

Coronavirus Virus To Hit Wallets?

Written by Steve Marr

Tuesday, 11 February 2020 14:19

Headlines around the world raise fear about the impact of the coronavirus. Cruise ships quarantined thousands on board, factories closed in China and millions of people are isolated in lockdown. We see emergency flights of returning American citizens arriving and immediately placed into quarantine. Additionally, there is a major economic risk with the outbreak.

Scripture gives us a balance to consider. King Solomon wrote, “The prudent see danger and take refuge, but the simple keep going and pay the penalty.” (Proverbs 22:3, NIV) and he also wrote, “The sluggard says, ‘There’s a lion outside! I’ll be killed in the public square!’” (Proverbs 22:13, NIV) We need to keep an appropriate balance between acting with prudent actions or responding to fear.

An economic impact is already being felt in the United States as reported by the *New York Times* (2/5/20):

At restaurants in Manhattan’s Chinatown, workers and owners said business had dropped 50 to 70 percent in the last 10 days.

The manager of a hotel near Newark Liberty International Airport that relies on tourists from China estimated the loss from the coronavirus outbreak at “well over \$100,000 and climbing.

A company that arranges Chinese-language bus tours of the sights in Manhattan is dealing with as many as 300 cancellations from Chinese tourists who cannot come to New York this week.

Fox Business (2/8/20) reports the virus will cost \$280 billion from the global economy:

“Our best guess is that the economic disruption related to the coronavirus will cost the world

Coronavirus Virus To Hit Wallets?

Written by Steve Marr

Tuesday, 11 February 2020 14:19

economy over \$280 billion in the first quarter of the year,” Simon MacAdam, global economist at London-based Capital Economics, wrote in a note to clients on Friday. “If we’re right, then this will mean that global GDP will not grow in quarter-to-quarter terms for the first time since 2009.”

Stephen Roach, former chairman of Morgan Stanley was quoted on CNBC (1/28/20):

Big shocks for weak economies that don’t have cushions to withstand them could lead to unexpected recessions.

You can’t just dismiss this as a non-event in the context of what appears to be ongoing growth around the world,” added Roach. “Growth is weak and lacking in resilience it might otherwise have.”

The virus will likely create a significant reduction in demand for oil and likely lower prices. In the past when the United States was a net energy importer, this may have actually been viewed as good news for the United States. However, now that the US is a net exporter; lower prices will affect US-based energy companies as reported by Zero Hedge (2/2/20):

According to Bloomberg, **Chinese oil demand has dropped by about three million barrels a day, or 20% of total consumption,** as a result of the creeping economic paralysis unleashed by the coronavirus epidemic.

The drop is said to be the largest demand shock the oil market has suffered since the global financial crisis of 2008 to 2009, and the most sudden since the Sept. 11 attacks. More importantly, the plunge in Chinese demand will likely force the hand of the OPEC cartel, which is already considering an emergency meeting to cut production and staunch the decline in prices (and to which one can only say that Saudi Arabia picked its Aramco IPO window exquisitely).

The worldwide supply chain is already under substantial pressure. Zero Hedge (2/6/20):

We noted on Wednesday night, two-thirds of the Chinese economy has effectively shut down much of its production capacity, crippling supply chains critical to keep not only the

Coronavirus Virus To Hit Wallets?

Written by Steve Marr

Tuesday, 11 February 2020 14:19

second-largest economy in the world humming, but the entire world.

Former Morgan Stanley Asia chairman Stephen Roach warned last week that the global economy could already be in a period of vulnerability, where an exogenous shock, such as the coronavirus, could be the trigger for the next worldwide recession.

Goldman Sachs has warned that virus outbreak could reduce Chinese GDP growth in 1Q by 1.6% in year-over-year terms, or 6.4% in quarter-on-quarter annual rate terms, resulting in a sub-5% GDP 1Q print. A growth shock in China will be felt across the world as the virus has severed supply chains.

Forbes Magazine (2/7/20) reports over 400 Global companies have already warned investors of lower profits as a direct result of the virus:

As of Friday morning, some 421 different companies—394 of which are U.S.-based—have talked about the coronavirus on first quarter earnings calls, according to Amenity Analytics. The virus has been mentioned a total of 2,210 times so far.

Executives at big-name companies, ranging from Apple and Nike to Starbucks and McDonald's, among others, have all raised flags about the impact that the virus could have on business in China—and subsequently corporate earnings next quarter—as they close stores.

Of all the companies warning about negative effects of the coronavirus on business, Yum China—one of the largest fast-food operators in the country, with brands like Pizza Hut, Taco Bell and KFC—spoke about the disease the most, mentioning it no less than 45 times during its earnings call.

Casino and hotel operators have also acutely felt the impact from closures due to the virus: On

Coronavirus Virus To Hit Wallets?

Written by Steve Marr

Tuesday, 11 February 2020 14:19

the earnings call for Las Vegas Sands, for instance, coronavirus was mentioned 27 times, while Wynn Resorts on the other hand said it was losing up to \$2.6 million per day.

Luxury goods companies have also taken a hit amid weaker consumer demand in China: Companies that spoke about coronavirus the most in earnings calls include LVMH (19 mentions), Capri Holdings (17) and Estee Lauder (14).

Market Insider (2/6/20) warned:

Global supply chains are becoming increasingly bogged down by the coronavirus outbreak, and several of the world's biggest companies are cautioning investors of a future hit to earnings.

Apple has 26 suppliers and four major corporate customers based in China, according to Bloomberg supply chain data, giving the tech giant significant exposure to the virus' fallout. Factories manufacturing iPhones and other devices were forced to close for weeks as part of a virus-driven shutdown, and a prolonged production halt could drag on Apple's inventory availability later in the year.

Disney's theme parks in Hong Kong and Shanghai were forced to close as the virus spread, and the closure's timing comes at a particularly bad time for the media giant. "[We] typically see strong attendance at occupancy levels due to the timing of the Chinese New Year holiday," Chief Financial Officer Christine McCarthy said in a February 4 analyst call, adding that the financial impact is dependent on the length of the closures and how quickly the parks can return to normal operations.

"In the short term, we (**Nike**) expect the situation to have a material impact on our operations in Greater China," the company said.

Tesla CEO Elon Musk celebrated the first Model 3 deliveries from a new Shanghai Gigafactory on January 7. One month later, a company vice president warned deliveries will be delayed through early February as government guidelines force the factory to remain closed until the outbreak subsides.

Coronavirus Virus To Hit Wallets?

Written by Steve Marr

Tuesday, 11 February 2020 14:19

Starbucks: The company closed more than half of its locations in China and is modifying the operating hours of its remaining stores, according to a January 28 earnings call.

At this time we don't have a clear understanding about how severe the coronavirus will be from a health perspective and an economic reality. To maintain a balance is critical. For example over 60,000 Americans died in 2019 from the flu. We have enough information already to understand this is a very serious health and economic risk.

During these times we need to follow the example written by the Lord's brother, "If any of you lacks wisdom, you should ask God, who gives generously to all without finding fault, and it will be given to you." (James 1:5, NIV)

To prepare you to minister in and through disasters, large and small, visit the Christian Emergency Network at <http://www.christianemergencynetwork.org> to learn how to become a ready Christian and a ready church.