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Explainer: How the IMF projects the coronavirus will affect the global economy

BY ERLC STAFF

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What just happened?

On Tuesday, the International Monetary Fund (IMF) issued its latest world economic outlook (https://www.imf.org/en/News/Articles/2020/04/14/tr041420-transcript-of-april-2020-world-economic-outlook-press-briefing). In the report the IMF projects global economic growth in 2020 to fall to minus 3%. Because of the coronavirus pandemic, the cumulative loss to the global GDP over 2020 and 2021 could be around $9 trillion, greater than the economies of Japan and Germany combined. This would be the worst recession since the Great Depression, and worse than the Global Financial Crisis of 2008-2009.

"The magnitude and speed of collapsing activity that has followed is unlike anything experienced in our lifetimes," said IMF economic counselor Gita Gopinath. "This is a crisis like no other, which means there are substantial uncertainties about the impact it will have on people's lives and livelihoods."

What is global GDP and how is it related to the economy?

When people refer to "the economy" they are usually referring to a particular idea—Gross Domestic Product (GDP)—which is itself simply an economic metric. GDP is often used as a single number that "measures" the economy. GDP (https://www.investopedia.com/terms/g/gdp.asp) is the total monetary value of all the finished goods and services produced within a country's borders in a specific time period. Global GDP (or gross world product (GWP)) is the combined GDP of all the countries in the world.

The IMF's statement that economic growth will fall is a claim that the total value of the goods and services being exchanged around the world is expected to decrease sharply.

Why does it matter if GDP increases or decreases?

While the issue is complex and requires some nuance to fully explain, the simplistic answer is that economic growth or decline matters because of population growth. As the population increases, more resources are needed to feed, clothe, and shelter all of the new people that are being created.

To understand why economic growth is necessary for population growth, imagine a village that has 100 people living in a state of economic equilibrium, that is, their economy is neither growing nor shrinking. Everyone has just enough food, clothing, shelter, and other amenities to take care of themselves—no more and no less than enough for subsistence living. Now let's imagine a "baby boom" occurs, and 20 new children are added to the village. What happens to the standard of living for the villagers? Assuming that they redistribute their resources equitably, everyone (including the new children) will only have 83% of the resources they need to survive. Over time, they will begin to starve or die of malnutrition.

We can see this occurring today in countries with low economic growth (i.e., stagnant or declining GDP). As the population increases, there are not enough resources for everyone to rise above the poverty level.

Similarly, in the U.S. we need to create more than 100,000 new jobs every month just to keep up with the children that are growing up and entering the labor market. If the economy does not grow, there will be no jobs for them. In the short term, we can merely shift resources around through redistribution (e.g., unemployment compensation, welfare) to prevent the unemployed from going hungry. But without long-term growth (e.g., long-term increases in GDP) a country's wealth becomes depleted, causing instability and social breakdown.

What is a recession?

The economy shifts from periods of increasing economic activity, known as economic expansions, to periods of decreasing economic activity, known as recessions. This is known as the business cycle and includes four phases: expansion, peak, contraction, and trough. An expansion is a period between a trough and a peak, and a recession is a period between a peak and a trough.

The technical indicator of a recession is two consecutive quarters of negative economic growth as measured by GDP. (This is the standard definition (http://www.investopedia.com/terms/r/recession.asp), though the National Bureau of Economic Research (NBER)—the agency that officially determines recessions for the United States—does not necessarily need to see this occur to call a recession. The NBER defines a recession more broadly as a period where there is a significant decline in economic activity that spreads across the economy.)

What happens during a recession?

Periods of economic decline often produce a range of negative effects. For example, when investment in business slows, fewer people are hired and unemployment increases. Entrepreneurs have a harder time raising money and fewer small businesses open. People become worried about the future which leads them to spend less, thus driving down demand for goods and services (such as automobiles or eating out). The lack of demand in housing can cause a drop in home prices, which reduces economic mobility, making it more difficult to move to where jobs are being created.

Even if a recession is relatively short (as the coming global recession is expected to be), the effects on individual opportunities and finances can last decades—or even a lifetime.

What causes recessions?

Many economists believe that recessions are not inevitable, but are caused by negative events.

The containment measures to control the pandemic has led to a negative event known as an economic shock. An economic "shock" is an unexpected, external event that can disrupt the economy. A prime example is oil shocks, when the price of oil spikes because of events like the Suez Crisis of 1956-57, the OPEC oil embargo of 1973-1974, or the Iranian revolution of 1978-1979. The disruption of a widely-used resource, such as oil, can have a ripple effect that leads to weakened economic activity across a nation, or even across the globe.

The lockdown to control the pandemic has immediately and unexpectedly disrupted a wide variety of resources. "The magnitude and speed of collapsing activity that has followed is unlike anything experienced in our lifetimes," says Gopinath. "This is a crisis like no other, which means there are substantial uncertainties about the impact it will have on people's lives and livelihoods."

How should Christians respond to the recession?

Even if recessions are not inevitable, they occur with enough frequency that Christians should be prepared for them.

On a personal level, we should ensure that we are not living beyond our means or putting too much of our wealth into a single asset (i.e., our housing). We should also make contingency plans for unexpected downturns. For example, we might consider how a recession in the next year affects our choices of education for ourselves or our children.

We should also remember, as pastor-theologian John Piper notes (https://www.desiringgod.org/messages/what-is-the-recession-for), that God can use recessions for our growth. One way is that it can be a tool to expose hidden sin and so bring us to repentance and cleansing. Another way is that it provides opportunities for the church to care for its hurting members and to grow in the gift of love.

Because the coming recession is likely to be one of the most negative economic events in our lifetimes, Christians with more economic resources should begin to think about how they can steward what God has given them for the benefit of their brothers and sisters in Christ.

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