



BUSINESS IN A DEPRESSED ECONOMY

Featured Analysis



**Paladin
Risk Solutions**

ABSTRACT

In this three part series, we will take an overview and analysis of COVID-19 issues, where we are and where we are heading. We will consider the likelihood of entering a depressed economy, the impact on individuals and business and the mitigation that can be considered to manage business through a depressed economy to recovery.

Scott McGregor

Manager, Intelligence and OSINT

Part I – Business in a Depressed Economy

The current COVID -19 crisis has driven the world to a complex junction. Decisions about which road to take towards recovery will be made and these choices will directly impact the working and personal life of all.

This three-part series will examine the various routes towards recovery that will likely take us through the jungle of a depressed economy. Specifically looking at the implications for the recovery of business and the new and evolving threats and vulnerabilities associated with the process.

In this series, we will take an overview and analysis of COVID-19 issues, where we are and where we are heading. We will consider the likelihood of entering a depressed economy, the impact on individuals and business and the mitigation that can be considered to manage business through a depressed economy to recovery.

- **Part I - Examines where we are in the COVID-19 crisis and the journey towards a depressed economy**
- Part II - will look at the impact, attitudes and response of people thrust into a depressed economy
- Part III - will consider how to prepare for and mitigate risk in a depressed economy.

Economic Impact

The impact and reaction to COVID-19 has created an economic situation that is unprecedented in recent history, even going back as far as WW11. Compared to previous events, there are significant differences with our current situation. During WW11, economies were not flat. Some countries and continents suffered to an extent that it took many decades to fully recover. However, at the same time, some economies suffered to a lesser extent and could even be seen as *thriving* during and immediately following the war. In this case, no country appears immune from the impact of COVID.

The key difference with COVID is that, give or take a month, this crisis has impacted all countries at the same time with no single country escaping the impact, or having a head start towards recovery. Even the countries that have suffered COVID to a lesser extent have been hit by travel bans, lack of tourism, and restricted demand for goods or interruption in supply chains.

So, what is the reality of our journey going forward as it relates to the economy? We will examine the probable impact on the economy beyond the rhetoric of the thin veneer of political optimism.

A necessary factor towards the recovery, and for analyzing the state of the economy through this process, is truly understanding the extent of the damage the virus has caused to families, individuals, communities and businesses.

Impact on Society

How do we measure the extent of the damage? Reporting infection and death rates are almost certainly inaccurate for a wide range of reasons. There are so many variables in this crisis that the accuracy of dynamic daily reporting of metrics is questionable. The reported numbers for details such as total number infected and direct casualties are most likely to be under reported by significant numbers. Under

reporting of infection rates, death and recovery rates is an inevitable consequence of no 'international rules' on collecting and presenting these numbers. In fact, we will probably find variations on reporting procedures between health authorities, if not by hospital.

No doubt, identifying the true impact and consequence of COVID-19 will occupy students and academics for many years to come. There are statistical models and data analysis techniques that will give us a more accurate recording of infection and death rates over the next few years. In all probability, these numbers will be considerably higher than the numbers reported to date. Even with adjusted approaches, and more comprehensive metrics, there is still a high probability that conspiracy theories will muddy the waters of clarity provided by true academic analysis and opinion. Examples of these include opposing thoughts on the origin of the virus, manipulation of economic markets, death rates, and a plethora of other views and ideas that seem to resonate amongst a community that lacks trust in current national/global systems.

Infection rates as of today, (worldwide 2.9m) and death rates (206,000) are without doubt a considerable underestimate. Figures are calculated based on testing. Unfortunately, COVID testing is the latest subject of this crisis to be politicized. Testing is one of the complexities of this virus that has led to headline grabbing and oversimplification of the use and understanding of data. In the media, as well as published data, there is rarely a detailed explanation of how the data should be interpreted. This is not due to any lack of diligence by the media, rather the needs and expectations of the reader/viewer generally impose their own analysis or understanding of headlines or data points, rather than referring to any detailed explanation in the 'small print'.

Most people are seeking data and information that supports their own narrative. For many people their narrative originates from long held opinions and lifestyle – Example: if they are an individual that subscribes to the latest conspiracy theory, it is very easy to find an interpretation of this crisis that fits into their own perception of reality. Much of North America is polarized in their politics, when applied to COVID, an interpretation of facts or information that is not necessarily fact but a view that reinforces their political beliefs, they become more resolute in their views and opinions.

Internationally, we are seeing illustrations of protests that declare that COVID is a hoax or less harmful than the 177,000 deaths would tend to indicate. In some cases, these protests have led to violence or threats and illustrates a selfish and worrying trend in behaviour. The increase in social and mainstream media's focus on such protests has fueled their efforts by appearing to support or at least publicize the protestors position. This validation has no doubt contributed to copycat protests. This is a difficult tap to turn off now it is turned on.

Geographic comparisons of the COVID data will be influenced by a range of variables, infection rates, testing rates and availability of tests, test criteria, health service reporting procedures, and regional health and age baselines. The virus does not recognize national or state/provincial/territorial borders but that is how data is collated and represented. There is no criticism of this method of representation of figures but the way in which the data is represented by influencers or interpreted by the man/woman in the street is where challenges occur.

It is unlikely that the infection and death rates are inflated. On the contrary, there are actually indications of underreporting. As the virus is far reaching, many of us have personal connections with those who have contracted the virus or, in some cases, may know someone who has died with the virus. Those that

are or have been sick with the virus are not counted as a statistic unless they were positively tested or confirmed medically that their sickness was due to the virus.

As those untested people or those with minor symptoms that have not sought medical opinion or assistance are not 'in the system' they are not counted as infected. Therefore, the infection rate is considerably higher than the official reports, there are variations in how deaths are reported, did you die of the virus or with the virus? Was the virus the cause of death or a contributing factor? Was a person even tested when they died? Different interpretations and recording practices leave a big question mark around comparative data. Much of the world's population does not operate within a sophisticated health system and therefore numbers from those countries are almost certainly underreported. There are also a small number of countries which would interpret high numbers as a government failure and those countries have the mechanisms to suppress the real data.

Complicated Communication & Media Literacy

Similar to using data to support their own agenda, there is indication that fewer people than ever in history are seeking out information that provides different interpretations of news for them to formulate their own opinion. As the media and other information outlets are so polarized there is now a strong tendency only to seek the information source that reinforces their own perception of reality.

If a person's narrative is based in politics, there is more than enough fuel to reinforce their beliefs however inaccurate or misleading. If a narrative is based on their human rights taking precedence on the health and wellbeing of an entire community, then you can find data and anecdotes that support their selfish views and beliefs.

As a result of today's instant communication practices, many people simply formulate their thoughts, ideas and reality from the soundbites of information they collect on social media. For some, the mindless sharing and retweeting of information has damaged the ability to form an objective opinion or have any desire to understand the impact of their actions on their community. An example of this is the rumoured death of many famous individuals on Twitter who are in fact perfectly fine, however, many view information on Twitter as news and take the rumors seriously. Often the false information about death is only believed when an in-person public appearance follows. It is typically difficult to reverse an opinion someone has formed from social media posts, and opinions about COVID is no different.

The sharing of information and articles that are devoid of fact, are misrepresentation or simply malicious can cause a massive problem in the dissemination of information. Sadly, amongst the vast amount of information shared on social media the truth can probably be found but it is so buried in nonsense and false narrative that it is often difficult to identify. A crisis, such as COVID, provides the ideal environment where social media sharing explodes in volume. In this case, the explosion of information, false, malicious, inaccurate or true has been aggravated by isolation where, for some, social media is their main connection with others and the main topic being COVID with so many other avenues of interest temporarily closed down so much time is available for COVID discussion as they are devoid of distraction.

There has been countless shares or retweets of information claiming to be a fact about the virus that has no foundation. Examples can include statements such as "the virus can be cured by drinking hot water", "10 foods that will prevent the virus", "the virus is a hoax", the list goes on. If you have not retweeted or shared false information during this event it is almost certain you know someone who has and does. Some

of the false information is the promotion of political narrative and generated to support a personal agenda, while others can be a result of that someone gives no thought to the possible consequence of misinformation.

Factors for Assessing Recovery

Where are we in terms of an economic depression? Political rhetoric from some sources would indicate that this temporary blip in the economy will all be resolved very quickly and a bounce back to an improved pre COVID economy is almost a guarantee. Others are talking about a multiyear, if not decade, recovery period. The reality is that without the benefit of hindsight we can only speculate on the information we have available.

Despite short term government support, many small businesses will continue to suffer long into the COVID recovery period, and likely will not survive for a range of logistic and economic reasons. The recovery of many small businesses will take longer than governments are likely to provide support. As a result, employment levels will take time to recover to pre-virus levels, if at all.

Challenges in restarting manufacturing, supply chains, supply lead times, sales leads and demand will all contribute to small businesses struggling or failing, those that are able to survive financially, will be slow out of the gate of recovery. It is easy to visualize an almost immediate return to normal for the entertainment and hospitality industries; however, this requires people to have disposable income.

The high number of unemployment resulting from the crisis, as well as the high number of households expected to incur personal debt will have a large impact on consumption, and the economic recovery. Before COVID, many North Americans lived paycheck to paycheck, and experts are concerned that those people will be not spending in the non-essential businesses that have been hit hard by the crisis, such as the entertainment and hospitality industry.

The hospitality and entertainment industries are chosen here to illustrate issues related to recovery as their almost total closure and consequent unemployment is universal and easy to visualize. The crisis has impacted these industries and the staff very severely. Recovery of these industries may, at first glance, be rapid. The knock on effect of the entertainment industry not 'instantly' gearing back to a full-on stance are all the associated businesses, suppliers of services and goods, infrastructure to support travel and tourism and the services that may be required to make good a 24/7 operation that has been mothballed for a couple of months.

The entertainment and hospitality industries are just one aspect of our complex community that cannot revert from closed to open overnight. Will it be a priority to purchase a new car immediately when restrictions are lifted? Are planned luxury purchases more likely to be delayed? Will people choose to travel for leisure over the next six months? It is not the large industries themselves that will be the only casualties, as for every large industry there are not only consumers of services and goods but there are many small businesses and millions of employees that are dependent on the success of those large businesses. This crisis has and will continue to cause a significant disruption to the circular flow of income, an essential aspect of a healthy economy.

Reemployment of those laid off during the crisis will be a gradual process. Although business came to an abrupt stop, for many it will be a slow ramping up to pre-virus production, whatever the business, which

will result in phased reemployment. Many businesses have also incurred debt and, for many this will be significant. It is reasonable to assume that businesses will attempt to recover their business on minimum expense such as operating at minimum staffing costs.

What is the future of the cruise industry? Will major airlines survive the crisis? We have seen in recent history financial institutions collapse in a scenario that was believed to be unimaginable just months prior. We will no doubt be shocked at some of the institutions and businesses that do not survive COVID.

We can absorb the political rhetoric of optimism and accept that everything will work out and our economies will be stronger than ever in a short period of time. Or we can consider the facts, trends and socio-economic indicators that would suggest the direction and recovery of our economies will be slower and a more painful process with a great number of casualties on the journey than is currently talked about in the noisiest arenas of public communication.

A detailed outline of the opportunities for terrorism in our future and their opportunity to initiate a similar lockdown that we are seeing now is beyond this paper but should not be dismissed. Terrorists and terrorist states would have welcomed an opportunity to cripple the economies of some nations as COVID has. There is no doubt that recent events will be stimulating thoughts and ideas of terrorist groups.

In conclusion it seems almost inconceivable that we are now destined to experience a global depressed economy that will result in a long road to recovery over many years even without a second wave of virus or other causes that result in similar lockdown scenarios. The road to pre-COVID employment will be long and painful.

Who are the most likely to suffer during the recovery and in a depressed economy? This will be the subject of Part II where we will look at expectations of individuals and family units and how those expectations will result in molding a new normal. We will look at the impact, attitudes and response of people thrust into a depressed economy. We will also identify those that will suffer the most and those that are most likely to benefit from this crisis.