Economic Insights: Impact of COVID-19

Global cross-geographic economic coverage

EVALUESERVE

An overarching view of impact, implications, and risks

April, 2020

COVID-19 – Critical developments and trends related to key regions

Global Count

Confirmed: 2,471,136
Deaths: 169,006

US
Confirmed: 776,907
Deaths: 37,602

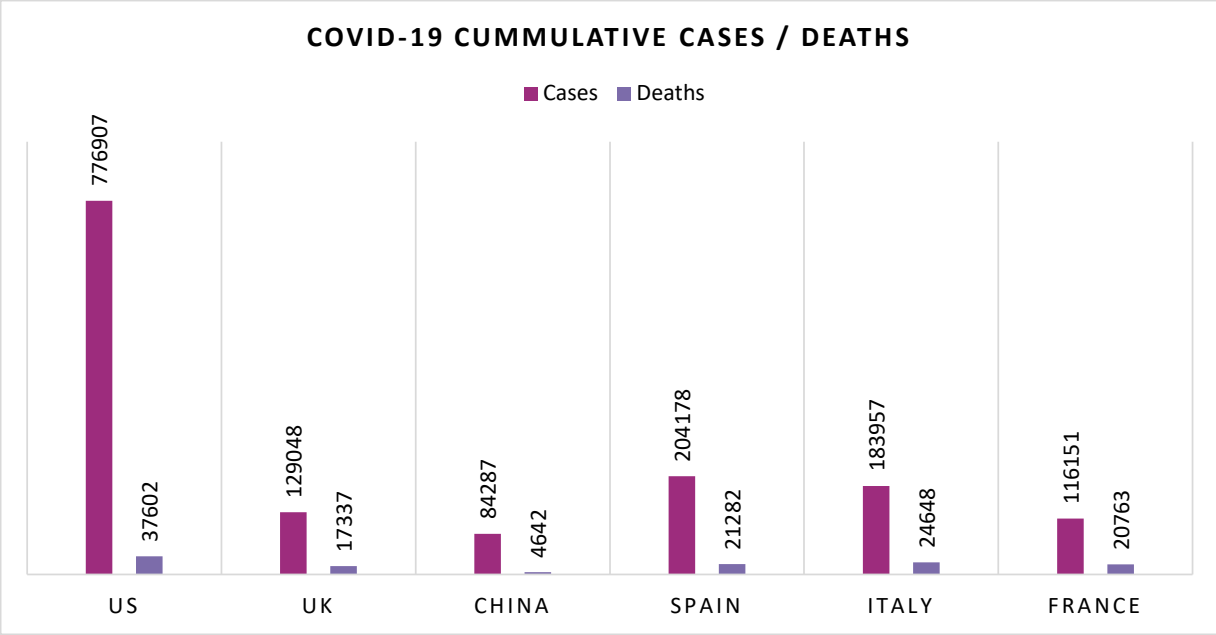
Europe
Confirmed: 1,220,655
Deaths: 109,985

Asia**
Confirmed: 171,571
Deaths: 7,262

East Mediterranean
Confirmed: 139,568
Deaths: 6,334

Global Risk: Very High

Even as COVID-19 continues to spread, the burden of the disease is asymmetrically distributed; countries find themselves at different stages of the pandemic. Some nations that succeeded in initial containment of the virus, such as Singapore and Hong Kong, are now witnessing a resurgence. Several Western European countries have either reached a plateau or are registering a decline. On the other hand, some countries are nearing the peak of infection and are ramping up their health systems. India extended its nation-wide lockdown in April, after a recent surge in the number of positive cases



As of April 16, 2020, governments across the world were contemplating how best to reopen their economies. Admittedly, the process has to be gradual and strike a fine balance between speed and caution. While hasty action may result in a resurgence of the disease, sluggish decision-making could cause several small businesses to fail.

Several bottlenecks and barriers to economic activity might emerge in the short term. For instance, even though some governments are injecting cash into households, the additional disposable funds will likely be saved until consumer confidence increases and local economies revive. Only thereafter do we foresee a potential surge in demand.

In this series of thought pieces, we attempt to decipher the intricate interrelationship between the widening pandemic and its overarching impact on the global economy.

Sources: World Health Organization, Situations Report #63, Updated April 22, 2020,
** Asia includes Western Pacific Region and South-East Asia and count for Europe is for the European Region as reported by the WHO
* Only high impact regions/economies have been discussed under updates due to space constraints

*Data as on 22 April 2020

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COVID-19 – Anatomy of a Recession

*Before April 2009, the IMF argued that a global annual real GDP growth rate of 3.0% or less was "equivalent to a global recession". By this definition, there have been six global recessions since 1970: 1974–75,1980–83, 1990–93, 1998, 2001–02, and 2008–09.

This definition was later updated to "period when economic output falls and unemployment rises." On March 27, 2020, IMF MD Kristalina Georgieva stated, "It is now clear that we have entered a recession – as bad as or worse than in 2009."

Source : IMF, OECD

Anatomy of a Recession

- There were 122 recessions in 21 advanced economies between 1960-2007
- The duration of a recession is measured by the percentage of quarters a country is in recession.
- Recessions typically last for about a year and often result in a significant output cost during the period.
- During recessionary periods, the GDP typically declines by 2–3%. In severe cases, it could decline by up to 5%.
- Industrial production and investment decline is much higher than GDP decline.
- International trade drops as exports and, especially, imports fall sharply.
- The unemployment rate almost always spikes and inflation falls slightly because overall demand for goods and services is curtailed.
- Last but not the least, recessions are associated with the erosion of real estate and equity values, and a turmoil in financial markets.

COVID-19 – PMI Stats- Impact on Business

PMI (Manufacturing)

	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20
	46.9	46.3	47.9	49.2	44.5
	52.6	52.4	51.5	50.7	48.5
	48.9	47.5	50.0	51.7	47.8
	51.8	51.5	51.1	40.3	50.1
	48.9	48.4	48.8	47.6	44.2
	51.2	52.7	55.3	54.5	51.8

PMI (Services)

	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20
	51.9	52.4	52.8	52.6	26.4
	51.6	52.8	53.4	49.4	39.8
	49.3	50.0	53.9	53.2	34.5
	53.5	52.5	51.8	26.5	43.0
	50.6	49.4	51.0	46.8	33.8
	52.7	53.3	55.5	57.5	49.3

Calculating PMI*

PMI = (P1 * 1) + (P2 * 0.5) + (P3 * 0)

Where:

P1 = percentage of answers reporting an improvement

P2 = percentage of answers reporting no change

P3 = percentage of answers reporting a deterioration

*Source: Investopedia

Source: IHS Markit, Caixin China, Au Jiban Bank, The Economist, Trading Economics,
* IMF WEO April, 2020

COVID-19 – Manufacturing Sinks, Services Plunge

Putting PMI in Perspective

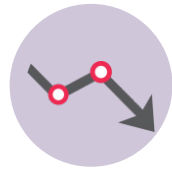
Compilation of **surveys of purchasing managers** in **400 companies** across several countries.

Cover **19 primary industries weighted by their contribution to GDP**.

Based on five major survey areas: new orders, inventory levels, production, supplier deliveries, and employment

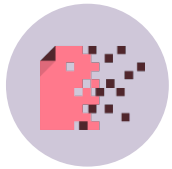
Considered a fairly reliable **leading indicator of GDP**.

Significance of the **number 50**: anything below it points to a **contraction**.



March 2020 PMI numbers were **expected to be weak**, following China's grim economic data for February.

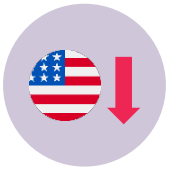
Euro region's composite index plunged to the **lowest since inception** (in 1998) to 29.6 in March vs 51.6 in February.



Euro manufacturing data pushed up in March due to **longer delivery times**- usually a sign of strength, it indicates disruption in the current scenario.

UK fared relatively better, as it is few weeks behind the rest of Europe with regard to the scale of the disease and timing of lockdown; the **British PM announced near-total lockdown only on Mar 23**.

Drop **in US numbers not as severe** as in the Euro region; manufacturing dropped from 50.7 in February to 48.5 in March; t**he sharpest drop since August 2009**.



US manufacturing output fell 6.3% in March, the **steepest drop since 1946**.

Source: IHS Markit, Caixin China, Au Jiban Bank, The Economist, Trading Economics,
* IMF WEO April, 2020

COVID-19 – At-Risk Sectors

Workers at risk: Sectoral perspective

Economic sector	Current impact of crisis on economic output
Education	Low
Human health and social work activities	Low
Public administration and defence; compulsory social security	Low
Utilities	Low
Agriculture; forestry and fishing	Low-Medium*
Construction	Medium
Financial and insurance activities	Medium
Mining and quarrying	Medium
Arts, entertainment and recreation, and other services	Medium-high*
Transport; storage and communication	Medium-high*
Accommodation and food services	High
Real estate; business and administrative activities	High
Manufacturing	High
Wholesale and retail trade; repair of motor vehicles and motorcycles	High

Source: ILO estimates, *denotes sectors that include subsectors that have been affected in different ways.

COVID-19 – FTE Impact

Crisis is leading to a severe decline in hours and employment (FTE)

	Decline in working hours (%)	Full-time equivalent (40 hours, million jobs)	Full-time equivalent (48 hours, million jobs)
World	6.7	230	195
Low income	5.3	14	12
Lower-middle income	6.7	80	70
Upper-middle income	7	100	85
High income	6.5	36	30

Source: ILO ; **Note:** (1) Magnitudes above 50 million are rounded the nearest 5 million, magnitudes below that threshold are rounded to the nearest million; (2) The full-time equivalent employment losses are presented to illustrate the magnitude of the estimates of hours lost. Their interpretation is the estimate of the reduction in hours worked, if those reductions were borne exclusively and exhaustively by a subset of full-time workers and the remaining workers did not experience any hour reduction. The figures should not be interpreted as numbers of jobs actually lost nor increases in Unemployment.

ILO estimates, as on April 1, 2020, indicate that working hours will decline in Q2 by around 6.7%, which is equivalent to 195 million FTEs (assuming a 48-hour working week).

Labour Force Isn't Working

The International Labour Organisation (ILO) estimates that globally, industries with high risk of lay-offs or furloughs employ ~1.25bn people.

Unemployment rate is a lagging indicator and measures the effect of economic events. This implies that the unemployment rate usually starts to rise until only after a recession has already started and continues to rise even after the economy begins to recover.

On the contrary, number of hours worked is a more reliable leading indicator of a downturn. As the economy slows, businesses worried about future sales cut hours of employment.

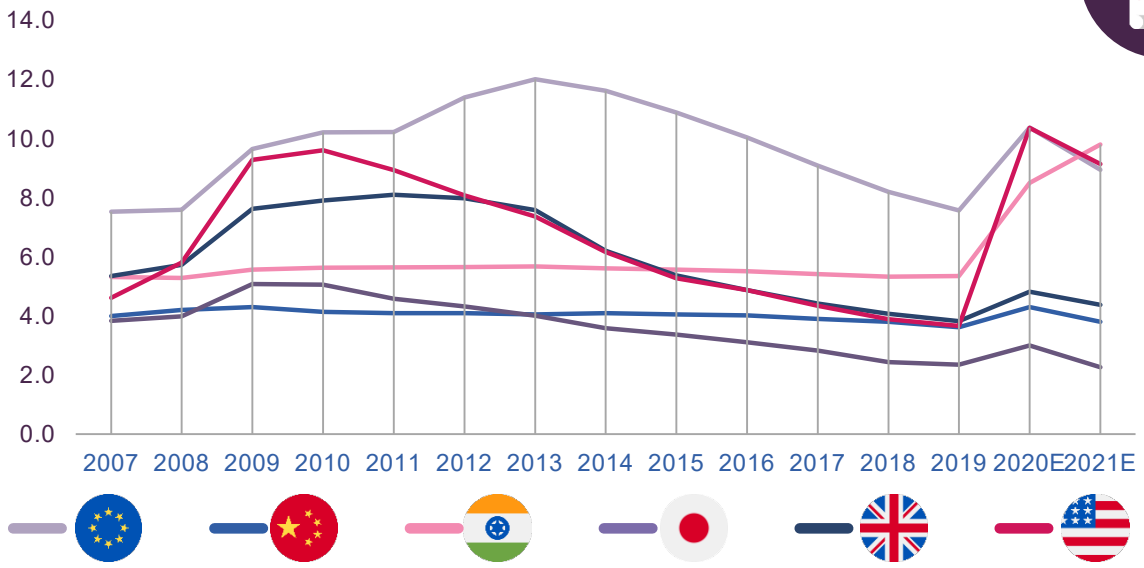
COVID-19 – Impact on Employment

The Sahm Rule Recession Indicator identifies signals related to the start of a recession when the three-month moving average of the national unemployment rate rises by 0.50 percentage points or more relative to its low during the previous 12 months.

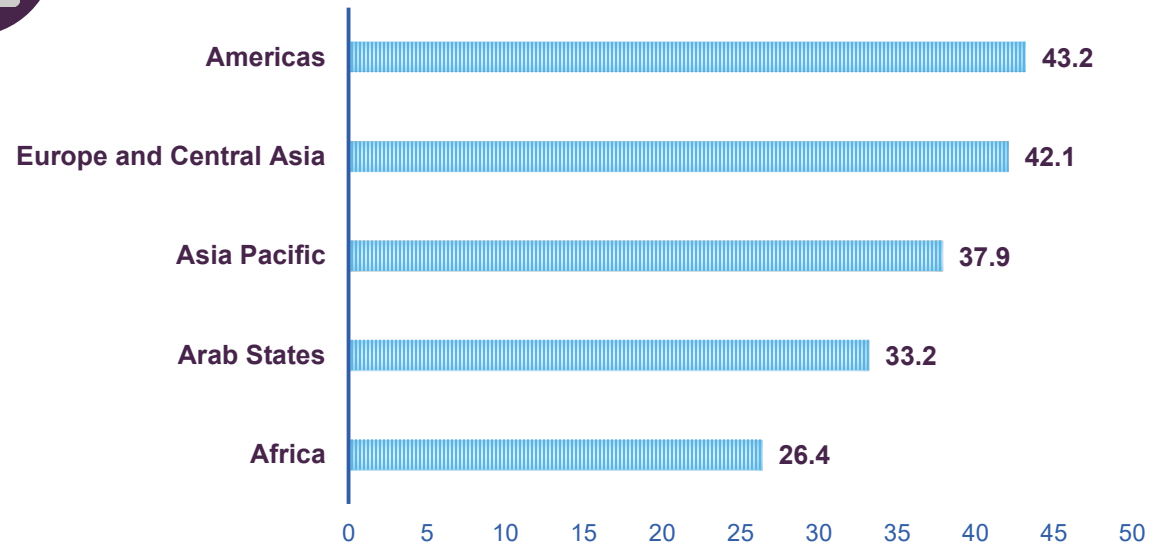
The current COVID-19 led shock to labor markets is emerging as a stress test for different social models. A more flexible work culture, such as that in the US, will likely witness higher job cuts, compared with the EURO region and Japan, where there is a greater emphasis on retaining staff during a downturn.

There is increasing pressure on governments and central banks to expedite the delivery of programs that either compensate laid-off workers or persuade employers to retain staff. Any failure on either front will result in a deeper recession, or at the very least a slower recovery that could necessitate additional stimulus.

UNEMPLOYMENT RATE (%)



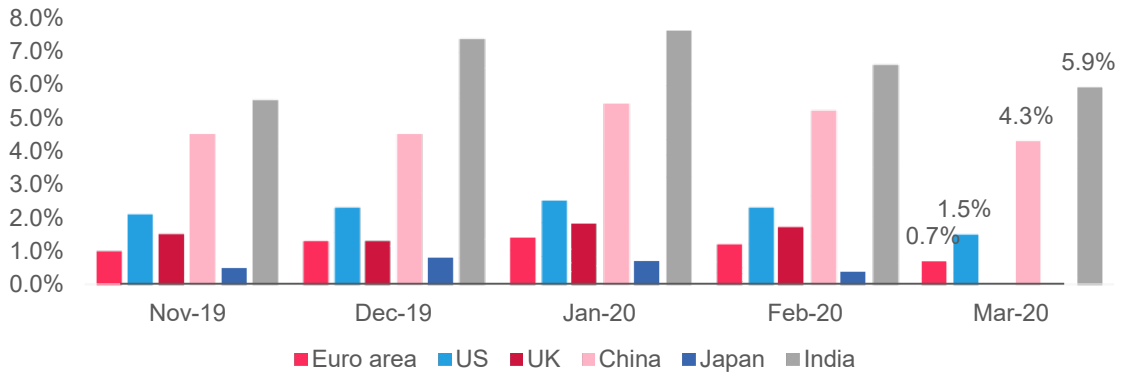
Share of employment in at-risk sector(%)



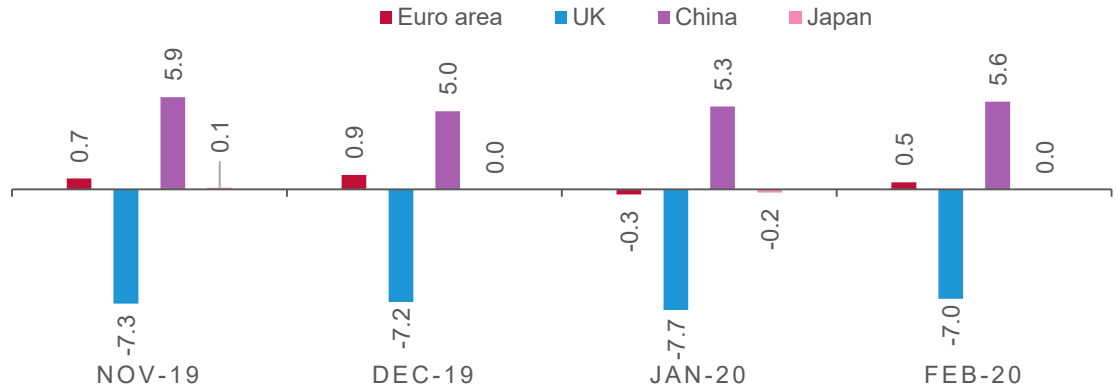
Source: ILO estimates, IMF WEO April, 2020

COVID-19 – Impact on Prices, Inflation and Consumer Metrics

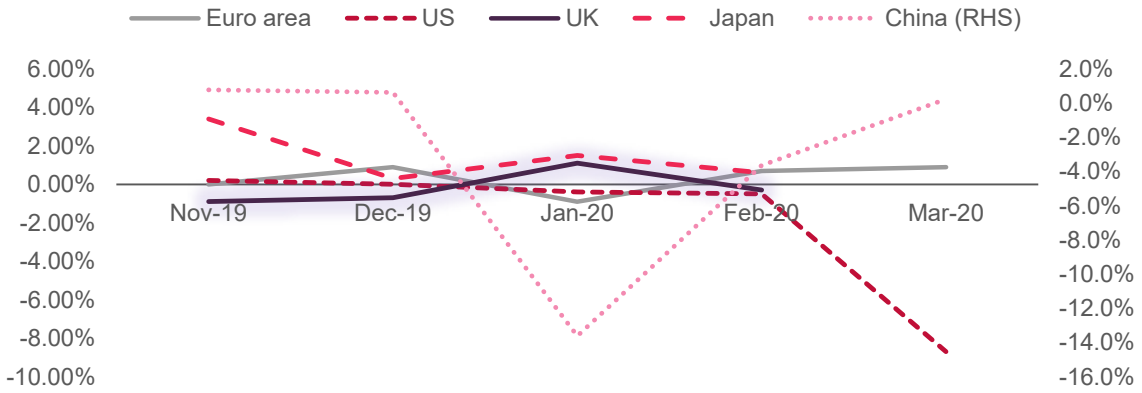
Inflation



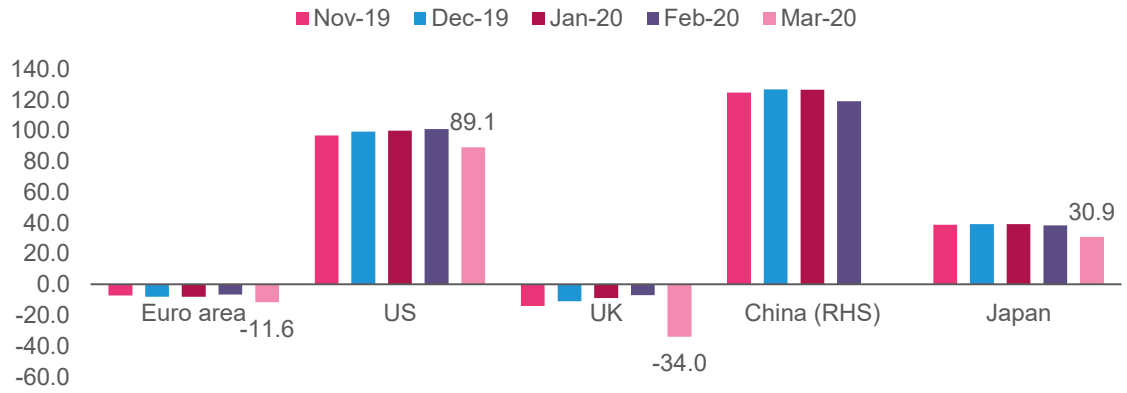
CPI-PPI SPREAD



Retail sales growth(MoM)



Consumer Confidence



Source: IMF WEO April, 2020, Multiple sources

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COVID-19 – Impact on GDP and Economic Forecasts

	Projections		
(real GDP, annual percent change)	**2019**	**2020**	**2021**
World Output	**-2.9%**	**-3.0%**	**5.8%**
Advanced Economics	**1.7%**	**-6.1%**	**4.5%**
United States	2.3%	-5.9%	4.7%
Euro Area	1.2%	-7.5%	4.7%
Germany	0.6%	-7.0%	5.2%
France	1.3%	-7.2%	4.5%
Italy	0.3%	-9.1%	4.8%
Spain	2.0%	-8.0%	4.3%
Japan	0.7%	-5.2%	3.0%
United Kingdom	1.4%	-6.5%	4.0%
Emerging Markets & Developing Economics	**3.7%**	**-1.0%**	**6.6%**
China	6.1%	1.2%	9.2%
India	4.2%	1.9%	7.4%
ASEAN-5	4.8%	-0.6%	7.8%
Russia	1.3%	-5.5%	3.5%

Source: IMF WEO April, 2020, OECD

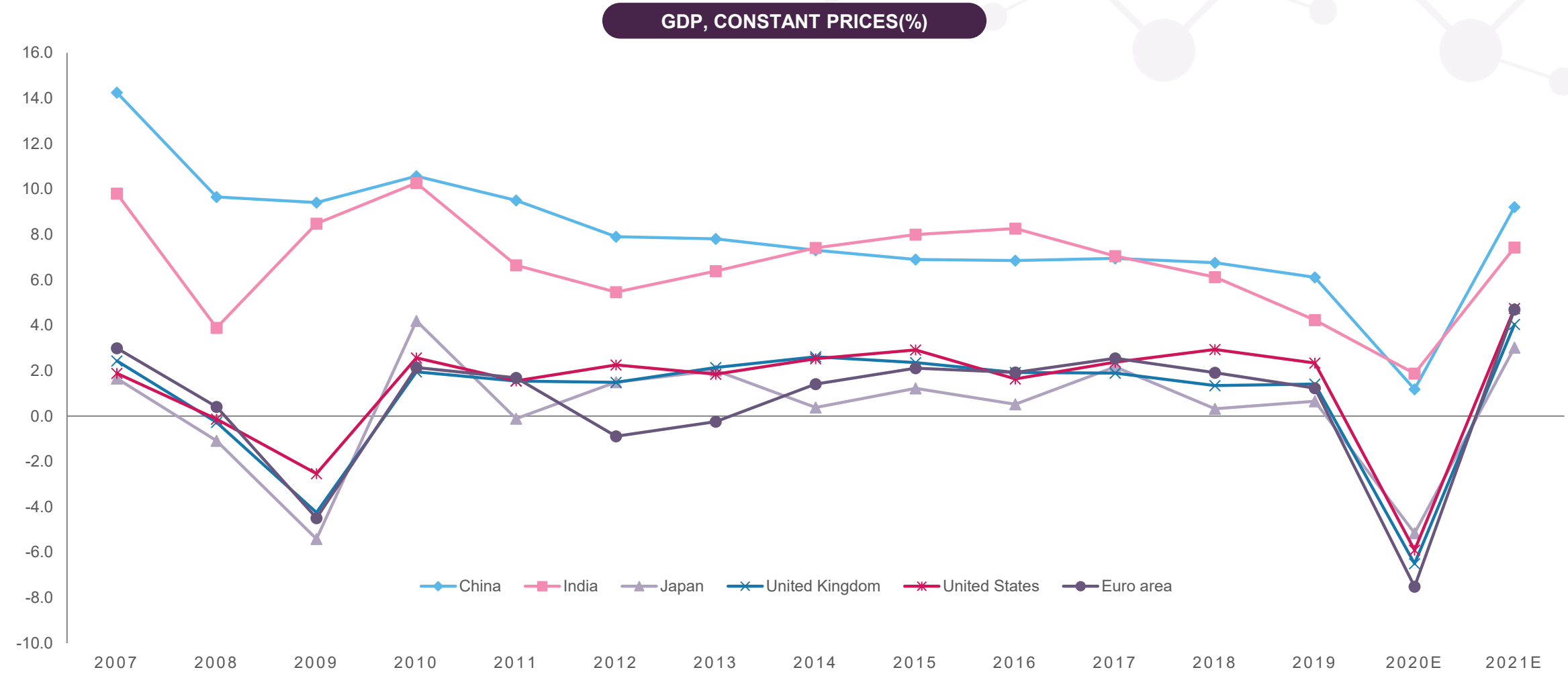
- United States: The US will likely witness a historic contraction in Q2 2020, as social distancing shuts down a major part of the US economy.

- Europe: the IHS Markit composite PMI™ output index plunged ~20 points in March 2020, surpassing the sharpest decline recorded in 2008–09, implying that a severe recession is unavoidable.

- China: Even though 97% of the work in large industrial enterprises and 70% in small industrial enterprises has resumed, collapsing world demand and weak stimulus will continue to weigh on GDP growth.

- Japan: The country's economy was already struggling in the wake of the VAT hike in October 2019 and Typhoon Hagibis. The COVID-19 pandemic has hurt trade and tourism and resulted in a one-year postponement of the Tokyo Olympics. Stimulus might help but contraction is still likely.

COVID-19 – Impact on GDP and Economic Forecasts



Source: IMF WEO April, 2020, OECD

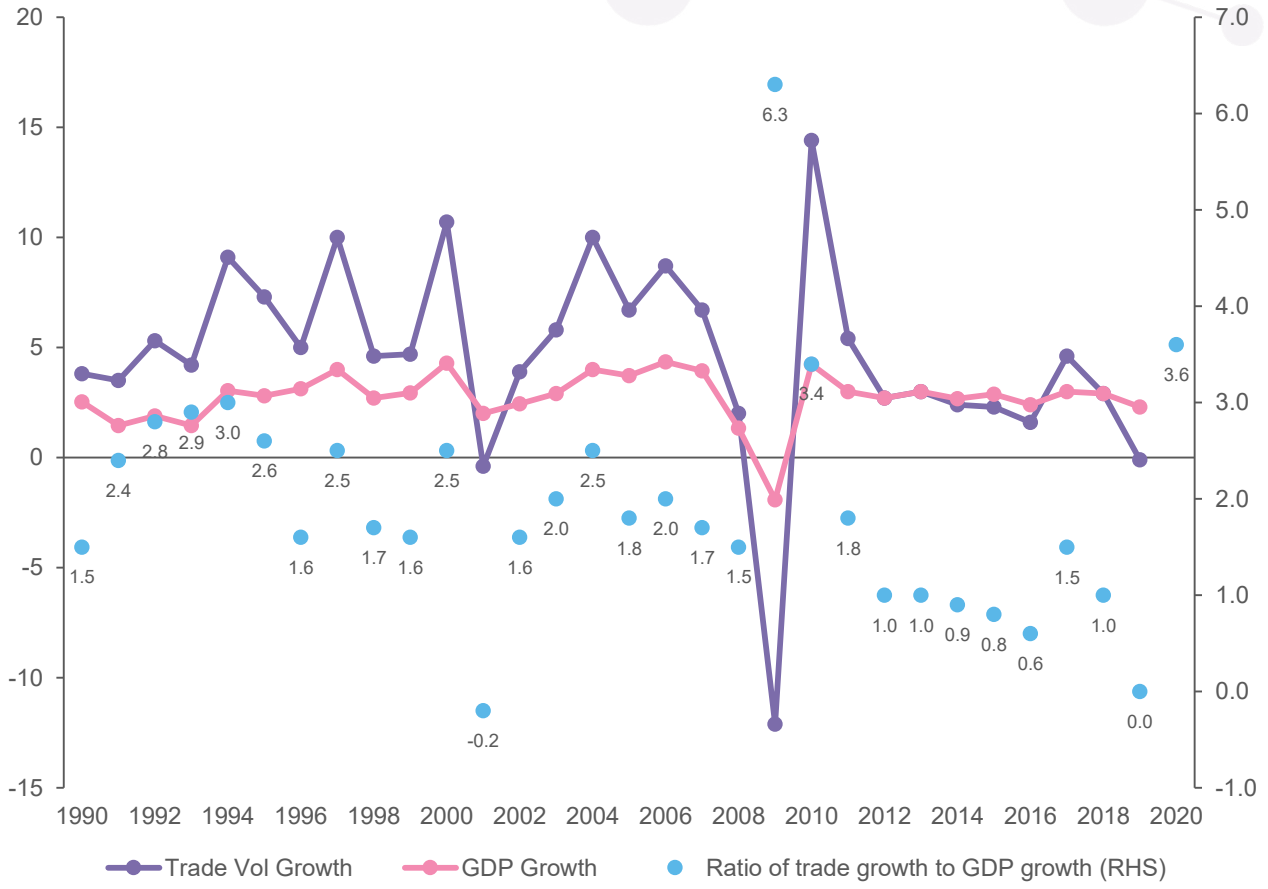
COVID-19 – International Trade and Current Account Balance

Balance on Current Account (percent of GDP)

	2017	2018	2019	2020E	2021E
	3.1	3.1	2.7	2.6	2.7
	-2.3	-2.4	-2.3	-2.6	-2.8
	-3.5	-3.9	-3.8	-4.4	-4.5
	1.6	0.4	1.0	0.5	1.0
	4.1	3.5	3.6	1.7	1.9
	-1.8	-2.1	-1.1	-0.6	-1.4

- Even before the impact of COVID-19, increasing trade tensions and slowing economic growth were weighing down on world trade volumes.
- The World Trade Organization expects world merchandise trade to decline between 13% and 32% in 2020.
- Nearly all regions could report double-digit decline in trade volumes in 2020, with exports from North America and Asia being hit the hardest.
- Sectors with complex value chains, especially electronics and automotive products, are expected to witness steeper declines.
- Transport and travel restrictions due to COVID-19 will directly impact services trade.

Ratio of World Trade Growth to World GDP Growth



Source: IMF WEO April, 2020, OECD; WTO data base

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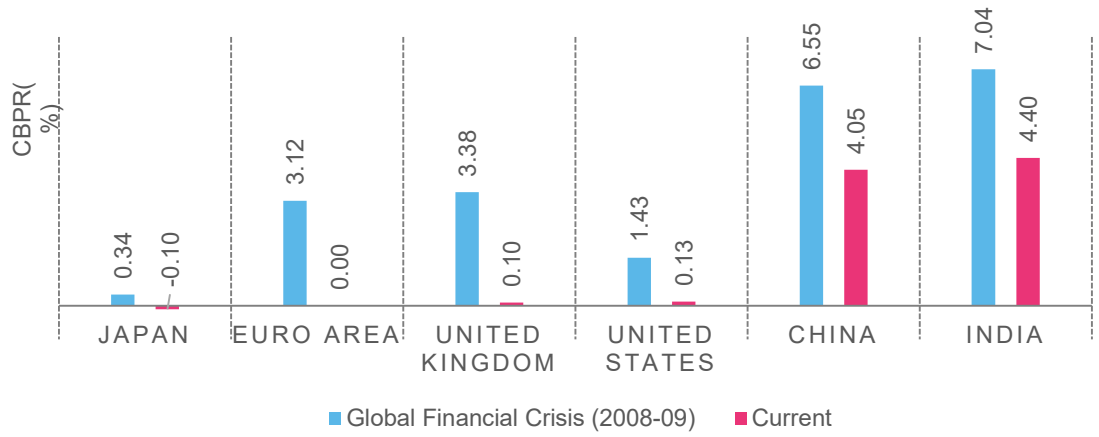
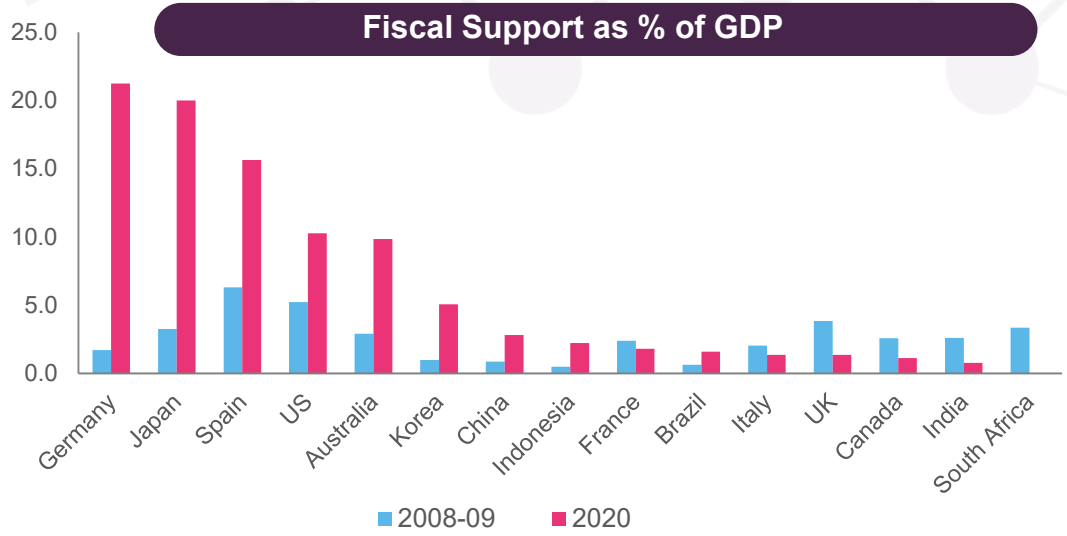
COVID-19 – Policy Rates, Fiscal Support and Liquidity Operations

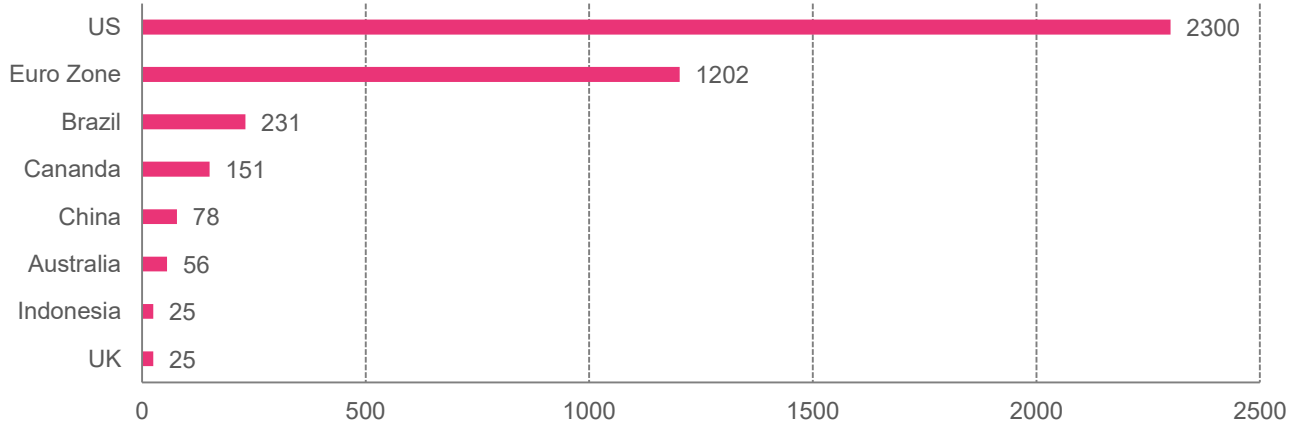
CENTRAL BANK POLICY RATE(CBPR)



Fiscal Support as % of GDP



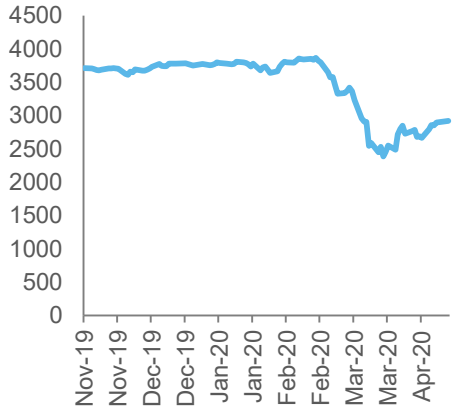
Liquidity Operations by Central Banks (Bil. USD)



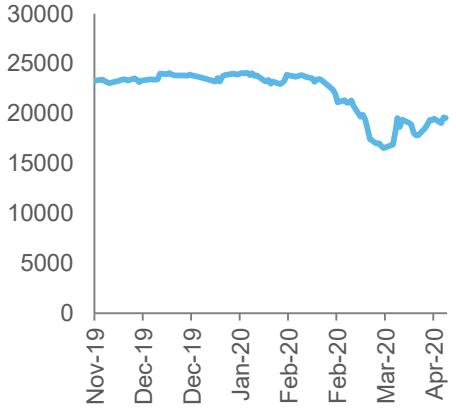
- In response to the COVID-19 crisis, global central banks are easing policy at levels last seen during the 2008-09 global financial crisis.
- According to IMF data, central banks across the world have cumulatively injected USD14 trillion as part of an effort to mitigate challenges arising from the pandemic.
- Central banks have significantly eased monetary policy by cutting policy rates, in some cases to historical lows; injected additional liquidity into systems; set up swap-line agreements to enhance provision of US dollar liquidity; and launched broad-based programs to purchase riskier assets.

COVID-19 – Stock Market Volatility

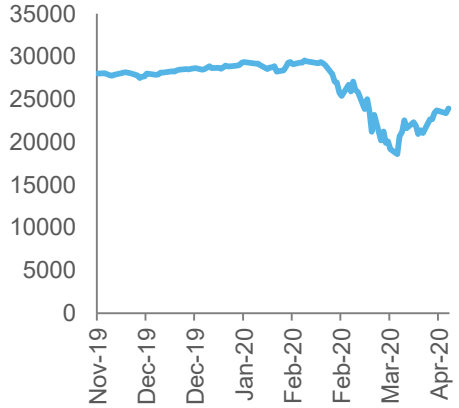
STOXX50E (Last 6 months)



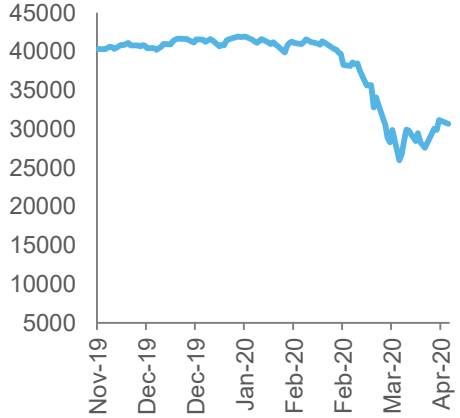
NIKKEI 225(Last 6 months)



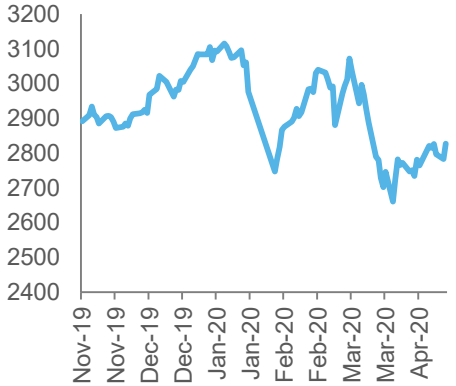
DJIA (Last 6 months)



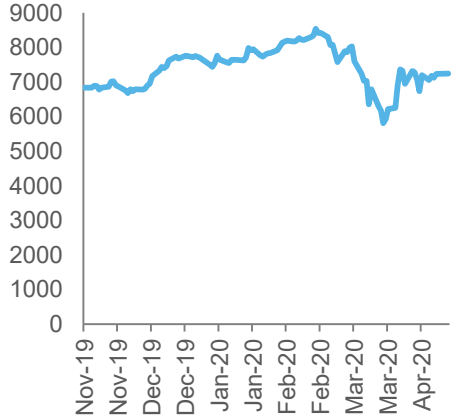
SENSEX (Last 6 months)



SSE Composite (Last 6 months)



LSE (Last 6 months)



Stock Market Volatility

US and European markets were relatively late to appreciate the severity of the coronavirus. US stocks actually increased in value throughout early February, even as the virus was spreading throughout the country.

The S&P 500 triggered level 1 market-wide circuit breakers during the opening hour on March 9, 12, and 16, based on drops of 7% from the previous close; it tripped later in the day on March 18. Trading halts on both the Dow and the Nasdaq when a circuit-breaker is triggered on the S&P 500.

Asian markets were the earliest to react to coronavirus, declining throughout late January, as the Chinese government prolonged the Lunar New Year. Stocks are down throughout Asia, including only
-8.55% for the Shanghai Stock Exchange.

Emerging markets have been witnessing unprecedented outflow, both in terms of scale and speed.

*data updated till 14 April , 2020

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COVID-19 – Next Thoughts

The world has changed dramatically over the last three months, as the global COVID-19 pandemic wreaked havoc with human life and caused unprecedented economic backlash.

The magnitude and speed of the collapse in activity, as the whole world underwent a lockdown, has given rise to a crisis like no other.

Countries are now facing a trifecta of crises – health-related, financial, and collapse in commodity prices.

Even as policymakers provide unprecedented support to households, firms, and financial markets to ensure a recovery, there is considerable uncertainty about how the economic landscape will evolve once the lockdown is lifted.

In this piece, we have shared key data and numbers that shine a spotlight on the current scale of the crisis and the economic fallout.

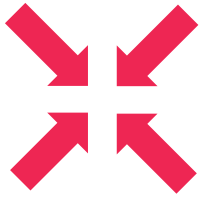
In a series of upcoming reports, we will attempt to compare the COVID-19-driven recession in 2020 with previous global recessions and lay down possible recovery scenarios. We will also describe and analyze various stimulus packages announced and implemented across the world and put in perspective the expected impact and consequent burden of such fiscal and monetary support measures.

DISCLAIMER: Background, Scope, Limitations of the Project

As we continue to witness a global crisis of unprecedented scale, professional advice, expertise, and active support are more critical than ever for business leaders across the globe. The COVID-19 pandemic not only ends an uninterrupted bull-run since the global financial crisis of 2007–08, but also stress tests business models, global supply chains, and the war chests of companies globally. In this report, we have attempted to provide a global update on the impact of the COVID-19 outbreak and we have applied our critical thinking abilities and domain expertise to provide a macro eye view of the crisis.

Scope

- To provide a high-level global economic outlook, critical updates on high-impact regions, near term-risk assessment and long-term implications
- To facilitate decision-making for the executive teams by maintaining a fine balance between brevity and too-much detail



Limitations

- The study is limited by the scope that includes providing a global outlook for economies in an updatable format.

Notes:

- Given the rapidly evolving global scenario due to the impact of COVID-19, the near-term interpretations and critical updates are subject to frequent changes. Each slide can be expanded into a full-blown white paper or research. For further analysis on one sub-sectors/regions, deals analysis; different format, data and time may be required. The outlook provided for each sector is based on the analyst's opinion and understanding.
- The entire study was conceptualized, planned, developed, designed, and edited in one week.

Time stamp: April 22, 2020