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Coronavirus Hits U.S. Business Activity

Surveys indicate February U.S. output fell to lowest level in more than six years as global economies started to feel effects of China's virus outbreak

By Paul Hannon and Amara Omeokwe Updated Feb. 21, 2020 12:42 pm ET

U.S. business activity in February fell to its lowest level in more than six years as companies pulled back on fears that China's coronavirus outbreak would slow global growth, according to private survey data released Friday.

Data firm IHS Markit said its U.S. composite output index—an aggregate measure of activity in the services and manufacturing sectors—fell to 49.6 in February, down from 53.3 in January, and the lowest level since October 2013. A level below 50 indicates contraction, while a level above 50 signals expansion.

U.S. stocks and Treasury yields fell Friday and precious metals rallied on signs the coronavirus outbreak was starting to affect economic growth in some parts of the world.

Economists have predicted the virus would have a modest impact on global growth. Moody's Investors Service, for instance, revised its global growth forecast for major global economies to 2.4% in 2020, down from an earlier forecast of 2.6%.

The drop in the U.S. composite index was driven primarily by a decline in services-sector output, which contracted this month, and a drop in new orders for goods and services across all U.S. firms for the first time since 2009. U.S. manufacturing also slowed slightly, the survey data showed.

"The deterioration was in part linked to the coronavirus outbreak, manifesting itself in weakened demand across sectors such as travel and tourism, as well as via falling exports and supply chain disruptions," said Chris Williamson, chief business economist at IHS Markit.

China's government has responded to the outbreak with travel restrictions and quarantine requirements, forcing many workers to stay at home, while shipments of goods into and out of the country have been interrupted.

A number of businesses based outside China have already said those measures would affect production, as they run low on Chinese-made inputs or can't deliver finished goods to Chinese buyers.

Friday's U.S. survey data signaled services businesses are feeling the impact more than the manufacturing sector. U.S. manufacturing activity continued to expand in February, albeit at a slower pace than last month, according to IHS Markit. But activity at U.S. service-industry businesses declined in February for the first time in four years and moved into contractionary territory.

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Neil Dutta, head of economics at Renaissance Macro, said while weak growth is likely during 2020's first quarter, the relative strength of the U.S. consumer and positive signs in U.S. housing data should mean that services, along with the broader economy, will hold up well. "Today's Markit [data] notwithstanding, on net data in the U.S. has been reasonably healthy."

Other surveys of purchasing managers at businesses released Friday showed the epidemic had further weakened growth in Japan, and hit export orders in Germany. But the impact on Europe's industrial powerhouse was less severe than feared.

Japan's economy, the world's third-largest, contracted in the final months of 2019, and the coronavirus appears to have dimmed hopes of a quick rebound. According to a survey of 800 businesses by IHS Markit, activity in the private sector fell at the sharpest rate since April 2014 during the first few weeks of February.

A fall in tourism from China was partly behind that drop, but manufacturers also suffered from a drop in export orders. Speaking to lawmakers, Bank of Japan Gov. Haruhiko Kuroda said it is too early to decide how to respond to the setback.

Mr. Kuroda will join other central bank and Treasury chiefs from the Group of 20 leading economies at a long-planned meeting in Saudi Arabia on Saturday and Sunday. They will discuss the likely impact of the coronavirus on the global economy, but they are unlikely to see a need for urgent action to support demand through interest-rate cuts.

Central bankers so far have taken a cautious stance as they consider how the virus could ripple through the global economy.
Federal Reserve Bank of Atlanta President Raphael Bostic in a Friday interview said he doesn't expect a lasting impact on the U.S. economy. "My outlook is pretty upbeat. The economy is performing at a very strong level," Mr. Bostic said. "For the U.S. consumer, the coronavirus is still pretty distant."

Mr. Bostic said companies he has communicated with—his Fed district includes international manufacturing and banking companies—have told him the coronavirus situation is "going to be a disruption, but we are not expecting it to be more structural."

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That is because the course of the outbreak is highly uncertain. If it can be contained in China, with a return to more normal working conditions in the not too-distant future, most economists think the global impact will be modest. If it breaks out of China and spreads across the rest of Asia, the economic impact would be much larger.

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For now, the impact of the outbreak on Europe has been slight. IHS Markit said the composite purchasing managers index for the eurozone rose to 51.6 in February from 51.3 in January, reaching its highest level in six months.

However, there were signs that future levels of activity may be more subdued, with widespread reports that supply chains have been interrupted.

“The fragility of global supply chains means that even small disruptions in China could spell large repercussions for Europe down the line,” said Oliver Rakau, an economist at Oxford Economics.

Some companies have acknowledged that the shutdowns in China have been disruptive, including Apple Inc. and Fiat Chrysler Automobiles NV.
The global economy grew at the weakest pace since the financial crisis in 2019. Before the outbreak in China, most economists had expected to see a modest pickup this year as trade tensions ease, but that is now in doubt.