

Rebooting a Crashed Global Economy: Charting the Recovery

April 15, 2020



How is COVID-19 changing the global economy?

- Are we beginning to turn the corner on the pandemic?
- What early signs do we see of the damage done so far?
- What different economic recovery scenarios should we look at?
- How do we reboot the economy in responsible way?



Today's Presenters



Erik Lundh
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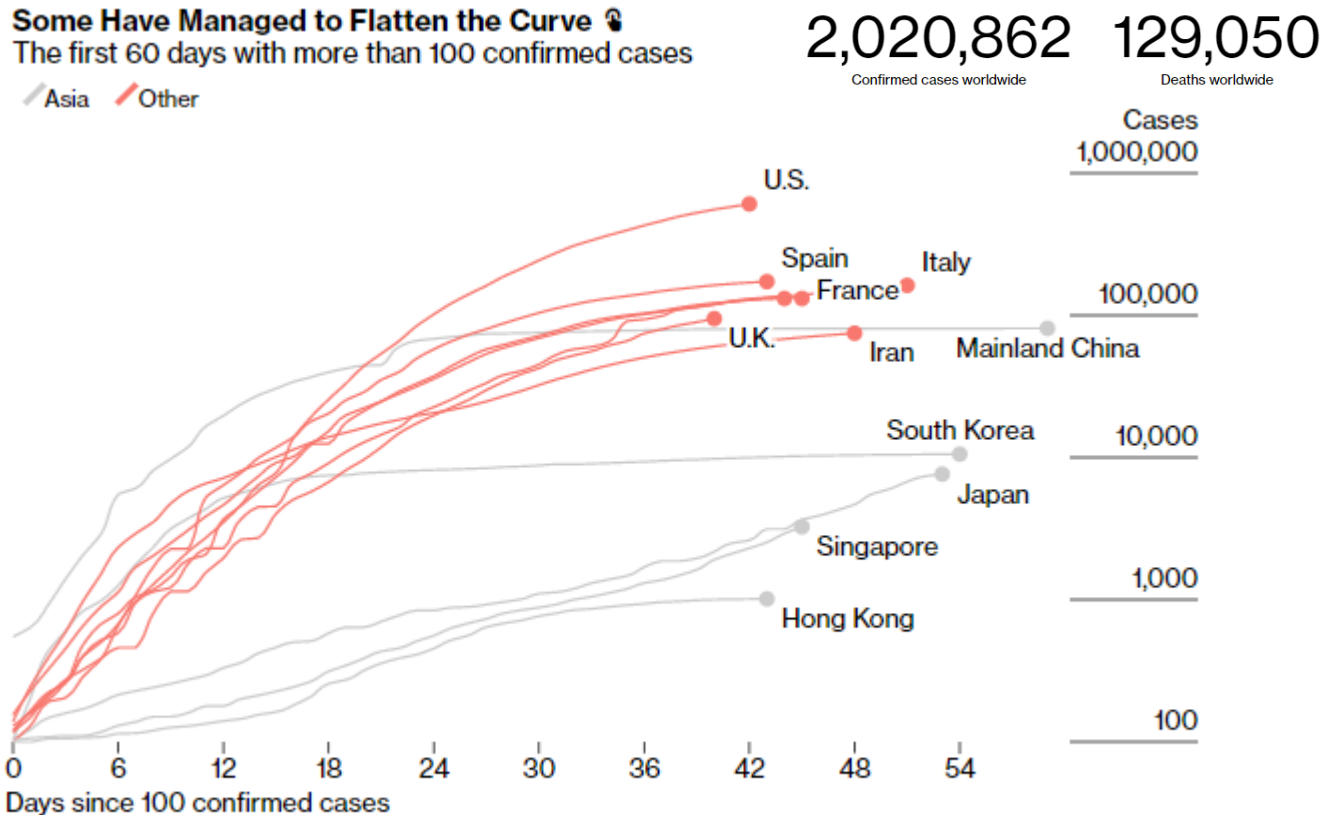


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(moderator)
Senior Vice President
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The COVID-19 Pandemic: Where are we?

The number of new COVID-19 cases appears to be slowing globally. Have we hit an inflection point?

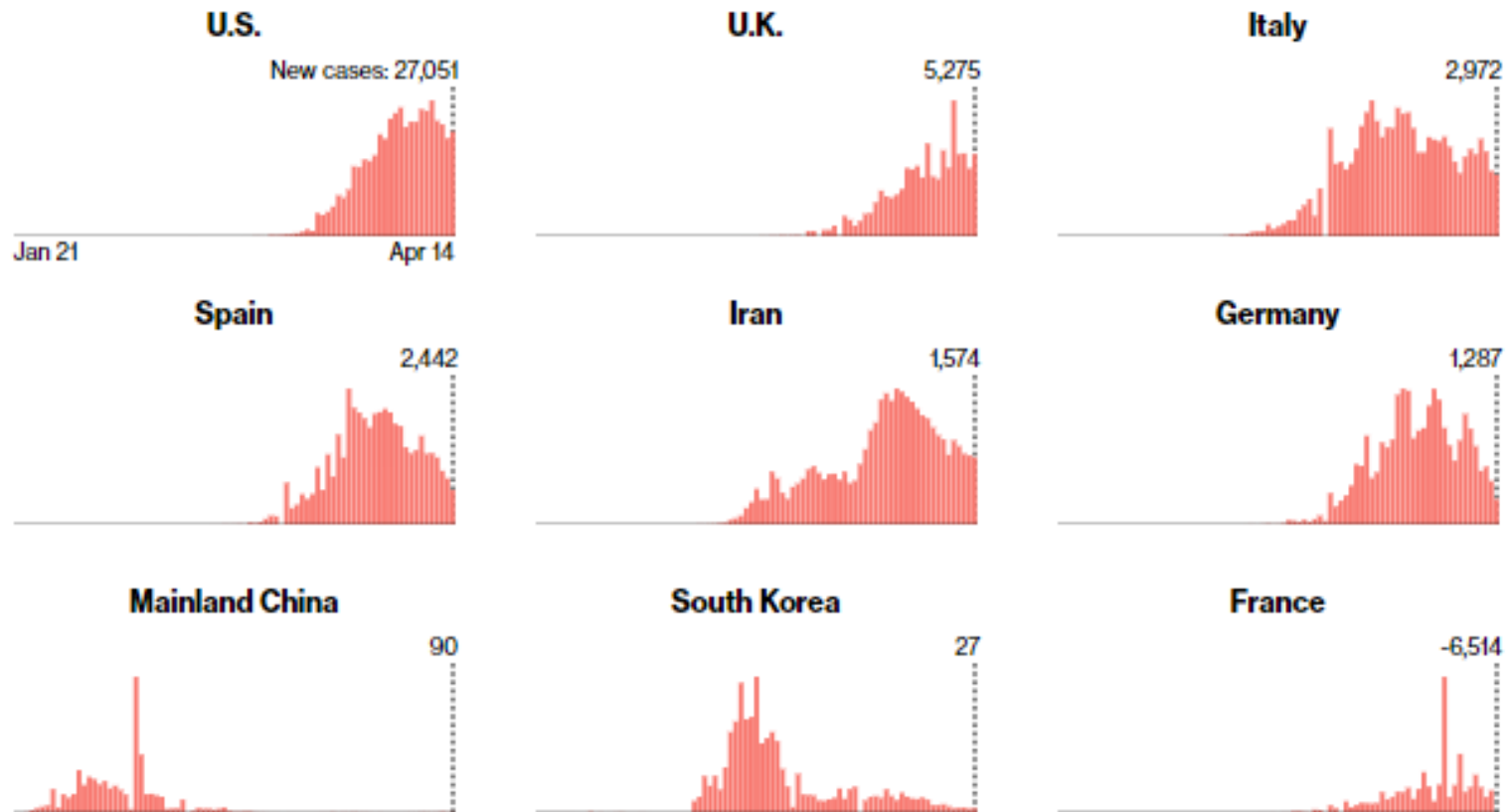


Note: JHU CSSE reporting began on Jan. 22, when mainland China had already surpassed 500 cases.
 Source: Johns Hopkins University Center for Systems Science and Engineering

Source: Bloomberg, The Conference Board, April 15, 2020



Global Cases Added Per Day



Note: On February 14, Hubei officials changed their diagnostic criteria, resulting in a spike in reported cases.



The spread of COVID-19 to other emerging markets and developing nations could potentially be devastating

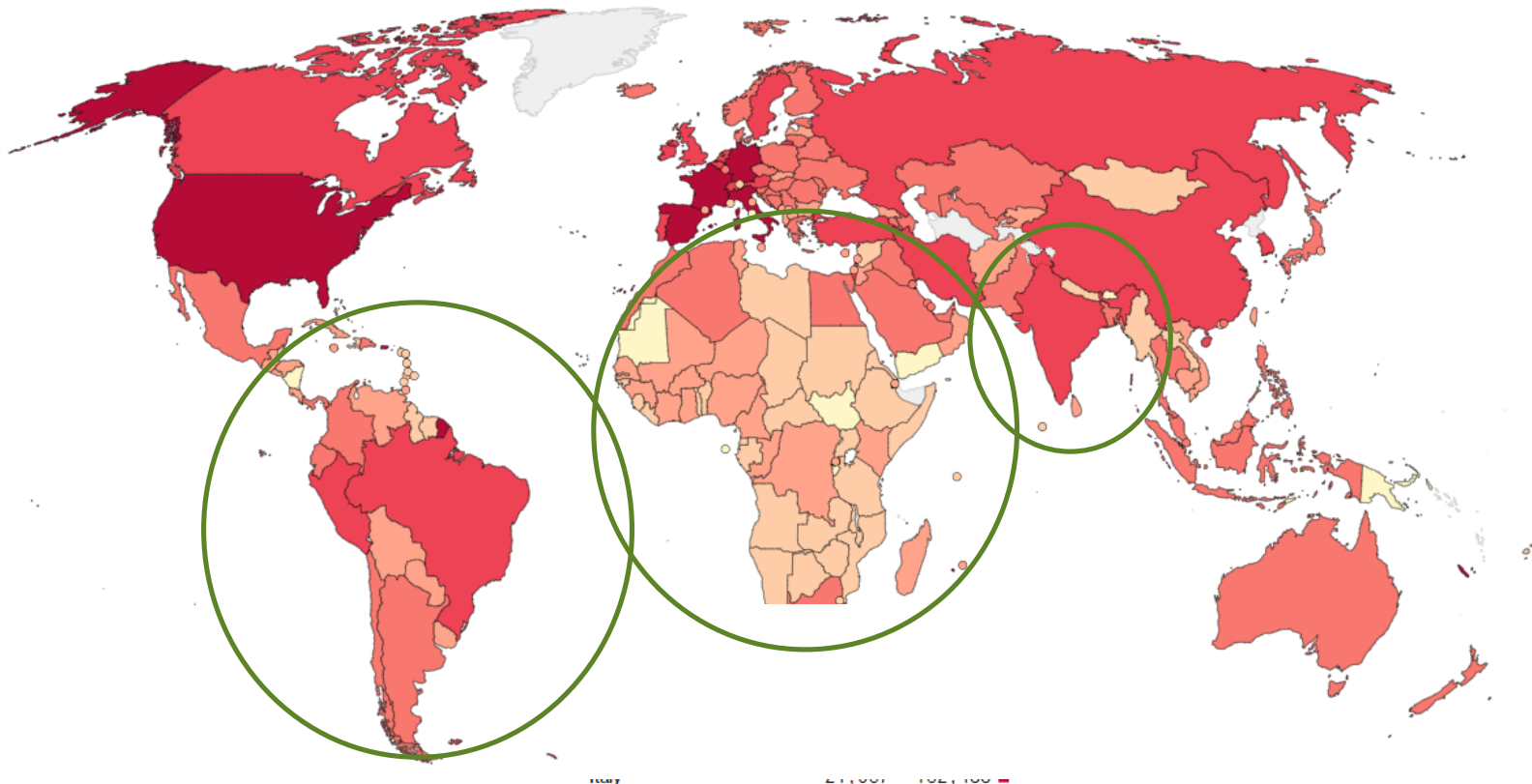
2,020,862 129,050

Confirmed cases worldwide

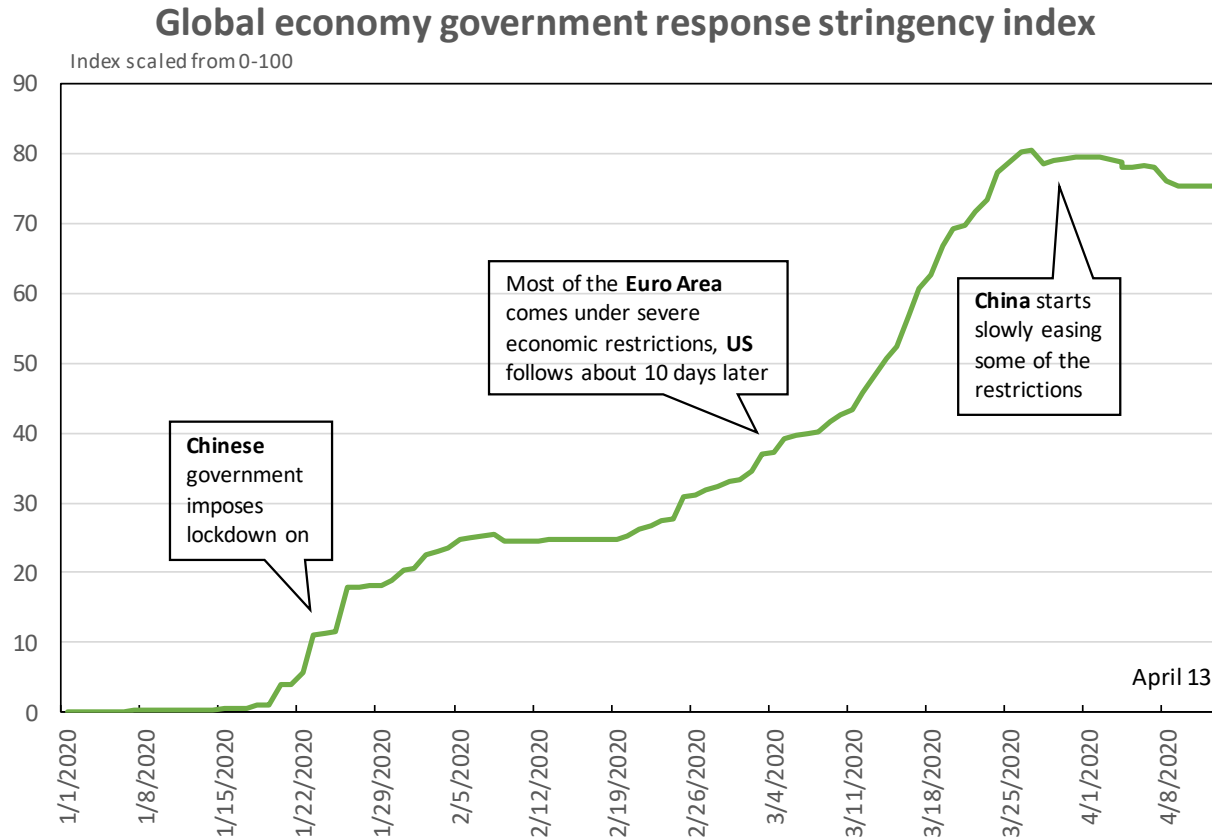
Deaths worldwide

Jurisdictions with cases confirmed as of April 15, 2020, 11:56 AM EDT

1-9 10-99 100-999 1,000-9,999 10,000-99,999 100,000 or more



A large part of the global economy is currently under severe economic restrictions

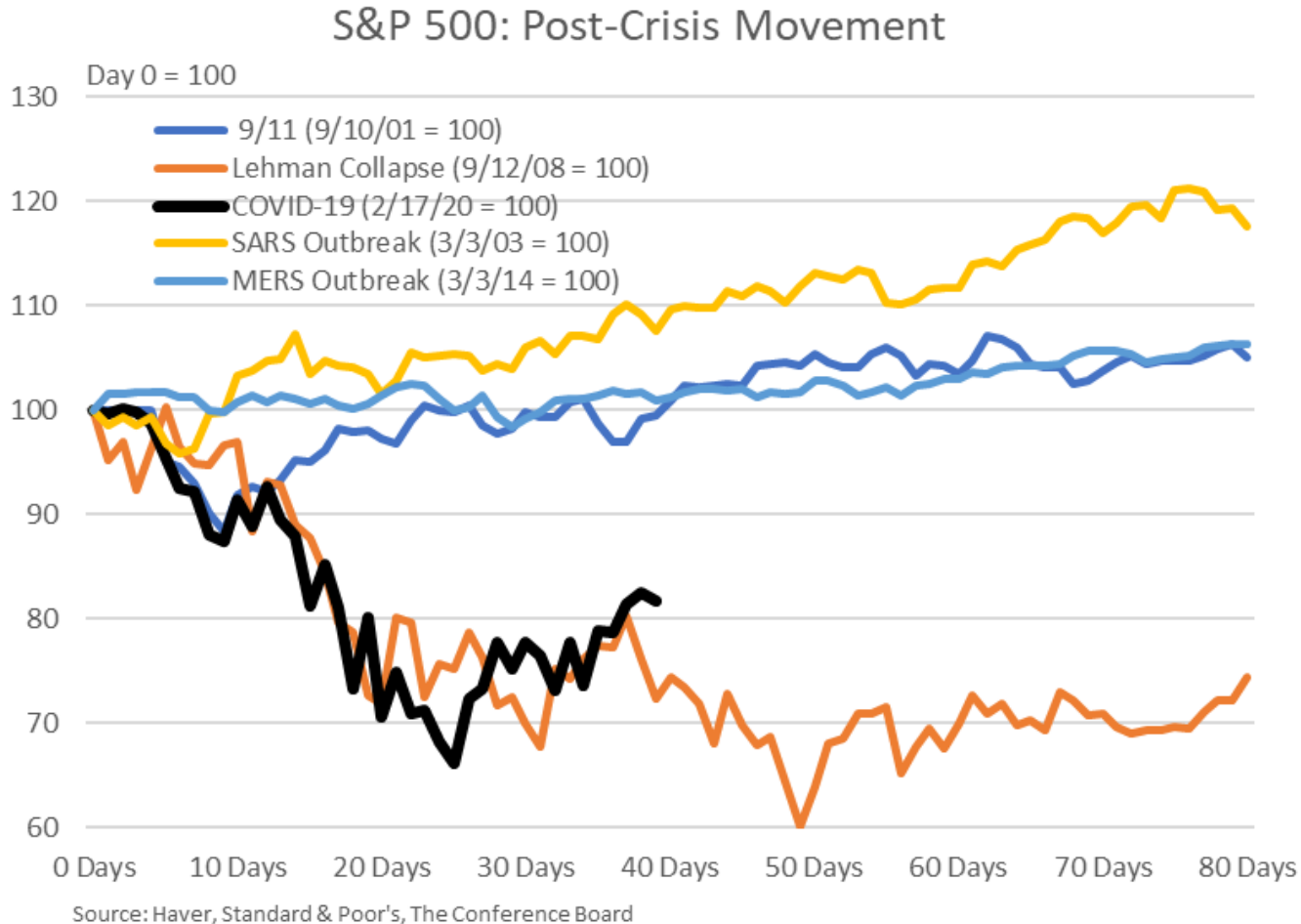


Notes: Government response stringency aggregated using nominal GDP in US dollar PPP terms.
Source: The Conference Board calculations using the Oxford COVID-19 Government Response Tracker.



Early Signals

Financial markets beginning to see some recovery – but can they withstand continued bad news about earnings, etc.



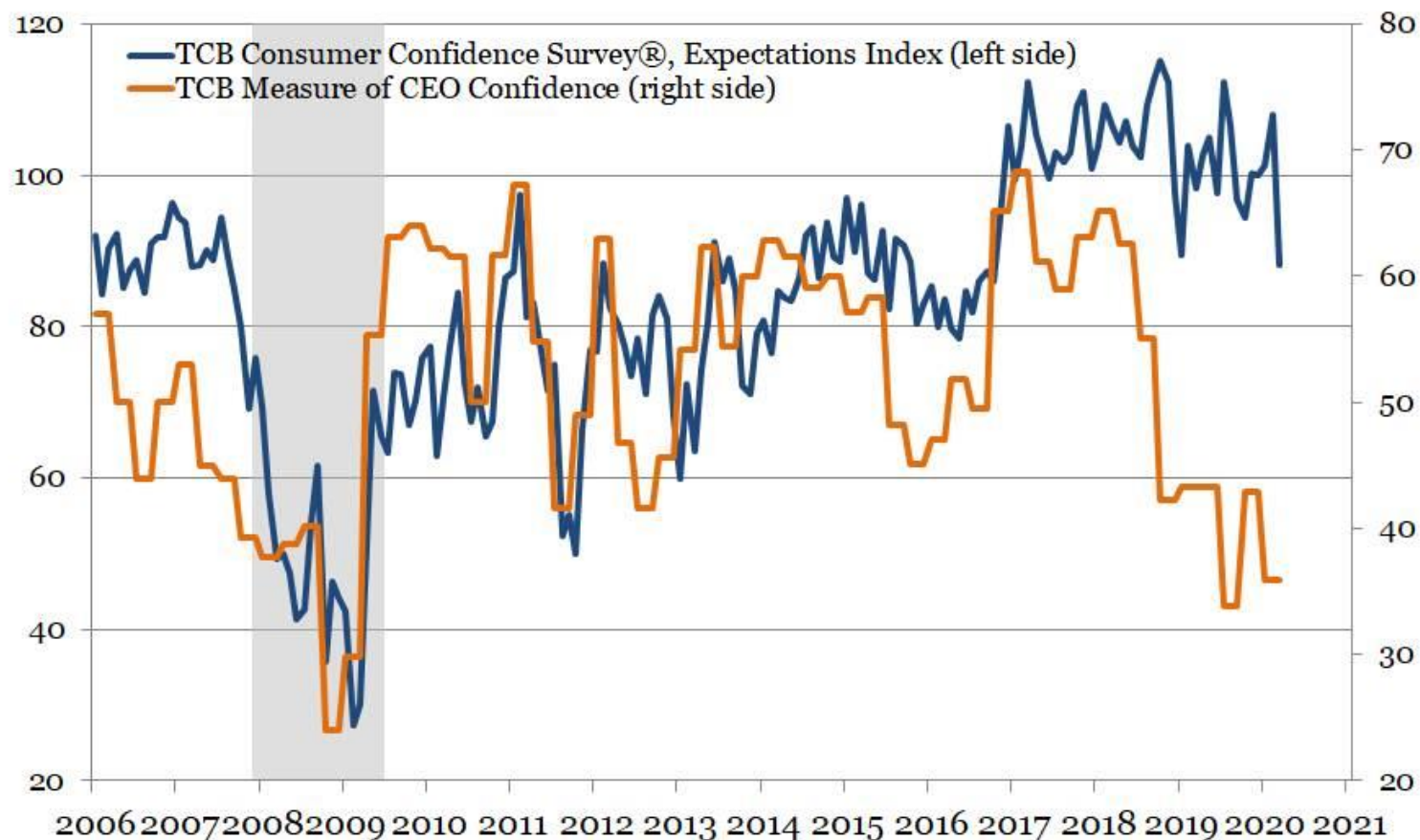
Financial markets seem to recover more strongly than oil – which experiences a double hit – US dollar still safe haven



Sources: EIA/CME, S&P, WSJ



The one-month 20-point drop in consumer expectations in March (cut off data by mid-March) is just the beginning

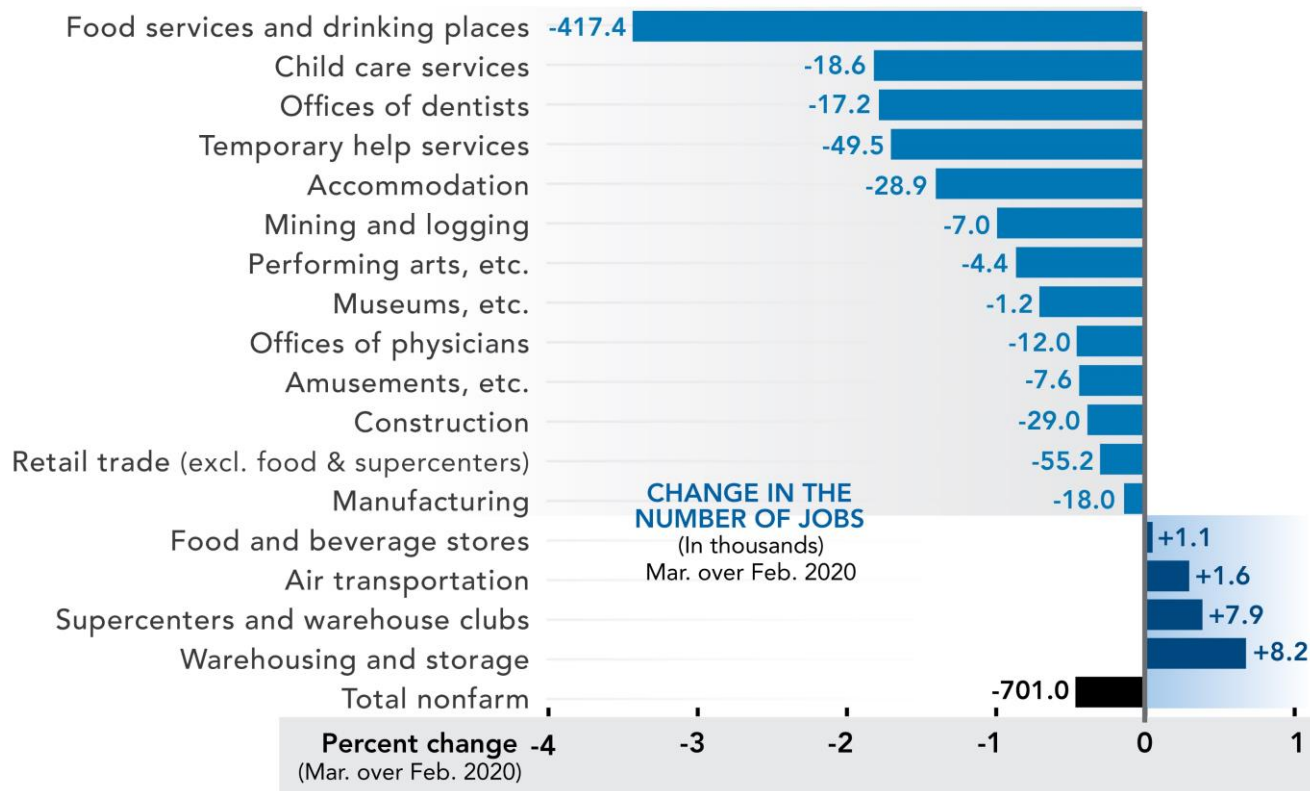


*Shaded areas represent periods of recession.
Sources: The Conference Board; Nielsen; TNS; NBER.
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The decline of 700,000 jobs as measured by 2nd week of March is still strongly concentrated but will spread

60 PERCENT OF JOB LOSSES FROM ONE INDUSTRY: FOOD AND DRINK

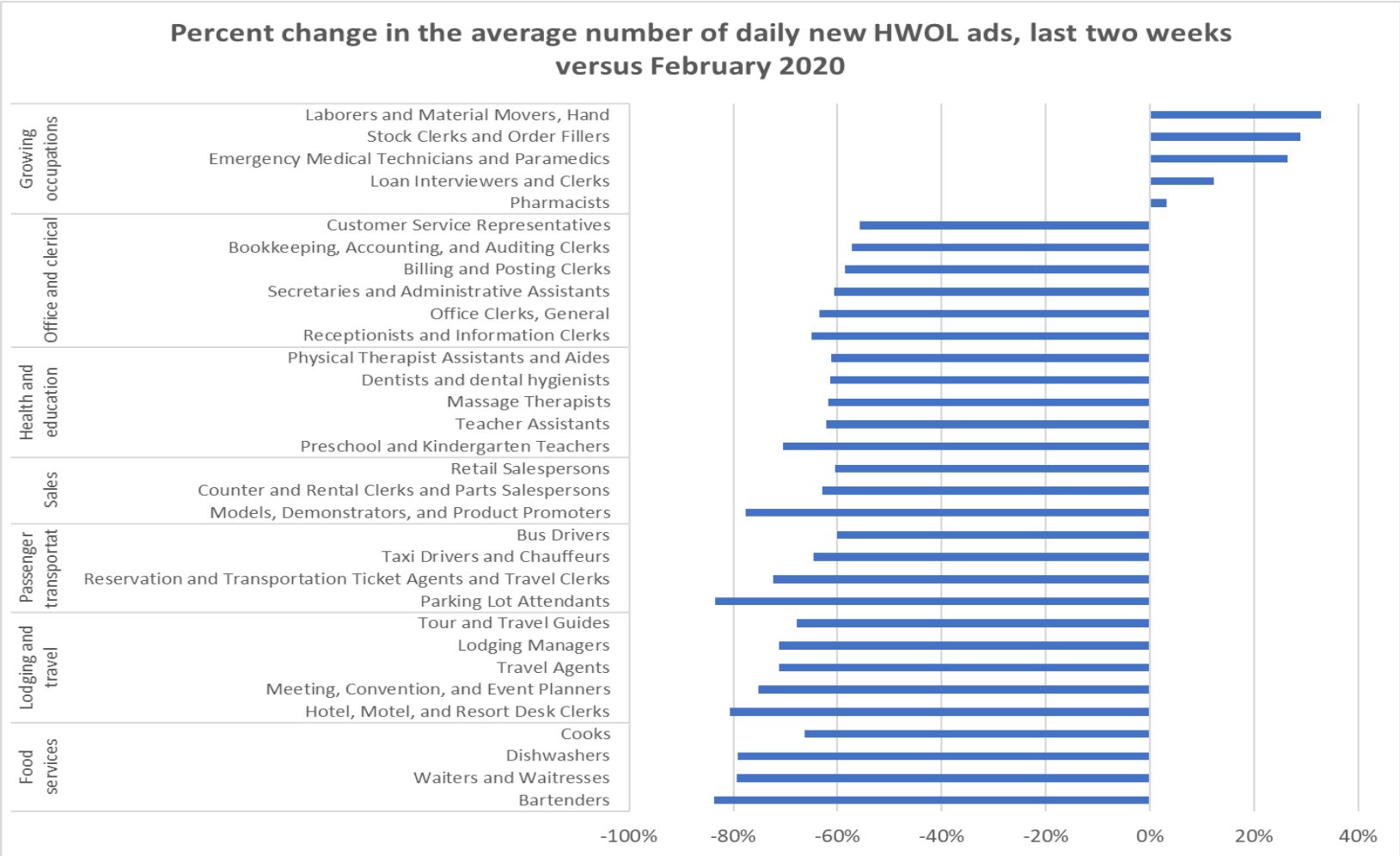


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Source: The Conference Board using data from the US Bureau of Labor Statistics



Large drop in job adds across wide range of occupations

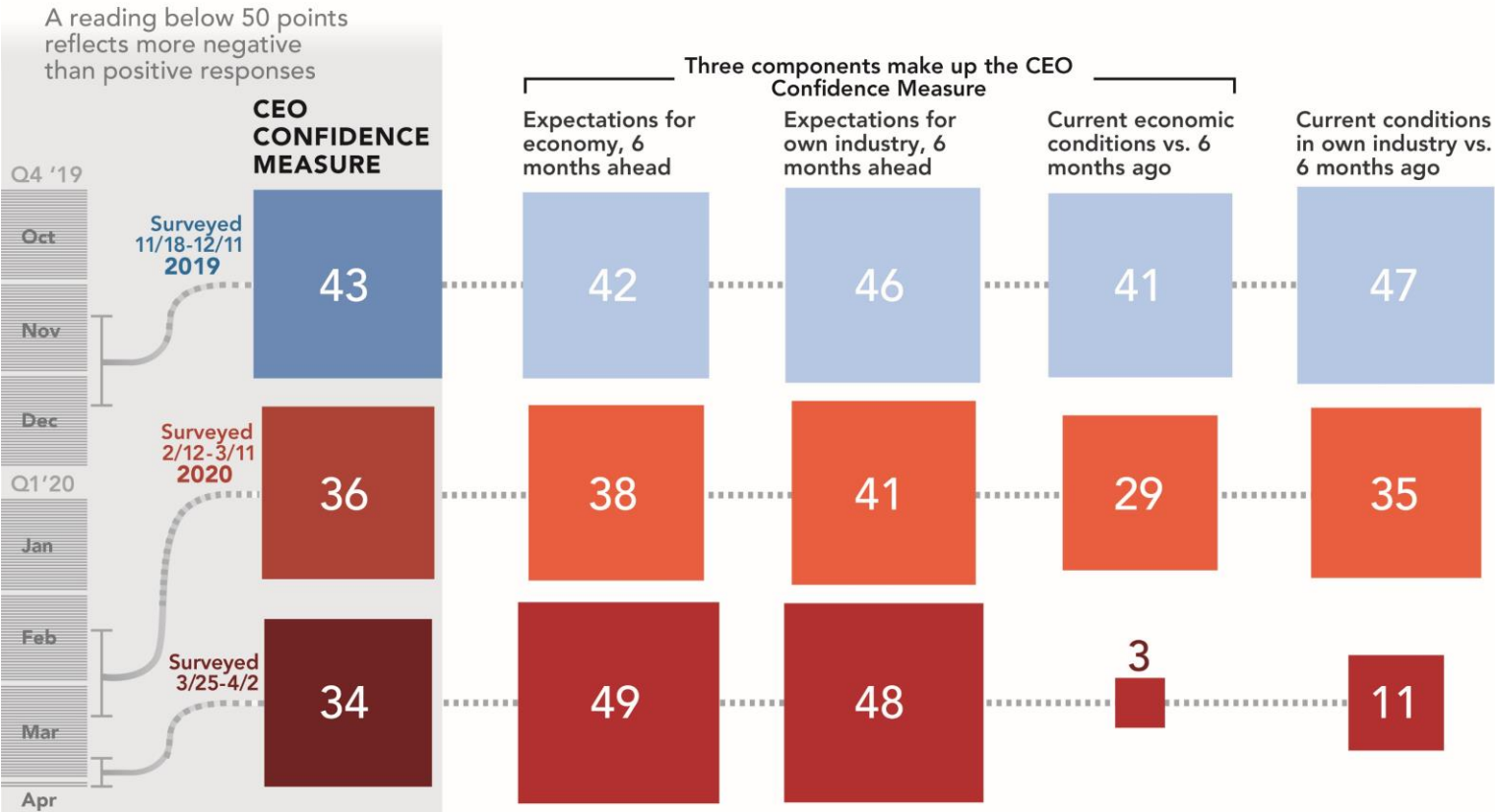


Source: The Conference Board, Help Wanted on Line®



CEOs starkly pessimistic but expect improvement in next six months

The Conference Board Measure of CEO Confidence™ over three timeframes

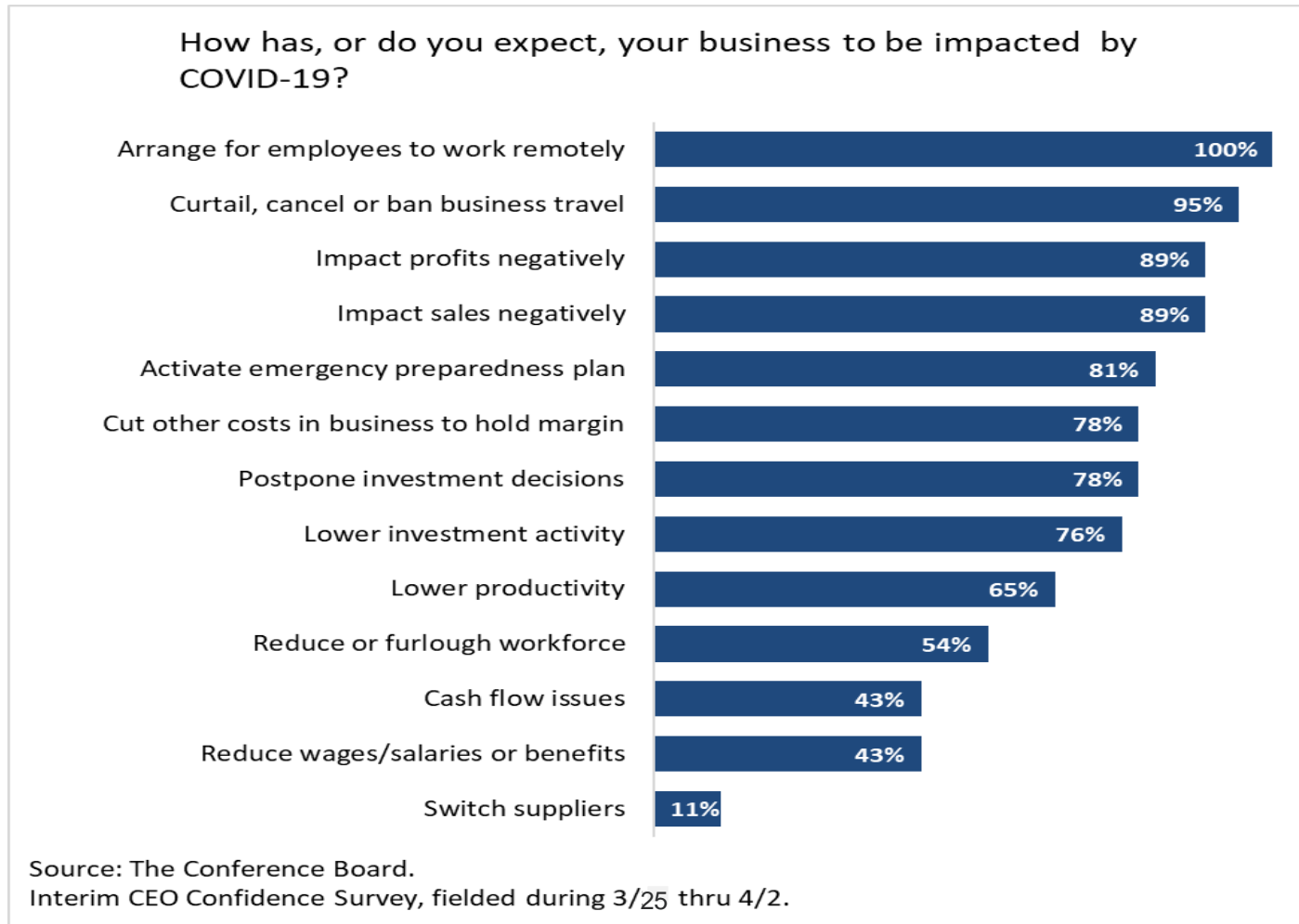


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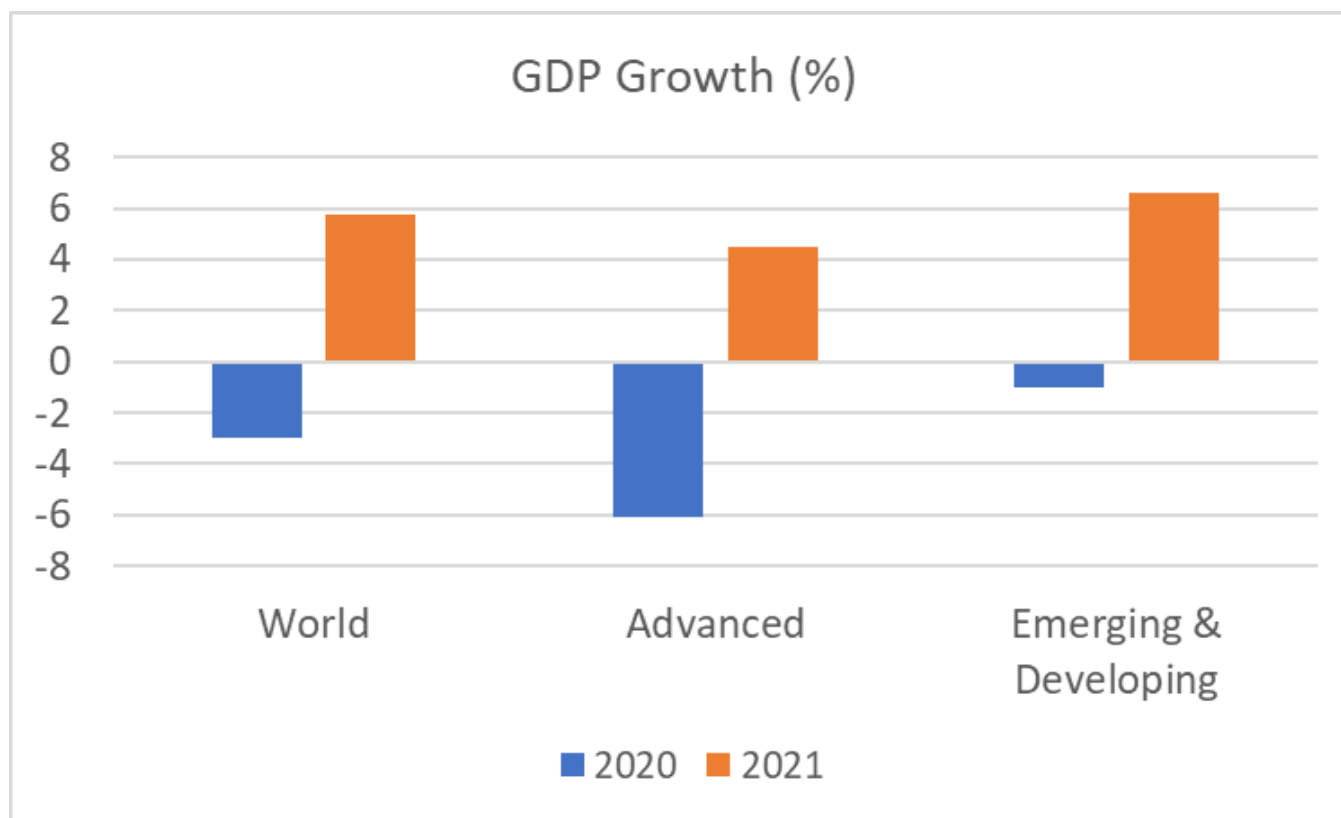
Source: The Conference Board Measure of CEO Confidence™



The expected impact on businesses don't bode well for a smooth V-shaped recovery



IMF projects 3% GDP decline in 2020, but V-shaped recovery in 2021 especially in Emerging Markets



Source: IMF World Economic Outlook, April 2020



US Outlook

Various scenarios show large impacts on the economy

1. May Reboot (quick recovery)

- ✓ Assumes a peak in new COVID-19 cases for the US as a whole by mid-April
- ✓ Economic activity may gradually resume beginning in May

2. Summertime V-Shape (deep contraction, V-shaped recovery)

- ✓ The peak in new COVID-19 cases will be around early May
- ✓ Deep economic contraction in Q2, but also a stronger recovery in Q3
- ✓ But high uncertainty about outcome if economy gets opened up too fast

3. Fall COVID-19 Resurgence (2nd contraction in Q4, W-shaped recovery)

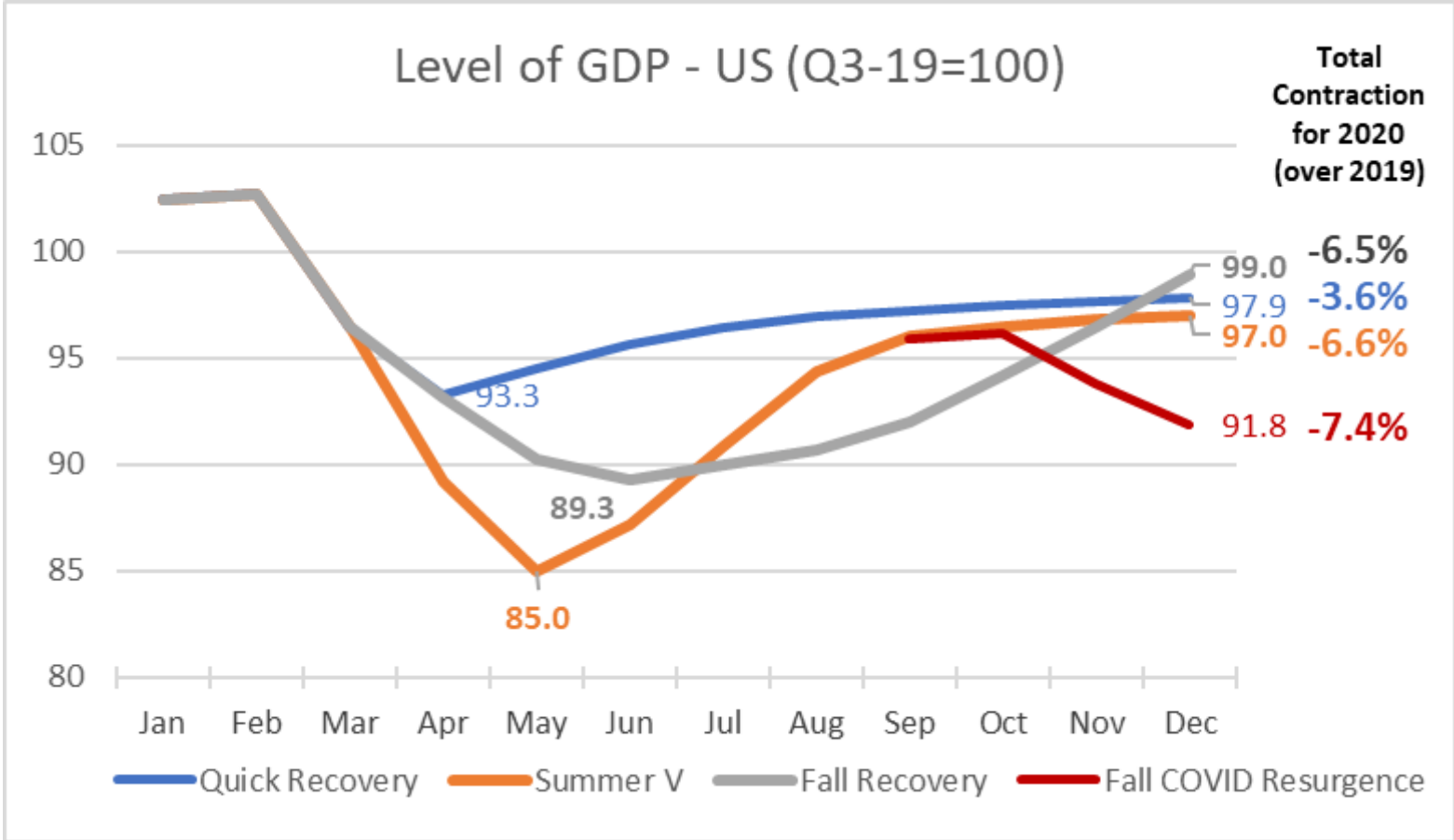
- ✓ Failure to keep new COVID-19 cases under control in Fall, requiring renewed stringent measures during the Fall
- ✓ After a Q3 recovery, the economy would contract again in Q4

4. Fall Recovery (extended contraction, U-shape recovery)

- ✓ Managed control of outbreak helps to flatten the curve of new outbreaks
- ✓ Stretches economic weakness to Q3, growth only resuming by September
- ✓ Unemployment could rise to 15% by May but gradually level off to 10%



No matter what scenario materializes, the US economy will shrink in 2020 compared to 2019



Source: The Conference Board, April 2020

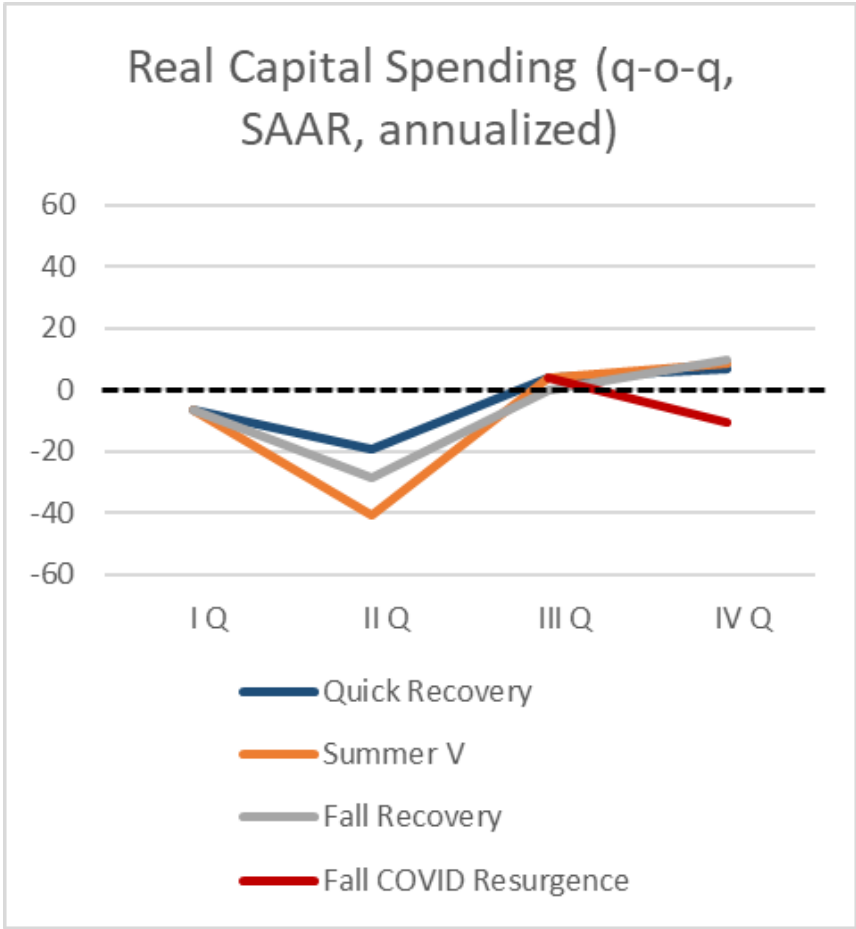
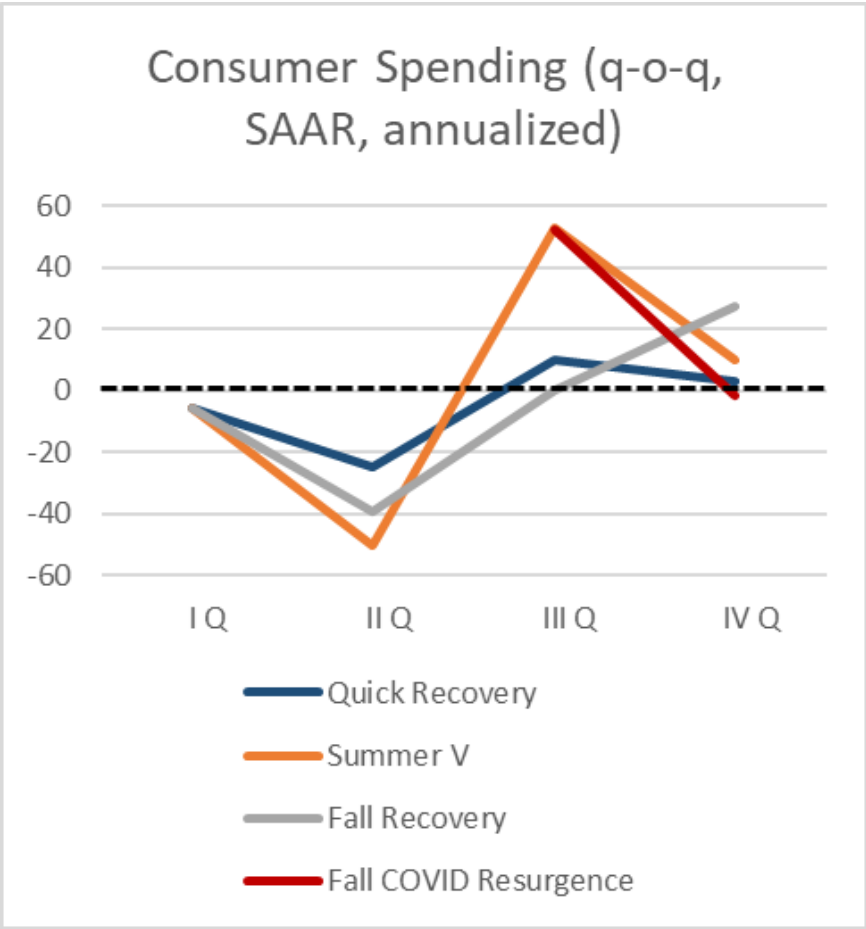


The crisis gradually turns from supply-side forces to demand-side

- Sectors most vulnerable to social distancing and other containment suffer most
 - ✓ Entertainment, recreation, restaurants, accommodation etc. contracting by 50% now, only gradually easing before recovery
 - ✓ Also most vulnerable if another hit of new cases during the fall
- Oil drilling also affected due to global oversupply and weak demand
- Other consumer dependent sectors suffer as contraction lasts longer:
 - ✓ Retail trade, production of consumer goods, construction and production dependent on global supply chains contract by 5-20% per month
- If recession lasts through all of summer no escape for any sector:
 - ✓ Finance industry, major parts of business services also see declines
- Some sectors may benefit but not enough to offset losses elsewhere
 - ✓ Health care, online education, IT services



Consumption fell more strongly and will recover faster than investment

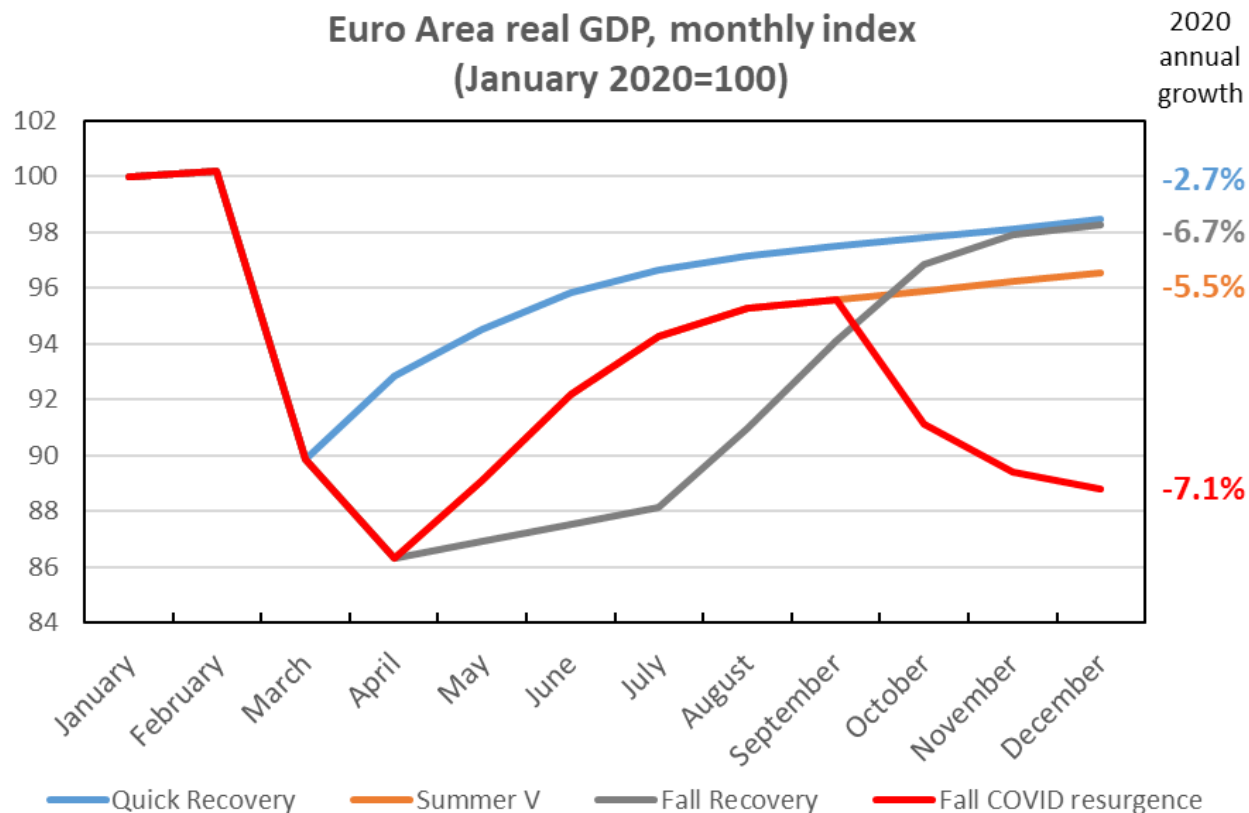


Source: The Conference Board, April 2020



Rest of the World & Global Outlook

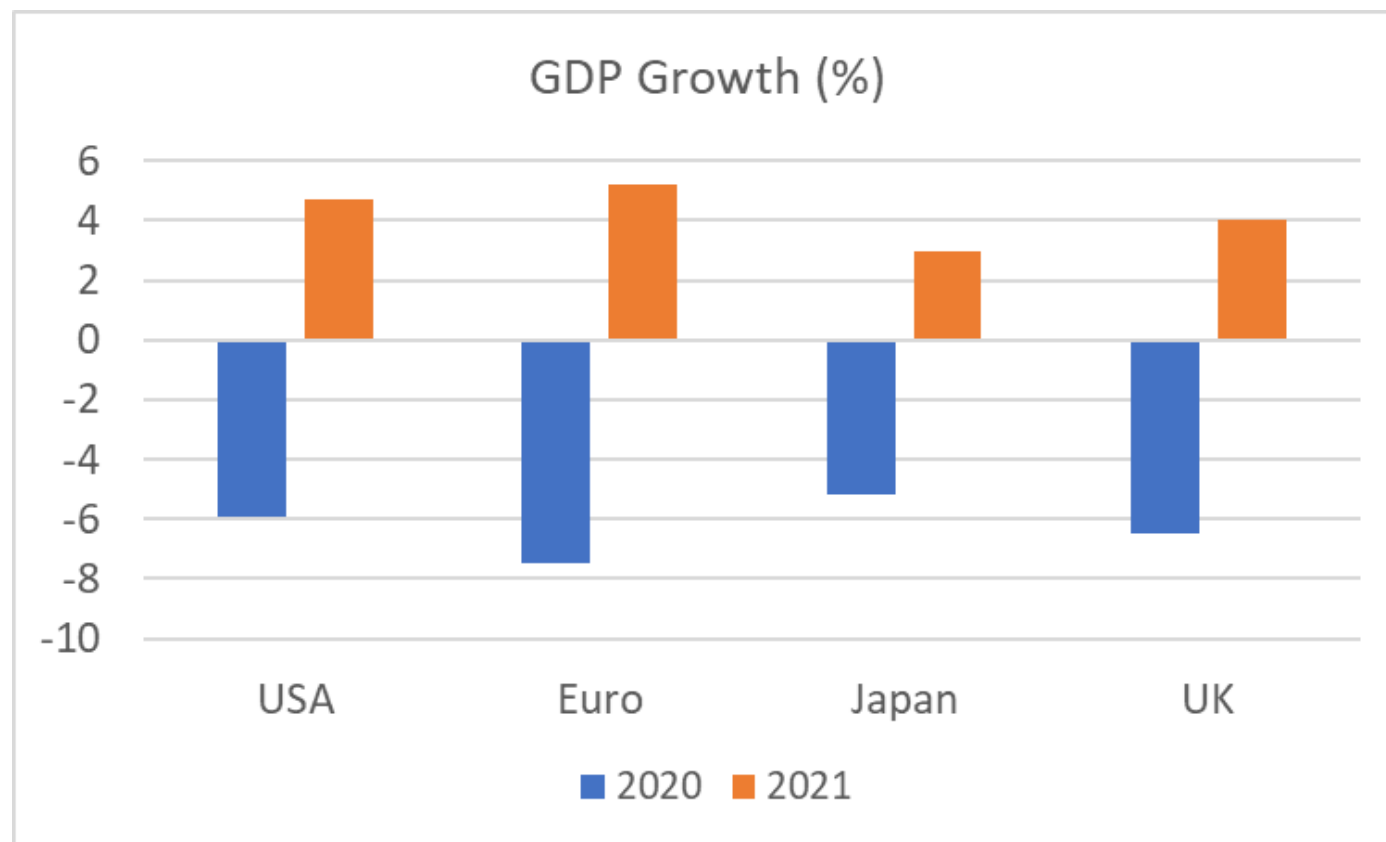
Under any scenario, 2020 will close with an economy that is smaller in Euro terms compared to 2019



Source: The Conference Board; Historical data based on elaboration of Eurostat data on national accounts and short-term business statistics



IMF projects no full recovery until end 2021 for advanced economies

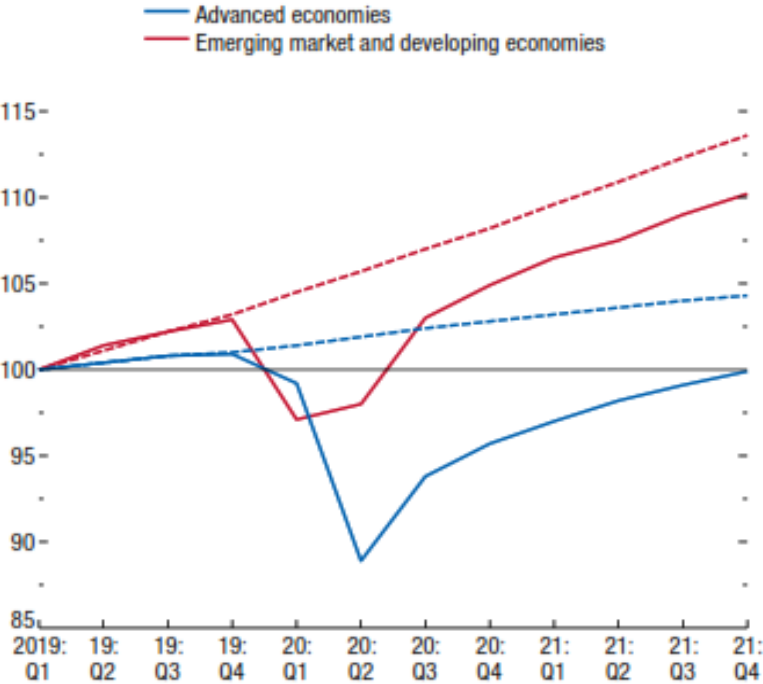


Source: IMF World Economic Outlook, April 2020

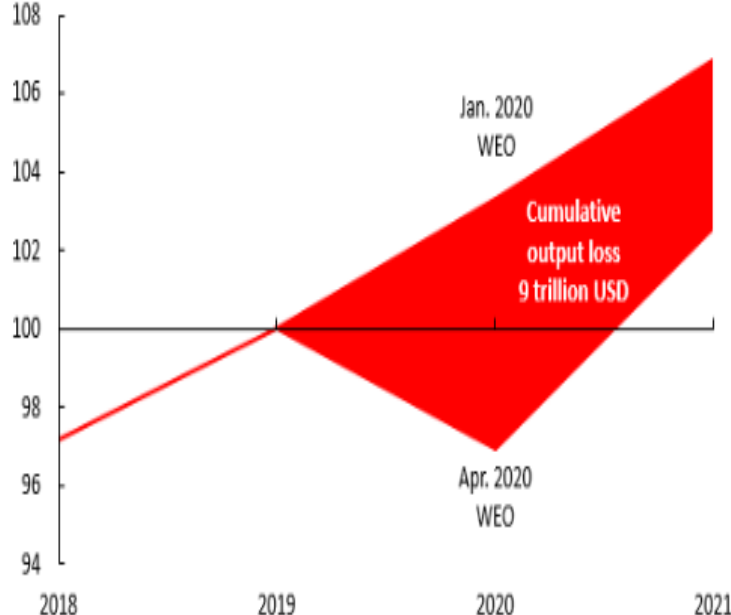


IMF predicts U shape scenario for advanced economies to expand in 2021, but emerging markets recover faster

(2019:Q1 = 100; dashed lines indicate estimates from January 2020 World Economic Outlook Update)



Global GDP projections, 2020 & 2021 (global real GDP level, index)

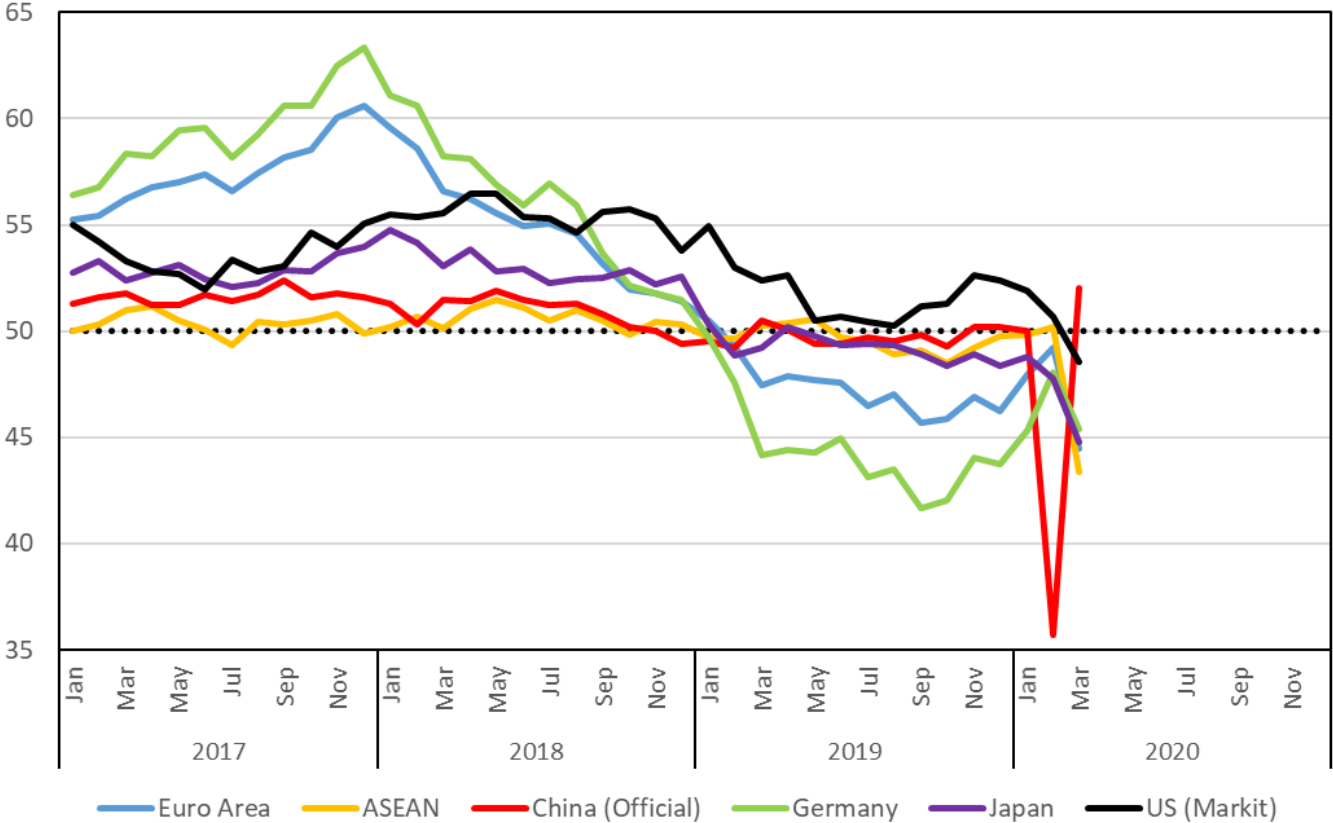


Source: IMF World Economic Outlook, April 2020



China, first in first out?

Global Manufacturing Purchasing Manager Indexes



Sources: IHSM, CFLP, data obtained through Haver analytics

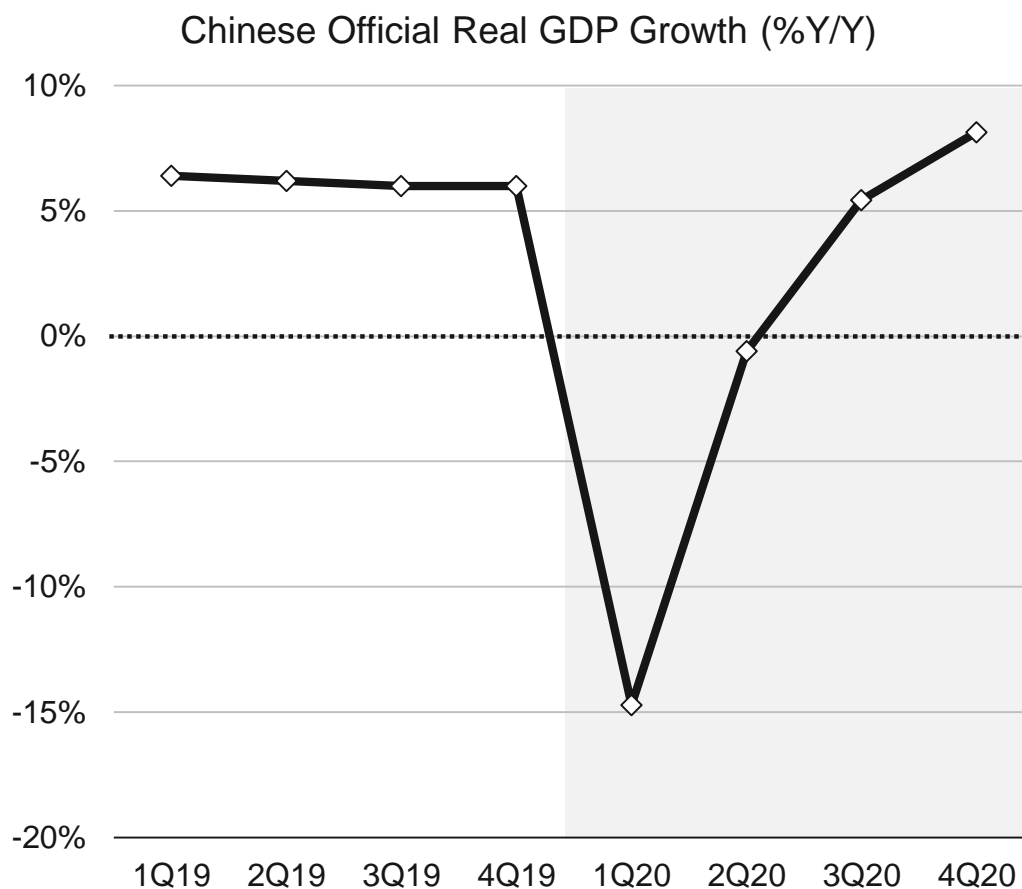


China emerges from pandemic and into economic turmoil.

1. The economic impact will be significantly more serious than SARS
 - ✓ Wider spread disruption
 - ✓ Service sector more exposed (than in 2003)
 - ✓ Global economy more exposed
2. This time, both the industrial and consumer sectors will be hit - and hit much harder
 - ✓ Demand shock for consumption; supply and demand shocks for industrials
 - ✓ Survivability of consumer SMEs and associated job loss is THE big risk
 - ✓ Recessions in major economies (now unfolding) seriously threaten China's industrial recovery
3. Post peak recovery will be more modest and take longer
4. Government stimulus capabilities are limited, and likely to be less impactful than expected
 - ✓ High fiscal pressures
 - ✓ Larger economy = larger amounts necessary



China forecast: sharp pain in Q1 followed by a long road to recovery. 'Low' to 'No' economic growth in 2020



Source: NBS, The Conference Board,

- Q1 will take the biggest hit, as much of the country was shutdown.
- Q2 will probably not see a strong recovery due to weak consumption and exports
- We do not expect to see a post-crisis surge until Q4
- **Annual growth ~ 0%**

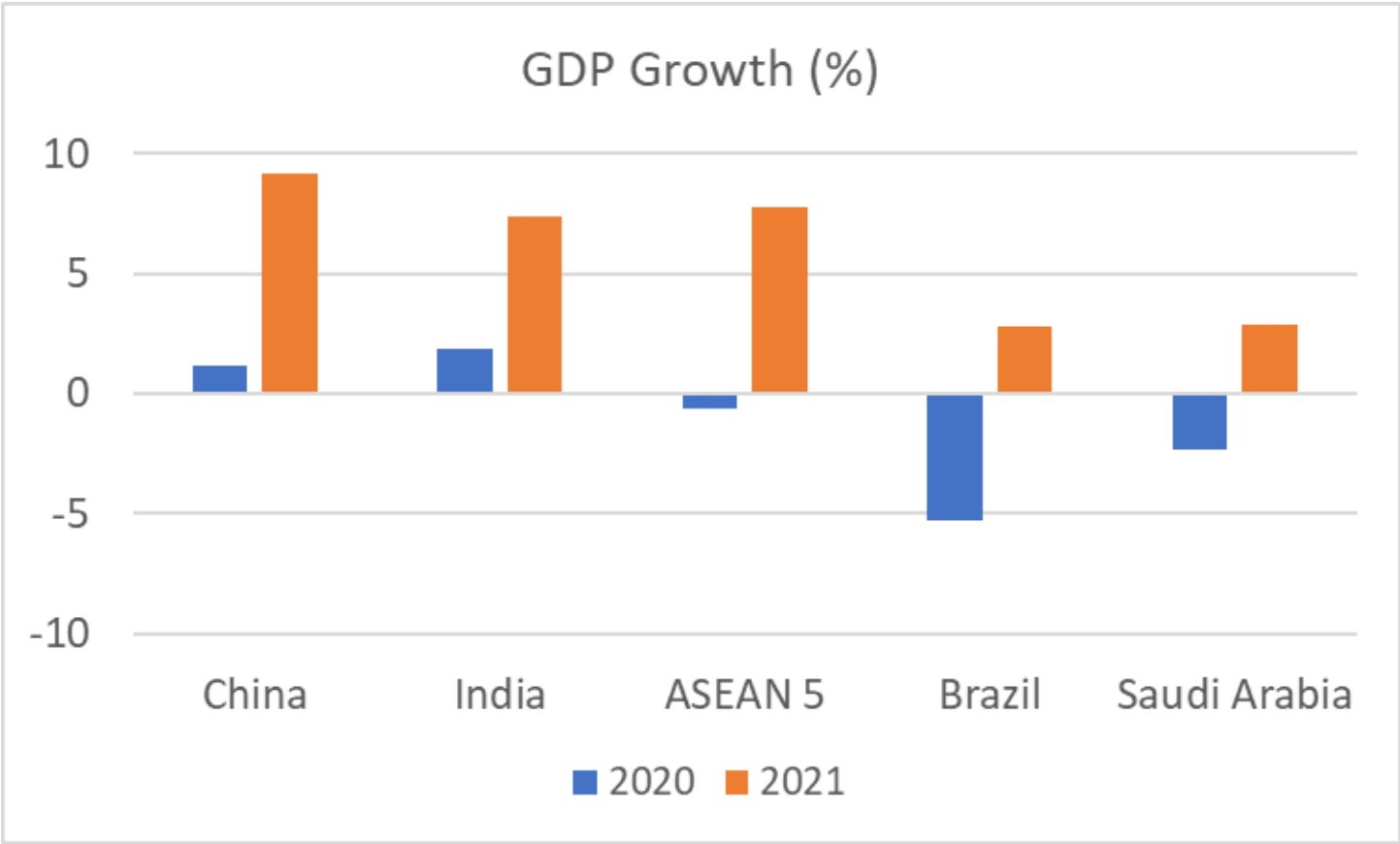


Global economic shock precedes pending health crisis in most emerging markets and developing economies

- The outlook for many emerging markets and developing economies has quickly deteriorated even as confirmed COVID-19 cases are still relatively subdued
 - ✓ Rapid decline in commodity prices, especially crude oil, which jeopardizes government budgets of countries heavily reliant on commodity exports
 - ✓ Decline in tourism, hurting especially economies in southeast Asia
 - ✓ Investors withdrawing funds at an unprecedented scale, putting heavy pressure on currencies
 - ✓ Demand shock as most advanced economies are showing contraction
- Even though growth is likely to slow severely from 2019 growth rates everywhere, some will fare better than others:
 - ✓ For example: Indonesia, Philippines, and some of the smaller sub-Saharan economies as they are relatively insulated from the global economy while they also have stronger fundamental growth drivers



Can Emerging Markets escape the worst?



ASEAN 5 = Malaysia, Indonesia, Philippines, Singapore and Thailand
Source: IMF World Economic Outlook, April 2020



Rebooting the Economy

Steps for a responsible reopening of the economy

1. Make sure it's safe to get out of lockdown or shelter-at-home:
 - Extend physical distancing measures where needed to break community transition
 - Expand testing (test for positive cases, antibody testing)
 - Provide personal protective equipment (in particular, masks) and usage guidelines
 - Introduce instantaneous contact tracing (e.g. apps)
 - Accelerate medical interventions (medication, vaccine)
2. Gradually reboot economy
 - Continue remote working where possible and not harmful in order to create physical space for those who need to get back to work
 - Gradually release travel restrictions (public transport, airlines)
 - Develop guidelines for establishments affected by physical distancing (retail, restaurants, etc.) – government and/or self regulation?
 - Start up schools again (strengthen education quality, release parents for work)
 - Keep contact tracking in place, and intervene proactively where new hotspots occur



NATURAL DISASTERS & PANDEMICS

IMPLICATIONS FOR ECONOMIES & BUSINESS

Explore all of our resources on COVID-19 and its impact on business and the economy

The Conference Board has gathered insights and learnings from our thought leaders and member network which we hope will be helpful as you formulate, implement and manage your own crisis response.

Explore all of these resources on our website at
<https://www.conference-board.org/topics/natural-disasters-pandemics>.

