



ARMADA

# **Advancing or Retreating? The Restart Begins**

## **Torrco Webinar May 14, 2020**

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ARMADA

Analysis of the Forces Affecting Business

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May 14, 2020

# Seems to be a Flock of Them These Days



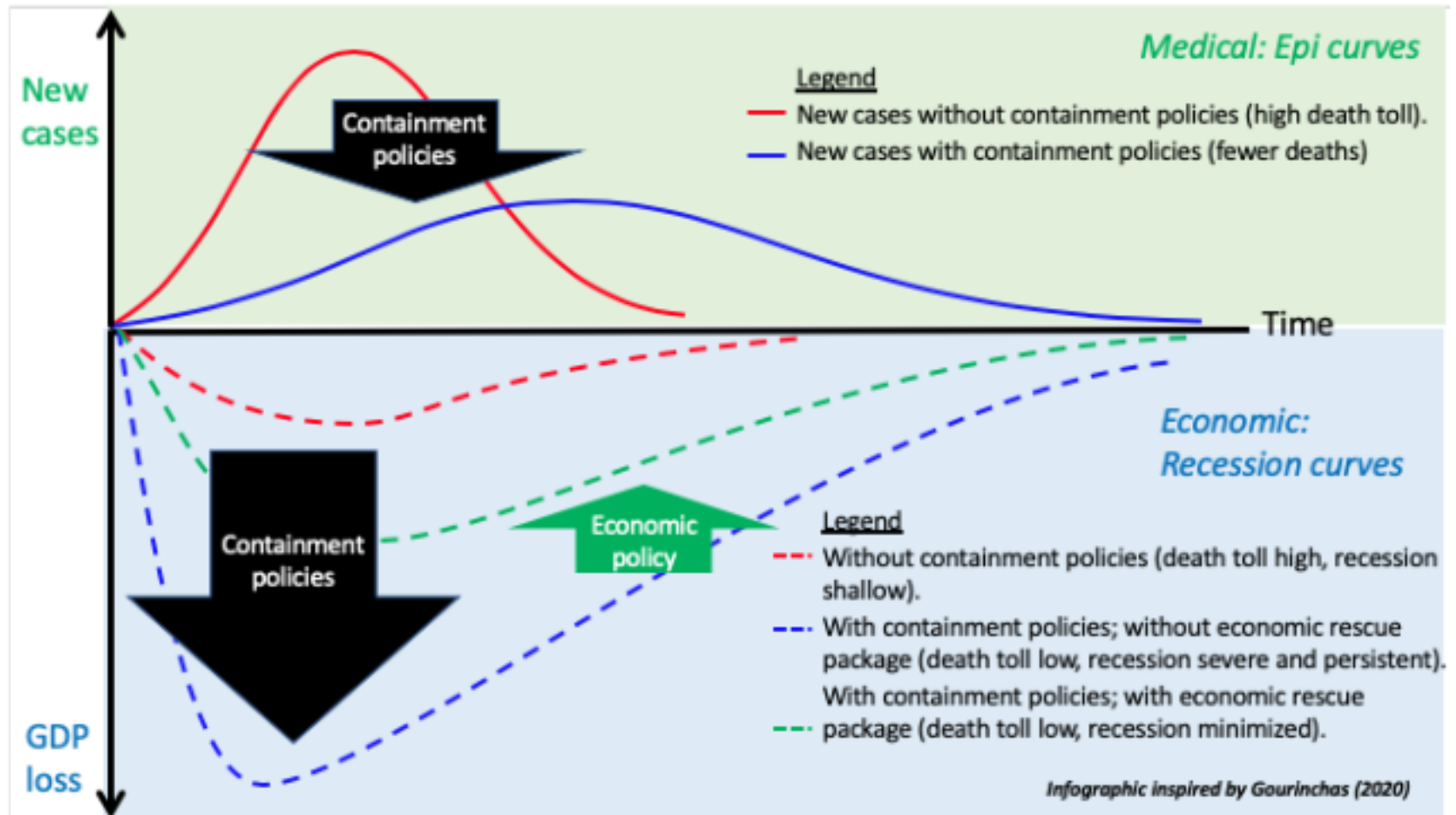
- **Partisan divide has erupted over response – which crisis to emphasize. The lockdown or the epidemic**
- **Power shift to the governors**
- **Reality of an election year – roughly a third will support Trump no matter what and roughly a third will oppose him no matter what. The crucial third reacts to the situation at the time of the election.**
- **Greatly expanded role for government and along with that has come great expansion of debt and deficit. Will there be tolerance of massive budget cuts or big hikes in revenue.**
- **Trust gap has played a role all over the world. Conflicting messages from various authorities worried about different things**

# What Issues will Dominate the Election?



- **COVID 19 will occupy the majority of the conversation.**
  - **Should there have been a lockdown at all?**
  - **Should the lockdown have been more aggressive?**
  - **What could have been done to prepare for this?**
  - **What should be done to prepare for the future?**
  - **Should more money go to public health?**
  - **What should be done to deal with the debt and deficit?**
  - **Is there anything else that needs to be done to get the economy back on track?**
  - **What relationship should we have with China from this point?**

# The Trade Off

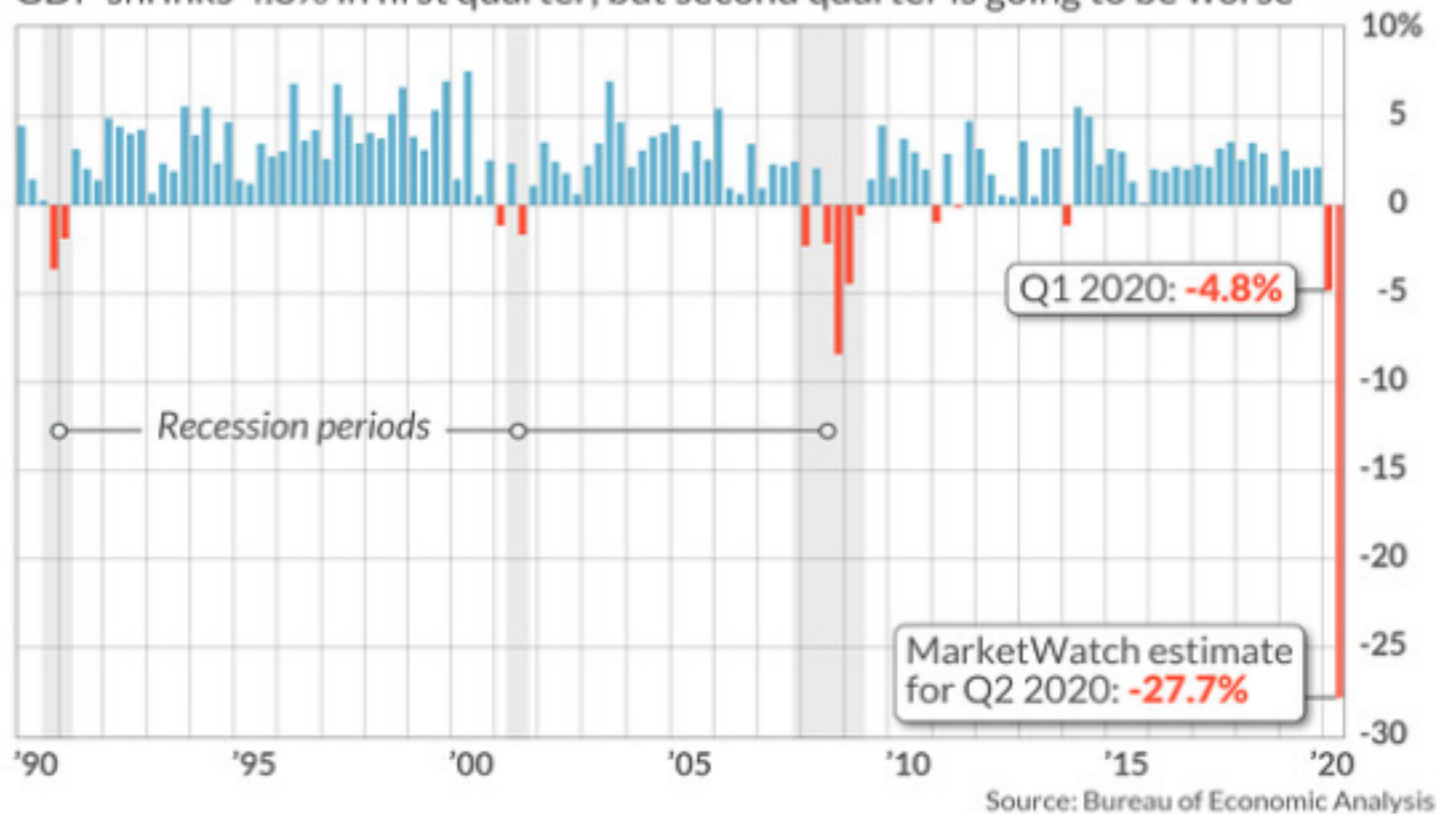




# 2008 Was Worse – Really!

## Economy posts biggest contraction in 12 years

GDP shrinks 4.8% in first quarter, but second quarter is going to be worse



# Global Cost has been Extreme

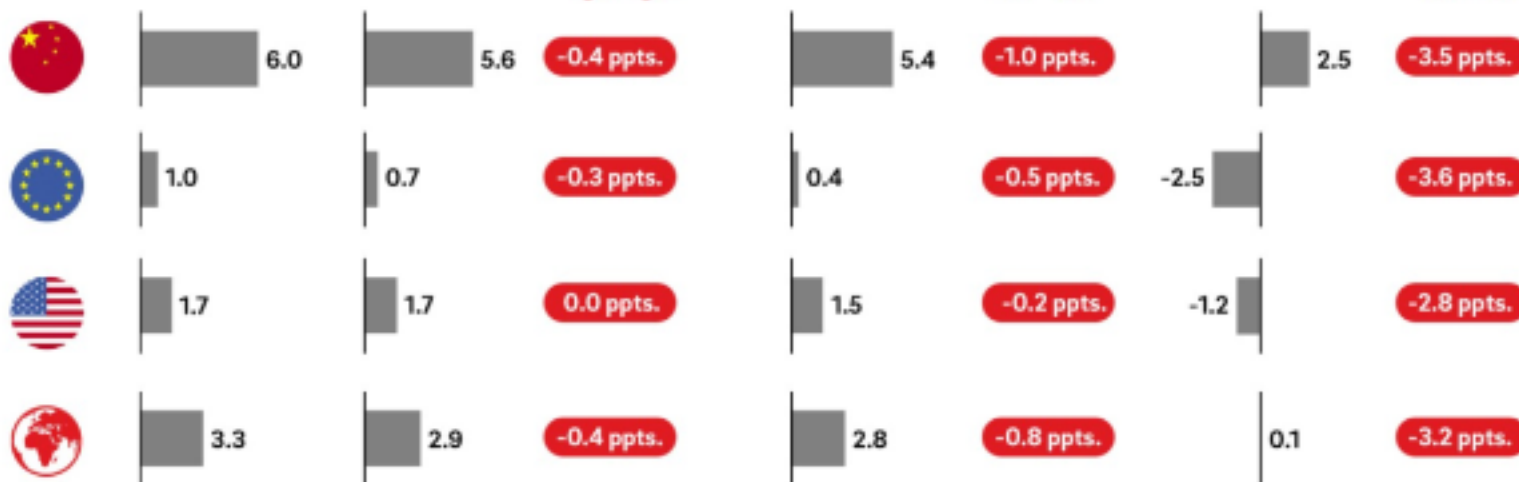
COVID-19 is becoming a challenge to the global economy – We analyze three scenarios ranging from a fast recovery to a profound recession

**Base Case 2020**  
(Pre COVID-19 Forecast)

**Fast recovery**

**Delayed cure**

**Profound recession**



■ GDP growth 2020 [%]

Percentage point

Cumulative impact on GDP 2020 (compared to GDP 2020 in the base case scenario)

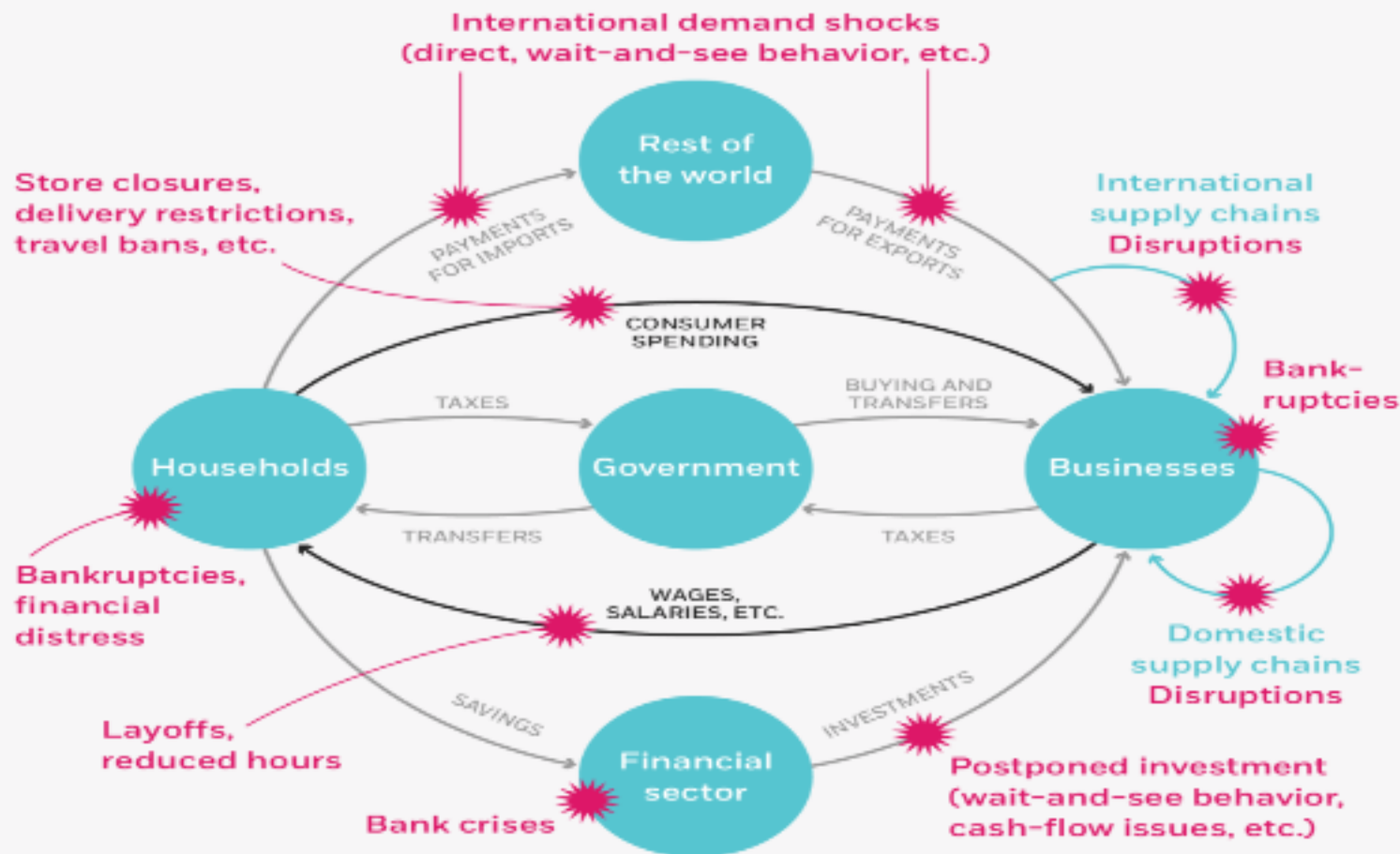
Source IMF, Oxford Economics, Roland Berger



# How the Economy is Getting Hit



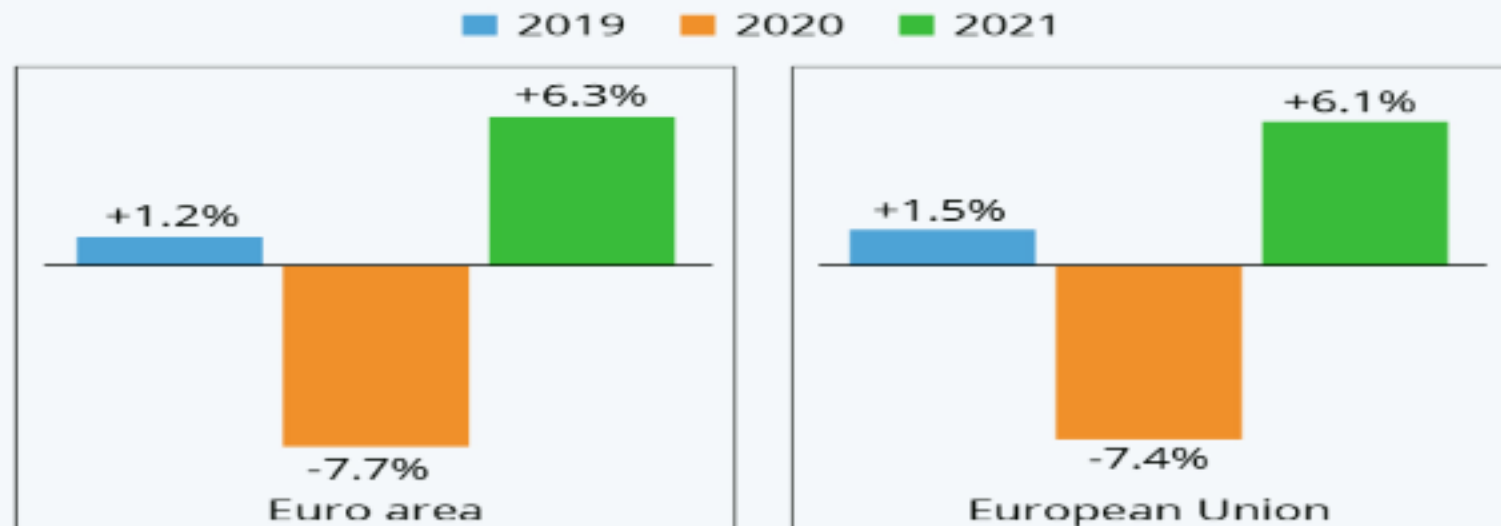
Where the COVID-19 crisis is striking the system





## Europe Faces Historic Recession Due to COVID-19 Pandemic

GDP growth forecast for the euro area and the EU  
(Spring 2020 Economic Forecast)



Source: European Commission

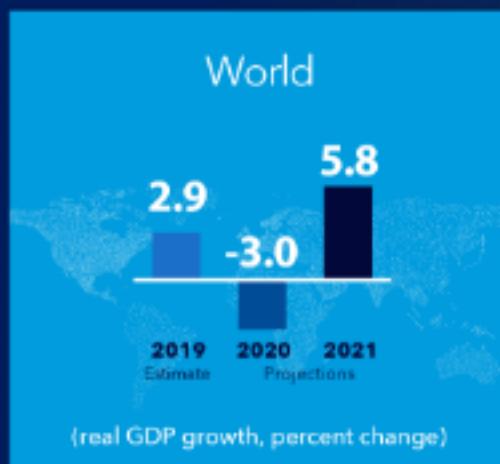


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# Nice Rebound Expected

## Latest World Economic Outlook growth projections

(percent change)



### UNITED STATES



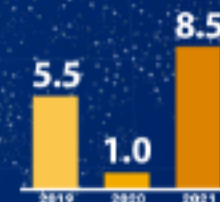
### EURO AREA



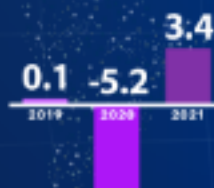
### MIDDLE EAST AND CENTRAL ASIA



### EMERGING AND DEVELOPING ASIA



### LATIN AMERICA AND THE CARIBBEAN



### SUB-SAHARAN AFRICA



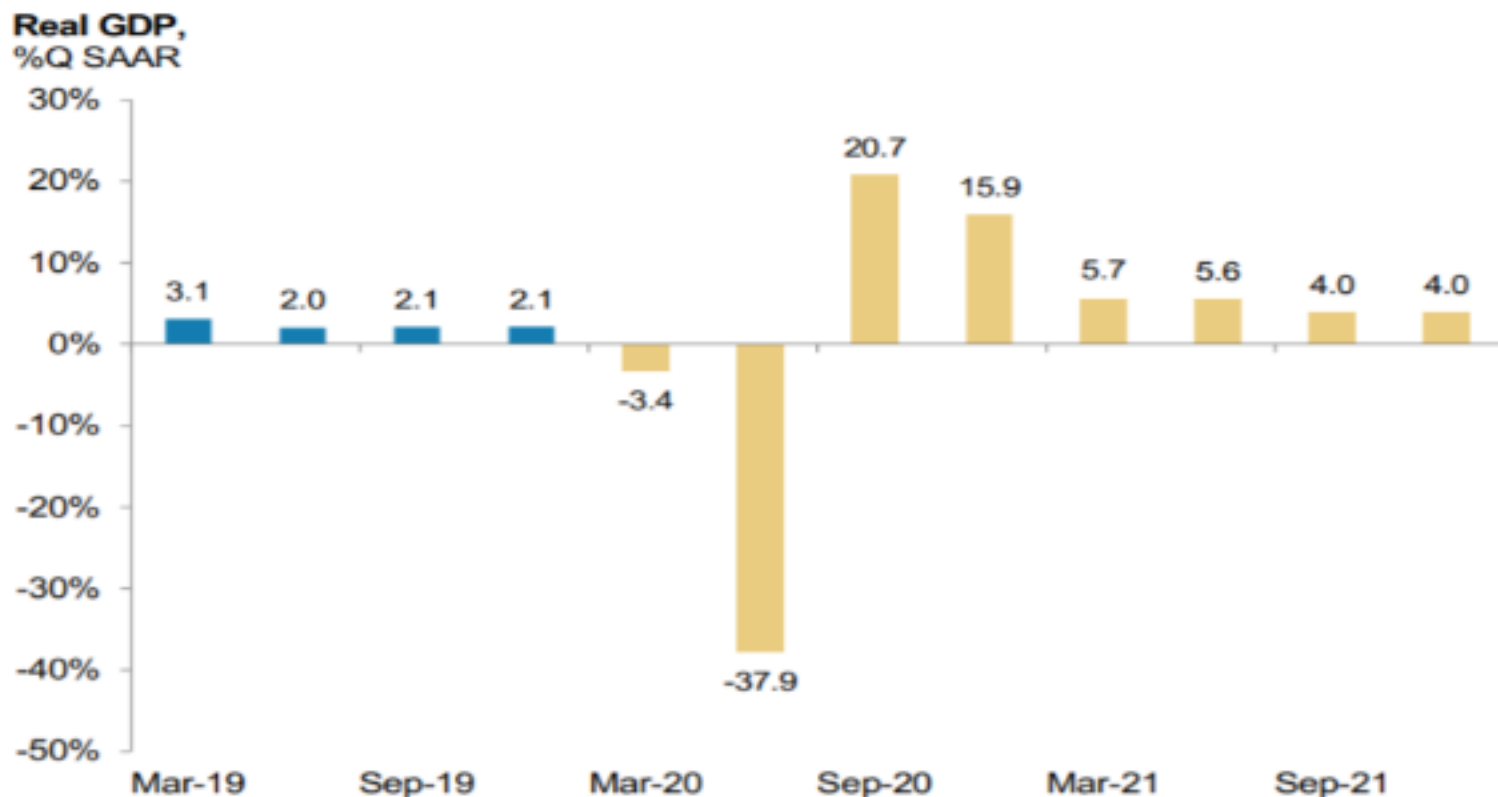
Source: IMF, World Economic Outlook, April 2020.

Note: Order of bars for each group indicates (left to right): 2019, 2020 projections, and 2021 projections.

# Recovery but Big Drop will Drag for a While

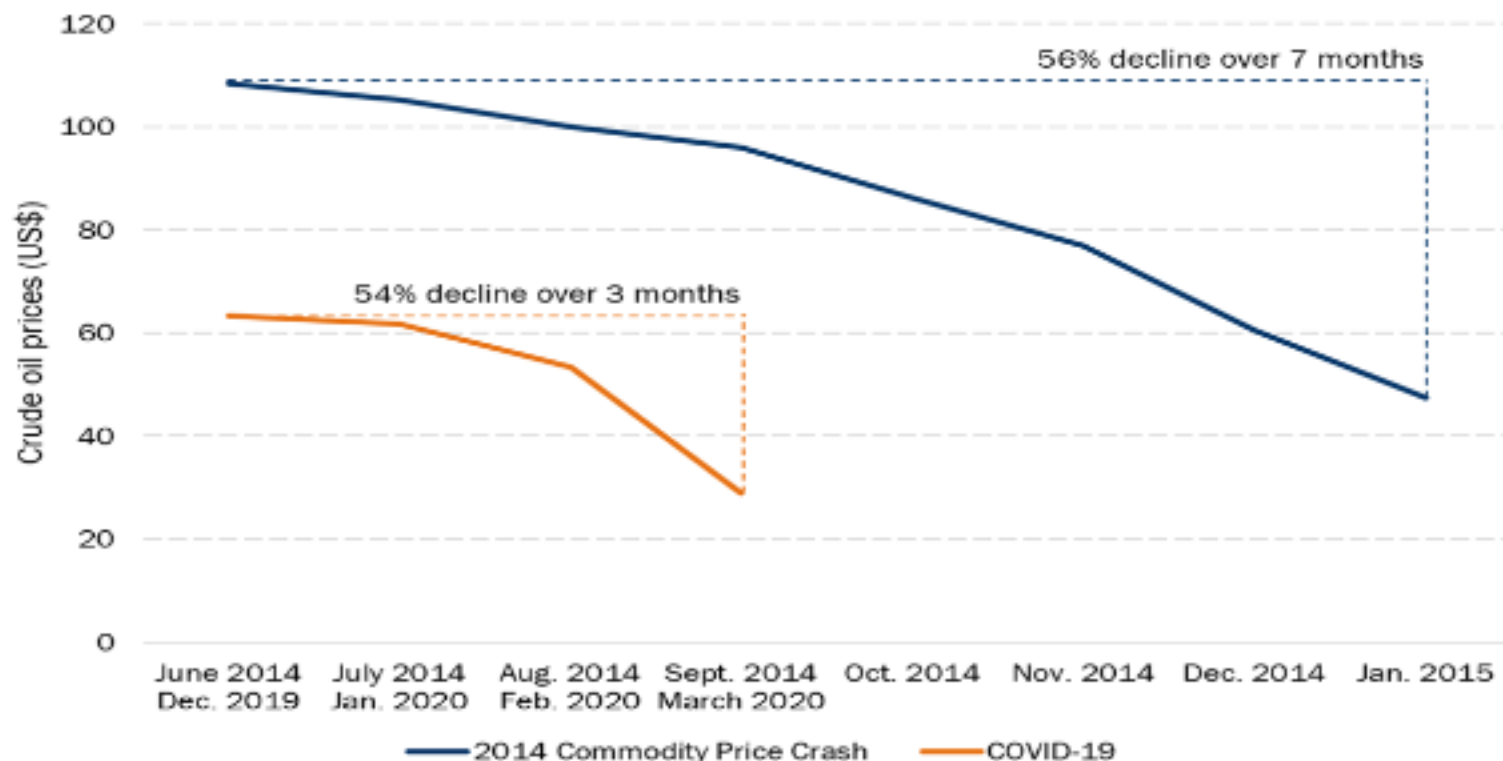


**Exhibit 2: US Economic Outlook: Quarterly Growth Profile**



Source: Bureau of Economic Analysis, Morgan Stanley Research forecasts

**Figure 1. Drop in crude oil prices in 2014 vs. COVID-19**



Source: IMF Primary Commodity Price System.

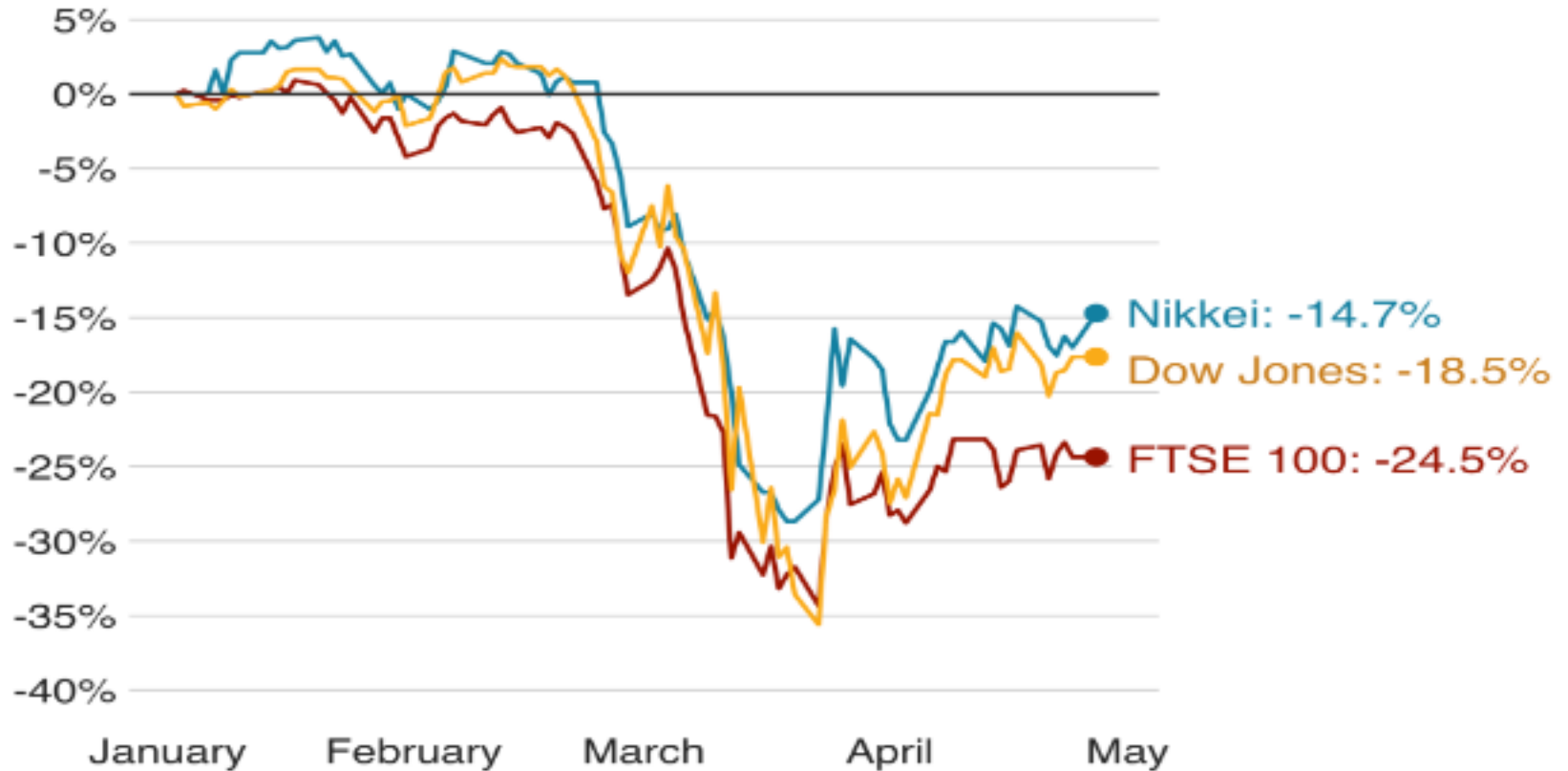
BROOKINGS

# Always Volatile

## U.S. WTI futures price, constant dollars, 1983–2020



## The impact of coronavirus on stock markets since the start of the outbreak



Source: Bloomberg, 27 April 2020, 07:00 GMT





## Global Workforce Could Lose \$3.4 Trillion in Income This Year

Estimated decline in worldwide labor income in 2020 due to the coronavirus pandemic

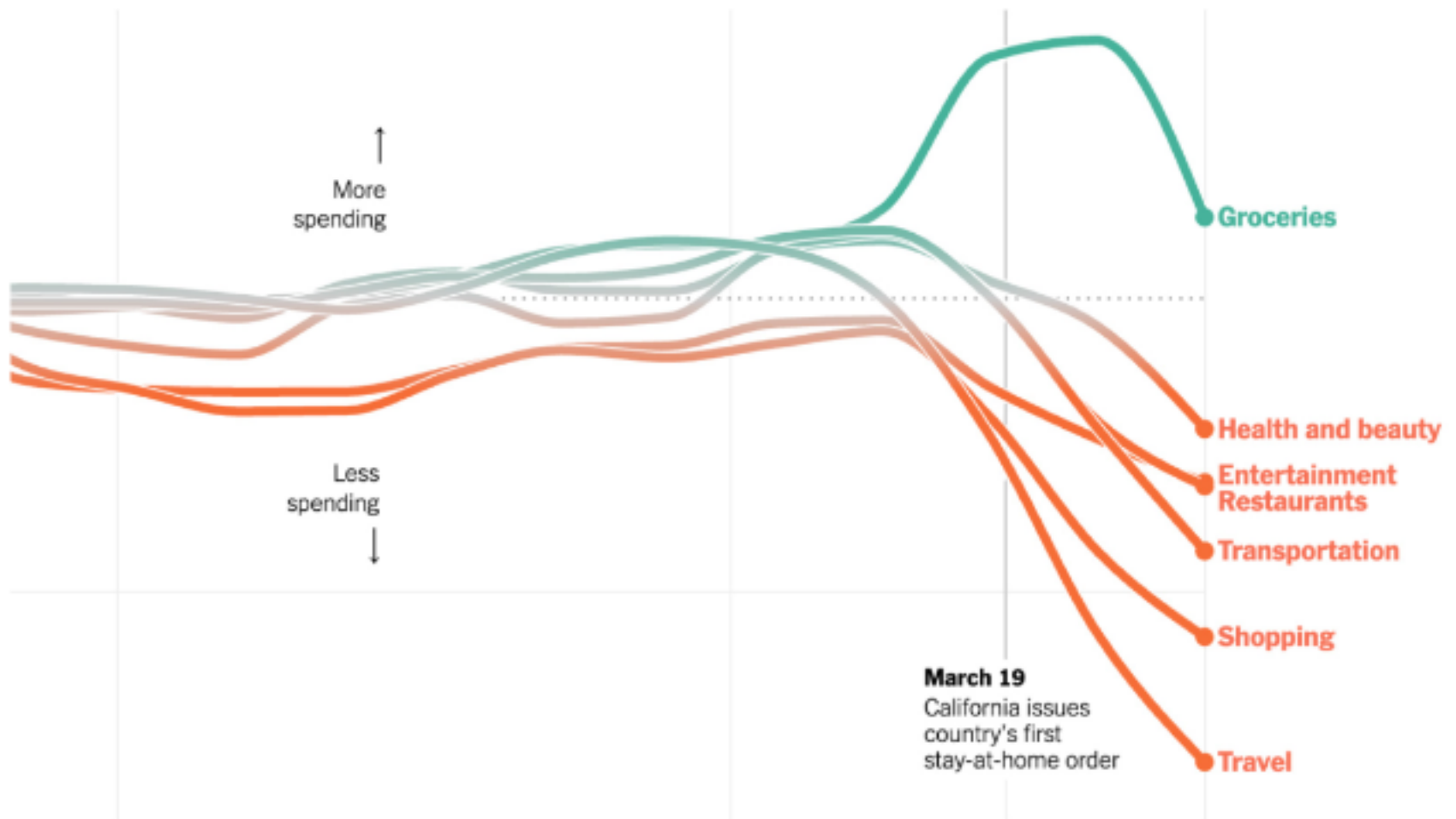


Source: International Labour Organization

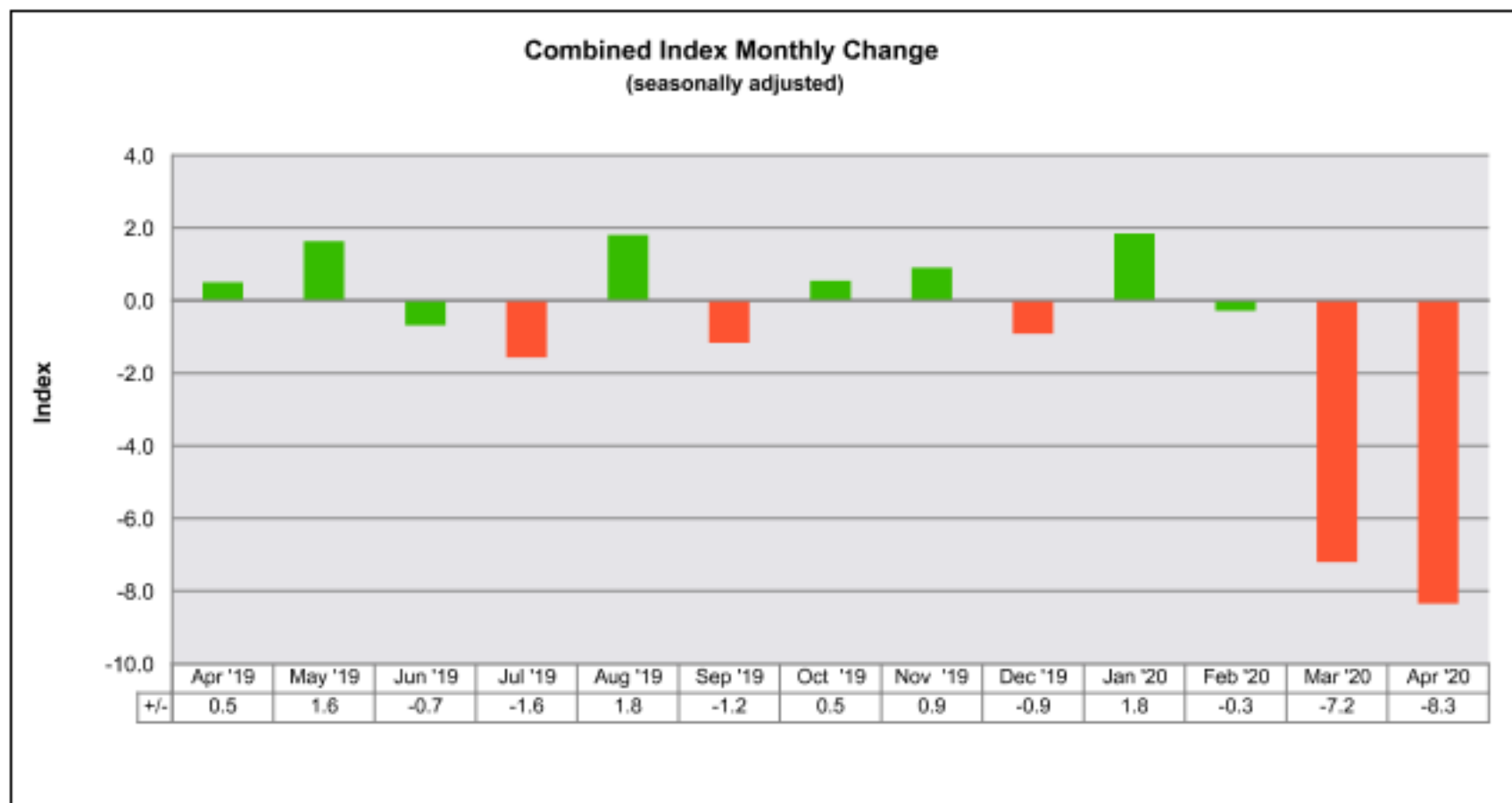


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# Spend is Weighted Towards Services



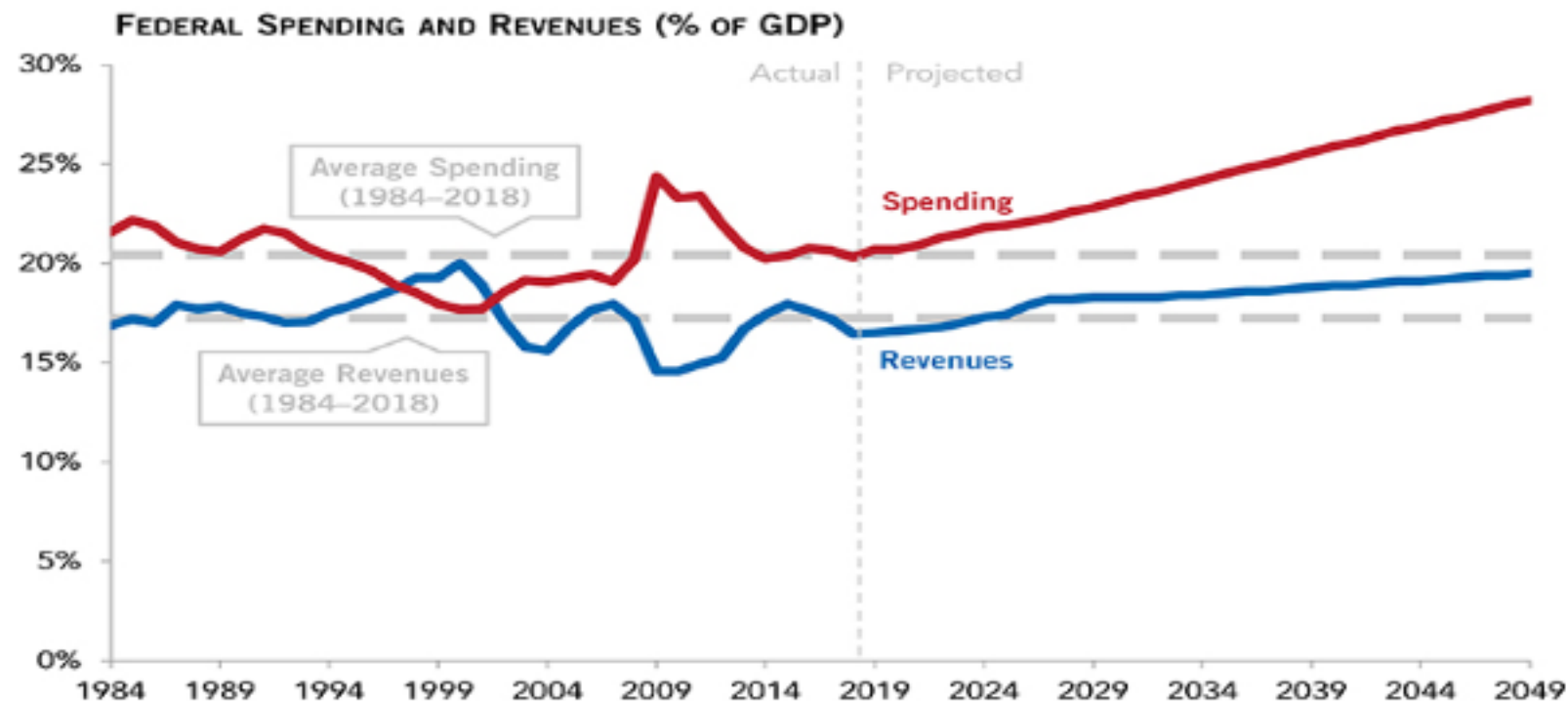
# CMI Overall



# Want Something Else to Obsess Over?



The growing debt is caused by a structural mismatch between spending and revenues



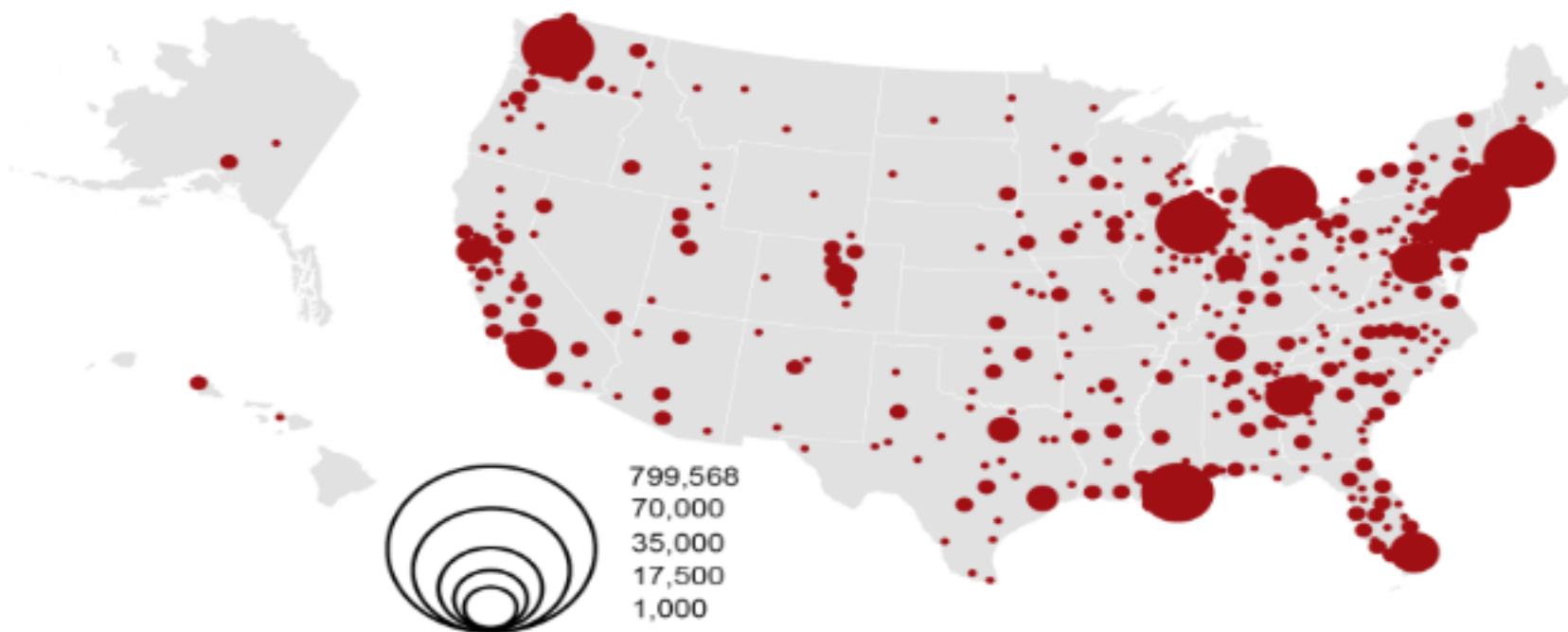
SOURCE: Congressional Budget Office, *The 2019 Long-Term Budget Outlook*, June 2019.  
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# Predictable Outbreaks

MAP 1

**Large metro areas across the country have seen the most extensive outbreaks**  
Number of confirmed COVID-19 cases, April 7



Source: New York Times

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at BROOKINGS



- **Age – those over 60 still have a fatality rate of 13% as compared to 1.7% for those under 50**
- **Underlying health issues – especially lung related and immune deficiency**
- **Obesity and generally being out of shape**
- **Fatigue and generally being run down to the point of vulnerability**



- **Most Likely – A series of serious outbreaks in specific areas with a vulnerable population. This would include where the elderly population is large or where there are large crowded urban areas.**
- **Next Most Likely – Waves of infection in areas where there has been a loosening of restrictions as people who were not exposed become infected.**
- **Least Likely – Massive second wave that looks like the first one and spreads at the same rate.**
- **The role of “Herd Immunity” – the more that people are exposed and get the infection the larger the population with temporary immunity. It is estimated that roughly 70% to 90% are either without symptoms or have a mild version.**

# Winners and Losers



## DECODING THE ECONOMICS OF COVID-19 POTENTIAL WINNERS & LOSERS IN THE SHORT TERM



Source: Dcode EFC Analysis

## CORONAVIRUS LOCKDOWN

How introverts think it will be



How extroverts think it will be



How the media thinks it will be



How it actually is



# You KNOW You Want More



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