Will coronavirus lead to recession? Triangle experts say yes, local businesses see signs

BY ZACHERY EANES AND AARON SÁNCHEZ-GUERRA

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Every three months since 1996 Campbell Harvey has asked business leaders across the country how they’re feeling for Duke University’s CFO Survey.

He hasn’t had a chance to poll them about the coronavirus, but Harvey, who teaches finance at Duke’s Fuqua School of Business, said he already knows the answer: It’s going to be bad. That’s because most of them already thought the economy was slowing down before the coronavirus provided a seismic shock to it.

“The economy was already slowing and over half of the [chief financial officers] in the last survey thought we were going into recession in 2020,” Harvey said in an interview Thursday. “So given this systemic event ... it is reasonable to believe that confidence has plunged.”
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In the past week, the outbreak of COVID-19, the disease caused by the novel coronavirus, ended the longest-ever bull market for U.S. stocks, canceled nearly every sporting event in the country and sent workers home for the foreseeable future.

In North Carolina, Gov. Roy Cooper declared a state of emergency and said that people should expect “some tough decisions” in the coming days.

“We ... know that all of our lives will change in some way over the next few weeks and months,” Cooper said Thursday. “We know that there will be disappointment. We know that there will be loss of income.”
“Often we can’t explain why the stock market goes down or up, but this is very straightforward to explain,” Harvey said. “That’s because expected profitability has gone down, because economic growth has gone down, and risk has gone up because we don’t know how this will play out.”

And when the stock market behaves that way, business leaders will pull back, he added.

“Is this the time to make an expenditure on a major capital project? No,” Harvey said. “Is this the time to hire a lot of people? No.

“You put this all together and it spells ‘recession’ in capital letters.”

DEVELOPERS HAVEN’T HIT THE BRAKES … YET

John Kane, one of the most prominent real estate developers in the Triangle, broke ground on a new residential project this week, but said he’s keeping a close eye on the progress of COVID-19.

“We are monitoring the coronavirus and how it might affect our projects,” he said in an email. “To date we are on schedule with all projects and are hopeful none will be affected. However, this is a fluid situation and we will continue to monitor this and respond accordingly.”

Brendan C. Maiorana, head of investor relations at the real estate investment company Highwoods Properties, said his company’s investments are long term and nothing has been derailed yet.

“We have no plans to pull back on our current development projects, which total $500 million of expected investment,” he said.

But Cree, a large semiconductor maker based in Durham, is already feeling effects from disruptions to its supply chain in China. One of its factories there had to shut down because of the outbreak.

“We do expect some impact to our performance as a result of the coronavirus outbreak,” a spokesman for the company said. “...The situation remains fluid, so we will continue to monitor the situation and respond accordingly.”

MORE LAYOFFS THIS YEAR THAN LAST

Mark Vitner, an economist at Wells Fargo, thinks it’s likely we are headed toward a recession. But he’s not sure how severe it will be.
announcements have certainly driven home the idea that business as we have come to know it is
going to be knocked offline for at least the next few weeks.”

“Most employers will try to hold onto their workers,” he added, “because interruptions to business
are likely to prove fairly temporary.”

Yet even before the coronavirus, there had been 2,535 layoffs reported in North Carolina so far in
2020 through worker adjustment and retraining notifications, a system that only covers a portion
of layoffs in the state. At this point last year, only 1,051 had been reported.

Most local tech companies have now sent their workers home. The outbreak will pose a test for
communication and video technologies, as companies predict they will remain productive with
workers at home.

Tamara Gibbs, a spokeswoman for ChannelAdvisor, said the Morrisville-based e-commerce
software maker can manage having its workers at home for the foreseeable future.

“We are comfortable that we can operate this way (working from home) as long as necessary,” she
said. “We do not view travel as critical to our business as we have state-of-the-art communications
and systems in place to manage the business effectively.”

But the coronavirus disruption could be starting to hurt consumer confidence. Local real estate
agents are already saying that buyers and sellers are concerned about the effect coronavirus has
had on the economy, threatening one of the hottest real estate markets in the country.

“It’s the current buyers and sellers who are nervous,” said Margaret Struble, a Realtor at RE/MAX
United in Cary, in an email. “Out-of-town buyers are canceling house-hunting trips to the area and
sellers are concerned with unknown buyers walking through their homes. Just this week, three of
my buyer clients and one seller have put on the brakes due to the coronavirus and fluctuating
financial markets.”

Jon Fletcher, a broker-in-charge at RE/MAX United in Chapel Hill, said he’s heard the same
concerns in his circles, including Realtors afraid to share pens or iPads with prospective home
buyers at home showings.

“Will sellers take their homes off the market because they don’t want people to go through their
home because it might be infected?” Fletcher said. “I think it’s still a little too new around here. I
think we’ve got an extra few weeks to see how this plays out.”
“The best news would be of a breakthrough vaccine that would be available in a few months — not next year,” he said, “and a reduction in the infection rate — as apparently has occurred in China. But without those, I’m afraid we’ll have to wait out this virus.”

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