



The global economic impacts of COVID-19

Sustainable Development Solutions Network

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Key messages

High frequency data confirms an economic impact far worse than during the GFC

- PMIs have already fallen well below their GFC troughs
- Daily trackers of activity suggest retail trade, construction and transport and international trade are in steep decline worldwide, particularly in countries that have implemented strict lockdowns
- The direct economic impact of the shutdown will be enormous

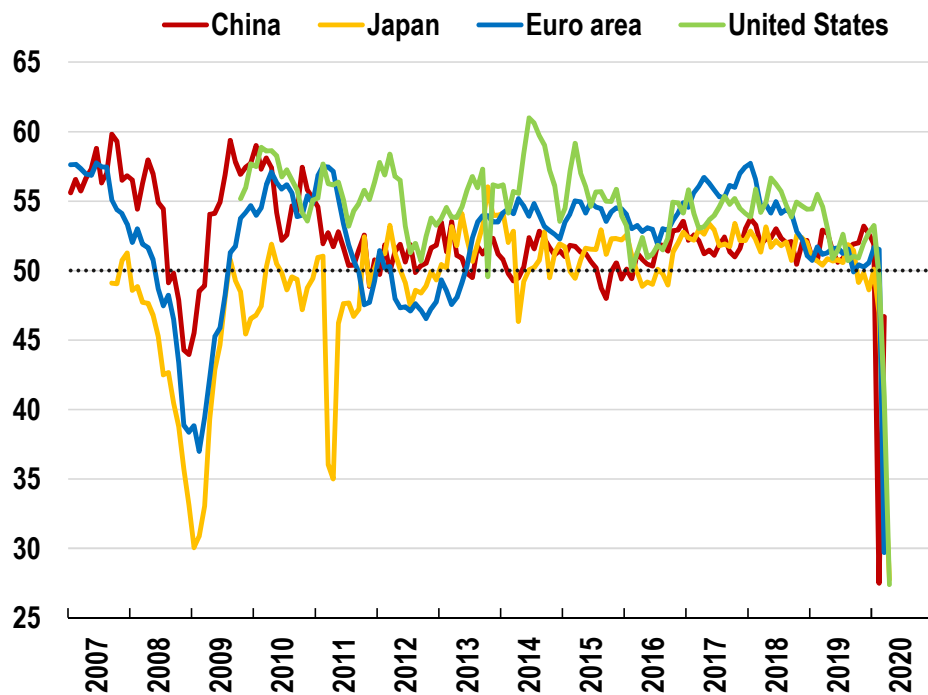
Exit strategies will be impacted by global cooperation and requires evolving policies

- Countries have provided large support to health sectors and cushion the impact of the economic downturn for workers and companies, but on the basis that the shock is temporary
- **International cooperation** will end the pandemic faster and speed up the economic recovery: knowledge sharing, medical and financial resources and
- Border restrictions are likely, but with more coordination lighter restrictions will be possible
- **Allowing reallocation of resources will be key for labour and business dynamics**
- **Some form of monetary-fiscal coordination will likely be required**

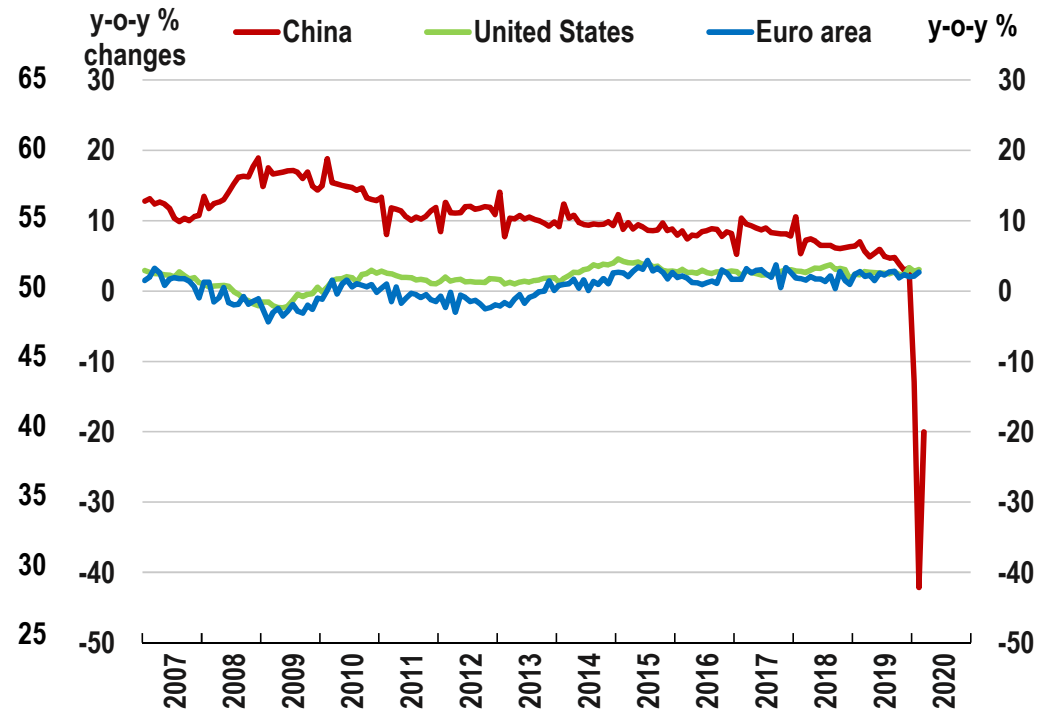


Activity and consumption have dropped drastically since Covid-19

Composite PMI



Consumption index



Note: LHS: The latest data point is for April 2020 for Japan and the United States and March 2020 for China and the euro area. RHS: The latest data point is March for China and February for the euro area and United States.
RHS: Monthly household consumption is used for the United States. The last data point is February 2020 and March 2020 for China.
Source: Refinitiv; Markit; OECD database and OECD calculations.

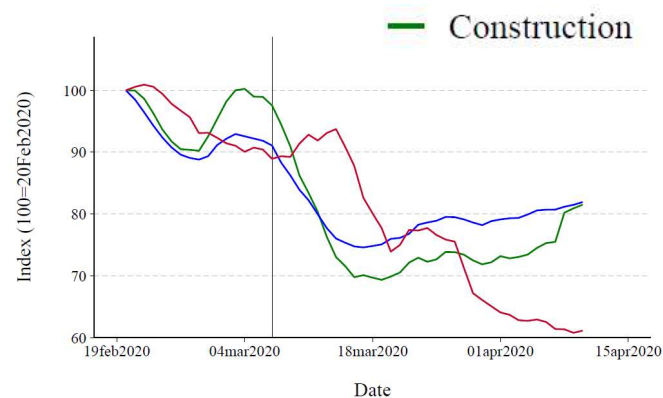


Tracker based on Google trends suggests that activity collapses following a lockdown

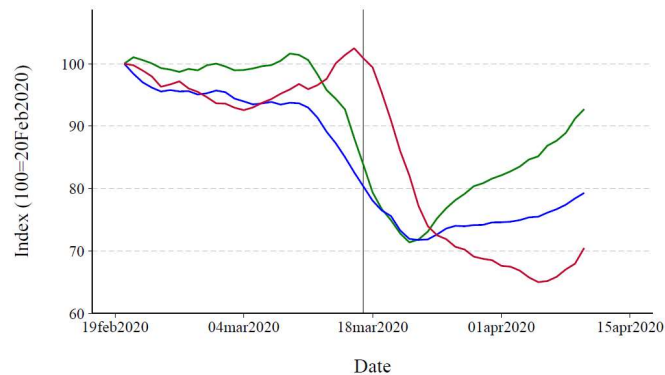
National lockdown announcements

Tightened recommendations to stay home

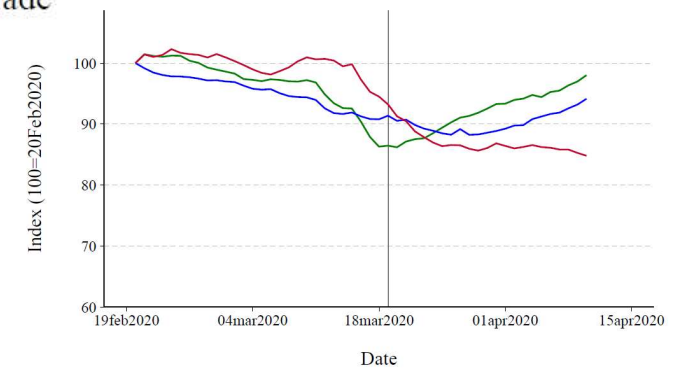
ITA



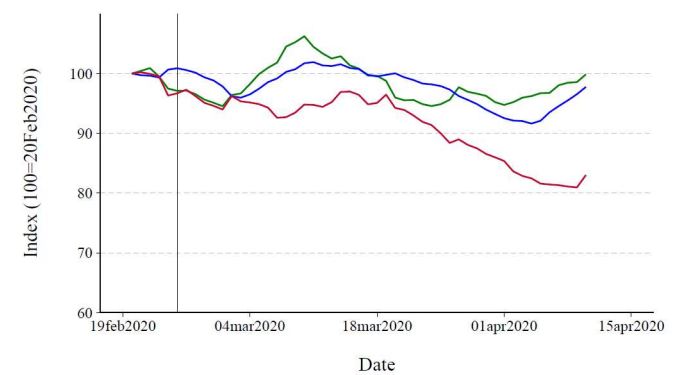
FRA



USA



JPN

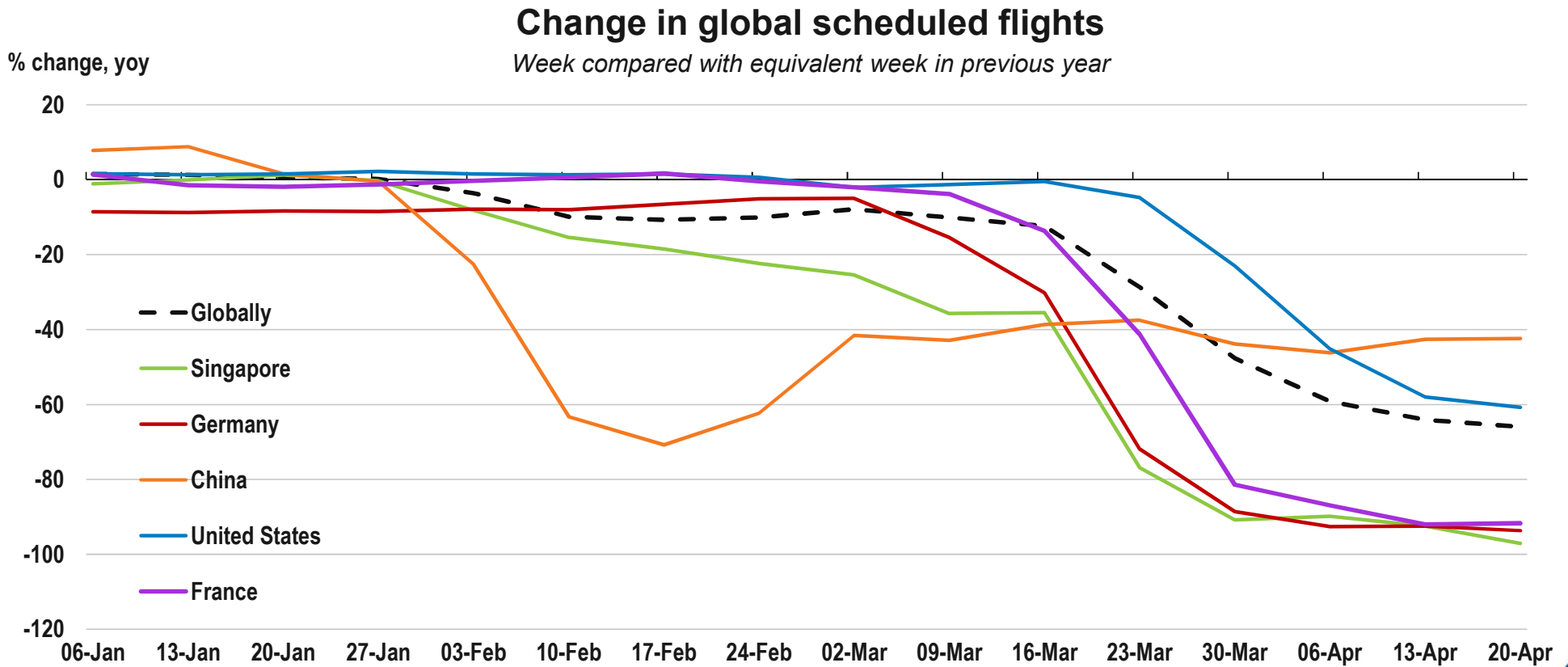


Note: Series show seven-day moving averages since 20 February 2020. Each 'tracker' is an index of the relative search intensity for keywords related to construction, retail sales and trade i.e. it is an index of Google Trends categories. Trackers are compiled based on search categories that are harmonised across countries and languages. Data as of 10 April 2020. Vertical lines represent approximated national lockdown announcements or tightened recommendations to stay home.

Source: Google Trends; OECD Covid-19 Policy tracker; Oxford Covid-19 Government Response Tracker; and OECD calculations.



The international flight network is disintegrating



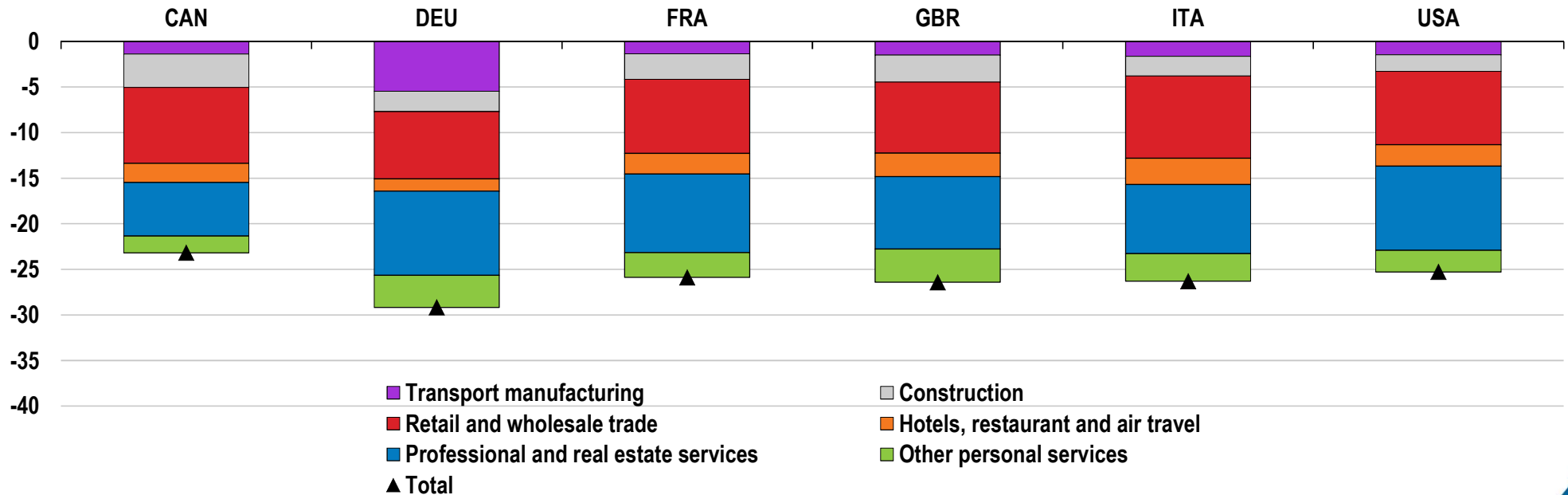
Note: Week compared with equivalent week in previous year. For example, the figures calculate the percentage change, year on year, between Monday 6 January 2019 and Monday 7 January 2020.
Source: Schedules Analyser.



Illustrative estimates of the initial direct impact of shutdown

Potential initial impact of partial or complete shutdowns on activity

% GDP at constant prices



Note: The sectoral data are on an ISIC rev. 4 basis in all countries. The sectors included are manufacturing of transport equipment (ISIC V29-31), construction (VF), wholesale and retail trade (VG), air transport (V51), accommodation and food services (VI), real estate services excluding imputed rent (VL-V68A), professional service activities (VM), arts, entertainment and recreation (VR), and other service activities (VS). The latter two are grouped together as other personal services in the figure. Full shutdowns are assumed in transport manufacturing and other personal services; declines of one-half are assumed for output in construction and professional service activities; and declines of three-quarters are assumed in all the other output categories directly affected by shutdowns.

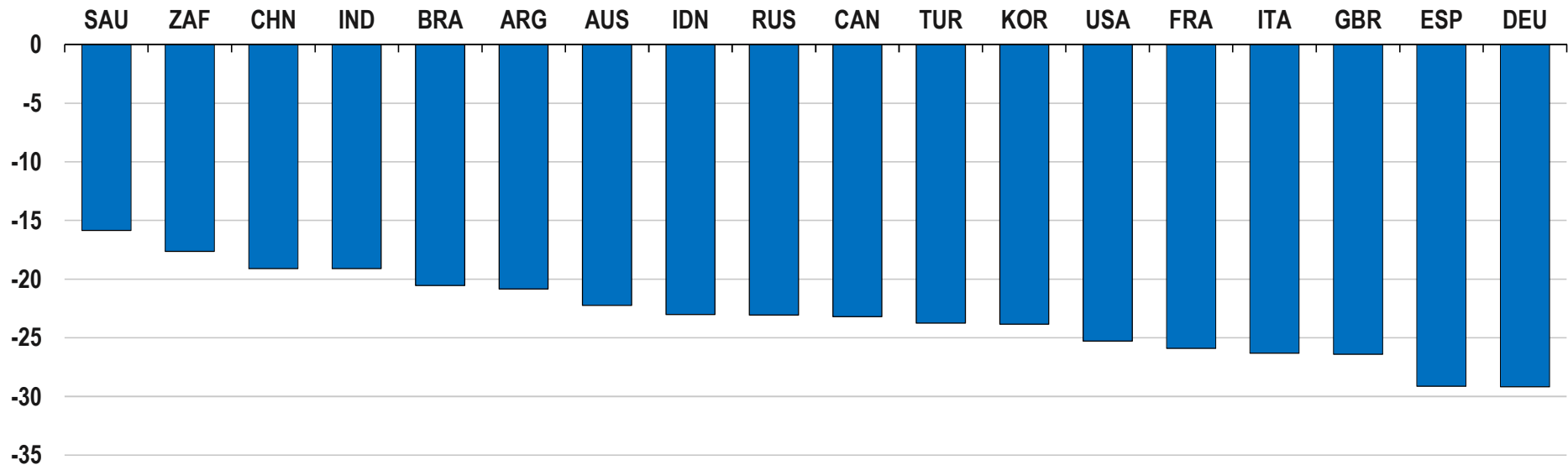
Sources: OECD Annual National Accounts; and OECD calculations.



Illustrative estimates of the initial direct impact of shutdown - impact felt worldwide

Potential initial impact of partial or complete shutdowns on activity

% GDP at constant prices



Note: The sectoral data are on an ISIC rev. 4 basis in all countries. The sectors included are manufacturing of transport equipment (ISIC V29-31), construction (VF), wholesale and retail trade (VG), air transport (V51), accommodation and food services (VI), real estate services excluding imputed rent (VL-V68A), professional service activities (VM), arts, entertainment and recreation (VR), and other service activities (VS). The latter two are grouped together as other personal services in the figure. Full shutdowns are assumed in transport manufacturing and other personal services; declines of one-half are assumed for output in construction and professional service activities; and declines of three-quarters are assumed in all the other output categories directly affected by shutdowns. The sectoral data are on an ISIC rev. 4 basis in all countries apart from Korea and Brazil, where national data are used. Real estate services excluding imputed rent are assumed to be 40 per cent of total real estate services in countries in which separate data are not available.

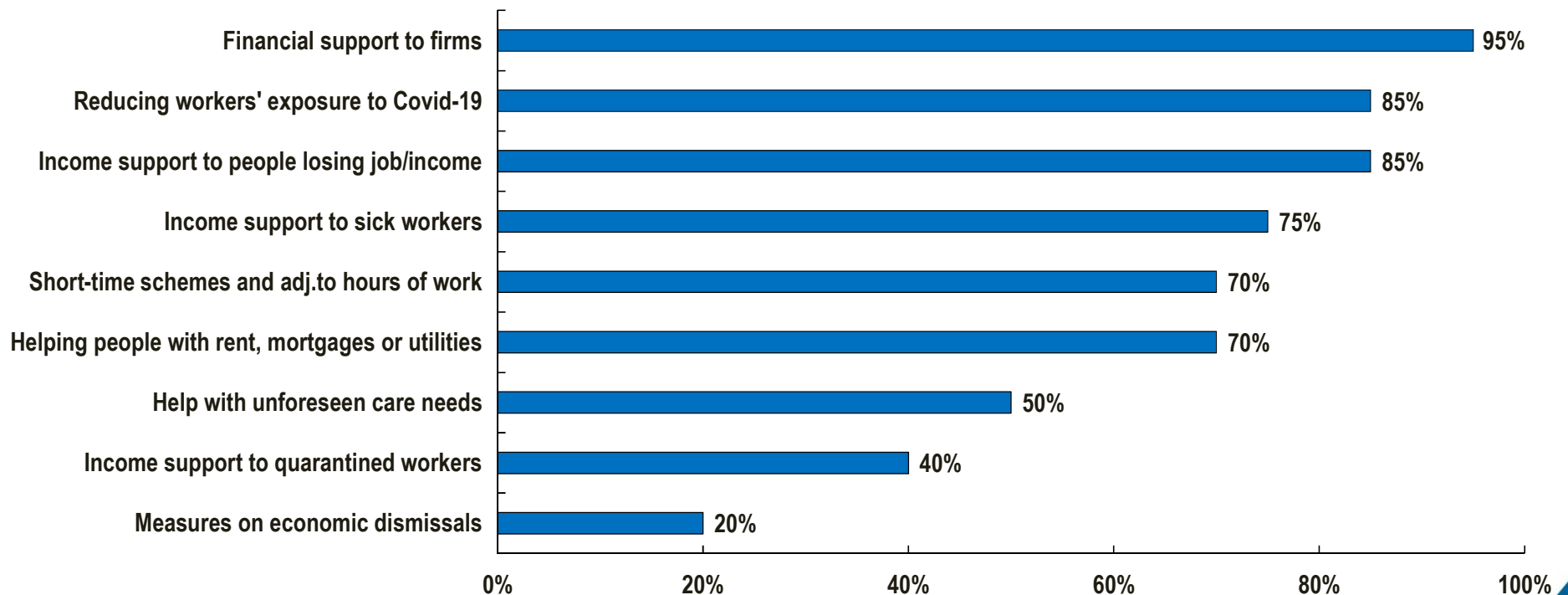
Sources: OECD Annual National Accounts; OECD Trade in Value-Added database; Statistics Korea; Brazilian Institute of Geography and Statistics; and OECD calculations.



Adopted measures across G20 countries

(2nd April)

Share of G20 countries that have introduced (or announced) new measures or expanded existing ones in response to Covid-19



Source: OECD (2020), "Supporting people and companies to deal with the Covid-19 virus: Options for an immediate employment and social-policy response", ELS Policy Brief on the Policy Response to the Covid-19 Crisis, OECD, Paris, <http://oe.cd/covid19briefsocial>.

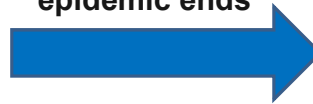


Several exit strategies are possible: a stylised gradual exit path

Phase 1: National containment measures and mass testing

- Virus reproduction rate slows significantly and for a sufficiently long time
- **Expand healthcare capacity**

National epidemic ends



Phase 2: Gradual return to work and school with mass testing

- **Expand healthcare capacity globally** (e.g. testing, treatment, vaccine development)
- Required test for immunity or a regular Covid negative test to attend work and school
- **Maintain border controls, selective lockdown and restrict mass gatherings**
- **Enhance fiscal and monetary support**



Phase 3: Epidemics end across the world

- Ease border controls, restrictions on mass gatherings and mass testing
- **Maintain accommodative fiscal and monetary support**



Phase 4: Vaccine developed

- Mass rollout of vaccine
- **Fully remove** border controls, mass testing and restrictions on mass gatherings

Potential new coronavirus wave





Policy questions for the next months/year

People

- **Reviewing health care capacities** (for mass testing, isolation, **tracing and tracking raising privacy issues**)
- **Income support measures** (e.g., short-time working schemes, paid sick leave and unemployment benefits must be **balanced with incentives to go back to work: job and skills mismatch likely**)

Firms

- **Reductions in tax, charges and social security contributions** (e.g., enhanced tax loss provisions for firms, **how much should be made permanent if any?**)
- **Liquidity and credit lines** : when is liquidity issue turning into solvency issue raises two questions: **bankruptcy process** (fast track?); partial **nationalisation?** **Protection from predatory buyers?**

Macro policy

- **Inflated central banks balance sheets**
- **Prudential regulation to support bank lending** (e.g., favorable NLP treatment)
- **High deficits and high public debts** : implications for debt management
 - **Dealing with NPLs (bad banks)**
 - **Articulating monetary and fiscal policies**