

The Corona virus and its devastating impact on the economy

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Due to a severe drop in consumer spending because of the Corona virus, China's short-term growth will plummet, according to new analysis from Nyenrode Business University.

According to Professor of International Economics Haico Ebbers

"Consumer growth made up 60% of GDP growth in China in 2019 alone. However, there has been a reduction in spending due to the virus, which may continue for some time because the consumer sentiment is under attack. Consumer sentiment is an important driver behind future spending. If you feel confident about the future, spending on houses or cars may increase, while a negative sentiment holds down expenditures. Therefore, we may expect a drop in consumer spending over 2020. The virus is also disrupting parts of the global supply chain. Ikea closed all its 30-plus shops and we see the same with several outlets including Starbucks and McDonald's.

"The financial markets have also strongly reacted to the virus outbreak in China, Hong Kong, Asian countries and in the US and the Netherlands. The Dutch index fell almost 4% as a reaction on the Corona virus. This may affect private investments in the short term.

"A final impact on the economy runs through international trade and foreign tourists. If the Corona virus affects economic growth in other countries, buying Chinese imports are repressed and China's drop in exports will hurt the domestic economy. If foreign tourists cancel their visits to China, the local economies will also feel it."

The impact of the virus on economic growth in the next quarters is driven by what is happening with private consumption, investments, government spending and exports. All determinants are under attack.

According to Professor Ebbers a factor that may counteract this, is government spending. The Chinese government showed in previous cases, that they are very flexible in executing necessary stimulus packages to counteract the economic damage. It is to be expected that this will happen again. However, at this point an outcome is hard to predict.

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