

Impacts of Coronavirus Containment Effort Ripple Through Global Economy

Virus has brought large parts of the world's second largest economy to a standstill

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Coronavirus will have a larger negative effect on the global economy than the SARS outbreak in 2003. At the time of SARS, China was the sixth largest economy, accounting for only 4.2% of world GDP. China is now the world's second largest economy, accounting for 16.3% of world GDP. Therefore, any slowdown in the Chinese economy sends not ripples but waves across the globe.

If the current and unprecedented confinement measures in China stay in place until the end of February, and are lifted progressively beginning in March, the resulting economic impact will be concentrated in the first half of 2020, with a reduction of global real GDP of 0.8% in Q1 and 0.5% in Q2. In this scenario, the coronavirus and resulting measures will reduce global real GDP by 0.4% in 2020. Conversely, we expect the lifting of the confinement measures to add 0.4% to global real GDP in 2021, as the release in pent-up demand filters through the economy (see graph below).

On the other hand, if confinement measures begin to lift on February 10, the impact on global GDP will be more limited, resulting in a 0.1% reduction in global GDP growth in 2020 and 0.4% reduction in China's annual growth.

The effects of Coronavirus are most pronounced in household consumption and somewhat mitigated in the industrial sector because factories are seasonally idle during this period. Nevertheless, in many ways China's economy is more vulnerable today than it was in 2003, with productivity and overall economic growth already slowing and the effects of the US-China trade conflict.

Economic and Industrial Impact:

- **China's GDP has risen dramatically since SARS** (*Information from IHS Markit Economics and Country Risk*)
 - Mainland China's economy was the sixth largest in the world in 2002, accounting for 4.2% of world GDP; it is now the second-largest economy in the world, accounting for 16.3%.
 - Mainland China's impact on the world economy is also much larger now than during the SARS outbreak, meaning the slowdown in Chinese growth may be a significant drag on global growth. In 2002, China contributed 23% of world GDP growth, in 2019 China contributed an estimated 38% of world growth.
- **China's share of global manufacturing** (*Information from IHS Markit Economics and Country Risk*)
 - China's share of global manufacturing value-added climbed from 6.7% in 2002 to 30.5% in 2019*
 - Over that same span, China's share of world high-tech goods** value-added rose from 7.2% to 26.3%
 - Manufacturing now accounts for 29.3% of China's economy, up marginally from 27.1% in 2002

* estimate, ** defined in accordance with OECD standards.

- **Impact on Auto sales** (*Information from IHS Markit Automotive*)
 - The 11 Chinese provinces which have announced an extended holiday period are normally responsible for over two thirds of vehicle production in China, with projected crisis-induced first quarter production loss of around 350,000 units (minus 7%) if they're idled until February 10, 2020.

- If the situation lingers into mid-March, and plants in adjacent provinces are also idled, the China-wide supply chain disruption caused by parts shortages from Hubei, a major component hub, could have a wide-reaching impact. In this scenario IHS Markit predicts potential lost production of more than 1.7 million units for the first quarter, or about 32.3 percent decline from our pre-crisis expectations.
- **Oil consumption & trade** (*Information from IHS Markit Energy and Natural Resources*)
 - In 2019 China's oil demand was 13.9 MM barrels /day or 14% of world market vs 5.6 MM barrels /day in 2003 which equated to 7% of world demand.
 - China accounted for half of world oil demand growth in 2019.
 - In 2003 China accounted for one third of world oil demand growth.
 - Mainland China is now the second-largest importer in the world, accounting for 10.4% of the world's goods imports, compared with 4.0% of the world's imports in 2002.