



The global economic threat of the coronavirus

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The coronavirus has the potential to be as damaging to the global economy as the U.S.-China trade war, economists tell Axios, and if not contained could wreak havoc on businesses across the globe, with great uncertainty over how bad things could get.

Why it matters: The epicenter of the virus is China, which is now the world's top trading nation and largest commodity buyer, and the no. 1 trading partner for many of the world's biggest economies, including Germany and Japan, which both are suffering already from anemic growth.

- Economists worry the fallout could crimp China's economy, potentially cutting its 2020 growth by tens of billions of dollars and dragging global GDP back to 2019 levels (the worst level of growth since the global financial crisis).

- Europe, Asia and the Americas also will suffer.

State of play: "If this virus begins to mutate rapidly so that it becomes increasingly more difficult to find a cure for it, that would be extremely alarming," **Bernard Baumohl, chief global economist at the Economic Outlook Group**, tells Axios.

- "And if WHO declares it as a pandemic, that too will have a depressing effect on the global economy because countries will put in certain limitations on commerce, on trade, and that will obviously slow down growth."

The big picture: The global manufacturing sector is already in recession in advanced countries like the U.S. and eurozone, and the coronavirus outbreak is threatening the services sector.

- A swath of industries already have felt the sting, with American companies ranging from Starbucks, Levi Strauss and Disney to Apple, Google and JPMorgan shutting down operations in China or halting production and banning employee travel.
- Hotels, airlines, luxury retailers and cruise lines also have been hard hit as much of China — home to some of the world’s biggest spending tourists — is locked down until further notice.

Automakers already coping with lower car sales in China, the world’s largest vehicle market, are now bracing for further declines due to lost production.

- If the situation lingers into mid-March, and plants in adjacent provinces are idled, China-wide supply chain disruptions could result, says IHS Markit, with first-quarter vehicle production tumbling as much as 32.3% (or 1.7 million vehicles) under that scenario.

Between the lines: Fed chair Jerome Powell demurred action from the U.S. central bank at last week’s January policy meeting, but his hand (and that of other central bankers) may be forced, Joseph Brusuelas, chief economist at tax and consulting firm RSM, tells Axios.

- “If this continues for another week or two, we will begin debating fresh central bank action to put a floor under asset markets.”

Yes, but: The fact that the outbreak originated in China may just be what keeps it contained, Foster Finley, global co-leader of the transportation and infrastructure practice Alix Partners, tells Axios.

- “As much as we Westerners like to wag fingers at authoritarian China, this is one of those rare circumstances where the manner China could go after this may be pretty effective.”

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