Predicting the unpredictable
Forecasting in 2020

A report by The Economist Intelligence Unit
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Some reflections on forecasting in 2020

Agathe Demarais, global forecasting director

The year 2020 was a particularly difficult one for economic and political forecasting. Throughout the year we had to try to predict the course of the coronavirus (Covid-19) pandemic in order to generate our forecasts. In retrospect, none of our regional and only few of our country-level forecasts for 2020 changed significantly starting from June last year, showing that we quickly predicted many of their underlying drivers.

The US economic rebound was strong the third quarter of 2020

We correctly assessed the economic drivers of US GDP contraction early on. We also rightly predicted that the impact of the pandemic on the US economy would be lighter than elsewhere in the world, and that the coronavirus-induced recession would not be followed by a financial crisis. However, GDP data in July-September 2020 proved more positive than we expected. An unexpectedly robust recovery took place in these months, boosted by a sharp rebound in consumer spending. On the political front, our US election call—that the Democratic nominee, Joe Biden, would be elected as president, but not by a landslide—proved to be accurate.

Muted unemployment and inflation caused surprise in Europe

In Europe, we rightly expected that the impact of the crisis would be much greater than that of the global financial crisis, and identified early on that tourism-dependent economies such as Spain would be hit the hardest. Our view that demand-side effects would prove more severe and long-lasting than supply-side ones was also correct. In retrospect, three trends were harder to predict. First, unemployment remained contained as a result of furlough schemes. Second, the hit to household incomes was smaller than expected. Third, inflation remained muted, despite coronavirus-induced supply shocks. However, we accurately forecast that the European Central Bank (ECB) would do whatever it took to maintain the financial system, averting risks of sovereign debt crises despite a spike in public debt ratios.

Supply-chain disruptions boosted China’s exports

Our China 2020 growth forecasts were spot on starting from April—we had long expected that real GDP would grow by around 2%. That global supply-chain disruptions boosted China’s exports, as the Chinese economy was hit earlier and recovered faster than others, proved to be more surprising. It was also unexpected that China’s commodities imports would reach record-high levels; this was due to stockpiling, suggesting that commodities exporters to China may see demand soften this year as stocks are unwound. In the fiscal sphere, we rightly predicted that the Chinese government would not unveil a large stimulus package owing to concerns about the high levels of indebtedness of state-owned enterprises and local governments.
No broad unifying theme across Asia

Elsewhere in Asia, we rightly forecast which Asian economies would contract and which would not early on. These accurate projections were based on our early expectation that Asian countries would broadly get their coronavirus response right (with India being a notable exception), exhibiting high levels of population compliance and drawing on their experience from severe acute respiratory syndrome (SARS); overall, this put the region in a better position than others. Unexpectedly, there was no unifying regional theme that explains why some Asian countries, such as Bangladesh, Vietnam and Myanmar, proved particularly resilient.

Latin America’s external sector held up surprisingly well

We were pessimistic about Latin America’s prospects early on, and rightly so; the region was among the worst hit in the world from both an economic and a public health standpoint. In many countries the resilience of the external sector surprised us. This reflected high levels of support from multilateral institutions, strong Chinese demand for commodities exports and the fact that remittances inflows also held up well against all odds. In the fiscal sphere, we rightly predicted that Brazil would unveil a large fiscal stimulus package, and accurately forecast which countries would experience sovereign defaults (Argentina and Ecuador).

Agricultural economies fared well in Sub-Saharan Africa

In the Middle East, we accurately expected that the region’s outlook would depend on two factors: oil prices (with commodities producers being hit hard despite generous fiscal packages) and tourism (with tourism-dependent countries experiencing a tough situation amid travel restrictions). In Sub-Saharan Africa, our view that 2020 would not be the trickiest year on the public debt front turned out to be correct. Surprisingly, some economies were largely spared by the global recession; this was due to their dependence on agriculture, rather than on industry or services. However, our expectation that many countries would only impose short lockdowns given the high level of informal employment and the absence of safety nets was right.
Regional highlights

How we used data to forecast the outcome of the 2020 US election and its aftermath

_Cailin Birch, global economist and US analyst_

Forecasting the 2020 US presidential election was a challenge. Polls are a key source of data to forecast the outcome of an election, but forecasters had got things badly wrong in 2016, under-reporting support for Donald Trump. Forecasts for the 2020 election varied widely: some predicted a second Trump victory on the assumption that the same polling distortions would occur, while others forecast that Joe Biden and Congressional Democrats would be carried into office in a “blue wave” landslide victory. We took a more circumspect approach. We knew that polling data had more to tell us in 2020 than they did in 2016. Many factors that led to under-reporting of Mr Trump’s base in 2016—including hesitance by many Republicans to embrace an unconventional candidate—did not apply in 2020. However, we did not trust the 2020 polling data completely; state-level polling showed that a record number of first-time voters were likely to participate, giving Mr Trump an edge. On balance, we correctly forecast that Mr Biden would win the popular vote, but eke out a narrower Electoral College victory with thin margins in key swing states. Market consensus suggested that if Mr Trump lost, the US could find itself in a constitutional crisis that could delay inauguration. Here, our economic projections guided our political forecasts. We accurately forecast that US GDP growth would stagnate in the fourth quarter of 2020, increasing pressure on Mr Trump to stop acting on his election-fraud claims by January.

How we forecast UK GDP in Q2 and Q3 2020 to within 0.2-0.3 percentage points

_Matthew Oxenford, analyst, Europe_

Forecasting UK GDP growth in 2020 required a different approach from our usual one, which essentially involves estimating the aggregate change quarter on quarter. Instead, we set out to build a picture of what was likely to happen sector by sector. To do this, we used statistics from the Office of National Statistics (ONS), which present the gross-value-added of the UK economy by sector. These data were sufficiently granular to make reasonable estimates of what a lockdown would do to each sector. We made three assumptions for each sector. First, we estimated the impact of lockdown on output in terms of how far down output would fall. Second, we estimated how long the lockdown would last. Finally, we estimated what a partial lifting of restrictions would mean for a revival of activity. By taking this bottom-up approach and extrapolating from my sectoral estimates to the economy as a whole, our forecasts for the second quarter turned out to match the actual outturn (an annual contraction in real GDP of about 20%) to within 0.2%. We conducted a similar forecasting exercise for the third quarter of 2020 and managed to forecast the rebound in third-quarter real GDP to within 0.3% of the actual figure (annual growth of more than 15%). Our success in using a sectoral approach for our UK GDP forecast has led us to explore how we can expand our sectoral projections in the future.
How we used our in-house healthcare expertise to make bang-on forecasts for China

Yue Su, principal economist, China

Mapping out China’s growth trajectory in 2020 was tricky. As the first country to experience Covid-19, there was no precedent for estimating the shock to GDP caused by lockdown-related policies. The pandemic also demanded the integration of epidemiological assumptions into our economic models. This was no small task for a team that is usually more comfortable with inflation and trade statistics than the healthcare landscape. To tackle this challenge, we turned to high-frequency data and used the on-the-ground experiences of our China team, along with trends gleaned from our dedicated monitoring of China’s city and provincial-level economies. Our quarterly growth forecasts were spot on throughout the year and the factors that we identified early on as part of China’s economic recovery—including a rapid resumption of production but a lagged recovery in consumption, as well as the decision to resist massive stimulus—continue offering clients forward-looking guidance for 2021. Not everything is Covid-19 related, of course; US-China ties remain the biggest non-pandemic threat to international business. Our long-held forecast, first voiced in mid-2019, that US pressure on China would eclipse tariffs to manifest in investment and financial restrictions has now become reality. We will be keeping an eye on these developments to identify the top risks and concerns for our clients as US-China frictions likely heat up this year.

How fast, steep cuts kept us ahead of consensus for our Latin America forecasts

Abhijit Surya, senior analyst, Latin America and the Caribbean

As the coronavirus crisis escalated, our modelling skills came to the fore. We did a few important things that helped us get our forecasts right for Latin America. The first, building on our strengths developing indexes, was to create a heatmap assessing the vulnerability of the region’s economies to Covid-19, based on health indicators, economic structure indicators (like the level of labour informality) and scope for policy stimulus. The second step that we took was to complement our demand-based GDP forecasting model with a detailed analysis of GDP by sector, which allowed us to assess industry-by-industry the impact of lockdowns and demand collapse in the region. And finally, we deepened our use of alternative, real-time data to get a stronger handle on the immediate effect of lockdown restrictions. Apart from mobility statistics, we followed daily electricity demand data closely, and this proved very useful. All this did not prevent us from having to revise down our forecasts a couple of times, but we did adjust our projections faster than other forecasters, and our Q2 and Q3 GDP forecasts were spot on for most of the big economies in Latin America. Looking ahead, we have built another factor into our forecasts for 2021 and beyond: vaccine rollout.
How we forecast a Qatari return to the fold of the Arab Quartet in 2021

Adnane Allouaji, analyst, Middle East

We had long predicted that the boycott of Qatar by the Arab Quartet—comprising Saudi Arabia, the UAE, Bahrain and Egypt—and the ensuing financial and diplomatic impact on the region, would end in 2021. And it did! We had been following this issue closely since mid-2017, with the help of our on-the-ground contacts and internal experts. There appeared to be real prospects for an end to the boycott in the final months of 2019, following a brief period of political jockeying, but at the time we had rightly maintained our forecast that reconciliation was still some time away. Our view turned out to be correct when, in mid-February 2020, talks eventually broke down between both sides. Throughout 2020, the fact that the previously icy relationship between Qatar and Saudi Arabia appeared to be thawing confirmed our forecast, which finally became true in early 2021. We will continue to monitor developments on the ground closely, drawing on our contacts, to flag risks and investment opportunities for our clients as closer regional integration takes shape this year.

How we saw that a much-publicised wave of debt distress was not coming in Africa

Benedict Craven, principal economist, Africa

During the early part of the pandemic, alarm about impending debt distress and a potential wave of defaults across African countries rang out in international media. However, behind the noise was a more benign story. Our analysis showed that most sovereigns could duck repayment stress in 2020. We also rightly assumed that a moratorium on debt servicing to G-20 creditors would be extended to mid-2021. Our analysis relied on a mismatch between a flurry of projections in the media and the reality that, in 2020, Africa did not have a mountain of debt repayments. Looking carefully at repayment schedules, which we track closely as part of our sovereign ratings reports, and taking into account our macroeconomic projections, the risk of default appeared low, and much of the hubbub in international news simply did not stack up. Going forward, the story may be slightly different in the coming years as debt owed to private creditors edges up and suspended payments come due. Again, it will be essential to mute noise and to look soberly at the facts.
How we made spot-on forecasts for the development of coronavirus vaccines

Anoop Menon, senior research analyst, industry

In May 2020 we predicted that at least one Covid vaccine would be ready to launch by early 2021, but that the logistics of the global rollout would be difficult. We also forecast that health workers in the US, China and Europe would get priority access, and that countries would be tempted to push for their own national interests first. At the time, global lockdown measures had started to contain the pandemic and the race for a vaccine was heating up as governments and companies were desperately searching for a way to bring the world back to normality. The first major vaccine candidates had been isolated and were going through R&D at an unprecedented speed—far quicker than the usual decade-long development programme for vaccines. Even so, as we researched the topic, discussed it among colleagues and mapped out all the stages of an unprecedented global vaccination programme, it became clear to us that multiple challenges lay ahead. This prompted us to have slightly less optimistic timelines for the rollout of coronavirus vaccines than most forecasters. Nearly one year later, these projections have materialised.