



OECD INTERIM ECONOMIC OUTLOOK

Coronavirus: the world economy at risk

Laurence Boone
OECD Chief Economist

2 March 2020

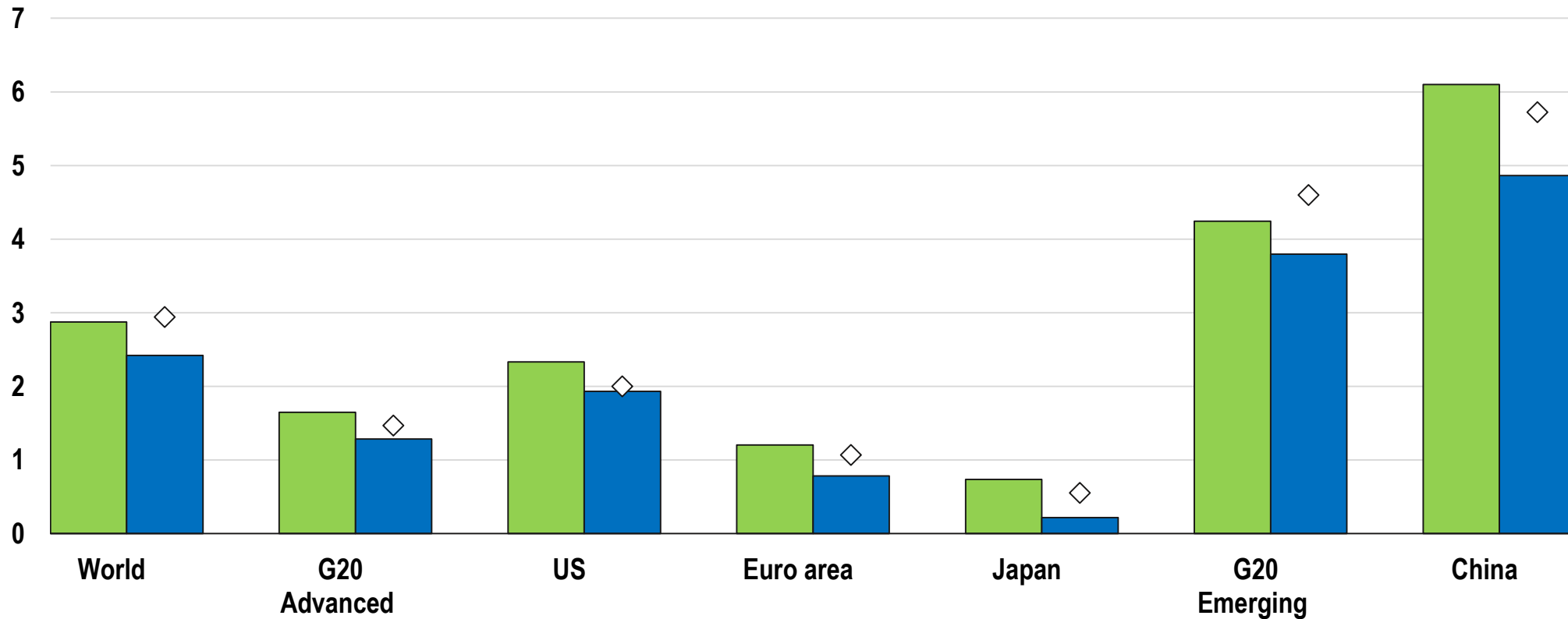
<http://www.oecd.org/economy/outlook/>
ECOSCOPE blog: oecdoscope.wordpress.com



The economic situation was stabilising before Covid-19

GDP growth *%, year-on-year*

■ 2019 ■ 2020 projection ◇ 2020: November projection





OECD Interim Economic Outlook projections

Real GDP growth

%, year-on-year. Arrows indicate the direction of revisions since the November 2019 Economic Outlook

	2019	2020	2021		2019	2020	2021
World	2.9	2.4 ↓	3.3 ↑	G20	3.1	2.7 ↓	3.5 ↑
Australia	1.7	1.8 ↓	2.6 ↑	Argentina	-2.7	-2.0 ↓	0.7 →
Canada	1.6	1.3 ↓	1.9 ↑	Brazil	1.1	1.7 →	1.8 →
Euro area	1.2	0.8 ↓	1.2 →	China	6.1	4.9 ↓	6.4 ↑
Germany	0.6	0.3 →	0.9 →	India¹	4.9	5.1 ↓	5.6 ↓
France	1.3	0.9 ↓	1.4 ↑	Indonesia	5.0	4.8 ↓	5.1 →
Italy	0.2	0.0 ↓	0.5 →	Mexico	-0.1	0.7 ↓	1.4 ↓
Japan	0.7	0.2 ↓	0.7 →	Russia	1.0	1.2 ↓	1.3 ↓
Korea	2.0	2.0 ↓	2.3 →	Saudi Arabia	0.0	1.4 →	1.9 ↑
United Kingdom	1.4	0.8 ↓	0.8 ↓	South Africa	0.3	0.6 ↓	1.0 ↓
United States	2.3	1.9 ↓	2.1 ↑	Turkey	0.9	2.7 ↓	3.3 ↓

↓ downward by 0.3 pp and more
 ↓ downward by less than 0.3 pp
 → no change
 ↑ upward by less than 0.3 pp
 ↑ upward by 0.3 pp and more

Note: Difference in percentage points based on rounded figures. The European Union is a full member of the G20, but the G20 aggregate only includes countries that are members in their own right.

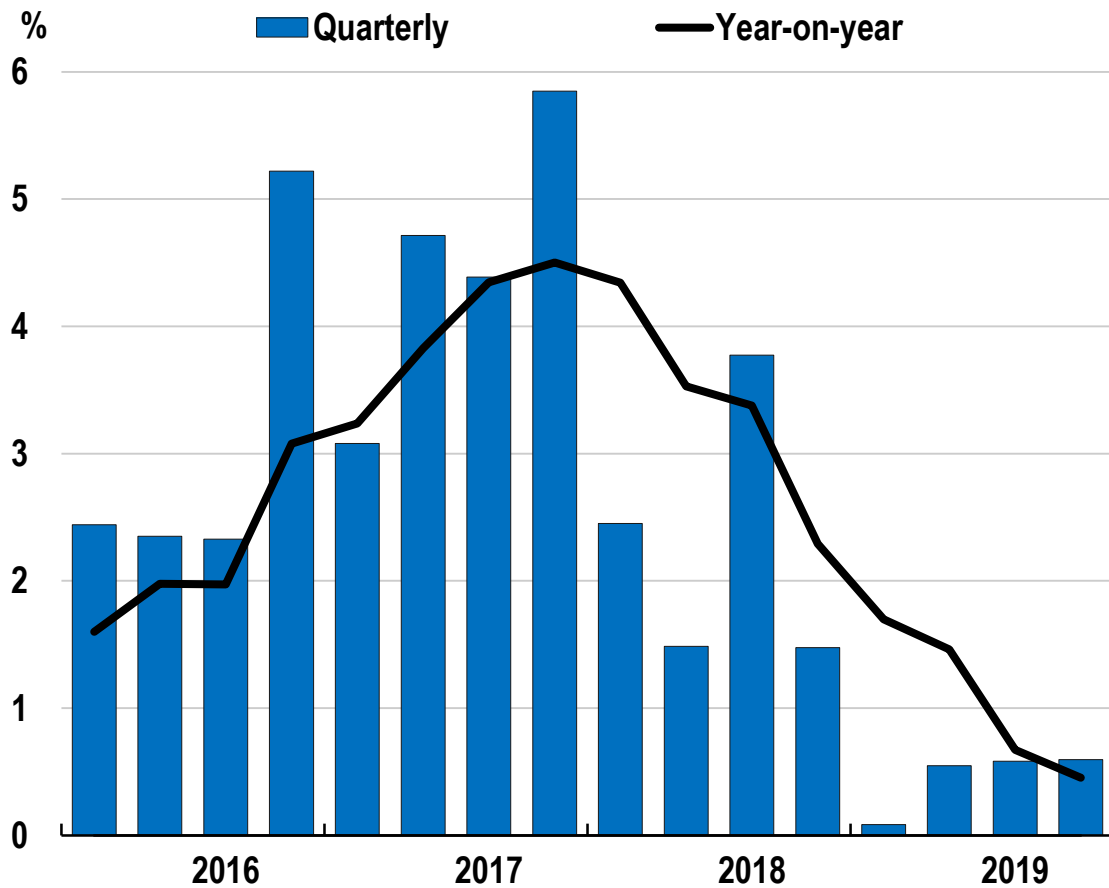
1. Fiscal years starting in April.

Source: OECD Economic Outlook database; and OECD calculations.

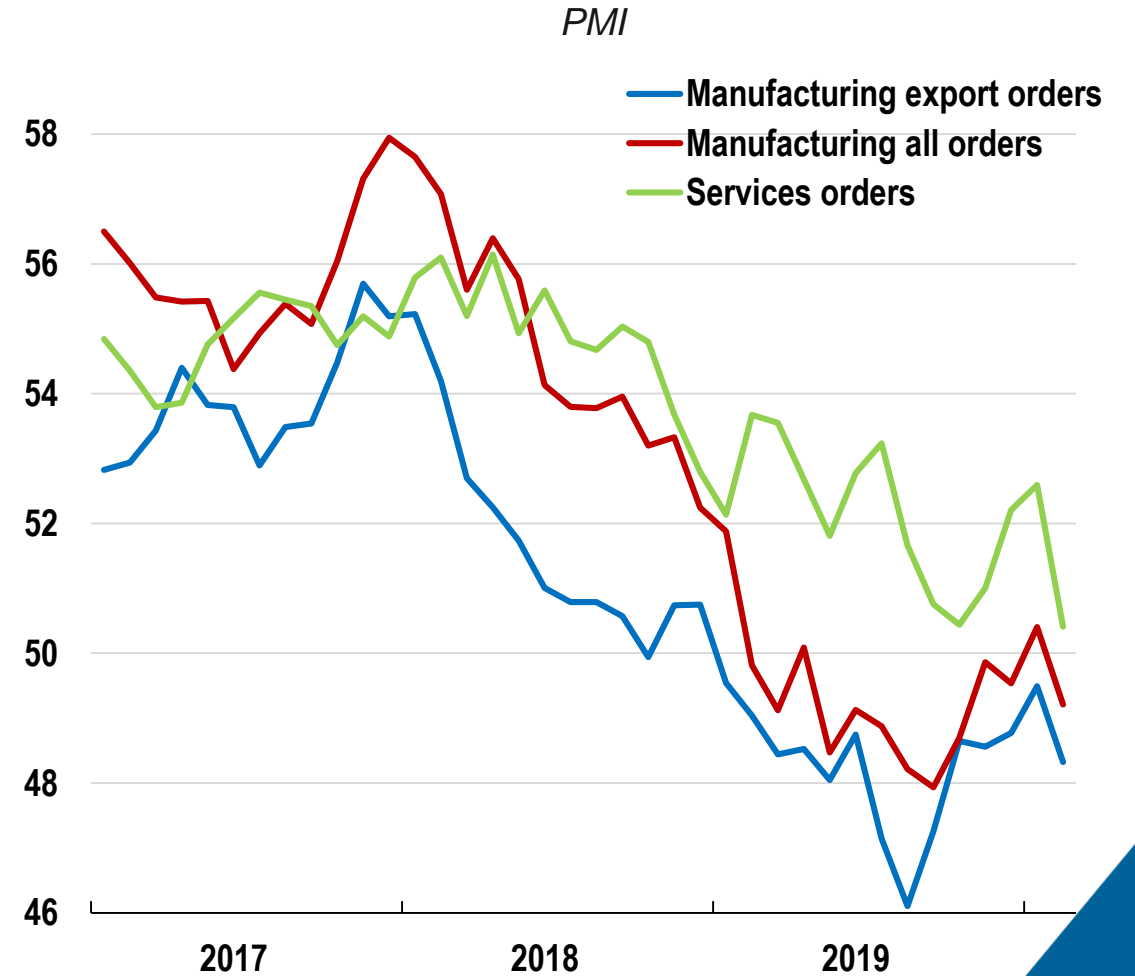


Manufacturing appeared to have bottomed out

Global industrial production growth



New orders in advanced economies

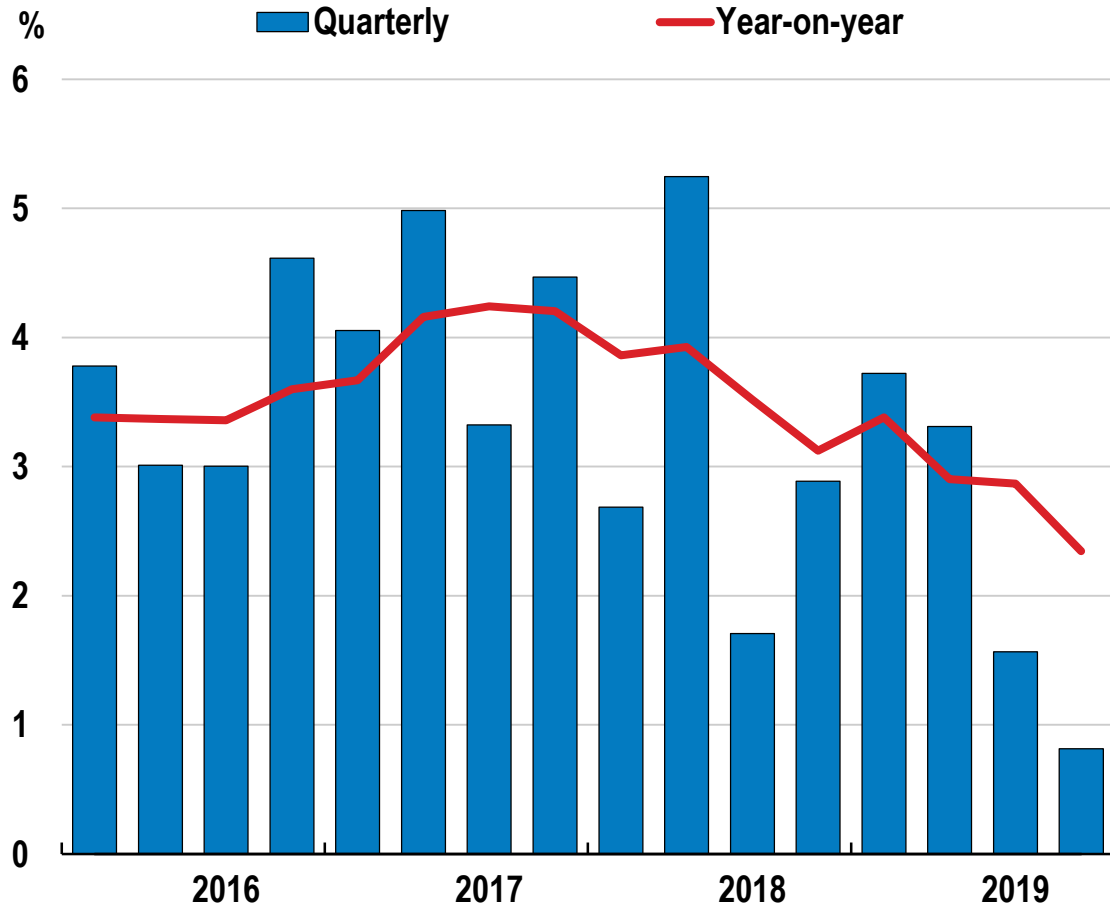


Note: RHS: The last data point is February 2020.
Source: OECD Main Economic Indicators database; Markit; and OECD calculations.

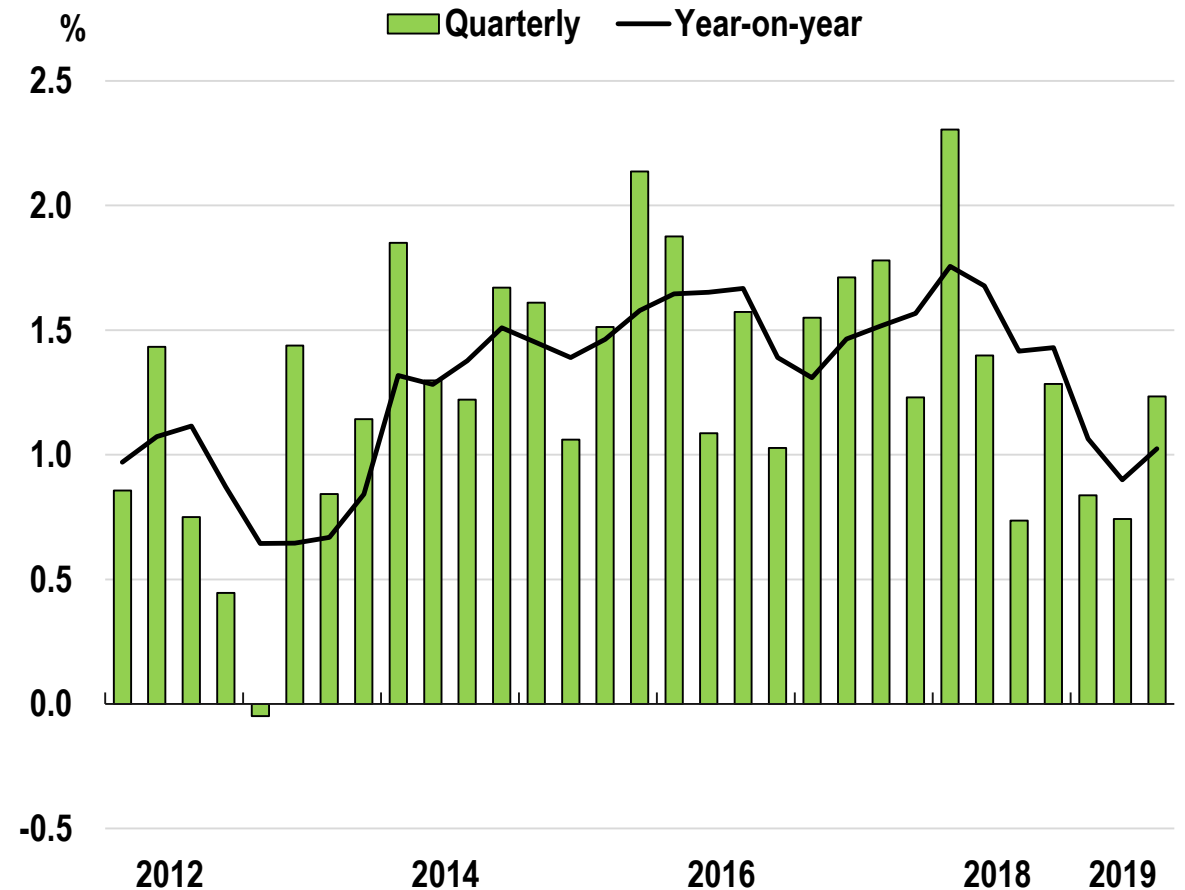


Employment growth was also stabilising

Global retail sales growth



OECD employment growth



Note: Quarterly series are annualised. LHS: Data for retail sales are used in the majority of countries, but monthly household consumption is used for the United States and the monthly synthetic consumption indicator is used for Japan. Data for India are unavailable.
Source: OECD Economic Outlook 106 Database.



ASSESSING THE ECONOMIC EFFECTS OF COVID-19



Economic channels

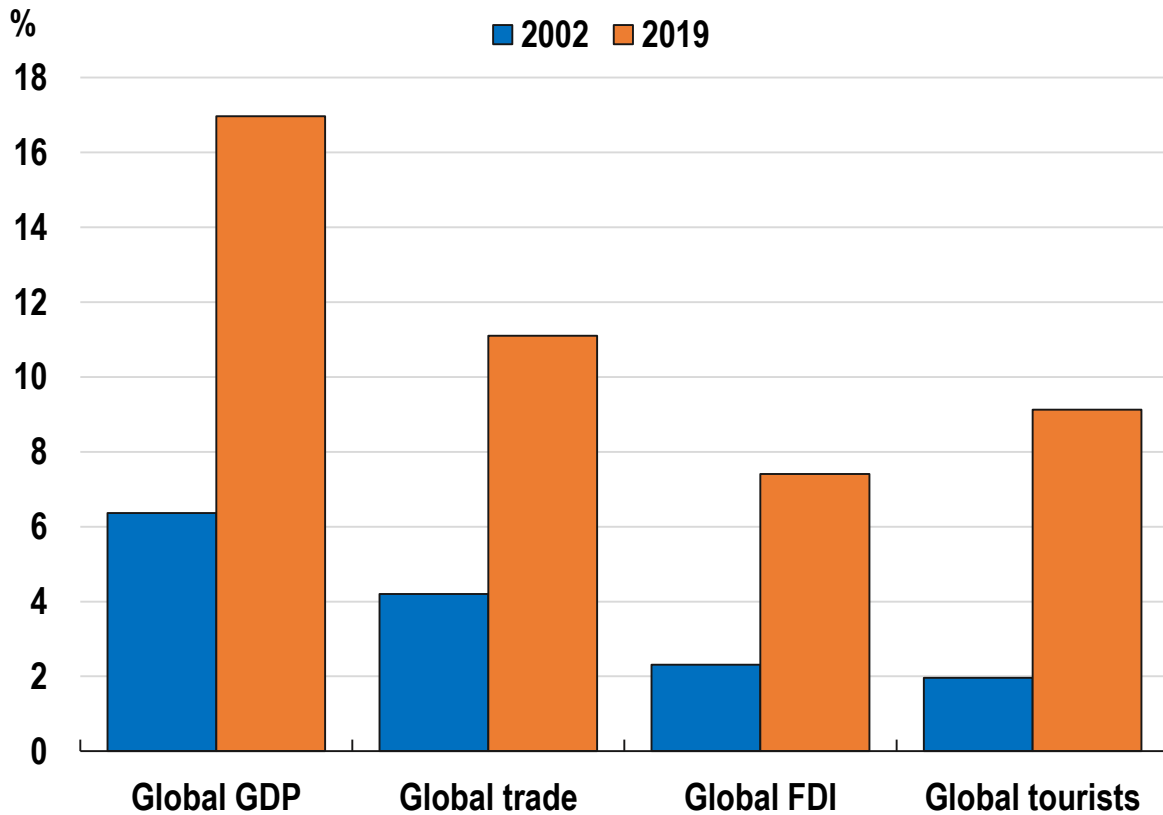
Containment measures	Supply	Demand
Quarantines	Factory closures	Loss of confidence
Travel bans and restrictions	Cutbacks in service provisions	Business and tourism travels
Closure of public places	Supply chain disruption	Education and entertainment services



Covid-19 will have a larger economic impact than the SARS episode in 2003

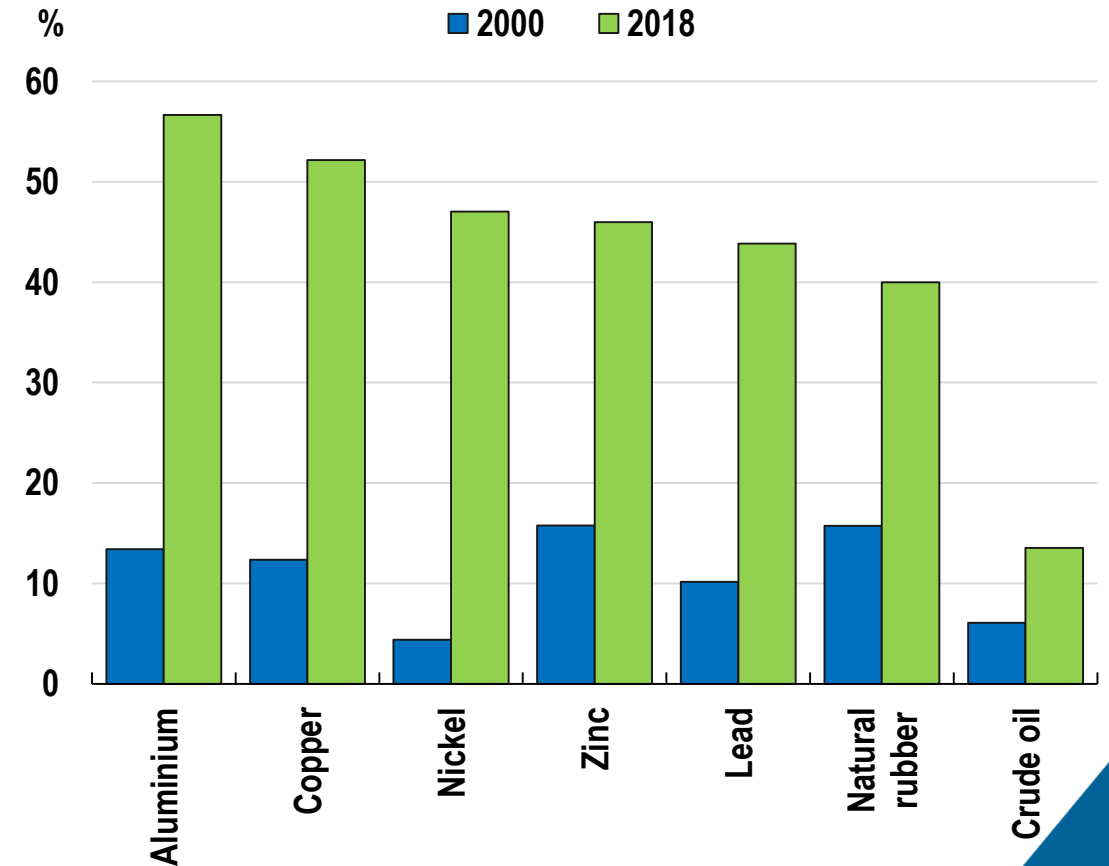
China is more integrated in the global economy

Share of China in world



China is a major commodity importer

Share of China in global demand for selected commodities



Note: LHS: Estimates for global tourists are based on 2017 instead of 2019; estimates for global FDI are based on 2005/2018 instead of 2002/2019. Share of global GDP and trade in constant US dollars. Share of global FDI in current US dollars.

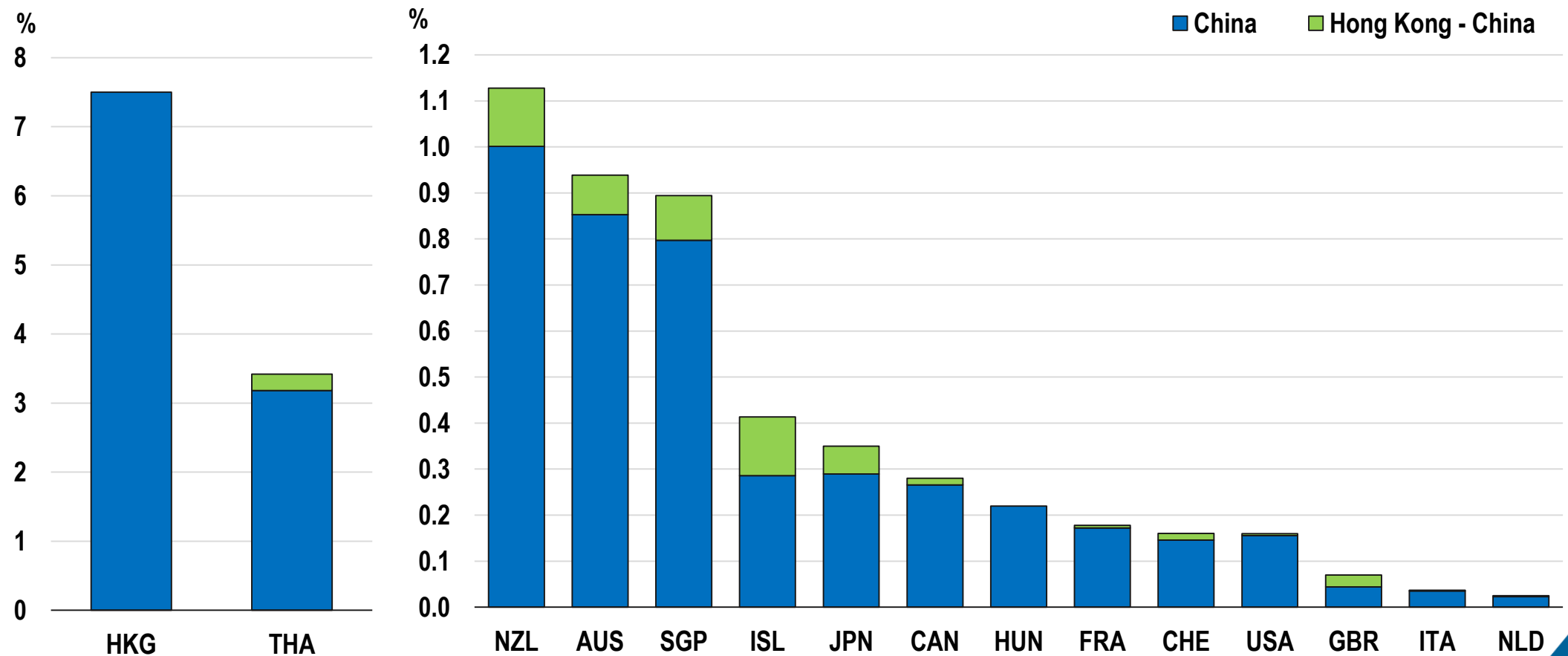
Source: OECD Economic Outlook database; OECD Global FDI in figures (2019); World Bank Group (2019), Commodity Markets Outlook, October; and OECD calculations.



The drop in Chinese travellers will hit hard

Travel services to China and Hong Kong-China, as a share of GDP

2018



Note: Data for Singapore and Thailand are for spending by foreign tourists in the country. Data for Hong Kong-China are for 2017.

Source: OECD Economic Outlook database; OECD Trade in Services by Partner Country; Eurostat; Singapore Tourism Board; and Ministry of Tourism and Sports, Thailand.

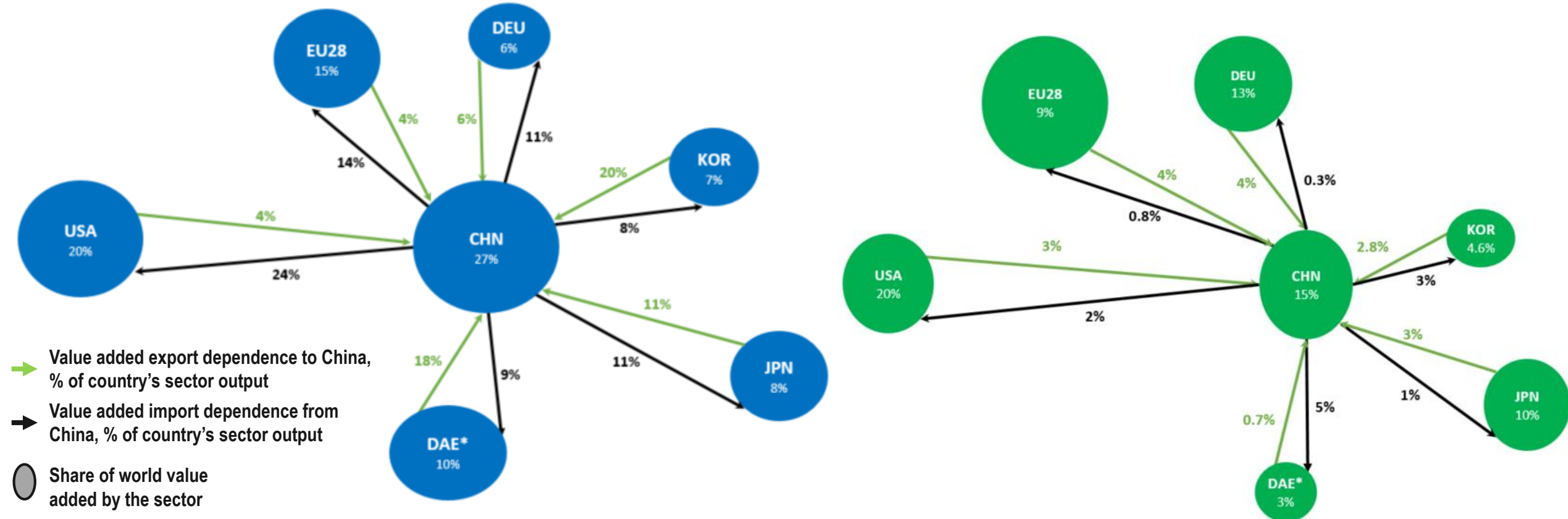


Supply chains are vulnerable

Value added trade flows between China and key partners

Computers, electronics and electrical equipment sector

Transport equipment sector



Note: 2015 data. *DAE refers to Dynamic Asian Economies: Chinese Taipei; Hong-Kong, China; Malaysia; Philippines; Singapore; Thailand and Vietnam. Source: OECD Trade in Value Added database; and OECD calculations.

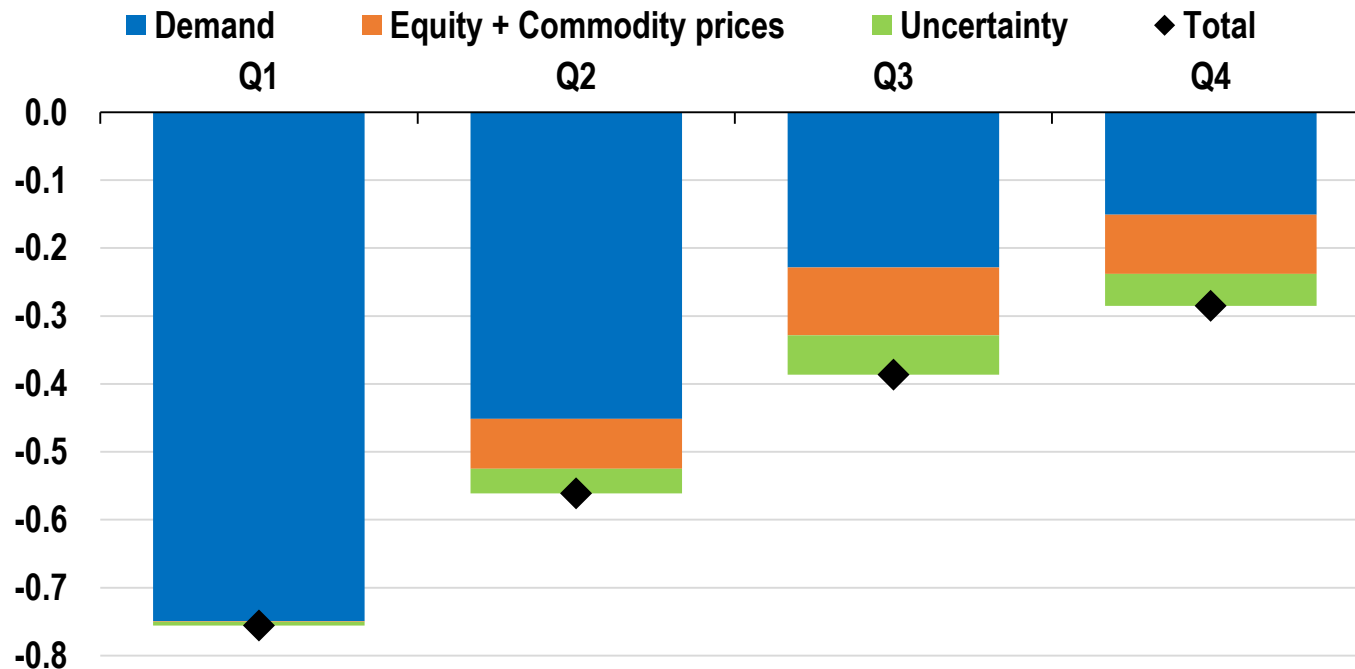


The fall in Chinese demand will have important costs

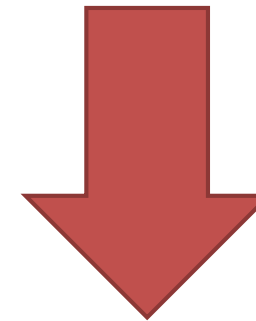
Contained outbreak scenario

World GDP in 2020

% difference from baseline and contributions in % pts



Full-year impact on 2020 world GDP



0.5%

Note: This simulation shows the impact of a 4% fall in domestic demand in China and Hong Kong-China in 2020Q1 and a 2% decline in 2020Q2, plus declines of 10% in global equity and non-food commodity prices in the first half of 2020, and a 10 bps rise in investment risk premia in all countries in the first half of 2020. All shocks are assumed to fade away gradually by early 2021.

Source: OECD calculations using the NiGEM global macroeconomic model.

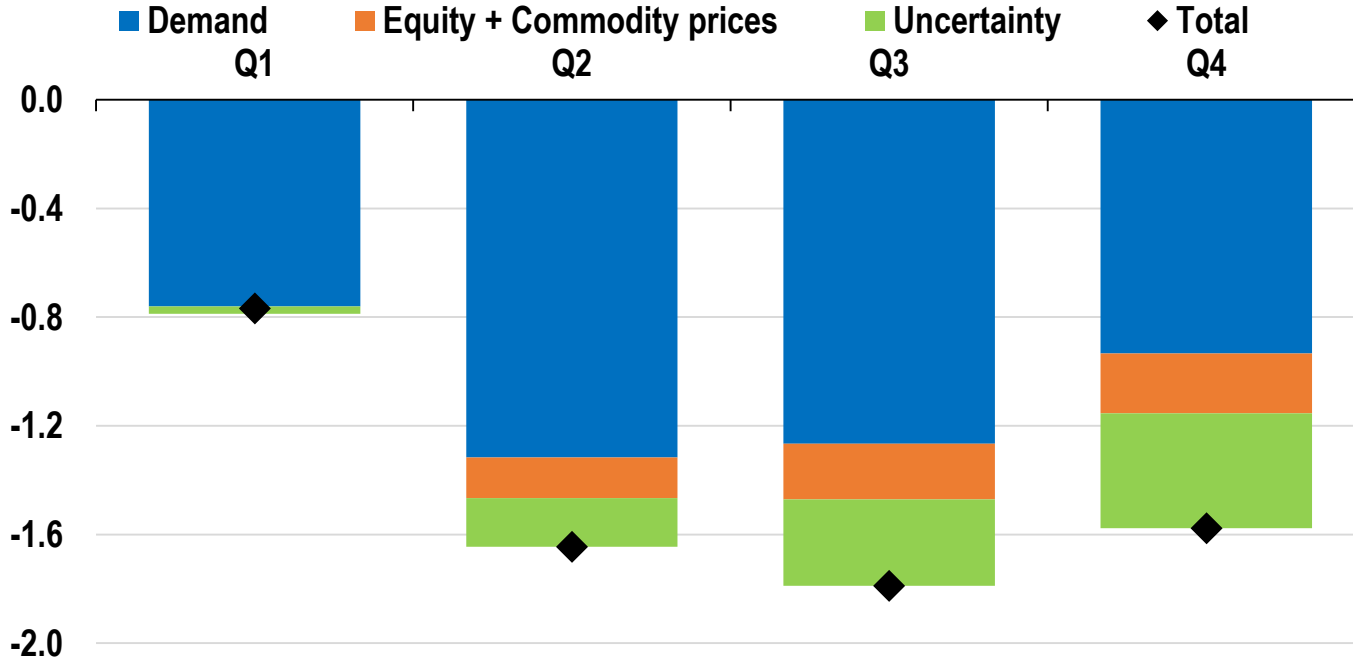


Costs are much higher if the epidemic spreads through Asia-Pacific and the Northern Hemisphere

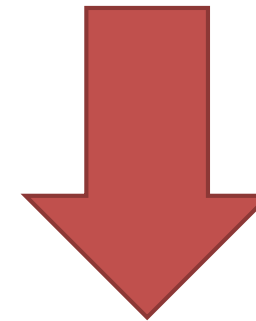
Downside scenario

World GDP in 2020

% difference from baseline and contributions in % pts



Full-year impact on 2020 world GDP



1.5%

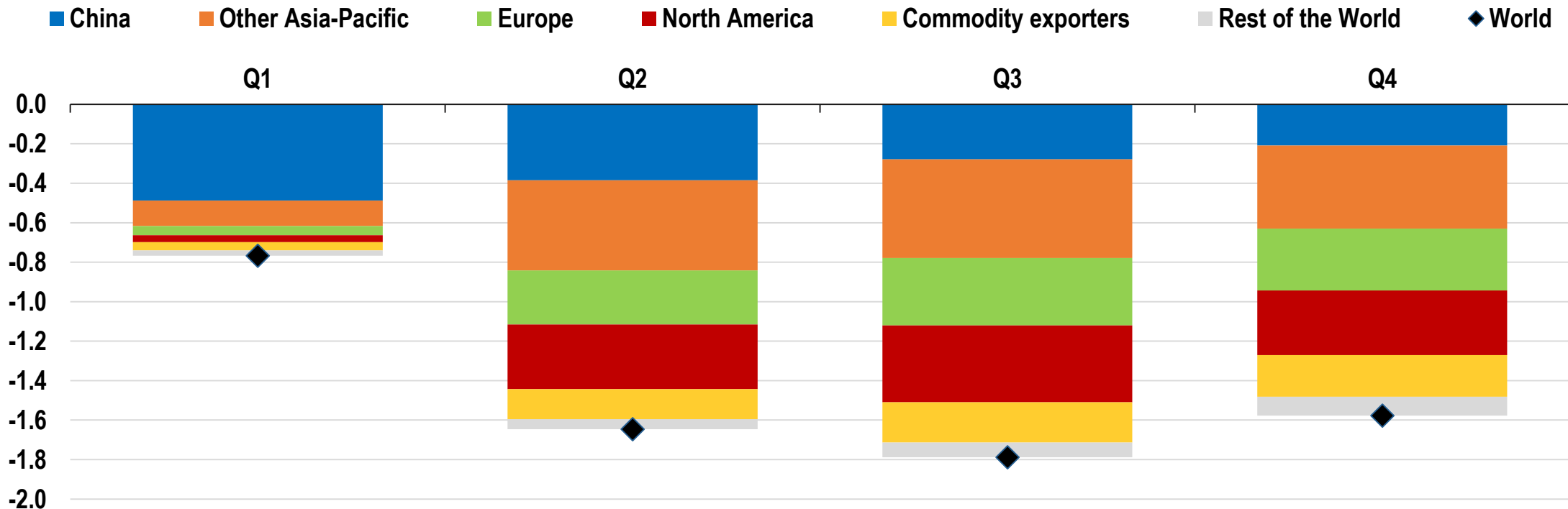
Note: This simulation shows the impact of a 4% fall in domestic demand in China and Hong Kong-China in 2020Q1 and a 2% decline in 2020Q2, plus a 2% domestic demand fall in most other Asia-Pacific countries and advanced Northern hemisphere countries in 2020Q2 and 2020Q3, plus declines of 20% in global equity and non-food commodity prices in 2020, and a 50 bps rise in investment risk premia in all countries in 2020. These shocks are assumed to decline gradually through 2021.
Source: OECD calculations using the NiGEM global macroeconomic model.



The decline in global growth hitting all affected regions

Regional impact of downside scenario

Contributions to change in world GDP in 2020, % pts



Note: This simulation shows the impact of a 4% fall in domestic demand in China and Hong Kong-China - in 2020Q1 and a 2% decline in 2020Q2, plus a 2% domestic demand fall in most other Asia-Pacific countries and advanced Northern hemisphere countries in 2020Q2 and 2020Q3, plus declines of 20% in global equity and non-food commodity prices in 2020, and a 50 bps rise in investment risk premia in all countries in 2020. These shocks are assumed to decline gradually through 2021. Commodity exporters include Argentina, Brazil, Chile, Russia, South Africa and other non-OECD oil-producing economies.

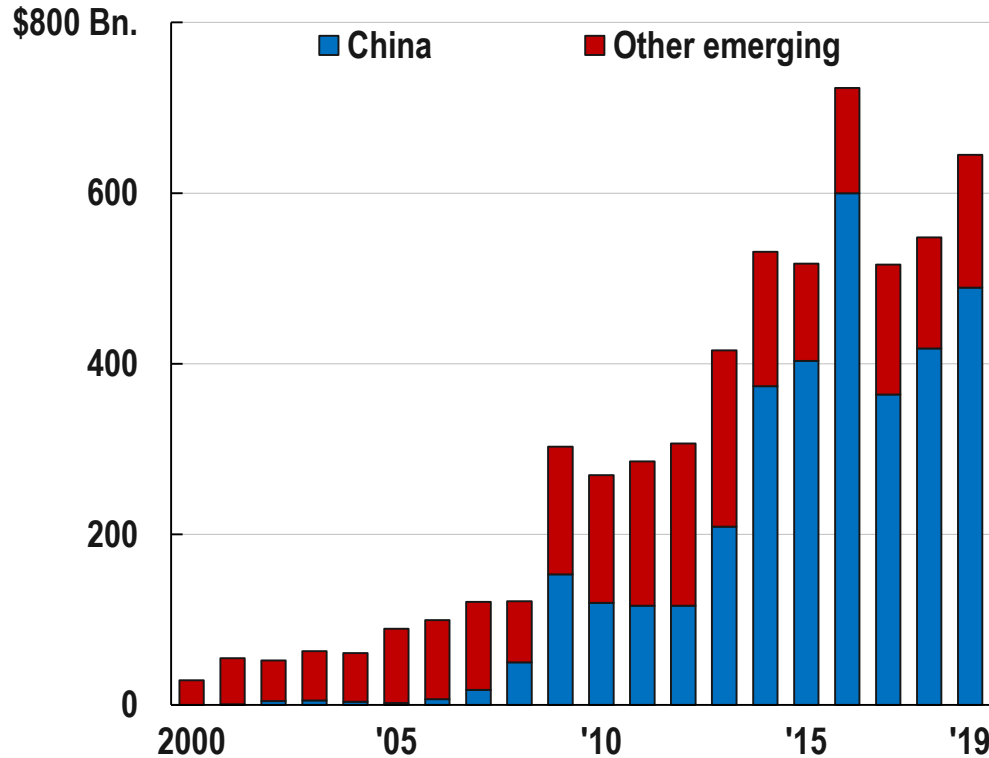
Source: OECD calculations using the NiGEM global macroeconomic model.



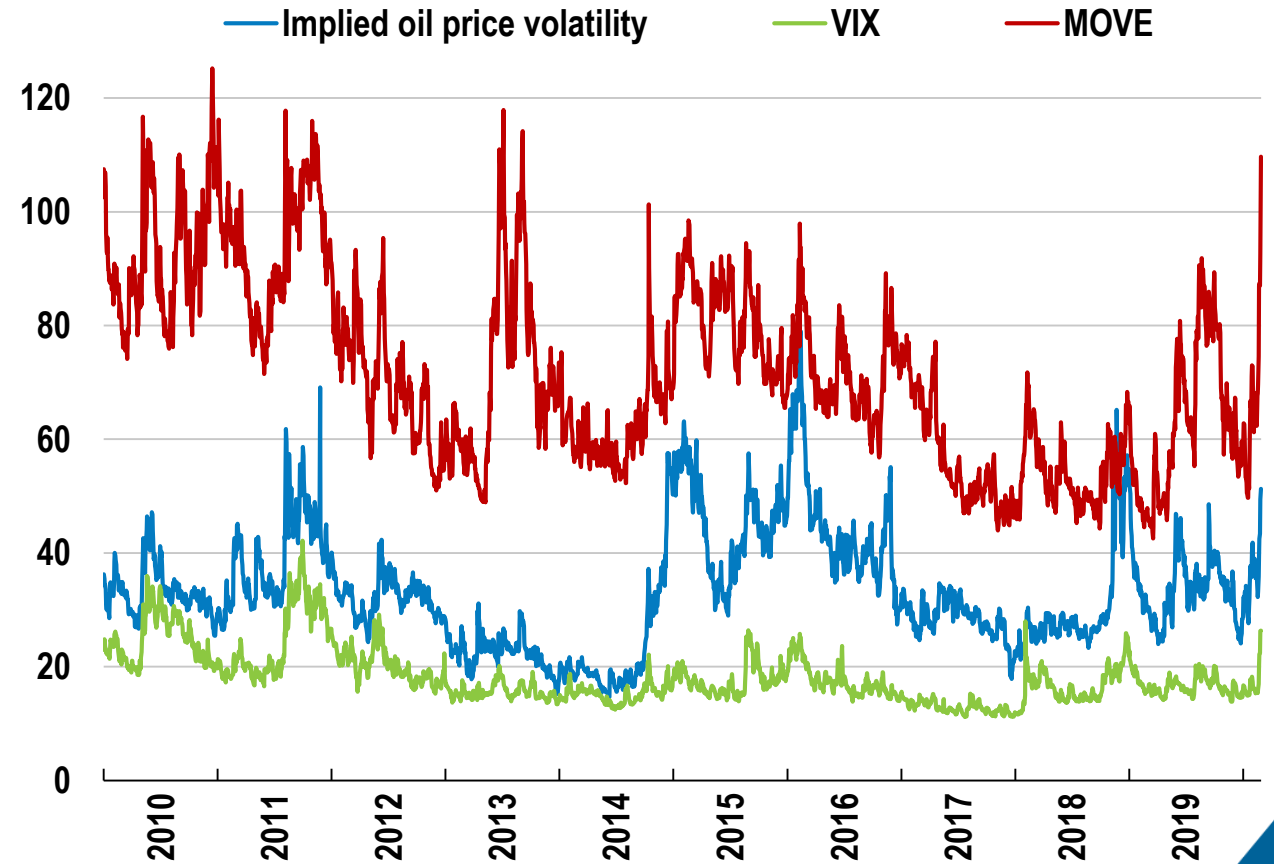
Loss of confidence can intensify financial stress

Corporate credit defaults could rise

Corporate bond issuance in EMEs, 2018 USD billion



Financial volatility has increased



Note: VIX refers to the Chicago Board Options Exchange Market Volatility Index. MOVE refers to the Merrill Lynch Option Volatility Estimate index.
Source: OECD (2019), *Corporate Bond Markets in a Time of Unconventional Monetary Policy*, Balestra (2018); Thompson Reuters; and OECD calculations.



GOVERNMENTS MUST ACT NOW



Policy options to address economic implications

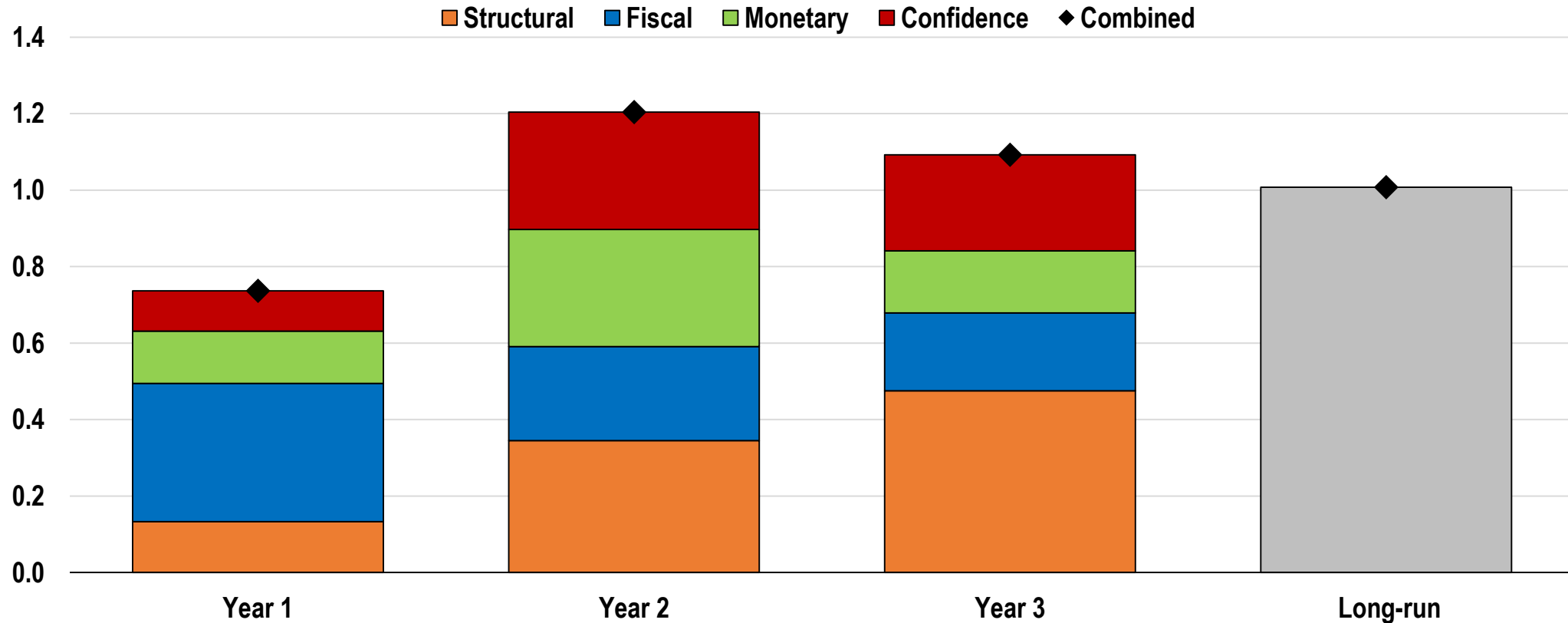
People	Firms	Macro policy
Increase resources to the health sector	Reduce or delay tax payments for most affected sectors	Expand liquidity to banks
Step up temporary cash transfers to vulnerable households	Expand liquidity and availability of credit to firms	Ensure monetary policy responds to extreme market conditions
Expand short-time work schemes	Reduce public sector arrears to firms	Let automatic stabilisers fully work and boost public investment



Policy coordination would provide the most effective stimulus

GDP in median G20 economy

% difference from baseline and contributions in % pts



Note: Scenario with all G20 economies simultaneously undertaking changes to fiscal, monetary and structural policies. Countries undertake additional debt-financed public expenditure of 0.5% of GDP for three years, monetary policy becomes more accommodative in economies with policy interest rates above zero (all countries excluding Japan, France, Germany and Italy) and productivity-enhancing structural reforms raise total factor productivity by 1% after five years. Confidence is modelled by a 50 basis point reduction in investment and equity risk premia for two years. Source: OECD calculations using the NiGEM global macroeconomic model.



Key messages

Covid-19 has hit people and livelihoods

- Covid-19 (coronavirus) has disrupted people's life and the global economy
- Activity has slowed dramatically in China on the back of containment measures
- Negative spillovers via tourism, supply chains, commodities, confidence are growing

The spread of coronavirus could intensify a global downturn

- Weakened by trade and political tensions, the global economy is vulnerable
- Containment measures and lower confidence would slow affected economies
- Pressure on industries with structural difficulties (autos) or that are large employers (tourism)

Governments cannot afford to wait

- Increase resources to the health sector and support the most vulnerable
- Ensure liquidity buffers for affected industries worldwide
- Coordinate health response, monetary and fiscal support across countries