



The Economy in the Days of COVID-19

NARI - Webinar
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Armada Corporate Intelligence



It DOES Exist!



What Do We Know This Minute?

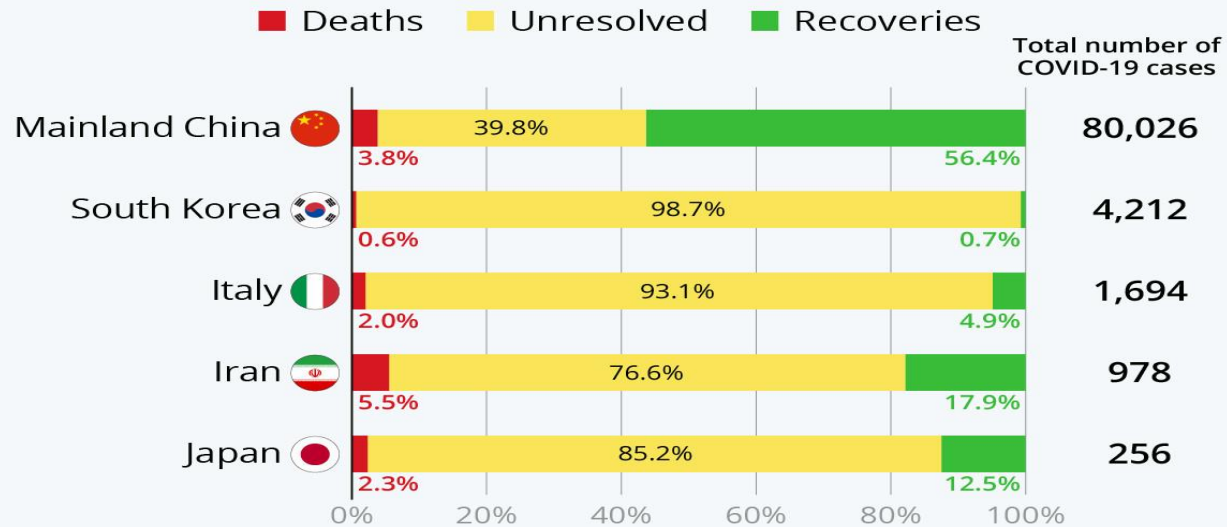
- In truth – we really don't know much as the situation alters every day to some extent.
 - Market collapsed almost completely and globally but has been volatile.
 - Supply chains have been shattered – especially those that originated in Asia
 - Government has mandated shutdowns of any venue that would attract crowds – events, restaurants etc.
 - Central banks have lowered rates to zero and are engaged in bond buying and any other mechanism that would allow money to enter the economy
 - Congress has acted at last with a two trillion dollar package. Some priority given to public health
 - Some nations have seen the peak – they think. China. South Korea, Singapore



Death Toll Low – Recoveries High

The Varying Impact of the Coronavirus

Distribution of COVID-19 cases, by current status*



* Countries with the most confirmed cases. As of Mar 2, 2020 at 9am CET

Source: Johns Hopkins University



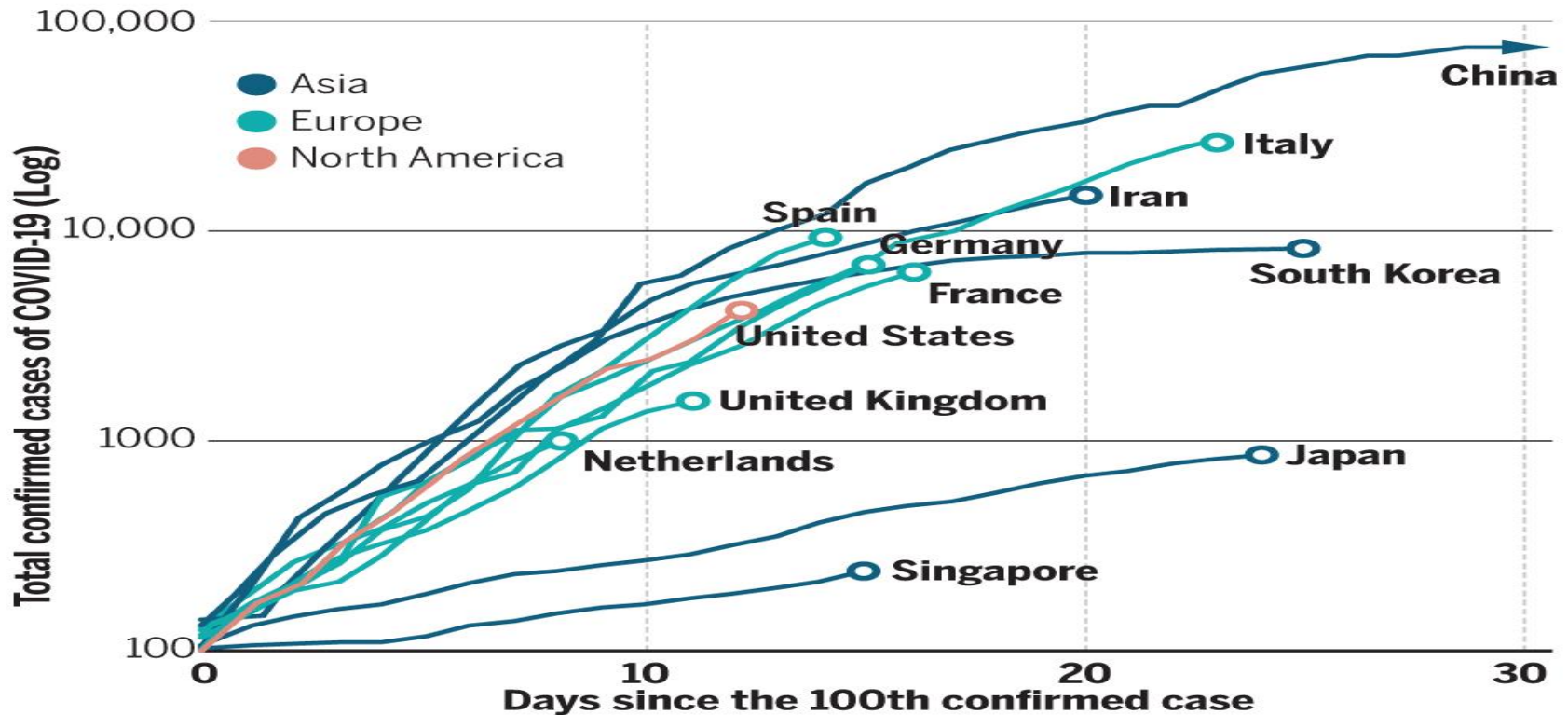
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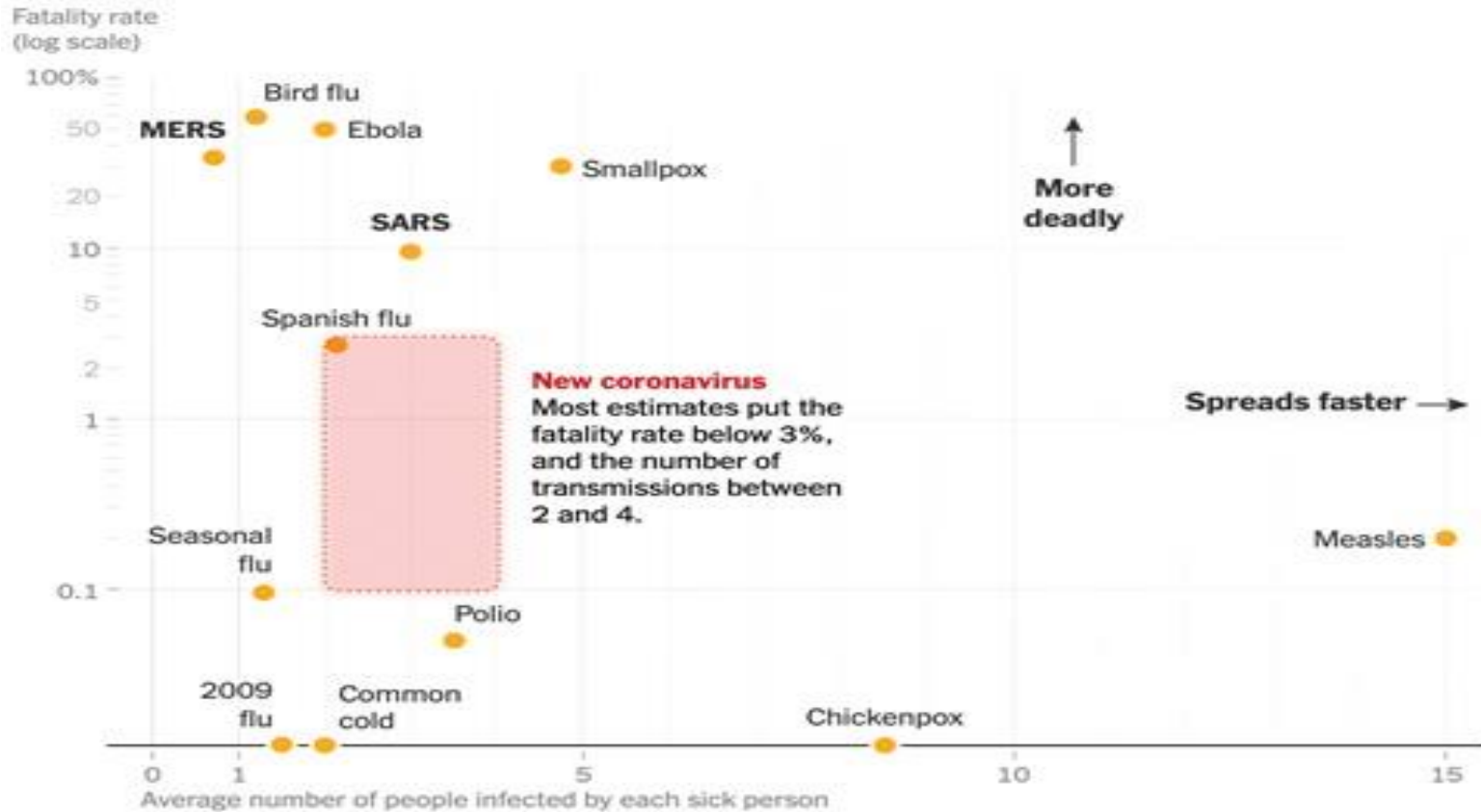
Peak is Now in US and Europe

Exponential growth

China's outbreak has come to a halt and South Korea has flattened its curve, but COVID-19 case numbers are still rising rapidly in many Western countries.



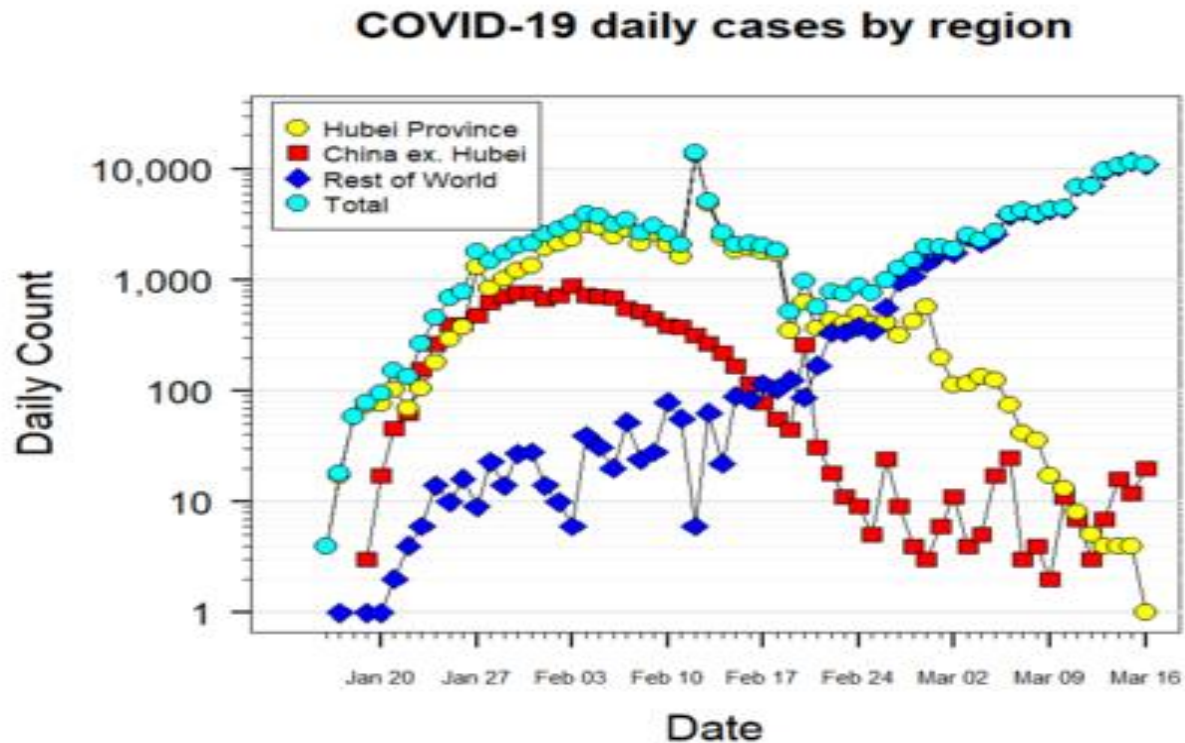
How Does This Compare?



Note: Average case-fatality rates and transmission numbers are shown. Estimates of case-fatality rates can vary, and numbers for the new coronavirus are preliminary estimates.



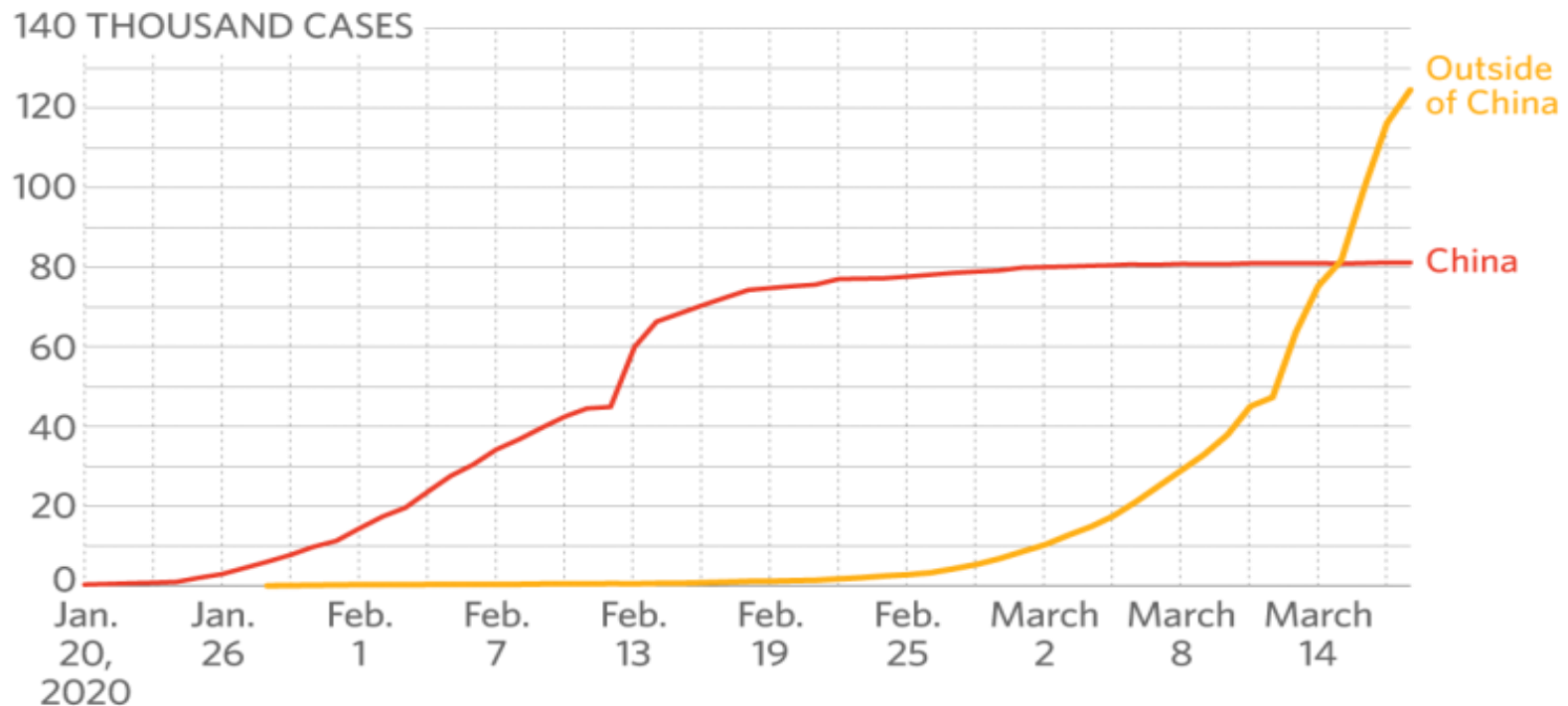
More Obvious in China Itself



Shift Away from Epicenter

Most COVID-19 Cases Are Outside of China

The number of COVID-19 cases in countries other than China has surpassed the number of cases inside China, and is rising fast.

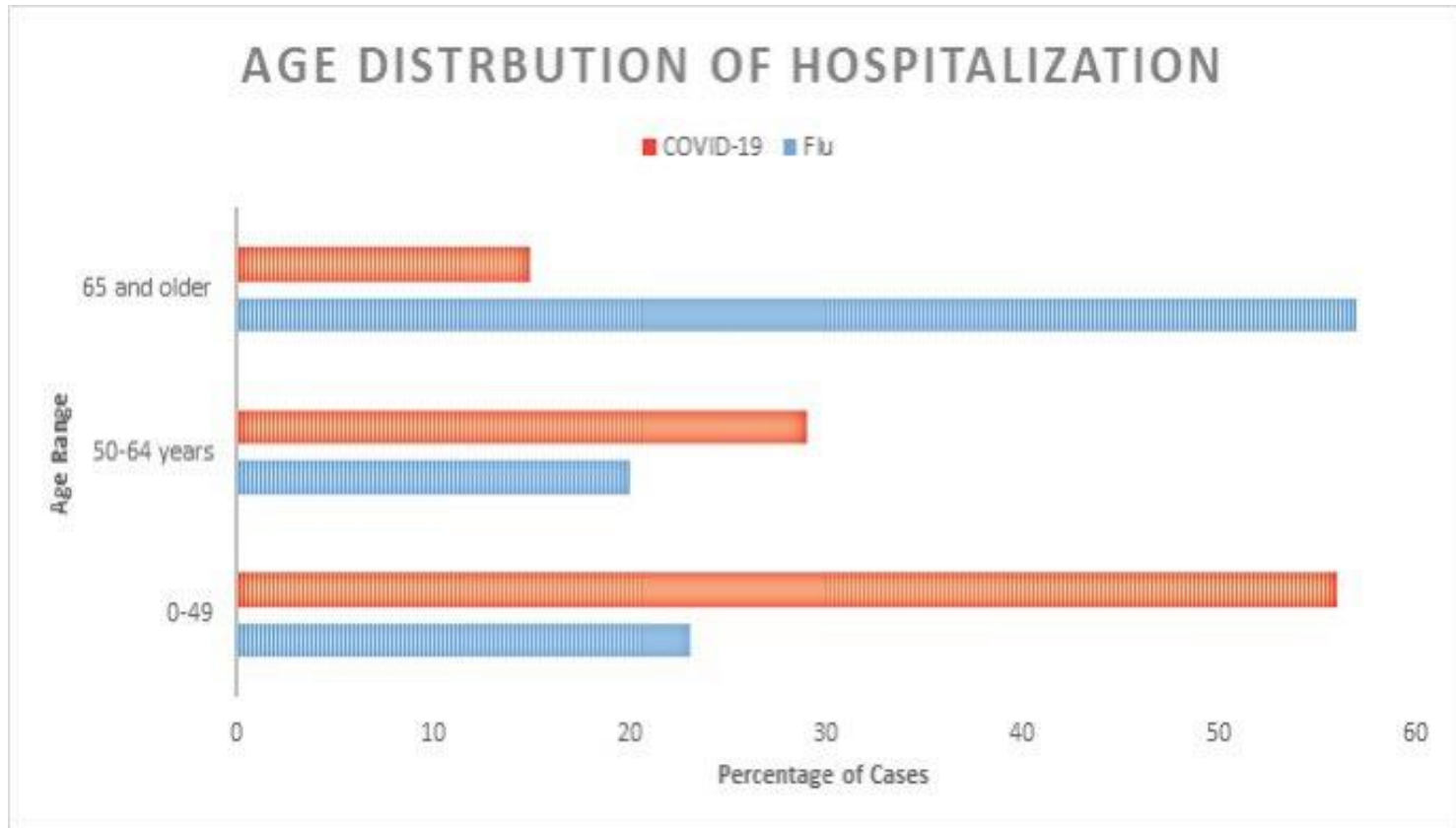


Source: Johns Hopkins University

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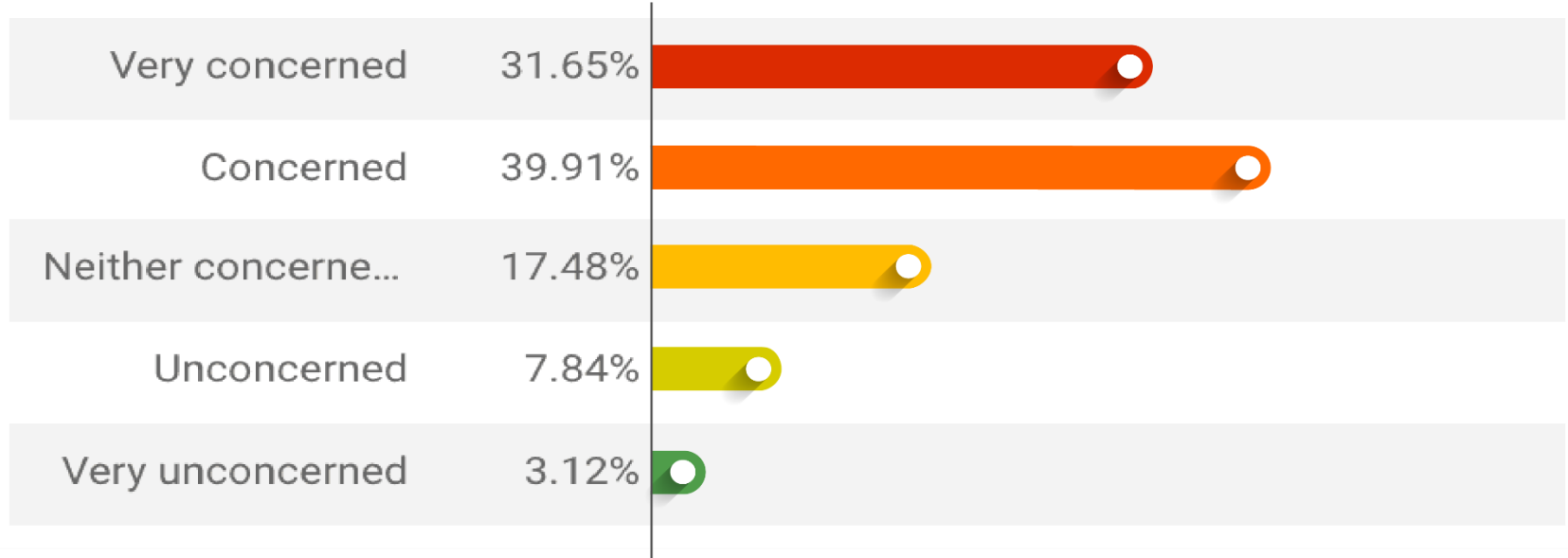
Death Toll High in Elderly but Infection Hits Young as Well



Consumers are Worried

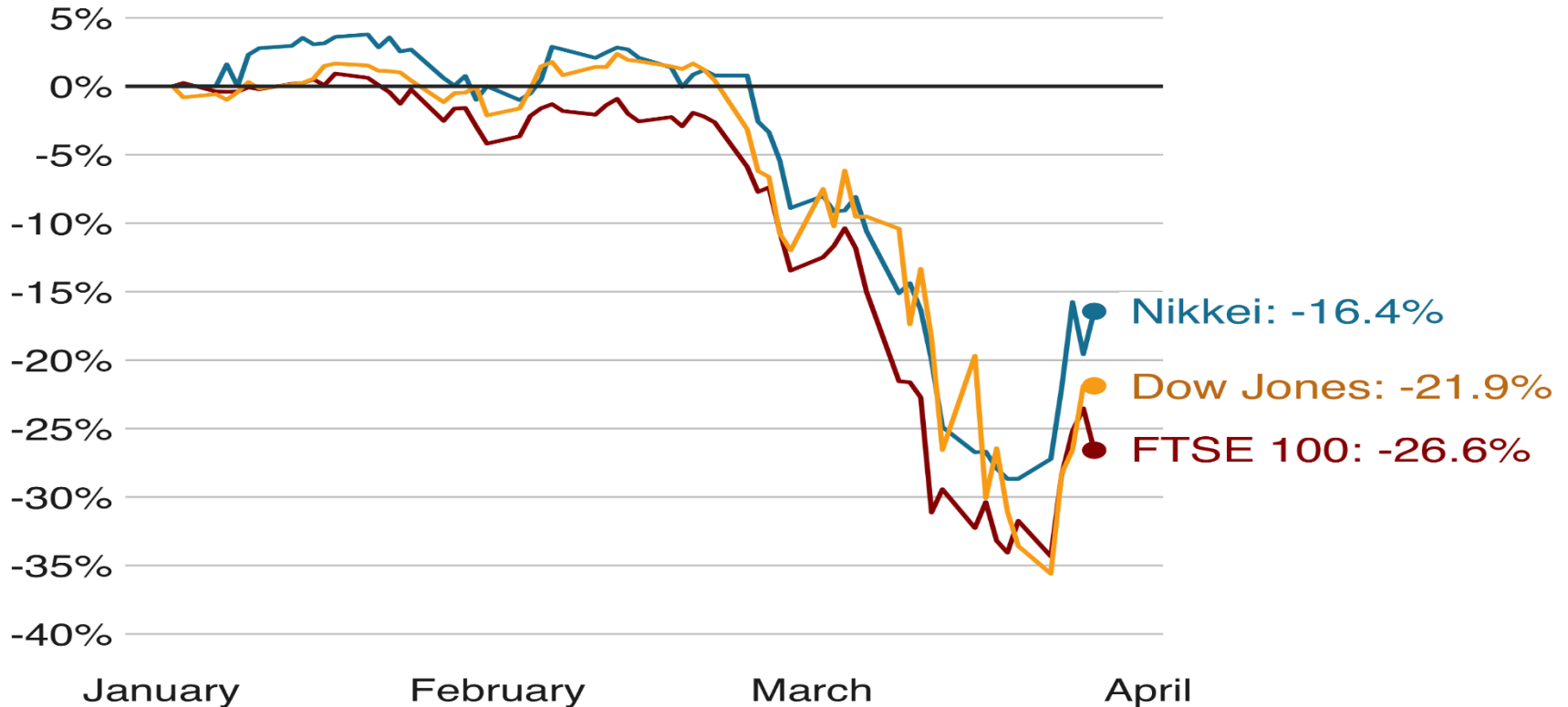


In general, how **concerned** are you about the **spread** of Coronavirus to your community?



Quite the Market Hit

The impact of coronavirus on stock markets since the start of the outbreak



Source: Bloomberg, 27 March 2020, 13:00 GMT

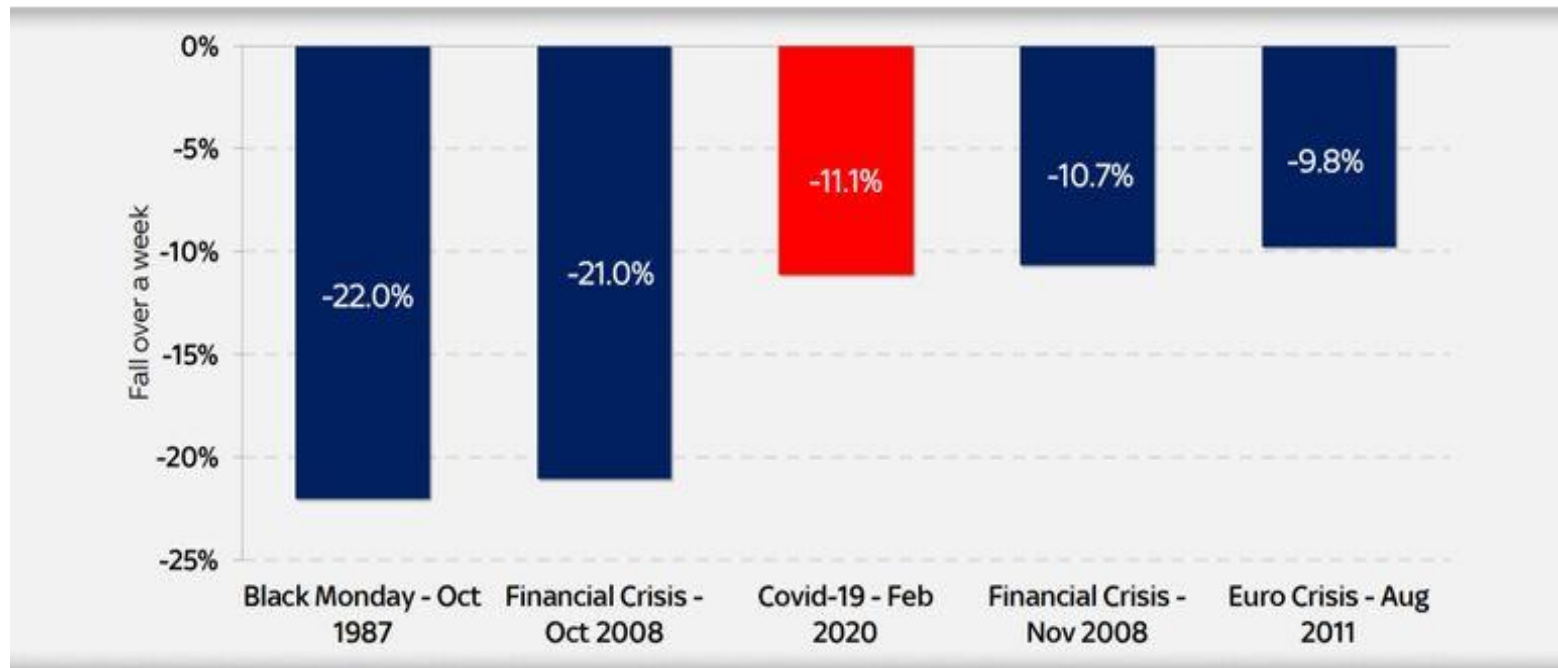
BBC



Still Not the Worst We Have Been Through

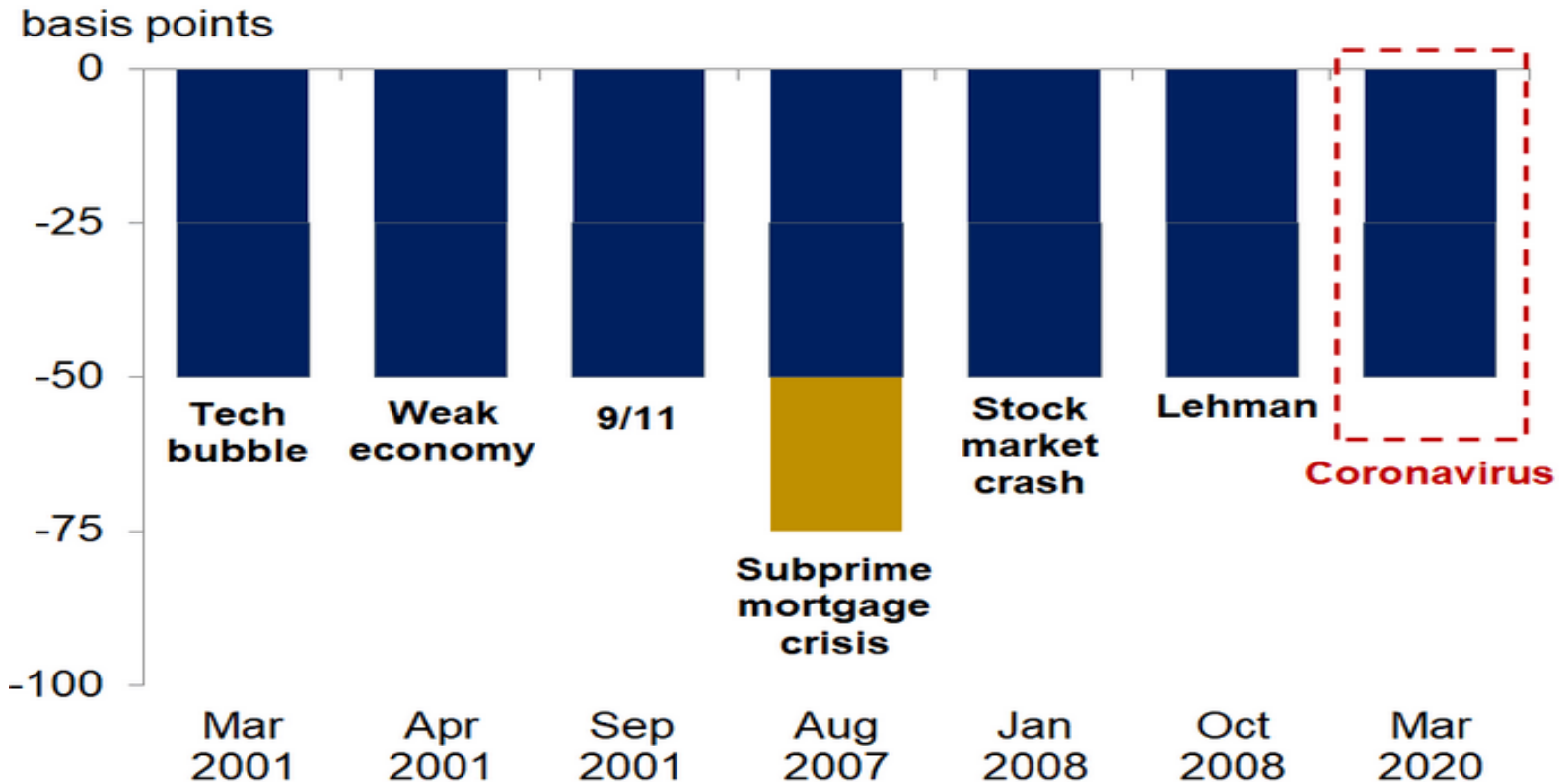
FIVE WORST WEEKS SINCE 1983: FTSE 100

SOURCE: SKY/BLOOMBERG



Fed has Acted Before

US: Emergency Fed rate cuts

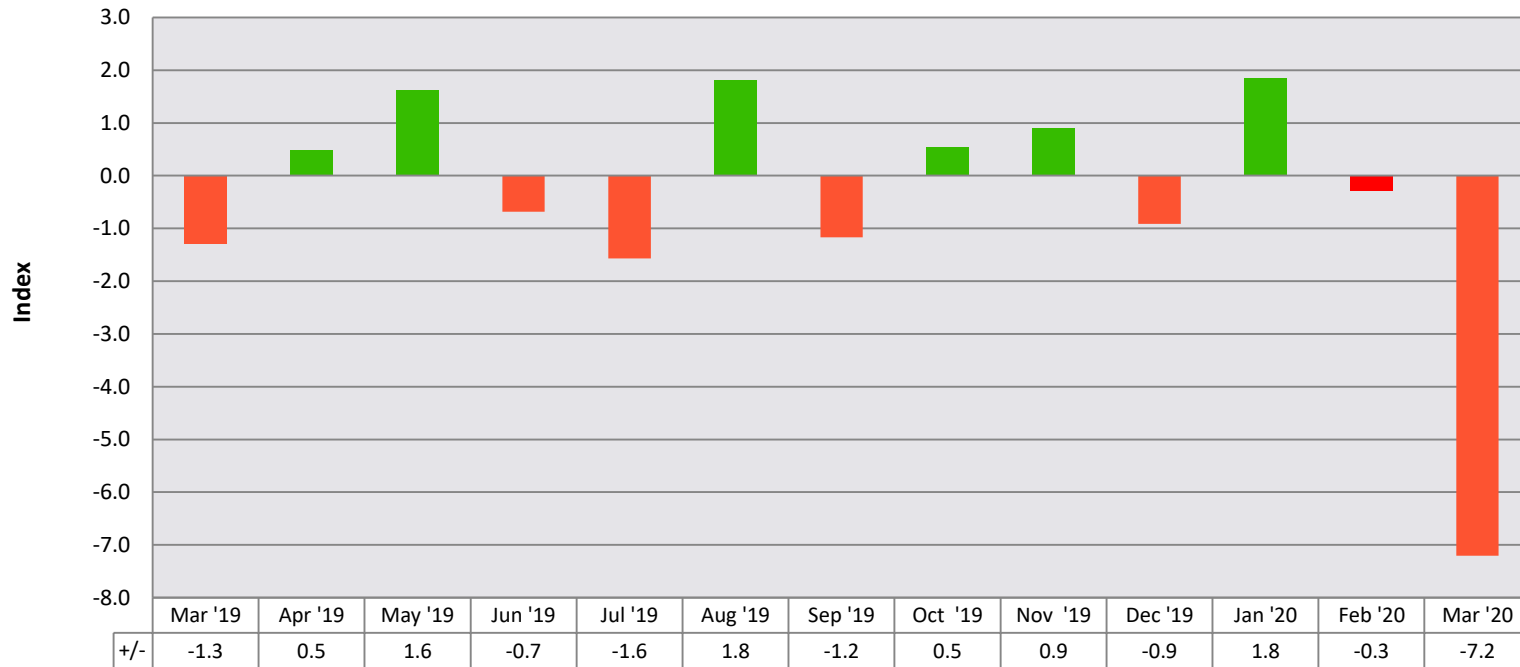


Source : Oxford Economics/Haver Analytics



CMI Looks Stressed

Combined Index Monthly Change
(seasonally adjusted)

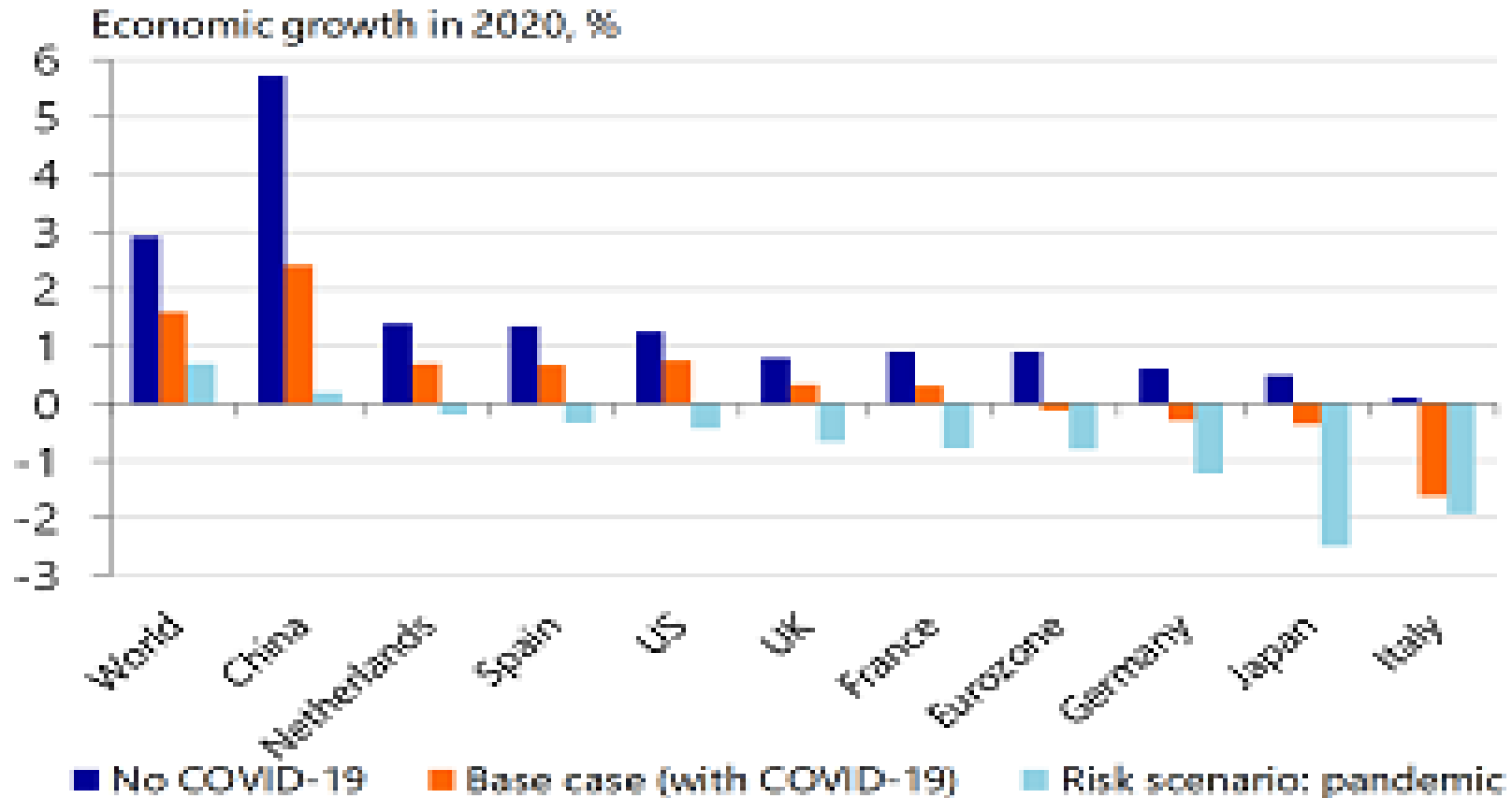


Key Points in Latest CMI

- Most dramatic decline has been in the favorable factors.
- Sales have all but vanished.
- Slow pays are the first to show strain in the unfavorable categories
- There has not been time for the other unfavorable categories to show reaction but they will



Current Impact



Bail Out of the Century

- \$1200 checks for those making under \$75,000
- Expanded unemployment
- \$377 billion in loans to small business
- \$500 billion in loans for large business – government takes equity stake
- \$100 billion to hospitals
- No stock buybacks, no money for administration connected business
- Help tied to employment

Took a while to get

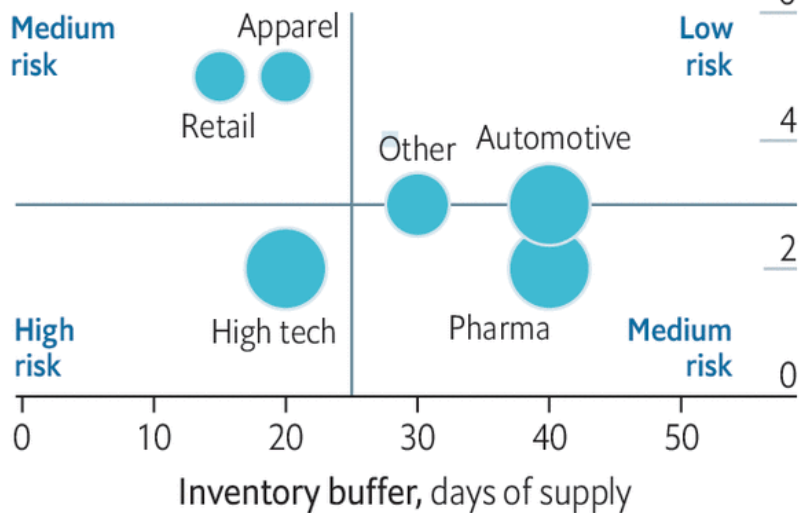


Which Sectors at Highest Risk?

Immune deficiency

Covid-19 risk to manufacturing

Size=value at risk



Share prices, December 31st 2019=100



Sources: Llamasoft; Goldman Sachs Global Investment Research

The Economist

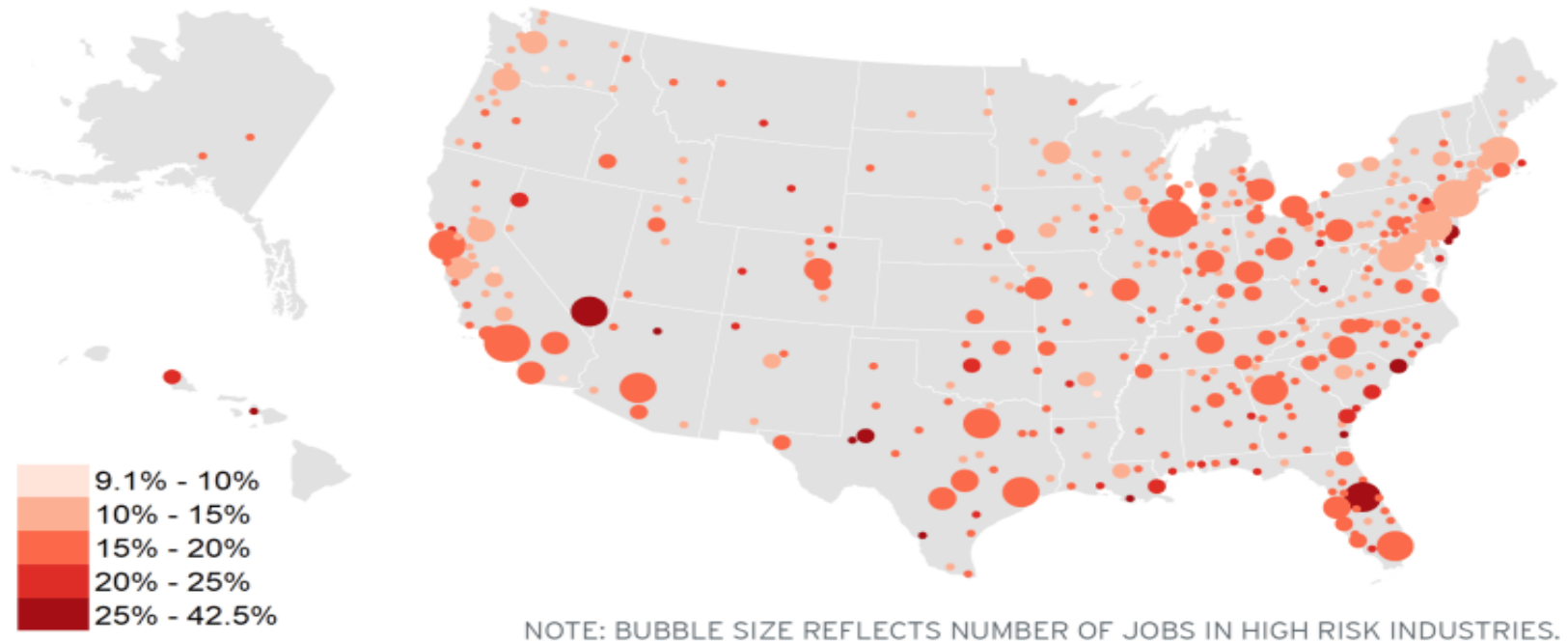


Which Areas Hurt the Most

MAP 1

Sunbelt tourist destinations and energy metros stand to be most affected

Share of metro employment in high risk industries, 2019



Source: Zandi, "COVID-19: A Fiscal Stimulus Plan," (Moody's Analytics, 2020) and Brookings analysis of Emsi data

B | Metropolitan Policy Program
at BROOKINGS



Impact

China Slowdown

Weaker Demand For
Goods & Commodities

Supply Chain
Disruption

Reduced Outbound
Tourism Spend

Localised Outbreaks

Work Stoppages &
Travel Restrictions

Falling Sentiment &
Consumption

Weaker Earnings &
Reduced Capex

Financial Stress

Equity Sell Off &
Negative Wealth Effect

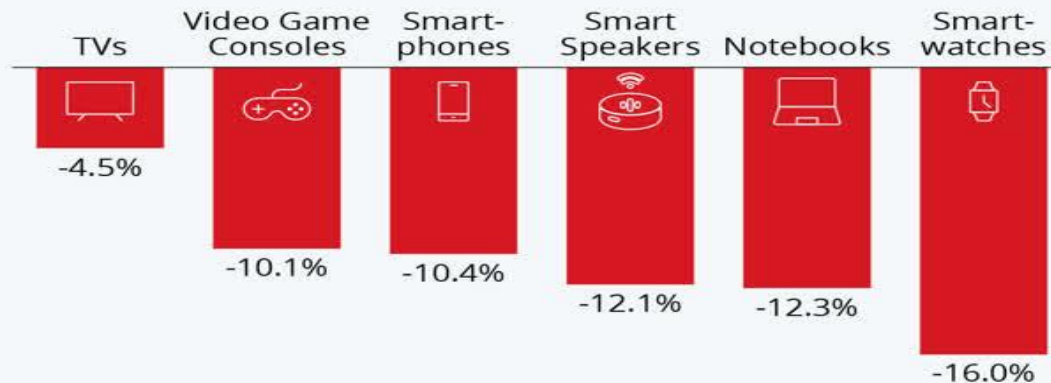
Tightening Financial
Conditions

Downside Pressure
On Currencies



Coronavirus Expected to Impact Tech Industry Shipments

Estimated impact of the COVID-19 outbreak on global tech shipments in Q1 2020*

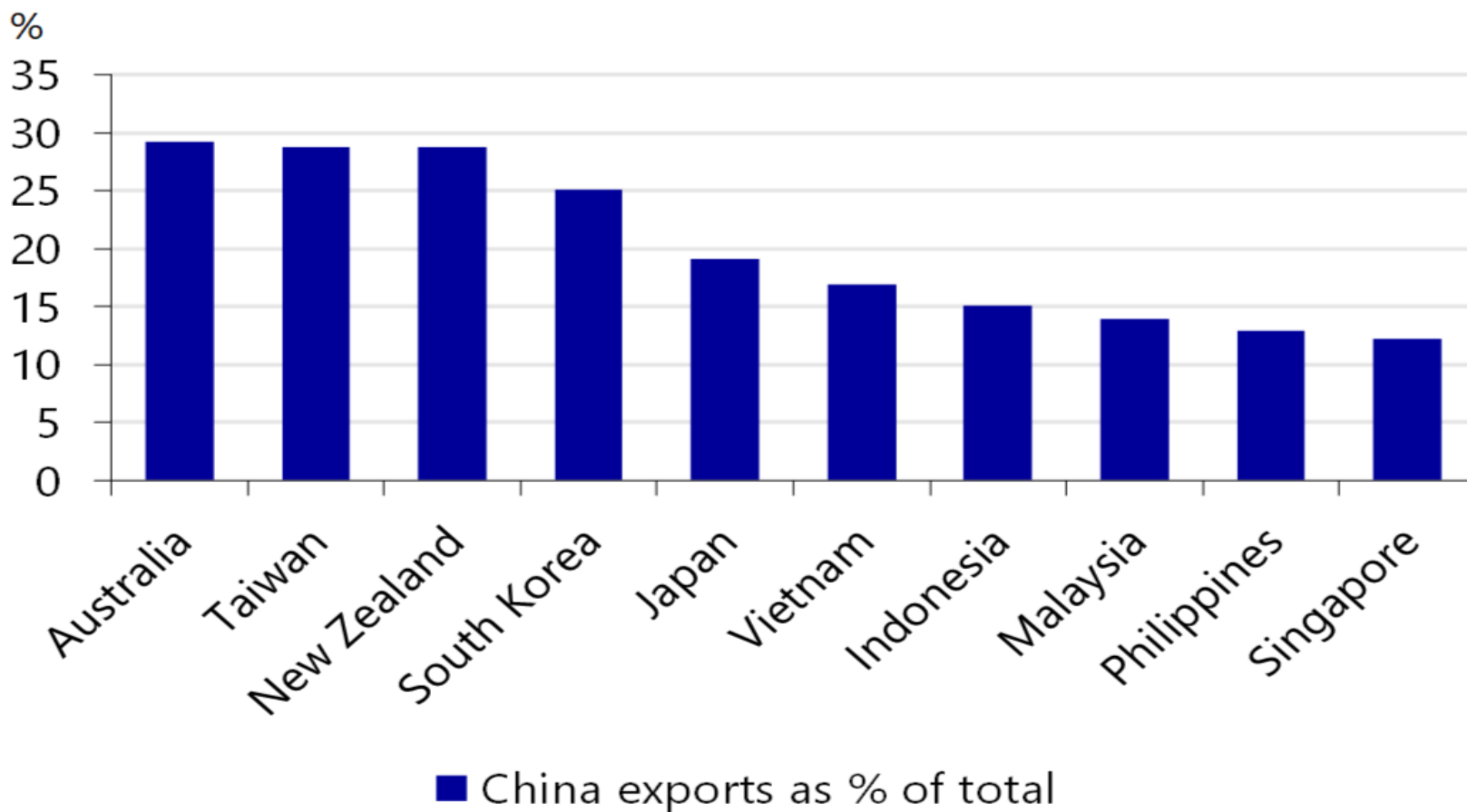


* smartphone forecast refers to production volume instead of shipments

Source: TrendForce



Why Situation in China Matters

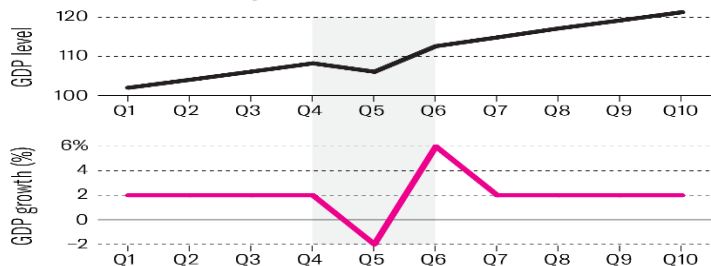


“V” or “U” or “L”?

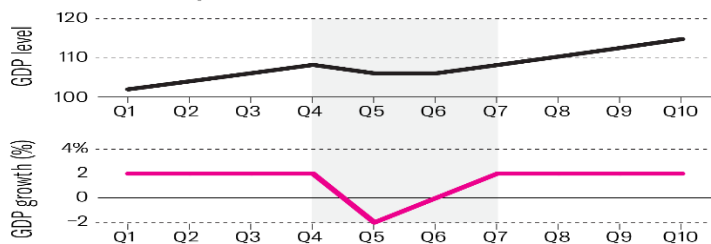
Economic Shock: 3 Scenarios

A V-shaped scenario depicts a classic economic shock, where growth eventually rebounds. In a U-shaped scenario, there is some permanent loss of output after the initial shock. An L-shaped scenario signals real structural damage, with a significant impact on growth.

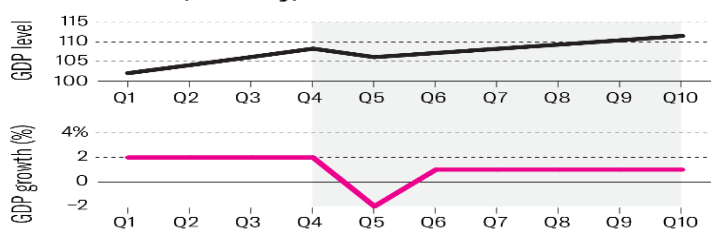
“V” scenario (likely)



“U” scenario (plausible)



“L” scenario (unlikely)



Source: BCG Center for Macroeconomics analysis

HBR

• Three Scenarios

- V is the most likely – a hard but short lived reaction
- U is nearly as hard but has more of a lingering impact
- L is not very likely but is most threatening – lasts well into the next year



What Leads to the “Good” Outcome?

- Virus threat fades within the next five to eight weeks due to factors such as warmer weather and enforced isolation.
- Consumers react strongly to the “all clear” and resume their normal activities very quickly.
- Government leaves liquidity measures in place for an extended period of time – low rates, tax breaks, increased spending, bailing out most damaged sectors.
- Virus also fades in key US markets such as Europe, China, Japan, South Korea. At the same time it doesn’t ramp up in other regions of the world.
- Infrastructure in the US manages to keep pace with demand.



What Leads to “Bad” Outcome?

- Virus doesn't fade as quickly as hoped and is not as sensitive to temperature as flu. People refuse to take the issue seriously and keep spreading it.
- Consumers remain cautious after the “all clear” and it takes a while to return to normal.
- Government measures end quickly and Fed decides to ease rates back up as soon as the markets show any life.
- Virus keeps spreading in Europe and elsewhere and starts to show up in places where it has not been a big problem before.
- Infrastructure breaks down as Internet and other communication centers are overwhelmed. Health care system can't keep up with onslaught of cases.



What Leads to “Ugly” Outcome?

- Virus can't seem to be managed and begins to morph and adjust. No vaccine or cure in sight.
- Panic takes control as business starts massive layoffs and thousands of small operations fall into bankruptcy.
- Government is unable to offer any financial remedy and resorts to extreme measures to cope with the virus. Law enforcement is overwhelmed as are hospitals
- Entire world shuts down and global recession deepens to a point of no return for many nations.
- THE GOOD NEWS IS THIS IS THE LEAST LIKELY OUTCOME – NO MORE THAN 10%



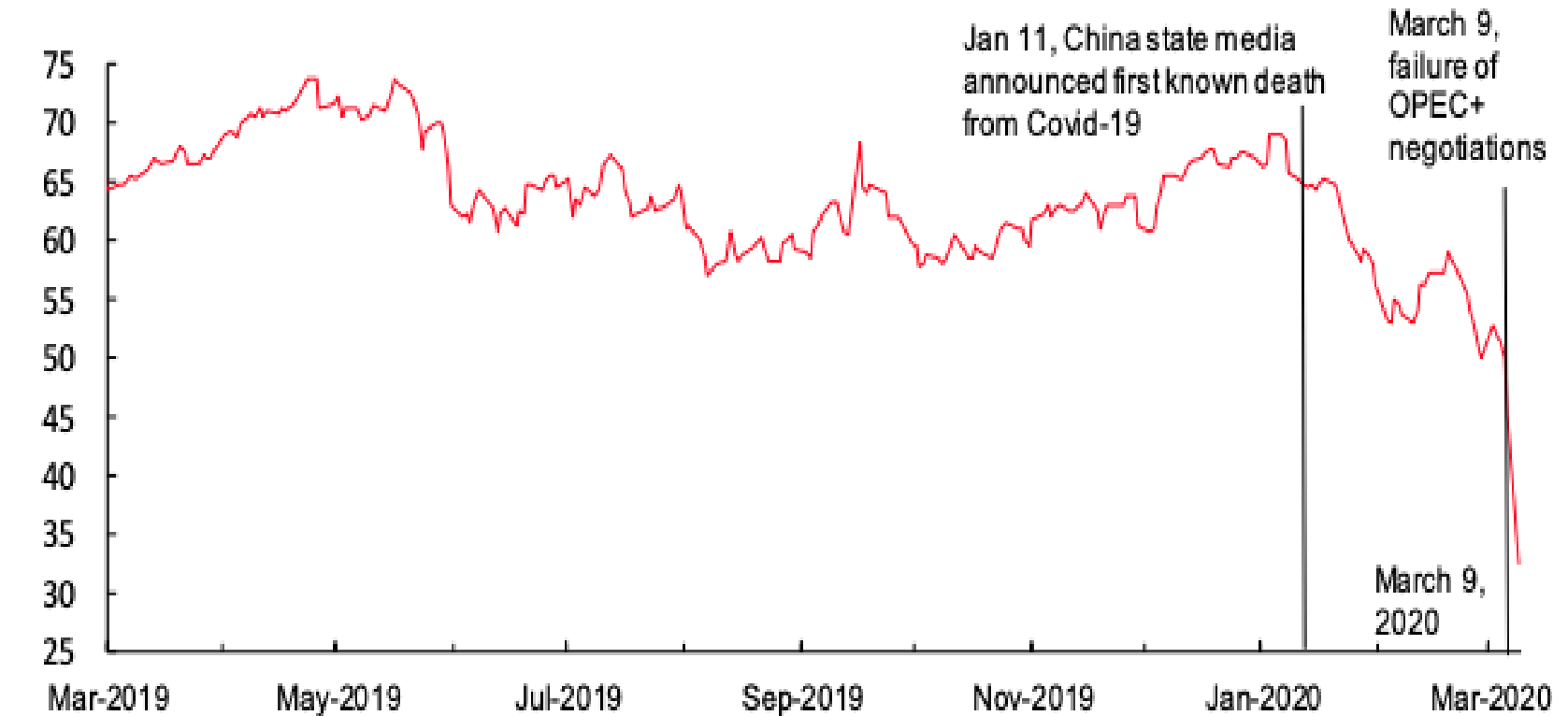
Amazing – There Are Other Things Happening

- Oil War – Russia and Saudi Arabia seize their opportunity.
- Brexit – the real negotiations have started and they are not going well.
- Trade wars – they are still taking place – between the US and China, Japan and South Korea, US and Europe, US and USMCA partners.
- Trade breaks still coming back to haunt – Buying beef from Brazil, tariff reductions for India, exemptions on tariffs for select industries
- Locust infestations wiping out crops in South Asia and parts of Africa
- Reactions to the slower Chinese economy that manifested even before the virus issue.



Oil War on Top of COVID 19 Crisis

Brent Oil Price



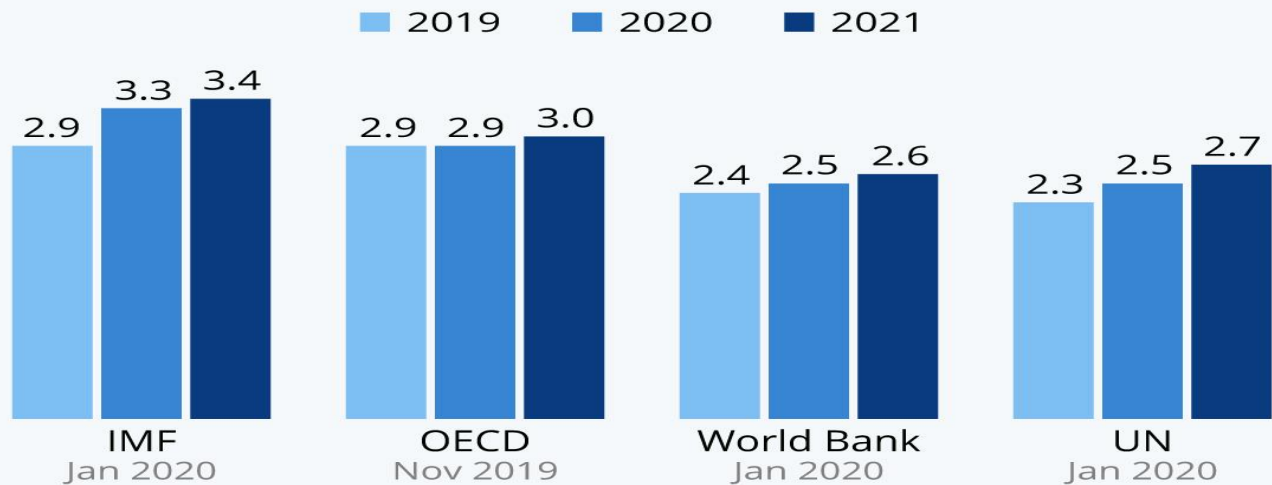
Source: Bloomberg, L.P.



How Likely is 2021 Forecast Now?

Where Is the World Economy Headed?

Global GDP growth forecasts by major international organizations (in %)



Sources: IMF, OECD, World Bank, UN

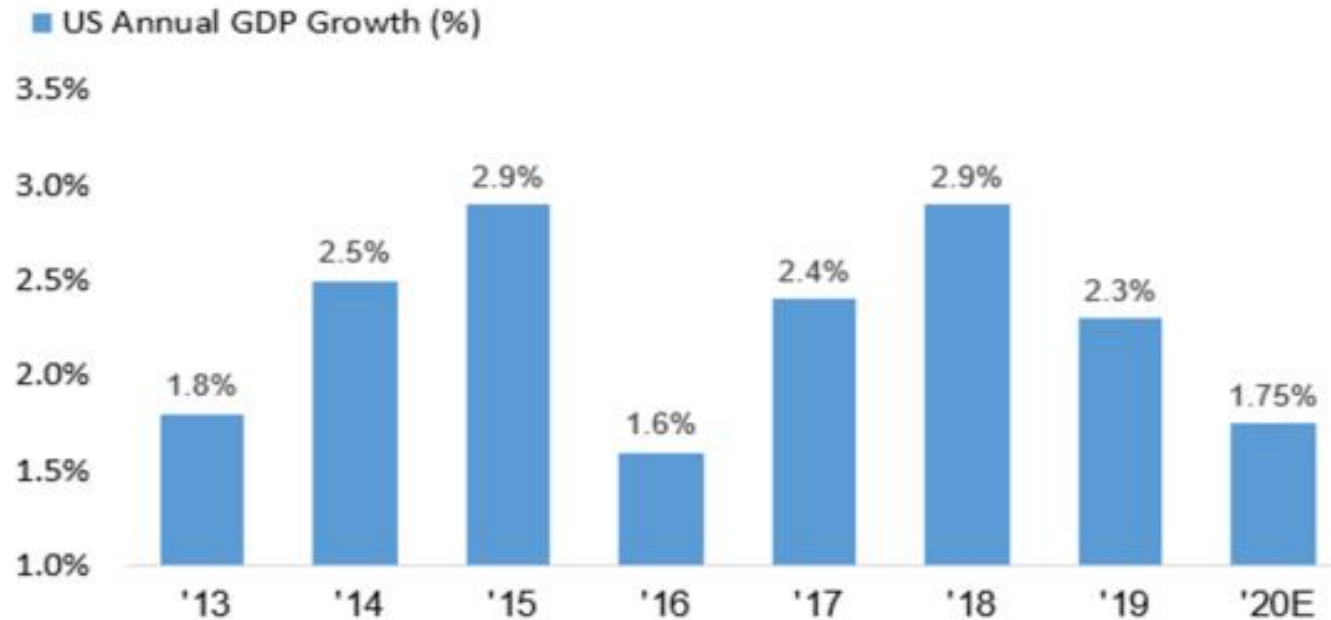


statista 



Slim but Persistent Hopes

2020 Forecast Still Looks Achievable Even as US Growth Slows



Source: LPL Research, Bloomberg, 2/26/20

Estimate reflects LPL Research forecast

GDP = Gross Domestic Product



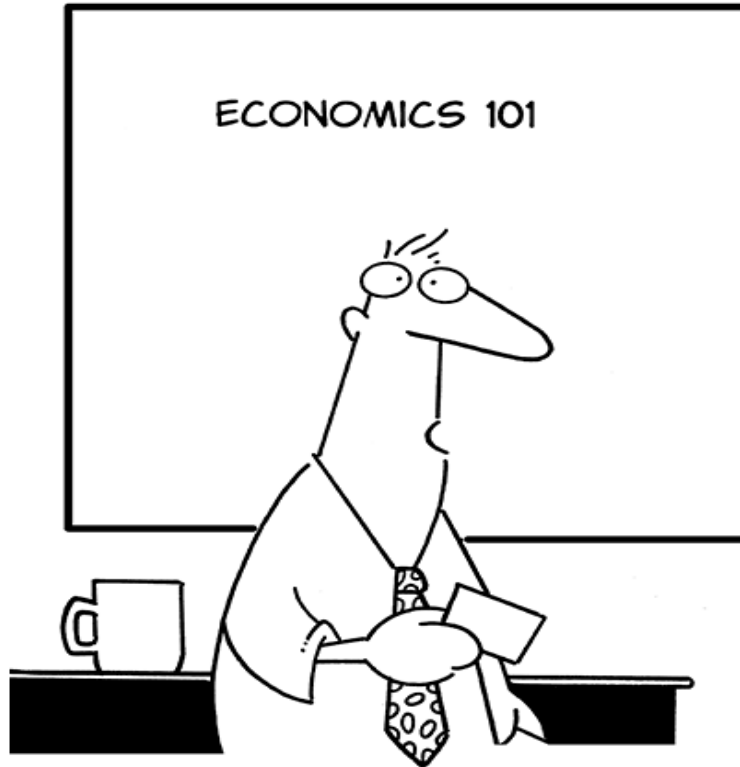
Changing Definition of Value

Day 1 without Casinos



You KNOW You Want More

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**“Lesson 1: Don’t spend more than you earn.
Lesson 2: Don’t spend more than you earn.
Lesson 3: Don’t spend more than you earn.
Lesson 4: Don’t spend more than you earn.
Lesson 5: Don’t spend more than you earn.”**

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