The Global Economic Impact & Implications of the COVID-19 Pandemic

'Predictions are very difficult. Especially if they're about the future' - Nobel Prize-winning physicist Niels Bohr

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Short Term Economic Impacts

The widespread COVID-19 pandemic has caused mass economic disruption around the world. This disruption has already begun to be felt in the immediate and short term and will likely continue to do so for the months ahead. In dealing with their domestic outbreaks, generally governments have rightly prioritised dealing with the human impact of the virus. However, the more severe the measures taken, such as widespread lockdowns, the greater the level of economic disruption caused. Whilst the human impact must be prioritised, it is important to also consider the economic ramifications of this pandemic.

Initially, the global economic ramifications of the COVID-19 outbreak were largely as a consequence of the shutdown of China's economy. Economic activity in the country plummeted in early 2020, with industrial production falling 12.3% in January-February compared to same period last year[1]. It is predicted that the Chinese economy may see a first Q1 economic contraction since the end of the Cultural Revolution in 1976[2]. Given China's sizeable economic influence, representing 18.7% of global GDP[3], it is unsurprising that a drop of this magnitude has had wider economic ramifications. On 3rd March, before the virus' global contagion had begun its sharp increase, Deloitte detailed three main channels through which COVID-19 could affect the global economy[4];

1. *The direct impact on production* – the Chinese shutdown affected the major importers to the country, particularly South Korea, Japan and other Asian countries. This mean that even before large outbreaks occurred in these countries, they were faced with economic challenges
2. *Supply chain and market disruption* – a large number of manufacturing firms are reliant on intermediate inputs produced in China, as well as being dependent on Chinese sales financially. The immediate impact, therefore, of the widespread lockdowns in the country caused shockwaves on stock markets globally, with many values plummeting
3. *Financial impact on firms and financial markets* – the high levels of disruption has left businesses vulnerable to a varying degree, with those with limited liquidity being particularly susceptible. It has created huge levels of uncertainty for investors and traders, again reflected in the highly volatile stock markets

Once the virus had spread, at first to other major regional economies, and then globally, the shutdown measures enforced by governments continued to cause further economic disruption. This disruption has been through similar channels to those described above, and also in a number of other ways. Unemployment has already risen sharply and is predicted to surge further. In the week ending March 21st, a record-high 6,648,000 people made unemployment claims in the US, and the International Labour Organisation estimates around 25m people will lose their job worldwide[5]. An additional economic impact of the COVID-19 pandemic has been large fluctuations in the prices of key commodities, especially oil and

[1] S&P
[2] South China Morning Post
[3] IMF World Economic Outlook
[4] Deloitte
[5] Globaldata

gold. The oil price, which holds high significance globally, and particularly in the MENA region, has fallen sharply. The Brent Crude price fell from $68.9 per barrel on January 6th to a low of $22.7 on March 30th.[6] This oil price volatility has also led to diplomatic tensions between OPEC and Russia, who have clashed over plans to lower oil supply in order to stabilise prices.[7]

Is a Global Recession Looming, and What Might One Look Like?

Across the world, COVID-19 is causing countries to re-evaluate their economic growth predictions for 2020, with a many expecting negative growth in Q1. On a wider level, the OECD has cut its projected global GDP growth by 0.5%, from 2.9% to 2.4%, and warned that a longer lasting, extended outbreak could cut growth to as low as 1.5%. They have also suggested that global growth may be negative in the first quarter of 2020[8]

The three leading global credit rating agencies, Moody's, Fitch, and S&P, have all predicted a global recession through at least the first half of 2020, and potentially beyond

- Moody's project global GDP growth to be 9% lower in Q1 than last year and 12.3% lower in Q2[9]
- Fitch predict a deep recession, with 1.9% global drop in economic activity. Fitch's Chief Economist, Brian Coulton, suggests that the forecasted drop in global GDP in 2020 will be "on par with the global financial crisis, but the immediate hit to activity and jobs in the in the first half of the year will be worse" [10]. Under the assumption that the pandemic is largely contained by the 2nd half of the year, Fitch do predict a "decent sequential recovery", however GDP will not revert to its pre-COVID levels until late 2021 in the US and Europe
- S&P again state that the global recession has begun, and predict global economic growth for 2020 to be between 1 and 1.5%, a significant reduction on their previous prediction of 3%[11]

All three of the aforementioned agencies acknowledge that these predictions do come with significant levels of uncertainty. Much of the data has based on and extrapolated from what has happened in China in Q1, however the global picture is more complex. There remain a number of key unanswerable questions which underpin such future projections and models, such as: *When will the virus peak? Will the virus recur or return? When will lockdown measures end?*

Given the likelihood of an impending global recession, it is important to address how the global economy will be able to react and respond. Again, this modelling is highly hypothetical, with a high degree of uncertainty. According to The Economist's deputy editor Ed Carr, initially comparisons had been drawn to the SARS outbreak, resulting in optimistic predictions of a 'V-shaped' recession, where a sharp fall would be followed immediately by a rapid recovery. However, this model now seems unlikely given the

[6] Bloomberg
[7] BBC
[8] OECD Economic Outlook
[9] Moody's
[10] Fitch
[11] S&P

scale of the virus. The shape most are now hoping for is a ‘U-shaped’ recession, where the bottom is lengthier, but there is a fast recovery. The shape which decision-makers now hope to avoid is an ‘L-shaped recession’, where a sharp drop results in a sustained low[12.] Given that the number of confirmed cases continues to rise around the world, particularly in the UK, US, and increasingly in emerging economies, it is clear that any economic recovery remains at the very least months away.

[12] The Economist