



Recovering from COVID-19

Economic cases for resilient leaders
18-24 months

6 April 2020



Economic cases for resilient leaders

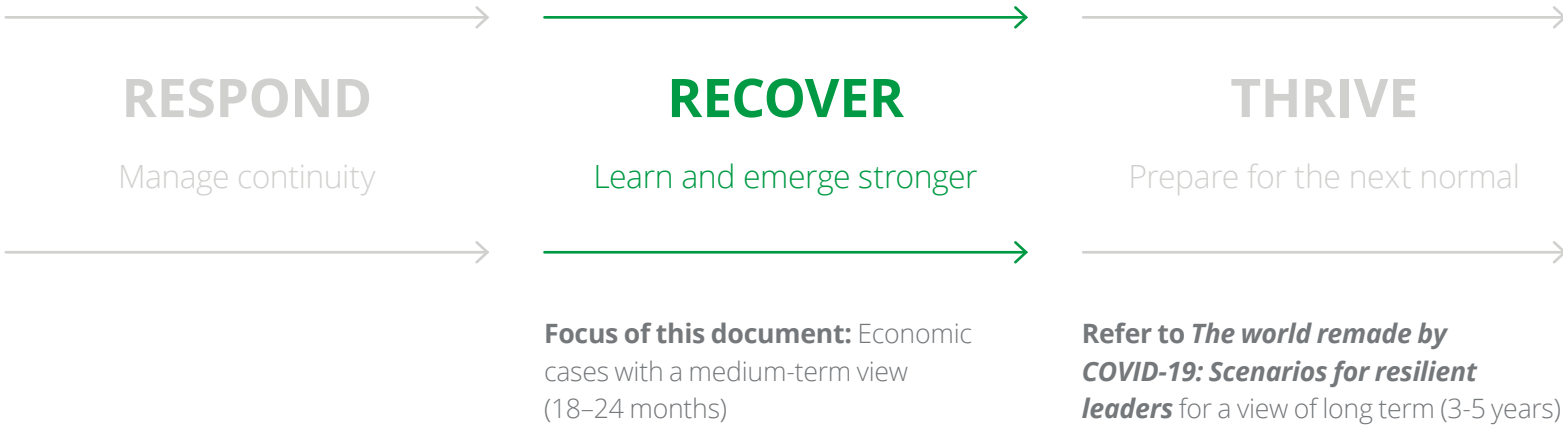
The COVID-19 pandemic challenges leaders to stabilize amid a crisis and prepare for a newly uncertain future. The decisions businesses make in the near term will most likely drive how the entity is sustained in the long term. Now is the time for leaders to take decisive action to soften the shocks yet to come, and at the same time prepare for what may change in the months ahead.

Deloitte's Resilient Leadership framework defines three time frames of the crisis . . .

This document, *Recover/economic cases*, is designed to guide leaders in strategic, financial, and operational planning over the next 18–24 months, as the Respond time frame emerges into Recover.

Each of the economic cases posits a potential future state—including trends in epidemiology, society, technology, policy, and the environment—leading to corresponding economic implications.

These economic cases are not predictions about what will happen; they are hypotheses about what could happen, designed to frame planning discussions.



Mild economic case

What if the pandemic **eases sooner than experts anticipate**?
What if **effective public measures** combine with faster testing to contain the virus and lead us out of the crisis phase in the next few months? Small- and medium-sized businesses will surely be hurt, and the **economic impact can't help but be sizable**. But something like “normal” returns, even if it's not the same as before. More **business and social activities have moved online**—and are staying there. Perhaps there's growing respect for public institutions and medical expertise and a new appreciation for reliable information when lives are on the line. And as we come out of our homes so that life on the street returns, the **new appreciation for our friends and neighbors**, and even the loss of some treasured local shops, remind us not to take those things for granted . . .

Epidemiology

- Relatively constrained disease dynamic and effective health system response
- Outbreak recedes in China and North Asia; supply chains begin to recover
- Virus spreads rapidly in European Union and United States
- Warmer weather in summer helps to limit the outbreak
- Revival of virus in autumn is dealt with through testing and tracking rather than shutting down the economy
- Overall stifled human movement limits spread of virus

Society, technology, policy, environment

- Increased social cohesion emerging from periods of quarantine
- Acceleration in tech development, with more businesses' models shifting online
- Growing respect for public institutions and local government as their efforts appear to slow the pandemic

Mild economic case

Economy

Economic activity rebounds in late 2020 as the virus dissipates. Recovery initially slow, but speeds up in second half of 2021 as consumers become more confident

- Dramatic change in behavior and public policy
- Deep but quick recessions in European Union and United States; small and medium businesses disproportionately impaired
- Substantial fiscal programs in European Union and United States help to limit damage

Real GDP growth in 2020

United States

-5%

European Union

-5%

China

3%

Japan

0%

Industry impact (supply side)

Production cuts in European Union and United States, disruption of supply chains

Industry impact (demand side)

Weak demand in European Union and United States spreads globally; multiple industries hurt

Duration from 1/1/20

6 quarters

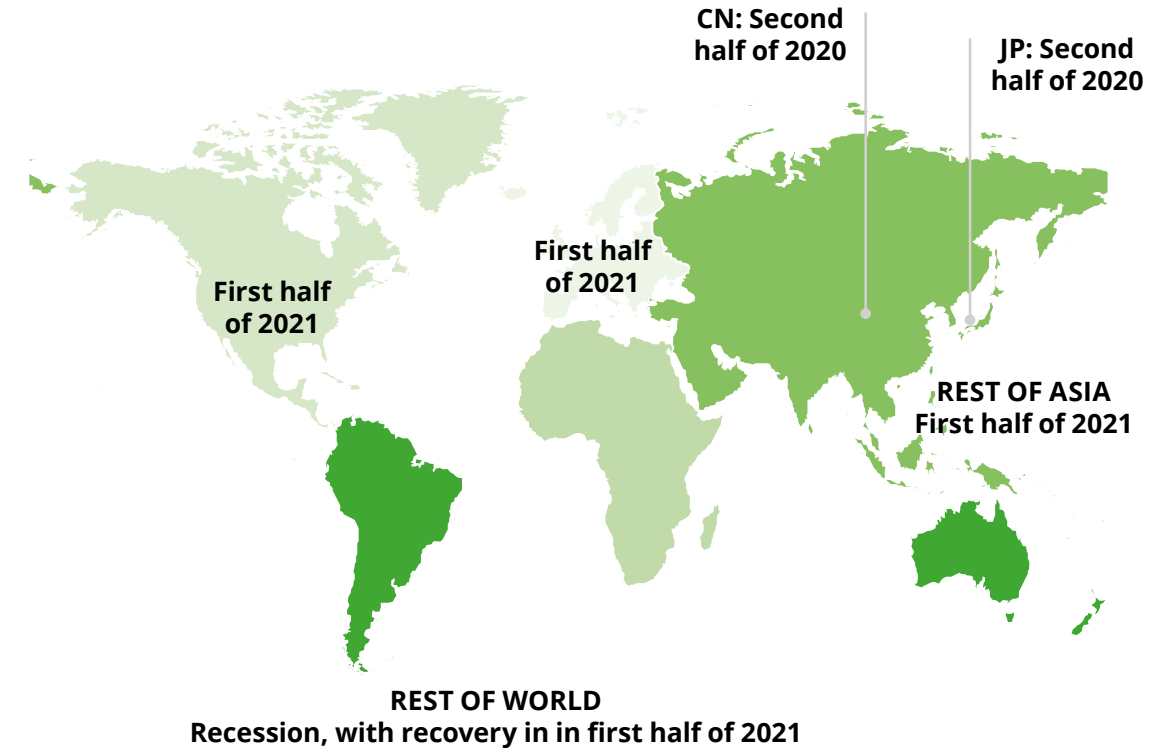
Recovery

Slow recovery begins in second half of 2020

Impact on 2021 global GDP

0.0%

Timing of economic recovery by region



Harsh economic case

What if the pandemic **lasts longer than we're ready for**, with waves of infection lasting through summer, maybe into the fall, keeping us in crisis mode for months? A prolonged recession with weak supply and weak demand, combined with financial system shocks, **wreaks havoc on social and economic life**. But maybe **not all countries suffer to the same degree**. Those which faced the pandemic sooner and reacted more aggressively bounce back faster, while those slower or less consistent in their responses are hurt more deeply and for longer. Before long, **virtual life is real life in many places**. Will those companies that can still invest accelerate their investments in robotics and other techniques to reduce their reliance on human labor subject to the disease? Or will the need to rebuild the economy and restart consumption favor policies that promote getting people back to work in 2021?

Epidemiology

- Outbreak in China mostly contained, but some revival due to inbound travel
- European Union and United States have severe outbreak, which comes in waves and lasts until early 2021
- Virus contained by early 2021

Society, technology, policy, environment

- Extended and severe virus leads to all things virtual as the norm
- Comfort with life online increases, even among previous holdouts
- Technologies of the fourth industrial revolution accelerate in development due to greater demand
- Mixed environmental impact occurs
- Centralized surveillance mechanisms become more prominent

Harsh economic case

Economy

The virus follows a wave pattern, abating and then peaking again in multiple global geographies. Economic recovery begins late 2021. Recovery slow in early 2022 and speeds up by second half of 2022

- Chinese economy rebounds slowly
- Deep and prolonged recession in the West affects supply chains and consumer demand
- Fiscal stimulus limits business failures, but does not boost spending

Real GDP growth in 2020

United States



European Union



China



Japan



Industry impact (supply side)

Deep drop in output; supply chains disrupted

Industry impact (demand side)

Severe decline in global demand; financial stress akin to 2008

Duration from 1/1/20

9 quarters

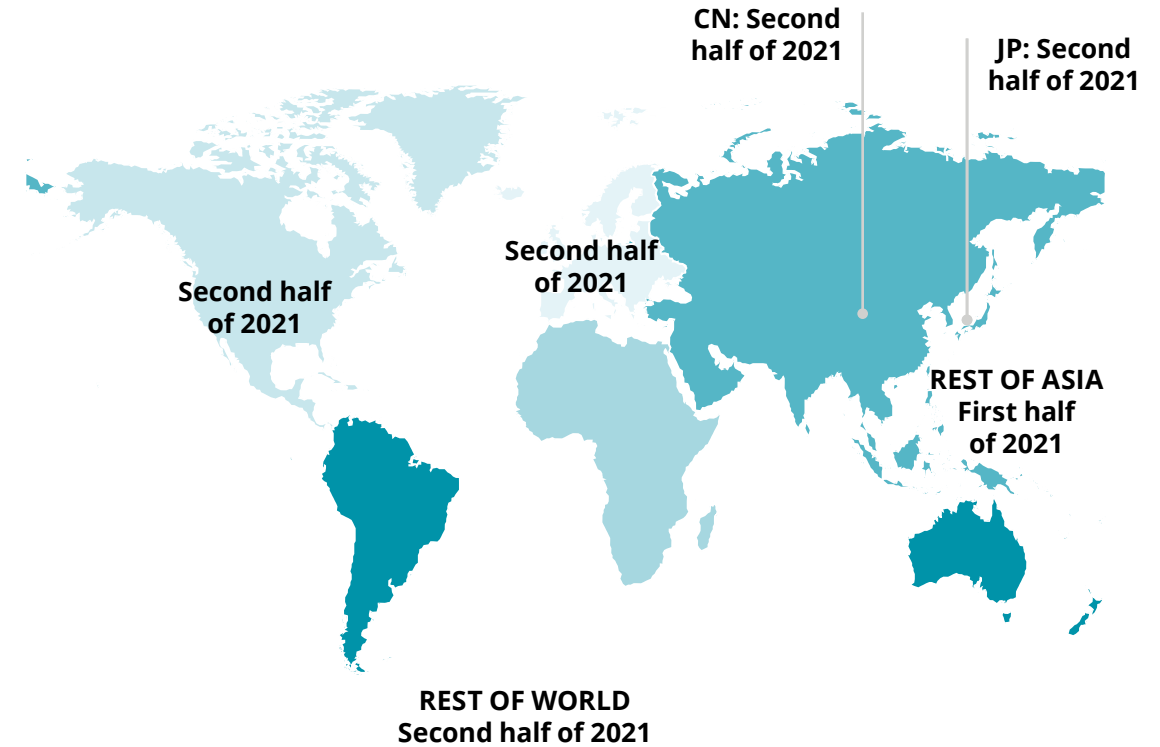
Recovery

Recovery starts in second half of 2021

Impact on 2021 global GDP

-3.0%

Timing of economic recovery by region



Severe economic case

What if the pandemic fools us into thinking we are making gains, when in fact we have mistaken the foothills for the mountain? What if the countries that today seem to have things under control **face a return of the virus**, while those still struggling today find that the pandemic outruns every effort at containment? And what if we discover that the world is just too big, as the **virus cycles (and mutates)** between wealthier nations and the emerging economies they trade with. Will even the most expansive fiscal and monetary interventions in history fall short? Will societies begin to shut down as health care systems overload? Yes, **technology adoption will grow, but so will distress and suspicion**. Is privacy—about our health, our whereabouts, the people we have been near—a luxury we can no longer afford? How would our calculus of trust change?

Epidemiology

- Outbreak returns to North Asia, with negative economic consequences
- European Union and United States outbreak prolonged, coming in multiple waves
- Efforts at stifling activity are only partly successful
- Near-complete shutdown of society
- Health care system severely disrupted
- Severe outbreak in emerging countries; possible feedback to West
- Containment is achieved in the West by late 2021, largely due to herd immunity

Society, technology, policy, environment

- Social cohesion begins to unravel; suspicion of others becomes the norm and xenophobia rises
- Technology advances to meet society's virtual demands; government obliges data-sharing
- Economic recovery prioritized over fighting climate change
- Isolationism practiced globally, with strict border controls and shortened supply chains

Severe economic case

Economy

The epidemic continues with severe infection rates into 2021 until either crowd immunity and/or a vaccine reduces the virality. Economic recovery by mid-2022. Significant risk of cascading outbreaks with feedback loops, limiting recovery

- Financial system breaks down despite central bank efforts
- Fiscal stimulus is substantial, but fails to boost spending
- Many business failures and household disruptions occur
- Widespread and enduring nationalization of industries takes hold

Real GDP growth in 2020

United States



European Union



China



Japan



Industry impact (supply side)

Severe drop in output, supply chains break down

Industry impact (demand side)

Severe decline in demand, many business failures, some nationalization

Duration from 1/1/20

12 quarters

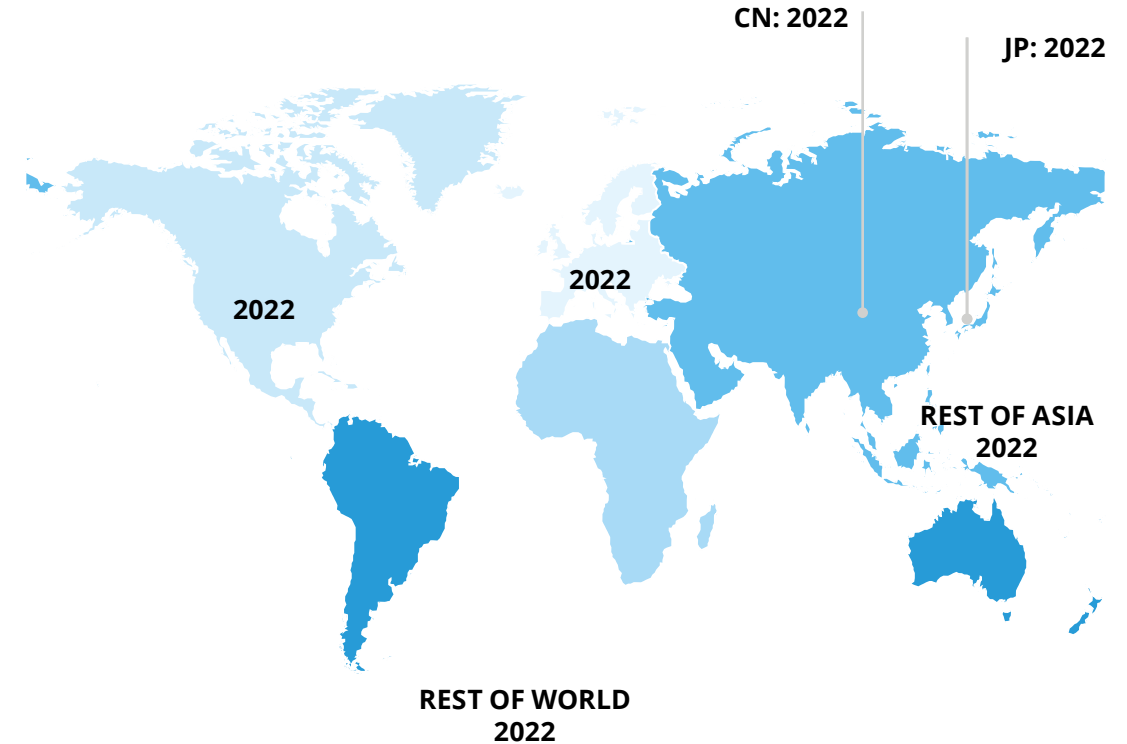
Recovery

Starts in 2022

Impact on 2021 global GDP

-6.0%

Timing of economic recovery by region



2020 vision can be myopic

There are numerous macro-uncertainties that affect any near-term economic cases, many of which present either additional upside opportunities and/or downside risks beyond the accompanying economic cases.

UPSIDE OPPORTUNITIES

- Rapid vaccine development and/or herd immunity developed
 - No recurrence in Asia
 - Significant drops in US and EU infection rates this summer
 - Minimal spread to rest of world
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- Rebound in economic activity substantially back to pre-outbreak levels by Q4 2020
 - Consumers return to previous activity levels with minimal lasting impact of social distancing; government intervention enables >80% of small businesses to sustain
 - Supply chains reestablished quickly
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- Ubiquitous deployment of broadband and 5G leads to rapid digitization of business and society
 - Rapid impact of public and private partnerships tempers economic downturn and increases trust in both public and private institutions
 - Step-change increase in corporate social responsibility consistent with Business Roundtable tenets

Epidemiology

Economy

Society Technology Policy Environment

DOWNSIDE RISKS

- Catastrophic EU and US outbreak
 - Second outbreak in North Asia
 - Severe problem in emerging markets
 - Outbreak contained by 2022
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- Severe, long recession
 - Substantial breakdown of supply chains
 - Severe weakness of demand globally for two years
 - Economic recovery in 2023
-
- Homelessness, social unrest
 - Government bailouts of numerous industries in many countries
 - More government involvement in economy

Contacts

These economic cases represent a range of possible economic circumstances as the COVID-19 crisis evolves. It is too soon to tell which of these or other cases will emerge, but resilient leaders are preparing now for what the future may hold. For more information, or to explore the implications of these economic cases on the future of your organization, please contact us:

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