

24 April 2020

Below are six articles focused on a theme that we think is important for New Zealand's leaders to understand: the likelihood that New Zealand will have a deeper and longer recession than is currently being communicated through some mainstream channels.

As you will see in our paper titled "Update on the trajectory of New Zealand's economic recovery", we think New Zealanders should expect and prepare for a slow recovery. In the language of economics, we are positing at least a "U-shaped" recovery, and possibly worse.

The remaining five articles share thinking that explores important drivers of the recession, including the public health measures required to reopen the economy without a large spike in infections, the potential impacts for global supply chains and developing countries, and the long-term implications for the management of our economy.

Stakeholder Strategies: Update on the trajectory of New Zealand's economic recovery

<http://stakeholderstrategies.co.nz/wp-content/uploads/2020/05/COVID-19-NZ-recovery-trajectory.pdf>

Our second report outlines our rationale for why we think New Zealanders should plan for a long and severe economic downturn from the COVID-19 crisis

- We think about the economic impact of COVID-19 in three phases: Crisis, Recession/Depression and New Normal
- The economic recovery could be V, U, or L-shaped or possibly even worse, depending largely on four drivers: the severity and duration of the health crisis period, the duration of the real-economy shock, the resilience of the financial system, and the effectiveness of economic interventions
- Our recovery is also influenced by other countries' performance on the drivers and the connections between their performance and our own
- We have concluded that New Zealand's leaders should plan for a U-shaped recession or worse. There are many reasons to think that the real-economy shock will have a long duration, even if the epidemic is contained and the economic interventions are relatively effective in New Zealand.

Coronavirus: Learning How to Dance Part 1

<https://medium.com/@tomaspueyo/coronavirus-learning-how-to-dance-b8420170203e>

This is the latest article by Tomas Pueyo. It explores measures that countries have used to contain the virus, including public health strategies which fight the virus while avoiding the economic impacts of mass lockdowns

- Four countries offer important lessons on managing the COVID-19 crisis: China, which implemented the largest, strictest lockdowns in human history; Taiwan, which successfully avoided an outbreak; South Korea, which flattened the curve without mass lockdowns; and Singapore, which was successful initially, but is now experiencing a surge in infections
- Taiwan and Hong Kong's success shows us the importance of closing borders quickly and implementing aggressive contact tracing and quarantining measures (leveraging mass surveillance of smart-phones and imposing steep penalties for failing to comply)
- Singapore highlights the risks of "opt-in" app-based contact tracing, delayed action to close borders and the importance of wearing face masks. These strategic shortcomings, combined with overcrowding and penalties for not attending work, have exposed Singapore to a surge in cases connected to its migrant worker communities.

BBC: How will coronavirus change the world?

<https://www.bbc.com/future/article/20200331-covid-19-how-will-the-coronavirus-change-the-world>

In this article, Simon Mair, a Research Fellow in Ecological Economics at the University of Surrey, discusses how our economic structures may adapt in response to the COVID-19 crisis.

- Mair identifies the similarities between COVID-19 and climate change and connects them as natural phenomena relating to underlying social drivers
- He articulates a fundamental issue with economic stimulus during a pandemic – that the goal of typical stimulus, which is to create economic activity, is at odds with the public health imperative during a pandemic, which is social distancing to reduce economic activity
- He proposes four possible economic approaches that may emerge from the COVID-19 crisis based on whether aid is centralized or decentralized and whether the economy or protection of health and wellbeing is prioritized
- Most western countries are pursuing a centralised approach with a focus on economic recovery, but the economic levers that governments have available will become limited if the crisis becomes prolonged

McKinsey: Safeguarding our lives and our livelihoods: The imperative of our time

<https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/safeguarding-our-lives-and-our-livelihoods-the-imperative-of-our-time>

In this report, McKinsey argues that rather than being a dichotomy, economic and health outcomes are linked, and it is imperative to find solutions for both issues.

- It is estimated that lockdowns reduce discretionary spending by 40-50%, resulting in a 10% direct drop in GDP
- McKinsey considers the economic impact of the health crisis and the direct economic response to COVID-19 in two dimensions, resulting in 9 scenarios, with the four most optimistic, a moderate or strong economic and/or health response, considered more likely than the most pessimistic scenarios
- McKinsey proposes that to deal with both issues, we need dynamic behavioral protocols such as mandatory testing prior to entering planes to ease lockdowns faster but maintain effective health controls
- Enforcement of protocols is also needed. For example, Hong Kong requires asymptomatic travelers to wear electronic wristbands to geo-fence them at home, though public acceptance of measures such as this may be lower in democracies such as New Zealand. Each Government must tailor enforcement by what is acceptable to its citizens.

HBR: Coronavirus is proving we need more resilient supply chains

(This article is free to access but requires log in)

<https://hbr.org/2020/03/coronavirus-is-proving-that-we-need-more-resilient-supply-chains>

This article highlights the risk of major supply chain disruptions from COVID-19 and recommends several measures to increase supply chain resilience

- Many global supply chains are exposed to concentration risk as seen by the world's largest 1000 companies, which have many factories in China
- When considering supply chain resilience, it is important to include 'invisible' suppliers, i.e. the suppliers of one's suppliers
- The article proposes a 2x2 matrix to help companies manage their supply chain resilience by considering the revenue impact and risk of disruption for each supplier

- For high risk supply chain elements, companies should monitor global suppliers 24x7 (a task made more easy by AI), map whole supply chains (including 2nd and 3rd tier suppliers), buy insurance, and encourage suppliers to follow the same process with their own suppliers.

The Economist: The coronavirus could devastate poor countries

(This article is free to access but requires log in)

<https://www.economist.com/leaders/2020/03/26/the-coronavirus-could-devastate-poor-countries>

This article is now a month old but highlights the risk of COVID-19 on developing countries. Please note, the case numbers quoted in the article are out-of-date

- Many of the measures that are containing the virus in the developed world are not possible in developing countries, such as social distancing and hand washing in crowded areas with limited water supply
- Developing countries are advantaged in some ways, such as by having younger populations, but it is unlikely these advantages will sufficiently offset their disadvantages, such as inadequate health care funding
- Depressed demand for key export products such as oil and fresh flowers, combined with higher borrowing costs than in developed countries, mean developing world governments have much less capacity to provide the levels of stimulus required to mitigate economic collapse.

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