

ECONOMY

New Month's Eve celebrated

THINK STRATEGICALLY:

Puerto Ricans Persevere Under Any Circumstances

Coronavirus Costing China's Economy \$62 Billion; Geopolitical, Pandemic Risks May Add to Economic Volatility

BY FRANCISCO RODRÍGUEZ-CASTRO | frc@birlingcapital.com



As virus spreads, economic cost to China rises to \$62 billion

The world is facing a new pandemic as the Wuhan coronavirus spreads beyond China's borders. In that nation, more than 17,000 people are reported to be infected, and there have been more than 360 deaths as China begins to celebrate the Year of the Rat. China has had other outbreaks that affected cities worldwide. The U.S., Japan, Britain, Italy and Russia have issued orders such as "Do Not Travel to China Due to the Coronavirus," with all foreign nationals who had recently traveled to the country being barred from entering the United States, the Trump administration stated. This development

represents a severe blow to the Chinese economy, and its impact on the world's economy will depend on how the virus is contained. Recall that, in 2003, also in January, the Severe Acute Respiratory Syndrome, aka the SARS outbreak was spreading like wildfire.

For an extended period, it looked as though SARS would be the Black Plague of the millennium. Back then, from winter to late spring, not a day passed without a SARS headline in most of the world's newspapers as the disease spread from Guangdong Province in China to Vietnam, Hong Kong and eventually to the whole world. SARS made it to the United States but had a worse impact on Toronto.

Even with all the headlines and

hysteria, the numbers for SARS were not all as high as the novel coronavirus. According to the Centers for Disease Control & Prevention and the World Health Organization (WHO), from November 2002 to July 2003, 8,098 people worldwide contracted SARS, and of those, 774 died, or about 9.5 percent. Every time one of these pandemics arises, we check how many people die each year of malaria, which is both preventable and curable. According to WHO, in 2018 alone, 228 million cases of malaria were reported. Eleven million pregnant women and 900,000 babies were born with low birth weight, and the death toll of reported cases was just shy of 410,000, which is believed to be higher. About 93 percent of all malaria cases occur in Africa, and there is not enough money allocated to eradicate it; this is very sad but true.

Coronavirus' spread, as reported by WHO as of Feb. 2:

- More than 17,200 cases reported worldwide;
- China had 17,205 confirmed infections, with 360 reported deaths, and one person died in the Philippines;
- Cases have been confirmed in 23 countries, with 11 of them in the United States.

The economic impact on China is said to be more than \$62 billion and may force an already fragile economy to take extreme measures to restart.

While the total impact of the current pandemic is hard to determine, some experts are indicating China's current rate of growth could decrease by 2 percent for first quarter (1Q) 2020. A decrease of that magnitude and speed translates into China possibly losing north of \$62 billion, if not more. China, which had been dealing all last year with the U.S.-China trade war, had its weakest year in 30 years, and the official implementation date of the U.S.-China trade agreement, known as the "Phase One" trade deal, is scheduled to commence Feb. 14. However, with the new coronavirus, we expect some parts of the agreement to be delayed.

Week in markets: Coronavirus, global growth hit markets

Amid the coronavirus scare and its impact on the world economy, the U.S. stock markets delivered their worst declines since October, evaporating year-to-date (YTD) returns. We already mentioned that the U.S. economy's 4Q19 gross domestic product (GDP) grew at 2.1 percent, and consumer spending slowed modestly. However, the GDP growth was higher due to increased housing investment and a better-than-expected trade deficit, as was predicted since late 3Q19 when the U.S. economy still had enough fuel to continue the market expansion. However, geopolitical and now pandemic risks may increase the volatility to higher levels.

The Dow Jones Industrial Average closed Jan. 31 at 28,256.03 for a loss of 733.70 points, or 2.53 percent, and a YTD return of -1 percent. In addition, the S&P 500 closed Jan. 31 at 3,225.52, for a loss of 70.27, or 2.12 percent and a YTD loss of 0.17 percent. The Nasdaq closed Jan. 31 at 9,150.94, losing 163.97, or 1.76 percent and YTD return of 1.99 percent. The Birling Capital Puerto Rico Stock Index closed Jan. 31 at 1,920.05, for a loss of 34.93, or 1.79 percent, and YTD return of minus-5.78 percent. Meanwhile, the U.S. Treasury's 10-year closed at 1.51 percent, a decrease of 10.65 percent

and year to date return of minus-0.4 percent. The U.S. Treasury's 2-year note fell to 1.33 percent, a return of minus-10.74 percent and YTD return of minus-0.4 percent.

Economic front: Primary indicators for Jan. 27-Feb. 2

- U.S. New Single-Family Houses Sold: On Jan. 27, it was reported that 694,000 new houses were sold; this compares with 697,000 on Dec. 19.
- U.S. Durable Goods New Orders YOY: On Jan. 28, new orders year over year (YOY) were reported to have fallen by 3.66 percent, which compares favorably with the previous month when it fell by 4.61 percent.
- U.S. Initial Jobless Claims: Published Jan. 30, the numbers were less than expected, at 216,000, versus 220,000 the past week.
- U.S. Real GDP Growth: Reported at 2.1 percent, remaining at the same rate as the past quarter.
- U.S. Personal Savings Rate: Reported on Jan. 30 at 7.7 percent, this was a slight decrease from the 7.8 percent reported in the past quarter.

Final word: Perseverance, optimism drive Puerto Rico

As Jan. 31 was fast approaching, Puerto Rico's positive spirit decided the first month of the year was broken because of the 2,000 earthquakes that hit the island and largely destroyed the towns of Guánica, Yauco, Guayanilla, Peñuelas, Ponce and several others. After establishing this reality, the residents in every town decided to throw a New Month's Eve party to say goodbye to January 2020 and welcome February 2020 as the real New Year. Throughout Puerto Rico, there were New Year's Eve-like parties with fireworks and all the trimmings. This positive attitude, a decision of the people of Puerto Rico, not only demonstrates an enthused optimism toward the future, but also shows how Puerto Ricans can persevere under any circumstances, with a positive face toward the future. This is why I love our culture, stamina, environment, attitude and the positive outlook of our people. Being Puerto Rican means one always looks to the positive side of things, and one expects the sun will shine bright in the new day ahead. These are the reasons perseverance and optimism drive Puerto Rico.

Francisco Rodríguez-Castro, president & CEO of Birling Capital, has more than 25 years of experience working with government, and multinational and public companies.

Weekly Market Close Comparison	1/31/2020	1/24/2020	Change	YTD
Dow Jones Industrial Average	28,256.03	28,989.73	-2.53%	-1.00%
Standard & Poor's 500	3,225.52	3,295.47	-2.12%	-0.17%
Nasdaq	9,150.94	9,314.91	-1.76%	1.99%
Birling Puerto Rico Stock Index	1,920.05	1,954.98	-1.79%	-5.78%
U.S. Treasury 10-Year Note	1.51%	1.69%	-10.65%	-0.4%
U.S. Treasury 2-Year Note	1.33%	1.49%	-10.74%	-0.4%