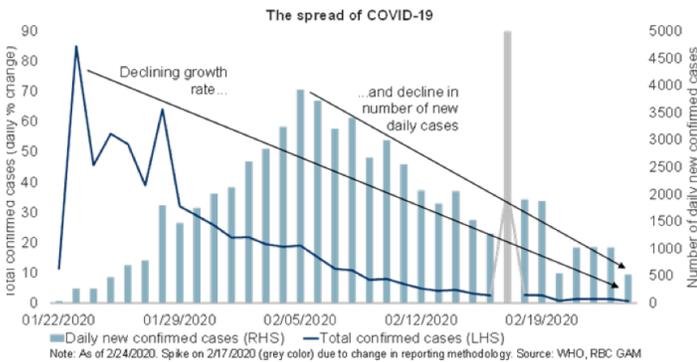


COVID-19 Economic Update

The COVID-19 virus has again put fear into the heart of financial markets as the focus shifts from what appear to be diminishing risks within China to rapidly rising risks outside of the country.

In China (see first chart), the daily growth rate of COVID-19 cases has shrunk to just 520 on February 24 – almost six times less than the February 5 peak. The daily growth rate in percentage terms has declined to just 0.7%, the lowest yet recorded (the peak was a gargantuan 85% in late January). In fact, on a net basis, there are now more Chinese each day being declared newly free of the disease than are acquiring it. Fully twenty-four Chinese provinces – including the capital and Shanghai – reported no new cases in the latest data. President Xi has now called for a resumption of economic activity. Of course, it is possible that this tentative reset could drive the infection rate back up.

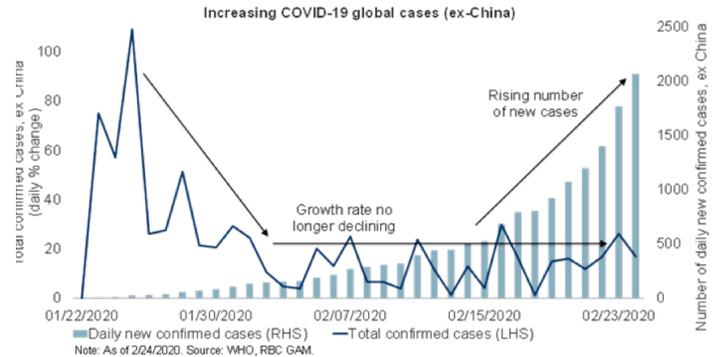


Outside of China

In contrast, the growth rate outside of China is still far from tamed (see next chart). The number of new cases in the rest of the world has set a new record each day, with 2,069 reported on February 24 alone. While the percentage growth rate has declined from its initial highs, it has seemingly become stuck at around +15%/day.

Granted, the disease made its way outside of China with a lag, so it makes sense that it is taking longest to resolve there. Furthermore, China is still host to the great majority of the overall cases. But China's caseload growth was already beginning to slow after two weeks, whereas there is no sign yet of a peak in the rest of the world.

Two issues immediately present themselves as the rest of the world now grapples with COVID-19. First, while rich countries may enjoy a health care advantage over China, they may lack the ability to mobilize (or in this case, immobilize) their



population to the extent that China did. Second, the world's poorest countries would appear to be very vulnerable on both fronts, to the extent they lack quality health care and also do not possess the tools necessary to quarantine entire populations of people.

Outside of China, several countries are capturing particular attention:

- South Korea has suddenly exploded to 763 cases, with seven fatalities. The bulk of the cases have now been acquired domestically, rather than via direct travel to China. The country now has 7,000 troops in quarantine after a handful tested positive for the disease. We now assume significant economic damage.
- Until recently, Japan had the highest caseload outside of China, though much of this was from a quarantined foreign cruise ship (695 cases). Nevertheless, even without that group it maintains 144 cases and is especially vulnerable not merely by virtue of its proximity to China but also due to its large elderly population (the disease disproportionately targets the old and infirm). We assume modest economic damage.
- Iran has been a source of concern since late last week when a Canadian was reported to have contracted the disease in Iran rather than China, and the country has since admitted to 43 cases (though the official count of eight deaths suggests a considerably larger overall pool of sick people). Iran is now reported to have closed its schools.
- Lastly, and further hinting at the highly contagious nature of the disease and its ability to seemingly pop up nearly anywhere, Italy has suddenly leaped from three cases on February 21 to 124 cases on February 24, with five deaths now reported. These are clustered within a region of ten towns not far from Milan. Italy is attempting to impose a strict quarantine.

Disease parameters

COVID-19 continues to operate according to our initial expectations: the fatality rate remains in the range of 3% (2595 deaths out of 77,262 confirmed cases in China) and it has proven highly contagious, as evidenced by the aforementioned cross-section of affected nations.

Perhaps the only twist is the extent to which the fatality rate has thus far proven highly variable. Outside of China's Hubei province, the fatality rate appears to be considerably less than within it. Furthermore, the virus appears to discriminate aggressively based on age. The fatality rate so far is 0% for young children, just 0.2% for those aged 10-39, and then incrementally rises to a large 14.8% for those aged 80-plus. For those below middle age, it is arguably no more dangerous than the ordinary flu. For the elderly, it is deadly.

Revisiting economic assumptions

Even as the caseload growth in China has slowed, businesses have remained shuttered to an even greater extent than we had initially envisioned. Surveys suggest businesses continue to operate well below their normal capacity a full four weeks since the virus began to significantly impede economic activity. Even though we assume an incremental return to business over the coming weeks, it is hard to see Chinese 2020 GDP growth operating much above 5.0%. This is down from our prior forecast of 5.6%. Absent the virus, we would have forecast 5.9% growth for the year.

At a more detailed level, it seems nearly certain to us that Chinese Q1 GDP growth on a quarterly basis will be substantially negative, and there is a good chance that year-over-year GDP growth will also be temporarily negative for the quarter before rebounding in later quarters. The monthly data in January and February will likely be truly terrible, with property sales down by more than 90% already. The Chinese government has already leaped into action with monetary stimulus and improved credit growth, but there is not much that can be done in the near term so long as workers are told to stay home. One reason for our forecast uncertainty is that the Chinese government may not reveal the true depth of the economic weakness.

For the rest of the world, as China slows and as the virus spreads internationally, we have now taken a cumulative 0.4ppt off our global growth forecast – 0.2ppt more than the prior estimate. This leaves global growth expanding at a meek 2.9% in 2020.

A worst-case scenario would have COVID-19 ping-ponging around the world, forcing companies to shutter on a nearly worldwide basis. It is unlikely to be quite that extensive, but the next week will reveal much and containment is no easy task.



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