

POLITICAL AND ECONOMIC

# OUTLOOK

# 2020

Global Context:  
How to operate  
in a world where  
uncertainty has become  
the only certainty

# INTRO

We are living in a world where change has become the new normal, and the real estate market is no exception. Heading into 2020, the pace of change could well accelerate, with both risk and reward on offer. We predict that there will be three main challenges for 2020:

- **GLOBAL SLOWDOWN LIKELY TO CONTINUE BUT CHANCES OF A RECESSION IN 2020 REMAIN LOW**
- **THE ONGOING WAR FOR TALENT WILL BE AN ECONOMIC HURDLE TO OVERCOME IN 2020 AND BEYOND**
- **ECONOMICS AND POLITICS WILL BECOME INCREASINGLY INTERTWINED**

The global economic slowdown has been well documented in 2019, and the UN's trade and development body, UNCTAD is one of many voices warning of a recession in 2020. It's worth noting, that any potential recession in 2020 or beyond would likely not be to the extremes seen during the GFC. Oxford Economics predicts global real GDP growth will ease in early-2020 but is unlikely to see any sizeable change. Indeed, consensus forecasts indicate the likely of a recession in 2020 remain low.

At the start of the previous decade, global trade was growing at almost 8% per year, almost double the rate of growth in real GDP. In 2019, however, the World Trade Organization (WTO) expects trade to grow by just 2.6%, in line with GDP. Whilst the recent eruption in protectionism has undoubtedly accelerated the slowdown, other industry-related cyclical effects are also at play. The U.S. National

Association of Business Economists believe the #1 risk to the U.S. expansion is the trade war. The IMF estimates that one-third of the deceleration in global trade activity is attributable to the auto sector—which has been largely immune in the U.S.-Sino trade dispute thus far. And up until as recently as 2015, growth in services trade had been outperforming goods trade considerably, and had to an extent been masking the overall trade slowdown.

Clearly, a slowing growth backdrop is not the only potential threat on the horizon. The ongoing war for talent will continue to be an economic challenge for companies from all sectors, with Gartner putting talent shortage as the top emerging risk faced by businesses worldwide.<sup>1</sup> In the US more cities have an unemployment rate below 4% since before 1990 (when the data began to be captured).

<sup>1</sup> Gartner: Emerging Risks Survey, available here: <https://www.gartner.com/en/newsroom/press-releases/2019-01-17-gartner-survey-shows-global-talent-shortage-is-now-the-top-emerging-risk-facing-organizations>

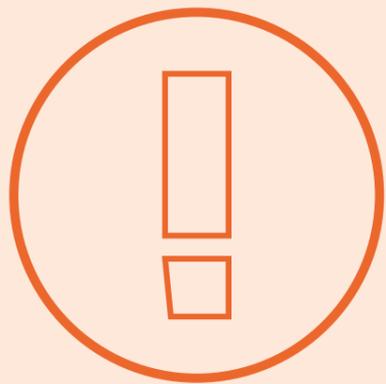
# GDP AND UNEMPLOYMENT FORECASTS

Country	GDP (2020f)	Forecast relative to 20y history (1 = Highest, 7 = Lowest)	Unemployment rate,(2020f)	Unemployment Trajectory relative to 2019 Q3
Austria	1.0	6	4.5	↔
Belgium	1.2	5	5.8	↑
Bulgaria	3.0	5	4.8	↑
Croatia	2.1	5	6.2	↑
Czech Republic	1.9	6	2.2	↑
Denmark	1.2	5	5.2	↑
Estonia	2.7	6	5.3	↑
Finland	1.0	5	6.6	↓
France	1.2	4	8.3	↓
Georgia	4.3	6	10.2	↓
Germany	0.7	5	3.1	↔
Greece	2.0	3	15.9	↓
Hungary	3.1	5	3.8	↑
Ireland	2.7	5	4.9	↓
Italy	0.3	5	10.0	↑
Latvia	3.0	5	6.2	↓
Lithuania	2.5	6	6.1	↓

Country	GDP (2020f)	Forecast relative to 20y history (1 = Highest, 7 = Lowest)	Unemployment rate,(2020f)	Unemployment Trajectory relative to 2019 Q3
Luxembourg	2.8	5	5.3	↓
Montenegro	2.5	6	11.1	↓
Netherlands	1.2	6	3.5	↔
Nigeria	2.3	6	23.6	↓
Norway	1.9	4	3.3	↓
Poland	3.2	5	2.8	↓
Portugal	1.4	4	6.3	↓
Romania	2.5	6	4.1	↑
Russia	1.6	6	4.6	↑
Saudi Arabia	1.8	5	6.4	↑
Slovak Republic	2.4	6	5.3	↓
Slovenia	2.8	4	3.6	↓
South Africa	0.9	6	29.6	↑
Spain	1.6	5	12.8	↓
Sweden	1.2	6	7.4	↑
Switzerland	1.4	5	2.3	↔
Turkey	2.8	6	12.4	↓
United Arab Emirates	2.2	6	2.9	↑
United Kingdom	1.1	7	3.8	↓

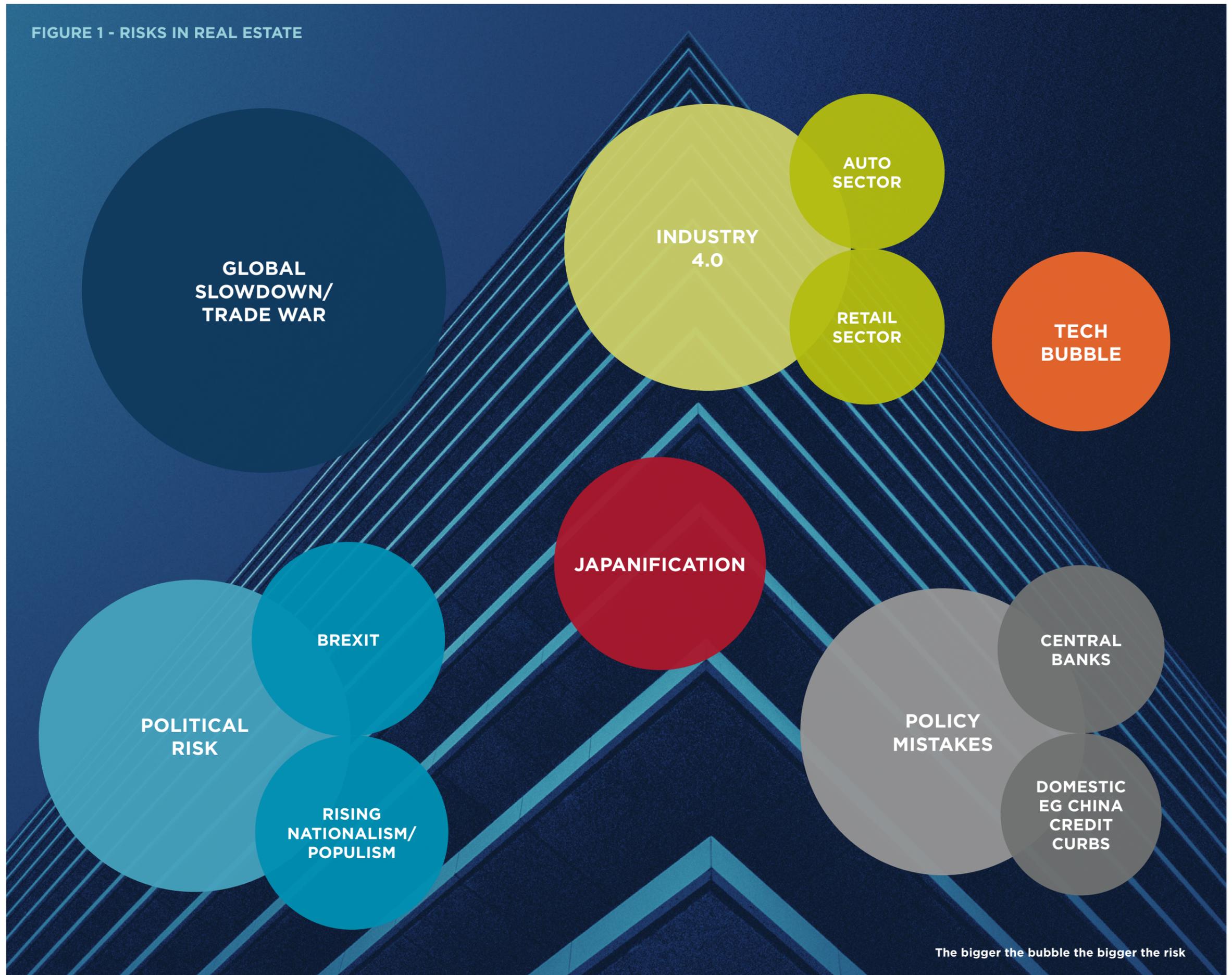
Looking beyond the economy, the global political landscape has shifted in the last decade, with signs of more to come in 2020. Years of wealth inequality and stagnating wages have contributed to a rise in populism, catalysed by the increase in information transfer permitted by social media platforms. The growing chasm between the 'haves' and the 'have-nots' exacerbates the issue, with political power swinging increasingly to the extremes.

This political polarisation has come with several consequences, most notably an increase in civil unrest and protesting taking place across the world in Hong Kong, France, Spain, Lebanon, UK, U.S. and throughout Latin America. In 2020 there will be several significant elections including the U.S. presidential election, the United Nations Security Council election, the Polish presidential election - not to mention the potential fallout from the UK general election scheduled for 12th December 2019.



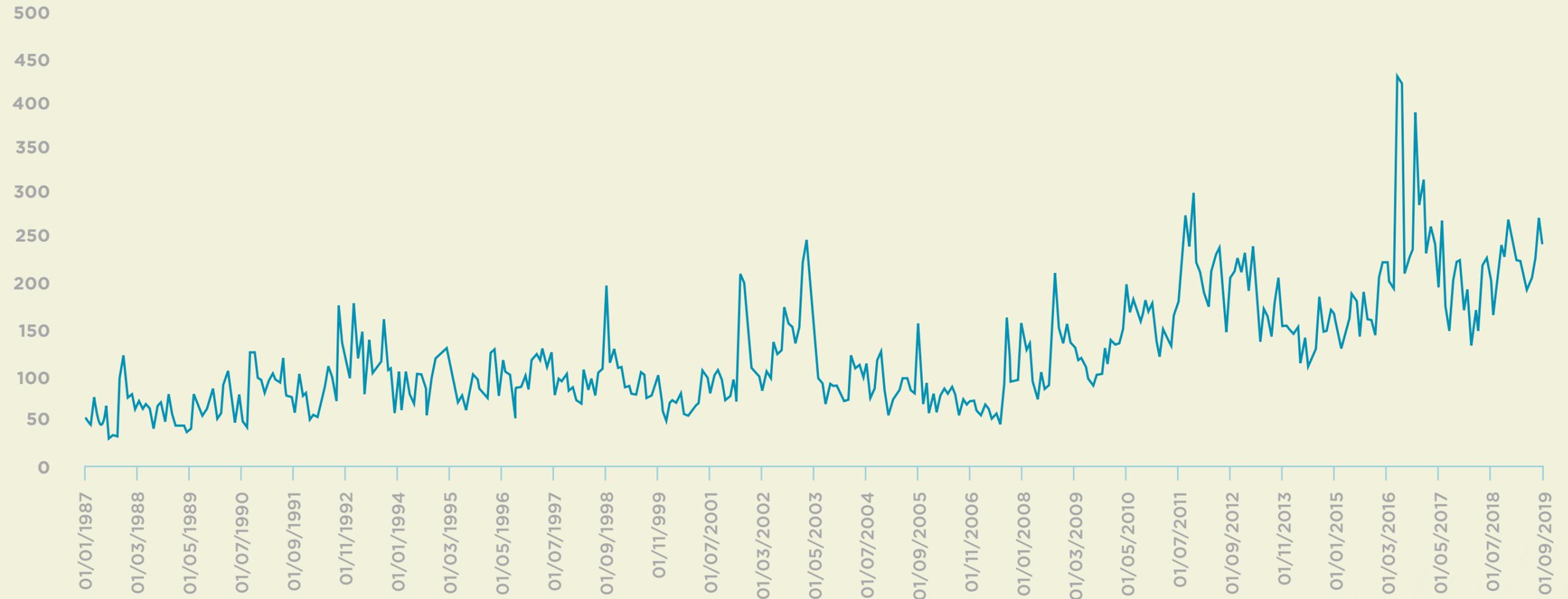
**These global economic, political and societal trends will undoubtedly have an impact on real estate, either directly or indirectly.** Ongoing political and economic uncertainty could well cause investors to become more risk-averse in the near-term, whilst over a longer horizon, societal and demographic changes will further shape the way we work, shop and play.

FIGURE 1 - RISKS IN REAL ESTATE



Source: C&W Research & Insight

# EUROPEAN ECONOMIC POLICY UNCERTAINTY



Source: [https://www.policyuncertainty.com/europe\\_monthly.html](https://www.policyuncertainty.com/europe_monthly.html)

# POLITICAL FRAGMENTATION IN EUROPE

General election results over roughly the past decade show that the political landscape in most of Europe's 20 largest economies is more fragmented, either because the number of parties in parliament has increased or the distribution of seats is more balanced.



Source: Stratfor 2019

NOTES: France's data includes results for the first round of National Assembly elections. Denmark's data excludes Greenland and the Faroe Islands. Romania's data excludes seats assigned to ethnic minorities.

## RESULTS OF THE PAST THREE LEGISLATIVE ELECTION IN EUROPE'S 20 LARGEST ECONOMIES:

■ Parties in parliament      ■ Parties receiving more than 10% of the vote

The EMEA region has not been immune to the political instability that has been pervasive in the last decade, with recent election results in several European countries

suggesting the political landscape is fragmenting. Government coalitions will become more heterogeneous, which will result in more convoluted policymaking.



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