BUSINESS SWEDEN

IN FOCUS: THE CORONAVIRUS CRISIS

GLOBAL ECONOMY SLAMS ON THE BRAKES

GLOBAL ECONOMIC OUTLOOK APRIL 2020

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FOREWORD

AN EXTRAORDINARY TIME THAT PUTS EVERYTHING TO THE TEST

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Growing activity and optimism marked the beginning of the year for the global economy. The US–China trade conflict had entered a calmer phase, Brexit was moving forward in a more orderly fashion and confidence indicators, not least for the manufacturing sector, were pointing in the right direction. The recovery then got derailed as soon as the first cases of Covid-19 were reported in Hubei province in China. On March 12, the World Health Organization declared the virus outbreak a pandemic and, on March 17, WHO confirmed that Europe was now the pandemic's epicentre. This was troubling news for Sweden's small and heavily export-oriented economy where the private sector is highly internationalised and dependent on its home market Europe. *The coronavirus outbreak has swept the world and the worst affected regions currently are Asia, Europe and North America. The global economy has slammed on the brakes!*

The coronavirus pandemic is a major threat both to public health worldwide and the global economy. It is already apparent that the economic effects will be profound in all corners of the world. A more uncertain issue is how long the crisis will last and what long-term effects of the pandemic companies should prepare for. The coronavirus outbreak is impacting both supply and demand simultaneously, with equal force and severity, in an almost synchronous way in the world's largest regions – this has never happened before.

The crisis began unravelling with a supply shock tightly followed by a demand shock in China, which resulted in supply chain disruptions and falling global exports. This event primarily affected countries with geographical proximity to China. When the crisis hit Europe and North America many countries introduced sweeping travel restrictions affecting airlines and tour operators. Country after country has subsequently restricted the free movement of citizens which has had a severe negative impact on restaurants, cafées and cultural venues. In the next phase, factories started to shut down as a consequence of the most severe measure of all coming into force, that of instructing people to stay at home, which then plunged the industrial sector into the crisis. Industries in countries with more relaxed restrictions have suffered, too, as the supply of intermediate goods they need have grinded to a halt, coupled with the rapidly declining demand for their export goods. The shutdown in large parts of Europe – where more than 70 per cent of Swedish exports are destined – means that Swedish exports are now at risk of severe negative effects.

A regular forecast on world, regional and individual country economic growth does not appear to be appropriate at this moment in time as many factors are still unknown. For this reason, we have chosen not to publish our expectations on the short-term global economic performance. The stark reality, however, is that confidence indicators for March have dropped to the same low levels seen during the global financial crisis. This is a reasonable indicator of the seriousness of the current economic crisis unleashed by the virus outbreak. Back in 2008, global GDP fell by 0.5 per cent and it is likely that we will experience a similar decline. The global economy is now moving into a recession.

Political measures are currently focused on limiting the coronavirus impacts on public health. In addition, large resources are being allocated in many countries to minimise the economic damage. Monetary and fiscal policies dominate the most acute phase of the crisis to ensure that companies can survive this challenging period. In many cases, these measures involve strengthening corporate liquidity to limit redundancies and bankruptcies. If the virus outbreak gets under control by this summer, current indications suggest that most of the production shortfall will be recovered next year. Be prepared for accelerating activity when normality returns!

We are living in an extraordinary time and the coronavirus crisis may result in demands for new economic thinking and new approaches. We all have an obligation to find common answers.

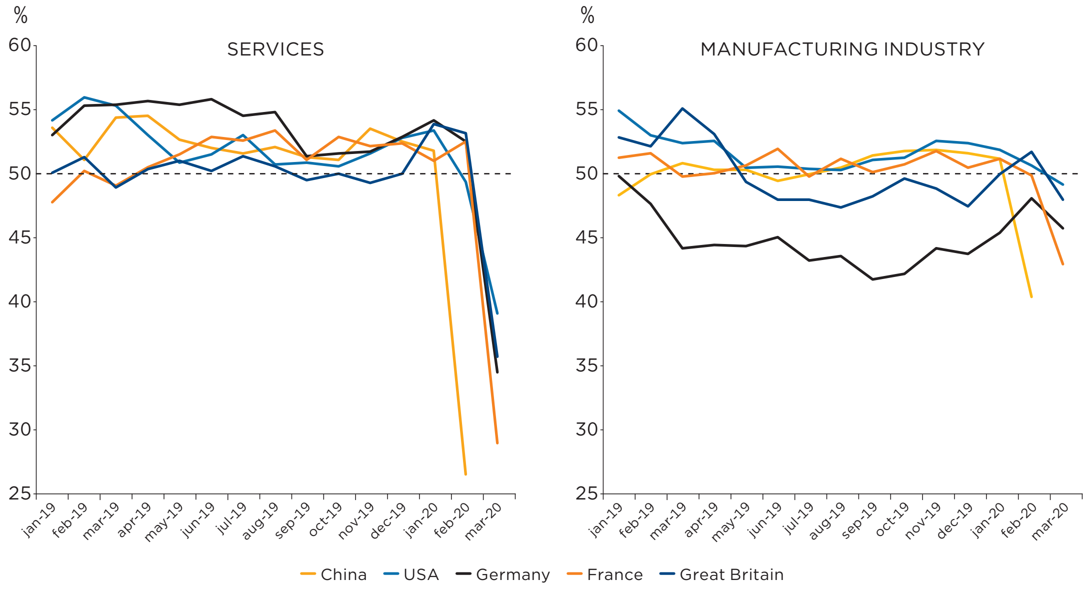
THE GLOBAL ECONOMY SLAMS ON THE BRAKES

The coronavirus pandemic is a serious threat to global public health and the global economy. Some three months have now passed since the first cases of Covid-19 were reported in China's Hubei province. About a month later, towards the end of January, the virus had reached Sweden and over the next month it started spreading in the community. Until this fact was established, the identified cases were limited to people who had contracted the disease in other hotspot countries or people, especially relatives, who had been in contact with them. On March 12 the WHO declared the virus outbreak a pandemic and on March 17 it was confirmed that Europe was the epicentre. The virus outbreak has spread all over the world and the worst affected regions are Asia, Europe and North America. These regions together account for 90 per cent of global GDP.

It is now clear beyond any reasonable doubt that the economic impacts will be significant. Industrial production has been shut down in many parts of Europe, either due to official measures taken to reduce the spread, or because key intermediate goods cannot be supplied. Services production, particularly where social contact is required, has also been halted to a large extent. Confidence indicators have now dropped to equivalent levels of the 2008 global financial crisis and global GDP is projected to develop along a similarly weak trajectory, which means a fall of 0.5 per cent. If the shutdown and restrictions remain in place in a few weeks' time this decline will be even more severe. Despite the widespread uncertainty, a relatively rapid recovery is the most likely scenario once the virus outbreak is controlled. In China, where production has largely resumed over the past few weeks, the purchasing managers' index published by the National Bureau of Statistics (NBS) indicates an upswing of sentiments in industry and other sectors.

Provided that the outbreak is brought under control during the second quarter this year, most indications point to a near recovery of the production shortfall by next year. While the situation is not comparable to the global financial crisis it is worth bearing in mind that global GDP increased by around 5 per cent in 2010.

PURCHASING MANAGERS' INDEX (PMI)



Note: Refers to IHS Markit. Values above 50 indicate expansion.

Source: Macrobond

RECOVERY UNDER WAY IN CHINA BUT WEAK DEMAND REMAINS

China decided to limit the spread of the virus at an early stage by closing down entire cities. Already on January 23, 12 days after the first confirmed death, the provincial capital of Hubei, Wuhan, was put into full lockdown. The restrictions meant that just one person from each household was allowed to leave the home once every other day, among other measures. The Chinese government's strict response to the spread, which meant that regions and cities affected by the outbreak were closed, had a severe impact on the Chinese economy and especially China's manufacturing sector, as several key industries are located in the worst affected province of Hubei.

When the coronavirus outbreak, which was now a pandemic, was at its early stage the economic concerns were primarily focused on impacts related to supply chains in Europe and Sweden. Most analysts concluded that this disruption would be more or less manageable, despite some expecting to see negative effects on profitability due to increased costs from having to solve logistical problems. The general consensus was also that the demand shortfall, given that activity in China was put on the back burner, would no doubt be noticeable but still manageable without any major effects (neither temporary nor permanent) on unemployment.

Although heavy restrictions on freedom of movement are still being imposed, mainly in Hubei province, a large number of Chinese citizens have begun to return to their workplaces. It is currently difficult to assess how far factories are from running at full capacity again[1], but reduced demand is far more likely to be a bigger obstacle for Chinese companies. It is also unclear today how severe the effects on the global economy and European economy will be as the virus has travelled faster than goods, also bearing in mind that the China-effect has now been completely overshadowed by the outbreak in Europe and the US.

[1] Analyses of traffic congestion data in China points to the conclusion that most Chinese citizens are back at work. At the same time, fewer passengers on public transport indicates that this congestion is possibly a result of more people choosing to travel by car in order to avoid being exposed to the virus.

DECEMBER 2019 — THE FIRST CONFIRMED CASE OF COVID-19 WORLDWIDE (CHINA)

11 JANUARI 2020 — THE FIRST REPORTED DEATH (CHINA)

17 JANUARI 2020 — THE FIRST CASE TESTED POSITIVELY IN EUROPE (FRANCE)

23 JANUARI 2020 — LOCKDOWN OF WUHAN

30 JANUARI 2020 — WHO DECLARES GLOBAL HEALTH EMERGENCY

31 JANUARI 2020 — THE FIRST CONFIRMED CASE IN SWEDEN

9 MARCH 2020 — ITALY QUARANTINES THE ENTIRE COUNTRY

12 MARCH 2020 — WHO DECLARES CORONAVIRUS PANDEMIC

17 MARCH 2020 — WHO DECLARES EUROPE THE EPICENTRE

SHUTDOWN IN LARGE PARTS OF EUROPE RISKS SEVERE NEGATIVE IMPACTS ON SWEDISH EXPORTS

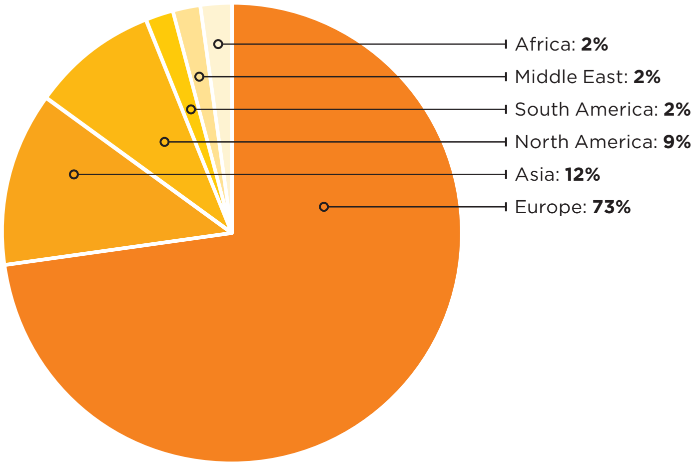
Ever since the new coronavirus got a foothold in Europe, country after country has to a large extent chosen to follow China's measures to limit the spread by shutting down entire cities, provinces and even countries. The most draconian measures have been introduced in Italy, Spain and France. Citizens are not permitted to travel, visit restaurants, cafées, theatres or other cultural venues, while nurseries, schools and universities have been closed. Many people are not even allowed to go to work despite not showing any symptoms.

The nations of Europe are to a very large degree dependent on each other and approximately two thirds of all goods trade takes place within the region. For Sweden, this means that the disruption to supply chains as a result of a widespread shutdown cannot easily be averted. Both Volvo and Scania have already closed plants in several countries. In fact, the primary export market for most European countries is Europe itself. More than 70 per cent of Swedish exports go to Europe. When activity tumbles in Europe's economies as a result of coronavirus companies should not only expect a direct impact on domestic demand but also on exports, which are expected to drop sharply. The manufacturing sector, which is heavily dependent on exports, is particularly vulnerable. Business Sweden recently carried out a survey (published March 23) about the impact of the coronavirus on Swedish export companies which showed that companies are expecting the situation to worsen in four weeks' time. Two thirds of the respondents forecasted that exports as well as supply of intermediate goods will be negatively affected.

This, in turn, will impact households and company finances as well as public sector finances. The public sector will be impacted by reduced tax revenues and increased expenditure as a result of the severe pressure on healthcare services and the huge measures that will be required to support companies and households. Companies will suffer increased costs, some of which are tied to material flows, and reduced revenues. There is also a risk that financing costs will rise despite measures being taken at the political level to limit this risk. The fact that revenues are at risk is a direct consequence of falling demand, as people are either unable or being prevented from going to work. To a lesser but not insignificant extent this is also due to disruption in the supply of intermediate goods. Households are at risk of losing income as people take sick leave but also because companies are forced to lay off staff as demand drops. During the global financial crisis Sweden's GDP fell by approximately 5 per cent and unemployment increased incrementally to 8.6 per cent in 2010. It is now likely in this crisis that we will experience a GDP drop of the same magnitude. The difference is that the negative effects on the labour market are at risk of being even greater as we are witnessing a synchronised supply- and demand shock to the economy.

SWEDISH EXPORTS DESTINED FOR EUROPE

Sweden's goods export 2019, percentage share of world regions



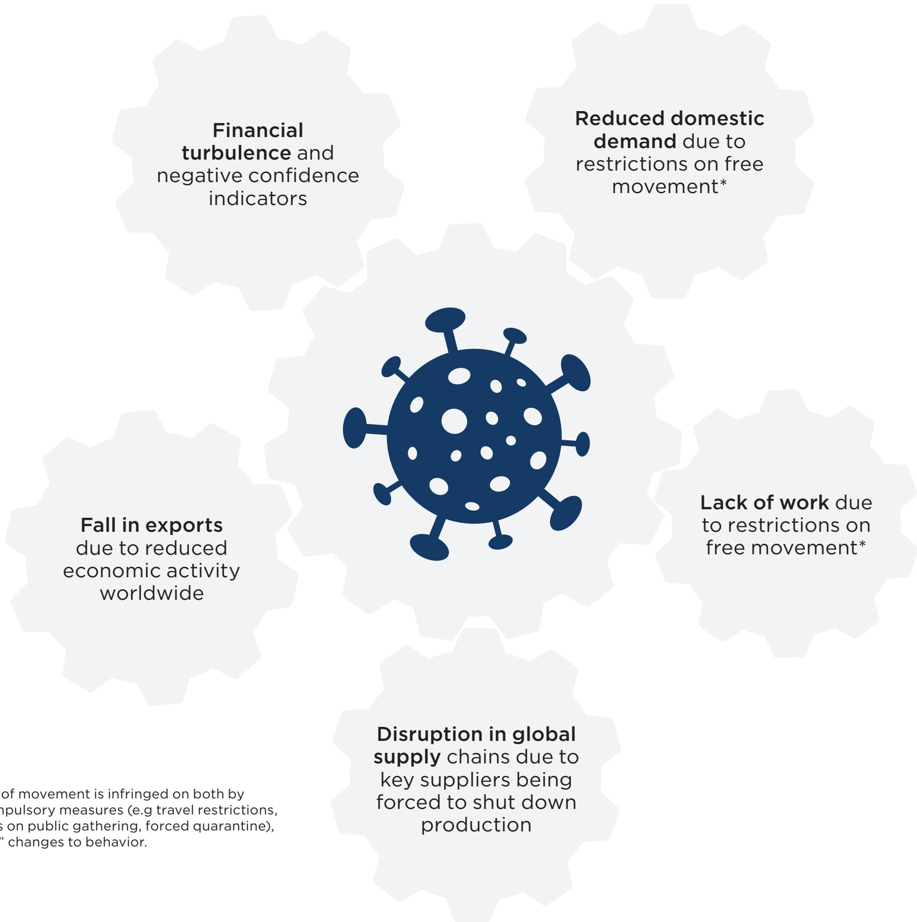
Note: Summary compiled according to Business Sweden's regional division, all figures in current prices.

Sources: Statistics Sweden (SCB), analysed by Business Sweden (2020)

TIME IS CRITICAL FOR HOW LARGE THE SOCIO-ECONOMIC CONSEQUENCES WILL BE

There is no doubt whatsoever that the coronavirus outbreak will have a major impact on the global economy. It is less certain, however, how prolonged the economic crisis will be and what long-term effects that companies should prepare for. The outbreak is affecting both supply and demand at the same time, which is unusual and presents enormous challenges for economies worldwide. The dominating effects in each country depend on which phase of the epidemic these countries find themselves in, coupled with the economic structure as well as the policies implemented to limit the spread, build trust and stimulate/salvage companies and households.

HOW THE CORONAVIRUS PANDEMIC AFFECTS THE GLOBAL ECONOMY



* Freedom of movement is infringed on both by illness, compulsory measures (e.g travel restrictions, restrictions on public gathering, forced quarantine), "voluntary" changes to behavior.

In the countries that have chosen to isolate citizens in their homes, domestic demand across numerous sectors has hit rock bottom. More than 40 per cent of household consumption is directly linked to social interaction. And the same goes for work opportunities in these countries. When people are instructed/forced to stay at home due to public restrictions or illness there is no staff to keep factories going or to transport goods. Work opportunities can be maintained in sectors where services can be provided while working from home. A prerequisite for these service deliveries is that they cannot be dependent on any physical interaction between people. Production in countries that haven't instructed all citizens to go into quarantine are also affected by these measures. The world's economies are closely interconnected, so when factories in France come to a standstill this may mean that truck manufacturers in Sweden will not receive the components they need to assemble vehicles. Small export-oriented economies – such as Sweden's – with an internationalised private sector are heavily impacted by frozen activities in other countries. Exports account for 45 per cent of Sweden's GDP. When the share of imports is taken into account the figure amounts to 30 per cent. No fewer than 1.4 million people were employed by Swedish export companies in 2019 according to the company database run by Statistics Sweden (SCB). In summary, the virus outbreak's direct and immediate effects on the economy primarily manifest themselves mainly through the mechanisms shown above.

It is also important to bear in mind that demand in the economy can change relatively quickly when voluntary shifts in behaviour occur, driven for example by fear of being infected or by expressions of solidarity. It is also reasonable to conclude that uncertainty regarding people's private finances results in planned purchases being postponed and that companies, due to the same financial uncertainty, postpone their investments. Indirect effects can as well rapidly become acute and these are linked, to a varying degree, to the mechanisms mentioned in the figure above. Increased unemployment as a consequence of reduced domestic demand, global supply chain disruptions and fall in exports are particularly relevant in this context.

To summarise the timeline in relation to the global economic aspects of the coronavirus crisis, we can conclude that the crisis began as a supply shock event and almost simultaneously a demand shock event in China which, in turn, disrupted supply chains and reduced global exports. This primarily affected countries with close geographical proximity to China. When the crisis hit Europe and North America immediate effects came in the form of travel restrictions which had a severe negative impact on airlines and tour operators. Following this, one country after another has restricted citizens' freedom of movement which means that restaurants, cafées, theatres and other cultural venues have suffered a major blow. In the next phase, factories started to shut down production as a direct consequence of official instructions to stay at home, thus cementing the crisis in the industrial sector. Industrial sectors in countries that have so far not imposed draconian restrictions have also been affected as they have been unable to procure the intermediate goods they rely on, while demand for their export goods has dwindled.

The coronavirus crisis is also impacting – either directly or indirectly depending on policy measures – oil prices and other commodity prices as well as interest rates and currencies. In addition, the crisis is affecting inflation though countries may experience this to a varying degree. Another significant consequence is the impact on asset prices as equity gains accumulated over many years have been wiped out on several of the world's largest stock exchanges.

The reduced economic activity caused by the virus outbreak has led to a severe drop in oil demand. In addition, a price war is now raging between Saudi Arabia and Russia. Altogether, this has led to a significant fall in oil prices recently. In normal circumstances a price drop for oil will have positive effects in real economic terms for countries that are not net exporters of oil. The countries that benefit the most will be growth economies where exports are not linked to oil in any significant way, such as China, India and Indonesia. The advanced economies tend to be less dependent on oil and therefore benefit to a lesser degree. In the current situation it would be reasonable to expect significant countervailing effects. As the price of oil falls to around 20 dollars per barrel, many advanced economies risk being exposed to negative or only mildly positive inflation which ignites fears that inflation may anchor at a very low level. Given the limited room for monetary manoeuvre, combating deflation will be a very challenging task. A low oil price improves the spending power of households and, again under normal circumstances, this could have had a positive impact on household consumption. But as long as the virus outbreak remains uncontrolled there is nothing indicating that such effects will in fact materialise.

To a large extent, the policies being pursued right now are focused on minimising the threat that the coronavirus poses to public health. At the same time, significant resources are being put into minimising the negative economic effects. In this acute phase, monetary and fiscal policies are introduced to ensure that companies can stay afloat during a period of exceptional disruption. Most of the measures are focused on strengthening corporate liquidity. Some central banks (such as the Federal Reserve) have also decided to lower policy rates, presumably in order to boost confidence and suppress unease in the financial system.

BE PREPARED FOR ACCELERATING ACTIVITY WHEN NORMALITY RETURNS

When the spread of the virus is finally brought under control and countries gradually ease the policies restricting the free movement of citizens – when life starts to go back to normal – the state that countries find themselves in will be decisive for how economic development resumes. It would not be surprising to see a surge in economy activity when the disruption and uncertainty caused by Covid-19 begins to subside. The economic recovery following previous virus outbreaks such as SARS in 2002 and the Spanish Flu in 1918–20 happened relatively fast. It is therefore critical that companies prepare and position themselves for this recovery. At the same time, the risk of a slow recovery cannot be ignored and the crisis may even have lasting effects on GDP.

The fact that the world's economies are more interconnected today than during any of the previous virus outbreaks has made them more vulnerable to supply chain disruptions. But an even greater risk is that the outbreak risks reducing the pace of globalisation as a result of changed attitudes, which can have long-term repercussions for global economic activity. Political responses may differ slightly from previous pandemics. Many of the measures are aimed at reducing the pressure on healthcare systems as much as possible during the peak period, which is achieved by prolonging the spread of infection. Clearly, a pandemic that last longer may also lead to delayed recovery. Research indicates that social distancing and other measures need to be maintained for a long period of time in order to avoid a second wave of infection. If this strategy is widely pursued by countries, the risk of a drawn-out economic crisis becomes very real.

It is undoubtedly clear that the coronavirus will not only cost human lives. Many companies – small and medium-sized companies being particularly vulnerable – will go bankrupt even in countries that inject large stimulus packages to boost liquidity and reduce cost pressures during the period when sales are non-existent due to the virus. Many measures are currently focused on giving companies easier access to affordable credit. For companies in the services sector such as hotels, restaurants and travel, these measures are likely to be of limited value as lost demand during this period will not be recovered later. Service companies cannot stockpile their output, so the prospects of being able to repay any credits when demand eventually rebounds will most likely be very limited.

Many people are likely to lose their jobs. According to projections by the International Labour Organization (ILO) as many as 25 million jobs could be lost worldwide in the worst case (the figure reflects the top-end scenario, the middle scenario points to 13 million), which could be compared to the 22 million jobs that were lost during the global financial crisis. This bleak scenario would mean that households are at risk of losing income of USD 3,400 billion, a considerable figure to say the least which corresponds to Germany's entire GDP. Added to this, one should consider that households will during this difficult period be forced to witness how stock market value accumulated over many years is wiped out. This also affects the majority of people who do not own shares but whose pension savings may have significantly reduced in value. All in all, this means that households are at great risk of having less disposable income and will undoubtedly consider themselves poorer after the virus outbreak. This may well impact household consumption for a far longer period than the outbreak has lasted. Reduced demand among households may compound the economic downturn.

At the same time, many countries risk being in a situation where their opportunities for fiscal expansion are limited. Public finances in many countries were already in a poor state before the virus outbreak, and with the direct burden on public finances that the outbreak is likely to cause, manoeuvrability in terms of the necessary stimulus that is required to get economies back on their feet risks being limited. With interest rates around zero-level in many of the world's developed economies, the opportunities to stimulate demand with monetary policy are also limited. Central banks are now strengthening liquidity through the purchase of government bonds, but also housing bonds and corporate bonds. Several of them are offering loans to banks at very low interest rates, which they can then lend to companies, which may well ease the burden on companies and even stimulate investments. However, these measures are likely to have very little effect on household demand. It is therefore likely that economies worldwide will greatly need stimulus in terms of both expansionary monetary and fiscal policies. Countries that already have a high level of debt and strained public finances will be facing hardship for many years to come. There is also a major risk that imbalances in economies will build up, which in the worst case can result in a deep financial crisis.

EUROPE

THE ECONOMY TAKES A NOSEDIVE

The European economy ended 2019 with a weak final quarter and a full-year growth rate of 1.4 per cent. In the euro area, growth was slightly lower at 1.2 per cent. An expected economic recovery in 2020 seemed to begin to be supported by promising statistics at the beginning of the new year. Private consumption provided a moderate boost to the economy. Domestic demand was supported by moderately rising real wages and continued strong development of the labor market. In the EU, unemployment reached a record low of 6.2 per cent in January.

Purchasing managers' indices and other indicators of economic activity rose slightly during January and February, albeit from relatively low levels. The manufacturing industry seemed to have bottomed out. An agreement between the US and China in January to de-escalate the trade conflict reinforced optimism among businesses. The UK's formal exit from the EU took place in an orderly fashion on January 31. Stock prices in the leading European marketplaces noted strong increases during the first months of the year.

The rapid global spread of the coronavirus starting in China has radically altered Europe's prospects for economic development in 2020. The supply chain disruptions caused by the measures taken in response to the epidemics in China and South Korea were followed by a sharp decline in domestic demand while the spread of the disease acceleated in Europe.

Large parts of Europe are already under shutdown and the European economy is now in a recession. GDP in the euro area is expected to shrink by 3–5 per cent in the individual member states during 2020. Member states as well as the European Central Bank (ECB) have taken strong measures to support the economy. Assuming the coronavirus pandemic subsides in the next few months, the recovery could happen quickly and growth could potentially approach 5 per cent by 2021.

The European Union (EU) has so far played a modest role in the fight against the coronavirus. Virtually all crisis management has been led by the member states themselves. An exception was the decision on March 17 to close the EU's borders for incoming travel from the rest of the world. Twelve member states – including Germany – have introduced national border controls. Several member states have also introduced export bans for medical devices.

At the economic level, however, the EU has started to take a more forceful stance. The European Investment Bank has issued EUR 40 billion in new loans to European companies. On March 19, the ECB announced a scheme for purchasing government bonds and securities at a value of up to EUR 750 billion. At the same time, the bank kept the policy rate unchanged at 0.0 percent.

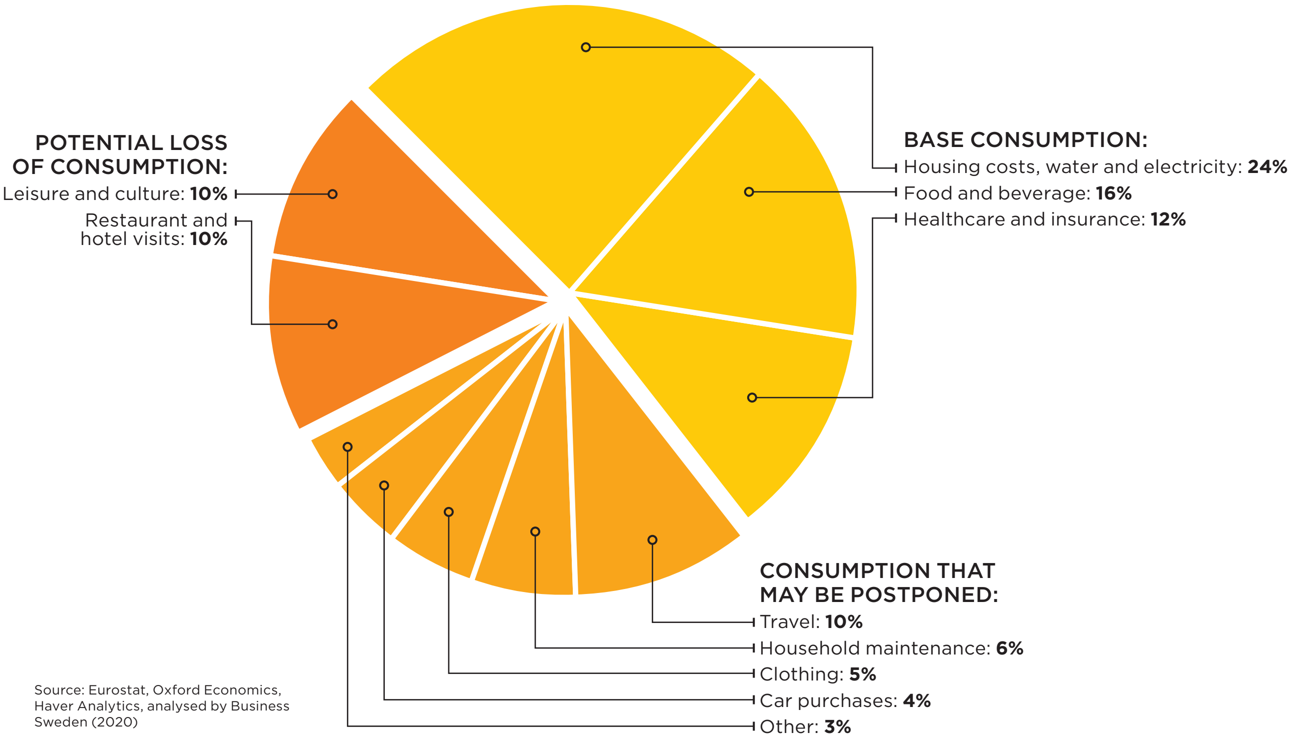
COMPREHENSIVE STIMULUS PACKAGES IN EUROPE'S HARD-HIT ECONOMIES

Following weak economic performance in 2019 with GDP growth of 0.6 per cent in Europe's largest economy Germany, there were high expectations on a recovery in 2020 that would also revitalise a faltering industrial sector. Instead, the economy has slammed on the brakes as a result of public measures to rein in the coronavirus spread and prevent a collapse of healthcare services. In dealing with the crisis, Chancellor Angela Merkel's government has launched a broad support package of EUR 750 billion made available to households, employees and self-employed people, tenants and both small and large companies. The legislation is being amended to make it easier for affected companies to receive state aid to retain staff. The government aims to keep the budget deficit at 4.5 per cent.

The French economy had tapered off significantly before the coronavirus pandemic. Expectations on 2020 were low already given the 1.4 per cent growth level in 2019 and an ongoing downturn in industry. But the government's measures to combat the spread of infection have put the entire economy on hold. President Macron has unveiled a crisis package of EUR 45 billion that includes relief of tax and social security contributions as well as support for companies that are reducing working hours for staff. The government will also issue guarantees of up to EUR 300

HALF OF THE CONSUMPTION MAY FALL AWAY

Household consumption in the EU by expenditure, 2019



Source: Eurostat, Oxford Economics, Haver Analytics, analysed by Business Sweden (2020)

billion to commercial banks to secure credit in the economy. France's crisis package was approved by the European Commission in 48 hours under the temporary regulatory framework established to adapt EU state aid rules to the measures required to handle the pandemic.

The rapid spread of infection in Italy and the desperate state of the healthcare system has brought home the seriousness of the crisis to decision-makers and citizens in Europe. Italy's already fragile economy is threatened by collapse with potentially severe consequences for the single currency and EU cooperation, which sets up the next challenge for crisis management as soon as the acute phase of the coronavirus pandemic in Europe is over.

The Spanish economy's rapid growth in recent years slowed to a moderate 1.6 per cent expansion last year, dampening the outlook for growth in the coming year. However, ten years of economic recovery following the global financial crisis have not been enough to prop up Spain's underfunded healthcare system and alleviate deficiencies in elderly care, both factors which have made the country particularly vulnerable to the coronavirus pandemic. Spain's initial response to the coronavirus was sluggish just like many other countries. As soon as awareness grew of the crisis, draconian measures were taken to stop the spread of infection. Despite these measures, the number of infected and deaths from Covid-19 has soared and Spain is about to overtake Italy as Europe's hardest hit country.

NEGOTIATIONS BETWEEN THE UNITED KINGDOM AND THE EU CONTINUE IN THE SHADOW OF THE CORONAVIRUS

The UK's measured initial response to the pandemic, with recommendations to the British public to stay at home in the event of symptoms of a cold, were followed by an about-turn prompted by a report from Imperial College. The report outlined a statistical assessment of how Italy's healthcare system had collapsed and showed that a similar situation in the UK would result in a quarter of a million deaths. The government has subsequently announced that the elderly citizens may need to isolate themselves for four months while introducing a series of drastic measures for "social distancing".

To counter the severe negative impacts on the economy, the British government has announced an increase in public spending by GBP 30 billion and issued GBP 330 billion in business loans. The Bank of England, the UK's central bank, has lowered the base rate by 65 points to 0.10 per cent and started buying securities to the amount of GBP 200 billion.

In the shadows of the corona pandemic, negotiations are taking place on the future political and economic relationship between the UK and the EU. Under the exit agreement, the Prime Minister needs to request an extension of the transition period by 30 June 2020.

NORTH AMERICA

GLOOMY OUTLOOK, FIRM ECONOMIC MEASURES

The coronavirus pandemic has short-circuited the political and economic agenda in the United States. The fact that the economy grew by a robust 2.3 per cent in 2019, and that forecasts for the full year were still looking bright in January, is of no relevance today. The confrontation with Iran, the trade agreement with China and the impeachment process against President Trump – where he was acquitted by the Senate – is all yesterday's news. Media reporting on the primary election campaign and the Democrat front candidate Joe Biden has been totally eclipsed by reporting on the epidemic's destructive force in the US and other countries.

On March 13, President Trump announced a national emergency following the rapid spread of the coronavirus in the US. On March 16, Trump announced new public guidelines to limit the spread of infection. These recommendations include avoiding crowds of more than 10 people, as well as unnecessary travel and visits to bars and restaurants. The administration has also imposed restrictions on entry into the United States for non-US citizens if they have travelled to China, Iran or the Schengen area's 26 countries – including Sweden, the United Kingdom and Ireland – during a 14-day period prior to US arrival. US foreign trade in goods will not intended be affected by the restrictions.

On April 1, the US had approximately 200,000 confirmed cases of Covid-19 and around 4,000 deaths, as well as confirmed community transmission of the disease in most states. The US now has the highest number of confirmed coronavirus cases worldwide. The hardest hit state is New York with just under half of all confirmed cases.

On March 25, the Senate voted unanimously for a massive USD 2 trillion stimulus package for the US economy, equivalent to 10 per cent of US GDP. The scope of the measures thus by far exceeds the USD 800 billion aid programme launched during the global financial crisis. The stimulus package includes so-called "helicopter money" from the federal government in the form of checks of USD 1,200 for low and middle-income adults and USD 500 per child. The unemployed become eligible for significantly increased unemployment benefits over an extended period, while the benefits are also expanded to include the estimated 15 million freelancers and people who work in the "gig economy".

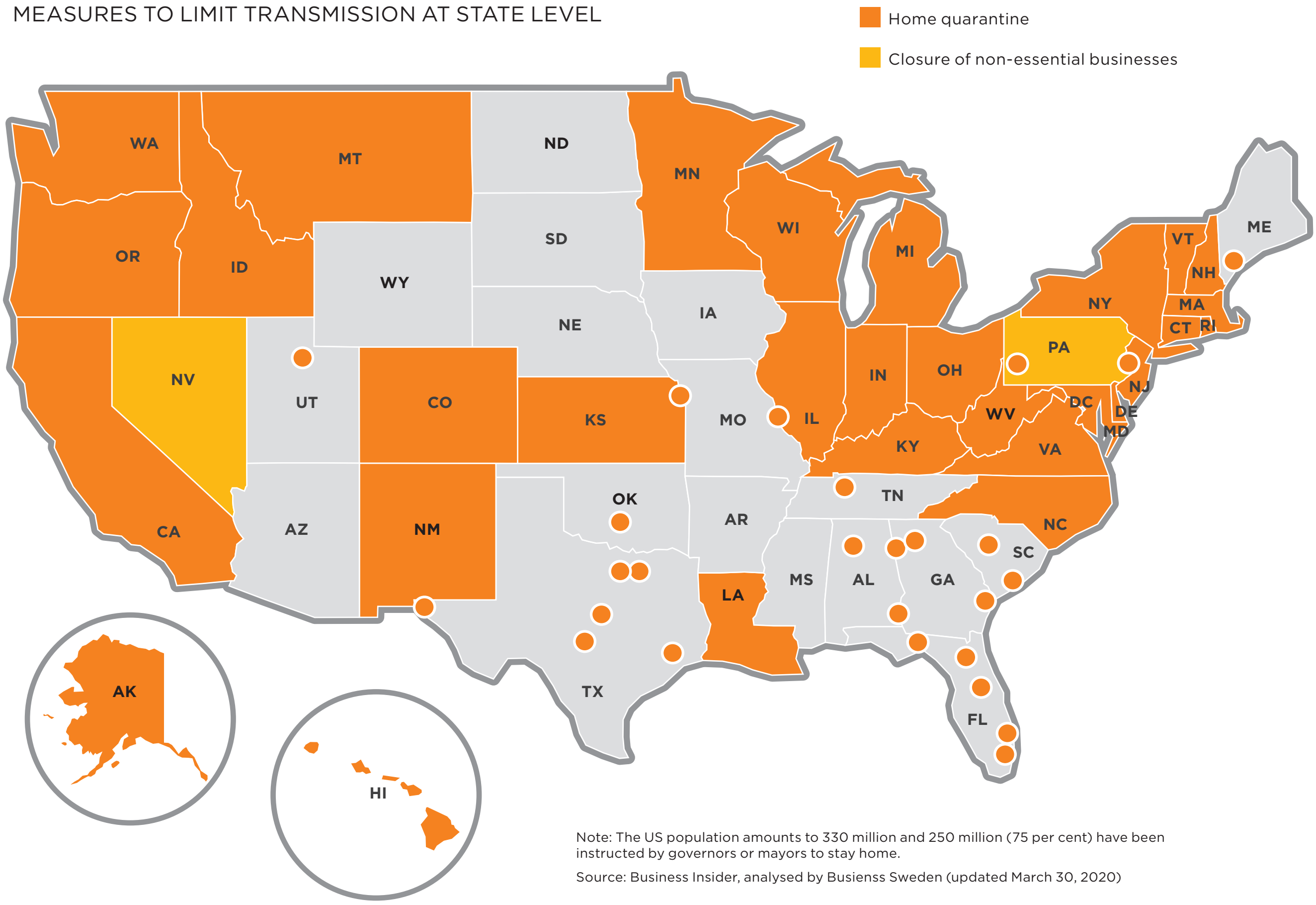
The measures also include USD 350 billion in state-guaranteed loans to small businesses and USD 500 billion in support for affected companies, as well as an additional USD 100 billion to support hospitals that are at the forefront of the epidemic. The stimulus package is a result of negotiations between Democrats and Republicans in Congress and the Trump administration, and illustrates the seriousness of the crisis in America's politically polarised environment.

The stimulus package follows the US Federal Reserve's (Fed) cut of its benchmark interest rate by 100 points to the 0–0.25 per cent range during a special meeting held on March 15. The reduction followed an earlier 50-point cut on March 3, from 1.75 to 1.25 per cent. This means that the interest rate is now at its lowest level since 2015. The Fed justified the cut by the fact that the US economy will suffer significant disruption caused by the coronavirus pandemic in the coming months, including negative growth in the second quarter.

The Fed also announced an upcoming USD 700 billion purchase of US securities – of which government bonds account for USD 500 billion in and securities on the real estate market USD 200 billion – while lowering the reserve requirements for banks to 0 per cent. Banks across the US will also receive an interest rate rebate on loans from the central bank, which will be valid for 90 days. The purpose of the rebate is to support the banks' lending to vulnerable small businesses and households.

Following the Fed's actions, the large US commercial and investment banks announced their intention to stop repurchasing their own shares and to use the funds for lending instead.

MEASURES TO LIMIT TRANSMISSION AT STATE LEVEL



Note: The US population amounts to 330 million and 250 million (75 per cent) have been instructed by governors or mayors to stay home.

Source: Business Insider, analysed by Busienss Sweden (updated March 30, 2020)

Across the United States, states and cities have closed schools, libraries, museums, cinemas, gyms, shops, bars, and restaurants. A number of high-profile tech companies – including Amazon, Apple and Google – have instructed employees to work from home. Calls from federal, state and local authorities to “shelter in place” and “stay at home” have become new concepts for citizens.

The ongoing, massive fall in domestic demand will rapidly push the US into recession. The number of newly registered unemployed amounted to 3.3 million during the week ending March 21, a top listing that can be compared with 670,000 new registrations during the worst week of the financial crisis. It is uncertain to what extent the federal stimulus package and the Fed’s actions are capable of supporting the US economy, which is currently in free fall.

A REGIONAL SNAPSHOT

ASIA

CHINA SUFFERS WORST IMPACT IN ASIA

Asia's economies have been heavily impacted by the coronavirus outbreak. China is the worst affected country both in public health and economic terms, and particularly the Hubei province where the outbreak originated. Arrivals to Wuhan – the epicentre of the epidemic and the provincial capital – as well as outbound travel were both halted and not just here, but across 15 other cities in the province. The Hubei province is home to some 60 million inhabitants in total. These measures were followed up with partial shutdowns in a further 80 cities including Beijing and Shanghai, China's two largest cities. In total, some 760 million people were affected by the measures. As a result of the extensive shutdowns, production in many parts of China came to a complete standstill over a couple of weeks and demand, private consumption and investment, fell sharply.

China accounts for a large share of the world's trade today – just above 12 per cent of total global trade in 2018. The severe disruptions to China's economy related to coronavirus have been felt across the globe, but especially in China's immediate vicinity. The effects that were apparent early on related to both a loss of production and demand drop. Many of the Asian economies are heavily dependent on tourism from China, so when key provinces in China were quarantined, an important source of revenue for many nearby countries disappeared. China's large import of goods from the rest of Asia also declined significantly as domestic activities dropped sharply. The worst-affected Hubei province has major hubs for production of intermediate goods for the electronics, electrical and automotive industries. As such, when production stalled this caused severe supply chain disruptions with a knock-on effect for vehicle manufacturers in South Korea, among many others, who had to temporarily shut down. At present, the spread of infection appears to be under control in China and South Korea, while increased transmission has been noted in Southeast Asia, especially Thailand and Indonesia. India also appears to be facing an upward curve in the number of cases, and the authorities are now gradually scaling up measures that limit freedom of movement in order to curb the spread of infection.

The trade conflicts between the US and China as well as Japan and South Korea put a damper on the mood last year. Volume growth in world trade was just under zero and to think that such a heavily trade-dependent region would be unaffected by the situation would be unrealistic. GDP growth fell from 4.6 per cent in 2018 to 3.9 per cent in 2019. Most of the region's countries suffered from an economic downturn last year and, in many cases – particularly in East Asia – the decline was linked to reduced demand in China. The Phase 1 agreement between the US and China, which was concluded at the end of last year and which reignited optimism around global trade in 2020, now, in midst of the coronavirus crisis, feels as distant as ever with little bearing on economic development in 2020.

A significant decline in GDP growth is expected in many Asian countries during the first half of 2020 as a result of the coronavirus outbreak. Provided that the outbreak continues to be contained in China and South Korea, and the rest of the world brings the virus spread under control, the recovery during the second half of 2020 would be sufficient to ensure that the GDP growth in several countries as well the region's combined GDP growth stabilises on the plus side at least. Across Asia and Oceania, a sharp slowdown in GDP growth is expected, in the same order of magnitude as the global financial crisis when GDP growth in Asia and Oceania fell from around 9 per cent to roughly 4 per cent. Since the decline is now occurring from a significantly lower level (about 4 per cent), this means that the region is at risk of near zero growth. This trend is expected to follow the same pattern as during the global financial crisis with a fairly rapid recovery and already by next year, GDP growth is expected to be at the same level or even slightly higher than last year in the region overall.

In the mature economies of Japan, South Korea, Hong Kong and Australia, GDP growth is expected to be somewhere between 0 and -3.5

percent this year. In all mature economies, GDP growth is expected to rebound to its pre-coronavirus level already in 2021, under the assumption that the crisis is not prolonged further. China is projected to see a sharp fall in GDP growth this year, on a par with the fall during the global financial crisis, but from a significantly lower level than back in 2008. This puts China not far from zero growth which is a truly exceptional situation. China risks having its lowest growth rate since the end of the Cultural Revolution (1976). But unlike during the global financial crisis, GDP growth is expected to fully recover as early as next year. Following the global financial crisis, China's GDP growth hit a permanently lower level. The Southeast Asian economies are currently estimated to perform relatively well, although with a clear slowdown in GDP growth but not as much as during the global financial crisis. Nonetheless, the picture may change rapidly for Southeast Asia, which so far has had relatively few Covid-19 cases, but where the number of cases is now increasing at a relatively fast pace.

Already in mid-February, the Chinese government changed its policy direction. From having focused on containing the outbreak, it has gradually transitioned to supporting the resumption of economic activity (though comprehensive restrictions are still in place). To this end stimulus measures both within the fiscal and monetary policy area have been taken.

The fiscal policy measures include:

– Subsidies and tax breaks for citizens and companies involved in combating the virus outbreak.
– Expediting previously planned issuing of local government bonds.
– Reduced social insurance fees for companies.
– Temporary reduction of insurance premium for health insurance.
– Tax exemption for small companies in Hubei province and reduced VAT in the rest of China.
– Electricity price reductions of 5 per cent (excluding the most energy-intensive sectors).

Monetary policy measures:

– Interest rate cuts.
– Reduced reserve requirements for banks.

In Japan, too, attempts to alleviate the economic effects of the virus outbreak are being pursued through various economic policy measures. So far, two rescue packages have been launched (totaling JPY 1,600 billion, equivalent to about 0.3 percent of Japan's GDP), which include for example financial support for small and medium-sized companies and workers affected by the crisis. Other measures that have been announced include emergency loans to businesses and individuals, financing that enables companies to retain staff, support for parents affected by school closures, and the opportunity to postpone personal taxes and payroll tax. According to some estimates, these launched as well as announced measures may add up to a figure corresponding to 10 per cent of GDP.

Further measures are being discussed including direct cash payments to households.

India is currently focusing on measures to limit the spread of infection. On March 25, Prime Minister Modi put of all of India into lockdown lasting three weeks, a measure affecting 1.3 billion people. The restrictions are far-reaching. No residents are allowed to leave their homes, all companies have been instructed to close, and all transport has been stopped. However, comprehensive fiscal stimulus packages have not been launched yet in India. So far, a package of 0.8 per cent of GDP has been announced, targeting only the very poorest. Aid measures aimed for companies have yet to be announced. India's central bank has been somewhat more active and the interest rate has been cut by 75 points to 4.4 per cent. India's lending institutions have also been given the opportunity to grant a 3-month reprieve on all loans.

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