

Chamber of Commerce “Coronavirus Economic Impact Call (2020-03-02)

Joe Brusuelas, Chief Economist, RSM (comes from Bloomberg and Moodys)

Currently experiencing “supply shock”. Currently port container activity is decreased and decreasing, oil sector problems, potential financial volatility. Shortage of containers as they are not here or en route yet.

Financial impact expected to be similar to 4Q-2018 drop in household spending which caused a ~1-2% decrease in the forecast.

Joe’s ESTIMATES OF GLOBAL GROWTH

- 1Q-2020 1% growth
- 2Q-2020 0.7% growth (primary “shock” time)
- 3Q-2020 1.2% growth
- 4Q-2020 1.9% growth
- 2020 TOTAL GROWTH = 1.2% growth

Already experiencing American job losses in transportation and utilities, but should rebound if things plateau and stabilize.

There will be a political policy response; Senate is being asked to consider a target of \$15 billion (down payment).

If more pronounced, higher infections, longer event, the government and fiscal policies will act.

Federal government will mobilize all government agencies that can help.

As an “unusual event” – with increased durations and costs, special lending to small business will kick in.

The U.S. knows what to do and how to do it.

There will be no recession; there will be no change in the status quo.

Doug Holtz-Eakin, President Action Forum

OECD interim assessment

- If the virus is contained in China 1Q-2020, and secondary nodes get not much worse then:
 - 0.5% global downturn (from expected 3.0 % to 2.5 % growth).
- If the virus continues in China through 2Q and 3Q, and secondary nodes get worse through 2Q-4Q then:
 - 1.5% global downturn (from expected 3.0% to 1.5% growth)
- NO GLOBAL RECESSION

In the U.S....Jan-2020 was a very good month, high manufacturing, high residential constructions, etc.

Biggest worries, biggest driver to what happens in 2020 is consumer precipitous drop in spending:

- Household fear
- Self-quarantine
- Risk aversion

Need to calm the public; minimize destructive consumer behavior.

QUESTIONS FROM AUDIENCE

Q1. Affect on tourism? Experts: Tourism contributes 5.3% of GDP; 4/5 is domestic. But since much is entertainment, then there will be a modest effect in 1Q-2020 due to non-attendance, non-domestic travel. NYC, Chicago, SF have seen a fall-off in tourism and travel.

Q2. Location of supply-chain, changes to deal with this and similar events? Experts: This is a transitory situation, not expected to change supply-chain logistics. For example with China tariffs, supply chains did not re-route to the US...the moved to Vietnam, Malaysia, and ASEAN (but considered to be just temporary and transitory), have and will continue to return to China.

COMMENT from speakers: Three major factors:

1. Loss of primary production, loss of local life, loss of manufacturing
2. Supply chain disruption
3. Decreased customer spending, risk-aversion (this has potential to be the main disrupter)

Q3. IS U.S. going to suffer from explosive number of cases? Experts: As U.S. ramps up testing they will find an infinite number of undiagnosed cases. That will not be disruptive (unless consumer panic sets in) as we have been doing just fine with all of those hidden cases.

Q4. Partisan politics and fake news? Experts: Not expecting to have to deal with partisan politics, the CDC and science will be the strongest voice.

Q5. Has China really plateaued and is China opening all of the factories? Experts: It differs by region, and China is working at an overall low level irrespective of their central government attestations. It will continue to improve.

Q6. Where else? Experts: There will be residual disruptions, potentially after China is back on track, i.e., Japan, South Korea, Taiwan, Hong Kong, Thailand, Philippines; depending on the next cycle of infections.

Q7. From Seattle: Things still seem very bad and getting worse? Seattle ports are shut down, High Schools are shut down, 6 local deaths from Coronavirus; Costco and groceries are empty due to panic-buying. Is it worse than we think? Experts: this is a short economic event and there will be a strong rebound.