

Coronavirus to have deep impact on global economy

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8 February 2020

The Wall Street stock exchange fell back from its record highs yesterday amid continued uncertainty about the full economic effects of the coronavirus on the Chinese and global economy.

Initial forecasts had been that Chinese growth in the first quarter of this year would fall from around 6 percent to as low as 4.5 percent, or even 4 percent. But now there are warnings it could be much lower.

The chairman of the financial advisory firm Evercore ISI, Ed Hyman, told the business channel CNBC: “Our team has GDP growth at zero for the first quarter. China is really slowing.”

In its report on monetary policy to the US Congress, issued yesterday, the Federal Reserve warned that “possible spillovers from the effects of the coronavirus in China have presented a new risk to the outlook.”

The S&P rating agency said it expects Chinese growth for the whole of 2020 to fall to 5 percent, following a growth rate of 6.1 percent in 2019, which was the lowest result since 1990.

S&P said the global impact of the China slowdown would be felt through four channels: sharply reduced tourism revenues; lower exports of capital and consumer goods; lower commodity prices and industrial supply-chain disruptions. “These spillovers could become larger if markets start to price in the risk of a material global slowdown and financial conditions tighten,” it said.

The worsening outlook for China, and by extension the global economy, was the main factor behind the Wall Street sell-off yesterday, which saw the Dow index decline by 227 points, or 0.9 percent. The S&P 500 index fell back 0.5 percent from the record high it reached on Thursday, and the Nasdaq dropped by 0.5 percent.

The past week has seen significant market swings.

There has been a “tug of war” between concerns over the economic effects of a major China slowdown, and the belief that whatever happens in the real economy, the US Fed and other central banks are ready to pump money into the financial system and sustain stock markets.

Evidence of the plunge in economic activity in China and its effect on the global economy has continued to mount in the past week.

Yesterday the *Financial Times* reported that the global gas market had been thrown into “turmoil” as Chinese importers threatened to “cancel up to 70 percent of seaborne imports in February as demand collapses and companies struggle to staff ports.”

This move by China, which is the world’s second-largest importer of liquefied natural gas, has sent prices to their lowest levels on record.

Copper traders in China have declared *force majeure*—a clause that nominates natural disasters or other unavoidable events as a reason for not fulfilling contracts—as they have scrapped or postponed orders for the industrial metal, of which China is the world’s largest buyer.

The effects of the China shutdown extend to high-tech industries as well. The Taiwanese company ASE Technology, which tests and packages semi-conductors, has warned it cannot say when it can resume production and that this is entirely in the hands of Chinese government officials. The company’s head of investor relations, Ken Hsiang, said the impact on its business was unpredictable and the virus outbreak was a “negative lottery.”

The auto industry is being hard hit also. The Japanese car manufacturer Toyota, which has 12 plants in China and is the world’s second-largest auto company, extended the shutdown of its China operations until at

least February 16.

Honda said it can avoid “major” problems if it can reopen its three plants in Wuhan on February 14, but “it will be a different matter” if the shutdown is extended.

Fiat Chrysler said that one of its European plants could be forced to stop production in a matter of weeks due to a shortage of parts.

Ford announced that it is getting ready to airlift parts out of China in order to ensure its operations. Speaking to the *Financial Times*, Jim Farley, the company’s chief operations officer, said Ford would seek to work around the supply problem. The main risk in the longer term was the shutdown of the Chinese car market, the largest in the world, he said.

The international effects of the China shutdown are now being shown in the financial data, as well as growth estimates. Emerging market currencies are falling, with the JP Morgan currency index down by 0.7 percent, its largest decline since August last year.

Citigroup issued a warning that the effect of the virus will be worse than the SARS outbreak in 2002–2003 because China now accounts for one-third of global growth, compared to 10 percent 17 years ago.

The financial firm ING revised down its forecast for growth in Taiwan for 2020 from 1.6 percent to 0.8 percent. Even before the coronavirus, Taiwan’s economy was showing signs of slowing, with exports declining by 7.6 percent in January, while imports fell by 17.7 percent.

It is not possible, at this stage, to gauge the full effects of the coronavirus on the global economy. Its impact is being exacerbated by the underlying international slowdown. Further evidence of the downturn came yesterday with the release of data showing, unexpectedly, that December’s industrial production plunged 3.5 percent in Germany compared to the previous month. Industrial output was also down in France and Spain.

And notwithstanding the blustering of Trump about the “boom” in America, the latest gross domestic product (GDP) data show US economic growth at barely above 2 percent.



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