

17 April 2020

Below are brief summaries and links to five selected pieces that have been released by local and international thought leaders over the last week.

The first three are global and the other two specific to New Zealand. We have found them useful in extending our thinking about the COVID-19 crisis and its implications for New Zealand and for our clients. We hope you will too.

1: Boston Consulting Group – Facts, scenarios and actions for business leaders

https://media-publications.bcg.com/BCG-COVID-19-BCG-Perspectives.pdf?utm_medium=Email&utm_source=esp&utm_campaign=covid&utm_description=featured_insights&utm_topic=covid&utm_geo=global&utm_content=202004_3&utm_usertoken=b2591978bd1693fe0f40a9999726e35bc3d7fb92

BCG's report has three parts: an overview of the status of COVID-19 in the world in the week ending April 13; economic and societal scenario; and a guide for leaders in developing their response strategy to the pandemic

- Indications from China are that swift and strict actions to eliminate disease spread mean that economic recovery can occur faster
- Business has been impacted by demand shocks such as reduced consumer confidence and changing purchasing behaviours, and by supply shocks like disruption of supply chains and forced closure of production facilities
- ~60% of companies surveyed by BCG have started preparing for a recession
- ~50% have, or plan to, assess investment and M&A opportunities during the downturn
- Leaders need to plan across three recovery time horizons – now, near and long-term – and take an integrated perspective, understanding the interconnectedness of health, societal and economic impacts and responses.

2: Ray Dalio & TED – What coronavirus means for the global economy

Link: https://www.ted.com/talks/ray_dalio_what_coronavirus_means_for_the_global_economy

In Dalio's TED Talk, billionaire investor Ray Dalio outlines his perspective on COVID-19's impact will be on the global economy. He also provides valuable advice for investors. The full talk is 1 hour long, but good ground is covered in the first 25 minutes

- The four key driving forces of wealth are productivity, the short term debt cycle (8-10 years), the long term debt cycle, and politics, both internal within countries and externally
- The four levers for recovery are austerity, debt forgiveness, wealth redistribution, and printing money; the key ones likely to be utilised in this crisis will be printing money and wealth redistribution
- The greatest forces for human advancement are creativity and inventiveness. The COVID-19 crisis will force a re-orientation and restructure of society, which will take a few years but will ultimately move us forward by challenging us to innovate
- The two categories of company that will do well are those who provide 'Campbell's Soup' necessities and those who can be highly innovative, so long as they have balance sheet resilience.

3: The Economist – The changes COVID-19 is forcing onto business

(free to access but requires log in)

<https://www.economist.com/briefing/2020/04/11/the-changes-covid-19-is-forcing-on-to-business>

The Economist outlines the impacts of the COVID virus on different sectors globally and then discusses how the impact of COVID-19 will in part be to accelerate three existing trends: reduced globalisation, increased pervasiveness of digital services, and increased power for big businesses

- There is potential for a V or U-shaped recovery. This is indicated by a combination of three factors: businesses being in a strong position prior to the crisis, the economy being in good shape prior to the crisis, and evidence that China is lifting lockdowns and opening factories rapidly
- A reversal of globalisation is possible as companies seek to secure supply chains by diversifying and localising production. Advanced robotics and automation mean local manufacturing can be economically competitive
- The sudden growth in reliance on technologies like Zoom will accelerate digitisation and e-commerce, with concurrent concern about privacy and surveillance
- Access to capital and government lobbying will advantage large businesses who may leverage their relatively stronger position to acquire weaker rivals and drive industry consolidation.

4: The New Zealand Treasury – Economic Scenarios 13 April 2020

Link: https://www.interest.co.nz/sites/default/files/embedded_images/Economic%20Scenarios.pdf

Treasury's report discusses five key economic scenarios for New Zealand based how long New Zealand spends in different stages of lockdown and the level of fiscal stimulus injected by the Government

- As has widely been reported, the most pessimistic scenario sees unemployment peak at 26%, though Finance Minister Grant Robertson has stated that this “was not a scenario that I foresee ... [and that] that level of unemployment would not be acceptable”
- Treasury estimates that without additional fiscal stimulus nominal GDP would drop by \$124-270b (6-13%) over the next five years compared to the 2019 Half Year Economic Fiscal Update
- Only in scenarios with an additional \$20b of fiscal stimulus is unemployment kept below 10%. With the extra stimulus, under the most optimistic scenario, peak unemployment drops from 13.5% to 8.5%.

4 & 5: Tomas Pueyo – Coronavirus: The Hammer and the Dance and Castalia – After the Lockdown

<https://medium.com/@tomaspueyo/coronavirus-the-hammer-and-the-dance-be9337092b56>

<https://castalia-advisors.com/blog-after-the-lockdown/>

Tomas Pueyo outlines the need for rapid action followed by the targeted deployment of measures to keep reduce transmission. Castalia adapts Pueyo's work to provide initial estimates of the cost effectiveness of measures required to keep New Zealand's COVID-19 transmission level low when we leave Alert Level 4

- Temperature checkpoints, quarantining the infected, widespread testing and contact tracing are estimated to be the most effective measures to reduce transmission
- Mass isolation, forced closures of businesses and schools, and domestic travel restrictions are estimated to be the least cost effective, although they are acknowledged as some of the most effective measures for reducing the rate of transmission
- Forced closures and travel restrictions, which will largely remain in place at Alert Level 3 according to the Government's announcement on Thursday 16th April, are the most expensive for the benefit they provide
- Castalia recommends relaxing domestic travel restrictions as soon as possible.

Our other research summaries and reports can be found [here](#).