Pandemic, then recession — and then what?

E
erly in this crisis, a dealer mused that if he could only know how far demand would fall and when it would rebound, he could make a plan for it. A month later, the bottom is still unknown. Maybe sales and production will resume early next month. Maybe they won’t be allowed. Maybe work will resume and he followed by another surge in infections, bringing back stay-at-home orders. So much is unknown about the pandemic, especially how long it will last and the toll it will take in human life, that it creates uncertainty — and worse. “Even though we’re starting to see a more positive trend in the news reports about the epidemic, I think the reality is that fear still continues,” Brian Collie, a managing director and senior partner at Boston Consulting Group, told me last week. “As long as there’s that level of uncertainty and that level of fear about the risk of what happens when the economy goes back to work — the fear of a second wave — I think we expect to see a number of consumers decide to forgo making a very large discretionary purchase, such as a vehicle.” Instead, people will prioritise housing, food and health care.

Analytical model

Lacking certainty about the future, Collie and his BCG colleagues looked at history and macroeconomic theory and developed a very useful analysis for how to think about these uncertainties and get a handle on what the future might look like.

First there’s the reality that the driver of the current global pandemic and then the medical and governmental responses to it. Those activities have short-term and sometimes long-term effects on the broader economy. Higher death rates are costly as well as emotionally painful. The longer the pandemic rages — and the longer that corrective measure must be taken — the higher the economic toll, particularly in personal and business bankruptcies. These events create waves of destruction that have lasting costs on society.

Medical and governmental effectiveness — including stimulus efforts to try to minimize economic destruction — will have a very useful analysis for how to think about these uncertainties and get a handle on what the future might look like.

Unlikely

COVID-19 crisis is most likely in this range

“Prospects of a potential global recession; and effects on the work force and reduction in productivity.

Macroeconomic development

- Depressed household and business confidence
- Depressed spending and investment
- Increase in insolvencies
- Rising unemployment
- Decline in gross domestic product

Immediate and direct impact

- Immediate liquidity management
- Customer lockdown
- Deferral of car purchases
- Forced closure of car dealerships
- Closure of factories

Epidemiology and measures situation:

- Infection rate and casualties
- Containment strategy and measures

Governmental countermoves:

- Restrictions and the shutdown of public life
- Restrictions and the shutdown of industry

Simulation is based on 4 archetypes of the crisis

1 ARCHETYPE: V path

- Positive surprise in virus properties
- Rapid catch-up in mitigation measures and their effectiveness
- Significant monetary and fiscal response
- Household and business spending stays largely intact
- Few businesses fail; unemployment recovers from initial dip

2 ARCHETYPE: Deep V skewed on U

- Virus properties stay or worsen
- Mitigation efforts are slow/unsuccessful and have to be extended
- Household and business confidence falls and remains depressed (2008-09 crisis)
- Rebound through governmental support in investments, business sector and households

3 ARCHETYPE: U path

- Government-backed incentives and cheap credit spur quick recovery
- Deferred automotive demand recovered to large extent

4 ARCHETYPE: L path

- New vehicle sales remain depressed as market moves into prolonged economic downturn
- Significant portion of sales lost

PwC survey finds CFOs less certain about the recovery

Jack Walsworth

It’s not just the impact of the pandemic — it’s the uncertainty over how long the pandemic will last that’s taking a toll on the outlook of CFOs across the U.S., a PwC survey shows.

Finance executives who responded to PwC’s latest biweekly COVID-19 CFO Pulse Survey said they are most concerned with the financial impact of the coronavirus, including liquidity and capital resources.

In terms of an overall sentiment, we’re clearly in recession at this point, and CFOs are trying to figure out how long and how deep the recession is. “They’re struggling with, how do you provide guidance when you simply don’t have the answer?” said Tim Ryan, PwC’s U.S. chairman and senior partner, last week on a call with reporters. “We’re clearly in recession at this point, and CFOs are trying to figure out how long and how deep the recession is.”

There were 313 respondents to the survey of U.S. executives, from the technology, financial services, media and telecommunications, and industrial products and consumer markets sectors.

The survey audience did not include enough automotive CFOs to extrapolate auto industry-specific perspectives. The survey found that:

- 67 percent of companies are considering deferring or canceling planned investments.
- 61 percent of the CFOs believe they could return to business as usual within three months — if COVID-19 were to end immediately.
- 49 percent say their company plans to take advantage of government relief programs.
- 46 percent anticipate that a lack of remote work capabilities will lead to production loss.
- 26 percent say their company