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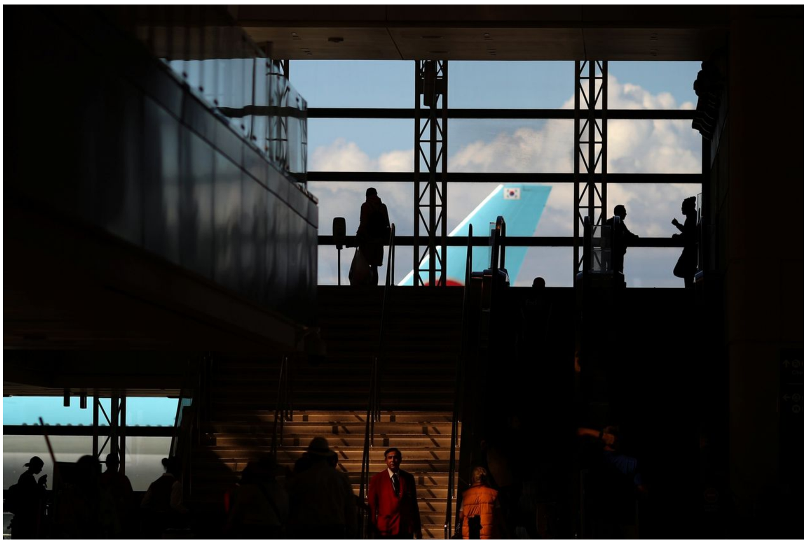
ECONOMY

Economists See Rising Risks of Recession World-Wide

Overall economic impact of coronavirus will depend on how quickly authorities can bring it under control



A terminal at Los Angeles International Airport on Thursday. Airlines have cut flights in domestic and international markets as the coronavirus affects travel demand.

PHOTO: LUCY NICHOLSON/REUTERS

By Josh Mitchell and Joshua Zumbrun

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The U.S. and world economies look increasingly likely to slip into recession as expanding swaths of commerce shut down and the Dow Jones Industrial Average suffered its worst day since 1987 amid the coronavirus pandemic.

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The global financial rout deepened on Thursday despite new measures by major central banks to ease market strains and bolster the economy—and as the Trump administration and Congress neared agreement on legislation to provide federal financial assistance to many affected businesses and workers.

The Dow Industrials fell nearly 10%, while the S&P 500 and Nasdaq joined it in bear-market territory. For the day, the Dow industrials shed 2,352.6 points to 21,200.62. The S&P 500 sank 260.74 points, or 9.5%, to 2,480.64. And the Nasdaq Composite slid 750.25 points, or 9.4% to 7,201.80.

Airline and cruise company shares led the collapse. United Airlines Holdings was down 25%, Delta Air Lines dropped 21%, and Spirit Airlines tumbled 33%. Royal Caribbean Cruises plummeted 32%

European stocks suffered one of their worst days in decades, with the Stoxx Europe 600 index dropping 11.5% by day's end. This came after the European Central Bank said it would issue cheap loans to banks and buy more eurozone debt to mitigate the economic shock of the coronavirus—but didn't cut its key interest rate, which is already below zero.

U.S. stocks initially pared their losses, but later resumed their fall after the U.S. Federal Reserve said it would inject more than $1.5 trillion into short-term funding markets on Thursday and Friday to prevent ominous trading conditions from creating a sharper economic contraction.

Meantime across the U.S.—the world's largest economy—authorities this week have canceled or postponed a swelling number of commercial flights, industry conferences, music festivals, sports events and other public activities, while oil producers are being slammed by a sharp drop in crude prices. All this raises the odds the record-long economic expansion will end in coming months, economists said.

"We are going into a global recession. The necessary measures to contain the spread of the virus make that unavoidable," said Vítor Constâncio, a former vice president of the European Central Bank, on Twitter Thursday.

In the U.S. alone, "the chances of a recession are going way up," said Michael Feroli, an economist at JPMorgan Chase.

President Trump's announcement Wednesday night of a 30-day ban on some travel to the U.S. from Europe to contain the spread of virus came as global air traffic was already falling and all of Italy and parts of many other countries were under quarantine.

While cancellations and postponements of public activities in the U.S.—such as major league baseball, hockey and basketball games, Broadway shows and Austin's South by Southwest festival—may help slow the spread of the virus, it will inevitably take a toll on consumer spending, economists said.

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>
> — Vítor Constâncio, former vice president of the European Central Bank

"It's going to be massively disruptive to the economy," said Joshua Shapiro of consulting firm MFR Inc.

"You go to a sporting event, not only do you buy a ticket. You buy some beers, maybe you go to dinner first. You go out afterwards. You're spending money," Mr. Shapiro said. "It's not just the ticket to the event, it's the plane ticket, it's the hotel. It's all these people working at these places."

As U.S. benchmark crude crashed to near $30 a barrel this week, shale firms announced a string of drilling and spending cuts that will squeeze hundreds of energy service firms that employ the bulk of the industry's workforce.

On Thursday, longtime shale driller Apache Corp. said it would drop all of its rigs in the Permian basin of Texas and New Mexico, shift resources overseas and slash its quarterly dividend by 90%. Matador Resources Co. plans to cut half of its drilling rigs by the end of June, while executives and board members take pay cuts. Marathon Oil Corp. plans to slash at least $500 million in spending, halt all drilling and fracking in Oklahoma and reduce activity in the Permian, where it has four rigs and one fracking crew.

Whenever a company stops drilling or cuts spending, the contract crews that operate drilling rigs and other oil-pumping machinery typically try to find other jobs in the oil patch. If enough producers throttle down all at once, and drilling rigs are idled for an extended period, energy service firms will have to cut workers and prices, and over time, growing U.S. oil production would flatten and fall.

Those service companies employ thousands in oil and gas hot spots like Houston, Oklahoma City and Midland, Texas.

JPMorgan Chase said Thursday it now thinks the economy will fall into recession in the first half of this year, ending the record-long expansion that began in 2009. It expects output to fall by an annual rate of 2% in the first quarter and by another 3% in the second quarter. JPMorgan expects the economy to return to solid growth in the second half, assuming a "fiscal response" of $500 billion from Congress. As a general rule of thumb, many economists view a recession as two consecutive quarters of economic contraction.

The Institute of International Finance predicts the global economy will grow about 1% this year, the smallest gain since the global financial crisis in 2009 and a level that would likely mean many countries would fall into recession.

A recession can take months to show up in economic data. Most likely, it would first become visible in sentiment readings, new claims for unemployment insurance benefits, and eventually in spending and investment data.

Through last week, U.S. employers generally appeared to resist the urge to lay off workers. New jobless claims fell last week, to a historically low level of 211,000, the Labor Department said Thursday.

But IHS Markit said last week business activity in the U.S. service sector—representing industries from restaurants to health-care providers—fell in February for the first time since 2013.

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ECB President Christine Lagarde on Thursday echoed other central bankers who have recently said there are limits to how much monetary policy can do in the current crisis and called on other policy makers to use fiscal policy, such as tax and government spending measures, to provide support.

"An ambitious and coordinated fiscal stance is now needed in view of the weakened outlook and to safeguard against the further materialization of downside risks," she said.

The Fed's action Thursday came amid increasing strains in financial-market plumbing, putting pressure on the central bank to intervene in a way not seen since the 2008 financial crisis.

"These changes are being made to address highly unusual disruptions in Treasury financing markets associated with the coronavirus outbreak," the New York Fed said in a statement.

Investors have pulled an average of nearly $2 billion dollars a day from emerging markets over the past six weeks, according to the Institute of International Finance, a development that could lead to countries running down their foreign reserves and eventually encountering problems managing their debts.

The International Monetary Fund, the Washington-based institution that serves as the global lender of last resort, said in a briefing Thursday that it has begun to field inquiries from countries that may need financial assistance.

Earlier on Thursday, Iran, one of the countries hardest hit by the coronavirus, said that it had requested a $5 billion rescue program from the IMF.

“We are in very active consultation with our member countries,” said Gerry Rice, an IMF spokesman, at a briefing on Thursday. “We are receiving inquiries and requests from a number of countries including Iran. I can tell you we are proceeding expeditiously with all requests.”

The IMF said last week that it had $50 billion that could be disbursed rapidly for coronavirus relief programs. The IMF has total lending resources of up to $1 trillion that countries could seek to tap to combat the slowdown in global financial flows.

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—David Harrison, Nick Timiraos, Tom Fairless, and Harriet Torry contributed to this article.

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