THE WALL STREET JOURNAL.

WSJ Survey: Coronavirus Likely to Hit First-Quarter U.S. Growth

Virus outbreak and Boeing's 737 MAX production halt are each expected to have small impact on economy

By Harriet Torry and Anthony DeBarros
Feb. 12, 2020

China's coronavirus outbreak will likely dampen U.S. economic growth in the first quarter, according to a survey of economists by The Wall Street Journal.

The monthly survey of economists found 83% of economists expected the coronavirus outbreak will have a small impact on U.S. gross domestic product growth from January to March, or less than 0.5 percentage point. Just 5% of forecasters expected a significant reduction of more than 0.5 percentage point off the quarter's annual growth rate, while 10% expected no impact.

"The negative demand shock from coronavirus is significant," said Constance Hunter, chief economist at KPMG. "China's GDP will be impacted significantly and this will show up in everything from commodity prices to demand for global goods and services," she said.

Bernard Baumohl, chief global economist at the Economic Outlook Group, said the U.S. was largely insulated from the coronavirus outbreak in China. "But because the fallout will be felt by the rest of Asia and Europe, it will ultimately reduce U.S. economic growth by about 0.4% in the first quarter," he said.

China's top leaders have pledged to stabilize their economy as they attempt to control the virus by offering tax relief and other measures to keep jobs filled and ensure the country is stocked with necessities.

While the number of coronavirus cases in the U.S. remains small, the reverberations of the outbreak have hit certain sectors, such as the U.S. tourism industry.

Another potential negative for the U.S. economy is the halt in production of Boeing Co. 's 737 MAX airplane, which started in January. Chicago-based Boeing plays a big role in the U.S. economy: It is the largest U.S. manufacturing exporter and one of the nation's top private employers.

Most economists—81%—expected the 737 MAX production stoppage to have a small effect on U.S. GDP growth in the January to March period, while 15% said it would have a significant impact.

“The drag on the economy from the halt to production will average 0.5 percentage point in the first quarter, and the hit to the economy in 2020 will depend on how quickly production resumes,” said Gregory Daco, an economist at Oxford Economics. “Assuming a slow resumption, the Boeing travails will reduce GDP growth by 0.1 percentage point in 2020.”

The U.S. economy grew 2.3% in 2019, measured from the fourth quarter of the prior year. On average, economists in the WSJ survey expected that pace to slow to 1.9% in both 2020 and 2021. For the first quarter of this year, economists in the February survey penciled in an annual-growth rate of 1.6%, unchanged from the prior month but down from 1.8% in December.

Some 35% of economists expect the next recession will start in 2021, up from 30.9% last month’s survey, while 29.7% expect one to start in 2022. Just 10.8% see a recession starting this year.

Economists are roughly split on whether the Federal Reserve’s next move will be a rate increase or decrease: 55% expect a decrease, while 45% expect rates to rise.

The Fed has been adding large amounts of short-term liquidity to financial markets since September, when short-term interest rates surged unexpectedly. Economists are divided on when the Fed will first reduce its Treasury-bill purchases from the current pace of $60 billion a month. Some 23% said that would happen in April, while 28% predicted May and 16% said July.

“The Fed will likely use the March meeting to set the stage for a post tax-season slowdown in Treasury bill purchases,” said Diane Swonk, chief economist at Grant Thornton.

The Journal surveyed 63 economists from Feb. 7 to Feb. 11, though not every economist answered every question.

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