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# Understanding the Global Economic Impacts of COVID-19

1. Current 5 predictions for how the economy might recover

# Understanding the Global Economic Impacts of COVID-19

Confirmed cases of the novel coronavirus (COVID-19), which first appeared in China at the end of last year, [now exceed 2,000,000 (Two Million)](https://www.arcgis.com/apps/opsdashboard/index.html#/bda7594740fd40299423467b48e9ecf6) as of April 16th and are likely to climb significantly higher. Even though it started from China now vast majority of new cases reported since February 25 have occurred outside the country which is over one-third of the total confirmed cases are from USA. What was initially seen as a largely China-centric shock is now understood to be a global crisis. The virus’s spread has regrettably borne out analysts’ downside scenarios, with investors digesting the implications of disrupted supply chains, official containment measures, and spillovers from the real economy to financial markets. A decision by two of the world’s largest energy producers to maintain current levels of production, despite falling energy prices, has further unnerved investors while questions about governments’ abilities to mount an effective and coordinated response linger. The increased uncertainty has led to financial market volatility last seen during the global financial crisis.

1. **What will be the impact of COVID-19 on the economy?**

The extent of the damage will depend on how quickly the virus is contained, the steps authorities take to contain it, and how much economic support governments are willing to deploy during the epidemic’s immediate impact and aftermath.

Early indications of COVID-19’s impact on the Chinese economy are worse than initially forecast. Surveys of China’s [manufacturing](https://www.reuters.com/article/us-china-economy-pmi-factory-official/china-february-factory-activity-contracts-at-record-pace-as-coronavirus-bites-idUSKBN20N03R) and [services](https://www.reuters.com/article/china-economy-pmi/chinas-services-activity-plunges-as-virus-wipes-sales-caixin-pmi-idUSZRN0008L4) sector plunged to record lows in February, automobile sales sank a record [80 percent](https://www.bloomberg.com/news/articles/2020-03-04/china-car-sales-drop-a-record-80-as-virus-adds-to-industry-woes), and China’s exports fell [17.2 percent](https://www.scmp.com/economy/china-economy/article/3074060/coronavirus-chinas-exports-and-imports-plummeted-january-and) in January and February. The official data confirmed a widespread slowdown in economic activity foreshadowed in [low pollution levels](https://www.bloomberg.com/news/articles/2020-03-04/pollution-data-shows-china-s-uneven-economic-recovery-from-virus) and [depressed shipping traffic](https://www.scmp.com/business/companies/article/3051784/shipping-lines-face-troubled-waters-oil-tankers-container), among other informal barometers. Analysts have sharply revised down estimates of Chinese growth, with [many](https://www.bloomberg.com/news/articles/2020-03-01/china-economy-seen-headed-for-deeper-contraction-on-factory-drop) now predicting a drop in first quarter GDP, the first contraction since China began reporting quarterly data in 1992. As COVID-19 spreads, China’s economic recovery will be challenged as demand from other countries drops as they cope with the virus.

Although the outbreak appears to have [slowed](https://www.reuters.com/article/us-health-coronavirus-china-toll/china-reports-zero-locally-transmitted-coronavirus-cases-outside-hubei-idUSKBN20W00Y) in China, COVID-19 and its impacts have gone global. [Infections are mounting](https://www.arcgis.com/apps/opsdashboard/index.html#/bda7594740fd40299423467b48e9ecf6) in Europe, South Korea, Iran, the United States, and elsewhere, with authorities implementing [increasingly restrictive measures](https://www.politico.eu/article/italy-orders-total-lockdown-over-coronavirus) to contain the virus. [Europe](https://www.nytimes.com/2020/03/09/business/europe-recession-coronavirus.html) and [Japan](https://www.japantimes.co.jp/news/2020/03/09/business/economy-business/japan-gdp-recession/) are likely already in recession territory given their weak fourth quarter performance and high reliance on trade. While the United States entered the crisis with a [tailwind](https://www.bls.gov/news.release/empsit.nr0.htm), [some analysts](https://www.wsj.com/articles/the-virus-aftermath-wont-be-like-a-hurricane-11583529896) are forecasting a contraction in U.S. GDP in the second quarter. The bleak assessment represents a breathtaking downgrade by the IMF. In January, before the COVID-19 outbreak emerged as such a grave global threat, the international lending organization forecast modest growth of 3.3 percent this year.

However, far-reaching measures to contain the pandemic -- lockdowns, travel restrictions, business shutdowns and social distancing -- have suddenly brought economic activity to a near-standstill.

"Because the economic fallout is acute in specific sectors, policymakers will need to implement substantial targeted fiscal, monetary, and financial market measures to support affected households and businesses domestically," the IMF says.

The IMF says Europe -- the epicenter of the pandemic -- has been particularly badly hit. Economic contractions of 7.5 percent are expected in the euro zone's 19 countries, and 6.5 percent in the United Kingdom.

“The reason for the very, very sharp downgrade compared to other countries is simply that the epidemic has taken a much larger toll so far on Europe than it has on other parts of the world,” Milesi-Ferretti said in an interview with Euronews' business editor Sasha Vakulina.

“This is why it is so essential for governments to take really draconian measures to keep firms from going bankrupt, to keep workers from losing their wages. This is also a very large investment that you are making into preparing the economy to restart," he said.

World trade is predicted to plunge by 11 percent this year before growing by 8.4 percent in 2021.

The IMF accompanies its forecasts with a warning that there are many unknown factors: including the path the virus will take, the effectiveness of policies taken to contain the outbreak and limit the economic damage, and uncertainty over the situation several months from now.

1. **What sectors and economies are most vulnerable?**

The COVID-19 outbreak has generated both demand and supply shocks reverberating across the global economy. Among major economies outside of China, the OECD [forecasts](https://read.oecd-ilibrary.org/economics/oecd-economic-outlook/volume-2019/issue-2_7969896b-en#page1) the largest downward growth revisions in countries deeply interconnected to China, especially South Korea, Australia, and Japan. Major European economies will experience dislocations as the virus spreads and countries adopt restrictive responses that curb manufacturing activity at regional hubs, including in Northern Italy. As a result of depressed activity, the United Nations [projects](https://unctad.org/en/pages/newsdetails.aspx?OriginalVersionID=2299) that foreign direct investment flows could fall between 5 and 15 percent to their lowest levels since the 2008-2009 global financial crisis.

At the sectoral level, tourism and travel-related industries will be among the hardest hit as authorities encourage “social distancing” and consumers stay indoors. The International Air Transport Association [warns](https://www.iata.org/en/pressroom/pr/2020-03-05-01/) that COVID-19 could cost global air carriers between $63 billion and $113 billion in revenue in 2020, and the [international film market](https://www.vulture.com/2020/03/coronavirus-will-have-disastrous-effects-on-movie-business.html) could lose over $5 billion in lower box office sales. Similarly, shares of major hotel companies have [plummeted](https://www.wsj.com/articles/coronavirus-slams-u-s-hotel-industrys-global-operations-11583236802) in the last few weeks, and entertainment giants [like Disney](https://www.cnbc.com/2020/02/04/disney-to-take-175-million-hit-from-the-coronavirus-outbreak.html) expect a significant blow to revenues. Restaurants, [sporting events](https://www.espn.com/soccer/italian-serie-a/story/4071104/serie-a-all-sport-in-italy-expected-to-be-halted-due-to-coronavirus), and other services will also face significant disruption. Industries less reliant on high social interaction, such as agriculture, will be comparatively less vulnerable but will still face challenges as demand wavers.

1. **What’s the relationship between the economy and the energy sector?**

Economic slowdowns generally lead to lower energy demand, and the fallout from [COVID-19 has proved no different](https://www.csis.org/analysis/experts-react-covid-19-impacts-energy-sector). Often, producers respond to demand slumps by cutting supply to buoy prices. Last week, members of the Organization of the Petroleum Exporting Countries (OPEC) and a few other major oil producers met to discuss an additional cut of 1.5 million barrels per day through the end of June in response to the outbreak. When the agreement collapsed, Saudi Arabia [cut prices and lifted output](https://www.bloomberg.com/opinion/articles/2020-03-09/oil-collapse-6-ways-saudi-arabia-s-move-will-hit-global-markets?srnd=premium), ostensibly to [harm Russia for refusing to agree to production cuts](https://www.csis.org/analysis/oil-price-war). Following the Saudi decision, Brent Crude fell [more than 20 percent](https://www.cnbc.com/2020/03/08/oil-plummets-30percent-as-opec-deal-failure-sparks-price-war-fears.html) , the sharpest one-day drop since 1991, with analysts predicting [further declines](https://www.bloomberg.com/news/articles/2020-03-08/goldman-warns-oil-could-dip-into-the-20s-as-price-war-begins) ahead. The damage from the [Saudi-Russian price war](https://www.csis.org/analysis/oil-price-war) sends an unsettling signal to markets hungry for a coordinated policy response to the epidemic, especially considering Saudi Arabia’s current role as G20 president.

In response to the price shock, large oil producers, including U.S. firms, could pare back investment and production, with heavily indebted firms in particular at risk of [layoffs, consolidations, and even bankruptcy](https://www.bloomberg.com/opinion/articles/2020-03-09/oil-collapse-6-ways-saudi-arabia-s-move-will-hit-global-markets?srnd=premium). Investors are well aware that energy companies account for more than [11 percent](https://www.ft.com/content/c048d870-6138-11ea-a6cd-df28cc3c6a68) of the U.S. high yield (below investment grade) market, with rollovers nearly impossible under current market conditions. In theory, lower oil prices should help oil-importing countries, but depressed activity due to COVID-19 could limit that benefit. In addition, the boom in domestic U.S. energy production in recent years means the United States is exposed to price declines in a way not seen in previous economic downturns.

1. **How does the economic slowdown impact financial markets?**

Fears of a broader outbreak and its economic impact spread to financial markets last month, and most international indices are nearing bear market territory (declining at least 20 percent from the 52-week high) as investors process the lower corporate earnings that will result from the virus. The S&P 500 fell 7 percent to open the March 9 session, triggering a “[circuit breaker](https://www.wsj.com/articles/traders-closely-watching-circuit-breakers-thresholds-11583761223?mod=article_inline)” that briefly suspended trading for the first time since 1997. Overall, the index is down about 17 percent from its record high on February 19. Amid the equity rout, investors have fled to [safe haven assets](https://www.cnbc.com/2020/03/09/forex-markets-yen-oil-exposed-currencies-in-focus.html) such as U.S. Treasury bonds, leading to [record low yields](https://www.wsj.com/articles/long-term-u-s-treasury-yields-hit-record-lows-11583151460). Low yields translate into low borrowing costs for the U.S. government, but low interest rates may not benefit private companies or individuals (or even all sovereigns) who may find financial markets too risk adverse to extend credit in light of such uncertainty. The longer the virus spreads, the more economic and company performance will be impacted, raising concerns about debt sustainability, especially for highly indebted countries and companies, absent official support.

1. **How have governments responded to cushion the economic fallout from the epidemic?**

Thus far, national governments have announced largely uncoordinated, country-specific responses to the virus. In China, the epicenter of the outbreak, officials announced billions in [special-purpose loans](https://www.uscc.gov/sites/default/files/2020-03/March%202020%20Trade%20Bulletin.pdf) to companies facing liquidity constraints as well as financial support to specific sectors such as aviation. In the United States, the [Federal Reserve](https://www.federalreserve.gov/newsevents/pressreleases/monetary20200303a.htm) cut the policy rate in an emergency action on March 3, and on March 9, in coordination with other U.S. bank regulators, it [encouraged](https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200309a.htm) financial institutions to “meet the financial needs of customers and members affected by the coronavirus,” a move aimed at supporting financial conditions to prevent the growth shock from turning into a broader financial crisis. On March 9, the Federal Reserve Bank of New York also announced expanded [overnight repurchase operations](https://twitter.com/NewYorkFed/status/1236975982541758466) by $50 billion to avoid a deeper credit crunch.

The European Central Bank and Bank of England are [expected to take action](https://www.cnbc.com/2020/03/04/ecb-and-boe-to-take-immediate-policy-action-on-coronavirus-impact.html) when their monetary policy committees meet later this month. On the fiscal front, President Trump previewed his administration’s plans to seek a payroll tax cut and assistance for impacted hourly workers and industries. Countries announcing fiscal measures just this month include [Japan](https://english.kyodonews.net/news/2020/03/a313cff1eb57-cabinet-oks-bill-to-enable-abe-to-declare-emergency-amid-virus-spread.html) ($9.6 billion, or 0.19 percent of GDP), [South Korea](https://www.straitstimes.com/business/economy/south-korea-unveils-137b-stimulus-package-to-fight-coronavirus) ($9.2 billion, 0.56 percent of GDP), and [Italy](https://www.ft.com/content/a6f59348-5bae-11ea-b0ab-339c2307bcd4) ($4.1 billion, 0.20 percent of GDP). The adequacy of such spending will depend on the virus’s path as well as the effectiveness of other measures to contain negative spillovers from the growth shock.

In terms of coordinated action, on March 6, the G20 finance ministers and central bank governors [pledged](https://g20.org/en/media/Documents/G20%20Statement%20on%20COVID-19%20-%20English.pdf) to take “appropriate” fiscal and monetary measures but made no specific commitments. On a March 3 [phone call](https://home.treasury.gov/news/press-releases/sm927), G7 finance ministers reaffirmed their “commitment to use all policy tools” but did not outline specific steps. For their part, the [International Monetary Fund](https://www.imf.org/en/News/Articles/2020/03/04/sp030420-imf-makes-available-50-billion-to-help-address-coronavirus) and [World Bank](https://www.worldbank.org/en/news/press-release/2020/03/03/world-bank-group-announces-up-to-12-billion-immediate-support-for-covid-19-country-response) last week announced the availability of $50 billion and $12 billion in financing, respectively, to support low income and emerging market economies’ responses to the virus.

Scientists do not yet have a clear understanding of the virus’s behavior, transmission rate, and the full extent of contagion; uncertainty will be part of the backdrop for the foreseeable future. Coherent, coordinated, and credible policy responses provide the best chance at limiting the economic fallout from what is already and sadly a human tragedy.

**Current 5 predictions for how the economy might recover**

More than 50 economists were polled by Reuters, asking for their predictions for economic recovery after the coronavirus.

* From a shrink as much as 6%, to 0.7% growth, here are the forecasts.

Will be it a U? A V? Maybe a W? Predictions for economic recovery after coronavirus-linked lockdowns are throwing up a medley of letters to indicate whether we can expect a bounce back, a slow-burn recovery or relapse.

Of more than 50 economists polled by Reuters, some forecast the world economy will shrink as much as 6% in 2020. The other extreme was a prediction for 0.7% growth. The average was a 1.2% contraction.

Carsten Brzeski, global head of macro at ING Research, dubbed the picture “a virus-driven ice age”.

“It is an abrupt stop of economic activity, from 100 to zero in just a few days or weeks,” he said, adding that made it extremely difficult to forecast the outlook.

Here are some scenarios debated.

**1. “V” -** Graphic - V-shaped recovery

The best-case outcome: when a growth plunge is followed by an equally sharp recovery.

The April-June GDP contraction will likely be on a scale not seen for decades. But fiscal and monetary stimulus - over $10 trillion and counting - could aid an equally swift rebound.

Ross Walker, co-head of global economics at NatWest Markets, reckons the scale of economic decline expected this quarter implies “a sizeable rebound in Q3 and Q4 as businesses re-open”.

**2. “U” -** Graphic - U-shaped recovery

When recovery takes more than a couple of quarters. Because economies have suffered a faster and deeper contraction than in 2008-09, this may be the likeliest outcome.

U is the base case for ING’s Brzeski, who notes the lockdowns’ impact will last for a while after they are lifted.

“Easing of the lockdown measures will be gradual, social distancing will continue and the tourist industry will likely continue to suffer,” Brzeski said.

**3. “W” -** Graphic - W-shaped recovery

Double-dip - if the easing of lockdown restrictions initially boosts activity but the effects of unemployment and corporate bankruptcies then start to filter through.

This may happen also if new coronavirus cases emerge as has been the case in some Asian countries.

**4. “L” -** Graphic - L-shaped recovery

When growth plunges and does not recover for some time.

For this to occur, the global coronavirus tally needs to continue rising, forcing protracted lockdowns.

That scenario looks unlikely, given Wuhan, the Chinese city where the virus emerged, has ended lockdowns after just over two months.

But L-shaped outcomes may be a risk for those emerging markets less able to engage big stimulus and often rely on commodity exports.

**5. SWOOSH -** Graphic - Tick shape recovery

“Neither L nor U nor V, will do. Instead, we look for a tick mark-style profile,” Berenberg economist Florian Hense said.

That implies a sharp downturn, then gradual recovery as lockdowns are eased more gently than they were imposed.

AXA Investment Managers group chief economist Gilles Moec pictures a “swoosh” shape akin to the Nike sports brand logo.

“With consumer spending possibly impaired by a higher propensity to save and serious potential curbs on investment, we think the likeliest scenario is for the world economy’s rebound post lockdown to be quite soft,” Moec said.

**Reference:**

# [1]. “Alphabet soup: How will post-virus economic recovery shape up?”, [Dhara Ranasinghe](https://uk.reuters.com/journalists/dhara-ranasinghe), [Ritvik Carvalho](https://uk.reuters.com/journalists/ritvik-carvalho)

# [2]. “COVID-19: World economy in 2020 to suffer worst year since 1930s Great Depression, says IMF”, Euronews with AP