

## Spotlight on the Economic Impact of Coronavirus



“

*This year the world's economy could grow at its slowest rate since 2009 due to the coronavirus outbreak...*

”



### Overview

Undoubtedly, coronavirus is a “black swan” event - described by the UK Prime Minister as “the worst public health crisis for a generation.” Its rapid spread has left businesses and citizens around the world counting the costs; with many investors fearing the spread of coronavirus will pose an insurmountable challenge to the economic growth of all major countries across the globe.

Almost every industry and sector has been affected, with governments hurrying to try and arrest the potential economic decline. Central banks in more than 50 countries, including the US Federal Reserve and the Bank of England have cut interest rates to try to and bolster their economies and provide some form of stability. Moreover, an increasing number of countries are now announcing unprecedented stimuli in the hopes of keeping their respective economies afloat.

This year the world's economy could grow at its slowest rate since 2009 due to the coronavirus outbreak, according to the Organisation for Economic Cooperation and Development (“OECD”). The think tank has forecast growth of just 2.4% in 2020, down from the 2.9% forecast in November. It also said that a “longer lasting and more intensive” outbreak could halve growth to 1.5% in 2020 as factories suspend their activity and workers stay at home to try to contain the spread of the virus.

According to the BBC latest job figures released in the USA confirm that employers shed 701,000 jobs in March which equates to a decades worth of job growth. In percentage terms unemployment rate rose to 4.4% which is the biggest one-month jump since 1975, according to new data from the US Department of Labor.



### Manufacturing & Services Have Suffered

In China, where the coronavirus first appeared, industrial production, sales and investment all fell in the first two months of the year, compared with the same period in 2019. China makes up a third of manufacturing globally and is the world's largest exporter of goods. Like China, factories in many other economic powerhouses like the US, UK and Germany have been shut, resulting in a decline in manufacturing output at perhaps unprecedented levels.

Likewise, services sectors around the world including IT, IT enabled Services (“ITeS”) and banking have also suffered, and perhaps the sector that has suffered the most is travel, with many companies in this sector (especially airlines) now facing an uncertain future and actively seeking financial assistance from respective governments’ in their home countries.



### Effect on Global Demand

The restrictions imposed by governments, around the world, to try and restrict the spread of the virus have caused restaurants, cinemas and non-essential shops around the world to close, while the demand for flights, and the use of road traffic and energy have also fallen sharply. Oil is at its lowest price in almost 20 years and the value of gold has also fallen.

Retail sales are following a similar pattern, according to data from Springboard, a global retail research company. Daily footfall fell by more than 70% in the US and Italy on March 18 compared with the same day the year

## Spotlight on the Economic Impact of Coronavirus



“

*...in the UK total till sales at UK supermarkets have surged by 20.5% as shoppers prepare and adjust for lockdown during the coronavirus epidemic...*

”

before, and by more than 20% in the UK and Sweden.

It is clear now that the spread of coronavirus is leading to a decline in global consumer spending, the heart of global economic activity. Moreover, there's also the added prospect of large-scale employee redundancies, which will impact consumer spending further. If this happens, it will have a huge impact on the global economy.



### Possible Future Scenarios

According to McKinsey, as of now there are two primary possible scenarios as to how the effect of coronavirus might unfold on the global economy in the coming weeks/months.

**Delayed Recovery (Scenario 1)** - In this scenario, new case counts in the Americas and Europe rise until mid-April. Asian countries peak earlier; epidemics in Africa and Oceania are limited.

**Economic Impact** – Large scale quarantines, travel restrictions and social-distancing measures drive a sharp fall in consumer and business spending until the end of Q2, producing a recession. Although the outbreak comes under control in most parts of the world by late Q2, the self-reinforcing dynamics of a recession kick in and prolong the slump until the end of Q3. Consumers stay home, businesses lose revenue and lay off workers and unemployment levels rise sharply. Business investment contracts and corporate bankruptcies soar, putting significant pressure on the banking and financial system.

Monetary policy is further eased in Q1 but has limited impact, given the prevailing low interest rates. Modest fiscal responses prove insufficient to overcome economic damage in Q2 and Q3. It takes until Q4 for European and US economies to see a genuine recovery. Global GDP in 2020 falls slightly.

**Prolonged Contraction (Scenario 2)** - In this scenario, the epidemic does not peak in the Americas and Europe until May. The virus does not prove to be seasonal, leading to a long tail of cases through the rest of the year. Africa, Oceania, and some Asian countries also experience widespread epidemics.

**Economic Impact** - Demand suffers as consumers cut spending throughout the year. In the most affected sectors, the number of corporate layoffs and bankruptcies rises throughout 2020, feeding a self-reinforcing downward spiral.

The financial system suffers significant distress, but a full-scale banking crisis is averted because of banks' strong capitalisation and the macroprudential supervision now in place. Fiscal and monetary-policy responses prove insufficient to break the downward spiral.

The global economic impact is severe, approaching the global financial crisis of 2008–09. GDP contracts significantly in most major economies in 2020, and recovery begins only in Q2 2021.

## Spotlight on the Economic Impact of Coronavirus



“

*...February sales of new cars in China fell by 79 per cent, an unprecedented decline...*

”



### Sectors Set to Lose the Most from this Crisis

**Aviation & Travel** - The global airline industry might need up to \$200 billion (£171 billion) in emergency support, and Boeing has called for \$60 billion (£51 billion) in assistance for aerospace manufacturers as the international travel industry suffers from the dramatic decline in passenger volumes. Norwegian has already cut 85% of its routes and laid off 90% of its staff. Virgin Atlantic intends to park up to 85% of its fleet during the month of April and is asking staff to take up to eight weeks unpaid leave over the next three months to avert job losses. The Aviation and Travel sectors are probably the worst hit from this crisis.

**Tourism** – Tourism associations around the world are projecting millions of tourism-related jobs will be lost. The situation is serious in all countries worldwide as travel plans are curtailed and cancelled due to the global restrictions. As an example the Guardian reports that this crisis has exposed Airbnb’s business model as bookings have fallen sharply. Airbnb will spend \$250m (£200m) covering 25% of what hosts would have been paid under their cancellation policies for reservations between 14 March and 31 May. Furthermore, an additional \$10m relief fund is being made available to “super hosts” offering grants of up to \$5,000. Also Airbnb founders will not draw a salary for six months, and top executives’ salaries will be cut by 50%.

Richard Holway, chairman of analyst firm TechMarketView, says. “Airbnb is in the worst of the worst situations. Unlike other tech firms, like Uber which can do deliveries instead of driving people, it can’t diversify. There’s nothing Airbnb can do to make money.”

**Oil and Gas** – Oil is currently at its lowest price in almost 20 years. According to the International Energy Agency, global oil demand is set for its first annual drop since 2009. Comparing this with the agency’s February prediction, when it expected annual growth of 825,000 barrels per day, it is clear that the global oil and gas industry have been impacted by the crisis.

**Conventional Retail** – To help restrict the spread of the virus governments across the globe have imposed closures on non-essential retail stores so in the UK other than chemists, food retailers, off licenses convenience stores and cycle shops all other retail stores have had to close. According to Retail Week recent data released confirmed that UK shopper numbers tumbled 27.8% year-on-year driven by a 42.4% slump in the number of consumers visiting high streets. Shopping centre footfall was also down 24.4%, but retail parks registered a 0.1% uplift.

**Events & Hospitality, Casual Dining, Pubs & Cafes** - In the UK the government enforced strict measures which meant that all pubs, cafes and restaurants had to shut temporarily. Prior to these measures the industry had already been contemplating an uncertain future in the wake of Brexit. The earliest high-profile victim seems to be Carluccio’s which appointed administrators FRP Advisory on March 30th Although there is government support for businesses and employees the outcomes for the casual dining sector and wider hospitality and events sector is likely to be very serious. Interestingly in the USA the leisure and hospitality industries accounted for more than half the recent March job cuts according to data from the US Department of Labor.



## Spotlight on the Economic Impact of Coronavirus



“

*...The global airline industry might need up to \$200 billion (£171 billion) in emergency support...as the international travel industry suffers from the dramatic decline in passenger volumes...*

”

**Entertainment & Leisure** – By some estimates, the global film industry is potentially facing losses of \$5bn. Moreover, with cinemas shut across the world, this loss is expected to be even higher in the coming months.

**Automotive** – The automotive industry as one of the most international and interconnected industries in the world has had to shut factories shut around the world, which will undoubtedly affect production and therefore sales. For example Auto Express Magazine reported that in February sales of new cars in China fell by 79 per cent, an unprecedented decline, as consumers stayed in their homes, and dealerships closed their doors as measures to try and restrict the spread of the virus.

**Other connected sectors that will see significant stress include construction, steel and consumer durables.**



### Sectors Able to Gain if they Adapt their Business Models Accordingly

**Banking** – The banking sector will be under some strain as this unprecedented crisis impacts businesses ability to repay loans. In the short term this has been mitigated by the extraordinary stimuli put into action by governments across the globe to support businesses through this time.

The banking sector can, however, generate goodwill with businesses that need assistance and create relationships with new customers. Several UK incumbents, including Barclays, Santander and RBS, are already offering emergency loans and overdrafts to support business customers affected by the crisis. Many consumers will need temporary solutions, which could yield a spike in demand for small and medium-sized loans.

**Fintech** – Fintech, like other parts of the tech industry, is a globalised sector. Therefore, it faces a rather unique set of challenges; however, it may also be less susceptible to the spread of the coronavirus than other industries. It can also be said that if swift and effective changes are made, the industry could even grow as a result of the spread of the coronavirus.

**Education** – With many educational institutions closed around the world; the coronavirus crisis has led to losses in the education sector. However, it has also opened further opportunities into the mainstreaming of online learning, which was until now at best a niche segment in the education industry. This could lead to significant gains for the education industry in the coming years..



### Sectors Set to Gain from the Coronavirus Crisis

**Pharmaceuticals & Healthcare** – Pharmaceutical and healthcare suppliers are inevitably playing a large role in the crisis. From companies with vaccines for other similar viruses, to companies supplying medicines for common illnesses such as the common cold and cough, to companies making face masks and sanitisers. Pharmaceutical and healthcare products companies will benefit as a result of the coronavirus crisis. Moreover, there is also a sense that this crisis will lead to governments around the world increasing spending on healthcare, which will be beneficial for these companies.

**E-Commerce** – As a consequence of the strict “lockdown” measures imposed by governments consumers are shifting more of their shopping online. Already, Amazon is creating some 100,000 new jobs to manage the extra demand. Some other marketplaces are struggling to add capacity. The biggest increase has been witnessed by online pharmacies. All major E-commerce companies are seeing an exponential rise in their daily users.”

## Spotlight on the Economic Impact of Coronavirus



“

*...recent data released confirmed that UK shopper numbers tumbled 27.8% year-on-year driven by a 42.4% slump in the number of consumers...*

”

**Logistics & Delivery** – A third of the global population, some 3 billion people, are now under some form of Coronavirus lockdown. Coupled with the increase in consumer e-commerce trading activity and also the demand from food retail companies this has resulted in an increased demand for home delivery of products ranging from essential goods to products that were previously bought by people in person.

**Food Retail & Manufacture** - It is reported that in the UK total till sales at UK supermarkets have surged by 20.5 per cent as shoppers prepare and adjust for lockdown during the coronavirus epidemic. Furthermore, according to Nielsen shoppers have made 79 million more trips and spent £1.9bn more on groceries in the four-week period ending on 21 March than they did during the same time last year. This is good news for the major supermarkets as they also look to recruit extra staff to meet demand. However, the sting in the tail maybe felt on the supply side if fresh produce is unable to harvested on time.

**Online Entertainment** – Netflix, Amazon Prime, Facebook and all other online entertainment websites have seen their daily user base grow significantly since this crisis began.

**Technology - Digital Conferencing** – Digital conferencing communication tools like Zoom and Microsoft Teams have seen a huge increase in popularity as people, school children and businesses are encouraged to find ways to work from their homes due to the restrictions set in place due to coronavirus. In addition, Houseparty, a video-chatting app especially popular with Generation Z, is also gaining popularity. In fact, Zoom which debuted on the stock market only last year, has seen its value rise to \$38.5bn an increase of \$23.5bn on its opening value.

**Network Equipment Manufacturers** – Most network equipment manufacturers are expected to see gains as online traffic increases multi-fold and companies scramble to upgrade equipment to keep up with this rise in traffic. In response to this extra demand UK broadband companies say they can cope.

---

**A valuable strategic partner through every stage of the business lifecycle.**

---

## Key contacts



**GORDON TITLEY**  
Director

**E:** [gtitley@eurovals.co.uk](mailto:gtitley@eurovals.co.uk)  
**M:** 07734 388785



**DAN EDGAR**  
Director

**E:** [dedgar@eurovals.co.uk](mailto:dedgar@eurovals.co.uk)  
**M:** 07827 999332



**JOHN LAWRENCE, MRICS**  
Director

**E:** [jlawrence@eurovals.co.uk](mailto:jlawrence@eurovals.co.uk)  
**M:** 07775 444796



**ANDREW DUNBAR**  
Director

**E:** [adunbar@eurovals.co.uk](mailto:adunbar@eurovals.co.uk)  
**M:** 07967 302675



**DAVID ROSS, MRICS**  
Director

**E:** [dross@eurovals.co.uk](mailto:dross@eurovals.co.uk)  
**M:** 07960 511733

### LONDON OFFICE

5 Willoughby Street,  
WC1A 1JD

0207 048 0184

### BIRMINGHAM OFFICE

67 Newhall Street,  
Birmingham, B3 1NQ

0121 236 9992

### MUMBAI OFFICE

Centre Point Jb Nagar  
Vijay Nagar Colony, J B Nagar,  
Andheri East, Mumbai  
Maharashtra 400047, India

Email address  
[info@eurovals.co.uk](mailto:info@eurovals.co.uk)

TRUSTED VALUED REPORTING



A valuable strategic partner through every stage of the business lifecycle.

Across virtually every sector of the economy, at every stage of the business lifecycle, EV helps companies in transition understand and realise the maximum value of their assets. With more than 100 years of combined experience, our team of trusted professionals offers unparalleled expertise at assessing the value and managing the sale of assets.

We bring clarity to the process and improve our clients' business intelligence, capital position and confidence.



## Appraisals & Valuations

A deep understanding of our clients' industries, sectors and specific businesses helps us deliver accurate achievable valuations. We perform appraisals & valuations on all asset classes and have significant expertise and experience across all major industries & sectors.

- Plant & Machinery
- Stock/Inventory
- Accounts Receivable
- Business Valuations
- Intellectual Property

## Field Exams – Audits / Surveys

EV conducts due diligence for asset-based lenders across the UK, Europe, and the United States. Our team has experience in collections and insolvency, which lends to unique insight into the potential value of accounts receivable and stock in distressed situations.

## Asset Dispositions / Sales

Whether the result of an insolvency, merger or acquisition, loan default, restructure or simply executing a sales promotion, EV has more than 35 years of expertise providing:

- Auctions
- Private Treaty Sales
- Retail Store Closures
- Orderly Liquidations
- Strategic Disposition Programmes

