

# Interruptions to supply chains?

After years of being wrongly told UK supply chains will be disrupted when we leave the EU, today there is surprisingly little discussion of the impact of the corona virus on world output.

The Chinese had to extend their New Year holiday production shut downs this year. Yesterday there was some return to work, but there must still be many closed factories, and factories with reduced workforces. Some cities continue with restrictions on travel and activity, and some people in China are isolating themselves at home for 14 days after contact with someone who had the virus.

The South Korean car companies have announced periods of closure as they are short of Chinese components. It is highly likely other companies and countries face shortages which may entail closing their plants for a period.

Meanwhile the worries about the virus have led to a big decline in international travel, the loss of tourism business in China and other parts of Asia, some loss of luxury goods sales which accompany travel by the rich and other knock on effects from the epidemic.

The Chinese economy is the second largest in the world and was meant to grow at 6% this year, meaning it was forecast to provide the single largest boost to world growth of any economy. In the first quarter of 2020 it is very unlikely the Chinese economy will be able to achieve anything like this growth rate. The oil price is down 20% from its January peak as markets worry about lost Chinese consumption and orders.

All this implies the western economies need a bigger monetary and fiscal boost to offset these negative trends from China. It also acts as a reminder that dependence on components from far away can be an additional worry or weakness in manufacturing.