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What are the global implications of COVID-19

What can we predict by looking at the analytical trends across various industries?

I thought I would give you for him up she remarks about how the daily briefings has covered the covid crisis and we can go from there and what we see is some of the main analytical trends emerging out of it. So the locking down economies initially just to save hospitals and being overwhelmed was an unprecedented experiment in governance. It put relations between governments on one hand and citizens on the other into uncharted territory and yet as we're seeing now locking down was in some ways the easy part, the simpler decision, and opening up again is much more complicated. It's presented far tougher choices, as we're discovering, and societal discipline in some countries, in some regions, is starting to fray.

The crisis has affected almost everyone but it's not affected everyone equally and the likelihood is, sadly, that it will exacerbate in equalities rather than narrow them. This was particularly the case not only within countries but also between countries developing and developed and the big challenge there is obviously the big difference there is obviously whether governments are able just to pump huge sums of money to support industries and support financial systems or not. And that's where the likes of the United States and Eurozone, UK, Japan and a few others are in a quite a fortunate position. Which is not to say that the crisis in those countries is going to be a breeze or anything like it.

Economically, our first experience of this pandemic was a supply shock as China, the workshop of the world, shut its factories then we had a demand shock as consumers disappeared from high streets and businesses hunkered down. There was also in March and April the distinct possibility for a financial shock in the form of contracting credit. Their central banks in the developed world have done all they can to prevent this. So interest rates in developed markets still are very low and liquidity has been awash but developing economies are finding it tougher and they can't know eschew debt as cheaply as they could six months ago. The economic damage caused, thus far, even though we really are only starting this dwarfs anything seen in past decades.

We're beginning to get GDP numbers to underline that but a better guide is probably the PMI indicators for manufacturers and servicing. So that's Purchasing Managers Index. That's a forward looking index, it asks purchasing managers how do you feel about employment/how do you feel about your business going forward/do you think you're going to be hiring more people/are your order books in good shape and the like. And the PMIs are showing that the situation is very bad. PMIs have wobbled in past crises but this year they plummeted and basically reached the lowest level since these records first began. If you look at sectors: airlines obviously are in dire straits, the companies that build planes for them are scarcely in a better condition, entertainment, hospitality and tourism, pretty much anything that involves putting sizeable numbers of people in close proximity are likewise facing an existential threat right now. That's not to say that the world is permanently changed by this completely but can they survive long enough until we have some longer term solutions to the health emergency confronting us? Right now the losers hugely outnumber the winners, it doesn't matter what country you look at, it doesn't really matter what part of the economy.

It's possible that COVID-19 has sounded the Bell on peak oil, for instance, and if you look at the dramatic 14 billion pound writedown that BP recently did on its existing assets, it's the first sign of the fact that the bigger oil companies recognise that actually the heady days now are in the rear view mirror. The head to consumer confidence run across the economies can be felt not only in tourism and hospitality, as I early mentioned, but also confirms that the big ticket items such as automobiles. Governments can open economies, they can relax restrictions but they can't actually force office workers back into their company desks or wary consumers back onto the High Street.

Now I'm very sceptical of the notion of a V-shaped recovery which is what a lot of people talk about at hopeful. Economic models tend to auto correct for a huge contraction of the type we're seeing now which is why in 2021 some of them are forecasting a really big gain. Because what they want to do, what these models want to do is to drive economies back to the long term growth rate as quickly as possible but unfortunately what works in theory does not always work in practice.

Let me talk about some of the roadblocks that I think we might see ahead and all this material, by the way, that I'm talking about now is contained within the Oxford Analytica Daily Brief. Covid-19 will be around, as a fact, until there is a vaccine. It's worth remembering that 30 plus years of very well funded research has not yielded a vaccine for HIV although treatments have come on hugely and so management of the disease today is much more effective than it was in the 1980s. As we've seen recently in China and Spain, Iran and some other countries (even in France and Germany too). Easing of lockdown has been followed by a rising incidence of localised cases so second and third waves are on the cards and maybe a 4th as well. Overtime, however, I'm confident the government are going to get better at managing these waves. They'll be tackled with greater precision, there will be less collateral damage and scientists' understanding of the virus improves daily.

With that in mind, what are the threats that I see in the next six months and beyond? One of the threats that we have talked about and considered in the Oxford Analytica Daily Brief: first bankruptcies and unemployment are going to rise in many developed economies, particularly those in Europe that run furlough schemes for workers. Across the five largest EU states, for instance, some 30 million workers were furloughed. Now what economies have, in effect, been doing there is putting on life support but ultimately governments have to decide when to turn off the breathing equipment and let the economies breathe for themselves and work on their own. So as government support measures are withdrawn and the timing of that is going to be very difficult but ultimately has to happen, not every sector or business will be able to return to normal. So previous customers will simply be unemployed, others will be reducing or delaying their spending out of fear of losing their job and still others will not want to visit physical stores or restaurants or resorts out of fear of contracting the virus.

A few firms have benefited from lockdowns of course, others will survive it but a sizeable number most likely concentrated in certain sectors will fail and once that happens, unemployment rolls of the type of unemployment surges seen in the United States I think you're likely to see in other developed economies. Perhaps not quite at the same scale [as the US] but nevertheless it's going to be very very rough, choppy, turbulent period when governments start to take the stabilisers off and we see actually what the level of demand is and how many companies, jobs that can now support.

The second issue and it's a huge one, is that governments will have their own problems as they try to pay for the huge stimulus programmes that they have launched in order to keep their economies going. Government debt as percentage of GDP today is at the highest level it was since the end of the Second World war but the vigorous growth and massive rebuilding that followed peace in 1945 is unlikely to be replicated in the next 2 year. There aren't a huge number of buildings or infrastructure to rebuild and if governments can't grow their way out of the debt pile their choices become less appetising: to raise taxes and cut spending which would be a further depressing force on economies that might already be struggling or else to see if they could stoke inflation and erode debt that way, growing that way. Neither is a very easy exit plan.

Final thing that I would look at and flag for you in terms of immediate outlook is that in a globalised economy, problems far away can disrupt producers at home. So countries that have had a good pandemic so far such as South Korea and Germany - South Korea never really locked down and Germany did so but quickly set up an effective test-and-trace system - in some ways they are now poised for an early and clean getaway exit from lockdown but both of these states are relying on intermediate imported goods for their own exports. So Germany, the car manufacturing sector for instance, sources parts from Italy and Spain and other places in Europe and this is true right across the board from many of these countries. The logic, the reality of a globalised economy as it is actually over an extended period of time; the cheapest, best quality components can be sourced from further and further away by capturing customer cost advantages and effective through a global trading system that was working with very little friction, very fluidly. So as a result, because they both rely on intermediate imported goods for their own exports, they are in some ways exposed to states that may not be as well prepared for them or not as well advanced, unable to exit. The same is true with regards to China, which relies not only on intermediate imports but also sizeable imports of raw materials. They could themselves be ready to reopen but some of their key suppliers abroad may not be. Overall though, I think I'm more worried about demand in developed economies than I am about these kind of the supply disruptions

In our briefs we obviously had to focus on what was immediately before us but increasingly what we have attempted to do was look also at some of the longer term implications out of this. It's a difficult exercise to engage in. As one of my professors used to say in Oxford 'the problem of writing about the future is there are so few source materials'. Nevertheless, if you look at trajectories, if you apply some of the academic methodologies that our advisers in our office use as the *stock in trade* day in and day out, it's possible to start to look at some longer term trends or at least raise and shape the right questions around them. So, I believe that eventually the economy is going to level out in due course but different sectors will be stabilising at different speeds and it's sure, I think, that this crisis is going to cause some permanent changes in economies, in the role of government and society.

For the tech sector no doubt this has been a huge boost. How much business travel will permanently be lost to Zoom and other platforms? Zoom has seen a 20 fold increase in its usage, in terms of number of users on everyday over the last five or six months. How much prime office space will no longer be fully utilised as workers opt to spend more time at home and companies consent to this? And how is this crisis going to change healthcare both in this provision and its funding?

Crises measures tend to outlast crises themselves indeed that's most often how change occurs. I think US healthcare could be a prime example of this. The political knock-on effects of these economic consequences will loom large. Many governments are already taking a hard look at where they source essential goods from, such as medicines or medical equipment like breathing machines, PPT and pharmaceuticals generally. Reshoring of production for those commodities, I would suggest, in a large part seems inevitable but it goes way beyond governments. Companies too had a huge wake up call and although some of them will be consumed by the daily struggle for survival and a weak economy, others will be thinking about their supply chain vulnerabilities and they will face two distinct choices: do they try to diversify sources of supply, hedge against disruption to a single supplier? Or do they try to bring site supply home or at least much closer to home? I don't think it takes a huge leap of the imagination to think that this will be another reboost for regional trade against international trade and for intra country trade at the expense of global trade. China, which is in many ways a country that's very vulnerable because it's such a huge supplier right now, I think is unlikely to be a huge loser if only for this reason: Asia itself is such a big market these days that China still makes sense as supplier. Perhaps not so much for parts of Europe or parts of North America, but the global economy is no longer so heavily western waited as it was once.

Thinking about the politics and questions of international coordination for a moment. The failure of governments to coordinate a response to this crisis stands in sharp contrast to the G20 united front which was shown in the wake of the financial crisis, as I'm sure many of you remember. And it points to rising protectionism

and economic nationalism, particularly in some of the most important countries within that group. Three or four years ago, European states generally were very relaxed about China's growing economic might, today many of them are distinctly wary of China and it's noteworthy that the EU has taken a much more muscular approach to stop China taking over European companies or subsidising exports into Europe and pushing its "belt road initiative" into Europe's periphery. So even some of those powers that instinctively would not be keen to resort to geopolitical competition (e.g. would tend to stretch trade over other disputes, will try to talk through differences rather make firm stands). I'm talking about the Europeans here principally, on our adopting a more firm stance and a more geopolitical approach. And I think this casts across the world generally. Competition, politicisation is rising and in the US-China trade conflict which we've seen over the last 18 months/two years with tariffs, tit-for-tat tariffs, quotas, threats generally to the trading system, the prospect of a tech (?) separation as well between China and the United States (to say nothing of the blame game over Covid-19 and a battle for influence over international institutions) but this also points to a much more polarised and politicised international system. And it's one that leaves the most fragile commercial ties particularly vulnerable.

Finally and briefly, one of the most interesting questions to me is what this crisis does to the green agenda. Public opinion polling in the early stages, showed the climate had slipped down the list of priorities for many people. Which is understandable given the immediacy of concerns about job security and the soundness of healthcare systems. But in many developed economies there are political forces that want to shape recovery packages in such a way that it gives a shot in the arm to the energy transition. A crisis of this latitude, for decision makers simply doesn't exist in normal times, and in this particularly extraordinary time the previously unthinkable might be worthy of consideration. I think this is most clear in the EU's emergency crisis response plan, the recovery plan, which very specifically targets green investment but we'll see this in other parts of the world as well.

Final section I wanted to talk about briefly, I think every crisis has some lessons and I'm thinking in particular lessons for companies and organisations. In a way this one trumps all the others because it hit so fast it left no country untouched and it affected pretty much everyone. You can't say that about 9/11, Australian wildfires or the global financial crisis and I expect it will be a paradigm shift for governments, companies and societies. So for companies that were thinking how they should manage this, how they should change their crisis management procedures out of this: I think it's really difficult to offer a list of what to anticipate. Although if you are located in a coastal city that's exposed to rising sea levels, especially some of those in emerging Asia and there's something obvious to focus on because sea levels will rise even if the world achieves the 1.5 degree aspiration within the Paris Climate Agreement. That's the title aspiration as against the baseline of 2%. Realistically how many scenarios can a company or a government or an institution or even a University plan for? Almost certainly the number is going to be a fraction of the potential crises that could take place. So if you have specific concerns for instance rising sea levels then obviously it makes sense to plan for them, but beyond that, unless an organisation gets lucky with its predictions and plans correctly most important attribute becomes organisational flexibility and resilience. If one of the givens in your operating environment is disrupted how would you cope? European businesses had some experiences with this in 2010 when at 0 notice and for several weeks, all aircraft were grounded because a volcano erupted in Iceland. That was a disruption in a single plane of operation. This crisis has seen drug disruption in multiple places and for that reason I think it would be the best possible preparation for organisations, for governments thinking about how they are going to respond to the next crisis. Thank you.