



The Daily Dish

# Stock Market Déjà Vu

DOUGLAS HOLTZ-EAKIN | FEBRUARY 25, 2020

## Eakinomics: Stock Market Déjà Vu

Markets tanked across the world yesterday in response to further news about the spread and severity of the coronavirus. In many ways it was eerily similar to December 2018 or spring/summer June 2019, when equity markets reacted strongly to news about developments in the trade war.

This makes sense, because a [pandemic](#) is much like a trade war, only potentially much worse. Both interfere, first, with retail trade; tariffs and quotas make consumers shift away from traded goods. The incentives to “self-quarantine” – or even government-imposed quarantines – interfere with trade as well. People literally have less ability to interact to make transactions, and trade diminishes.

In the 21<sup>st</sup> century, a second channel arose: the supply chain. The impact of tariffs on the supply chain is the new element of trade wars. While the research verdict is not yet in, the impacts appear to be substantial. Supply-chain trades amplified the tariff impacts and produced tremendous uncertainty about the scale and location of business investments. The economy faltered. Similarly, the coronavirus has closed facilities in China and elsewhere, and thus it is a threat to international supply chains.

So coronavirus is a lot like a trade war...except the trade war damage was real and so far the market response to the coronavirus is about fear. Growth in gross domestic product (GDP) was 2.3 percent between the fourth quarter 2018 and one year later. Most analysts put the downdraft from idling the Boeing 737 Max production (and its supply chains) at about 0.5 percentage points. That puts us in the vicinity of 1.5 percent or so. With a big coronavirus impact, one could not rule out a number near zero. Yet the Atlanta Fed [GDPNow](#) tracker puts the current first-quarter growth estimate at 2.6 percent, while the New York Fed [Nowcast](#) is at 2.0 (and rising recently).

The U.S. economy proved to be very resilient in the face of the trade war. It is too soon to write it off as a result of the coronavirus.