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Global Economic Consequences of the Covid-19

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1. Covid-19: how severe is the economic shock

The pandemic is global

Taking just the US, China, Japan, Germany, Britain, France, and Italy, they account for:

- 60% of world supply and demand (GDP)
- 65% of world manufacturing, and
- 41% of world manufacturing exports.

Table 1 Large economies and COVID-19 (updated 29 February 2020)

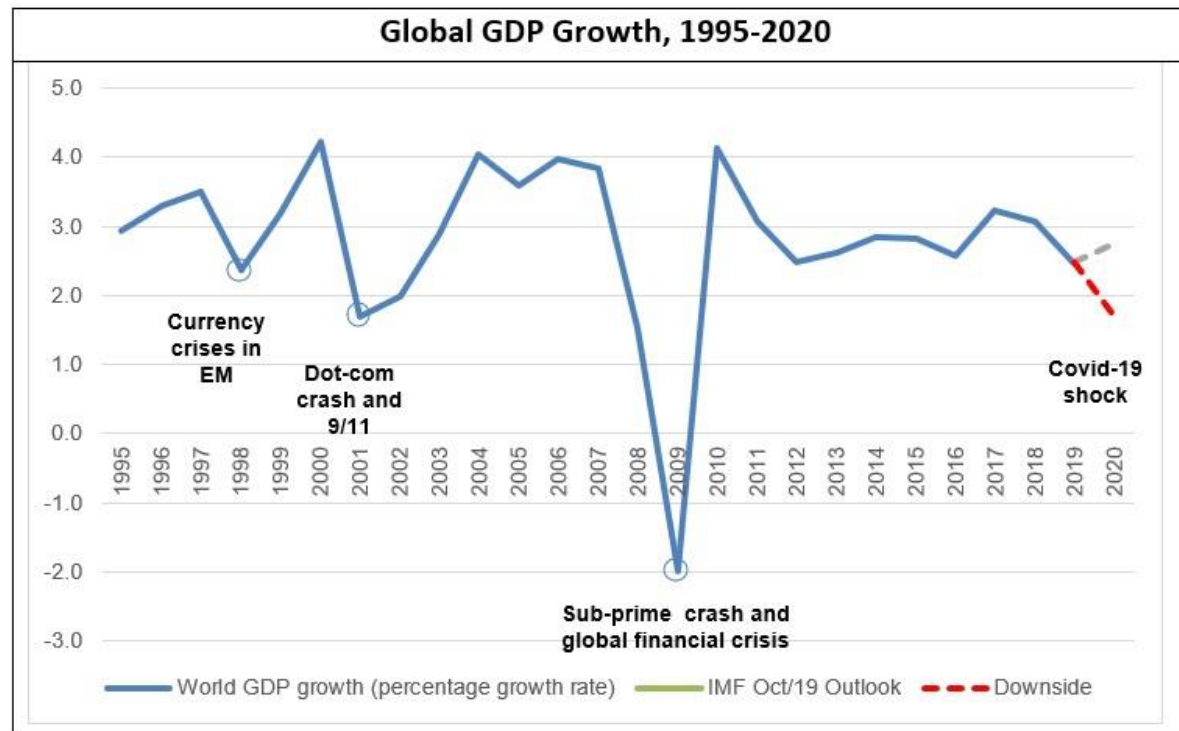
	GDP	Manufacturing	Exports	Manufactured exports	COVID19 cases	COVID-19 deaths
US	24%	16%	8%	8%	159	11
China	16%	29%	13%	13%	80,410	2,991
Japan	6%	8%	4%	5%	331	6
Germany	5%	6%	8%	10%	262	-
UK	3%	2%	2%	3%	85	-
France	3%	2%	3%	4%	285	4
India	3%	3%	2%	2%	28	-
Italy	2%	2%	3%	3%	3,089	107
Brazil	2%	1%	1%	1%	4	4
Canada	2%	0%	2%	2%	34	-

Sources: World Bank World DataBank, FT COVID dashboard (<https://www.ft.com/content/a26fbf7e-43f8-11ea-aeb3-955839e06441>)

GDP Growth forecasts

- JP Morgan slashes global growth forecasts:
 - US GDP **-14%** in Q2
 - Eurozone GDP **-22%** in Q1
 - China GDP **-40%** in Q1
- These GDP declines represent the biggest quarterly contractions recorded over the past 50 years at least
- United Nations: "Coronavirus outbreak could cost the global economy up to **\$2 trillion this year**"

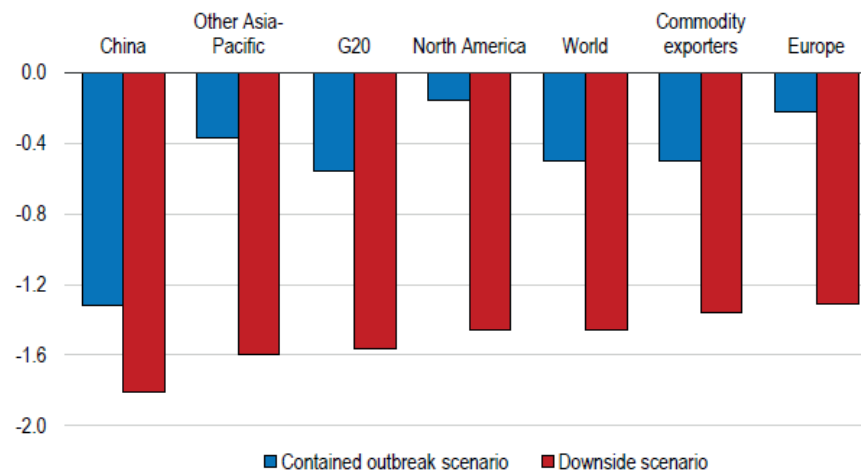
GDP Growth forecasts



Source: United Nations, <https://news.un.org/en/story/2020/03/1059011>

GDP Growth forecasts

Figure 2 Adverse impact on growth across regions
Change in GDP growth in 2020 relative to baseline (percentage points)

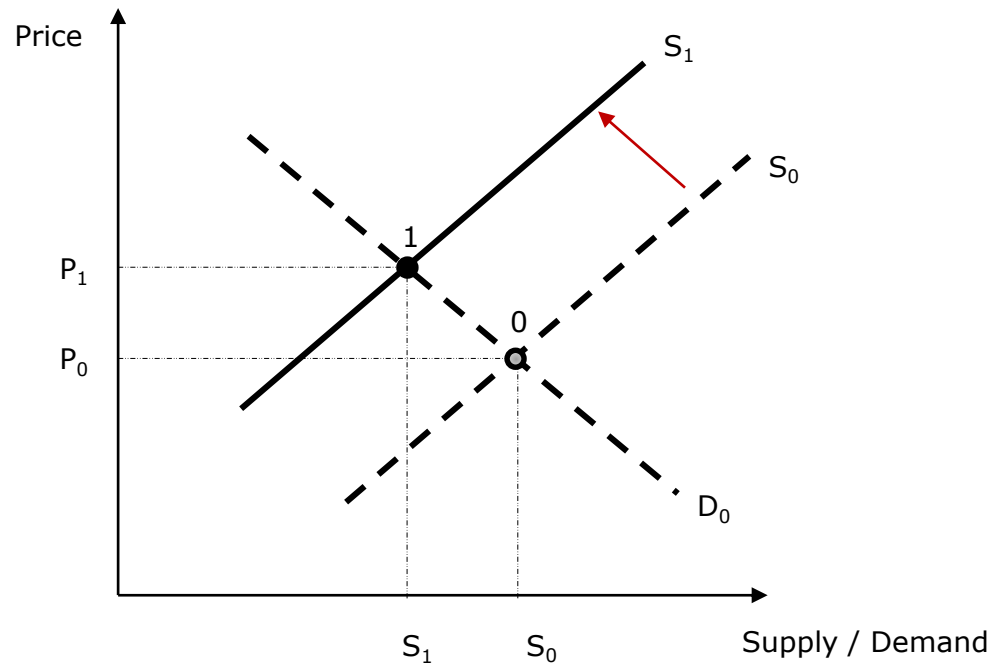


Note: Simulated impact of weaker domestic demand, lower commodity and equity prices and higher uncertainty. Contained outbreak scenario with the virus outbreak centred in China; downside scenario with the outbreak spreading significantly in other parts of the Asia-Pacific region, Europe and North America. Commodity exporters include Argentina, Brazil, Chile, Russia, South Africa and other non-OECD oil-producing economies.

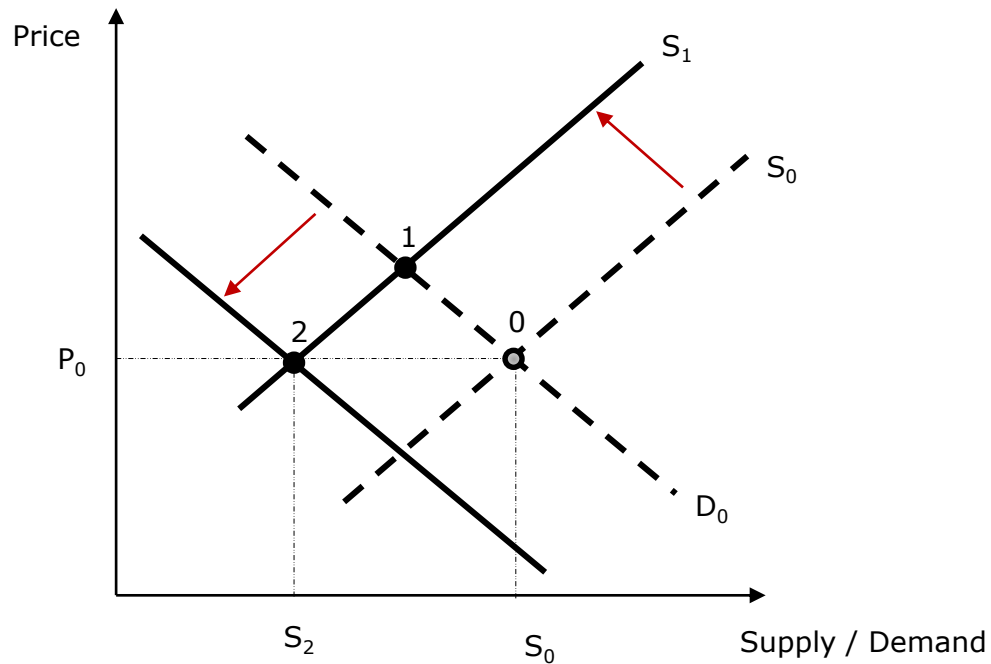
Source: OECD calculations using the NiGEM global macroeconomic model.

2. A model for interpreting the economic effects of the health shock

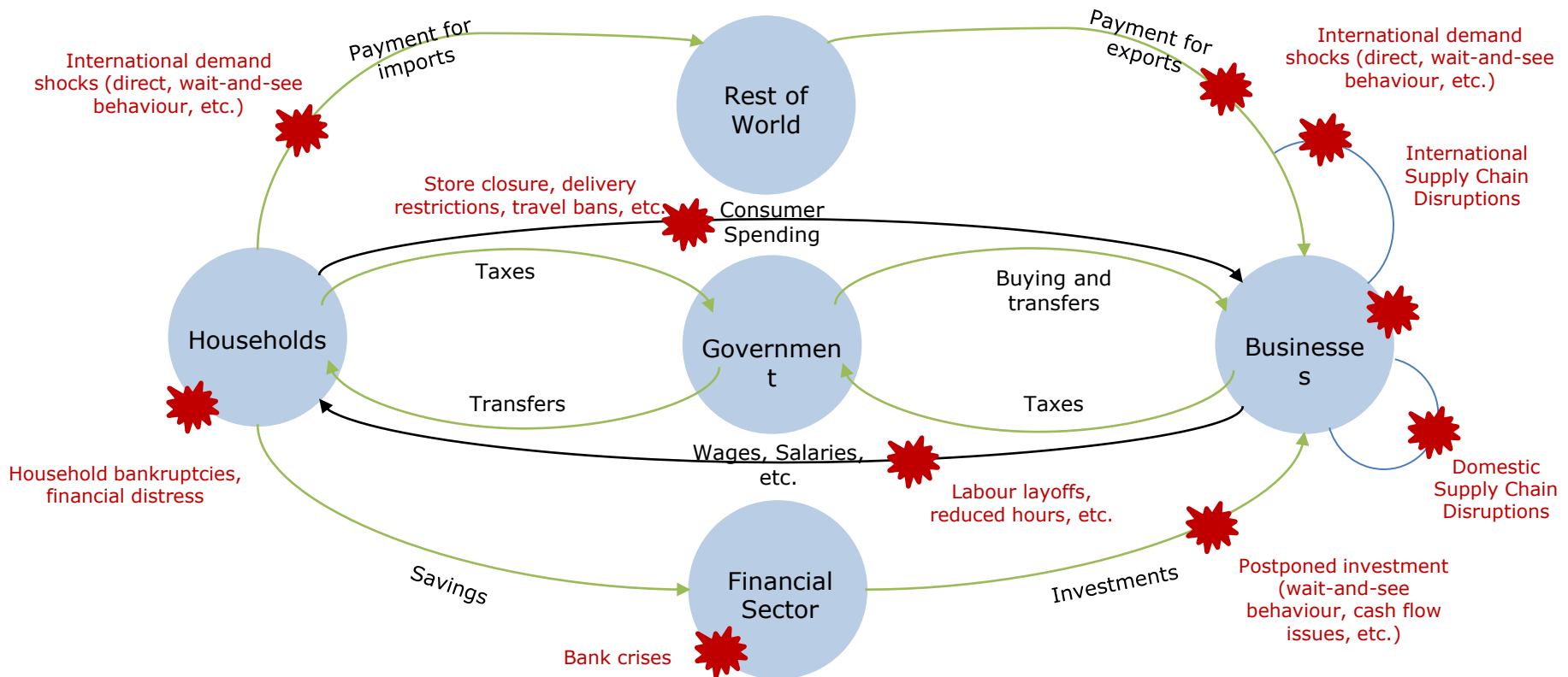
It is not only a supply shock crisis



Now, it is mainly a demand shock crisis



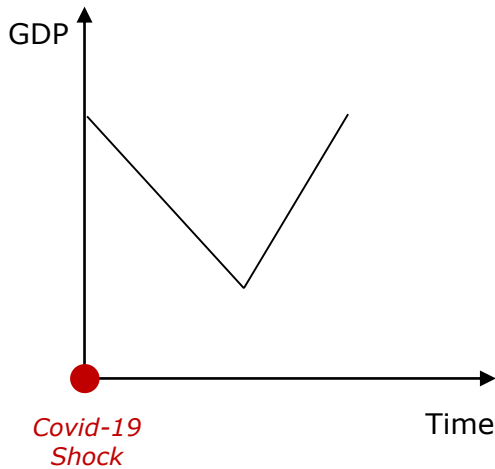
How the shock is spreading across the economies



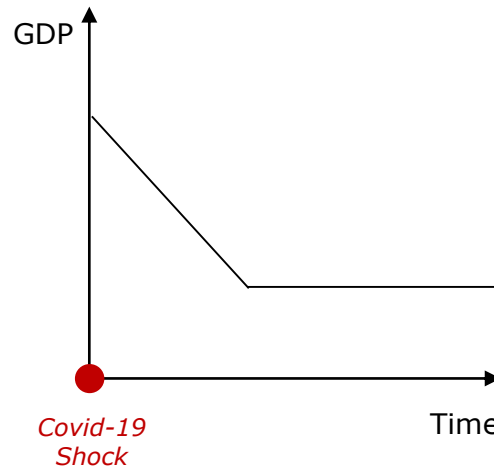
Source: Richard Baldwin (13th March 2020), Keeping the lights on: Economic medicine for a medical shock, VoxEU, <https://voxeu.org/article/how-should-we-think-about-containing-covid-19-economic-crisis>

How could be represented the post-crisis recovery?

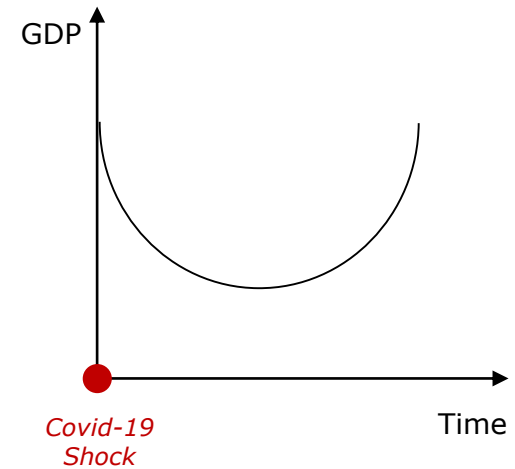
«V» shaped scenario



«L» shaped scenario



«U» shaped scenario

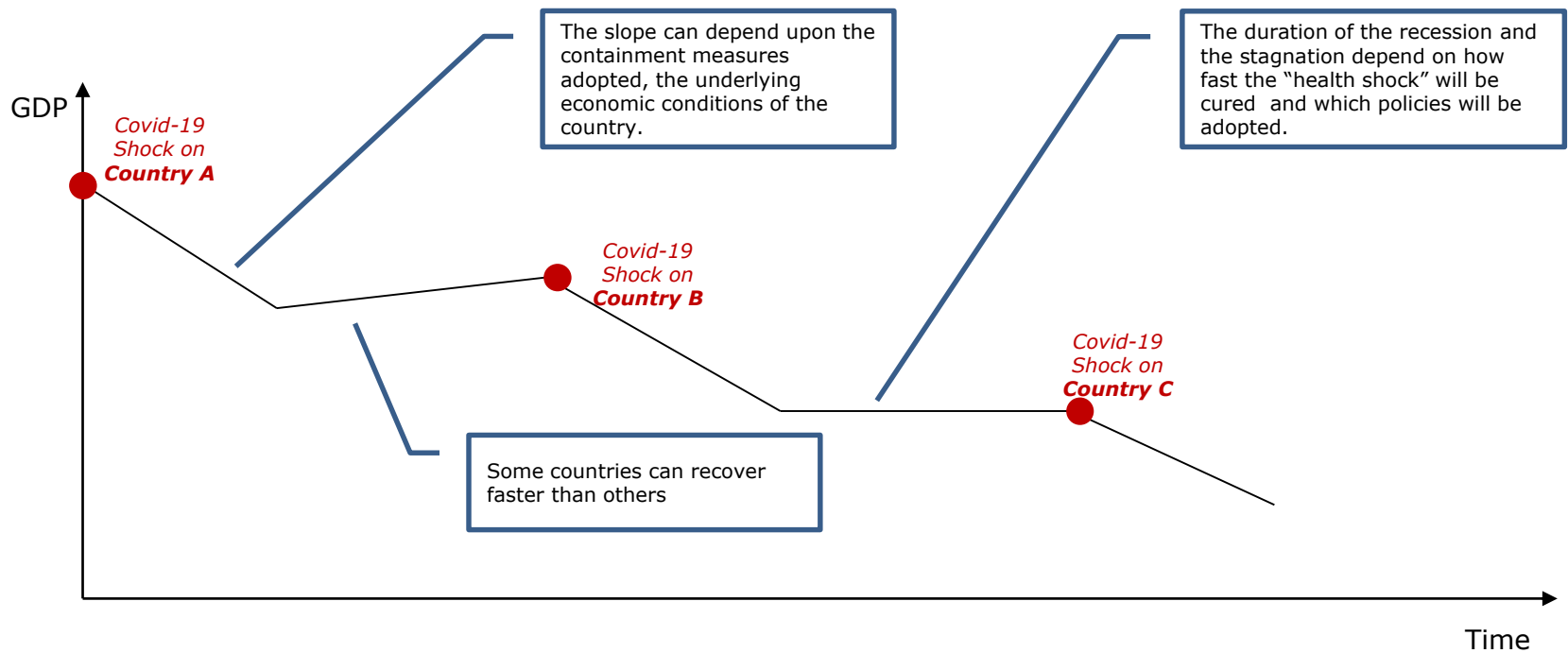


A model for interpreting the economic effects of an health shock

Main Model Assumption:

- Countries are in a scenario of secular stagnation
- A multi-nature, multi-country, multi-hits shock affect the economy
- Absence of immediate, massive, coordinated expansionary monetary and fiscal policies

A model for interpreting the economic effects of an health shock



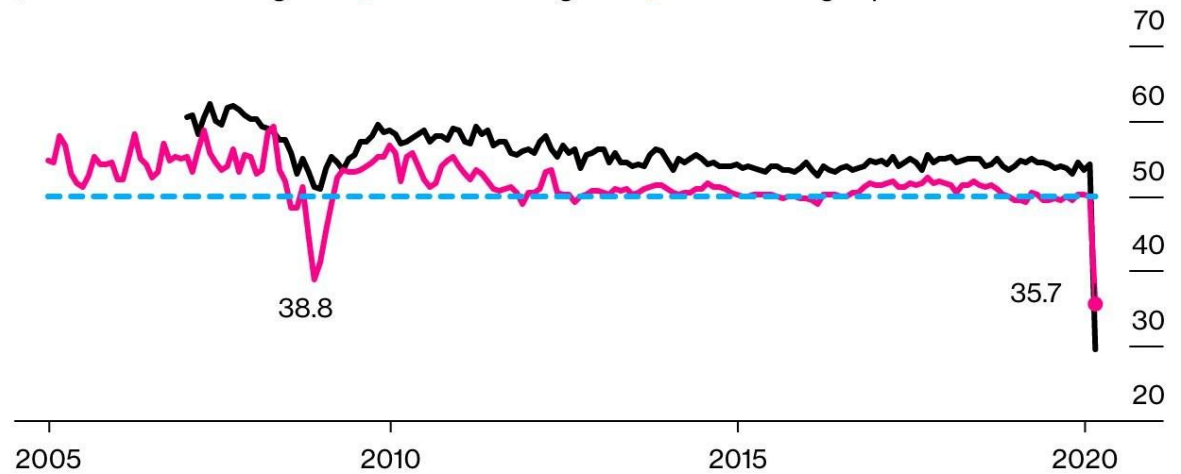
Supply Shock in China: Production Plummetts

2. The model in action

China's Business Outlook Plummetts

Activity dropped to the lowest on record

Non-manufacturing PMI Manufacturing PMI Line dividing expansion & contraction

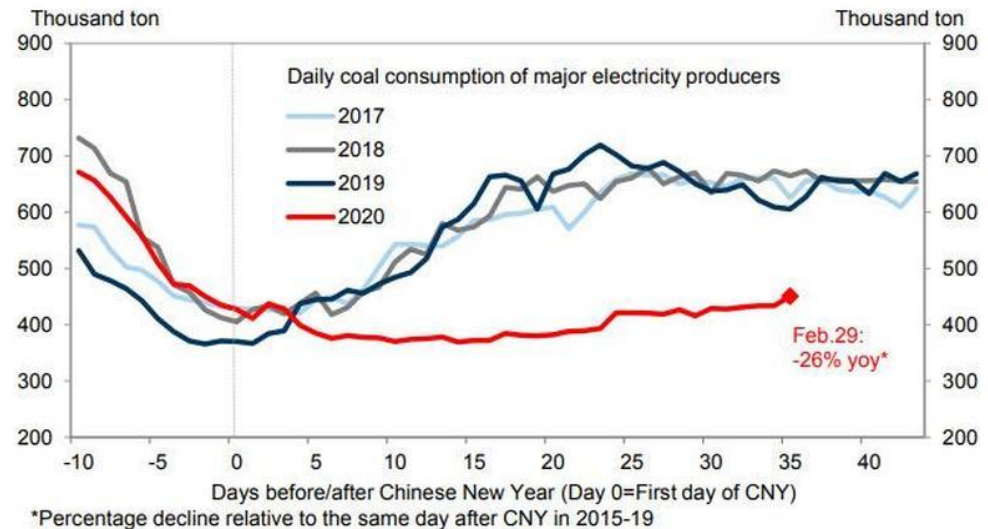


Source: National Bureau of Statistics

Supply Shock in China: Production Plummets, and its recovery is slow

2. The model in action

Exhibit 3: Daily coal consumption of major electricity producers remained below normal



We adjusted the chart for a 2-day delay in reports of coal consumption. i.e., Data on Mar 2nd likely reflects the actual demand on Feb 29th.

Source: Wind

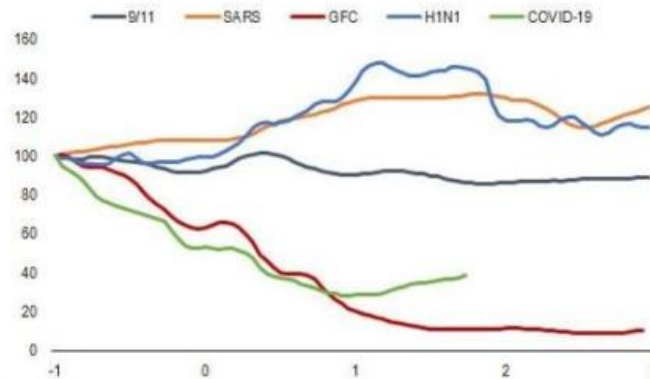
Supply Shock and Global Value Chains

2. The model in action

Shipping costs

The shipping index shows a sharp drop in vessel leasing rates since the start of the COVID-19 outbreak.

(Baltic Dry Index, one month prior to start date = 100)



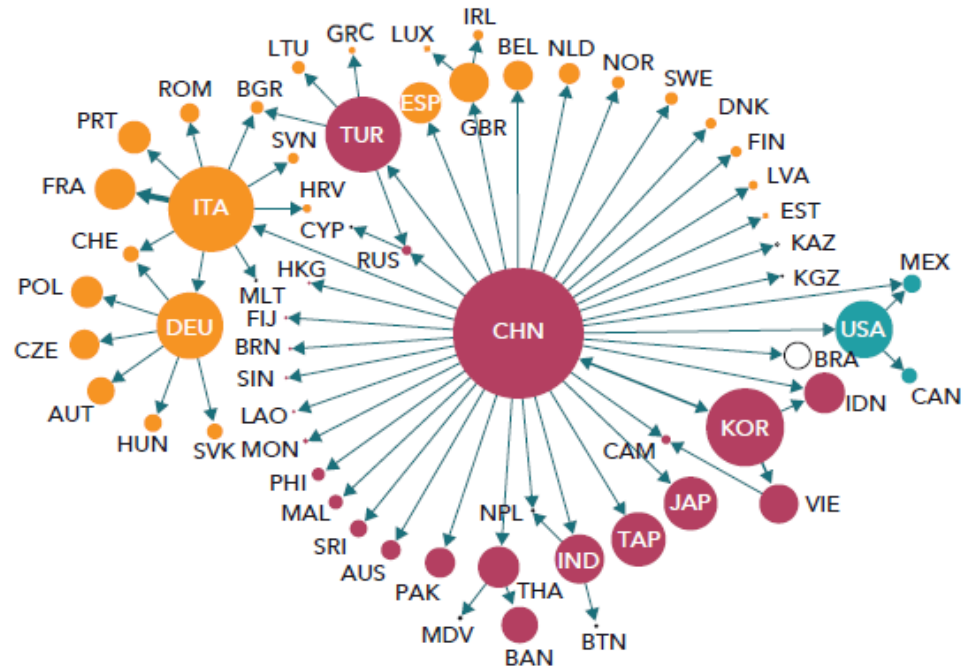
Sources: Haver Analytics; and IMF staff calculations.

Note: The x-axis shows the months elapsed since the indicated event, with t=0 the initial impact month. Underlying data are at daily frequency. Specific start dates by event are: COVID-19 = Coronavirus Disease 2019 (January 11, 2020), H1N1 = Influenza A virus subtype H1N1 (April 15, 2009), GFC = Global Financial Crisis (September 15, 2008), SARS = Severe acute respiratory syndrome (November 16, 2002), and 9/11 = (September 11, 2001).

Supply Shock and Global Value Chains

2. The model in action

Figure 1 Three interconnected hubs in the world's supply chain for textiles



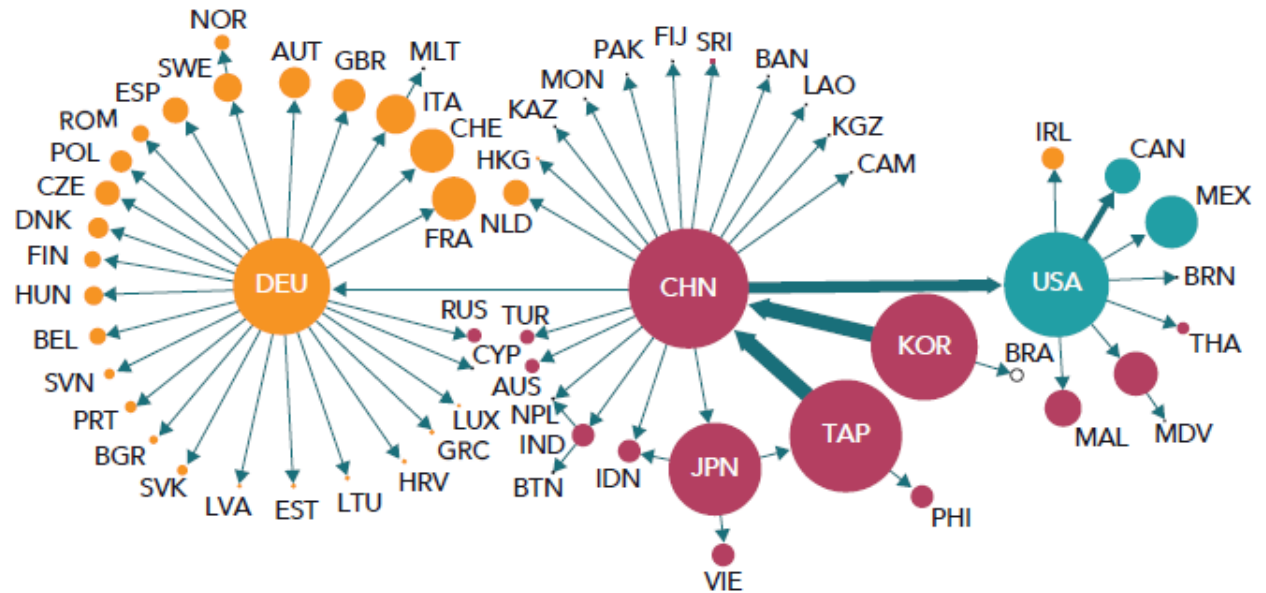
Source: WTO Global Value Chain Development Report 2019.

Source: Economics in the Time of COVID-19 Edited by Richard Baldwin and Beatrice Weder di Mauro. A CEPR Press VoxEU.org eBook (March 2020).

Supply Shock and Global Value Chains

2. The model in action

Figure 3 Three interconnected hubs in the world's supply chain for ICT goods



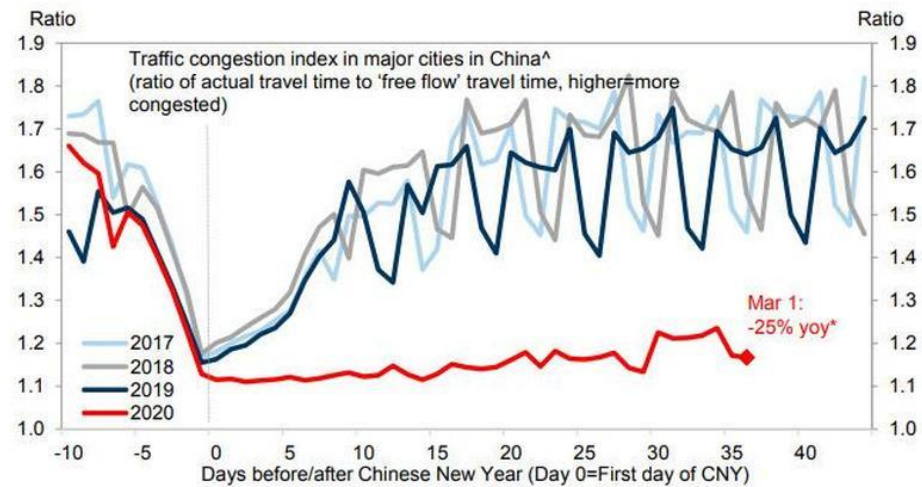
Source: Global Value Chain Development Report, 2019, www.WTO.org

Source: Economics in the Time of COVID-19 Edited by Richard Baldwin and Beatrice Weder di Mauro. A CEPR Press VoxEU.org eBook (March 2020).

Consumers reduce spending

2. The model in action

Exhibit 6: Traffic congestion after the Chinese New Year remains well below the same period in previous years



*Percentage decline relative to the same day after CNY in 2017-19

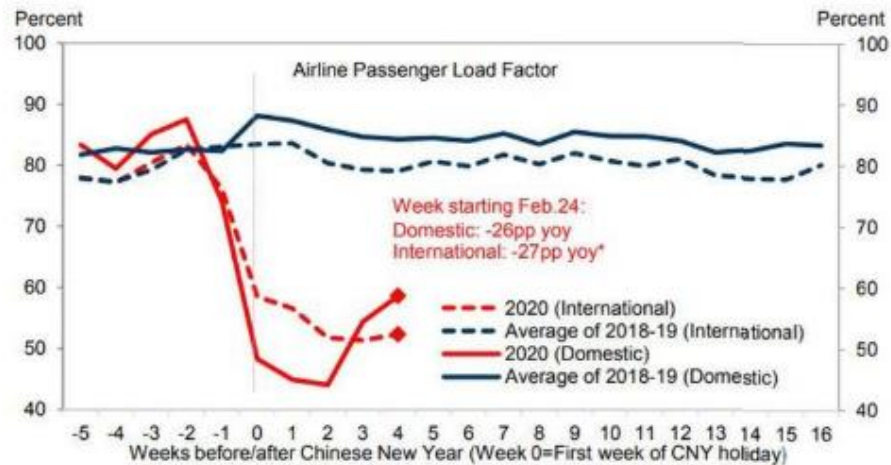
[^]Population weighted; covering 100 major cities in China

Source: Wind

Consumers reduce travel spending

2. The model in action

Exhibit 8: Passenger load factor on domestic flights last week rose to 59% but remained below normal



*Percentage point decline in load factors relative to the same week after CNY in 2018-19

Passenger load factor measures the capacity utilization of airlines calculated as passenger-kilometer divided by seat-kilometer. Flight cancellations have been significant, so load factors have dropped less than total passenger volume.

Source: TravelSky

Expected inflation in the USA

2. The model in action

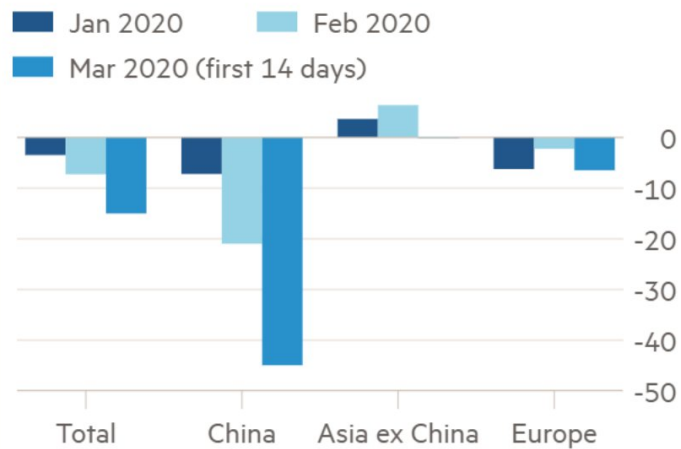


Imports from other countries fell

2. The model in action

US imports from China fell two-fifths in March compared with last year

Change in number of seaborne shipments into the US, by origin (% change v same period in 2019)



Source: Panjiva, S&P Global Market Intelligence
© FT

3. Fiscal and Monetary Policies

Main Monetary Policy actions adopted by Central Banks (1/2)

- FED lowered the target range for the **federal funds rate** to 1- 1.25 % ([March 3rd](#))
- Bank of Canada, Bank of England, Bank of Japan, European Central Bank, Federal Reserve, and the Swiss National Bank announce a coordinated action to enhance the provision of liquidity via the standing **U.S. dollar liquidity swap line arrangements** ([March 15th](#))
- FED lowered the target range for the **federal funds rate** to 0- 0.25 % and decide to **increase its holdings of Treasury securities** by at least \$500 billion **and its holdings of agency** mortgage-backed securities by at least \$200 billion ([March 15th](#))
- Federal Reserve Actions to Support the Flow of Credit to Households and Businesses ([March 15th](#), [March 17th](#), [March 18th](#), [March 20th](#))
- ECB announces **€750 billion Pandemic Emergency Purchase Programme (PEPP)** ([March 18th](#))

Source: <https://www.federalreserve.gov/covid-19.htm>; <https://www.ecb.europa.eu/home/search/html/coronavirus.en.html>

Main Monetary Policy actions adopted by Central Banks (2/2)

- Federal Reserve announced the establishment of temporary **U.S. dollar liquidity arrangements** (swap lines) with the Reserve Bank of Australia, the Banco Central do Brasil, the Danmarks Nationalbank (Denmark), the Bank of Korea, the Banco de Mexico, the Norges Bank (Norway), the Reserve Bank of New Zealand, the Monetary Authority of Singapore, and the Sveriges Riksbank (Sweden) ([March 19th](#))
- Bank of Canada, Bank of England, Bank of Japan, European Central Bank, Federal Reserve, and the Swiss National Bank announced to further enhance the provision of liquidity via the standing **U.S. dollar liquidity swap line arrangements** ([March 20th](#))
- ECB and Danmarks Nationalbank **reactivate swap line to provide euro liquidity** ([March 20th](#))

Source: <https://www.federalreserve.gov/covid-19.htm>; <https://www.ecb.europa.eu/home/search/html/coronavirus.en.html>

Main Fiscal Policies adopted and discussed

- Italy will inject €3.6bn into its economy to mitigate the impact of the largest outbreak of coronavirus in Europe as ([March 1st](#))
- President Trump signed an \$8.3 billion spending bill ([March 6th](#))
- Germany authorized its state bank, KfW, to lend out as much as \$610 billion to companies to cushion the effects of the coronavirus ([March 13th](#))
- Italy's government approved a 25 billion-euro (\$28 billion) package to support its strained health system while helping businesses and families counter the economic impact of Europe's worst coronavirus outbreak ([March 15th](#))
- French Finance Minister announced a \$49 billion aid package ([March 17th](#))
- President Trump signed the "Phase Two" of the stimulus ([March 19th](#))
- US Senate release "Phase three" massive \$ 1 trillion stimulus bill for coronavirus ([March 19th](#))
- Germany eyes 156 billions euros of new borrowing, 200 billion euros in debt authorization ([March 21st](#))
- US congressional leaders agree on \$2tn stimulus deal ([March 25th](#))

Amount of Key Fiscal Announcement and Guarantees

	Fiscal Stimulus (% 2019 GDP)	Guarantees (% 2019 GDP)
Austria	7.3%	2.3%
France	1.8%	12.4%
Germany	6.1%	5.8%
Italy	1.4%	5.6%
Spain	1.4%	8.4%
UK	3.2%	15%

Source: Erik Nielsen (29th March), [Macro Research Unicredit Chief Economist's Comment](#)

Amount of Key Fiscal Announcement

Table 3: Key fiscal announcements

	Announced Fiscal Stimulus	% 2019 GDP	Weight in global GDP	Contribution to global fiscal stimulus, % GDP
US*	\$2.0tn	9.3%	24.8%	2.31%
China	CNY 1.3 trn	1.4%	16.3%	0.23%
Japan	¥102.7 trn	18.4%	6.0%	1.10%
Germany*	€650 bn	18.9%	4.5%	0.84%
UK	£90 bn	4.0%	3.2%	0.13%
France	€45 bn	1.9%	3.1%	0.06%
Italy	€25 bn	1.4%	2.3%	0.03%
Canada	C\$30 bn	3.6%	2.0%	0.07%
Korea	KRW 100 trn	2.6%	1.9%	0.05%
Spain	€17 bn	1.4%	1.6%	0.02%
Sweden	SEK300 bn	6.1%	0.5%	0.03%
Norway	NOK 100 bn	3.4%	0.4%	0.01%
Australia	AUD 17.6 bn	0.8%	1.6%	0.01%
New Zealand	NZ \$12 bn	4.7%	0.2%	0.01%
India	INR 1.7tn	1.2%	2.3%	0.03%
Indonesia	IDR 260 trn	2.5%	1.3%	0.03%
Taiwan	NT\$ 50-55 bn	0.3%	0.7%	0.00%
Thailand	THB 400 bn	0.2%	0.6%	0.00%
Hong Kong	HK\$ 120 bn	3.5%	0.4%	0.02%
Malaysia	MY\$ 20 bn	2.7%	0.4%	0.01%
Vietnam	VND 80 tn	1.3%	0.2%	0.00%
Singapore	S\$ 4 bn	13.0%	0.4%	0.05%
Total			74.6%	5.04%

Source: J.P. Morgan. * Includes approved and under consideration amount

Source: J.P. Morgan

*Istruitevi,
perché avremo bisogno di tutta la vostra intelligenza*

Antonio Gramsci, l'Ordine Nuovo, 1 Maggio 1919