Please refer to Appendix – Important Disclosures.

Tracking the Spread of Economic Effects of the Coronavirus

Key Takeaways:
- Global PMI sank in February as China activity came to a stop
- US activity has been more resilient and data has surprised to the upside
- Watch jobless claims, average workweek and copper for evidence of weakness

Prior to the coronavirus outbreak there was evidence that global green shoots were emerging and conditions in the US were improving as trade-related uncertainties from early 2019 waned. This week provided some early evidence of the economic impacts of the outbreak. The overall global manufacturing PMI posted both the largest single-month decline and lowest level of the past decade. Weakness was largely due to China’s efforts to curtail the spread of the virus. The manufacturing PMI for China dropped into the 30’s and the service PMI fell into the 20’s - record lows on both accounts. Outside of China, economic activity has held up relatively well. With the spread of the virus in recent weeks, that could change going forward.

February PMI data for the US was relatively strong and confirms the up-turn that emerged in late 2019. Remaining above the 2019 lows would be an encouraging sign for the US economy. With uncertainty rising, business may intensify their efforts to control labor costs. An uptick in layoff rates (watch the initial jobless claims) and a reduction in average weekly hours (released with the monthly jobs report) would be early indicators that this is happening. While bond yields have plunged to previously uncharted levels, Copper prices have proven more resilient. A break to new lows would be evidence that global economic conditions are deteriorating. We can also keep an eye on how the data is faring relative to expectations. It started to surprise to the upside in mid-January and so far that trend has continued. While the ultimate impact of the virus remains to be seen, moving from a stance of reaction to anticipation would be a helpful development, especially for the financial markets.
Economic activity was on an upswing prior to the coronavirus outbreak.

Economic uncertainty leads to intensified efforts to control labor costs.

Source: Ned Davis Research
After an initial drop, copper has been resilient in face of coronavirus uncertainty.

Data surprising to the upside would suggest worst economic fears not being realized.
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