

Economic Impact of COVID-19 – Snap-Shot as of March 17th, 2020

“It takes until Q4 for European and US economies to see a genuine recovery. Global GDP in 2020 falls slightly.”

“The global economic impact is severe, approaching the global financial crisis of 2008–09. GDP contracts significantly in most major economies in 2020, and recovery begins only in Q2 2021.”¹

We would like to take this short quote from McKinsey Insights, March 16th, as the motto for today’s report. It is a strong impact, but there will be a recovery – and that’s what we all need to strive for.

While we the evolution of the economic rebound is still the focus of our research, putting smart plans into place, based on reliable facts, is the key task for many of us. Wishing everyone a strong team and successful paths ahead!

a) Global stock markets after closing in Asia on March 17th

- European shares rose on Tuesday, following a sharp sell-off in the previous session triggered by panic over the hold that the coronavirus has over Europe and the resulting damage to business activity and company finances globally. The pan-European STOXX 600 index (STOXX) was up 2.7% at 0804 GMT after plunging to its lowest since November 2012 on Monday.²
- Japan stocks were higher after the close on Tuesday, the Nikkei 225 gained 0.06%.³
- The Hong Kong stock market is in a volatile pattern as of the close: Hang Seng Index rose 0.87% to 23,263.73.⁴
- March 16th became another ugly day for US stocks. The Dow recorded its worst one-day point drop in history and its worst performance on a percentage basis since October 19, 1987, also known as “Black Monday”. The S&P 500 finished down nearly 12%. The Dow closed 2,997 points, or 12.9%, lower. The Nasdaq Composite ended down 12.3%.⁵
- The CBOE Volatility Index (VIX), a gauge of stock market volatility, spiked 43% to 86.69 on Monday as coronavirus fears ripped through Wall Street. That takes out the previous record set on October 24, 2008, according to Refinitiv.⁶

a) Current / Expected Economic Impact in China

- China's Consumer Price Index (CPI) in February rose by 5.2% year-on-year and by 0.8% from the previous month. The food prices rose 21.9%, while the consumer goods prices rose 7.9%, both year-on-year. The average CPI of January and February rose by 5.3% over the same period last year. ⁶
- In February, China's CPI for Industrial Products (PPI) decreased by 0.4% year-on-year (- 0.5% month-on-month); Industrial Production Index (IPI) decreased by 0.5% year-on-year (- 0.3% month-on-month). Compared with the same period of time in 2019, the average PPI from January to February 2020 decreased by 0.2% over the same period last year, while the average PPI decreased by 0.4%.⁷
- In the first two month of 2020, the total retail sales of consumer goods in China was RMB 5,213 billion (\approx \$ 745 million), a nominal decrease of 20.5% year-on-year (after deducting price factors, the actual decrease was 23.7%). The nation's online retail sales totaled RMB 1,371 billion (\approx \$ 196 million), a year-on-year decrease of 3.0%. Among them, the online retail sales of physical goods were RMB 1,123.3 billion (\approx \$ 161 million), an increase of 3.0%.⁸
- From January to February the added value of industrial enterprises with annual income up to RMB 20 million in China actually decreased by 13.5% year-on-year. From a month-on-month basis, the number in February fell by 26.63% compared to the previous month.⁹
- The surveyed unemployment rate of urban area recorded at 6.2% in China, the highest number since this data was occasional released since the second half of 2015. ¹⁰
- In February the civil aviation across China completed a total transportation turnover of 2.52 billion ton-km, a decrease of 73.9% year-on-year. Volume of passenger traffic in the same month was 8.34 million, a decrease of 84.5% year-on-year. ¹¹

b) Current / Expected Economic Impact outside China

- In a note sent on March 15th, Goldman Sachs Group Inc said it now sees real gross domestic product growth of 0% in the first three months of the year, from its original estimate of 0.7%. For the second quarter, it sees U.S. growth dropping to -5.0% compared to its initial forecast of 0%. The bank expects a higher growth rate for the fourth quarter of up to 4%, from its initial estimate of 2.25%, and sees further strong gains in early 2021. Overall, its GDP forecast for 2020 was down to 0.4% from 1.2% originally.¹²
- France will guarantee up to € 300 billion (\$ 335 billion) of bank loans to companies in an effort to support those threatened by the impact of the coronavirus outbreak.¹³
- Data from analytics firm ForwardKeys for the period up to the 8th of March shows international flights booked from the US were 37% lower in comparison to the same period in 2019.¹⁴
- The European Union decided to close its borders for 30 days to non-EU countries effective from March 17th. In addition to that many European countries already closed their borders to neighboring countries. Only people working in other countries, people transporting goods and medical personal may still cross borders. All these measures have been implemented to slow down the spread of the virus.¹⁵

c) Comments from inside China

- Research Report from CITIC Securities
China Business Journal, March 16th, 2020
Compared to the two major crises, the precursors of the financial crisis may have appeared. According to the transmission chain of "emotional crisis-financial crisis-economic crisis", the US market may currently stand between the first and second stages. If the epidemic can be controlled as soon as possible and global monetary policy is strengthened to avoid mutual deterioration of liquidity and asset prices, it may be possible to avoid a crisis.¹⁶

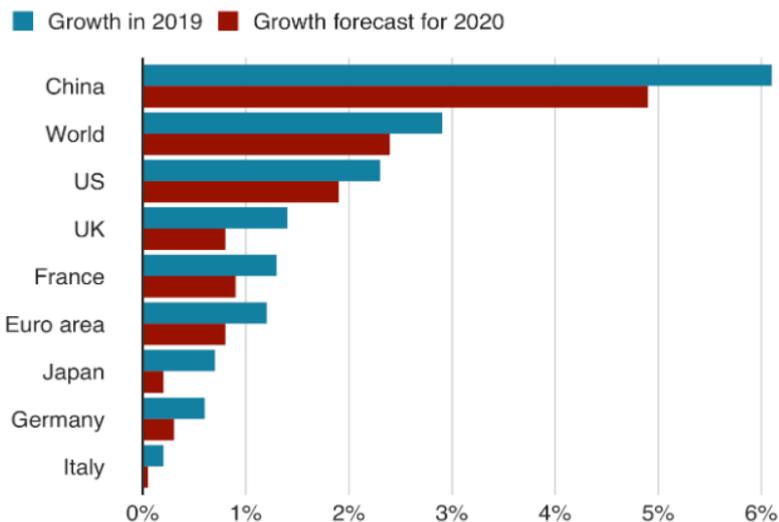
- Zhang Yi, chief economist at Zhonghai Shengrong Capital Management
March 16th, 2020
“Judging by the data, the shock to China’s economic activity from the coronavirus epidemic is greater than the global financial crisis. These data suggest a small contraction in the first-quarter economy is a high probability event. Government policies would need to be focused on preventing large-scale bankruptcies and unemployment.”¹⁷

d) Announcements and Comments from outside China

- Organization for Economic Cooperation and Development (OECD)¹⁸
BBC, March 16th, 2020
The world's economy could grow at its slowest rate since 2009 this year due to the coronavirus outbreak.
- Goldman Sachs Group Inc
March 15th, 2020
“We expect U.S. economic activity to contract sharply in the remainder of March and throughout April as virus fears lead consumers and businesses to continue to cut back on spending such as travel, entertainment, and restaurant meals.”
- Gregory Daco, chief U.S. economist at Oxford Economics¹⁹
New York Times, March 16th, 2020
“We’re calling the recession. We have the three elements to make that call — a profound, pervasive and persistent contraction in economic activity.”

OECD downgrades growth forecasts

Economic growth (GDP) expected to slow down in 2020



Source: OECD

BBC

- McKinsey Insights: COVID-19 Briefing note, March 16, 2020¹⁹
March 16th, 2020
“Large-scale quarantines, travel restrictions, and social-distancing measures drive a sharp fall in consumer and business spending until the end of Q2, producing a recession. Although the outbreak comes under control in most parts of the world by late in Q2, the self-reinforcing dynamics of a recession kick in and prolong the slump until the end of Q3. Consumers stay home, businesses lose revenue and lay off workers, and unemployment levels rise sharply. Business investment contracts, and corporate bankruptcies soar, putting significant pressure on the banking and financial system.”
“Monetary policy is further eased in Q1 but has limited impact, given the prevailing low interest rates. Modest fiscal responses prove insufficient to overcome economic damage in Q2 and Q3. It takes until Q4 for European and US economies to see a genuine recovery. Global GDP in 2020 falls slightly.”
“The global economic impact is severe, approaching the global financial crisis of 2008–09. GDP contracts significantly in most major economies in 2020, and recovery begins only in Q2 2021.”

Sources:

1. [COVID-19: Implications for business](#)
McKinsey&Company, March 16th, 2020
2. [European shares attempt recovery from 2012 lows](#)
Reuters, March 17th, 2020
3. [Japan stocks higher at close of trade; Nikkei 225 up 0.06%](#)
Investing.com, March 17th, 2020
4. [Hong Kong stocks closed: HSI closed up 0.9% Hong Kong visitors fell 96% in February](#)
Investing.com, March 17th, 2020
5. [Dow and US stocks plunge again: March 16, 2020](#)
CNN Business, March 16th, 2020
6. [CPI in February 2020 rose 5.2% year-on-year](#)
National Bureau of Statistics, March 10th, 2020
7. [PPI fell by 0.4% year-on-year in February 2020](#)
National Bureau of Statistics, March 10th, 2020
8. [Total retail sales of consumer goods in January-February 2020 dropped by 20.5%](#)
National Bureau of Statistics, March 16th, 2020
9. [January – February 2020, the added value of industrial enterprises with annual main business income up from ¥ 20 million in China actually decreased by 13.5% year-on-year](#)
National Bureau of Statistics, March 16th, 2020

10. [Survey unemployment rate in urban area rose to 6.2% in February](#)
Caixin.com, March 16th, 2020
11. [About 40% of domestic flights resume](#)
People's Daily, March 15th, 2020
12. [EU close borders to fight coronavirus](#)
Colm Quinn, March 17th, 2020
13. [Goldman cuts U.S. growth forecast for first and second quarter due to coronavirus](#)
Gertrude Chavez-Dreyfuss, Reuters, March 16th, 2020
14. [France to Guarantee \\$335 Billion of Bank Loans, Macron Says](#)
By Ania Nussbaum and William Horobin, Bloomberg.com, March 16th, 2020
15. [EU close borders to fight coronavirus](#)
Colm Quinn, March 17th, 2020
16. [Coronavirus: A visual guide to the economic impact](#)
By Lora Jones, David Brown & Daniele Palumbo, BBC News, March 16th, 2020
17. ["Economic Crown Pneumonia" stuns global capital](#)
China Business Journal, March 16th, 2020
18. [China's economy skids as virus immobilises factory, consumer sectors](#)
Kevin Yao and Huizhong Wu, Reuters, March 16th, 2020
19. [America's Economy Begins to Shut Down as Pandemic Measures Take Hold](#)
Patricia Cohen and Jim Tankersley, New York Times, March 16th, 2020
20. [COVID-19 Briefing note, March 16, 2020](#)
Matt Craven, Linda Liu, McKinsey Insights, March 16th, 2020