



# Opinion: Assessing economic fallout of COVID-19



GUEST COLUMN

By **Rajeev Dhawan**

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What a difference a month makes. In early February, the stock market was at an all-time high even as the then-unnamed coronavirus raged in China. Now, COVID-19 is a global pandemic; Italy is in a lockdown; stocks fell into a bear market; and the Dow moves 1,000 points without skipping a beat.

At my forecasting conference on Feb. 26, I cautioned against uttering the “R” word. But today it is clear that the Chinese, Japanese, Italian, and South Korean economies, to name a few, are entering a recession. When will it be our turn?

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China was practically shut down in February. Reports for March indicate the country is beginning to reopen its factories. However, it faces bottlenecks ranging from lack of transportation to ports to a lack of workers due to the nation's quarantine requirements. When 300 million Chinese workers are migrants who have to obey the 14-day self-isolation rule, if and when they make it to their factory destination, restarting the supply chains is a herculean task.

Normalcy in China is months away, provided the spread of the virus is indeed under control as they claim. Korea and Japan, China's two closest cogs in the supply chain, are also battling severe virus-induced disruptions. This interconnectedness affects the availability of stuff sold here by the likes of Apple and Amazon. Given a 30-day sailing period, shortages will start developing soon. Can we cope with it?

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We will have to. Heartbreak after placing an online order with a message that the stuff is weeks in backlog is a novel experience for the tech-savvy generation. Consumers will survive this supply shock, trust me. It won't wreck the economy. What can, and may, wreck it will be clear once I present the following analogy.

Denizens of the Southeastern U.S. are familiar with a certain type of natural disaster: hurricanes. COVID-19 to me is like a category 6 hurricane homing toward the U.S. mainland very slowly. This is a blessing in disguise; it gives authorities a chance to prepare. However, well before landfall, the outer bands of the hypothetical hurricane have damaged our beloved 401(k)s. That is never good for consumer morale.

As with any hurricane, the first industries to take a hit are hospitality and air transportation. They are in a recession. You don't need the National Bureau of Economic Research declaring it. When airlines start announcing cutbacks of 10% to 25% to their schedules, with one even projecting that its April and May revenues may fall by over 70%, it's a bad situation.

Businesses don't want their employees to travel unless there are exigent circumstances. No conferences, no sales calls, and try to work from home even if a single case is detected miles

from where you are located. Bring your lunch from home to avoid the cafeteria. Eat at home at night (a novelty). Let's not even talk about the dread of going on a cruise or sightseeing in Europe.

Risk-aversion is rampant among the populace. This prudent reluctance, what we economists call a demand shock, is playing out in the system. Unlike a "normal" hurricane that affects only one part of the country but spares the rest, this is a nationwide event. The more you are connected to the modern hospitality industry, the greater and longer-lasting the economic fallout, as our post-9/11 experience has shown.

When will this demand shock be over?

Not even epidemiologists know when and how the spread of COVID-19 will stop. If we save our summer travel season, and that's a big if, we will look back on this episode and marvel at our overreaction. If not, we need to look at the ongoing experience of China. For them, this was a sudden economic stop. Restarts are always iffy. Thus, a fast and sharp V-shaped recovery is unlikely. But rather it will be an elongated U, with an unknown duration for the middle flat part.

Will fiscal and monetary measures help here? Winston Churchill famously quipped that Americans try all the solutions before getting to the right one. This may have been a backhanded compliment, but to me it shows that we will keep trying until we succeed.

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