NAME:EHI-SULAIMAN DAVID OSE

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The coronavirus (COVID-19) outbreak has already brought considerable human suffering and major economic disruption.

Output contractions in China are being felt around the world, reflecting the key and rising role China has in global supply chains, travel and commodity markets. Subsequent outbreaks in other economies are having similar effects, albeit on a smaller scale.

Growth prospects remain highly uncertain.

On the assumption that the epidemic peaks in China in the first quarter of 2020 and outbreaks in other countries prove mild and contained, global growth could be lowered by around 1⁄2 percentage point this year relative to that expected in the November 2019 Economic Outlook.

Accordingly, annual global GDP growth is projected to drop to 2.4% in 2020 as a whole, from an already weak 2.9% in 2019, with growth possibly even being negative in the first quarter of 2020.

Prospects for China have been revised markedly, with growth slipping below 5% this year, before recovering to over 6% in 2021, as output returns gradually to the levels projected before the outbreak.

The adverse impact on confidence, financial markets, the travel sector and disruption to supply chains contributes to the downward revisions in all G20 economies in 2020, particularly ones strongly interconnected to China, such as Japan, Korea and Australia.

Provided the effects of the virus outbreak fade as assumed, the impact on confidence and incomes of well-targeted policy actions in the most exposed economies could help global GDP growth recover to 31⁄4 per cent in 2021.

A longer lasting and more intensive coronavirus outbreak, spreading widely throughout the Asia- Pacific region, Europe and North America, would weaken prospects considerably. In this event, global growth could drop to 11⁄2 per cent in 2020, half the rate projected prior to the virus outbreak.

Governments need to act swiftly and forcefully to overcome the coronavirus and its economic impact.

Governments need to ensure effective and well-resourced public health measures to prevent infection and contagion, and implement well-targeted policies to support health care systems and workers, and protect the incomes of vulnerable social groups and businesses during the virus outbreak.

Supportive macroeconomic policies can help to restore confidence and aid the recovery of demand as virus outbreaks ease, but cannot offset the immediate disruptions that result from enforced shutdowns and travel restrictions.

If downside risks materialise, and growth appears set to be much weaker for an extended period, co-ordinated multilateral actions to ensure effective health policies, containment and mitigation measures, support low-income economies, and jointly raise fiscal spending would be the most effective means of restoring confidence and supporting incomes.

e coronavirus outbreak has significantly weakened near-term global economic

prospects

Since the outbreak in January, close to 85,000 people have been infected worldwide, with a fast-rising share of these outside China. The epicentre of the outbreak was in Hubei province, which accounts for about 4.5% of China’s output, but the effects have been quickly apparent throughout China with efforts to control the spread of the virus leading to wide-ranging restrictions on passenger transportation, labour mobility and hours worked. Available indicators for February point to significant declines in activity inside China, and the tentative signs of a mild improvement towards the end of the month appear unlikely to be rapid enough to prevent the level of output in the first quarter of 2020 being lower than in the fourth quarter of 2019.

Production declines in China have been quickly felt by businesses around the world, given China’s key role in global supply chains as a producer of intermediate goods, particularly in computers, electronics, pharmaceuticals and transport equipment, and as the primary source of demand for many commodities. Temporary supply disruptions can be met by using inventories, but inventory levels are lean due to just-in-time manufacturing processes and alternative suppliers cannot easily be obtained for specialised parts. A prolonged delay in restoring full production in affected regions would add to the weakness in manufacturing sectors in many countries, given the time it takes to ship supplies around the world.

Travel restrictions, and the cancellation of many planned visits, flights, business and leisure events are severely affecting many service sectors. This is likely to persist for some time. Worldwide, Chinese tourists account for around one-tenth of all cross-border visitors, and one-quarter or more of all visitors in Japan, Korea and some smaller Asian economies (Figure 4, Panel A). Exports of travel services to China, including the spending by Chinese visitors, are also significant in many countries (Figure 4, Panel B). The virtual cessation of outbound tourism from China represents a sizeable near-term adverse demand shock. This is already apparent in many destinations; visitor arrivals in Hong Kong, China in February were 95% lower than usual. If the spread of the coronavirus outbreak affects visitor numbers more widely across the major economies, there would be sizeable costs, with tourism accounting directly for 41⁄4 per cent of GDP in the OECD economies and almost 7% of employment.

Figure 4. Chinese visitors account for a rising share of visits and tourist spending in many economies

Note: Panel A: data for Japan and Korea are for the first 11 months of 2019; data for Australia are for the year to June 2012 and June 2019; data for France, Malaysia, New Zealand, the Philippines, and the United States are for 2018; data for Indonesia are for 2017. Panel B data for Singapore and Thailand are for spending by foreign tourists in the country. Data for Hong Kong, China and Iceland are for 2017.

Source: OECD Economic Outlook database; OECD Trade in Services by Partner Country; Austrade; Eurostat; Direction Générale des Enterprises; Japan National Tourism Organisation; Korea Tourism Organisation; Tourism Malaysia; New Zealand Statistics Office; Philippines Department of Trade and Industry; Singapore Tourism Board; Statistics Canada; Ministry of Tourism and Sports, Thailand; US International Trade Administration; Vietnam National Administration of Tourism

Global growth is set to weaken this year and recover gradually in 2021

Growth prospects are very uncertain. The projections are based on the assumption that the epidemic peaks in China in the first quarter of 2020, with a gradual recovery through the second quarter aided by significant domestic policy easing. Together with the recent marked deterioration in global financial conditions and heightened uncertainty, this will depress global GDP growth in the early part of the year, possibly even pushing it below zero in the first quarter of 2020. Even if the COVID-19 effects fade gradually through 2020, as assumed, illustrative simulations suggest that global growth could be lowered by up to 1⁄2 percentage point this year (Box 1; Figure New cases of the virus in other countries are also assumed to prove sporadic and contained, but if this is not the case, global growth will be substantially weaker.

Figure 5. Illustrative coronavirus scenarios highlight the adverse impact on growth

Change in GDP growth in 2020 relative to baseline, percentage points

Note: Simulated impact of weaker domestic demand, lower commodity and equity prices and higher uncertainty. Base-case scenario with the virus outbreak centred in China; broader contagion scenario with the outbreak spreading significantly in other parts of the Asia-Pacific region, Europe and North America. See Box 1 for full details of the shocks applied. Commodity exporters include Argentina, Brazil, Chile, Russia, South Africa and other non-OECD oil-producing economies.

Source: OECD calculations using the NiGEM macroeconomic model.

On this basis, global GDP growth is projected to slow from 2.9% in 2019 to 2.4% this year, before picking up to around 31⁄4 per cent in 2021 as the effects of the coronavirus fade and output gradually recovers (Figure 6). Announced and implemented policy actions incorporated in the projections will help to support incomes in the near term, particularly those well-targeted on affected firms and households. Macroeconomic policy stimulus in the most exposed economies will help to restore confidence as the effects of the virus outbreak and supply-side disruptions fade. Low interest rates should help cushion demand, although the impact of recent and projected changes in policy interest rates on activity is likely to be modest in the advanced economies. Fiscal policy easing will also help in Asian economies, but it appears likely to be more restrictive than desirable in many others, particularly in Europe, given soft growth prospects and low borrowing rates.

Household spending continues to be underpinned by improving labour market conditions, but slowing job creation is likely to weigh on income growth, and persistent weak productivity growth and investment will check the strength of real wage gains. Uncertainty is likely to remain elevated, with trade and investment remaining very weak. The downturn in financial market risk sentiment, and reductions in business travel and tourism are also likely to constrain demand growth for some time.

The rising cost of the coronavirus outbreak for business and the world economy is expected to become clearer this week as major firms issue trading updates and China reports the toll on its manufacturing sector.

The latest snapshot of industrial activity in the world’s second largest economy, due to be published this week, is expected to reveal a plunge in Chinese factory output in February as quarantine efforts to contain the disease disrupted supply chains – with damaging consequences for companies around the world.

China’s president Xi Jinping warned at the weekend that the coronavirus would have a “relatively big impact on the economy and society”. Adding that it would be short-term and controllable, Xi said the government would step up efforts to cushion the blow. The country has taken a number of measures in recent weeks to prop up it

The head of the International Monetary Fund, Kristalina Georgieva, said on Sunday that the global lender of last resort was ready to provide additional support, particularly to poorer countries by way of grants and debt relief.

Speaking at a G20 meeting of finance leaders and central bank chiefs, she said the IMF assumed the impact would be relatively minor and shortlived, although she warned that the continued spread of the virus could have dire consequences.

She added: “Global cooperation is essential to the containment of the Covid-19 and its economic impact, particularly if the outbreak turns out to be more persistent and widespread.”

Efforts to prevent the spread of the disease were ramped up dramatically over the weekend by Italian authorities, raising the potential to harm eurozone growth at a time when the country’s economy is already in contraction.

More than 76,000 people in 27 countries have been infected by the new strain of coronavirus that originated in the Chinese city of Wuhan at the turn of the year. More than 2,200 people have died.

International Airlines Group, the owner of British Airways and Iberia, is scheduled to provide an update on its financial performance for 2019 on Friday that will be closely watched for updates about any potential future impact.

The International Air Transport Association (IATA), the trade body for the global airline industry, warned last week that falling passenger demand would cost the airline industry $29.3bn (£23.7bn) in lost revenues this year, with global air travel expected to fall for the first time in more than a decade.

Luxury goods group Hermès will also provide an update to investors on Wednesday. Analysts have warned that transport groups, hospitality chains, airlines, luxury goods makers and retailers will be among those hardest hit by the coronavirus as Chinese consumers stay away from the shops and travellers put off holiday plans.

There are also concerns for global supply chains as Chinese factories remain closed. Jaguar Land Rover warned last week it could run out of car parts at its British factories by next week. The car manufacturer admitted it had been bringing in parts from China to the UK in suitcases.