Lee & Associates® Research
Los Angeles-Central | City of Industry

LEE & ASSOCIATES
COMMERCIAL REAL ESTATE SERVICES

HOW IS COVID-19 AFFECTING THE ECONOMY?

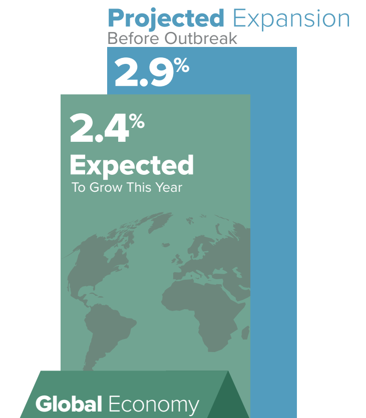
LOCAL EXPERTISE. INTERNATIONAL REACH. WORLD CLASS.

The precise impact the coronavirus epidemic will have on the US and the global economy is unknowable. But it is possible to take stock of its current effects and think in terms of probabilities and likely scenarios. With that disclaimer in mind, here are three things to know.

1

As yet there have been few signs of widespread economic damage in the United States. Most employers aren't laying off workers. Consumers are still spending, and shops and restaurants remain open. Pandemics, of course, can cause a recession, but for that to happen the effects have to spread beyond sectors directly affected by the disease. According to George Washington University economist Tara Sinclair, the real sign of trouble will be when companies with no direct connection to the virus start reporting a slump in business. Although forecasters expect the US economy to slow in the first quarter, the OECD expects US GDP to expand by 1.9% Which is only slightly below their pre- Covid-19 forecast of 2%.

With the Chinese government having to impose travel bans and a quarantine requirement, the outbreak has been most severe in China. In its best-case scenario, the OECD forecasts that China's economy will grow 4.9% This year, down from its previous projection of 5.7%. Regarding the global economy, it is expected to grow by 2.4% For the year, down from the 2.9% Expansion projected before the viral outbreak.



2

Due to the fact that the leasing fundamentals of the property markets are unlike equity markets in that they are slower and normally lag the economy, it is too soon to draw any firm and settled conclusions on the impact of Covid-19 on property markets. However, as an initial estimation and approximation, it is possible to say that the industrial sector of CRE will most likely be resilient. Here's why.

First, from a logistics perspective, the companies most vulnerable to the effects of the Covid-19 epidemic are small and leveraged suppliers upstream in the supply chain. They are in danger of going under, but they have a negligible to nonexistent impact on industrial CRE. Second, of manufacturers who do not heavily depend upon on China for their inputs, most of them can use their reserves to deal with the current supply-side shortages in the near-term. Third, of the industries who will be noticeably affected by the possible long term logistical shortages due to their heavy dependence on Chinese inputs—e.g., apparel, leather, computer & electronics manufacturing, etc.—It is simply a fact that these industries represent a smaller share of both the overall production and manufacturing inventory and the overall industrial inventory as well. Whatever impact these industries will have on the industrial sector—and without question, it will be real—it will be softened because of this fact. Lastly, none of these near-term effects undermine the broader shift to ecommerce and the impact it is having on industrial demand. That change in consumer behavior is structural and built into the system now. There is no reason to think consumers will alter their preferences or behavior.

3

Even before the outbreak, central banks entered the year already in an accommodative stance. But given the supply-side contraction caused by the epidemic, central banks are willing to do all that they can to prevent a demand-side contraction from occurring as well. In fact, central banks around the world have already responded aggressively. The People's Bank of China (PBOC) has deployed several new stimulus measures, and central banks in Indonesia and Singapore have also stepped up support. Similarly, today the Hong Kong monetary authority lowered its base lending rate by half a percentage point in lockstep with the us federal reserve's emergency interest rate cut. Such a move further reassures skittish consumers and investors who in times of crisis might seek to hoard their money and thereby reduce economic activity. The rate cut helps offset a reduction in the velocity with which money changes hands. Expect rate hikes to resume only in 2021 at the earliest if at all. The outbreak has driven many investors to the bond market, with the 10-year treasury down 40 basis points on average since the start of the year. The drop in rates further incentives debt rebalancing and enhances refinancing options – an obvious boon to property markets.

LEE & ASSOCIATES® - COMMERCE, INC.
500 Citadel Dr, Suite 140, Commerce, CA 90040
P. 323.720.8484 | F. 323.720.8474

LEE & ASSOCIATES® - INDUSTRY, INC.
13181 Crossroads Pkwy N, Ste 300, Industry, CA 91746
P. 562.699.7500 | F. 562.695.3133