

Economic Impact of COVID-19 – Snap-Shot – March 24th, 2020

“Europe and the United States will gradually return to their long-term trendy growth levels by next year. China can gradually recover relatively high growth in the second half of this year. China's recovery may be faster and more obvious than other countries, but it will take some time.”¹

This week, we start our information compilation with a quote from Qiao Hong, Chief Economist (Greater China), Merrill Lynch, from March 22nd, 2020. As economies, companies and individuals are affected, we at MFC believe that it is key to keep in mind: there will be recovery.

Although our team is undertaking strong efforts to select only the most reliable materials and sources please derive your own analysis on which facts to follow and how to cast your decisions. Putting smart plans into place, based on reliable facts, is the key task for many of us. Wishing everyone strong teams and successful paths ahead!

a) Current / Expected Economic Impact and Recovery in China

- The National Development and Reform Commission [which has broad administrative and planning control over the economy of Mainland China] announced on March 20th, that 89.1 % of the 11,000 key projects in provinces across China [except Hubei, with its capitol Wuhan] have resumed work.²
- At present, the resumption of work and production of industrial enterprises in Hubei are progressing orderly. As of March 17, 49.3 % of industrial enterprises from the province with annual income up to RMB 20 million have resumed work.²
- According to the China Association of Automobile Manufacturers (CAAM), if the epidemic is effectively controlled by the end of March, it is expected that automobile production and sales in China will decline by about 45% in the first quarter and about 25% in the first half of the year.³

- According to data from China Automobile Dealers Association, in the first half of March, China's retail sales of passenger cars decreased by 47 % year-on-year. It is expected to gradually pick up after April-May. Sales are expected to be approximately 2.99 million units in the first quarter of 2020, which would be 2.1-million-unit reduction year-on-year.⁴

b) Current / Expected Economic Impact outside China

- According to Fortune Magazine, Eric Martin and Bloomberg, The International Monetary Fund (IMF) said it expects a global recession this year that will be at least as bad as the downturn during the financial crisis more than a decade ago, followed by a recovery in 2021.⁵
- A report released by IMF on March 20th predicts that Italy's GDP will decrease by 0.6 % in 2020. Government debt's percentage of GDP will rise to 137 %, and the annual fiscal deficit will account for 2.6 %. It is expected that real per capita income will only return to pre-crisis levels in mid-2020.⁶
- According to the Dean of Institute of International Finance from Tsinghua University, based on the current development trend of the epidemic situation in Italy, losses from the country's tourism, catering and hotel industry will reach about € 58 billion by May.⁷
- KPMG's latest quarterly UK Economic Outlook forecasts a 2.6 % decline for 2020 – with flat growth predicted in the second half of the year. But a protracted outbreak of Covid-19 could also result in a more severe impact than the 2008 to 2009 downturn with a 5.4 % fall. In both scenarios though, the report suggests the country's economy is expected to recover by the second half of 2021 – assuming the public health measures put in place stem the rise in the number of cases.⁸
- Global airline passenger capacity fell by 35% last week (March 16th – 22nd), the worst since the start of the crisis, according to data from airline schedules firm OAG, which said deeper cuts were likely in the coming weeks. Moody's Investors Service expects airline passenger volumes to fall by 25% to 35% this year.⁹

- According to tracking from IHS Markit [a London based global information provider with more than 15.000 employees worldwide] throughout the week (March 16th – 20th) every major European OEM has announced a shutdown of their assembly operations for an average 13 working days. As of March 20th, the tracker shows that these European shutdowns will cause a reduction of over 880,000 units alone in the announced period. With over 256,000 units, Germany is hit the hardest at the moment, followed by Spain with 140,000 and France 100,000 units. And even if production does only halt for the announced periods of time, the assembly ramp-up phase that follows will cause further impacts.¹⁰

c) Comments from inside China

- Qiao Hong, Chief Economist (Greater China), Merrill Lynch
March 22nd, 2020
"We are currently forecasting a global recession in 2020, and the United States may enter the era of negative interest rates."
"Europe and the United States will gradually return to their long-term trendy growth levels by next year. China can gradually recover relatively high growth in the second half of this year. China's recovery may be faster and more obvious than other countries, but it will take some time."¹
- Shen Jianguang, Vice President of Jingdong Group, Dean / Chief Economist of Jingdong Digital Technology Research Institute
March 21st, 2020
"Driven by policy support and market demand, digital technology plays a vital role in epidemic surveillance, diagnosis and treatment, and resource deployment. The fight against the "epidemic" has brought a lot of opportunities for the technological development of Chinese enterprises."¹¹

d) Comments from outside China

- Kristalina Georgieva, Managing Director at IMF, March 24th, 2020
"It is paramount to prioritize containment and strengthen health systems – everywhere. The economic impact is and will be severe, but the faster the virus stops, the quicker and stronger the recovery will be."⁷

- Angel Gurría, Secretary General, OECD, March 23rd, 2020
“Many of the world's biggest economies would fall into recession in the coming months - defined as two consecutive quarters of economic decline.”
"Even if you don't get a worldwide recession, you're going to get either no growth or negative growth in many of the economies of the world, including some of the larger ones, and therefore you're going to get not only low growth this year, but also it's going to take longer to pick up in the in the future," he added.¹²
- Guy Platten, Secretary General, the International Chamber of Shipping Association based in London (This association represents more than 80% of the global merchant fleet), March 24th, 2020
“Travel restrictions, border closures, air travel cancellations and ports quarantining ships for 14 days or more are now commonplace. We can't ignore the fact that without crews to man our ships, trade will cease to operate. This means food, medicine and commodities will no longer arrive in ports and people will be directly impacted.”
- The association represents more than 80% of the global merchant fleet.¹³ Josh Silverman, Chief Executive Officer, Etsy, March 21st, 2020
“In the U.S., politicians on both sides of the aisle are racing to align on relief packages that would provide in excess of \$1 trillion in aid to various industries, programs, and households. While these packages rightly include support for small businesses, there is a large swath of independent workers—57 million, according to a 2019 study—whose businesses are too small to even qualify as a “small business.” These are the microbusiness owners, the independent contractors, and the self-employed individuals who make up the emerging gig economy, and are about one-third of the total employable workforce in the U.S. They are also among the most vulnerable to the current crisis.”¹⁴

Sources:

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4. [CAAM: Automobile production and sales are expected to fall by 45% in the first quarter](#)
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5. [China Automobile Dealers Association: Passenger car retail sales decreased by 47% year-on-year in the first half of March](#)
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6. [Coronavirus economic impact 'will be severe,' at least as bad as Great Recession, says IMF](#)
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7. [Italy's death rate of COVID-19 exceeds 9%, the economy may be at risk of recession](#)
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8. [Coronavirus brings UK economy to temporary standstill](#)
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13. [Western supply chains buckle as coronavirus lockdowns spread](#)
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14. [Coronavirus economic relief proposals are overlooking the 57 million Americans who are self-employed](#)
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