

Transitory path to gradual economic recovery

The path to economic recovery is likely to be gradual as business activity remains constrained by social distancing guidelines. With a heightened focus on the digital economy, companies will evaluate their business models and adopt a disciplined approach to capital spending and expense management.

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If I were to guess one word that will be used to describe 2020, it would be UNPRECEDENTED. It explains almost every aspect of our recent lives: every economy, industry, sector, company, market, fiscal and monetary policy.

The real question is – what is the most probable pace of economic recovery? While significant uncertainty exists in the near-to-medium term, looking to China shows that the path to our “new normal” will be transitory.

The financial impact of the pandemic is undeniable, but so is the swift and decisive action taken by fiscal and monetary policymakers. Most major economies will experience the sharpest Q2 contraction in GDP growth since the 1950s. Aggressive measures were taken to support liquidity and avert a credit crisis. Fiscal stimulus packages (including wage subsidies and government guaranteed loans to small and medium size businesses) were introduced to reduce job losses and support economic stability.

Recovery is expected to be gradual. Business activity will remain restricted by social distancing measures until a permanent solution is found. The estimated timeline for a COVID-19 vaccine is 12-18 months, with some hope of acceleration given globally coordinated efforts within the medical community.

Vaccination is the ultimate end, however, drug treatments that reduce fatality and transmission could also prompt the conclusion of social distancing guidelines. Either outcome would clarify the path to economic recovery. Until a vaccine or a drug treatment is found, the best case we can expect is loosened lockdown measures.

As we slowly return to normal, compulsory mask wearing, physical distancing and limitations on large gatherings can be expected. As a society, we will need to manage the risk of renewed virus

spread by ensuring that any partial reopening is safe. While the depth of the economic impact has been the sharpest in modern day life, the length of the disruption can be mitigated through effective behaviour management.

“As a society, we should resist the temptation to go back to normal as soon as possible. The 1918 pandemic came in three waves, as an early flattening of the curve led to a premature increase in activity.”

-BENJAMIN TAL, CIBC ECONOMICS

Coronavirus accelerates secular economic trends

COVID-19 has been called a catalyst and an accelerator of trends that began long before this crisis. Strict lockdown measures and physical distancing have magnified the importance of digitization, as well as structural changes to global trade and supply chains.

The devastating economic impact of this pandemic has been as indiscriminate as the virus itself, affecting all companies globally. The widespread demand destruction has battered consumer confidence, which may remain weak without a vaccine. While consumers may refrain from spending on discretionary items, e-commerce activity is likely to remain steady. Companies that have successfully integrated their physical stores with online channels have proven to be more resilient.

As this economic backdrop highlights the importance of a digital presence, companies need to evaluate their business models and ensure adequate integration of their operations online. Brick and mortar will remain important; we are social beings that cannot survive in isolation. Enforcement of social distancing measures has proven that only strict and aggressive guidelines can lock people at home.

Having said that, the role of having presence in the digital economy coupled with existing physical operations is paramount in managing a successful business in the post-coronavirus world. As we enter the next decade and the future of increasing reality of a virtual life, successful optimization of real estate is going to become a distinguishing feature of any successful business. Working from home, grocery delivery, and shopping online will be buzz words of the decade.

Furthermore, traditional financial discipline and fiscal prudence will return as trophy attributes of business management. Following a decade long bull run market where cheap capital has spurred aggressive growth and operational inefficiencies, the start of the decade will be marked with a lean business management mentality toward capital spending and operating expenses.

“It is not the strongest of the species that survives, not the most intelligent, but the one most responsive to change.”

-CHARLES DARWIN

In a new world where growth is limited and uncertain, companies will be rewarded for

disciplined balance sheet management and prudent spending. Albeit the transitory path of slow economic recovery, the ability to get a business back to scale quickly once we do return to normal is critical for long term success. Companies today will need to adapt to successfully navigate uncertainty while positioning for recovery and eventually, a normal growth trajectory.