• ECONOMICS •

The Effects of Covid-19 on the Global Economy

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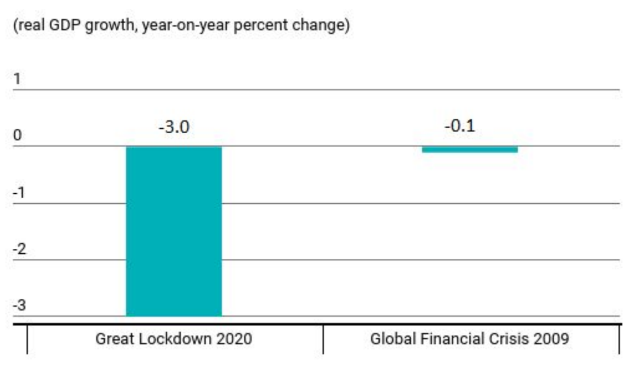
SSARS-CoV-2, commonly known as COVID-19, has infected almost 20 million and killed over 744,000 people worldwide, according to researchers at Johns Hopkins University. In an effort to contain this respiratory virus, governments across the globe issued stay-at-home orders, effectively causing their economies to freeze. There is no denying that the global economy has been affected by this pandemic and the subsequent efforts to contain it in the eight months since the outbreak began, and it will continue to be impacted for years to come.

It is necessary to acknowledge that the pandemic affects and has affected certain industries and countries more than others. Countries that rely on global trade, tourism, commodity exports, and external financing are more economically affected than those that do not, but no country has been spared. The United States was in the middle of the longest economic expansion on record when the pandemic hit but has now logged over 5 million cases and a -5% GDP growth in the first quarter. The People's Republic of China saw negative growth (-6.8% y/y) for the first time since 1978. It has become alarmingly clear that this pandemic can cripple even the most advanced economies if no action is taken to assuage it.

Many different recessions have been caused by a decrease in global supply and global demand, but COVID-19 is unique in the fact that it has affected both simultaneously at such a high rate. In most cases, a decrease in either supply or demand causes a cyclical effect wherein the other element diminishes as a result, and an economy slowly spirals downwards into a recession. In this pandemic, however, businesses closed in such high numbers that workers lost their jobs at the same time as a stay-at-home order forced them to stop spending money, thereby accelerating the cycle and plunging the globe into a deep recession almost instantly.

The world is experiencing the worst economic downturn since the Great Depression in the early 1930's. As of August 1, the World Bank projects a global 6.2% GDP contraction in 2020. For comparison, the 1930-1932 global recession caused a 17.6% contraction.



Source: IMF, *World Economic Outlook*.

While these numbers look reassuring, it's important to note that projections for 2020 are currently based on the pandemic lessening in the second half of the year, an event that is becoming increasingly unlikely as children go back to school and cases continue to rise as lockdown restrictions ease.

This economic crisis will affect the world through 2021 and beyond. The International Monetary Fund (IMF) projects that cumulative output losses over the fiscal years of 2020 and 2021 could total upwards of $9 trillion USD--bigger than the economies of Japan and Germany *combined*. Although the IMF also projects global growth to rebound to 5.8% in 2021, the overall global economy will still be far below pre-virus levels for years to come. Dr. Andrew Metrick, a professor at Yale University, attributes this growth to the pent-up consumer demand caused by stay-at-home orders, but notes that it will take years for the world to return to the level it was at pre- COVID-19.

The loss in human capital development caused by interruptions in schooling and healthcare access will also extend the economic downturn. Rising food prices, a breakdown in supply chains, and a lack of access to essential services will all negatively affect human capital, and the pandemic threatens to wipe out years of gains through humanitarian aid and other such programing. Human capital is one of the four pillars of economic growth, and in service economies such as the United States or the European Union, a decrease in this area massively impacts growth and sustainability.

After reviewing the numbers and data, the natural question is "When will things get better?" The short answer: not anytime soon. Dr. Metrick points out that it is nearly impossible for an economy to recover without consumer confidence, and the fact remains that it's severely shaken. Until the average buyer is comfortable spending again, whether they are afraid of losing a job or afraid of contracting the virus while out, the global economy will be stagnant. This confidence will most likely return with a vaccine--or an effective treatment--for COVID-19, which seems to be months away in a best case scenario. After this, Dr. Metrick predicts that it will take anywhere from six months to a year to return to 2019 levels, but he also notes that it will take anywhere from three to five years to see any real economic growth.

The near future seems grim and the road to recovery is long, but it's important to recognize that there is a way out of this economic downturn. The pandemic has certainly accelerated the process, but the global economy is a cycle and what goes down must come up. Even if it doesn't return to the trajectory predicted at the end of 2019, the economy will recover.

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