COVID-19 and the Global Economy: economic shocks from new variants

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Supply chain chaos

• Earlier economic shocks (pre-COVID)
• The first COVID shocks in early 2020
• The impact of new COVID shocks
• Lasting effects from the earlier shock

Port of Savannah. Source: NYTimes, 10 October 2021, “It’s Not Sustainable’: What America’s Port Crisis Looks Like Up Close.”
Earlier economic shocks (pre-COVID)

The Great Recession

• Trade was a transmission mechanism for demand shocks in the Great Recession

• Supply chains transmitted falling industrial demand across borders

• Supply chains also spread recovery drivers (rising demand) across borders.

*Figure 2 The Great Recession; volume of world trade, index (January 2008 = 100)*

The first COVID shock in early 2020: aka The Great Supply Chain Shock

• Port closures and border closures
• Factory shut downs for critical components
• Delayed delivery times for critical components
• Lasting disruption to global logistics networks.

In recent weeks, the shutdown of a giant container terminal off the Chinese city of Ningbo has added to delays. Vietnam, a hub for the apparel industry, was locked down for several months in the face of a harrowing outbreak of Covid. Diminished cargo leaving Asia should provide respite to clogged ports in the United States, but Mr. Lynch dismisses that line. “Six or seven weeks later, the ships come in all at once,” Mr. Lynch said. “That doesn’t help.” NYTimes, October 2021.
The first COVID shock in early 2020

- Firms have been responding by building inventories
- Expanded inventory builds are placing further stress on supply chains
- Delayed delivery times for critical components
- Lasting disruption to global logistics networks. Containers are in the wrong places, and port clearing times are bad and getting worse

Companies originally planned to increase nearshoring of suppliers to boost supply-chain resilience—but wound up increasing inventory.

**Planned and implemented actions, % of respondents**

<table>
<thead>
<tr>
<th>Action</th>
<th>Implemented in the past 12 months</th>
<th>Planned in May 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increasing inventory of critical products</td>
<td>61</td>
<td>47</td>
</tr>
<tr>
<td>Dual sourcing of raw materials</td>
<td>56</td>
<td>53</td>
</tr>
<tr>
<td>Increasing inventory along the supply chain</td>
<td>42</td>
<td>27</td>
</tr>
<tr>
<td>Regionalizing the supply chain</td>
<td>25</td>
<td>27</td>
</tr>
<tr>
<td>Expanding backup production sites</td>
<td>23</td>
<td>38</td>
</tr>
<tr>
<td>Nearshoring and increasing supplier base</td>
<td>15</td>
<td>40</td>
</tr>
<tr>
<td>Reducing SKUs in product portfolio</td>
<td>15</td>
<td>30</td>
</tr>
<tr>
<td>Nearshoring production</td>
<td>11</td>
<td>15</td>
</tr>
</tbody>
</table>

Source: McKinsey survey of global supply-chain leaders (May 4—June 16, 2021, n = 71)

The Impact of further COVID shocks

Wall Street clobbered as crude plummets, coronavirus crisis deepens

NEW YORK (REUTERS) - Wall Street suffered its biggest one-day loss since the 2008 financial crisis on Monday (March 9) and recession worries loomed large as tumbling oil prices and ongoing coronavirus fears prompted investor panic on the anniversary of the United States stock market's longest-ever bull run.

March 2020

Dow ends 2.5% lower as new Covid-19 variant causes year's worst drop

NEW YORK (AFP) - The new Covid-19 variant that has prompted travel restrictions worldwide caused Wall Street to plunge in Friday's (Nov 26) holiday shortened session, with the Dow seeing its worst loss of the year.

November 2021
The Impact of further COVID shocks

From: Google Finance
The Impact of further COVID-19 shocks: employment recovery continues despite Delta

THE EMPLOYMENT SITUATION — NOVEMBER 2021

Total nonfarm payroll employment rose by 210,000 in November, and the unemployment rate fell by 0.4 percentage point to 4.2 percent, the U.S. Bureau of Labor Statistics reported today. Notable job gains occurred in professional and business services, transportation and warehousing, construction, and manufacturing. Employment in retail trade declined over the month.

Chart 1. Unemployment rate, seasonally adjusted, November 2019 – November 2021

Chart 2. Nonfarm payroll employment, seasonally adjusted, November 2019 – November 2021
The Impact of further COVID shocks

• The supply chain is already disrupted, and firms anticipate further disruption. We see this in changes in inventory vs diversified production strategies.

• Travel disruption and on/off local measures will continue to disrupt services (food, travel and tourism, education), with knock on effects on employment.

• What will matter is unexpected shocks than require stronger lockdowns that what are anticipated.

• What will also matter is lack of clarity regarding policy (lockdowns, port closures, travel restrictions, etc) as this means continued uncertainty.

• Other ongoing shocks (like Brexit) may make economic cost of COVID-19 measures worse.

British Grocery Stores Are Stocking Empty Shelves with Cardboard Cutouts of Food

UK supermarket Tesco claims it has nothing to do with supply chain issues.
By Jelisa Castrodale | October 25, 2021

And food companies are being fairly honest about their plans to raise prices.

Source: foodandwine.com, October 2021.
Introduction
17:00- 17.10
Prof. Dr. Carmen Faso, MCID Co-Chair
Prof. Dr. med. Nicola Low (Moderator)

Speaker presentation
17:15- Dr. Emma Hodcroft, Institute of Social and Preventive Medicine, UniBern
“How is Omicron and how do we identify it?”

17:30- Prof. Dr. Volker Thiel, Institute for Virology and Immunology, Vetsuisse, UniBern
“How is Omicron different from other variants?”

17:45- PD Dr. Christian Althaus, Institute of Social and Preventive Medicine, UniBern
“How well does Omicron spread compared to other variants?”

18:00- Prof. Dr. med. Annelies Wilder-Smith, Institute of Social and Preventive Medicine, UniBern
“What does Omicron mean for international travel?”

18:15- Prof. Dr. Joseph Francois, World Trade Institute, UniBern
“Why and how does Omicron cause an international economic shock?”

Panel discussion
Including the speakers above, together with:

Prof. Dr. Dr. Claus Beisbart
Institute of Philosophy, UniBern

PD Dr. med. Manuela Funke-Chambour
Department for Biomedical Research, Inselspital