

Economic Virus



by Foresight Research Team

Highlight

Countries are struggling to cope with the economic effects that rolling quarantine policies are causing. For a while, the SARS outbreak was a good guide post to follow when making economic predications, but the scale of Covid-19 is intensifying and prolonging economic turmoil.

- COVID-19 virus' effect on the global economy has already surpassed that of SARS and MERS. Countries are locked down and stock markets have crashed. While still speculative, experts estimate a global recession that will continue into 2021.

- While experts can use historical patterns from SARS as a predictor of what might happen to China's and the world's economies, the scale and magnitude of COVID-19 make predictions significantly less clear.
- China's economic size and position as the manufacturing hub in the world compounds the impact its shutdown is having on the world. Worldwide factories are starting to feel the effects of their Chinese suppliers' inventories shortages.

Fear and panic over the consequences of COVID-19 are causing governments of all levels around the world to enact drastic containment efforts. As of March 16, the Centers for Disease Control and Prevention (CDC) in the United States has suggested an eight-week nationwide ban of gatherings of more than 50 people, while Denmark is closing its borders to visitors and calling back citizens traveling abroad. Spain, France, and Israel are on national lockdown, closing non-essential businesses and encouraging citizens to remain at home.

While the hope is that containment and lockdown efforts will lower transmission rates and perhaps snuff out the virus more expeditiously, it is believed that the economies already damaged by COVID-19 will not recover until into 2021. Chief among them are the manufacturing, tourism, and entertainment industries.

SARS as a Guidepost?

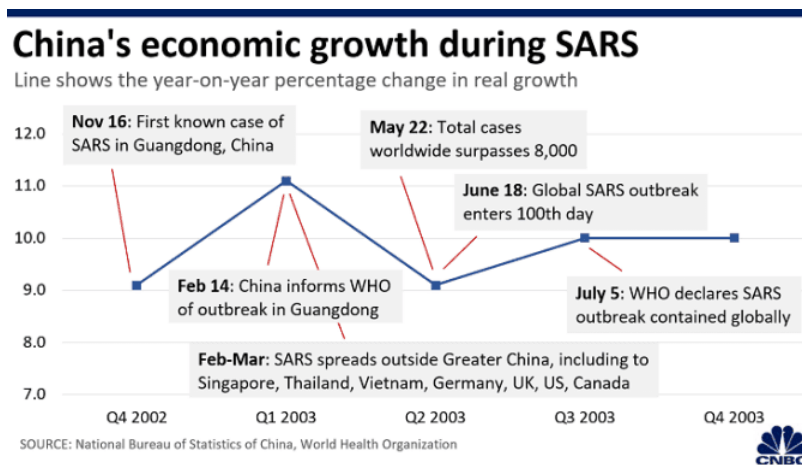
A common misconception among global citizens is that one's health is the only concern when approaching virus prevention. While much is unknown about the virus, there is evidence to support that healthy middle-aged individuals will recover in full should they become infected. This is causing many to forgo prevention practices, entirely overlooking the impending economic effects of having a workforce unable to work.

Many economists look at the effect the 2003 SARS outbreak had on the Chinese and global economy, while there are some predictive patterns that could repeat, the SARS epidemic was not of similar scale as COVID-19 is. The two most important factors for this

are the importance of China in the world's economy and the actual spread of COVID-19 around the world.

Per the International Monetary Fund, in 2003, China was the 6th largest economy in the world by GDP and was on par with Italy and France at about 1/10th the size of the United States, which was the largest. In 2019, China was the 2nd largest economy in the world, behind only the United States and around 2.75x the size Japan, the 3rd largest. China's importance to the global economy cannot be understated, and any degree of economic slowdown is critical.

While SARS did spread worldwide, it was relatively contained within Greater China, which meant that the economic effect was primarily within China. Even so, the epidemic was considered "contained" by the World Health Organization on July 5th 2003 and China's economy rebounded to continue yearly growth from 2002. Chinese domestic tourism and retail sales spike after the outbreak was contained, buoying the overall economic growth.



In contrast, experts estimate that COVID-19 will result in a global recession for a few key reasons.

Manufacturing Standstill

Focusing just on China, there is a greater dependency internationally on Chinese manufacturing. With most major factories relying on Chinese output, full lockdown on major manufacturing centers, such as in Hubei province, is causing a global supply chain

shortage. Chinese manufacturers are and will continue to be unable to meet rising international demand while the Covid-19 pandemic remains uncontained. This disruption has a ripple effect across multiple major industries and may cause some small businesses to close.

As factories worldwide struggle to meet demand and manage inventory efficiently, questions arise about the future of reliance on China as the manufacturing epicenter. Logic would dictate that a more diverse pool of suppliers would pose less risk for businesses should a crisis of this magnitude happen again. During the SARS outbreak, Alibaba was instrumental in creating relationships between quality Chinese suppliers and American companies wary of doing business with unknown Chinese entities. Will a similar company emerge ready to grow manufacturing worldwide?

Falling Tourism Numbers

With countries closing borders, restricting tourists from countries with high infection rates, and discouraging citizens from non-essential travel, the tourism industry is taking a heavy hit. In Thailand, a country whose tourism spending comprises 11% of its GDP, officials estimate that a worst-case scenario could see a 22% drop in tourist spending and a roughly 25% drop in the number of tourists visiting Thailand in 2020. Tourism numbers in February were down 44% from February 2019, with a 85% drop in tourists just from China alone. These numbers cripple tour operators, hotels, and retail outlets throughout the Kingdom, as well as airlines and land transportation companies.

It is foreseeable that many small businesses in this space will be forced to close their doors as revenue streams dry up. At present, there isn't much hope for a swift turnaround as cases of COVID-19 continue to rise in major European countries and in North America. That said, COVID-19 stands as a trigger for companies to adapt and provides a lot of opportunity as well. How tourism-driven businesses adapt remains to be seen.

Disappearing Live Entertainment

Almost every major professional sports league worldwide has paused or cancelled their seasons indefinitely, leaving many sports fans struggling to find live entertainment to fill the void. But those industries are not alone. Entertainment centers such as movie theatres, clubs, and athletic facilities are suspending operations or limiting the number of visitors to their venues.

Employment Crisis

For many small and medium-sized businesses, a mandated business closure and/or lack of revenue can spell big problems for cash flow. While employee benefits vary significantly from company to company and country to country, there are a large number of workers who cannot report to work and are not being compensated for a work stoppage that is out of their control. It is important to note that each individual case is unique, it is equally important to understand the additional burden these places on small business and low-income earners.

Major Effects

While it is still too early to establish firm predictions of what the future of the global economy will be, there are a few predictive scenarios that seem inevitable. It is expected that retail sales, particularly for essential goods, will continue to spike as many around the world are preparing for major quarantine. That will ultimately result in major decline in retail sales as customers are either overstocked or unable to buy due to lack of mobility or financial resources. A negative wealth effect is inevitable and will span across industries hoping for some sort of rebound.

On a more positive outlook, we are likely to see a further development of technologies that improve work-from-home capabilities, as well as advances in automation for manufacturing. Learning from mistakes and lack of preparation will increase the world's ability to withstand another pandemic or global crisis. Resiliency for businesses and individuals will be key for overcoming losses.

What to Look Out For?

- Stock Markets continue to plummet, is a recession imminent?
- Potential for government bailouts to major industries
- Business pivots for small and medium sized businesses struggling to stay afloat
- Rapid advances and implementation in work-from-home technologies and AI-monitored automation

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