



Impact of Covid-19 on the global economy

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Update

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Covid-19 is quickly becoming a global pandemic. Outbreaks in Italy, Korea, and Iran appear to be spreading rapidly, with more than 60 countries having been directly affected and cases being reported in New York City and many other key cities around the world.

Most recent data out of China say the economic impact is severe – the latest PMIs point to a record quarterly decline in output in Q1. Such impacts might occur on a global scale in the months ahead. At the same time, there are early signs that activity is starting to return toward something more normal in places like Hong Kong, Singapore, and even parts of China where people are becoming more familiar with the virus and its relatively low mortality rate, now viewing it as something closer to the seasonal flu than to SARS.

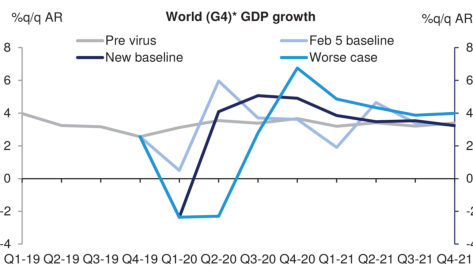
For these reasons, we assume that the economic and financial effect of the virus will be sharply negative as fear and social distancing disrupt activity, but relatively brief in duration as those reactions subside. In our new central baseline forecast scenario, we see China's GDP declining appreciably in the current quarter but beginning to recover significantly in Q2.

This pattern will be delayed as much as several months as the virus spreads to Europe and the US. We expect US growth to drop to below zero in Q2 and the EA to show larger negative numbers before recovering in Q3. On balance, we expect the global economy to show negative growth in Q1 and to move gradually back into positive territory thereafter.

The uncertainty attached to such projections is great. We have intentionally moved our baseline forecast to a path around which both upside and downside risks are present. A case can be made for a more manageable and less disruptive scenario than we are now projecting. We also consider a worse case scenario that has global activity falling a good deal further in Q2 and recovery delayed for another quarter.

In the central scenario we see the Fed cutting rates 50 bps by the March meeting and twice more by 25 bps at subsequent meetings (for a total of 100 bps). We expect the ECB to react initially with a targeted policy (e.g., a special LTRO to support SMEs in affected regions) and also anticipate a 10bp deposit rate cut, though this will be contentious and will lag. In the worse case scenario, Fed rates are cut to zero and QE purchases commenced. Likewise,

World global growth scenarios



*Weighted average of US, EA, China and Japan. Source: Deutsche Bank



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the ECB cuts further and uses more asset purchases. European fiscal policy is likely to react in both scenarios.

Our central and worse case scenarios see the stock market falling 20% and 30% respectively from its previous peak, and bond yields remaining historically depressed for a time.

This is an excerpt of our [Special Report on the impact of Covid-19 on the global economy](#), published on March 2, 2020.

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