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## 'Not Just an Italian Problem': Coronavirus Threatens Europe's Economy

The spread of the deadly epidemic to Europe's fourth-largest economy has heightened fears of disruption in the global supply chain.



Closed shops in Milan's Chinatown. To the south, the shutdown of a parts factory in Codogno, its owner said, could hurt auto manufacturing across Europe. Andrea Mantovani for The New York Times

By Peter S. Goodman and Aaron H. Maines

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By the time the deadly coronavirus arrived in Italy's industrial heartland, shutting down his factory and threatening Europe with economic damage, Antonio Falchetti was already a veteran in the battle to contain the global epidemic.

His company, MTA Advanced Automotive Solutions, makes parts for the electrical systems of cars, supplying some of the world's largest automobile manufacturers. One of its factories sits in Shanghai. As the coronavirus exploded into a public health emergency across China in January, Mr. Falchetti was forced to significantly reduce production and operate with a small fraction of his usual work force.

By Feb. 17, his Shanghai plant was fully up and running. But less than a week later, MTA was facing a problem at another factory, in the Italian town of Codogno: The coronavirus had emerged there, prompting the regional government to close all local plants.

Mr. Falchetti, the company's chief executive, fears the government is overreacting. In effectively quarantining Codogno, a town of 16,000 people about 40 miles south of Milan, Italy, risks leaving automotive plants across Europe short of critical components, he says.



The emergence of the coronavirus in Codogno, Italy, prompted the regional government to close all local plants. Miguel Medina/Agence France-Presse — Getty Images

“I hope our Italian authorities, and the rest of Europe as well, recognize that a complete shutdown of the facility is not just an Italian problem,” he said in an interview. “It will affect everyone. Ultimately our business — indeed, I think, most business in the world today — is part of a vibrant ecosystem. If you shut down one part of that ecosystem, inevitably it’s going to have effects on other parts.”

The company, in a public statement on Monday, urged the Italian authorities to allow it to resume operations using one-tenth of its 600 workers. Otherwise, MTA warned, it would be unable to supply crucial parts to its customers, threatening to halt production at prominent automobile manufacturers across Europe, among them Renault, BMW, Peugeot and Jaguar Land Rover.

BMW said it was “continuing to monitor the situation” but had yet to encounter difficulties finding needed parts. A spokeswoman for Renault said the company was still assessing potential impact and declined further comment. Jaguar Land Rover declined to comment, and Peugeot did not immediately respond to questions.

The drama in Codogno underscored the worries afflicting the world economy as the coronavirus spreads.

Until this week, the epidemic appeared largely confined to Asia. It was mysterious, unsettling and deadly, killing more than 2,000 people. It had [disrupted Chinese industry](#) and diminished spending by Chinese consumers.

Experts assumed that China’s economy, the world’s second largest after that of the United States, would slow sharply in the first half of this year before recovering as the epidemic was eventually contained. Given that China is the source of one-third of all global growth, this was enough to provoke worries worldwide, hitting [balance sheets for multinational businesses](#) from Apple to major airlines. Still, the locus of concern was China and neighboring countries like South Korea and Japan.



BMW said it was “continuing to monitor the situation” in Italy but had yet to encounter difficulties finding needed parts. Sean Gallup/Getty Images

That changed abruptly this week as the coronavirus flared well beyond China, prompting [panicked selling across global markets](#) on Monday and then [again on Tuesday](#). The specter of an epidemic spreading rapidly in Italy raised the prospect of a new shock in a region that was already struggling to muster vitality.

The sense that the virus could swell into a global crisis gained momentum as [Iran](#) was identified as the source of cases that have emerged in Iraq, Afghanistan, Bahrain, Kuwait, Oman, Lebanon, the United Arab Emirates and even Canada.

Germany, Europe’s largest economy, has in recent months suffered a pronounced slowdown in factory orders as its auto industry grapples with increased fuel-efficiency standards, and as China’s growth slows.

Chinese factories buy enormous volumes of petrochemicals and machinery from German suppliers. The Trump administration’s trade war with China has [hurt Germany’s exports](#) by limiting China’s industrial growth. The coronavirus has worsened this trend by keeping Chinese factory workers home.

Britain’s departure from the European Union threatens to curtail investment in Europe as multinational corporations await clarity on [trade negotiations](#) about the future of commercial dealings across the English Channel.

Italy has remained a perpetual source of concern for Europe — an economy that has not grown in two decades, with alarming levels of public debt and banks stuffed with bad loans.

As one of 19 countries that share the euro currency, Italy must abide by strict rules on public spending, further limiting growth and making its companies especially dependent on trade. Italy sold some \$550 billion worth of goods and services abroad in 2018, according to the [World Bank](#).

“Because of the austerity that is ingrained into Italian economic policy, the domestic market is not growing,” said Servaas Storm, an economist at Delft University of Technology in the Netherlands. “So firms that want to grow have to do it through exports.”

The coronavirus has landed in Codogno and the surrounding region of Lombardy, as well as the neighboring areas of Piedmont and the Veneto. Collectively, they account for nearly one-third of the national economy.



The interconnectedness in the industrial heart of Italy makes the outbreak a potentially dangerous wild card in the European economy. Andrea Mantovani for The New York Times

“This is really the industrial heart of Italy,” said Nicola Borri, a finance professor at Luiss, a university in Rome. “You have thousands of small companies that are active in exports. It’s a very dynamic area of the economy, on par with the most developed parts of Germany. It’s also very interconnected.”

That interconnectedness is the element that makes the outbreak a potentially dangerous wild card in the European economy.

More than 12 percent of Italy’s exports are sold in Germany, many of them auto parts. If Italy’s factories have trouble making their products, that could lead to shortages of components and disrupt plants in Germany and throughout Europe.

This was the point that Mr. Falchetti and MTA were making in beseeching the regional government to allow some of its people to get back to work.

“We can’t get the merchandise where it needs to go,” said Maria Vittoria Falchetti, Mr. Falchetti’s sister and a part-owner of MTA. “We can’t respect deadlines and delivery dates that we have committed to because of the effects of the lockdown.”

With verifiable facts greatly outweighed by variables, economists are struggling to forecast the likely effects of the coronavirus. But estimates for growth are being revised down.

Oxford Economics, a research institution in London, was previously expecting the Italian economy to stagnate this year. Now it expects a slight contraction in the first three months, with a longer downturn if the epidemic prompts consumers to cut back on their spending.



The headquarters of Fiat Chrysler Automobiles in Turin. Trouble at Italy's factories could disrupt plants throughout Europe. Gianni Cipriano for The New York Times

With businesses closed and many people staying home, a drop in consumer spending seemed like a distinct possibility.

“There’s a bit of a sense of panic in the air,” said Nicola Nobile, Oxford’s chief Italian economist, based in Milan. “Italy is going to be hit. The impact is definitely going to be felt. This is more bad news for Italy.”

MTA has lately produced good news. Started by Mr. Falchetti’s grandfather in 1954, the company has turned its engineering prowess into a global brand with eight factories around the world.

As the coronavirus emerged in the Chinese city of Wuhan, a major industrial hub, cities throughout China imposed restrictions on factory production. The epidemic was spreading in the midst of the Lunar New Year, a holiday when hundreds of millions of migrant workers return to their villages in the countryside. Cities like Shanghai extended the holiday to keep those workers home, hoping that this would limit the reach of the virus.

Mr. Falchetti sought to respect the restrictions while keeping production going on a severely limited basis. He imposed emergency measures.

“Every worker had to pass through three different control stations before entering the building, and we checked each person’s temperature every two hours throughout the day,” Mr. Falchetti said. “Fortunately the controls and checks instituted in China have worked.”

But just as the Shanghai factory was returning to normal, a 38-year-old man in Codogno sought treatment for flulike symptoms, triggering a test that showed he had contracted the coronavirus. Within days, the Italian government [confirmed more than 150 cases](#) in the country, with an especially worrying cluster in the area of Codogno. Soon, the regional government ordered that factory production cease.

On Thursday, the national government announced an aggressive response — a quarantine zone centered on Codogno that affected about 50,000 people.

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“Our first reaction was entirely supportive,” Mr. Falchetti said. “The health of our workers is paramount. Everyone wanted to make sure there were no unnecessary risks.”

But a week later, he worries that the quarantine is delivering a different kind of emergency — an economic crisis.

“I’m not sure the government, or anyone else for that matter, really realizes the economic damage this kind of forced inactivity can inflict,” Mr. Falchetti said. “You need to get back to work, to stay active, to rebuild.”

He cannot visit his factory, leaving him to stew at home. He stares at his computer, keeping abreast of orders he cannot satisfy, while breaking off to play the piano.

“It helps me relax,” he said.

Jack Ewing contributed reporting.

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