

Global Economy: Current Situation

Global economy faces heightened downside risks as the novel coronavirus outbreak impact grows

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The spread of the novel coronavirus continues. The virus was first identified in Wuhan, China at the end of 2019, and cases of infection and death toll surged in mid-January, mainly in Hubei Province. As the virus spread coincided with the Lunar New Year (January 25 this year), Chinese authorities took unprecedented measures to contain the virus spread, including the lockdown of the city of Wuhan, suspension of overseas tour groups for the Chinese, restrictions on going outside the home in all of Hubei Province, and an extension and reextension of the Lunar New Year holiday. Around the same time, a number of mainly Western countries placed restrictions on travel to and from China in order to contain the virus spread. Cases outside of China increased notably in February, including those on a cruise ship quarantined in Japan. In the final week of February, as the increase of cases in China slowed down, cases outside of China increased rapidly, in places like Italy, South Korea and Iran. City lockdowns and other measures taken by the government in those places to contain the virus spread made headlines. In Japan, many events are being scaled down or cancelled due to heightened caution in the public and private sectors. The government has requested temporary closures of elementary, middle and high schools as well special education schools. Furthermore, in the US, the Centers for Disease Control and Prevention (CDC) sounded a note of caution by stating that community spread of the virus is “not so much a question of if this will happen anymore but rather more a question of exactly when this will happen.” On February 26, the first case of a suspected community transmission was reported in the US. The patient had no recent international travel history, and no known exposure to another patient with the virus.

The virus continues to spread around the world as February draws to close, and there is no end in sight to the outbreak yet. Currently, 1) authorities have yet to announced an expected timeline for the end of the epidemic; 2) there is no specific treatment such as an effective antiviral, so treatments can only relieve symptoms; and 3) recommended preventive measures are same as those for other viral infections such as influenza. Based on the above, accumulated knowledge of the virus appears to be limited in the fields of medicine and immunology. Therefore, how long and how broadly the virus will continue to spread, and when and how the situation will subside or stabilize is completely unpredictable.

Any country or territory could see a surge in cases of infection and carry out emergency response measures, which often result in a significant slowdown of economic activities. In light

of this, the Economic Research Office has decided to postpone its compilation of the quarterly outlook report for the global economy in February. The plan is to release the outlook when enough information can be gathered to rationally gauge scenarios for an end or stabilization of the outbreak. This issue of monthly report will review key developments in major economies based on the following perspectives:

1. The downtrend in the manufacturing sector and the US-China trade friction – two key factors that had cast shadows over the global economic outlook over the past two years – had eased, fueling an upward momentum for the economy while various uncertainties remained. Signs that the manufacturing downtrend was bottoming out were emerging around the end of 2019 and start of 2020. And a “phase one” deal signed on January 15 had eased the US-China trade friction.
2. The virus outbreak is indeed an external shock to the economic system, but does not cause destruction of physical structures. Therefore, once the outbreak subsides, the economy is expected to normalize relatively quickly. Therefore, there is no need to assume that the growth potential of the Chinese economy and the global economy has fallen significantly. (Although of course, there will be some social and economic aftereffects related to the care of affected individuals and business activities, impact on consumer sentiment, supply chain reexamination, costs of countermeasures and new regulations).
3. Countermeasures taken by China and other countries or territories, including city lockdowns, restrictions on going outside the home, and travel restrictions, undoubtedly reduce economic activity in the household and business sectors. Assuming that the situation does not improve through the end of March, economic impact for the January-March quarter can be estimated in a range¹.

Note 1: The assumption only serves as a basis for estimating an economic impact for the January-March quarter. The Economic Research Office has no prediction about the state of the virus spread in the April-June quarter, given limited accumulation of knowledge of the virus in the medical and immunology fields.

As for the impact on China, the current situation appears to be much more serious than the 2003 SARS outbreak started in Hong Kong. China has become the world’s second largest economy, and the virus outbreak has put major restrictions on economic exchanges with other countries through channels such as tourism and supply chain activities. Logistics and business activities are restricted within China, and consumer activities are also limited as they stay home. Country-specific sections of the report will delve into more details on this point. As for the size of economic impact, regular monthly statistics have yet to paint a clear picture as their releases are delayed due to the extended Lunar New Year holiday. Yet available economic data such as daily tracking of coal consumption for power and passengers on railway, highway, waterway and airway transportation, has quickly drawn focus. The passenger count and coal consumption have been down 80-90% from a year earlier, suggesting that the growth rate of the overall economy is falling.

The current condition would be the first time since the economic reform that Chinese economy faces such physical constraints. For the world, this would be the first time that a

major economy is put under such physical constraints – except during a war. Therefore, even though this may be a temporary shock to the economy, the negative impact is expected to be sizable not only for China but also for other countries, especially China’s neighbors. As the outbreak continues around the world, containment measures and their impact on economic activity must be watched closely.

In conclusion, the virus outbreak – a development no one had expected last year – quickly brought about great uncertainties to the world economy, which was moving toward moderate improvement on the back of a turnaround of manufacturing downtrend and easing of the US-China trade friction. The fundamentals of the economy such as employment, income growth and consume spending still remain solid in many countries, so a prolonged downtrend in economic activity, as was seen after the 2008 collapse of Lehman Brothers, is unlikely. The quantitative impact of the virus outbreak is still difficult to gauge; yet the world must brace for a “coronavirus shock” this year as downside risks heighten.

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