), with the US, Japan and Australia. As India continues to expand economically and its geopolitical interests grow, the US is likely to become a closer security partner and a more favoured defence supplier. This will be welcomed by the US, which is looking to counter the spread of Russian military technology in strategic countries; for example, Turkey's purchase of a Russian missile defence system in 2019 has become a major sticking point in that country's bilateral relations with the US.

No trade deal in the near term

Despite defence sales and warm rhetoric, however, Mr Trump's visit failed to deliver on the promise of a long-expected India-US trade deal. Mr Trump's desire to reduce trade deficits and Mr Modi's focus on bolstering domestic manufacturing have led to an increase in tariffs and conflicts over standards in recent years. India and the US are working on a deal to reduce barriers bilaterally.

February 27th 2020 Rapport between Trump and Modi cannot solve trade conflict (continued)

However, reports indicate that the talks collapsed amid US anger over additional Indian tariffs on medical devices that were announced during the February budget presentation, as well as the US administration's unwillingness to restore trade benefits under the Generalised System of Preferences (GSP). The loss of GSP status in 2019 saw tariffs levied on US$5.6bn of previously duty-free Indian exports.

Moreover, India's restrictive e-commerce and data localisation policies remain a talking point for major US firms. Given Mr Trump's restrictive position on immigration, the ability of Indian information technology firms to secure visas for staff working for US clients will also remain a bilateral sticking point. Although both leaders signalled that talks on a bigger trade deal are ongoing, a limited trade deal is now highly unlikely until after the US presidential election in November.

Bilateral relations are likely to suffer if the Democrats win

Mr Trump and Mr Modi enjoy a strong personal relationship, and regularly praise each other in the highest terms. Mr Trump chose not to voice concern over Mr Modi's controversial nationalistic policies during his visit. However, these policies are likely to become more difficult for the US leadership to ignore.

Mr Trump's time in India coincided with anti-Muslim mob violence. A Hindu-nationalist countermovement against opponents of the Citizenship Amendment Act (CAA) has led to at least 30 deaths and hundreds of injuries. The unrest has been the worst communal violence in Delhi since 1984. The Hindu-nationalist backlash was reinforced by the stark anti-protester rhetoric deployed by senior BJP figures ahead of the election for the Delhi legislative assembly earlier in February. Mr Trump's opponents in the Democratic Party, who put greater emphasis on the rights of immigrants and religious and ethnic minorities around the world, would be much less likely to stay silent, particularly if India exercises the CAA in a more intrusive way against the Muslim population.

Even if Mr Trump wins re-election in November (which The Economist Intelligence Unit considers to be the most likely outcome), Mr Modi's nationalistic agenda could still sap US congressional support for his administration and is therefore a headwind for the developing India-US partnership. While engagement with India has traditionally enjoyed support from both Democrats and Republicans, some Democratic members of the US Congress (parliament) have recently pushed a largely symbolic resolution criticising Mr Modi's crackdown last year in the Muslim-majority state of Jammu and Kashmir. Any substantial future trade agreement would require ratification in the US Senate (upper house). Nonetheless, converging geopolitical interests will keep India and US co-operating on a range of strategic initiatives.

February 20th 2020 Canada moves a step closer to USMCA ratification

- **The US and Mexico have ratified the United States-Mexico-Canada free-trade agreement (USMCA), leaving ratification by the Canadian parliament as the final obstacle.**
- **We believe that sufficient members of Canada's opposition parties will help to pass the deal, meaning that it could become law by April at the latest.**
- **The USMCA will have an adverse effect on two economic sectors in Canada: aluminium (much of which is produced in the province of Quebec) and the dairy industry.**
- **The major lesson for Canada from the costly renegotiation process has been the need to diversify exports away from the country's economically dominant southern neighbour.**

February 20th 2020 Canada moves a step closer to USMCA ratification (continued)

In early 2018 it seemed highly unlikely that it would be Canada dragging its heels on a deal to replace the North American Free-Trade Agreement (NAFTA). At the time the Canadian government was scrambling to ensure that the US administration did not follow through on its threat to withdraw from the agreement altogether. No one, other than the US president, Donald Trump, will ever know how serious a threat that was, but the Canadian government did take it seriously.

Unfavourable parliamentary arithmetic

To that extent, the response led by the Canadian prime minister, Justin Trudeau, was effective. The US was allowed to redesign NAFTA into USMCA, and the changes are more superficial than comprehensive. Mr Trudeau's Liberal Party government was concerned that an end to tariff-free access to the US market would have meant a domestic recession-and quite probably defeat at the federal election in October 2019. As it happened, other factors resulted in the government losing its majority, and, as a result, ratifying the USMCA has become a more difficult process than Mr Trudeau would have envisioned. The Liberal Party holds 157 of the 338 seats in the House of Commons (the lower house of parliament), meaning that it needs support from 13 non-Liberal members of parliament to pass legislation. The government introduced its bill on the USMCA at the end of January; the agreement has now passed its second reading and been referred to the Standing Committee on International Trade.

It is highly likely that the legislation will pass, eventually. There is little electoral benefit for the main opposition Conservatives, in particular, to reject the bill and force the government to return to the negotiating table, with Canada's hand much weakened. Instead, the opposition parties will choose to make life uncomfortable for the Liberal government by holding up the legislation in committee to demonstrate their influence over policymaking. Passage is likely by April, at the latest, and the agreement will take effect on the first day of the third month following Canada's ratification.

Unhappy metalworkers, disgruntled dairy farmers

The desire of Canada's opposition parties to throw grit into the wheels was evident in mid-February, when Yves-François Blanchet, the leader of an opposition party, Bloc Québécois, criticised the new rules-of-origin requirements for the automotive sector; these rules do not offer explicit duty-free protections for Canadian aluminium, much of which is produced in the province of Quebec. Mr Blanchet has claimed that this will cost 60,000 jobs. He also added that the lack of protections for aluminium were inconsistent with those for steel.

Among the other concessions made by the Canadian negotiators was an opening up of some of the country's dairy industry to US competition. The Canadian government will increase the volume of many categories of dairy products that can imported from the US duty free in the first few years of the agreement, and these volumes will then rise proportionally on a year-on-year basis. Unless Canadian dairy producers are able to increase their productivity, this change in access will reduce their profitability.

Reducing over-reliance on the US

There were also a couple of notable wins for the Canadian negotiators. Among these was the maintenance of the current dispute-resolution mechanism, which the US team wanted to scrap. The current system is independent from the courts in all three member countries and has generally been impervious to US pressure. Maintaining the independence of the mechanism was one of Canada's priorities. The other major success for Canada was simply that it avoided an economic disaster. The country is overwhelmingly reliant on the US as an export destination, and any major disruption to that-temporary or permanent-would have been costly.

February 20th 2020 Canada moves a step closer to USMCA ratification (continued)

Nonetheless, Canada's experience of the USMCA process has served as a reminder of the economy's vulnerability to abrupt changes in US trade policy, both towards Canada and elsewhere. For example, the first-phase trade deal signed by the US and China in January commits China to buy an extra US$200bn of US goods in the next two years. These targets appear overly ambitious, but more relevant for Canada is the point that even if China misses the targets but still comes close, to avoid flooding its own market it will need to cut back on purchases from elsewhere. This is likely to result in diminished demand for Canadian exports. According to analysis by the Financial Post, a Canadian newspaper, of Canada's 25 largest categories of goods exports to China, 15 are also listed in the US-China agreement, implying, at the very least, stiffer competition from the US in these areas.

The rub for Canada is the need to accelerate a decades-long process of diversifying its international trade away from the US and towards other trading partners. Selling to the US is an attractive and straightforward option-its rules, regulations, language and culture are familiar, and its consumers a short drive away. However, the US has been a fair-weather friend in recent years, and the overarching message from the USMCA process has been that Canada would benefit from deepening its alliances further afield.

January 31st 2020 Latest Middle East peace plan is deeply flawed

The US president, Donald Trump, promised "tremendous support" from Arab countries for the Israeli-Palestinian peace plan that his administration unveiled on January 28th. Unsurprisingly, that support has failed to materialise. The plan ignores many of the central Palestinian demands, and has been met with a cool response even by the US's closest Arab allies. The deal is therefore unlikely to make any real progress towards resolving the Israel-Palestine conflict. It will also do little to strengthen Mr Trump's foreign policy legacy, and is therefore unlikely to have a noticeable impact on the November 2020 US presidential election.

Mr Trump's peace plan is unlikely to succeed. The deal recognises a Palestinian state, but reduces its territories to 70% of the current West Bank, all of Gaza and some parcels of Israeli land to the south of Gaza that Israel would transfer to Palestine. Israel would retain complete control of Jerusalem-with a small section in the eastern outskirts given to the Palestinians as a capital-as well as sovereignty over the Jordan Valley, a crucial agricultural area, and all Jewish settlements. Israel would also retain security control over all the West Bank. Israel and the Palestinians are due to negotiate final terms over the next four years, during which there will be a limited freeze on settlement development.

Tepid response, at best

The Trump administration's proposal was primarily developed by the president's son-in-law and senior aide, Jared Kushner, with only limited contact with Palestinian authorities-making it clear that the deal would be poorly received. In an unusual display of unity, the Palestinian Authority (PA), Hamas and Islamic Jihad vehemently condemned the plan. The PA, which broke off formal contact with the US two years ago, has said that it will not join negotiations based on this plan. The administration is relying on the US's closest Arab allies to back the plan and fund most of the US$50bn in Palestinian aid and investment that it envisages. Only three allies sent representatives to attend the press conference where the plan was announced: the UAE, Bahrain and Oman. Several other major allies, including Egypt, Jordan and Saudi Arabia, released carefully worded statements supporting diplomatic efforts in the region, but without backing the plan.

Deal is primarily aimed at US and Israeli audiences

The deal is fatally flawed from the outset. The embattled Israeli prime minister, Binyamin Netanyahu, has promised to call a vote on annexing the territories in question on February 1st. It is highly likely that the vote will be postponed, given the proposal's dubious legal grounding.

January 31st 2020 Latest Middle East peace plan is deeply flawed (continued)

Even if the vote does pass, we expect any annexation effort to be delayed, as it would provoke outrage in Palestine and among its allies. The PA has refused to join talks, and no other Arab allies are likely to support them, either politically or financially; Mr Trump's promise to establish a joint working group to get talks off the ground is therefore likely to falter.

We believe that this peace plan was more of an attempt to solidify US-Israeli ties and bolster Mr Trump's legacy as a statesman, rather than a realistic attempt to settle the Israel-Palestine conflict. Mr Trump has extended political and diplomatic support to Mr Netanyahu on several occasions as the Israeli prime minister has struggled to maintain his electoral mandate. Mr Trump effectively endorsed Mr Netanyahu in the September 2019 Israeli elections, and both leaders have used their strong working relationship to bolster their political bases at home. Mr Netanyahu's visit to the White House to jointly reveal the peace plan-with no Palestinian leaders present-is yet another example of this. However, we do not expect this show of solidarity with the US to significantly improve Mr Netanyahu's electoral prospects at home, where he faces three separate corruption charges (which he denies) and a heavily divided parliament, which has largely stalled policymaking.

The deal will have minimal impact on Mr Trump's legacy

The White House's plan has a secondary objective: to reinforce Mr Trump's image as a statesman ahead of the November 2020 election. The announcement of a major international diplomatic initiative such as this-where numerous other US administrations have failed in the past-was well timed. On the campaign trail, Mr Trump will only need to point to ongoing talks as a sign of success. The US presidential election is just nine months away, which probably is not enough time for the deal to fail completely, which would be a huge embarrassment.

January 31st 2020 Latest Middle East peace plan is deeply flawed (continued)

Even this flawed deal could therefore lend Mr Trump enough foreign policy gravitas to use this during the campaign. However, given that the plan is unlikely to make real progress in the Middle East, we would expect any positive impact to be contained to Mr Trump's core support base. It is important to note that this support base is already loyal to the president, and is therefore unlikely to generate any new support for Mr Trump at the polls.

Mr Trump is still looking for a foreign policy win

Overall, Mr Trump's foreign policy legacy-at least from his first term-will be dominated by what he has torn down, rather than what he has built anew. During his first three years in office he has brought about the dissolution of the 2015 Iranian nuclear deal, the Joint Comprehensive Plan of Action (JCPOA), escalated tensions with Iran, withdrawn or deployed US troops from coalition forces in Syria and shaken the foundations of the US-EU alliance. From an economic perspective, he has also de-fanged the World Trade Organisation (WTO) by allowing its dispute resolution mechanism to become obsolete.

Thus far the president's efforts to build a new US foreign presence-for example by engaging diplomatically with North Korea or working towards a deep, comprehensive US-China trade agreement-have been unsuccessful. This step towards one of the thorniest global diplomatic issues, the Israeli-Palestinian conflict, is another attempt to establish a major foreign policy win. But this effort, like the others, is unlikely to be successful.

January 28th 2020 Dead end: China-Japan-South Korea trilateral relations

China, Japan and South Korea broadly share a common interest in preserving regional stability and promoting global trade. Chaotic US foreign policy has prompted all three to renew efforts towards closer economic integration, which could set the stage for better relations in the longer term. However, different priorities on other issues-including North Korea, relations with the US and rising Chinese economic and political influence-will derail any significant improvement in diplomatic ties. In a follow-up to our earlier analysis of North-east Asian relations, The Economist Intelligence Unit examines the opportunities and challenges presented by geopolitical changes in the region.

The end of 2019 was marked in East Asia by a flurry of diplomatic efforts by leaders of the three biggest countries in the region-China, Japan and South Korea-to seek common ground and improve relations. A trilateral summit attended by the Chinese premier, Li Keqiang, the Japanese prime minister, Abe Shinzo, and the South Korean president, Moon Jae-in, saw the three countries reaffirm their commitment to regional security and stability, while also accelerating negotiations on a proposed trilateral free-trade agreement. Both goals gained renewed significance in 2019 amid North Korea's return to hostile rhetoric and missile-testing, as well as an ongoing deterioration in global trade.

While these factors brought the three countries together, other issues will challenge co-operation rather than encourage it. These include growing uncertainty over the US's commitment to the region, the emergence of diplomatic fissures between the three countries and how Japan and South Korea will contend with China's rise as an economic and military power.

The North Korea conundrum

The issue of nuclear security on the Korean peninsula may provide the best avenue for co-operation. Both South Korea and Japan have a long-held and justified fear of conventional military attacks on their territory by North Korea, but their primary means of deterrence rests on the US's military presence.

January 28th 2020 Dead end: China-Japan-South Korea trilateral relations (continued)

While we do not expect the US to retreat from the region (either diplomatically or militarily) any time soon, the foreign policy of the current president, Donald Trump, has raised questions over this commitment. The erratic nature of the US-North Korean relationship in recent years has also raised the risk of a military conflict on the Korean peninsula, although this scenario remains well outside our core forecast.

These concerns are not limited to the two democracies. China, which remains North Korea's primary benefactor, has cooled its diplomatic stance towards the hermit state in recent years. Although diplomatic relations have thawed since early 2019, as US-China relations have soured, North Korea's development into a fully fledged nuclear state is not in China's interest. In addition to increasing the security risks on the Korean peninsula, leaving China's north-eastern provinces vulnerable to the consequences of military action, such a development could also facilitate the rebalancing of China-North Korea relations more generally, as happened between China and the USSR in the 1960s (when China developed its own nuclear capabilities).

Despite their differing motivations, all three countries remain generally aligned in wishing to prevent the abrupt collapse of the North Korean regime, even though the ideal endgame for each party is different. China would be reluctant to see a unified (and enlarged) Korea on its doorstep, particularly as such an outcome would probably yield a political entity that was broadly sympathetic to the US. Instead, China would prefer to maintain the status quo, whereby North Korea would remain as a buffer to US influence; this stands in stark contrast to the ideals of Moon Jae-in, who has emphasised the long-term goal of peaceful Korean reunification since taking office. The approach of both countries, however, stands in contrast to the increasingly aggressive rhetoric of the US against North Korea.

There is thus a small chance that China and South Korea, along with Japan, could form a united front to resolve tensions on the Korean peninsula, as the goals of each are ultimately anchored in maintaining stability. This will do little to solve geopolitical friction elsewhere, but it could provide an anchor for the trilateral relationship in 2020, particularly as US-North Korea relations look set to spiral further during the year. This would be particularly important for South Korea and Japan, which have previously relied on the presence of the US to smooth over their own bilateral friction; the retreat of the US from its relationship with Japan and South Korea helped to allow a separate diplomatic dispute to ferment into a mild economic conflict. Engagement over North Korea could be a way for both countries to cultivate channels of bilateral diplomatic co-operation on their own, without the crutch of the US as a mediating force.

The US-led uncertainty

The changing nature of the US's strategic role in East Asia will nevertheless present challenges on its own. The Trump administration's transactional approach to foreign policy has raised both the financial and security costs of its presence in the region: Mr Trump has demanded that both South Korea and Japan pay more for the US military presence. He has also threatened to impose tariffs on merchandise goods from both countries, on the alleged grounds of national security, despite the two countries being close security partners of the US. Meanwhile, his volatile stance towards North Korea has raised significant concerns over potential confrontation.

This has been a marked departure from the "pivot to Asia" strategy championed by the previous US administration, although we view the US's overall strategic commitment to the region as unquestionable in the long term. Regardless of Mr Trump's policies, the trilateral alliance between South Korea, Japan and the US enjoys strong bipartisan consensus. The US also has tremendous business interests in the region and sees its footprint as a strategic necessity to manage the rise of China.

Nevertheless, there is growing pressure for South Korea and Japan to increase their own military budgets and capabilities, amid uncertainty over the US security commitment to the region. The pursuit of such an agenda will need to be managed carefully.

January 28th 2020 Dead end: China-Japan-South Korea trilateral relations (continued)

Enduring mistrust (and historical animosity) between South Korea, Japan and China suggests that unilateral action by one would probably spark a strong diplomatic reaction by the other two, particularly if Japan were to be seen as leading this. Unless US foreign policy returns to a more institutionalised framework, however, Japan and South Korea will face growing calls to take a more active role in managing their own security. This could ultimately derail diplomatic co-operation elsewhere, particularly if some fringe voices in these two countries-such as those pushing for the development of nuclear weapons-are emboldened by shifting geopolitics.

The China choice

This dynamic is further complicated by the rise of China itself. The US security umbrella has historically allowed Japan and South Korea to avoid massive spending on national defence. In turn, this has given them the flexibility to prioritise economic development, including by taking advantage of the new opportunities offered in the Chinese market since the launch of that country's reform and opening period in 1978. This arrangement has allowed both countries to maintain a fine equilibrium between their developing economic partnership with China and their continued security alliance with the US.

China's rise, however, is now changing this calculus. The country's strengthening diplomatic gravity will inevitably draw more countries into its sphere of influence. Although we view this as unfolding primarily in South-east Asia, particularly through China's promotion of the Belt and Road Initiative, Chinese officials also remain keen to exploit these dynamics in North-east Asia to their benefit, as we outlined in our previous piece. These factors will ensure that diplomatic mistrust persists in the long term.

The future of this depends more on China. If officials are to reassure China's neighbours that its rise will enhance regional stability-instead of detracting from it-then they will need to adjust their foreign policy, which in recent years has become much more hawkish. This has included retaliation against South Korean or Japanese companies in the Chinese market and the waging of sensationalist media campaigns against those countries amid their various diplomatic disputes. A more restrained approach to diplomacy could help to diffuse some of the antagonism that has naturally been bred in South Korea and Japan as a response, but China's current foreign policy trajectory under the presidency of Xi Jinping suggests that this is unlikely to change soon. Unless these basic issues can be resolved, mistrust will persist and closer trilateral ties will remain elusive.

January 17th 2020 Unpacking the US-China first-phase trade deal

The signing of a first-phase trade accord between the US and China on January 15th will help to stabilise business and consumer confidence, following two bruising years of the trade war. Nevertheless, significant questions persist over the enforceability of the deal, including China's nominal purchase pledges, and the ability of the two sides to make headway on a potential second-phase agreement. Despite the recent pause in tariff hostilities, The Economist Intelligence Unit expects US-China relations to continue to deteriorate in other areas, including technology and finance.

The first-phase deal, as we expected, was aimed more at preventing the tariff war from escalating than finding an end to the dispute. That was demonstrated by the terms of the agreement, which preserves existing US tariffs on around US$480bn of Chinese goods (although the tariffs on US$120bn worth of Chinese goods enacted in September 2019 will be reduced from 15% to 7.5% in mid-February; the remaining US$360bn will still be subject to a 25% levy). As a result of the deal's limited scope and questions concerning enforceability, we believe that it leaves open more questions than it has answered.

January 17th 2020 Unpacking the US-China first-phase trade deal (continued)

Sky-high ambitions (on paper)

The deal's most visible provisions revolve around China's pledge to buy around US$200bn of US exports, spanning manufactured goods, agriculture, energy and services.

However, the targeted purchase values are anchored to the US dollar value of US exports to China in 2017. This means that Chinese buyers will first have to bring import volumes back to their annual levels in that year; they have fallen precipitously since the trade war began, and were down to US$122.7bn in 2019, from US$153.9bn in 2017, according to Chinese trade data. Chinese buyers will then have to ramp up these purchases significantly, by 41.5% and 63.8% a year respectively (both based on 2017 levels), to meet the agreed targets.

Agricultural demand in China (particularly for grain, which is used primarily for pig feed) has been disrupted by the outbreak of African swine fever, but these targets could, in theory, be achieved through state-directed purchases. However, the decision to also include US services exports in the US$200bn calculation-a number that was originally concocted to help the US to reduce its goods trade deficit with China, but which will not ultimately feed into the actual figure-suggests that US policymakers are aware of the challenges China faces in hitting these targets.

Distorting trade flows to meet targets?

The deal's purchase targets appear to violate World Trade Organisation (WTO) rules, although the recent collapse of the WTO appellate body will make challenging these provisions difficult. While the Chinese vice-premier, Liu He, has signalled that the deal will not affect trade flows between China and other countries, we are sceptical that the country will be able to meet these targets without reducing purchase levels from other countries.

More worrisome is how the trade deal might distort trade flows in other ways. The trade conflict has highlighted the importance of trade diversification, with much of the initial tariff shock stemming from overreliance on a single export market. China's purchase pledges risk undermining this strategy, as US farmers or energy producers, for instance, dedicate more of their exports to China. More risky is what this might mean in the long term: even if these purchase pledges last until 2021, China is already quietly diversifying its agricultural imports, including via France, Brazil and other markets. The artificial demand generated under these purchase pledges will probably end after 2021, with potentially devastating consequences for US farmers.

Creaking the door open

The agreement made limited headway in addressing some of the structural issues in the economic relationship. It included a number of provisions on prohibiting forced technology transfer and guarding against intellectual property theft-although these largely mirror provisions elsewhere, including under China's Anti-Unfair Competition Law and the new Foreign Investment Law. In addition, concerns over enforceability will persist.

Commitments in the financial sector appear more notable, with the deal laying out concrete timelines for licensing approvals for foreign firms. This has long been an issue for US financial firms trying to access the Chinese financial services sector. Despite related foreign direct investment openings since mid-2018 (largely by way of equity cap reductions), only a few US companies have actually obtained approval to expand their operations in the market. Most of these approvals have, in addition, only occurred on the sidelines of US-China trade negotiations, suggesting that their timeline has been used as leverage by the Chinese trade team. A clearer approval schedule should help to normalise this process.

Nevertheless, we do not expect the deal to change significantly the competitive landscape for foreign firms, and we expect domestic financial institutions to maintain their incumbent advantages. This is primarily due to the preservation of separate Chinese regulations on topics such as technology procurement, data flows and capital controls, which will undermine the ability of foreign companies to leverage their global operations-their primary competitive advantage vis-à-vis local players-as a way to gain market share.

January 17th 2020 Unpacking the US-China first-phase trade deal (continued)

A return to semi-normalcy?

Beyond the trade deal itself, the sides have also re-opened avenues for bilateral dialogue, which had been suspended since November 2017. The US has stated that it will relaunch semi-annual talks with China on the topics of dispute resolution and economic reform, to be spearheaded by Mr Liu on the Chinese side and the Treasury secretary, Steven Mnuchin, on the US side. A resumption of normal dialogue will be positive: regular engagement may reduce the possibility of policy miscalculation, while also helping to rebuild bilateral trust, which has plummeted since the trade war began.

In a worst-case scenario, the deal endows either party the ability to withdraw fully from the agreement. This would probably prompt the re-introduction of trade actions in quick succession. This provision means that there is a chance of the deal falling apart later in 2020. While this is outside our core forecast, the risk is very high. This is particularly because previous dialogue mechanisms, under both the current and previous US administrations, have struggled to force meaningful Chinese commitments on investment and trade; these new mechanisms are unlikely to yield a significantly different result.

What was left unsaid?

A lot appears to have been left unsaid in the trade deal, which does not bode well for its future. Most tellingly, there were no provisions on Chinese industrial policy (including subsidy programmes, state-owned enterprise reform and controversial development plans), against which the US launched the initial investigations that precipitated the trade war.

This came as no surprise, as the US had stated previously that these topics would be saved for "second-phase" negotiations. We nevertheless remain pessimistic that significant progress will be made in these areas. China has already identified these areas as its "red lines", and it is unlikely that its appetite to negotiate on these areas will change in the immediate future. Moreover, we also expect China to continue the aggressive promotion of its technology self-sufficiency objectives this year, which entail many of these controversial industrial practices. This will, as a result, further entrench these areas of antagonism, even as both sides try to negotiate a settlement. In other words, the US-China dispute appears far from resolved.

China's purchase agreements under the trade deal

	Year 1	Year 2	Combined total
Manufactured goods	**US$32.9bn**	**US$44.8bn**	**US$77.7bn**
Industrial machinery			
Electrical equipment & machinery			
Pharmaceutical products			
Aircraft (orders & deliveries)			
Vehicles			
Optical & medical instruments			
Iron & steel			
Other manufactured goods			
Agriculture	**US$12.5bn**	**US$19.5bn**	**US$32bn**
Oilseeds			
Meat			
Cereals			
Cotton			
Other agricultural commodities			
Seafood			

China's purchase agreements under the trade deal (continued)	Year 1	Year 2	Combined total
Energy	**US$18.5bn**	**US$33.9bn**	**US$52.4bn**
Liquefied natural gas (LNG)			
Crude oil			
Refined products			
Coal			
Services	**US$12.8bn**	**US$25.1bn**	**US$37.9bn**
Charges for use of intellectual property			
Business travel & tourism			
Financial services & insurance			
Other services			
Cloud & related services			
TOTAL	**US$76.7bn**	**US$123.3bn**	**US$200bn**

Note. These are additional purchase amounts, which will come on top of the US$ value of US exports to China in 2017.

Source: The Economic and Trade Agreement between the US and China.

January 12th 2020 Iran admits downing passenger jet, triggering local unrest

Iran has admitted that a Ukrainian airliner that crashed near Tehran, the Iranian capital, in early January was accidentally shot down by defences on high alert for anticipated US air strikes. The reversal of initial denials triggered anti-government protests in major cities-the second outbreak of popular dissent in as many months. In the event, the White House has instead announced new economic sanctions against Iran as an alternative to further military action, in an attempt to cool the conflict. EU ministers meeting in emergency session have confirmed their intent to continue engaging with Iran through the 2015 international nuclear deal despite renewed Iranian violations-a decision likewise aimed at de-escalation.

For two days after the crash on January 8th of the Ukrainian International Airlines PS752 Boeing 737-800 jet minutes after take-off from Imam Khomeini International Airport-killing all 167 of the mostly Iranian and Canadian passengers-Iran had stuck to an assertion that mechanical failure was to blame. However, denials that a missile was responsible were becoming impossible to sustain-not only on the basis of technical indications to the contrary but also in light of the improbable coincidence of the purportedly unrelated incident occurring just hours after Iran had launched air strikes against US targets in northern Iraq, in retaliation for the US assassination of Qassem Suleimani, Iran's top commander, earlier in the month. On January 9th Justin Trudeau, the Canadian prime minister, had confirmed the initial conclusions of international aviation analysts, saying that evidence pointed to a surface-to-air missile hitting the plane, and the following day Iran voluntarily pre-empted formal investigations with an admission from the Islamic Revolutionary Guards Corps, which operates the country's air defences, that the aircraft had been mistaken for a "hostile target"-blaming an air defence system that was on heightened alert for US reprisals. Ali Khamenei, Iran's supreme leader, and Hassan Rouhani, its president, issued statements of apology while Canada and Ukraine called furiously for a full inquiry and compensation.

Widespread protests demand transparency and dismissal of senior officials

However, the more notable expression of anger was domestic. Thousands took to the streets in Tehran, Isfahan and other cities on January 11th-12th to denounce the government both for the military incompetence behind the disaster and for nearly three days of misleading the public over the true cause-apparently disregarding assertions by senior leaders that they had likewise been in the dark. Protests were centred on universities-reflecting not only a local tradition of student protests but also the fact that many of the 82 Iranian dead were students returning to Canada for the new academic term.

January 12th 2020 Iran admits downing passenger jet, triggering local unrest (continued)

Security services were deployed in force and dispersed some of the demonstrations. There was no initial repeat of the state violence meted out during larger nationwide protests in November against fuel prices rises-during which dozens were killed-but the two eruptions of public anger in quick succession indicates the danger to the regime posed by the acute economic hardship induced by a year and a half of swingeing US sanctions. Anger over the incident also dissipated the contrary mass nationalist fervour on display in the immediate aftermath of General Suleimani's death, the spontaneity of which has been questioned in some quarters.

Successive waves of US sanctions are having a diminishing impact

Iranian statements of regret were couched with references to the dangerous ramp-up of tensions prompted by the high-profile killing of General Suleimani, with Javad Zarif, Iran's foreign minister, deeming the crash a "crisis caused by American adventurism". However, the fatal accident is also highly damaging internationally for Iran-which is struggling both to retain global respectability and to save face after the assassination of its top general, for which the relatively harmless missile strikes on Iraq constituted a symbolic retaliation calculated to avoid the risk of descent into all-out war. The US's response was similarly tokenistic, as the White House likewise sought to de-escalate. On January 10th details were announced of the new sanctions promised by Donald Trump, the US president, the previous day-which target the construction, manufacturing, mining and textiles sectors, as well as eight security officials. However, existing trade restrictions are so onerous that the fresh sanctions are expected to have minimal impact on the economy, which is being crippled by the renewed energy and financial sanctions imposed by the US in 2018 following its withdrawal from the 2015 Joint Comprehensive Plan of Action (JCPOA, the Iran nuclear deal). We estimate that Iran's real GDP contracted by 9.2% in 2019, and we expect a smaller contraction of 1.6% in 2020 assuming no further military escalation.

Nuclear deal abandoned?

Mr Trump's speech following the Iranian attacks called on the JCPOA's European signatories-France, Germany and the UK (the so-called E3)-likewise to abandon the deal, a long-standing call given new resonance by Iran's announcement in the wake of General Suleimani's death that it would no longer be bound by the agreement's limits on the country's uranium-enrichment activity. However, there was no indication of intent in practice to further breach the restrictions, and Iran emphasised that the move was reversible and that it would continue to permit International Atomic Energy Agency inspections. Moreover, at an emergency meeting of EU foreign ministers on January 10th, the E3 declared their continued commitment to the JCPOA, while inevitably calling on Iran to resume full compliance. They also refrained from invoking the deal's dispute resolution mechanism, which dictates a path towards reimposition of UN sanctions-reportedly reversing a plan to do so in view of the potential for further inflaming the volatile US-Iranian situation.

The Iranian regime will survive

We expect the EU's major powers to continue to engage with Iran in an effort to counter US bellicosity, although this will become harder should hostilities escalate and as Iran continues to miss out on the JCPOA's intended economic rewards. Domestically, our view is that the Iranian regime will survive the public anger over the downed airliner but, lacking the financial means to appease the population monetarily and with no prospect of US sanctions relief as long as Mr Trump remains in office, the government may feel obliged to play the nationalist card by maintaining a highly confrontational stance towards the US. However, this would need to be carried out within the extremely narrow margin allowed by the parallel imperative to avoid triggering a US military response, as well as domestic accusations of squandering funds on international adventurism that could better be spent on improving conditions at home.

January 9th 2020 Iran attacks US bases in Iraq

On January 8th Iran carried out missile attacks on US military bases in Iraq-an initial retaliation for the assassination of Qassem Suleimani, Iran's most-powerful general. The strikes-which caused no casualties-are in line with our forecast that Iran's revenge will take the form of calibrated attacks against US interests abroad, rather than actions that would be likely to lead to all-out war. Isolated internationally by the unilateral and hugely inflammatory assassination of General Suleimani, Donald Trump, the US president, responded by imposing new sanctions while striking a less bellicose tone than in the preceding days.

The ballistic missile attacks in the early hours of January 8th hit two bases hosting US troops in Anbar, a north-western province, and Irbil, the capital of the semi-autonomous Kurdish region in the north. These attacks were not unexpected, coinciding with the end of three days of mourning for General Suleimani that saw millions throng the streets of Baghdad, Tehran and finally Kerman, his home town, for funeral processions-with the death of more than 50 people in a stampede during the final commemoration in Kerman adding to the mood of fury at the US's action. The general was revered domestically-in particular for his role in defeating Islamic State (IS) in Iraq and Syria. He had also played a pivotal role in Iran's overseas operations for decades, co-ordinating the country's proxies, especially in Iraq, Lebanon and Syria, to build Iran's influence across the region.

The US claims that the decision to finally eliminate a long-standing foe was taken in response to a specific threat-with Mike Pompeo, the US secretary of state, denying reports that the general was in Iraq as part of mediation efforts with Saudi Arabia, Iran's regional nemesis. However, the assassination has met with global consternation, from nominal US allies and antagonists alike, for fear of its potential to provoke all-out war. Even Israel, Iran's most implacable enemy that had itself in the past mooted killing the general, distanced itself from the action, which was taken without international consultation.

Iran's retaliation appears to have been calculated to be symbolic rather than sufficient to cause further escalation

In the aftermath of the US killing of General Suleimani, Iran had immediately and inevitably vowed "severe revenge" against the US. Iraq was an obvious target-playing host to some 5,000 US troops, mainly as part of a US-led coalition with a mandate to combat IS remnants and train local security forces. Iran's retaliation on January 8th produced no injuries. Reports suggested that the strikes were designed to be largely symbolic and deliberately avoided casualties, as appeared to be implied by their description by Ali Khamenei, Iran's supreme leader, as "a slap" for the US.

The status of US forces in Iraq remains unclear, however. Coalition forces have been ordered to pause their mission in order to focus on protecting their own facilities in the country. However, the White House insists that it will not heed a resolution passed by Iraq's Iranian-aligned members of parliament at an emergency parliamentary session on January 5th calling for the expulsion of all US forces. Abel Abdul Mahdi, the embattled Iraqi caretaker prime minister, has since rowed back from his expedient support for the motion, suggesting that such an order only referred to operational troops rather than the majority of them, which are engaged in an advisory role.

US imposes new sanctions

Addressing the nation later on the day of the Iranian attacks, Mr Trump confirmed that there had been no US casualties and announced the imposition of new economic and digital sanctions on Iran. The new US sanctions will only be symbolic, given the already extremely stringent and broad nature of current US sanctions against Iran. Mr Trump's speech ended on an unusually conciliatory note, declaring the US's preference for peace and for not having to deploy its unrivalled military arsenal. This suggests that the White House has now been persuaded of the need to de-escalate. Only four days earlier, the US president had warned that 52 Iranian assets, including cultural sites, had been identified as potential targets in the event of any retaliatory action.

January 9th 2020 Iran attacks US bases in Iraq (continued)

Our forecast remains that the fallout from General Suleimani's killing will take the form of asymmetric Iranian or Iranian-sponsored attacks on US interests in the Middle East. This will also possibly take the form of attacks on shipping in the Gulf or of cyber-warfare. The leading personalities on both sides and huge existing regional tensions make the risk of a dangerous miscalculation extremely high.

January 6th 2020 Iran vows revenge for US assassination

The US's assassination of Qassem Suleimani, the veteran commander of the elite Quds Force of Iran's Islamic Revolutionary Guards Corps, marks a dramatic and dangerous escalation of the conflict that has been growing between the two countries over the past three years. The general was an enormously powerful and domestically feted figure who had played a pivotal role in his government's overseas military operations and strategy for more than two decades-and Iran's often divided leaders have been united in vowing revenge. Iraq, the scene of the general's killing and where US and Iranian-backed forces have been squaring off for years, is likely to remain a key battleground, further destabilising that country. Although we do not expect-and neither side wants-a direct conventional military confrontation, Iran will inevitably retaliate, probably by attacking the interests of the US and its allies in the region, and the risk of a miscalculation is high, especially given the notorious unpredictability of the current US president.

The succession of events leading up to General Suleimani's assassination in a drone strike near Baghdad International Airport early in the morning of January 3rd began a week earlier when a US civilian contractor was killed in a rocket attack blamed on Kataib Hizbullah (KH), an Iraq-based militia closely associated with the Quds Force. The US responded two days later with lethal air strikes on the group's military facilities in western Iraq and eastern Syria, which were followed on December 31st by supporters of KH and other Iranian-affiliated militias storming the US embassy in Baghdad-an affront with multiple resonances for the US political psyche, calling to memory the siege of the US embassy in Tehran in 1979 and the bombing of the US embassy in Kuwait four years later. Abu Mahdi al-Muhandis, KH's influential veteran leader, was sentenced to death in 2007 for involvement in the latter-and was killed alongside Mr Suleimani, an event that alone would have been regarded as a significant escalation of the simmering proxy war in Iraq had it not been overshadowed by the general's demise.

His assassination-which a US Defence Department statement emphasised had been directly ordered by Donald Trump, the US president-takes the intensifying conflict since Mr Trump took office in 2017 to an entirely new plane. General Suleimani's infamously successful management of Iran's numerous regional proxies-notably in Lebanon, Iraq and Syria-had made him a hugely powerful figure, close to Ayatollah Ali Khamenei, the supreme leader, and sometimes even mentioned as a possible future president. He had also gained a popular domestic renown highly unusual for a military leader, especially one whose speciality was in covert international operations. The commander's long-time deputy, Esmail Ghaani, was named as his replacement within 24 hours-in a clear attempt to signal that the Quds Force's activities would continue uninterrupted.

US allies were not consulted and reacted with barely concealed disapproval

General Suleimani's local celebrity was earned primarily through directing Iranian-backed Shia militias in combatting the invasion of Iraq in 2014 by Islamic State. However, since the militants' defeat three years later, some of the same militias had shifted back to targeting US-led coalition forces in the country-laying the ground for the events that culminated in the assassination. The US Defence Department alleged that the general and his forces had been responsible for hundreds of US deaths in Iraq-including those last month-and was in the process of plotting further attacks.

January 6th 2020 Iran vows revenge for US assassination (continued)

Ominously for Iraq's beleaguered government-which has been struggling since early October to contain a domestic uprising-that country appears likely to remain a key battleground on which its two closest allies play out their conflict: about 5,000 US troops are stationed in Iraq-and the existence of multiple battle-ready, well-equipped Iranian proxies there makes an attempt to harry the US troops into retreat a strong possibility as an initial reprisal. All US civilians have been advised by the US State Department to leave the country and an additional 3,000 military personnel are to be deployed to the region.

Adel Abdul Mahdi, Iraq's weak prime minister, was not consulted before the assassination and issued an infuriated statement decrying the "act of aggression" and alleged violation of the terms of the US's presence in the country. He resigned in late November in the face of popular protests-a central demand of which is the reduction of Iranian influence in government-but retains the post on a caretaker basis after the president refused to approve parliament's selection of an Iranian-backed replacement rejected by demonstrators. Such assertiveness may prove more difficult now that any attempt to weaken Iran's role can be painted as tantamount to submission to US demands. Other international leaders, irrespective of their allegiance between the two sides, responded virtually in unison in urging restraint-with only Israel among the region's major players offering the US unqualified support. Even Saudi Arabia, another of Iran's nemeses, has emphasised the need for de-escalation.

Iranian hardliners and reformists alike pledge to retaliate for US action

Inevitably, Iranian leaders-regardless of their hardline or reformist affiliation-were similarly united in vowing revenge. Javad Zarif, the reformist foreign minister and architect of the 2015 UN-sponsored Joint Comprehensive Plan of Action (JCPOA, the Iran nuclear deal), who had sporadically clashed with General Suleimani over control of overseas policy, described his killing as an "act of international terrorism". Hassan Rouhani, the beleaguered reformist president, warned that the US would feel the consequences for years to come. The reformists and hardliners alike have reacted strongly, with Ayatollah Khamenei promising "severe revenge" for the martyrdom of a "worldwide resistance icon".

The nature of the retaliation will become clearer within weeks-with Iran viewing a swift and demonstrative response as a reputational imperative. Neither militarily nor economically capable of waging conventional state-level warfare against the US, the action is expected to involve targeting US regional interests or allies, mainly through proxies and possibly with cyber-warfare. Shipping in the Gulf-especially in the Iranian-controlled Strait of Hormuz, through which roughly a fifth of the world's oil flows-could also be hit. Oil prices spiked by about 4% on the day of the assassination on the back of traders' fears of the ensuing Middle East ructions. A series of maritime confrontations in the area since May were blamed by the US on Iran-evoking memories of the so-called Tanker War during the 1980-88 Iran-Iraq war-and a nascent US-led naval protection force was established in November. Iranian exports have already been decimated by sanctions but production from Iraq's giant oilfields-from which roughly 3.4m barrels/day of crude reached global markets in December-could be affected by sustained US-Iranian warfare in the country, while the markets are also reacting to the perceived possibility of a wider conflict developing, drawing in Saudi Arabia and other oil-producing Gulf allies of the US.

An accidental slide into something even more serious remains a high risk. Operation through proxies inevitably entails a dilution of control for the Iranian government, while Mr Trump's whimsical and short-sighted approach to foreign policy is notorious. Meanwhile, Iran is expected to ramp up its nuclear activity-a process already under way as a result of the failure of the JCPOA's remaining signatories to mitigate the effects of US sanctions-and efforts to keep the deal alive are now dead.

January 6th 2020 Iraqi parliament votes to expel US troops

Iraq's Council of Representatives (parliament) has voted to expel US troops, in a furious reaction to the US government's assassination on Iraqi soil two days earlier of Qassem Suleimani, a powerful Iranian general whose demise has prompted worldwide fears of an escalating US-Iranian conflict. The initial White House response was dismissive, noting the legislature's dominance by members of parliament (MPs) with well-known Iranian affiliation, but in the short term the forces' mandate has been formally shifted away from fighting the remnants of Islamic State (IS) to protecting their own bases, in anticipation of Iran's avowed revenge.

The intensifying conflict between Iraq's two closest allies promises to further destabilise the country, which has been racked by some three months of anti-government protests, motivated in large part by the extent of Iranian political influence and which opponents have long sought to portray as instigated by the US. Meanwhile, the Iraqi economy will continue to suffer from an inevitable slump in investment in the coming years.

A divided parliament rejects US presence

During an emergency session convened on January 5th, Iraq's parliament passed by an overwhelming majority a resolution calling on the government to withdraw the request for the US-led coalition's assistance, originally made in 2014 in the wake of the invasion by IS, over which military victory was declared three years later. About 5,000 US troops remain in the country, chiefly in advisory roles training the local security forces, as well as participating in operations against residual Islamist militants. The vote came in reaction to the drone strike at Baghdad airport on January 3rd that killed General Suleimani, the hugely influential veteran head of Iran's elite Quds force. He was responsible for country's overseas strategy and operations and had played a central role in building Iran's now-dominant influence in Iraq's politics and security since the US toppled Saddam Hussein, a long-serving dictator, in 2003. Adel Abdul Mahdi, the embattled acting Iraqi prime minister who furiously decried the infringement of his country's sovereignty represented by the general's assassination, spoke in favour of the resolution, which is non-binding and would require legislation to effect.

However, Kurdish and Sunni MPs boycotted the session, resentful of the adoption of the incident by the Iranian-aligned Shia majority to further their long-standing goal of expelling the US forces. Mike Pompeo, the US secretary of state, alluded to the domestic divisions in his immediate reaction to the vote, noting Mr Abdul Mahdi's caretaker status and alluding to the enormous pressure that he was under from the Iranian leadership and its local parliamentary proxies. An official response would await a formal request from the Iraqi government that the forces leave, according to Mr Pompeo. A statement from the US Combined Joint Task Force issued on the same day revealed that the troops in Iraq had been wholly redeployed to protect coalition bases, with training and anti-IS activity "paused".

Well-armed Iranian-affiliated militia to target US interests in Iraq

Although the US secretary of state claimed that "the Iraqi people" supported the US's continued deployment to preclude a resurgence of IS, the military presence now looks likely only to exacerbate instability in the country, while violently hardening existing political faultlines. Despite their antipathy towards Iran, Iraqi leaders and the anti-government protest movement that emerged in early October are equally concerned that Iraq should not be used as a battleground for a larger US-Iranian conflict. Ayatollah Ali Sistani, Iraq's most important Shia cleric, likewise condemned the US's action as an egregious violation of sovereignty but also called for de-escalation. The Iranian government's revenge for General Suleimani's death is expected to entail targeting the US indirectly via attacks on US interests and those of its allies worldwide, and the presence in Iraq both of US troops and multiple well-armed Iranian-affiliated militia would make Iraq a natural theatre. Two rocket attacks on the US embassy in Baghdad in the days after the assassination offered a harbinger. Nonetheless, although Donald Trump, the US president, has long favoured the forces' withdrawal, an immediate retreat is not likely, with the White House equally loath to cede political control of Iraq to its arch-enemy.

January 6th 2020 Iraqi parliament votes to expel US troops (continued)

Iraq's economy will suffer from greater US-Iranian tensions, irrespective of whether US troops leave

US interests in Iraq are not confined to military assets. ExxonMobil, a giant and politically influential US oil company, operates one of Iraq's largest oilfields in the oil-rich southern Basra province. It had also been negotiating a deal, assumed to be off the table for the foreseeable future, to carry out a multi-billion-dollar infrastructure project critical to future efforts to increase crude production, the country's economic bedrock. GE, a US engineering titan, has been playing a key role in rehabilitating and expanding the country's dilapidated and inadequate electricity sector. The Iraqi Ministry of Oil swiftly issued a statement on January 3rd insisting that production had been unaffected by the departure of a small number of personnel, in response to a US government advisory to its citizens to leave the country. More broadly, the government's long-standing attempts to attract foreign investment to help to reconstruct, expand and diversify the sluggish economy would be undermined by sustained low-level domestic warfare between the US and Iranian proxies, compounding the inevitable deleterious regionwide effect of the sudden dramatic escalation of hostilities.

Politically, the widespread outrage at the assassination, which also killed Abu Mahdi al-Muhandis, the well-known Iraqi-Iranian deputy head of Iraq's powerful Popular Mobilisation Forces, a loose coalition of mainly Shia militia originally formed to fight IS and later nominally made part of formal state structures, will strengthen the hand of Iran's supporters in the ongoing battle to control Iraq's government. Mr Abdul Mahdi resigned in late November in the face of the protests , which have demanded an end to rampant corruption, as well as to the allegedly pernicious Iranian interference in the country's affairs. However, parliament then nominated an Iranian-backed candidate as his replacement-an appointment that the Iraqi president, Barham Salih, has thus far refused to approve but may now find hard to resist. Irrespective of the US troops' continued presence in Iraq, Iran's influence in Iraq far outweighs that of its nemesis, extending well beyond the most visible military and political ties. As pro-Iran factions seek to increase their control, this will ensure that Iraq remains a key battleground (with negative economic implications).

Economy

Updates

March 20th 2020 Jump in jobless claims presages rise in unemployment

Event

In the week ending March 14th jobless claims rose by 70,000 to 280,000, according to data released by the Department of Labour.

Analysis

Jobless claims refers to the number of newly unemployed people registering for unemployment benefit in a given time period. As this number is reported weekly, it represents a leading indicator for the health of the labour market, which is provided more comprehensively on a monthly basis. The jump in mid-March took claims to their highest level since September 2017, when Hurricane Irma hit Florida. The rise in claims was centred on two western states, Washington and California, which have seen the biggest outbreaks of the coronavirus so far.

We expect claims to soar in the week ending March 21st. Evidence from around the country suggests that claims could rise to 1m, based on the number of people registering for benefits already in the first few days. If correct, this would be the single largest increase in jobless claims in history, surpassing the 665,000 made at the height of the global financial crisis in 2009.

The strength of the labour market has been the cornerstone of the current, record-breaking economic expansion, which has been ongoing for 13 years and has seen the unemployment rate fall from 10% to a record low of 3.5%. Although real wage growth has remained sluggish throughout this period, a concurrent period of low interest rates and low inflation has enabled Americans to continue spending their income and power the economy. That engine, however, is about to stall. Although Congress (the legislature) is moving closer to providing cash handouts to all Americans as an attempt to keep the economy on the rails, it will not be a substitute for a regularly paying job. Millions of Americans, especially those with few benefits or employment protections, are about to be made redundant as demand evaporates in a host of sectors, from retail to tourism.

Impact on the forecast

We will be revising our forecasts for the labour market, as we now expect average unemployment to reach 6% in 2020, from 3.7% in 2019. This jump in unemployment affects our forecast for private consumption growth, which we will be revising down to 1.3% year on year (from 2.5% currently), assuming that the virus is contained by end-June, allowing for an economic recovery in the second half of 2020.

March 18th 2020 Consumer confidence faces first big wobble

Event

In March the University of Michigan's consumer sentiment index slumped by 5% month on month to 95.9, a five-month low.

March 18th 2020 Consumer confidence faces first big wobble (continued)

Analysis

Although public health officials advise that self-isolation and closure of public amenities are the most effective ways of containing the coronavirus pandemic, these same measures have led to a dramatic slowdown in consumer spending, hitherto the driving force behind the US's decade-long economic expansion.

A number of retail chains have planned to close their brick-and-mortar stores for several weeks. Many Americans have also shelved travel plans. United Airlines, one of the biggest carriers, said that it carried 1m fewer passengers in the first two weeks of March than in the same period a year earlier, and that its March revenue would be US$1.5bn lower than at the same point last year.

Consumer sentiment has also been knocked by the dive in the stockmarket and the prospect of an increase in unemployment. By March 16th the S&P500 index had fallen to nearly 30% below its all-time peak less than a month earlier. Depending on how long the downturn lasts, heavy debt loads are likely to moderate the rebound in spending. Household debt grew by 1.4% to just over US$14trn in the fourth quarter of 2019, the 22nd consecutive quarterly increase, according to the New York Federal Reserve. The total is now US$1.5trn above the previous peak, reached as the global financial crisis was unfolding in 2008. On the employment front, the New York Times reported that postings for restaurant jobs were down by 26% in the second week of March compared with the same week a year ago. Listings for catering jobs were down by 39%, and aviation by 44%.

The turmoil has brought some silver linings for consumers. The collapse of the OPEC+ partnership has caused energy prices to plummet. Mortgage rates have fallen sharply, and Congress is moving towards fiscal measures aimed at softening the recent blows. However, these benefits will not be sufficient to make up for the setbacks seen in the second quarter.

Impact on the forecast

In the next forecast round we will revise down our outlook for US real GDP growth in 2020 to 1% (from 1.7% currently), reflecting a sharp slowdown in consumer spending in the second quarter. The risk of a recession has risen markedly; this is likely to become our core forecast if the virus's spread is not contained by end-June, as we currently expect.

March 16th 2020 Fed slashes rates to zero

Event

On March 15th the Federal Reserve (Fed, the central bank) cut its policy rate by a full percentage point, to a target range of 0-0.25%, in response to the rapid spread of the novel coronavirus (Covid-19).

Analysis

In total, the Fed has cut its policy rate by 150 basis points in March, in two emergency cuts that were made outside its normal meeting schedule. In a March 15th press conference the Fed chairman, Jerome Powell, also announced a US$700bn quantitative easing programme, including heavy purchases of Treasury securities. The Fed has also completely lifted the reserve requirement for banks in an effort to encourage lending.

March 16th 2020 Fed slashes rates to zero (continued)

By cutting interest rates to zero, the Fed is trying to ensure that US households and businesses maintain access to lending and experience as little pressure as possible in repaying their existing obligations. Businesses, in particular, will need it. Corporate debt reached US$10trn in late 2019-a record 47% of GDP. Of this, a worrying amount-about US$2.5bn from US-based companies-is rated BBB, just one level above junk bonds. This increases the risk that the measures meant to contain the spread of the coronavirus-including workplace closures and increasing travel restrictions-could trigger a corporate debt crisis that will send the US economy into an all-out recession. This is still not our core forecast, in part owing to the Fed's dovish stance, but risks have risen considerably.

The Fed's proactive move, days ahead of its next scheduled meeting, was also intended to stabilise US financial markets. However, as was the case after the Fed's first emergency cut, on March 3rd, stockmarkets fell sharply at the start of trading on March 16th, amid concerns that the US economy was headed for a more serious slowdown. The Fed's actions will help to ease some pressure on heavily indebted firms, but the fact remains that lower interest rates will do little to address the root causes of the current crisis: slowing external demand and temporary but significant shifts in consumer behaviour until the virus is contained.

Impact on the forecast

We now expect the Fed to keep its policy rate between zero and 0.25% for the remainder of 2020, in an effort to encourage the economic rebound that we expect to take place in the second half of the year. If the coronavirus is not contained by end-June, as we expect, we will downgrade forecasts for US growth in 2020 and interest rates in 2021.

March 11th 2020 February's bright housing market likely to fade

Event

Sales of new single-family homes jumped by 7.9% in January, to a seasonally adjusted annual level of 764,000 units, according to data from the Department of Commerce. January sales were the strongest since mid-2007, and up by 18.6% from January 2019.

Analysis

Housing has stood out in recent months as one of the brightest spots of the US economy-a sharp contrast with slumping business investment. The housing market is especially strong on the west coast and in the Midwest, but January sales dipped in the southern states.

Several factors have been propelling the market. Low unemployment and gradually rising wages provide a measure of security for Americans thinking of investing in a new home. The strong stockmarket had the same effect until the turbulence in recent weeks caused by coronavirus fears. The supply of new homes is limited in some parts of the country, sparking bidding wars among eager buyers. A milder than usual winter has also helped.

The main driver, however, has been low financing costs. The 30-year mortgage rate averaged 3.45% in the last week of February, down from 4.4% a year earlier and 3.7% as recently as mid-December, according to Freddie Mac, a government-backed housing finance agency. The low rates have led to a surge in mortgage re-financings. A recent Freddie Mac survey showed that 40% of renters intended to take advantage of low interest rates to buy a home, and 46% of home owners planned to renovate within the next few months.

March 11th 2020 February's bright housing market likely to fade (continued)

The recent move by the Federal Reserve (the central bank) to slash interest rates will help to keep home financing costs low in 2020. Nonetheless, downside risks have increased sharply following the stockmarket correction on March 9th, which has raised serious questions around asset quality and will encourage caution among consumers and investors alike. The housing market contributes about 3% of GDP, making it unlikely that it can shake off weakness across the rest of the economy.

Impact on the forecast

Low interest rates will help to avoid a slide in the housing market in the coming weeks, but risks are to the downside. For example, slower than expected economic growth or a further steep drop in the stockmarket will cut demand more steeply than we currently expect. This would weigh on activity in construction and household investment, putting further downward pressure on GDP growth in 2020.

March 10th 2020 Stockmarkets plunge as coronavirus panic grips

Event

On March 9th US stockmarkets endured their worst day since the start of the 2008-09 financial crisis as all the major indices dropped precipitously.

Analysis

The S&P 500 and the Dow both lost more than 7% of their value, triggering a suspension of trading. The US is now enduring multiple, simultaneous crises: a public-health crisis as healthcare workers attempt to limit the spread of the coronavirus; a consumer crisis as individuals face difficult decisions about their own finances and movements; and an economic crisis as policymakers attempt to prop up the system amid rising panic, exacerbated by the Saudi-Russian price war in the oil market.

The Federal Reserve (Fed, the US central bank) is doing what it can to loosen financial conditions quickly and to provide reassurance. In addition to cutting its policy rate by 50 basis points at an emergency meeting earlier this month, it increased the size of its short-term lending operations to try to keep funding markets functioning. The Fed has its next scheduled monetary policy meeting on March 18th-19th, when another cut to its policy rate is likely. However, it may also be overtaken by events, and another emergency rate cut in mid-March remains a possibility. Given the level of uncertainty in financial markets, the Fed could conceivably bring its policy rate close to zero and embark on its crisis-management tools of quantitative easing and forward guidance in the coming days and weeks.

Of course, the Fed does not have the same ability to boost supply-side conditions as it had in 2008-09 given the lower starting point for interest rates. However, there is no sign yet that fiscal stimulus is imminent. Ahead of the November election the president, Donald Trump, has tweeted regularly to downplay the virus and the number of US cases. Were the government to step in, policy measures could range from paid sick leave (at the minor end) to direct cash transfers (at the major end). This would widen the fiscal deficit, but in a climate of falling interest rates, this is only a long-term concern.

Impact on the forecast

It is highly likely that the number of US cases of coronavirus will rise sharply in the coming weeks, and with it, increasingly stiff self-quarantine measures. Economic growth will be hit in the second quarter, although a modest rebound remains likely in the second half of the year, assuming that the virus is contained globally by end-June.

March 9th 2020 Oil prices crash as OPEC+ alliance disintegrates

Event

Dated Brent Blend prices fell by more than 30% to just over US$30/barrel when markets opened on March 9th, after the fragile alliance between Saudi Arabia and Russia-two of the world's largest oil producers-collapsed.

Analysis

The implosion of the OPEC+ alliance, which included OPEC countries, Russia and several other non-OPEC oil producers, fundamentally changes the oil market outlook. Largely driven by Saudi Arabia, these unlikely partners agreed in late 2017 to implement voluntary production cuts in an attempt to offset rising US shale production. Their collective effort has been the main factor propping up oil prices in recent years, but the partnership has deteriorated in the face of slowing oil demand.

Russia's refusal to comply with the latest round of production cuts proposed by Saudi Arabia makes sense, in retrospect. Although Saudi's oil sector is entirely state driven, allowing for more strategic decision-making about desired output levels, Russia's oil sector also has some powerful private-sector interests at play. The production cuts never sat as well with Russia as with other countries. Faced with a deterioration in global oil demand growth related to the novel coronavirus (Covid-19), Russia may have calculated that, if it continued with the OPEC+ cuts, it would permanently be forced into the role of market balancer, rather than competitor.

Rather than allowing the partnership to dissolve quietly, Saudi Arabia responded aggressively, pledging to boost production from less than 10m barrels/day currently to 12m b/d, and offering its crude at heavily discounted prices. This appears calculated to punish Russia for its non-compliance-and potentially to force Russia back to the negotiating table. The kingdom may also be hoping that US shale producers-already heavily indebted and cash-strapped-will struggle to survive a few months with oil prices below US$40/b.

A price war is in neither country's interest. Although it will cause pain among US shale producers, the economies of OPEC countries and Russia stand to be negatively affected as well, through plummeting export and fiscal revenue. For now, we expect oil prices to remain low, between US$30/b and US$40/b for most of the second quarter, before recovering slightly in the second half of the year as economic realities force both countries to adopt a more pragmatic stance.

Impact on the forecast

We will revise down our forecast for global oil prices significantly, to an average of US$49.5/b in 2020. If Saudi Arabia and Russia fail to de-escalate tensions by mid-2020, we will downgrade our forecasts further.

March 4th 2020 Fed makes big emergency rate cut

Event

At an emergency meeting on March 3rd in response to threats to the economic outlook posed by the coronavirus, the US Federal Reserve (Fed, the central bank) announced a 50-basis-point cut to the interest rate.

Analysis

This is the first emergency cut and the largest single rate cut that the Fed has made since the global financial crisis in 2008. The move is a departure from statements made by Fed officials the previous week about the health and resilience of the US economy. However, the spread of the coronavirus to several countries outside China in recent weeks-including Italy, Iran, Japan and South Korea-has shaken financial markets, prompting action by the Fed to stem the losses.

March 4th 2020 Fed makes big emergency rate cut (continued)

The S&P 500 dropped by just over 10% in the final week of February-a market correction. If the market had continued to fall, reaching 20% losses, this would have signalled the start of a bear market, raising the risk of a more significant disruption to the US economy. The S&P 500 made some slight gains in the wake of the Fed rate cut announcement, but the market has since levelled off about 10% below its mid-February level.

The Fed chairman, Jerome Powell, said in a press conference that the real impact of the coronavirus on the US economy was still at an "early stage". He noted that some travel and tourism companies had noted a slowdown in demand in recent weeks. STR, a firm that monitors activity in the US hotel industry, recently published data showing a 2.1% year-on-year drop in hotel occupancy rates in late February, although it remains unclear how much of this is related to the coronavirus.

Mr Powell also noted the disruption experienced by companies that rely on global supply chains, which remains a major risk in the coming weeks and months. A steep rate cut by the Fed will not reduce that disruption, but it may help to offset partially those negative effects by facilitating domestic lending.

Impact on the forecast

We will revise down our forecast for US real GDP growth in 2020 slightly, to 1.6% (1.7% currently), as the virus's spread outside China in February will prolong containment efforts. For now, we expect the Fed to keep rates on hold after this first preventive cut. However, if the virus is not contained within China by end-March, as we expect, we will revise our forecast to reflect a second rate cut in April.

January 31st 2020 GDP growth remains steady in fourth quarter

Event

Initial estimates show that real GDP grew at an annualised rate of 2.1% in the fourth quarter of 2019. This brings full-year growth to 2.3%, in line with our estimate.

Analysis

The factors contributing to this growth were largely the same as in the third quarter. Consumer spending expanded by at an annualised rate of 1.8% in the fourth quarter, underpinned by steady wage growth and a record-low rate of unemployment, at 3.5%. Nonetheless, this was a slight moderation compared with growth of 4.6% and 3.2% in consumer spending in the second and third quarters respectively.

Higher government spending was also a major contributor to overall growth, rising by 2.7% (annualised) in the fourth quarter. Higher public spending caps have been a major driver of growth throughout 2019, which is not typically the case at this late stage in the economic growth cycle and is unlikely to feed through to the productive capacity of the US economy. Finally, exports expanded modestly, the impact of which was magnified by a drop in US imports, generally not a positive sign for the consumer spending outlook.

More worryingly, non-residential (business) investment contracted for the third consecutive quarter, at an annualised rate of -1.5%. Despite this, the Federal Reserve (Fed, the central bank) voted to keep interest rates on hold at its January 28th-29th meeting. The chairman, Jerome Powell, struck a noticeably more bullish tone on the outlook for the US economy than he has in recent months, citing continued strength in the US job market and early signs of a rebound in the global economy.

January 31st 2020 GDP growth remains steady in fourth quarter (continued)

Yet, there are still several risk factors that could prompt another rate cut-most recently, the emergence of a novel coronavirus in China that could reduce global GDP growth in 2020. US inflation also remains stubbornly below the Fed's 2% target. We believe that the Fed may need to see a fourth quarter of falling business investment in order to shift its economic outlook; first-quarter GDP data will only be released at end-April, meaning that this cut is now likely to come in June.

Impact on the forecast

The likely impact of the coronavirus on the global economy, combined with weak US inflation and business investment, will be too much for the Fed to keep rates on hold in 2019. However, we will now expect one rate cut in June 2020 (from March previously), reflecting the Fed's more bullish statement and firm headline GDP growth.

January 30th 2020 US adopts into law USMCA trade deal with Mexico and Canada

Event

On January 29th the US president, Donald Trump, formally signed into law the United States-Mexico-Canada Agreement (USMCA).

Analysis

The trade pact, which was revised in December 2019 by representatives from all three countries to secure its passage through the Democrat-controlled House of Representatives (the lower house of the US Congress), will replace the 25-year-old North American Free-Trade Agreement (NAFTA). The impeachment proceedings against Mr Trump had threatened to elongate this timeline, with the Republican-controlled Senate (the upper house of Congress) earlier delaying its vote on the USMCA as a result of these procedures. We nevertheless did not expect these developments to compromise USMCA adoption.

The USMCA, however, is not yet fully in force. Canada and Mexico will need to submit the updated agreement to their own legislatures for re-ratification; there is a risk that some of the compromises made between the Trump administration and the House Democrats will complicate this process, in particular regarding labour provisions for Canada. Still, we do not expect either country to obstruct ratification in their respective legislatures.

The higher risk factor may be the timeline. The agreement will only come into force 90 days after all three countries have finished their ratification procedures; Mr Trump will be keen to complete this process as early as possible, so that he can position the USMCA as part of his presidential re-election campaign this year. Mexico is likely to quickly ratify the new agreement (it already approved the previous version in June 2019), given the Mexican government's desire for trade certainty following a year of null growth.

The prime minister of Canada, Justin Trudeau, faces a more complicated situation, as his party does not command a parliamentary majority; however, opposition Conservatives look set to approve the deal. In addition, because the economic benefits under the USMCA are likely to be only modest-particularly because the new agreement largely retains many of the existing provisions under NAFTA-Canada has no strong economic incentive to rush this timeline. Given Mr Trump's unpredictability, there is a risk that diplomatic tensions will flare up if Mr Trump judges Canada to be dragging its feet on ratification, which could ensure a swifter approval.

January 30th 2020 US adopts into law USMCA trade deal with Mexico and Canada (continued)

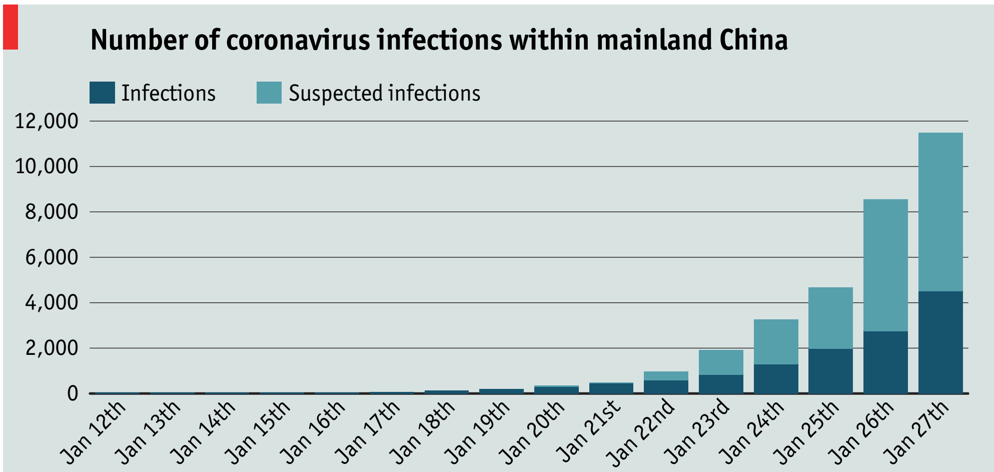
Impact on the forecast

We continue to expect the USMCA to come into force in 2020, although the impact on trade volumes will be modest given the USMCA's similarity to NAFTA. The deal's ratification will help to support a modest recovery in crossborder investment.

January 28th 2020 Coronavirus infections in China rise by nearly 60% in a day

Event

The Chinese authorities had confirmed 4,599 cases of coronavirus infection by January 28th, up from fewer than 3,000 a day earlier, with the number of related deaths rising to 106. A further 68 cases (with no deaths) have been reported outside mainland China. The case-fatality rate currently stands at 2.3%.



Note. As of midnight China Standard Time.
Source: National Health Commission.

Analysis

The latest data suggest that the virus is spreading relatively quickly, with the outbreak still in its early stage. Quarantine measures have included an effective ban on external travel for most of central Hubei province (population 59.1m), including its capital and the apparent source of the virus, Wuhan. The challenge for the authorities relates to those who left the region prior to the travel ban and before public consciousness of the virus widened. The mayor of Wuhan, Zhou Xianwang, estimated on January 26th that 5m people had left the city prior to the introduction of travel restrictions.

The authorities have highlighted the long incubation period of the virus (up to 14 days), during which the virus is asymptomatic but still transmittable. Initial scientific estimates put the basic reproduction number-the average number of people who will catch the virus from an infected individual-at 2-3.5. This is relatively high; a number of around 2 would imply a doubling in the number of infections every six days. However, the estimated case-fatality rate of 2-3% seems significantly lower than that of the severe acute respiratory syndrome (SARS) coronavirus that emerged in 2002, causing around 800 deaths globally; according to the World Health Organisation, SARS had a case-fatality rate of nearly 10%.

January 28th 2020 Coronavirus infections in China rise by nearly 60% in a day (continued)

In the ongoing absence of a vaccine, China's government will probably ramp up quarantine measures to limit the spread of the virus. This suggests the tightening of nationwide travel restrictions and a possible further extension of the Chinese New Year holiday beyond that already granted to February 3rd. A so-called leading small group under the premier, Li Keqiang, has been created to co-ordinate the government's response. Mr Li visited Wuhan on January 27th.

Impact on the forecast

Our initial estimate was that the coronavirus could take 0.5-1 percentage points from our forecast real GDP expansion of 5.9% in 2020 if it became SARS-like in scale. We will widen that projection to 0.5-1.5 percentage points, based on the assumption that quarantine measures will be intensified. Any slowdown will be concentrated in the first and second quarters of the year.

January 23rd 2020 US-French truce reached over digital tax

Event

On January 23rd the US and France reached a truce over France's digital-services tax (DST), after talks between Bruno Le Maire, the French minister of the economy, and Steven Mnuchin, the US Treasury secretary, on the sidelines of the World Economic Forum at Davos.

Analysis

The truce represents a positive step towards de-escalating US-EU trade tensions. The 100% tariff proposed in December by the US Trade Representative (USTR) on US$2.4bn of French goods will be suspended, and France will stop collecting revenues from its DST-although companies will continue to accrue liabilities while the OECD works on an alternative framework.

A number of French products had been hit previously by US trade actions, including tariffs on steel and aluminium imposed in June 2018, and across aircraft and agricultural products in October 2019 as part of a dispute tied to subsidies to Airbus, a European aircraft manufacturer. There are other trade issues between the US and the EU at the moment, such as diverging opinions on how to manage market distortions arising from China's trade practices as well as the European Green Deal.

The proposed US duties would have covered various French dairy and cheese products, as well as wine, cosmetics, handbags and kitchenware. The consumer-facing nature of these products probably boosted the US's willingness to reach a deal with France. The US president, Donald Trump, is focused on his re-election campaign, and is keen to avoid a rise in inflation or a further slowdown in economic growth resulting from an escalation in trade tensions with Europe, as this could undermine his re-election chances. The EU had warned that it would retaliate if the US were to impose this tax.

The threat of US retaliation over France's DST cannot be completely ruled out if an OECD-led agreement is not reached by the end of 2020. The fact that the proposed tariffs would apply only to French-rather than to all European-products could contain the resulting economic disruption in the US. In addition, the price elasticity of the potentially targeted products could make it comparatively easy for US consumers to switch to cheaper alternatives.

January 23rd 2020 US-French truce reached over digital tax (continued)

Impact on the forecast

The truce is in line with our forecast that the US will refrain from imposing tariffs on French products in the run-up to the November 2020 US election, as these tariffs would hurt US consumers and businesses. However, US-EU trade tensions will remain considerably high in the coming months.

January 7th 2020 Killing of Iranian general shakes oil market

Event

On January 6th crude oil prices briefly rose above US$70/barrel as US-Iran tensions escalated in the days following a US air strike that killed one of Iran's most senior military figures, General Qassem Suleimani.

Analysis

The jump in oil prices reflects market fears that US-Iran tensions could spill over into a broader conflict that could disrupt oil production and supply chains in the region. The seriousness of General Suleimani's killing, and Iran's inevitable response, means that as long as the current US president, Donald Trump, remains in office, any efforts to open diplomatic back channels between the US and Iran are effectively dead. As a result, there is a high risk that a policy miscalculation would accidentally lead the two countries into an all-out war. Market fears of this will keep upward pressure on global oil prices in the coming months.

Although the risks have risen, we do not expect the US and Iran to engage in a direct, conventional war that could create a sustained rise in oil prices. After more than a year of crippling US sanctions, Iran is not in a position to finance what would be a lopsided war against the US. Moreover, despite his bellicose rhetoric, Mr Trump risks undermining his re-election campaign by dragging US troops into a deeply unpopular foreign ground war.

Instead we expect General Suleimani's killing to set off a chain of violent but strictly targeted attacks by both sides, most likely limited to air strikes and cyber-attacks. Iran is likely to target US bases or assets in Iraq, given that this was the site of General Suleimani's killing and that Iran has an extensive presence there through its proxy militias. Additional brief oil price jumps are therefore likely in the coming months as both sides launch retaliatory attacks, some of which could target US energy interests in Iraq. However, global oil supplies remain comfortable, and we expect oil consumption growth to slow in 2020, in line with economic growth in the US and China.

Impact on the forecast

General Suleimani's killing has raised geopolitical risks significantly. We expect oil prices to remain elevated in the first quarter of 2020, at an average of about US$70/b (from US$65/b previously). However, we still expect them to ease back later in the year as demand growth softens, bringing the full-year average to US$65/b (from US$63/b previously) in 2020. Important upside risks to the forecast remain.

January 2nd 2020 Consumers keep the economy humming

Event

US retail sales (excluding motor vehicles) in the holiday period, from November 1st to December 24th, climbed by 3.4% year on year. This included an 18.8% surge in online sales, according to estimates from a digital payments provider, Mastercard.

January 2nd 2020 Consumers keep the economy humming (continued)

Analysis

US consumers have been cheered by the rebound in the stockmarket-all major indices reached fresh peaks in late December-as well as pending congressional approval of the revamped US-Mexico-Canada Agreement (USMCA) and a tentative US-China trade deal. Most importantly, the robust jobs market continues to underpin both consumer sentiment and household finances.

Unemployment is at its lowest level in decades, and recent data show that wage growth has accelerated for some workers. Earnings of the lowest-paid quartile of US workers jumped by 4.5% in the year to November, the strongest advance in 11 years, according to the Federal Reserve Bank of Atlanta. Wages for the top 25% rose by 2.9% over the same period. The boost for low-income workers stems from intensifying competition for labour, as well as moves by fast-food chains, retailers and numerous other employers to raise minimum wages. Amazon lifted its minimum to US$15 an hour in late 2018, more than double the federal minimum wage of US$7.25. Sectors with the strongest overall wage growth in November were finance and business services, manufacturing, and construction and mining.

We expect a further increase in labour costs in 2020. Besides the impact of a tight labour market, 24 states will raise their minimum wages during the year, most on January 1st. In addition, an estimated 1.3m more workers will qualify for overtime pay as a result of the Labour Department raising the pay threshold for eligibility for the first time in 15 years. Members of the US military receive a 3.1% pay rise on January 1st, the first time since 2010 that they have seen an annual pay increase of more than 3%.

We maintain our view that consumer sentiment will begin to soften in 2020. The rate of job creation is likely to slow, in part owing to higher labour costs, as well as protectionist import tariffs and softening external demand for US goods. However, a sharp downturn in consumer sentiment is unlikely, given the strong labour market.

Impact on the forecast

We expect household spending to continue to grow in 2020, but at a slower pace than in 2019. Consumers will remain the mainspring of overall economic growth, offsetting weak business investment.

December 18th 2019 US oil industry slows as capital dries up

Event

The number of rigs drilling for oil in the US has fallen for seven of the past eight weeks, according to Baker Hughes, an oil industry services company. On December 13th the rig count stood at 667-down by 24% from a year earlier and the lowest since early 2017.

Analysis

The number of active oil rigs surged in late 2016 and early 2017 as oil futures prices began to recover from the 2014-16 commodity price slump and US oil companies piled into the relatively low-cost Permian Basin of West Texas. Hydraulic fracturing has turned the US into the world's top oil producer in recent years as the country has overtaken Saudi Arabia and Russia. In August 2019 US oil production reached a record 12.4m barrels/day, up from last year's average of less than 11m b/d, despite little change in prices, the Energy Information Administration has reported.

December 18th 2019 US oil industry slows as capital dries up (continued)

However, the oil price outlook has softened considerably since October-December 2018, contributing to the pullback in investment. Although the breakeven price in the Permian Basin is particularly low-estimated by the Federal Reserve Bank of Dallas at about US$50/b for West Texas intermediate (WTI) in December 2019-many smaller companies are struggling to remain profitable. For example, only about one-third of companies surveyed recently by Rystad Energy, a consultancy, are generating sufficient cash flow to fund their spending. Share prices of the largest exploration and production companies have tumbled by about one-third over the past year, but small, independent producers have suffered even larger declines.

The pullback in drilling activity has wider implications for oil- and gas-producing regions. The Dallas Fed doubled its estimate of job losses in Texas's oil and gas industry this year, from 4,000 to 8,100, according to a report published on December 17th. Nationwide employment in the oil and gas sector fell in November for the first time in 14 months, according to the Bureau of Labour Statistics. We expect overall economic activity in oil-producing states like Texas, Oklahoma and North Dakota to slow more sharply than in other parts of the country in the coming months.

Impact on the forecast

We expect US oil production to grow modestly in 2020 as existing wells are tapped and larger, better-financed companies take on greater market share. However, we expect overall investment in the oil and gas sector to remain tepid, contributing to a broader slowdown in business investment that will drag down overall GDP growth to 1.7% in 2020.

Analysis

March 25th 2020 Congress agrees US$2trn stimulus package

In the early hours of March 25th Congressional leaders agreed an unprecedented US$2trn emergency stimulus package. The scope of the bill is unprecedented-it is more than double the size of the stimulus bill approved in response to the global financial crisis, which was S$800bn, and it will address nearly every segment of the economy. For now we expect this federal stimulus, together with ambitious support from the Federal Reserve (Fed, the central bank), to allow the US to avoid a severe financial crisis. Nonetheless, the economy is headed for a recession in 2020 as consumer spending, which accounts for about 70% of GDP, is curtailed sharply.

The scale of the current stimulus bill highlights the remarkable speed with which the coronavirus has hit the US economy. Two weeks ago the president, Donald Trump, signed the first response package, which amounted to a meagre US$8.3bn in emergency aid to US businesses and healthcare providers. Relief efforts have grown exponentially, as the full extent of the economic risks have become clearer in recent days. The US economy faces the risk of a negative spiral as the measures meant to contain the spread of the virus curb consumer spending sharply, forcing rounds of lay-offs that will have a further, longer-term negative effect on consumer spending as households face liquidity and debt issues.

Initial optimism

The emergency stimulus bill, which we expect to be passed in the coming days, is ambitious enough to have lifted financial markets for the first time in several weeks. Stockmarket indices saw their largest one-day increase on March 24th, when an agreement appeared imminent; the S&P 500 opened at 5% at the start of March 25th, although it lost some of the gains over the course of the morning as the initial enthusiasm ebbed. And rightly so-the worst is still ahead for the US economy. Although the record-setting US stimulus bill will provide critical support to firms and households, rapid progress in containing the spread of the virus is essential to allow even a modest economic recovery in the second half of the year.

March 25th 2020 Congress agrees US$2trn stimulus package (continued)

Stimulus is good, but containment is crucial

It is then that the Mr Trump and the administration will be tested. The administration's initial response to the spread of the pandemic was slow and insufficient. Delays in procuring adequate testing materials and developing a co-ordinated response allowed the virus to spread quickly. The administration has taken quick action in the past ten days, and more than a third of the US population is currently under orders to shelter in place. However, the high infection rate in the two to three weeks prior to the lockdowns means that case numbers will continue to spike in the coming weeks, with public health officials warning that high-density cities like New York could become the new centre of the epidemic.

In recent days Mr Trump has indicated that he intends to lift federal restrictions on travel and business closures by April 12th, out of a desire to restart economic growth. Despite this rhetoric, we expect these lockdowns to remain in place until end-April, in line with the experience of countries where the pandemic has had a similar rate of progression, such as Spain and Italy. Nonetheless, economic activity will contract in the first quarter of 2020, and then again by more than 20% in the second quarter (at annualised rates) as unemployment shoots up.

Support for households and corporations

Nonetheless, the federal government's ambitious stimulus plan, together with the Fed's efforts to ensure that emergency liquidity is available to households and businesses, should help to avoid a more serious financial crisis in 2020. The fiscal stimulus package contains several measures that would have been impossible to envisage a month ago, including:

- direct cash payments of US$1,200 to each adult earning up to US$75,000/year, and US$500 per child;
- the extension of unemployment benefits for a period of 13 weeks, with four weeks of "enhanced" benefits;
- efforts to maintain the salaries of workers who have lost their jobs as a direct result of the pandemic, as well as financial support for companies that maintain their staff;
- US$350bn in bridge financing for small and medium-sized enterprises, for a period of up to ten weeks; and
- US$500bn in financial assistance for large firms at risk of collapse, primarily focused on airlines.

Full details will be available when the package is passed, but even now the significance of these moves cannot be overstated. The US$2trn in emergency spending is equivalent to about 40% of planned federal government expenditure in 2020 (US$4.7trn), at a time when the US fiscal deficit has already been expanding steadily. We now expect the federal government deficit to exceed 10% of GDP in 2020-wider even than it was during the global financial crisis. This will deepen existing concerns about the trajectory of US public debt, which we now forecast will reach almost 100% of GDP in 2024, from less than 80% of GDP in 2019. However, the near-term concerns of avoiding a collapse in the financial sector and containing job losses will crowd out that thinking for now.

Corporate debt remains a major risk

Factoring in the abrupt implementation of measures needed to contain the virus, the steep jump in jobless claims in late March and sluggish progress in accelerating testing for the coronavirus, we now expect real GDP to contract by 2.8% in 2020. Although it may not sound it, this is still a relatively optimistic outcome, assuming that federal stimulus measures are implemented quickly, giving workers in the services sector access to vital financial support, and that containment measures remain in place until end-April at least, creating near-term economic pain but allowing for a modest, gradual recovery in the second half of the year.

March 25th 2020 Congress agrees US$2trn stimulus package (continued)

The corporate debt market remains a major downside risk, however. Total corporate debt as a share of GDP had risen to 47% by late 2019-a peak that was last reached just before the global financial crisis. Within this, the leveraged loan market (lending to corporations that are already heavily indebted and therefore face greater repayment risks) surpassed US$1trn in 2019. This creates the risk of widespread defaults that would cripple lending to other segments of the economy. For now, the Fed's measures to inject liquidity into the corporate bond market, backed by the federal government's new stimulus bill, should avoid a dangerous collapse in this market. However, we will continue to monitor these developments closely.

March 20th 2020 Coronavirus hits economy

US stockmarkets had a torrid week as the impact of the coronavirus (Covid-19) on the US economy began to materialise. On March 12th the S&P 500 index closed nearly 10% down on the previous day, as markets lost confidence in the Trump administration's handling of the crisis. When the authorities introduced more stringent measures to control the spread of the virus, the S&P 500 plunged again, by 12%, as investors worried about the impact of these measures on economic activity. We will be revising down our forecast for real GDP growth in 2020 to 1% (from 1.7%). Recession risks have risen significantly.

For the president, Donald Trump, trouble comes in twos: just as the economic risks related to Covid-19 began to mount, the agreement between Saudi Arabia and Russia to cut oil production collapsed, sending oil prices down to their lowest level since the 2014-16 global commodity price slump. Although low petrol prices will help to offset some of the pain experienced by US consumers this year, the net effect on the US economy will be negative as fixed investment in the shale sector contracts and export growth sags. This further increases the likelihood of a technical recession in 2020, putting Mr Trump's re-election bid at risk.

The administration initially scrambled to respond to the coronavirus

The administration's initial response to the coronavirus was poor, allowing the illness to spread quickly on US soil. As at March 19th the US had registered 10,555 confirmed cases. This is probably an underestimation, as testing has been delayed by a lack of testing materials and a discordant policy response. As at March 16th the US had conducted fewer than 40,000 tests, according to official figures from the Centres for Disease Control (CDC)-equivalent to one test per 10,000 residents, compared with 20 tests per 10,000 residents in Italy and more than 50 tests per 10,000 residents in South Korea. The policy response from the White House and federal agencies has improved markedly in recent days, following a disastrous national address by the president on March 11th. The address sowed confusion about what policies would actually be implemented, prompting criticism from across the political spectrum and sending markets tumbling on March 12th.

The US government learned from early mistakes

On March 18th the president signed a much increased emergency aid package that was passed by Congress just hours earlier. The package will provide free testing for individuals-although test kit availability remains insufficient for now, and health centres are likely to be overwhelmed by the imminent influx in demand. The bill will also provide two weeks of paid sick leave for some workers, increased unemployment and Medicaid benefits (a social healthcare programme for low-income households) and a further US$1bn in food aid.

Congress is now accelerating the debate over a US$1trn economic stimulus package, which is likely to include financial support for industries that have been critically damaged by the pandemic, particularly aviation, as well as direct cash payments for Americans who have lost their jobs.

March 20th 2020 Coronavirus hits economy (continued)

These measures will help to ease the number of households facing severe financial strain in the coming weeks. Nonetheless, we are increasing our forecast for headline unemployment to 6% in 2020, from 3.5% currently, as several industries will struggle to recover from the steep decline in consumer demand in the second quarter.

Downward revisions across the board

Overall, we are revising down our forecast for real GDP growth in 2020 to 1% year on year, with a sharp contraction in the second quarter, followed by a V-shaped recovery in the second half of the year, assuming that the spread of the virus is contained in the US by end-June. We now expect consumer spending growth of just 1.5% year on year (2.5% previously), as the measures meant to contain the spread of the virus cause a steep drop in travel, goods transport and entertainment, and as falling asset prices prompt greater caution among middle-class consumers.

We now expect year-on-year investment to contract by 2.7% (-0.9% previously) in 2020, as the sharp drop in the second quarter is only partially reversed in the second half of the year. Even as other industries recover as the coronavirus impact begins to recede, the US oil and gas sector will continue to see falling investment into 2021, owing to the dismal oil price outlook. We now expect US exports to contract by 0.5% year on year (from growth of 0.8% previously), reflecting the drop-off in demand for US petroleum products, as well as slowing global consumption linked to the path of the coronavirus.

Risks are skewed to the downside

There are downside risks to our baseline scenario, the realisation of which depends entirely on the timeline for the containment of the virus in the US. If this slips beyond end-June, we will revise our forecasts to reflect a technical recession in the US, with two consecutive quarters of contraction in the second and third quarters.

Several other risks remain that could potentially push the US into recession, even if our end-June containment timeline is met. Much of this will be linked to public confidence in the government's efforts to address the crisis. A further decline in confidence would be reflected by another series of major declines in US stockmarkets, which would curb consumer spending more severely and potentially set off a more serious corporate debt crisis. The level of US corporate debt reached 47% of GDP in late 2019-a level last attained prior to the 2008 global financial crisis. Even more concerning, the leveraged loan market (lending to already heavily indebted corporations) also surpassed US$1trn in 2019, creating a large pool of particularly high-risk financing. A collapse in this market could prompt more widespread stress in the US banking system, making it even more difficult for companies and households to maintain access to financing.

The Fed makes a rescue attempt

In recent days the Federal Reserve (Fed, the central bank) has taken a series of extraordinary measures to shore up liquidity and ensure that lending continues. On March 15th the Fed slashed rates to zero and launched a number of measures meant to inject capital-including a US$700bn Treasury purchase programme and a steep cut in the discount window rate (allowing banks to borrow overnight funds to meet their financing needs from the Fed at a low cost, rather than more expensive funds from other banks). These measures may be enough to provide a financial lifeline to many companies and households for now, but the economy will nonetheless slow sharply in the coming weeks.

Mr Trump's re-election bid will hinge entirely on the success of these measures. He has declared himself a "wartime" president in recent days. If the government's efforts to contain the crisis do not make progress in the coming days, he will be even more embattled than he is now.

March 17th 2020 Coronavirus: what we expect for global growth

The coronavirus epidemic represents a severe threat to global growth. Prior to the outbreak we expected global real GDP growth to be lacklustre this year, at 2.3% (at market exchange rates). The emergence of the epidemic in China is a game changer, and we now expect global growth of 1% this year-the slowest rate since the global financial crisis. The negative effect on growth will come via both demand and supply channels. On the one hand, quarantine measures, illness, and negative consumer and business sentiment will suppress demand. At the same time, the closure of some factories and disruption to supply chains will create supply bottlenecks.

Policymakers face difficult choices

There was hope initially that the coronavirus outbreak would remain contained in China. However, the recent spread to other countries means that the virus is likely to affect between 25% and 70% of the world population; our baseline scenario is that around half of the world population will be affected. If the epidemic reaches its peak sooner, the death toll will be higher-all the more so as the flu season will not yet be over and healthcare systems will quickly become overwhelmed. However, in this case the economic impact of the epidemic would be less severe, as containment measures would be lifted earlier. Conversely, a longer epidemic would probably lower the death toll, but exact a higher economic cost.

The symptoms are mild for most people, but this might not be good news

The fact that the disease has a low fatality rate, and its symptoms are mild for about 80% of people, represents another challenge: it means that the coronavirus spreads easily, as sick people think that they merely have a minor cold, do not get tested and unknowingly contaminate others. At the other end of the spectrum, about 20% of people affected by the coronavirus will experience pneumonia, which represents the severe form of the disease and often requires intensive medical care. After they recover from the infection, they could continue to suffer from extreme fatigue for up to six months. This means that a significant share of the world population will become less productive for an extended period of time.

Monetary stimulus: how to go below zero

In early March the Federal Reserve (Fed, the US central bank) announced an emergency interest-rate cut in response to the economic threat posed by the coronavirus. This is the first emergency cut and the largest single rate cut that the Fed has made since the global financial crisis in 2008, raising expectations that other central banks such as the European Central Bank (ECB) and the Bank of Japan might follow suit. However, both these institutions will be greatly constrained in their response to the coronavirus outbreak, as their headline interest rates are already below zero. The only realistic course of action for the ECB would be to ease further lending conditions for banks under its targeted longer-term refinancing operations programme (TLTRO-III), or to offer a programme for small and medium-sized enterprises (which are hit hard by the coronavirus).

Fiscal stimulus: not before doomsday

Monetary policy constraints, and the difficulties of shaping a co-ordinated monetary response at the global level, mean that fiscal stimulus might be the only option for many developed countries to support growth. However, this is not given. In Europe, a co-ordinated fiscal stimulus appears unlikely, not least because Germany remains reluctant to abandon its balanced budget rule, despite calls to do so from other countries. In addition, the introduction of fiscal stimulus measures in Italy, which is hard hit by the coronavirus, would further worsen the country's public finances and increase the medium-term risk of a financial crisis. Meanwhile Japan's public debt already stands at almost 230% of GDP, the highest ratio in the world; it is hard to imagine that it could go much higher without becoming a systemic threat to the global economy, all the more so if global growth slows sharply. Finally, in many other highly indebted developing countries, fiscal stimulus would only raise the risk of a debt crisis down the road.

March 17th 2020 Coronavirus: what we expect for global growth (continued)

The US appears more shielded than other countries

The US economy is less trade-reliant than some other countries, such as Japan or Germany, which will help to shield it from slowing external demand. Nonetheless, if the virus spreads quickly in the US, this could weigh on corporate earnings, to the extent that job creation and unemployment in the US would be negatively affected. This would hit consumer spending-the only source of buoyant growth in the US economy-and spook financial markets, increasing the risk of a crash that would quickly spread to other financial markets around the world.

Europe's growth outlook darkens

The recent spread of the coronavirus in Europe-where there has been a rapid increase in the number of reported cases in major economies such as Italy, Spain, France and Germany-and the containment measures taken in response will constrain growth in the bloc in the second quarter. We expect economic uncertainty to persist until at least June, dampening business sentiment, household consumption of non-essential goods, and travel and tourism activity. Quarantine measures and public distancing efforts will become widespread, but we expect euro zone borders to remain open. In the third quarter of the year we expect a bounce-back in activity, but there is a significant risk that uncertainty will persist for longer, with a commensurate negative effect on demand.

Asia will be the region hardest hit

The coronavirus outbreak will affect every economy in Asia in 2020. China has, so far, registered the highest number of cases, and we believe that real GDP growth will stand at only 2.1% this year (from an estimated 6.1% in 2019). Some economies, such as South Korea and Japan, have also registered a large number of cases, and containment measures will hold back growth, especially as Chinese import demand falls. There are two main channels through which Asian economies are likely to be affected by the outbreak. The first is weaker tourism inflows, primarily from China; economies with large tourism sectors that attract a high proportion of Chinese tourists include Hong Kong, Taiwan, Thailand, South Korea, Singapore, Malaysia and Sri Lanka. The second transmission mechanism is through disruption to industrial supply chains. The economies with the greatest exposure to this factor are Hong Kong, Taiwan, South Korea, the Philippines and Thailand.

Even weaker growth ahead in Latin America

For Latin America and the Caribbean, the impact of the coronavirus will vary according to a country's reliance on trade and commodities. For South America's large commodity exporters, the shock from reduced global demand, especially from major trade partners such as China and the EU, and from weak prices of oil, copper, iron ore and soybeans, will be severe. The more open, trade-reliant economies of Chile and Peru will be especially hard hit. Mexico, Central America and the Caribbean are more closely reliant on trends in the US, and our expectation that US GDP growth will remain positive will provide some support. For the Southern Cone countries, the approach of the southern hemisphere winter raises the prospect of a difficult, prolonged coronavirus epidemic. Moreover, the policy response will be complicated by generally weak fiscal positions. This will place the onus on monetary policy to support growth.

The Middle East and Africa: not fit to cope

The coronavirus outbreak will hit the Middle East and Africa largely through its dampening effect on the oil and commodities markets. China accounts for about a third of new oil consumption demand, so the slowdown in China has caused oil prices to fall. Lower oil output and prices will weigh on economic performance in the oil-exporting states and the broader region. Countries that rely on platinum exports, a major component in the automotive sector, and those that depend on China's outward investments will be hard hit. Given increased travel restrictions for some countries, regional tourist destinations such as the UAE, South Africa, Kenya, Mauritius, Oman and Egypt will also be negatively affected. The UAE's status as a shipping hub and Dubai's deep commercial ties with Iran, which has been heavily affected by the outbreak, make them vulnerable. Abysmal healthcare systems in many African countries mean that it would be near impossible to contain an outbreak there.

March 10th 2020 Saudi Arabia lashes out over Russian recalcitrance

- **Oil prices plummeted to a four-year low in the wake of Saudi Arabia's decision to raise production and slash sales rates for its crude exports, raising fears of a prolonged price war.**

- **The dramatic move followed Russia's refusal to agree to the deeper output cuts called for by Saudi-dominated OPEC in response to the slump in global demand caused by the novel coronavirus outbreak, thereby apparently ending an unprecedented three years of co-operation between the world's two largest crude exporters.**

- **Despite low production costs compared with international rivals, Saudi Arabia's budget requires an oil price more than double current levels, and we view the decision to open the taps and fight for market share as fiscally unsustainable and probably intended as a short-term negotiating position designed to elicit compromise from the Kremlin.**

- **We expect oil prices to remain low, at somewhere between US$30-40/barrel for most of the second quarter, before recovering slightly in the second half of the year as economic realities force both countries to adopt a more pragmatic stance. For the year as a whole, prices are now forecast to average US$45/b. However, if Saudi Arabia and Russia fail to de-escalate tensions by mid-2020, prices will come under further downward pressure.**

When OPEC ministers met in Vienna on March 5th, Russia's reluctance to agree to emergency action to avert the price slump caused by the coronavirus outbreak had already been made evident: following consultations in early February, the Joint Technical Committee, comprising representatives of OPEC and a group of non-OPEC producers (known as OPEC+), had recommended a collective cut of 600,000 barrels/day (b/d), as well as an extension of existing curbs, which were due to expire on March 31st, until end-December, but Russia refused an emergency ministerial meeting to rubber-stamp the proposal, arguing that more time was needed to assess the situation. Thus the agreement, spearheaded by Saudi Arabia at OPEC's scheduled ministerial gathering on March 5th to make an even deeper cut, of 1m b/d, contingent on non-OPEC counterparts committing to reduce output by an additional 500,000 b/d, always appeared unlikely to elicit a positive response from the Kremlin-either to the policy or to the manner of its presentation as a "take it or leave it" proposition.

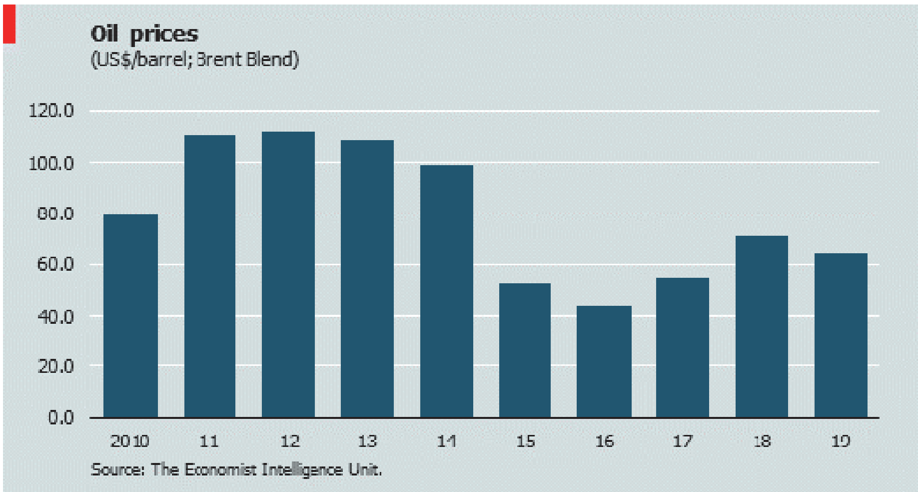
During meetings of the full OPEC+ cohort on March 6th, Russia confirmed its refusal to sign up to the new cuts, with Alexander Novak, the Russian energy minister, provocatively spelling out the seismic implication for oil markets that from April 1st, all producers would be free to produce at will. Under existing cuts first agreed in November 2016 and deepened from the start of the year on the grounds of market weakness pre-dating the coronavirus crisis, OPEC+ countries were reducing output by a combined 1.7m b/d from an October 2018 baseline. Saudi Arabia had pledged voluntarily to cut an additional 400,000 b/d, provided that other producers complied with the new ceilings, potentially reducing the kingdom's output to about 9.7m b/d and a glaring indication of the government's desperation to keep the price-defence policy on track: in 2016, which was the last time that global producers were engaged in a price war, Saudi production averaged 10.5m b/d, while maximum sustainable capacity is stated as 12m b/d.

Russia prioritised punishing US and its producers over maintaining Saudi alliance

The Kremlin continued to claim that the market ramifications of the public health emergency required longer assessment, but a key motivation for rejecting the cut, regardless of the demand prognosis, was to cease providing succour to US shale producers, which, buoyed by the price support provided the OPEC+ deal, have limited its efficacy from the outset by stepping up their own production to compensate, at a time when US sanctions have been used to block major Russian hydrocarbons projects. The Russian budget requires minimum oil prices of about US$40-45/b, which is well below breakeven levels for shale producers and about half the figure used to calculate Saudi Arabia's 2020 budget.

March 10th 2020 Saudi Arabia lashes out over Russian recalcitrance (continued)

However, the debacle-which took markets, expecting compromise, by surprise-is also a failure of Saudi diplomacy and of the wider approach to policymaking characteristic of Mohammed bin Salman al-Saud, the crown prince and de facto ruler. When Abdel-Aziz bin Salman al-Saud was made energy minister in September, much was made of his long experience of OPEC politics in other governmental roles, but he had evidently proved unable to cultivate a relationship with his Russian counterparts sufficient to preserve the alliance born and sustained during the three-year tenure of his predecessor, Khalid al-Falih. Yet all major policy decisions are ultimately made by the crown prince, and the attempt to present the equally uncompromising Russian president, Vladimir Putin, with a fait accompli appears to have been a predictable miscalculation: previous cuts have typically been agreed in advance by the two governments during negotiations behind closed doors before being rubber-stamped at the full OPEC+ conferences. As a result, the potentially painful economic and fiscal fallout could bolster internal discontent in elite circles, with Mohammed bin Salman's aggressive foreign-policy stances at odds with ruling family tradition and repeatedly proving self-defeating. The domestic risks of this were made dramatically evident in September when several months of escalating tensions with Iran culminated in a devastating attack by Iran on the kingdom's oil installations.



Budgetary considerations likely to force Saudi Arabia to find solution other than price war

The Saudi government's response to the Russian refusal was typically uncompromising and provocative, with Saudi Aramco, the monopoly state oil producer, on March 7th announcing discounts of US$6-8/b in official selling prices for April crude deliveries and pledging to increase production, sending global prices down by some 30% on the first day of trading two days later-their largest fall in a single day in almost three decades. Brent crude closed at about US$35/b on March 9th-the lowest level since 2016 and sparking an accompanying stockmarket rout. On the following day, the Saudi company issued a statement claiming that output would be increased to 12.3m-b/d from April.

However, the Saudi move seems more likely to be a negotiating position designed to encourage Russia back to the table than a policy intended to be sustained for more than a few months: the kingdom's 2020 budget projects a SR187bn (US$49.9bn) deficit based on an assumed oil price of about US$80/b and output of roughly 9.8m b/d, and the additional sales volumes from increasing production would be far from sufficient to offset the revenue impact of receiving prices less than half those anticipated. Significant spending cuts would risk sending the non-oil economy into recession while reawakening the unprecedented public dissent caused when austerity measures were last imposed in response to the 2014 price slump. Mohammed bin Salman's reputation also depends on visible progress with the much-vaunted Vision 2030 economic development and diversification strategy, which was adopted shortly after he took the executive reins in 2016, which in turn demands movement on the multi-billion-dollar government-led projects enshrined therein and their corollary stimulus to the private sector and foreign investment.

March 10th 2020 Saudi Arabia lashes out over Russian recalcitrance (continued)

An immediately evident, deleterious effect of the price crash was felt in the share price of newly listed Aramco, 1.7% of which was sold in December through a much-hyped US$29.4bn initial public offering on the local Tadawul stockmarket, realising another of Mohammed bin Salman's controversial signature policies. On the first trading day after the official selling price discounts were announced, the Aramco share price fell below the listing price for the first time, and trading had to be suspended on March 9th after the value slumped beyond the 10% daily limit. A continued downturn could cause substantial losses for the primarily local investors, who were heavily pressured to participate in the auction, when the six months expires during which they are incentivised to hold onto the stock-a scenario that horrifies internal traditionalists who have always been hostile to the sale.

Although we do not expect Saudi Arabia to engage in a lengthy price war, neither do we expect Russia to fundamentally change course and agree to deeper cuts. A return to negotiations is considered more probable, with a compromise found preserving some semblance of OPEC+ co-operation and putting a floor under prices, although time is running out before the existing deal ends. The next scheduled meetings are on June 9th-10th. Russia's continued participation has long been valued, as much for the sign sent to the market of willingness to intervene and co-ordinate with OPEC in defence of prices as for the impact on the country's actual production, which has consistently breached agreed ceilings. We expect oil prices to remain low (between US$30-40/b for most of the second quarter), before recovering slightly in the second half of the year as economic realities force both countries to adopt a more pragmatic stance. On the global demand front, resumption of stronger economic activity in China and emerging markets will support prices to some extent, to average about US$45/b for the year.

February 11th 2020 EIU Global Forecast - Coronavirus threatens global growth

Economic performance was weak across the G7 and BRICS countries (Brazil, Russia, India, China and South Africa) in the fourth quarter of 2019. This poor outturn reflects sluggish global growth throughout last year due to the combined effect of global trade tensions; a sharp deceleration in real GDP growth in the US, China and India; renewed volatility in emerging markets; and political uncertainty in a number of EU countries. In addition, since the start of 2020 new risks have emerged for global growth as a novel coronavirus has hit China.

China's economy was slowing before the coronavirus epidemic started

In China, the world's second-largest economy, quarterly growth picked up to 1.5% in the fourth quarter of 2019, from 1.4% in the third quarter, as the conclusion of a first-phase US-China trade deal at the end of 2019 helped to alleviate part of the uncertainty that businesses and consumers were facing. The Chinese economy will face severe strains in the coming months, and growth will slow much further. A novel coronavirus originating in Wuhan, a city of 11.3m people in central Hubei province, has spread to all provinces in mainland China and overseas. The Chinese authorities are taking unprecedented quarantine measures to halt the spread of the pathogen, which is likely to have consequences on the global economy. The suggested case fatality rate had stabilised, at 2.2% as at February 1st; nevertheless, the risk of virus mutation and of heightened transmission during the post-Chinese New Year travel period, and strains on the Chinese healthcare system are grounds for concern. There is a risk that the coronavirus will spread to countries that do not have the resources to implement robust quarantine policies. The Economist Intelligence Unit's baseline scenario is that the public health emergency in China will be brought under control by end-March. This is based on the latest scientific studies and comparisons with a similar coronavirus outbreak (severe acute respiratory syndrome, or SARS) in 2002-03.

February 11th 2020 EIU Global Forecast - Coronavirus threatens global growth (continued)

We have revised China's growth downwards, to 5.4% in 2020

On the assumption that the spread of the virus will be under control by end-March, we are lowering our real GDP forecast for China in 2020 to 5.4%, from 5.9% previously. The slowdown will be concentrated in the first quarter of 2020, when economic expansion will drop to about 4% year on year. If the coronavirus is not under control by March, the effect on GDP growth will be greater. We expect strong government stimulus measures to prop up the economy, but it is unclear how much these measures will mitigate the negative effect of the coronavirus on China's output. A drop in the growth of the world's second-largest economy will have an impact on the global economy as travel restrictions halt flows of Chinese tourists and the country's demand for commodities slows. We have revised our global growth forecast for 2020 downwards by 0.1 percentage points, to 2.2% (from 2.3% previously, at market exchange rates). Crude oil prices have fallen by about US$10/barrel since mid-January, owing to coronavirus-related fears (China is the single largest source of new oil consumption). However, we expect oil prices to remain at about US$60-65/b, provided that the virus remains contained in the coming weeks. Should conditions deteriorate, or if the epidemic spreads globally, dated Brent Blend prices could dip by another US$3-5/b.

The US economy is slowing

Among the G7 countries, the US recorded the fastest rate of quarterly growth in the fourth quarter of 2019, at 0.4%. This represents a deceleration from third-quarter growth, as the US economy began to show signs of strain in the final months of the year. Rising production costs and slowing external demand weighed on business profits; as a result of this, as well as of deep uncertainty surrounding the direction of US trade policy, business investment slowed sharply over the course of the year. Conversely, consumer spending remained firm, supported by continued job creation and an acceleration in wage growth. However, the latest labour market data show that the pace of job creation slowed sharply in December, and we believe that the labour market will soften further in the coming months as business investment remains weak. We estimate that US real GDP growth slowed modestly in 2019, to 2.3%, and forecast that it will continue to slow in 2020, to 1.7%.

Growth has dropped in Japan, but it is rebounding slightly in India

In Asia, we believe that India and Japan respectively recorded the best and the worst rates of quarterly growth among G7 and BRICS countries in October-December. Over this period we estimate that India's real GDP grew by 1.6% quarter on quarter, but this apparently strong headline figure was artificially boosted by the dismal performance of the Indian economy in the previous quarter (1.1% growth quarter on quarter), amid weak consumer sentiment and tepid investment. Nevertheless, a series of government stimulus measures, coupled with a low-interest-rate environment, are likely to spur demand and investment in 2020 and to cause a rebound in full-year real GDP growth, to 6.1% (up from an estimated 4.9% in 2019), provided that the coronavirus epidemic does not spread to India. Meanwhile we estimate that Japan's real GDP contracted by 1.7% in the fourth quarter of last year, as a result of an increase in the consumption tax rate in October. Consumer spending will remain subdued in the first half of 2020 as consumers adjust to the higher prices of goods. However, the hosting of the Olympic and Paralympic Games in Japan in July-September will provide some support to the economy, and we forecast that real GDP growth will average 0.3% in 2020 if the coronavirus does not derail these events.

EU economies are facing strains, and growth remained sluggish in late 2019

Among EU countries, performance remained poor in the fourth quarter of 2019; real GDP growth in the euro zone slowed to 0.1% (seasonally adjusted), from 0.3% in the third quarter. Meanwhile the performance of the three biggest euro zone economies was mixed. Italy-and to a lesser extent France-pulled down regional growth, with real GDP contracting by 0.3% and 0.1% respectively, while Germany's continued to expand, by an estimated 0.2%, as trade-related uncertainty subsided slightly.

February 11th 2020 EIU Global Forecast - Coronavirus threatens global growth (continued)

The downturn in the industrial sector seems to be bottoming out, with trends in electronics and in machinery and equipment suggesting that the decline in manufacturing output is decelerating, albeit slowly. Moreover, we expect global trade growth to accelerate in 2020 as a consequence of monetary policy easing and a stabilisation of geopolitical tensions. We also anticipate a recovery in the auto industry at the global and European levels. Meanwhile we estimate that growth remained lacklustre in the UK, at 0.1% quarter on quarter, as a result of Brexit-related uncertainty.

World economy: Forecast summary

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Real GDP growth (%)										
World (PPP[a] exchange rates)	**3.4**	**3.3**	**3.8**	**3.5**	**2.8**	**2.9**	**3.4**	**3.6**	**3.4**	**3.4**
World (market exchange rates)	**2.8**	**2.5**	**3.2**	**2.9**	**2.3**	**2.2**	**2.7**	**2.9**	**2.8**	**2.8**
US	2.9	1.6	2.4	2.9	2.3	1.7	1.9	2.0	1.8	2.2
Euro area	2.0	1.9	2.7	1.9	1.2	1.2	1.6	1.7	1.6	1.6
Europe	2.0	1.9	2.8	2.1	1.4	1.5	1.8	2.0	1.9	1.9
China	6.9	6.7	6.8	6.6	6.1	5.4	5.7	5.5	5.0	4.7
Asia and Australasia	4.6	4.5	4.9	4.4	3.9	3.6	4.2	4.2	4.0	3.9
Latin Americab	0.1	-0.3	1.9	1.7	0.8	1.1	2.3	2.6	2.6	2.6
Middle East & Africa	2.3	4.9	1.3	1.0	0.2	1.9	2.8	3.1	3.3	3.3
Sub-Saharan Africa	2.7	0.8	2.3	2.4	2.0	2.2	3.3	3.8	4.1	4.4
World inflation (%; av)[b]	**3.0**	**3.1**	**3.2**	**3.4**	**3.5**	**3.8**	**3.4**	**3.3**	**3.1**	**3.0**
World trade growth (%)	**2.2**	**2.1**	**5.8**	**3.7**	**0.8**	**2.2**	**3.4**	**3.7**	**3.8**	**3.8**
Commodities										
Oil (US$/barrel; Brent)	52.4	44.0	54.4	71.1	64.0	63.0	67.0	71.0	73.8	71.0
Industrial raw materials (US$; % change)	-15.2	-2.2	20.2	2.2	-8.6	0.5	4.1	3.2	0.8	1.1
Food, feedstuffs & beverages (US$; % change)	-18.4	-3.5	-0.9	1.5	-4.3	2.6	2.2	0.0	1.3	1.5
Exchange rates (av)										
¥:US$	121.0	108.8	112.1	110.4	109.0	106.7	104.6	101.1	97.6	95.4
US$:€	1.11	1.11	1.13	1.18	1.12	1.13	1.16	1.21	1.24	1.24

[a] Purchasing power parity. [b] Excludes Venezuela.

Source: The Economist Intelligence Unit.

February 3rd 2020 US-Japan trade deal to be an unbalanced win-win affair

The US-Japan trade agreement on goods came into force at the start of 2020. The deal represents the first bilateral free-trade agreement (FTA) involving the US since Donald Trump withdrew from the Trans-Pacific Partnership (TPP) agreement shortly after becoming president in 2016. Although the agreement represents a strong step by both sides towards resolving trade frictions, it does not settle several outstanding issues, which means that US-Japan trade tensions are likely to re-emerge in the coming years. In addition, the deal is set heavily in favour of the US and will also adversely affect other trading partners of Japan that have signed up to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).

February 3rd 2020 US-Japan trade deal to be an unbalanced win-win affair (continued)

The two sides negotiated the trade deal in a short span of time before it was announced in September 2019, when the Japanese prime minister, Abe Shinzo, met Mr Trump on the sidelines of the UN General Assembly. Mr Abe's Liberal Democratic Party (LDP) dominates both chambers of the Diet (the Japanese parliament), along with its junior coalition partner, Komeito. As a result, the trade deal was swiftly ratified. Meanwhile, the deal did not require any approval from the US Congress (parliament), allowing it to come into force at the beginning of 2020.

The fine print

As part of the deal, Japan has agreed to lower tariffs gradually on more than US$7bn of agricultural products imported from the US. It has also allowed greater market access to the US for products such as beef, pork, cheese and wheat. In addition, Japan has agreed to buy massive amounts of surplus corn from the US. Meanwhile, the US has agreed to reduce and even eliminate tariffs on some industrial goods imported from Japan.

The two sides have also concluded an executive agreement on e-commerce and digital trade issues as a corollary to the trade agreement on goods. Digital trade in goods and services between the US and Japan is expanding quickly, and the deal would cover around US$40bn of bilateral trade between the countries. The deal is intended to enforce high standards on growing digital commerce, mirroring a similar agreement that the US concluded in the newly negotiated United States-Mexico-Canada Trade Agreement (USMCA). These new standards should help to accelerate growth in US digital exports, and will serve as a model for future trade deals with other countries in the sphere. They include provisions such as prohibitions on the imposition of customs duties on digital products transmitted electronically, and moves to ensure barrier-free crossborder data transfers in all sectors.

Elephant in the room

Since Mr Trump became president, trade protectionism has been a focal point of his political agenda, as well as his foreign policy. According to Japanese statistics, bilateral trade between Japan and the US reached nearly ¥23.9trn (US$219bn) in 2019. The balance has been in favour of Japan since 1965, primarily owing to its automotive exports to the US. The US government's determination to narrow this deficit was the main driving force behind the pursuit of the latest US-Japan trade agreement on goods.

Overall, the deal heavily favours the US. The US will continue to impose tariffs of 2.5% on automotive imports from Japan, and the deal will also allow the US to further expand its agricultural exports (already its biggest export category) to Japan. This stands to benefit US states with a strong agricultural base, which form the core of Mr Trump's support; he will attempt to shore up this backing ahead of the upcoming presidential election in November 2020.

Japan has less to gain from the deal. The country's automotive exports-its main category of exports to the US-are unlikely to increase, as the Trump administration remains focused on reducing its trade deficit and boosting American manufacturers in the sector. However, the Japanese government still views this deal as a win, as it avoids the near-term risk of punitive import tariffs on automotives, which Mr Trump had threatened to impose in 2019 under Section 232 of the Trade Expansion Act. Crucially, the deal also allows Japan to maintain strong ties with the US-its most important ally.

However, while the deal eases near-term risks, trade tensions are likely to re-emerge in the medium term. Japan failed to secure an explicit assurance within the text of the deal that the US would permanently exempt it from Section 232 tariffs, which remain a serious risk to Japan's automotive industry. The deal also lacks a clause that would invalidate the agreement if these tariffs are imposed in future. The US trade representative, Robert Lighthizer, has already referenced future negotiations with Japan, indicating that the US would prefer to do an accompanying deal on services and also address sensitive areas such as the automotive sector.

February 3rd 2020 US-Japan trade deal to be an unbalanced win-win affair (continued)

Beef about beef

The impact of the US-Japan trade agreement on goods will also be felt by members of the CPTPP. The countries most affected by the new deal will be Canada, Australia and New Zealand, as they had enjoyed privileged market access for their agricultural exports to Japan in 2019 under the CPTPP. Besides the US, Australia and Canada are major exporters of meat products such as beef and pork to Japan. Similarly, members of the EU are also likely to be affected, as they all had beneficial access to the Japanese market after the conclusion of the EU-Japan economic partnership agreement. These countries enjoyed a comparative tariff advantage over the US in Japan's agricultural market and saw their market share grow as a result of the US's decision to withdraw from the TPP.

Although the trade deal between the US and Japan is not as comprehensive as the CPTPP, it has still effectively levelled the playing field on many key agricultural products, including beef, pork, cheese and wheat. Canada, for instance, is concerned that the US-Japan deal will cut into its gains, especially in the beef and pork markets. Access to the Japanese market was one of the key drivers for Canada, which-unlike Australia and New Zealand-did not have a pre-existing FTA with Japan.

The bilateral trade deal provides the US with a similar degree of agricultural tariff relief to that it would have enjoyed under the TPP. Consequently, the US is now competing for market share in Japan with countries that would have been its trade partners under the initial TPP. This fits with The Economist Intelligence Unit's view that despite signing several recent trade agreements, the Trump administration will continue to add to global trade uncertainty. In particular, protectionist US trade policy under Mr Trump will create risks for other countries, many of which are long-standing trade partners of the US. However, we do not expect the US's policy shift to spark a broader move toward trade protectionism by other countries.

January 29th 2020 Fed continues delicate balancing act

The January 28th-29th Federal Open Market Committee (FOMC) meeting comes in the wake of several shocks to the global economy. We expect the Federal Reserve (Fed, the central bank) to keep interest rates on hold after three rate cuts in 2019, which the Fed probably considers sufficient to shield US businesses from looming economic risks for the moment. However, we maintain our view that one further rate cut is likely in the first half of 2020, as global growth remains sluggish.

The Fed will have to balance a variety of risks to global growth in its January assessment. On the positive side, the "phase-one" trade deal signed by the US and China on January 15th eased near-term risks to consumer spending, the main driver of US economic growth, and carried financial markets to another record high. On the downside, the US and Iran burst into open conflict in early January, causing a spike in geopolitical tensions in the Middle East-and, briefly, in oil prices. Finally, in late January the emergence of a coronavirus in China has created serious risks to the 2020 growth outlook for China, as well as for the rest of the world.

Coronavirus poses new risks to global economic growth

Chinese authorities are racing to contain the spread of the coronavirus in order to minimise its human and economic impact. However, some of the authorities' protective measures-including extending the Chinese New Year holiday period and imposing strict travel restrictions in the most affected areas-will have a negative economic effect, as they will curb consumer spending and import demand during a major consumer holiday.

January 29th 2020 Fed continues delicate balancing act (continued)

If the virus has a similar trajectory to the SARS breakout in 2002-03, we estimate that real GDP growth in China alone could be 0.5-1.5 percentage points lower in 2020 than our current baseline forecast of 5.9%. If Chinese growth drops by 1.5 percentage points, an initial assessment shows that global growth in 2020 will be reduced by at least 0.2-0.3 percentage points, to 2-2.1% (our current forecast is 2.3%). In a worst-case scenario, if the virus were to spread more widely, global economic growth could fall to less than 2% in 2020, particularly if international air travel is severelydisrupted.

It remains unclear how long it will take to contain the virus, which is adding to market uncertainty. It is therefore also too soon to measure the potential economic hit to US firms. Despite the trade war, China remains the US's third-largest export market, absorbing about 7% of US exports in 2019 (down slightly from 8% in 2018). The real importance of the Chinese market is even greater than this, however, as many US firms-particularly in tech and consumer goods-rely on China as their primary growth market. A more serious slowdown in China will therefore weigh on revenue for US firms, many of which already released profit warnings in 2019 in response to softening demand growth from China.

Impact of weakening market sentiment is materialising

The risks posed by the coronavirus are not significant enough to prompt the Fed to consider a rate cut in January, particularly given that US growth remains fairly firm and that the virus could still be contained at a relatively early stage. However, it does increase the weight of downside risks.

The downturn in market sentiment linked to the coronavirus has been reflected in other areas, including global oil prices. The average price of dated Brent Blend has fallen by more than 10%, from US$65/barrel on January 20th to less than US$60/b at end-January, owing to fears of slower than expected growth in China, which accounts for a third of new oil consumption each year. The possibility that the virus will have an even broader impact than this-for example by curtailing global demand for travel and distribution of goods-has dampened the outlook for oil prices further.

Headline US inflation remains tightly linked with fuel prices, so inflationary pressures are likely to remain muted in early 2020. The Fed's preferred inflation measure, personal consumption expenditure (PCE), strips out more volatile energy and food prices, but it too remains stubbornly below the Fed's 2% target.

The upside: low inflation, a truce with China and confidence in the US economy

If inflationary pressures remain muted, this will strengthen the argument for another rate cut in early 2020. However, we do not expect this to materialise in January, as the Fed will have to balance weak inflation against several other positive developments. Most notably, consumer spending remains firm, which is supporting overall economic growth. The December jobs report showed a noticeable slowdown in the rate of job creation compared with the start of 2019. Nonetheless, job creation remains rapid enough to absorb new entrants to the workforce, and the overall unemployment rate remains at a record low of 3.5% at the start of 2020.

The phase-one US-China trade deal signed in January, although light on substance, has temporarily removed the threat of possible tariffs on consumer goods imports. The market boost that this provided in mid-January has since been eclipsed by the coronavirus; however, if the virus were to be contained quickly, some positive momentum surrounding the deal could re-emerge.

Global investors have also shown their confidence in the US economy. Concerns about economic growth in China and other emerging markets, plus a possible Middle East crisis, have driven investors into safe-haven US Treasuries. The yield curve between three-month and two-year Treasuries has recently inverted, which can often be interpreted as a sign of trouble, if the risks stem from inside the US economy. However, we believe that the inversion this time mainly reflects concerns about global growth, which have increased the attractiveness of US debt, and therefore depressed yields.

January 29th 2020 Fed continues delicate balancing act (continued)

The Fed's balancing act

At end-December the Fed appeared to be leaning towards keeping rates on hold for most or all of 2020; consumer growth remained firm, inflationary pressure had picked up slightly (from a low base) and the US-China trade deal promised to ease trade tensions. However, external conditions have deteriorated noticeably in January. The Fed's three rate cuts in 2019 were preventative, meant to shield US firms from external events like these. We believe that the Fed will consider those previous cuts sufficient and will vote to keep rates on hold in January.

However, we maintain our view that the Fed will cut rates once more in 2020. For now, we maintain our view that this will come in March as firms become increasingly concerned about the impact of the coronavirus on a major growth market. However, if the virus is contained more quickly than we expect, limiting the impact to about 0.5 percentage points of Chinese GDP, we will shift this Fed interest rate cut to June 2020. As it did at several points in 2019, the Fed must make a finely balanced call on the state of the economy, making clear communication of its decision all the more crucial in order to avoid upsetting jittery markets even further.

January 15th 2020 EIU Global Forecast - Suleimani's death marks turning point

The US decision to assassinate Qassem Suleimani, the commander of the elite Quds Force of Iran's Islamic Revolutionary Guards Corps, on January 3rd has taken US-Iran tensions to a new level. At first glance, the US strike appears at odds with the reluctance of Donald Trump, the US president, to drag the US into a new war in the Middle East. However, from Mr Trump's perspective, it represents a calculated response to the recent escalation in tensions between the US and Iran, which culminated in an attack against the US embassy in Iraq by Iran-backed militia in late December. As the embassy attack illustrates, these tensions have mainly unfolded in Iraq, a country where both the US and Iran wield significant influence and which represents the new battlefield between both countries.

The US is rewriting the rules of engagement in the Middle East

The US drone strike against General Suleimani has two direct consequences for Iran. First, the real message behind the US attack is that the US has the ability to track the whereabouts of top Iranian military commanders in real time, possibly through the use of informants that operate within the Islamic Revolutionary Guards Corps. The US's ability to get past Iranian defences will be chilling for the Iranian leadership, and Iran will invest a lot of time and effort to strengthen its counterintelligence capability. Second, the legally dubious assassination of General Suleimani has set a precedent and rewritten the rules of engagement for all actors in the Middle East. Mr Trump's decision to kill the general has made every US soldier, diplomat and citizen present in the Middle East a potential target for Iran. As such, US forces stationed in Saudi Arabia, Bahrain or Iraq are obvious targets for the Iranian leadership (US troops in Qatar may be safer, given Qatar's good ties with Iran).

A direct conflict between the US and Iran remains unlikely

Despite the heated rhetoric, we continue to believe that a direct conflict between the US and Iran remains unlikely. Mr Trump will be reluctant to open a new military front in the Middle East for fear of undermining his re-election chances in the November 2020 presidential poll. Meanwhile Iran's leaders know all too well that the country does not have the military and financial means to wage a war against the US. That said, the currently high level of tensions between both sides has complicated communication, and the risk of a miscalculation cannot be ruled out. We estimate that there is a 25% chance that the US and Iran will be dragged into a direct, conventional war, which would have devastating consequences for the global economy.

January 15th 2020 EIU Global Forecast - Suleimani's death marks turning point (continued)

Iran's response has been mild and proportionate

Iran's limited response so far supports our view that the US and Iran will not enter a direct conflict. On January 8th the Islamic Revolutionary Guards Corps launched strikes against two US military bases in Iraq. However, the limited nature of the attacks suggests that Iranian military commanders made every effort to avoid US casualties: the Iranian government warned its Iraqi counterpart that it would strike US military bases a few hours beforehand (knowing full well that the Iraqi military would warn the US side to put its soldiers to safety). Iran's limited strikes therefore achieved two goals: on the domestic scene, they showed the Iranian population that the country was retaliating against the US; and on the international scene, the limited response showed that Iran remained wary of triggering a direct conflict with the US. As such, Iran appears willing to de-escalate the current situation. In a speech on January 8th Mr Trump confirmed that he was not seeking war either. He mentioned that Iran's strikes would not lead to a US military response, but rather to a strengthening of US sanctions against Iran (which can only be a symbolic move, as US sanctions are already extremely broad and stringent).

Tit for tat will continue in the coming weeks

In the coming weeks US-Iran tensions will remain elevated, and there is a high risk that Iran (or its proxies) will launch targeted attacks against US interests in the Middle East; such attacks are likely to take place in countries where the US and Iran support different sides or factions, such as Yemen, Lebanon, Syria and Iraq. Cyber-attacks (from both sides) are also a distinct possibility. The US or its allies, such as Israel, could cripple Iranian nuclear facilities or institutions through the use of computer viruses. Meanwhile Iran also has the capacity to wage cyber-attacks against US companies; the financial and energy sectors appear the most sensitive, given the importance that companies in these fields have to the US economy. Should such attacks take place, it is possible that they would not be made public; the US and Iran would be keen not to appear as vulnerable, partly for fear of stirring panic within the population.

The EU appears increasingly sidelined in the US-Iran dispute

The latest escalation in US-Iran tensions illustrates that the EU, a signatory to the Iran nuclear deal, appears increasingly sidelined in the US-Iran dispute and unable to mediate a compromise between both sides. This is partly the result of disagreements between core EU member states on how to move forward with Iran when the UK and eastern European countries are more aligned with the US, and core EU members such as France and Germany are more willing to defy Mr Trump. In addition, even within countries that appear to be more on Iran's side, such as France, support for Iran is far from unanimous (Iran tried to wage a terror attack in France in late 2018). Such a situation does not bode well for the EU's objective to play an increasing role on the global scene. It also means that US sanctions against Iran will not be lifted any time soon and will continue to target international businesses willing to trade with Iran.

The global economy is safe, for now

Our 2020-21 global growth forecasts have long reflected our expectations that US-Iran tensions would remain high but remain short of a full-blown war. As such, we maintain our view that the global economy will grow by 2.3% in 2020 (up from an estimated 2.2% in 2019). Downside risks to this forecast remain high, however, especially if a flare-up in tensions leads to the closure of the Strait of Hormuz, through which about 20% of global oil supplies transit. Oil markets have so far reflected these fears; on January 6th crude oil prices briefly rose to US$70/barrel, but since then they have eased back to about US$68/b (the level that they were at before General Suleimani's assassination). We expect oil prices to remain elevated in the first quarter of 2020, at an average of US$68/b (up from US$65/b previously). However, coupled with record US oil production, an expected slowdown in the Chinese and US economies will keep a lid on oil prices in the coming months. Should US-Iran tensions flare up, however, oil prices could rise to as much as US$90/b, fuelling a rise in inflation and dampening sentiment. This represents one of the main risks to the global economy in 2020-21.

World economy: Forecast summary

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Real GDP growth (%)										
World (PPP[a] exchange rates)	**3.4**	**3.3**	**3.8**	**3.5**	**2.8**	**3.1**	**3.4**	**3.6**	**3.5**	**3.4**
World (market exchange rates)	**2.8**	**2.5**	**3.2**	**2.9**	**2.2**	**2.3**	**2.7**	**2.9**	**2.8**	**2.8**
US	2.9	1.6	2.4	2.9	2.3	1.7	1.8	2.0	1.8	2.2
Euro area	2.0	1.9	2.7	1.9	1.2	1.3	1.6	1.7	1.6	1.6
Europe	2.0	1.9	2.8	2.1	1.4	1.6	1.8	2.0	1.9	1.9
China	6.9	6.7	6.8	6.6	6.1	5.9	5.7	5.5	5.0	4.7
Asia and Australasia	4.6	4.5	4.9	4.5	3.9	3.9	4.2	4.2	4.0	3.9
Latin Americab	0.1	-0.3	1.8	1.6	0.6	0.9	2.3	2.5	2.6	2.5
Middle East & Africa	2.3	4.8	1.4	1.2	0.2	2.0	2.9	3.1	3.3	3.3
Sub-Saharan Africa	2.7	0.8	2.3	2.4	2.0	2.4	3.3	3.9	4.2	4.5
World inflation (%; av)[b]	**3.0**	**3.1**	**3.2**	**3.4**	**3.5**	**3.6**	**3.4**	**3.2**	**3.1**	**3.0**
World trade growth (%)	**2.2**	**2.1**	**5.8**	**3.7**	**0.8**	**2.3**	**3.5**	**3.6**	**3.6**	**3.8**
Commodities										
Oil (US$/barrel; Brent)	52.4	44.0	54.4	71.1	64.0	65.0	67.0	71.0	73.8	71.0
Industrial raw materials (US$; % change)	-15.2	-2.2	20.2	2.2	-8.6	0.5	4.0	3.3	0.8	1.1
Food, feedstuffs & beverages (US$; % change)	-18.4	-3.5	-0.9	1.5	-4.3	2.4	2.2	0.2	1.3	1.5
Exchange rates (av)										
¥:US$	121.0	108.8	112.1	110.4	109.0	106.9	104.8	101.1	97.6	95.4
US$:€	1.11	1.11	1.13	1.18	1.12	1.13	1.16	1.21	1.24	1.24

[a] Purchasing power parity. [b] Excludes Venezuela.

Source: The Economist Intelligence Unit.

January 14th 2020 Investors navigate troubled waters in Persian Gulf region

The fears of descent into all-out war raised by the US's assassination in early January of Qassem Suleimani, Iran's leading general, have receded, with both sides within days engaged in de-escalation. However, we expect Iran to continue to carry out calibrated, asymmetric attacks on US interests in the Middle East and possibly those of key allies, which is likely to deter investment, by American companies in particular, and create additional security costs for incumbents. The three Gulf Co-operation Council (GCC) states that house US military bases and have an independently hostile relationship with Iran will be most at risk, and we expect local stockmarkets and direct investment in certain industries to suffer. Iraq will be worst affected, as Iran and the US continue to use the country as a battlefield. If Iran resumes its targeting of shipping in the Gulf, as it did for several months last year, oil prices would rise, damaging the global economy but assisting oil-producers' fiscal balances. However, we do not expect that Iran will attempt to close the Strait of Hormuz, which is the main export outlet for the region's oil.

Despite the dramatic escalation marked by the assassination of General Suleimani on January 3rd on the direct order of Donald Trump, the US president, neither party wants all-out war, and by the end of the same week, both had begun de-escalating the crisis, with Iran's tokenistic initial response met with a newly conciliatory tone from the White House. We retain the belief that we have held since tensions started mounting three years ago that conventional war will be avoided, with the caveat that there is a high risk of a miscalculation or accident provoking a more dangerous conflict. Beyond threats to specific countries and sectors, we expect the general sense that the region is on a hair-trigger to act as an underlying brake on investment and thus economic growth for at least as long as Mr Trump's administration remains in power, which will be determined by a presidential election in the US in November.

January 14th 2020 Investors navigate troubled waters in Persian Gulf region (continued)

Iran's response will be piecemeal and calibrated, drawing out the uncertainty

The general's assassination near Baghdad, Iraq's capital, came about as the culmination of a progressively escalating conflict between the US and Iran since early 2018, which was triggered by the former's withdrawal from the Joint Comprehensive Plan of Action (the Iran nuclear deal) and the reimposition of crippling energy and financial sanctions. Retaliation is likely to continue in the mode already established, carried out chiefly by proxies to maintain plausible deniability, as seen in attacks on Gulf shipping in mid-2019, on Saudi oil facilities in mid-September and on US-led coalition forces in Iraq. We see an increased threat to US interests primarily in Iraq and to a lesser extent across the region, and security costs will rise both for US companies and those working alongside them. Those among the US's Gulf allies, which themselves have hostile relations with Iran, namely Saudi Arabia, the UAE and Bahrain, could also be directly targeted, but we view this as less likely. The governments have deliberately distanced themselves from General Suleimani's killing and have reportedly warned the US against using their territory to launch any further attack on Iran in an attempt to forestall such an eventuality. Mohammed bin Salman al-Saud, Saudi Arabia's crown prince and de facto ruler, has been clear that he was neither consulted nor even informed in advance.

Investor confidence will suffer

However, all six GCC states host US bases while their proximity alone to Iran and Iraq, the latter of which appears destined to remain a battlefield for the two main antagonists, will be enough to raise the perceived risk for potential investors. Regional stockmarkets slumped in the week after the assassination, and shares in newly listed Saudi Aramco, the giant government oil company, sank to their lowest value since trading began in early December, despite a spike in oil prices being a parallel consequence. Bearish global sentiment towards the region comes at a particularly galling time for the Gulf states, several of which have been anticipating a sizeable inflow of foreign portfolio investment following admission to benchmark global indices, in validation of drives to improve regulatory standards to the same end. We also expect the persistent geopolitical uncertainty to deter some foreign direct investment in the GCC, in particular in the tourism, logistics and transport sectors and by US companies. This will especially hurt Saudi Arabia, the UAE and Oman, all of which are targeting a combination of these industries as key planks in economic expansion and diversification drives. However, capital flight will not occur, provided that there is no further escalation. European companies have less to fear, as the EU has refused to offer post hoc support for the assassination and made clear intent to continue engaging with Iran, to which the US's open frustration has drawn convenient attention.

Other global industries where the crisis will be felt are defence and aviation: shares in the major US defence companies rose in the wake of the assassination, in recognition of a likely increase in military spending from the wealthy GCC states, and aviation will suffer through the costs associated with the need to avoid regional airspace, further increasing the logistical headache of Middle East overflight. Several major airlines suspended overflight of Iran and Iraq after Iran's reprisal air strikes and the disastrous accidental downing of a Ukrainian passenger plane shortly afterwards.

Iraq's tentative economic recovery will suffer further setbacks

Outside the GCC, we expect Iraq to suffer the worst of the fallout. Iran, already the dominant foreign influence on the weak and divided Iraqi government, has set the removal of the roughly 5,200 US troops still in Iraq as a central regional policy goal, while having numerous well-armed affiliated militia on the ground able to assist in an attempt to harry them into withdrawal. The US has instructed its civilians to leave, creating some personnel gaps in the hydrocarbons and power sectors. However, more important in hindering growth both in these critical areas and in other industries will be a renewed retreat by foreign investors, only gradually being persuaded to return after the end of the three-year depredations of Islamic State in 2017. Prolonged low-level warfare is likely to deter the international majors operating the main oilfields in the oil-rich Shia-dominated south of Iraq, where the Iranian presence is most pervasive, from investing in maintaining let alone increasing production-the chief determinant of economic growth and government income.

January 14th 2020 Investors navigate troubled waters in Persian Gulf region (continued)

Oil market has long priced in a degree of Middle Eastern uncertainty

An upsurge in regional insecurity is expected to add a small premium to oil prices over the coming months, although the impact will be modest, as perennial Middle Eastern instability is to an extent built into traders' calculations, and the market is facing oversupply as a result of rising US output. Exports from Iran are already minimal, having been decimated by full enforcement of US sanctions in May 2019. The price of Brent crude spiked by about US$2/barrel to US$68.6/b on the day of Suleimani's death, but a week later it had fallen to US$64.98/b. A resumption of Iranian-linked attacks on oil tankers in the Gulf connected to the US and its allies is a possibility, and Bahri, the state-affiliated Saudi shipping company, which carries the bulk of the kingdom's crude exports, temporarily suspended transit through the Strait of Hormuz, a key strategic waterway through which about a fifth of the world's oil flows, after Iranian reprisal air strikes against US-linked bases in northern Iraq on January 8th. Insurance premiums on shipping in the area have been rising. However, the US and others have beefed up naval patrols, and the closure of the strait, while periodically threatened by Iran, is considered improbable. Nonetheless, efforts by the region's oil producers to develop alternative export routes will be expedited. The upstream sector is unlikely to be affected outside Iraq, where a prolonged pause in investment could erode the country's production, currently running at about 4.6m barrels/day.

Under current conditions, we do not expect another direct attack such as that on the Aramco facilities last year, the devastating impact of which, irrespective of alleged prior knowledge, appeared to surprise the Iranian leadership and came worryingly close to provoking a US military response. We increased our first-quarter and full-year 2020 price forecasts to US$70/b and US$65/b after the assassination, with major upside risks.

December 13th 2019 A US-China trade deal will not save Trump

The US and China appear to be inching closer to signing a shallow, phase-one trade agreement in the coming days. Political and diplomatic tensions remain high, however, and there is still a risk that the final text of the deal will fail to materialise before the next round of tariffs are due to kick in, on December 15th. Many risks remain, but we expect the Trump administration to pursue a path of de-escalation. However, this will not be enough to help Donald Trump to a re-election victory in 2020:

- Regardless of whether the deal is signed before December 15th, we expect the Trump administration to postpone the next round of tariffs.
- This will be described as a sign of goodwill during the ongoing talks, but is also a political necessity for Trump as he heads into an election year.
- This will help to keep consumer spending at its current firm level. However, the deal itself will not be enough to reverse the decline in investment that has dragged down growth in 2019.
- Slowing export growth and contracting investment, both symptoms of trade-war uncertainty, will gradually feed into slower job creation and a slight rise in the unemployment rate in 2020.
- The phase-one trade agreement will not be enough to boost Mr Trump's chances of re-election in November 2020. He remains extremely vulnerable, particularly if Democrats select a candidate that is capable of mobilising centrist voters.

December 13th 2019 A US-China trade deal will not save Trump (continued)

On December 12th US media reported that Donald Trump had signed off on a limited, "phase-one" trade deal. The deal is fairly shallow, including promises from China to buy more US agricultural products (an offer that it has made repeatedly in previous talks), to refrain from devaluing its currency (which is not in China's interest anyway), and pledges to strengthen intellectual property protection and end forced tech transfers (but without many details on the enforcement mechanisms required to make these work).

So why sign this deal, and why now? According to Mr Trump, this initial deal paves the way for deeper, more comprehensive second- and third-round deals to be negotiated in 2020. We believe that this will offer enough political cover for the Trump administration to extricate itself from its threat to impose a final round of tariffs on December 15th. These tariffs, of 15% on about US$156bn worth of goods, will predominantly affect finished consumer goods such as clothing, toys and consumer electronics (including smartphones). This would have hit US consumers directly for the first time in the year-long US-China trade war, threatening to sink economic growth just as Mr Trump is ramping up his 2020 re-election campaign. De-escalation has come from the US camp, and it has mainly been for political reasons.

Will they or won't they?

After the initial signing backdrop (the APEC conference, which was due to be held in Chile in November) fell through, the timeline was shifted back to December. However, US-China tensions have risen again recently; Congress passed the Hong Kong Human Rights and Democracy Act in late November, and it is likely to pass the Uighur Act before end-2019, much to China's chagrin, as it views these as strictly domestic affairs. Importantly, only the US media had reported the draft text's approval. By the time of writing on December 13th, neither the Chinese state media nor the two governments had confirmed this.

Time is running out, and the final text of the deal could still fail to materialise before the next round of tariffs are due to kick in on December 15th. Regardless of whether or not the deal is signed, we expect the Trump administration to postpone these tariffs, claiming it as a sign of good faith as talks continue. But essentially, putting a 15% tax on both basic and luxury consumption would be a public relations mistake for the Trump campaign, particularly this close to the holiday period.

The deal does not change the US economic outlook

The signing of the deal and the postponement of the final 15% tariff will avoid the worst-case scenario. We estimate that if the tariff escalation had continued unchecked, resulting in levies on the entirety of US imports from China by early 2020, real growth in household spending would have slipped to 1.7% in 2020, compared with our baseline forecast of 2.2%. This would have implied US$75bn in foregone spending. Given that household spending accounts for about 70% of GDP growth, we estimate that overall GDP growth would have been dragged down to 1.3% in 2020, compared with our current baseline forecast of 1.7%, with resulting negative effects on business profits and employment.

The Trump administration is likely to avoid going down this path in a tumultuous election year. However, avoiding the tax on consumer goods imports will not allow a dramatic improvement in the US economy from its current level. For the moment, growth remains firm, driven by strong consumer spending and a steady climb in public expenditure under the Trump administration. We forecast that, in the absence of further tariffs, consumer spending will continue to grow in 2020, but the rate of growth will continue to slow, in line with the recent moderation in the rate of job creation and wage growth. All of this is natural in such a late stage of the growth cycle.

A turnaround in investment is required, but not likely

However, what the phase-one trade deal will not do is offer enough clarity on the future of US trade policy to encourage firms to boost investment. The threat of tariffs will always be on the table as the two parties negotiate the next rounds.

December 13th 2019 A US-China trade deal will not save Trump (continued)

The fact that the US and China are still struggling to come to terms over the symbolic first-phase deal, just hours before the next tariff deadline hits, shows how little trust and goodwill there is. As the trade outlook remains uncertain, global trade flows and demand for manufactured goods will remain depressed. Firms will continue to await more clarity before they invest in changes to their supply chains or expand into new markets.

Non-residential (business) fixed investment contracted in both the second and third quarters of 2019, in quarter-on-quarter annualised terms. We expect the same to happen in the fourth quarter, and in the first quarter of 2020 the best that the administration can hope for is that investment will temporarily stabilise at this low level. Over 2020 the slowdown in investment will gradually feed into a slower rate of job creation and some postponed hiring, particularly in manufacturing and export-oriented industries.

We forecast only a modest increase in the overall unemployment rate, to 4.1% in 2020, as this slowdown takes time to materialise. We also expect US GDP growth to continue to be propped up by consumers, bringing full-year growth to 1.7%. This is a fairly good outcome given the level of policy uncertainty, and is owing in part to the dovish turn of the Federal Reserve (the central bank). However, it will not be enough to boost Mr Trump's chance of re-election. He remains extremely vulnerable at the polls: recent mid-term and special elections have shown that support for the president has fallen sharply in many swing districts, particularly in suburban areas. If the Democrats choose a candidate who is capable of mobilising the political centre, then Mr Trump looks vulnerable.

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