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FINANCIAL SERVICES

Riskiest scenario for global economy is potential downturn: Euromonitor

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Global economies are seeing a slowdown. Image credit: Aventura Mall

By SARAH JONES

The potential for a global downturn and a slowdown in emerging markets are the biggest threats to international economic growth heading into 2020.

While factors such as the ongoing United States-China trade war and the United Kingdom's pending exit from the European Union pose risks to the involved parties, they are more apt to have a comparatively localized effect than other hypothetical scenarios. During a webinar hosted by Euromonitor, analysts laid out the optimistic and pessimistic outlook for some of luxury's key markets.

"The global economy is marked by moderate global growth slowdown, with increasing downside risks throughout 2019," said Daniel Solomon, senior economist economies and consumers at Euromonitor.

Economic outlook

Globally, GDP growth projections have been downgraded to 2.9 percent for 2019 and 3.1 percent for 2020. In emerging economies, growth is expected to average around 4 percent for 2019 and 4.4 percent for 2020.

Some of the factors that could hamper growth include geopolitical turmoil in places including the Middle East and Turkey, rising debt levels and declining consumer confidence.

Among developed nations, unemployment is low. However, there has been a decline in labor productivity and manufacturing, leading to lower household income growth and spending.

In certain economies, including the United States, interest rates have been lowered, which has been a stabilizing force in the face of an economic slowdown. However, since rates have already been decreased, there is now less room to make cuts in the face of a recession, which may lead to alternative methods for combatting a downturn, such as quantitative easing.

The risk for a global downturn has risen amid trade tensions, slowdowns in emerging markets and the possibilities for a global crisis. Euromonitor's global risks index, which takes into account both the probability of scenarios and their potential impact on GDP growth, puts a global downturn at the top of the fourth quarter risk list.

China and the United States have just concluded phase one of a trade agreement.

Per the deal, a 25 percent tariff imposed on $250 billion-worth Chinese products will stay. However, a 15 percent tariff that President Donald Trump placed on $120 billion-worth of Chinese goods in September will be halved to 7.5 percent (see story).

China is poised to see more of an impact than the U.S. if the trade war continues to escalate. The second largest economy in the world is already seeing slowing GDP growth and consumer spending, but at the moment consumption is still outperforming.

China's consumption has slowed but out. Image credit: Fendi

Much of China's spending is driven by those with at least $45,000 in purchasing power parity. This higher income group will account for about half of Chinese spending by 2023, and their spending will be up between 9 and 15 percent annually through 2023.

Showing the significance of the Chinese market, a "China hard landing" is ranked by Euromonitor as the fourth biggest risk facing global GDP growth.

While there is still a risk of the United Kingdom exiting the European Union without a deal in place, the threat of a no-deal scenario has fallen. Euromonitor put the probability of a disorderly no-deal Brexit at 10 percent, and the potential for a no-deal Brexit at 20 percent.

Since the researcher published its projections, a U.K. election has given Prime Minister Boris Johnson's Conservative Party a majority in Parliament (see story). This raises the likelihood that he can get the legislature's approval on the Brexit deal reached between the U.K. and E.U. in October.

Boris Johnson's actions as U.K. prime minister will affect British businesses, Britons and Europeans over generations. Image credit: Conservative and Unionist Party

Other factors are weighing down GDP growth elsewhere. In Russia, falling oil prices are to blame, while Japan's economic growth has been hit by a sales tax hike and lowered demand for its exports. Meanwhile, India's lower private consumption has led its GDP growth to fall behind expectations.

After a recession in 2015 and 2016, Brazil is expected to recover in 2020 thanks in part to lower interest rates and fiscal policies.

Financial fortification

With global headwinds suggesting that an economic downturn may soon arrive, luxury brands need to be guarding themselves against the possible slowdown.

Recession worries escalated in August as the U.S. stock market took a nosedive. While some experts considered this a false alarm, it is in businesses' best interests to be prepared (see story).

Another hint at a potential downturn are U.S. government bond yields. The long-term and short-term returns are converging, showing that more individuals are putting their money into longer term investments as a safeguard.

This attitude is also seen at the top.

While the population of ultra-high-net-worth individuals grew in 2018, their combined wealth fell for the first time in three years.

Wealth-X's World Ultra Wealth Report 2019 finds that the ultra affluent were focused more wealth preservation rather than creation last year, as trade tensions and slowing equity markets made them more cautious. Despite slowed growth in 2018, Wealth-X projects that the population of UHNW individuals will rise at an almost 6 percent compound annual growth through 2023 (see story).

"The yields on [U.S.] government bonds are one of the key indicators of what is the typical risk-free interest rate at different time horizons," Mr. Solomon said. "And we see a compression between long-term and short-term interest rates, which has been caused in the short-term by a loosening of monetary policy in places like the U.S. and the Eurozone, and also perhaps greater in investor risk aversion that has caused people to want to buy more long-term bonds and has pushed up their prices and pushed down their prospective interest rates."