The immediate impact of the pandemic has been to push the world economy into a recession/depression, including the UK, US and Europe. While the global economy is expected to return to growth in 2021, it will probably not return to its previous size until at least 2022, with some regions likely affected to a more serious degree.

Any economic recovery from the pandemic is likely to be gradual, especially with social distancing measures likely to remain in effect for at least the rest of 2020, if not for another 12-18 months. Even where economies open back up, the current evidence from Asia shows that people are still acting cautiously. Footfall in China’s shopping malls remains down year-on-year, for example, while major resorts such as Disneyland Shanghai have only partially reopened as the rest of the country returns to normal.

One of the longest lasting economic consequences, however, will be sharply higher government debt. The UK has announced borrowing of £180bn between May and July, more than the highest annual figure recorded during the height of the global financial crisis more than a decade ago.

However, we are unlikely to see governments returning to the kind of spending restrictions we saw in the wake of 2008. Instead, governments will want to use their spending power to try to boost growth, particularly in developed economies where large swathes of the electorate working in the retail, travel and leisure sectors are likely to be badly affected by the lockdown measures in place.
The impact of emergency economic support

Given the shock to the economy, the economic policy response to the crisis has been larger than even during the global financial crisis. Governments around the world have stepped in with support measures, offering to pay the wages of private sector employees in many cases or guaranteeing loans to businesses so banks can offer support without fear of losses.

With all this extra spending and financial support, some have questioned whether we will see a pick-up in inflation. This stems from the idea that the emergency support will result in an increase in demand for goods and services from consumers and businesses, without a corresponding increase in the ability of the economy to produce the extra goods and services.

This seems unlikely for the meantime. The measures announced so far have been aimed at alleviating the impact of a significant drop in demand as people stay at home and business operations remain in limbo. The scale of this can be seen in the reduction in the demand for key commodities such as oil, with oil demand expected to fall by around 30% in April 2020 versus a year earlier.

While we might not see runaway inflation, it does appear likely that governments will try to keep interest rates below the rate of inflation to help deal with their excess debt.

This strategy is known as financial repression; it essentially transfers wealth from savers to debtors, as a higher inflation rate erodes wealth faster than a saver is compensated by interest rates. Financial repression could be an important way for governments to reduce their debt burdens over time, combined with higher long-term taxes on wealth.

A longer-term role for government?

The coronavirus crisis could also lead to a longer term demand for government intervention in the economy, in line with the trend of waning and waxing government intervention over the past 75 years.

For example, the need to address public health may result in expanded access to healthcare in the US, or a stronger safety net in terms of unemployment benefits in countries such as the UK.

We may also see businesses thinking more about the wellbeing of their employees and communities, rather than focusing more narrowly on shareholder returns. There were already some signs of this, with a growing trend for investors to consider Environmental, Social and Governance (ESG) factors when assessing which companies to invest in.

In August 2019, The Business Roundtable, a US organisation that numbers the chief executives of many major US businesses as its members, urged companies to consider the environment and wellbeing of workers, moving away from the more traditional emphasis on the single-minded pursuit of profits.

How will businesses be affected by the crisis?

Businesses of all shapes and sizes will be affected by a recession but those in the retail, travel and leisure sectors will be particularly hard hit. Data from the US, for example, shows how consumers suddenly switched from eating out to eating in. Any sector dependent on consumer spending will face challenges, although those companies which can provide an experience people particularly value – a high end restaurant meal, for example – could hold up better than others.

**Chart 1: US spending in bars and restaurants was ready to overtake domestic food spending, until coronavirus hit**

![Chart 1: US spending in bars and restaurants was ready to overtake domestic food spending, until coronavirus hit](source: US Census Bureau, six month moving average, April 2020)

In some ways, the danger zone for businesses dependent on consumer spending is not the lockdown period, when governments are running schemes to keep people employed, but once the measures have been lifted. The food, hospitality and retail sectors will all face higher costs as staff return to work but reduced levels of demand as consumers are likely to remain cautious, either for health reasons or fears around job insecurity. These sectors will need to adjust, potentially making redundancies and closing operations as they go.

For some companies, however, the pandemic has accelerated their growth in ways they could have scarcely imagined. The video conferencing company, Zoom, for example, has seen its daily active users grow more than twenty-fold, from 10 million in December 2019 to 200 million at the end of March 2020.

Similarly, Disney has seen its new video streaming service grow to 50 million customers, contrasting favourably with initial management expectations for around 60-90 million subscribers by September 2024.
Could the pandemic result in truly longer term changes to our way of life?

In many ways, we expect the pandemic to accelerate previous trends rather than lead to completely new ones. Working from home was already becoming more popular, for example, but the sudden need to embrace remote working technology – regardless of corporate attitudes – is likely to give this trend a boost.

With the mass adoption of remote working, many companies have been exposed to the flexibility of services such as cloud computing. This is where systems and files are saved in giant data centres, allowing people to access their normal work files and systems over the internet. Cloud computing and video conferencing providers have seen a significant increase in demand for their services and we would expect some of this demand to stick. But companies will still need a physical presence, if only to ensure that people can still meet to discuss ideas and form working relationships.

Meanwhile, in certain countries, the pandemic might boost trends that had been flagging. The UK had seen a dramatic increase in the popularity of online shopping, for example, but the rate of growth slowed in 2019, from 10%+ in previous years to between 5-8%. Quarantines and lockdowns could force consumers into forming new habits, effectively re-accelerating growth in online shopping. This could particularly be the case for older shoppers, who tend to be less inclined to adopt new habits than younger generations.

Conclusion

The outcome of the coronavirus crisis remains unclear, as we await the consequences of easing lockdown measures, but one thing that is certain is that the economic reality has already changed. The question is by how much and for how long?

The trends highlighted above offer a snapshot of just a few of the ways that the coronavirus pandemic could change the global economy more permanently, affecting everything from whole economies to individual businesses. There are some significant changes, especially for the retail, travel and leisure sectors who face an uncertain outlook. But, equally, many things will remain the same or build on previous trends, whether that is the low interest rates from the past decade or our increasing reliance on technology for work and play.

The outlook for the global economy remains challenging in the short term and it remains to be seen how quickly a definitive solution to the coronavirus pandemic can be found. By understanding the long-term trends across the global economy, you can focus on longer-term investment objectives and ensure your portfolio is in the best possible shape to come out of the crisis stronger.