

The spread of Covid 19 has started to enter US awareness

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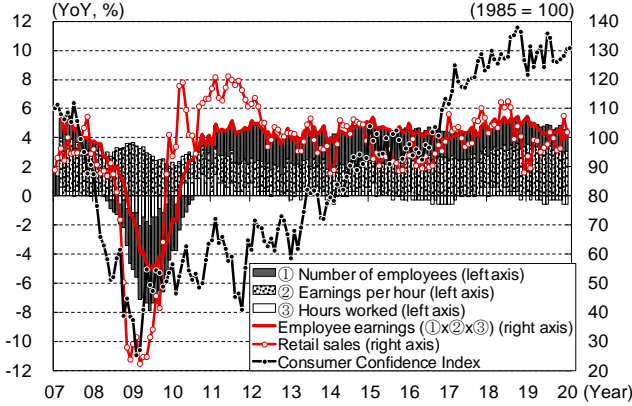
The real GDP growth rate (revised figure) for the October-December 2019 quarter remained at the same level as the previous quarter: 2.1% QoQ annualised. Private consumption continues to increase gradually with growth of 1.7% QoQ annualised and maintains its role of supporting the economy. The past three years of income and consumption-related indicators reveal that, on top of a base of steadily rising employee consumption (roughly equal to spending power), changes in consumer sentiment (roughly equal to propensity to consume) appear to be causing fluctuations in retail sales (Chart 1). Consumer sentiment remains at high levels and private consumption is expected to provide the foundation for a gradual expansion of the economy in the future.

The US has also started to acknowledge “the spread of the coronavirus and uncertainty about its potential economic effect” (January FOMC). At present, there is a great deal of uncertainty regarding the how far the infection will spread and when it will end, and it is difficult to deduce what its final impact on the US economy will be. If the spread of Covid 19 that started in China stops in other Asian countries, it can be assumed the impact on the US economy will be relatively small. As a ratio of US economic growth, US exports to China are low: exports of goods to China equate to around 0.5% of nominal GDP (Japan 2.9%; ASEAN 5.4%) and inbound consumption from Chinese tourists (calculated as service exports) constitutes just under 0.1% of nominal GDP (Japan 0.3%; ASEAN 0.3%). Furthermore, owing to the additional tariffs imposed by the US and China on each other since July 2018 and strengthened export controls, US businesses have already undergone a shift in their supply chains involving China and their dependency on China for major goods subjected to the tariffs is lower. While there are differences between stagnation of economic activities due to infection and stagnation due to a tariff war, it is thought US businesses are comparatively well equipped to deal with the current situation.

That being said, there is a rising sense of caution in the US as the Centers for Disease Control and Prevention (CDC) stated that it is “not so much of a question of if” a Covid 19 outbreak will occur in the US, “but rather more of a question of exactly when”. On 26th February, there were reports of a case of infection of unknown origin and it appears the US stock market – which had been firm up until now – has been undergoing a large adjustment since that time (Chart 2). As the infection spreads worldwide and is no longer limited to Asian countries, markets are starting to factor in the risks to the US too. There will be little impact on the quarterly growth

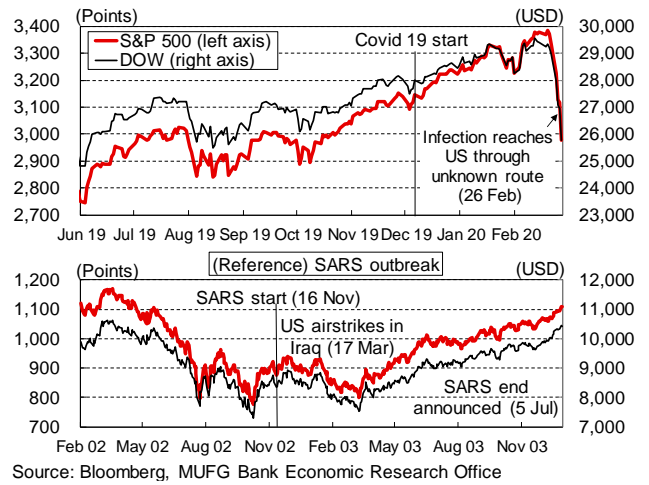
rate for the January-March period as economic growth was robust up until the end of February, but growth for the April-June quarter will be dependent on developments in the outbreak from now.

Chart 1: Employee Earnings, Retail Sales and Consumer Confidence Index



Source: Department of Commerce, Department of Labor, The Conference Board, MUFG Bank Economic Research Office

Chart 2: US Stock Prices



Source: Bloomberg, MUFG Bank Economic Research Office

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