

Coronavirus Downgrades to Growth

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Towards the end of 2019, it was clear that the economic slowdown that had commenced in the 1st quarter of 2018 and which troughed in the 1st quarter of 2019 was beginning to stabilise.

Average earnings were trending higher, employment improving, albeit with a heavy emphasis on low paid work, and the trade war that Donald Trump had made the centre-piece of his presidency was showing some signs of abating offering a hope of resumed trade growth.

De-globalisation was underway but the world was beginning to adapt.

It is ironic, therefore, that as global ties are unwinding, a viral mutation originating in Chinese bats and transmitting to humans via civet cats has given rise to what looks like a global “flu-like” pandemic, stopping that economic acceleration in its tracks.

“Breakfast in London, lunch in New York, luggage in Rio.” It’s an old joke but it captures the fears held by epidemiologists concerning the sheer speed of global travel. An infectious disease originating in Nigeria can travel the globe undetected in the space of a single day.

A large number of commentators have made the point that the world is unprepared for an epidemic event. Actually, that’s not the case. The WHO, World Health Organisation, based in Geneva does a thoroughly comprehensive job monitoring, controlling and advising on disease outbreaks across the world. Partly because of the very real risks posed to the world by the ease and speed of global travel.

Between 2011 and 2018, the WHO tracked 1,484 epidemic events, 185 events per year, in diseases such as influenza, severe acute respiratory syndrome (SARS), Middle East respiratory syndrome (MERS), Ebola, Zika, plague and Yellow Fever amongst others.

It appears that the Covid-19 virus is one of the least virulent of the strains noted above with mortality lower than that associated with seasonal flu which kills between 30,000 and 70,000 people each year. The risk seems to be the ease with the virus is transmitted as it sits in the throat rather than the lung and is easily expelled by coughing and sneezing. Hence the advice to use paper tissues and to wash hands thoroughly.

The expected damage to global growth is not thought to be via the death of millions of people across the world; the 1918 Spanish flu killed up to 3-5% of the global population of the time; but by the cessation of economic activity as people self-isolate, take time off work to recover from infection or to care for others.

The World Bank estimates that a global influenza epidemic of the scale of the 1918 flu would cost the world economy in excess of \$3-\$4 trillion or slightly less than 5% of world GDP.

However, in 1918 the world was recovering from global war, malnutrition and, of course by modern standards, the world had only relatively primitive medicine.

This week the OECD gave their first considered view of the impact of the coronavirus now known as Covid-19 on the world economy. In their estimation the impact of the virus is likely to be large but contained between 0.5% and 1.5% of

global GDP.

Recent market volatility seems to have priced in a “permanent” decline in global capacity. This looks overdone, since as Mark Carney, Governor of the Bank of England, noted, the Covid-19 virus is “a large but temporary shock” to the economy. Undoubtedly, some sectors would be hit harder and earlier than others but this in itself will remove weaker businesses, creating opportunities for others to take up lost capacity. We are seeing evidence of this in the UK this week with the collapse of Flybe.

Lost output incurred in this period is likely to be recovered in the next. Thus, patience not panic is the appropriate response to Covid-19 for long-term investors.

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