

# Coronavirus: Economist sees sharp, short-lived effects

March 13 2020

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Gabriel Ehrlich is the director of the Research Seminar in Quantitative Economics at the University of Michigan, where he forecasts the U.S. and Michigan economies. He discusses the economic impact of the coronavirus locally, nationally and globally.

**We are seeing a sinking Dow, disrupted education, restricted travel, canceled events and much more fallout. How does all of this play into the forecasting you've done?**

It's a rapidly evolving situation. We're monitoring it closely and the reality is we're not epidemiologists. As economists, we have to make some best guesses about different ways that the [disease](#) might run its course. We don't have a forecast, per se, of what the disease will do, but we have done some modeling around what an adverse scenario for the disease would do to the [economy](#).

The first thing I'll note is that prior to the epidemic really breaking out in the United States, we believe the fundamentals of the U.S. economy were in pretty good shape. We do think the underlying fundamentals of the U.S. economy remain strong. The scenario that we modeled was aimed to be roughly between the [flu epidemic](#) the United States saw in 1918-19 and some milder pandemics that broke out both in 1957 and in 1968. Those were three of the most severe outbreaks of disease that we've seen over the past 100 years and we aimed to be in between those levels of severity in the scenario we modeled.

We've seen a lot of movements in the asset market, the Dow has been tumbling. One thing to keep in mind is that the stock market is not the economy. Don't get me wrong: It's definitely not good news how far the Dow has been falling and what we've been seeing in the asset markets. But asset markets are more volatile than the underlying economy.

**Where do you forecast that we are going to see the greatest economic impacts?**

We expect the epidemic to cause the most disruption in sectors that require social interaction. We just saw an announcement from the NBA that it's postponing the season indefinitely. Again, that's because there's a lot of face-to-face contact involved in something like a basketball game, and you get tens of thousands of fans in an arena and that's really an incubator for spreading the disease.

We also expect to see disruption in the [travel sector](#), accommodation and food services and retail trade, although not as large as in travel and accommodation and food services. We do think that we might see some disruptions and stoppages in manufacturing activity, but we expect them to be scattershot or isolated—we don't expect systematic shutdowns, for instance, among the Big Three automakers.

Another sector that is facing disruption is the schools. Many public universities in Michigan and elsewhere have moved to online classes for the rest of the semester. Most workers in the educational sector are likely to receive their paychecks even if there are closures, but that could cause complications for parents in terms of arranging child care.

**Some of these sectors employ people who are lower income. Is that a concern for economists?**

It's absolutely the case that disruptions we see from the epidemic are likely to hit sectors of the economy that employ lower-income workers disproportionately. Those same workers might be more likely not to have paid time off, paid sick leave or vacation leave. So it's absolutely a concern that the disease might affect, from an economic standpoint, folks who are more vulnerable than average disproportionately.

If you think about me, I'm an economist at the University of Michigan. I can do most of my job at home if I need to, and if I can't, I still expect to be getting my paycheck. That's not the case for some people who work,

for instance, in the fast-food or accommodations industry, where it can be a tougher situation.

## **What has surprised you about the disease's impact?**

I think what has surprised us the most is how quickly the stock market and [public officials](#) are reacting to something you don't see in the hard economic data yet. In the past, you really needed to see a slowdown or a disruption showing up in the data before you saw a reaction, for instance, from the Federal Reserve. Whereas with this epidemic, we're seeing government officials, businesses and other actors in the economy getting out ahead of the curve. Partly that's because we've already seen the disruptions are so severe in other countries that have been hit by the disease first.

## **How is the 21st-century economy more robust or more vulnerable than in the past, such as during the previous pandemics you cited?**

Thinking about the vulnerabilities, we have a much more globally interconnected economy today than we did 100 years ago. So if you think about things like international air travel, that is a way that the disease can spread. Also, the service sector is a bigger part of the U.S. economy than it was 50-100 years ago, when manufacturing and goods production was more important. It's in the service sector where we really think that the biggest drop-offs in demand are going to be felt.

Where I think the economy is much more robust today is in two sectors: First is in professional and business services. The reality is today you can do a lot of jobs remotely. Most of those jobs are white-collar, professional jobs, where as long as you've got a laptop and internet connection, you can access your files, you can do most of your work.

Second, the manufacturing [supply chain](#) is leaner and more flexible today than it was 100 years ago. Modern manufacturers are extremely sophisticated at managing their supply chains, and they have done some incredible things in the past when their supply chains have been at risk of disruption.

## **What else is important to know about overall economic impacts?**

Right now in our baseline modeling, we don't see the epidemic causing an official recession, which we typically think of as involving two quarters of falling gross domestic product. We're expecting a drop-off in economic activity, but the effects will depend on the course of the epidemic. We expect the effects to be short-lived enough that we don't meet the official definition for the economy to enter a recession, although it could end up being a close call. In particular, we expect growth to start bouncing back in the third quarter of the year. We expect a sharp but short-lived contraction in economic activity if the disease evolves as aggressively as some of the scenarios we're seeing.

Provided by University of Michigan

Citation: Coronavirus: Economist sees sharp, short-lived effects (2020, March 13) retrieved 6 August 2024 from <https://phys.org/news/2020-03-coronavirus-economist-sharp-short-lived-effects.html>

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