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Goldman Sachs Warns of Recession Risks From Coronavirus

Financial analysts predict the U.S. will avoid outright recession but suggest the risks 'have clearly grown.'

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ECONOMIC ANALYSTS ARE sounding alarms that the ongoing global coronavirus outbreak will drag on growth, disrupt business activity and, in a worst case scenario, drag the U.S. economy into a recession.

And although stocks were up in midday trading on Monday after slogging through their worst week since the financial crisis, investors are bracing for volatility in the days ahead as the outbreak begins to more meaningfully weigh on economic data.

Goldman Sachs projected on Sunday that the U.S. would register gross domestic product growth of just 0.9% in the first quarter and wouldn't grow at all in the second quarter – representing the worst six-month window the economy has seen since the Great Recession.

And although Goldman's baseline scenario suggests the U.S. will narrowly avoid outright recession, analysts note that "the situation has proven worse than we expected" and that "the downside risks have clearly grown."

"The pernicious global economic effects of the COVID-19 virus are battering the financial markets, sending stock prices into correction territory in record time and driving interest rates to record lows," Bob Schwartz, senior economist at Oxford Economics, wrote in a research note on Friday, suggesting that the economy's ability to withstand the "still-evolving corrosive shock from the virus remains to be seen."

"The outcome will probably determine if the economy stays out of a recession this year," he said.

Oxford on Monday downgraded its global growth projections, warning the impact of the virus was "larger, broader and more long-lasting than we previously envisaged."

Markets rebounded Monday, despite Chinese factory activity plunging in February to its lowest level on record and U.S. Treasury yields plunging to all-time lows. Should the rally hold through the end of the day, it would be the Dow's first positive performance in more than a week.

"U.S. stocks are rising this morning on speculation central banks will intervene aggressively to offset the negative fallout from the coronavirus," Scott Anderson, chief economist and executive vice president at Bank of the West Economics, wrote in a research note on Monday.

Indeed, central banks around the world are expected to adjust policy in the coming months to stimulate their respective economies and keep the global expansion afloat. The Federal Reserve, likewise, is now all but certain to cut rates at or before its March meeting – at least in the eyes of analysts and investors. The CME Group's FedWatch tool suggests there is virtually a 100% chance that America's central bank launches a 50-point interest rate cut – a notch higher than standard 25-basis point adjustments – by mid-March.

That expectation was bolstered on Friday when Fed Chairman Jerome Powell published an unscheduled note saying that he and his colleagues were monitoring the ongoing coronavirus situation.

"A Fed interest rate cut won't make sick people well, it won't get consumers worried about getting sick to go to restaurants or the movies, and it won't fix the disruption in global supply chains. However, it will pander to markets and that is often all the reason the Fed needs," Greg McBride, chief financial analyst at Bankrate.com, said in a statement on Friday. "The only question is if they can wait until the March 18 meeting or if they do so beforehand."

Despite the stock bounceback, several analysts have in recent days downgraded their economic projections for the U.S. and global economies as the coronavirus outbreak continues to spread to new countries and threatens global supply chains. The virus has sickened nearly 90,000 people worldwide, killing more than 3,000. Italy, South Korea and Japan have seen infection totals mount in recent days.

Within the U.S., new cases were confirmed over the weekend in Florida and New York. Two people have already died in Washington state from the disease.

"Whether it's formally declared or not, we are dealing with a pandemic," **Bernard Baumohl, chief global economist at the Economic Outlook Group** wrote in a research note on Monday. "No one can say with much confidence how much harm the virus will ultimately do to people or damage to the global economy."

Baumohl notes, however, that "no disease in modern history has solely been responsible for precipitating a U.S. recession." And, indeed, most mainstream analysts believe America will slog through the first half of the year and eventually rebound, likely avoiding outright recession so long as the virus is eventually contained in some capacity.

But the U.S. would not be immune to the effects of a global economic slowdown, which **Baumohl** suggests is likely in the months ahead.

"For China, South Korea, Japan, Germany and Italy, the coronavirus seriously compounded the economic and political challenges they faced from trade disputes, supply chain disruptions and domestic political turmoil," he said. "The coronavirus outbreak could well bring those economies to their knees."

Oxford Economics on Monday downgraded China's annual growth projections in 2020 to 4.8% – which would be the Asian giant's worst year in decades. China's status as an international trade and supply chain behemoth is expected to impact the availability of products and parts around the world.

And as the world's second-largest economy slows – and the U.S. deals with its own outbreak – economic growth throughout the rest of the world is similarly expected to ease.

"The spread of the coronavirus poses a clear and nearly present danger to investment, incomes and jobs," Robert Shapiro, founder and chairman of Sonecon, wrote in a note on Monday, suggesting the "key questions are whether a shock (to the economy) is widespread and sustained."

If America's response to the disease involves the closure of borders, transportation systems and public places, he says, the virus "could close much of the economy."

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