



ARMADA

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

## **Torrco Town Hall June 4, 2020**

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ARMADA

Analysis of the Forces Affecting Business

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June 4, 2020

# White Swan Comeback?



- **Models rely on accurate data and there has been too little of it.**
  - **Deliberate obfuscation**
  - **Instant experts and wild theories**
  - **New strain of virus and little is known about it**
  - **Conflicting interpretations of findings**
- **Difference of opinion on economic recovery**
  - **All depends on consumer preference**
  - **Many trends had already started – retail shift to on-line, working from home, increased reliance on tech and robotics**
  - **Many companies were already on the brink and the virus pushed them over the edge**

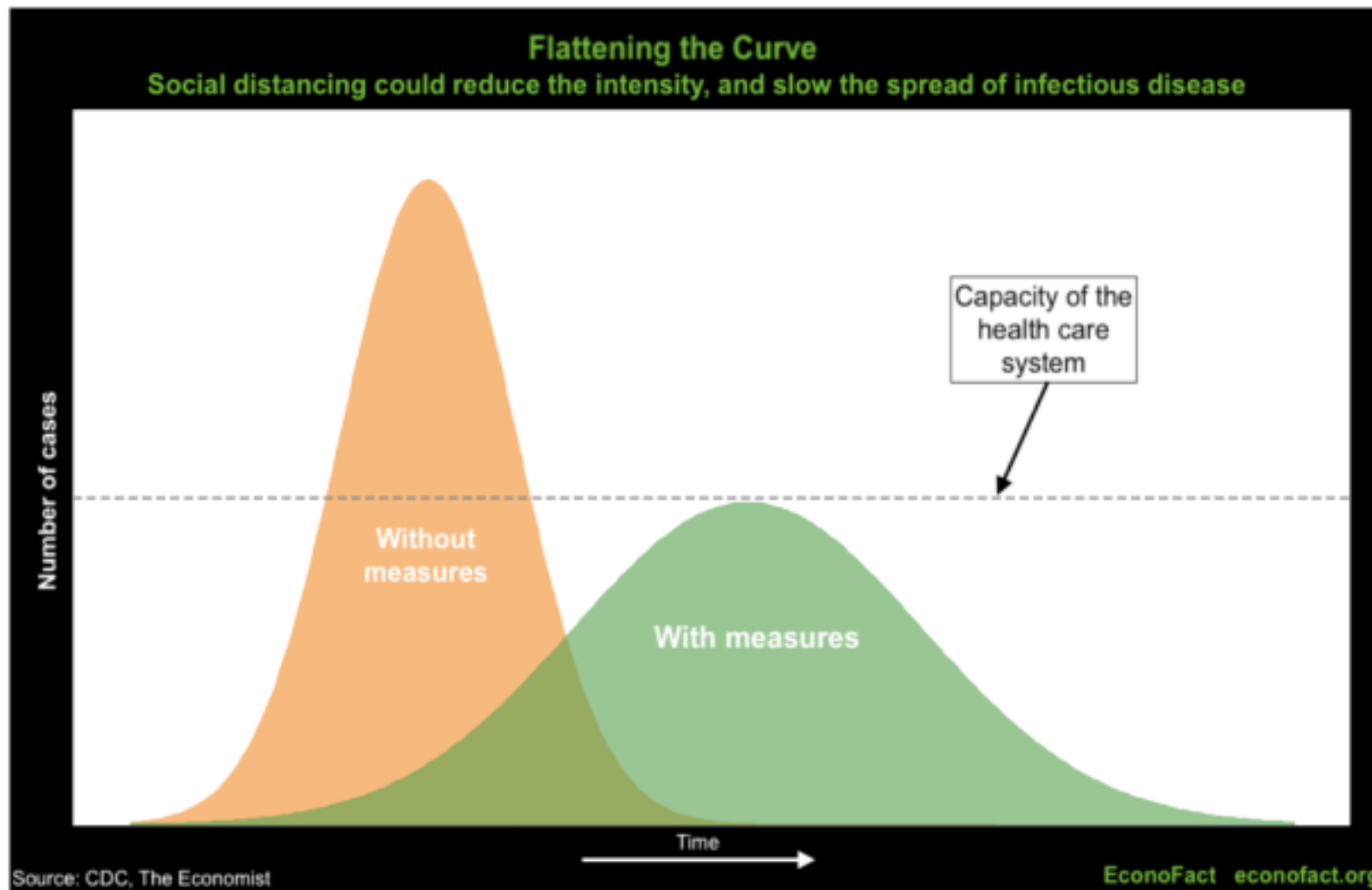
# Economic Damage to Consider



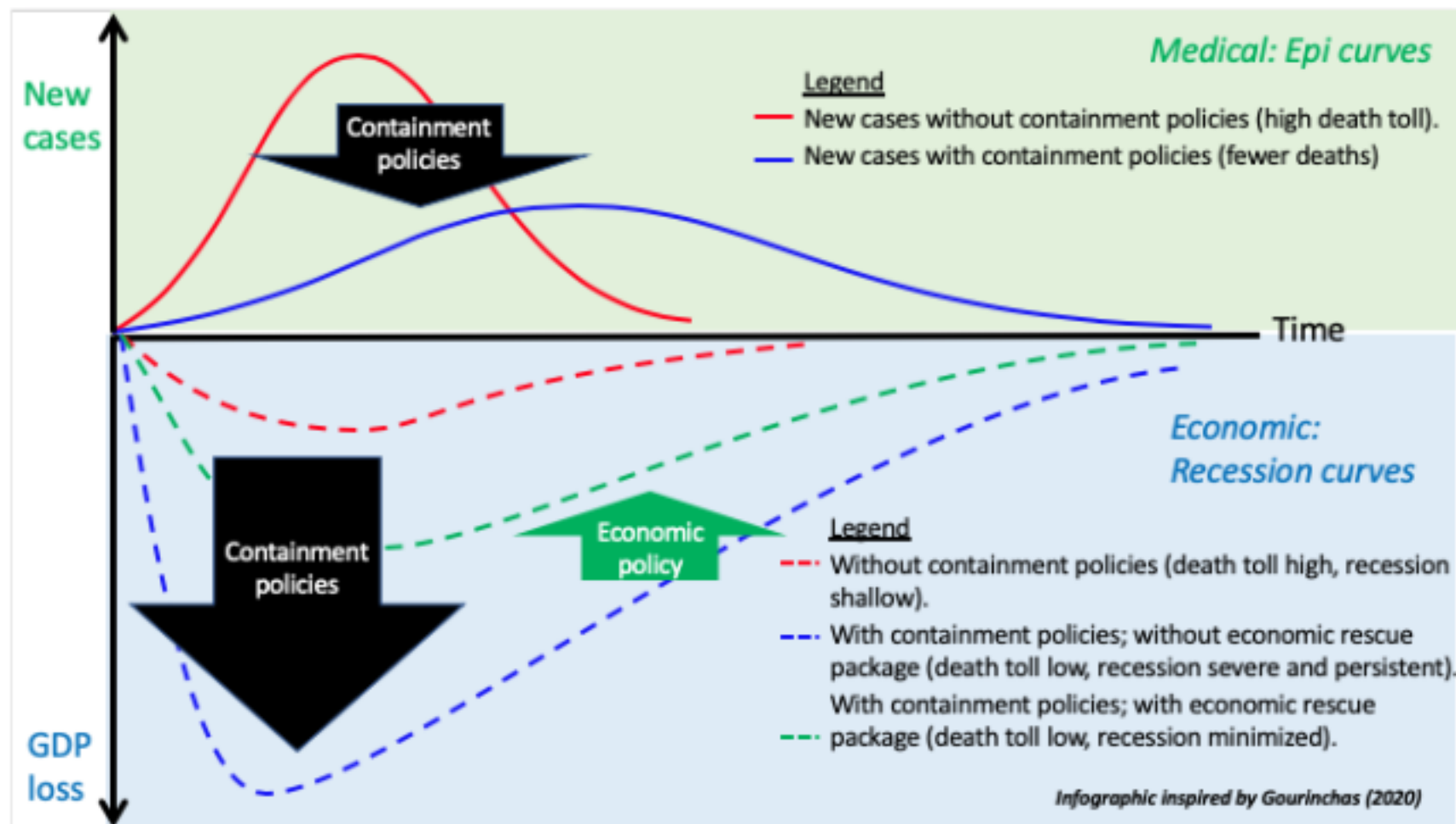
- **Loss of 5% of GDP per month of lockdown (\$1.1 trillion)**
- **Every loss of between \$10 to \$24 million results in an additional death**
  - **7,200 additional lost lives per month from suicide, drug abuse, alcohol abuse, family violence, stress**
  - **40% may not get their jobs back due to lockdown**
- **Other health issues have been delayed or ignored**
  - **Half of cancer treatments not administered – screenings are down. Transplants are down by 85%.**
  - **Estimate of 8,000 additional deaths per month due to lockdown and worries about infection**
  - **50% have postponed health care.**
  - **31% report mental health issues stemming from economic stress**

- **Number one trigger for social unrest is economic dislocation and fear**
  - **Riots in the US**
  - **Hong Kong protests and crackdowns on protests in Wuhan and other Chinese cities**
  - **Violent protests in France, Spain and Italy**
  - **Right wing marches and confrontations in Germany**
  - **Riots and protests in Brazil**
  - **Ethnic riots and protests in India**
  - **Severe government crackdown in Russia, Vietnam, Nigeria, South Africa**
- **Over 40 million unemployed in the US, 10 nations in Europe with unemployment rates over 10%, estimate of a 15% reduction in employment worldwide**

# Remember the Original Goal



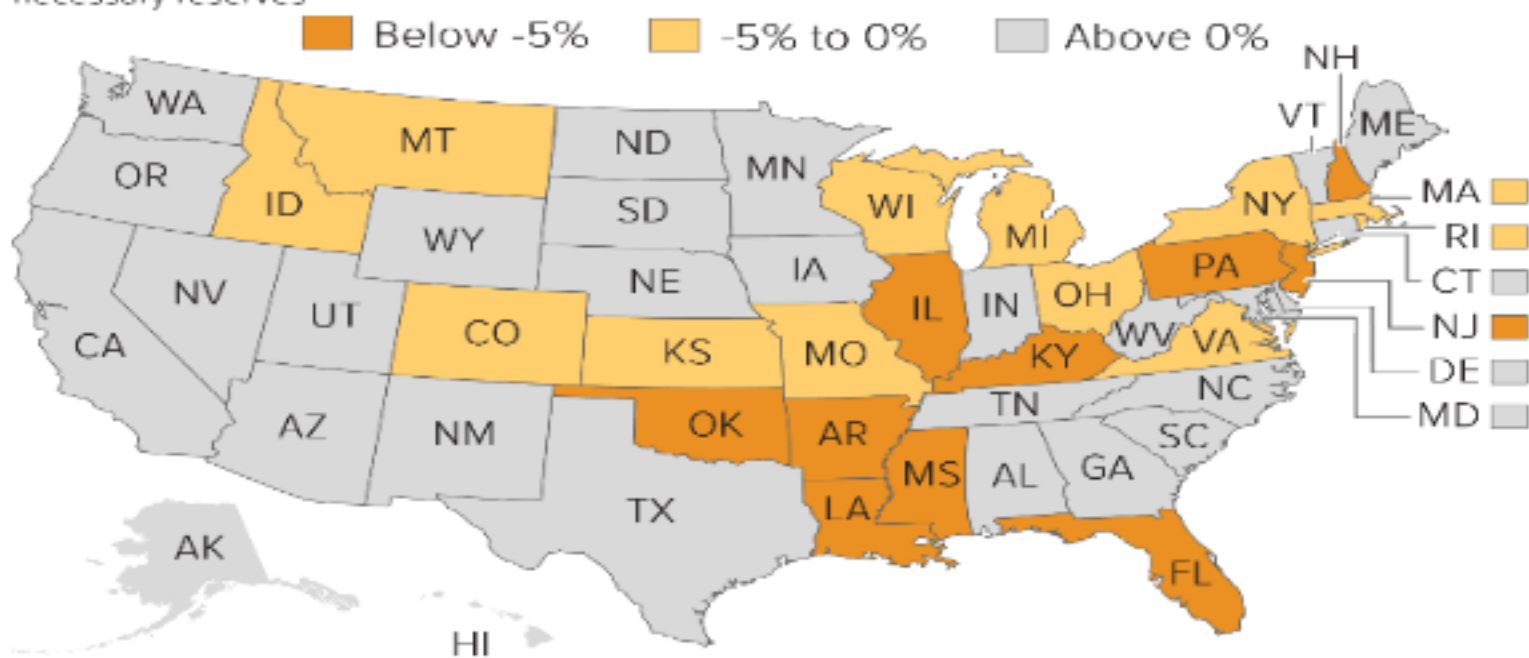
# The Trade Off is Still The Issue



# Many States Remain Unprepared

## One-Third of States Unprepared for Moderate Recession

Gap between current reserves (measured as a share of estimated 2019 revenues) and necessary reserves



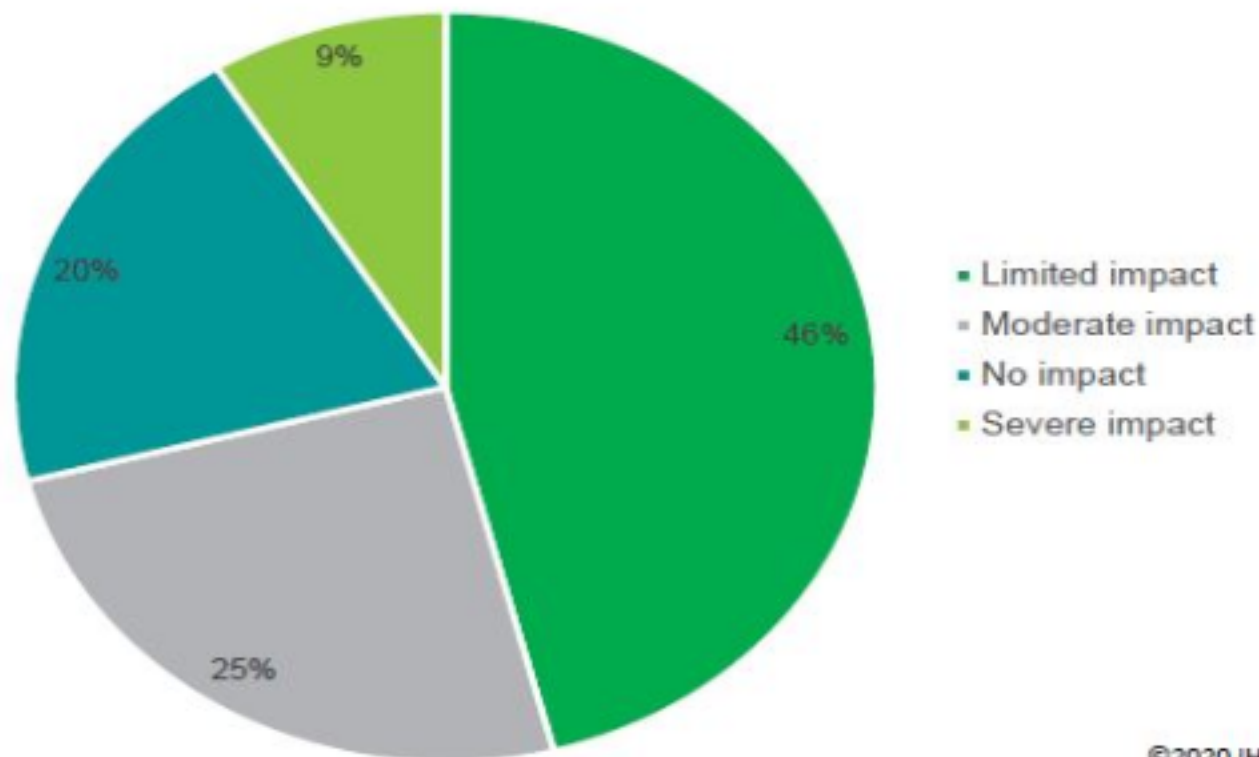
Source: Moody's Analytics, "Stress-Testing States 2019"

CENTER ON BUDGET AND POLICY PRIORITIES | CBPP.ORG



# How Much Impact?

How impacted is your company from the COVID-19 pandemic?



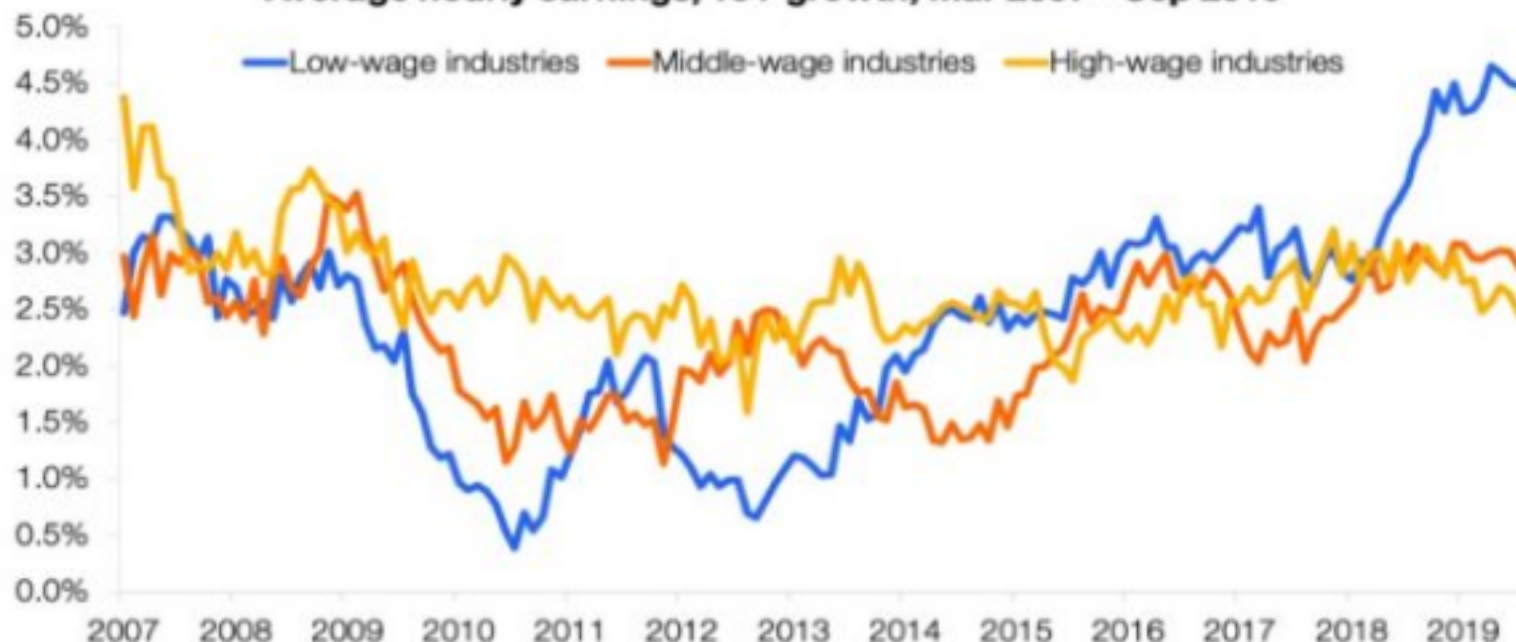
Source: IHS Markit

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# Major Shift for Low Wage Workers

Pick-up in wage growth has come from low-wage industries

Average hourly earnings, YoY growth, Mar 2007 - Sep 2019

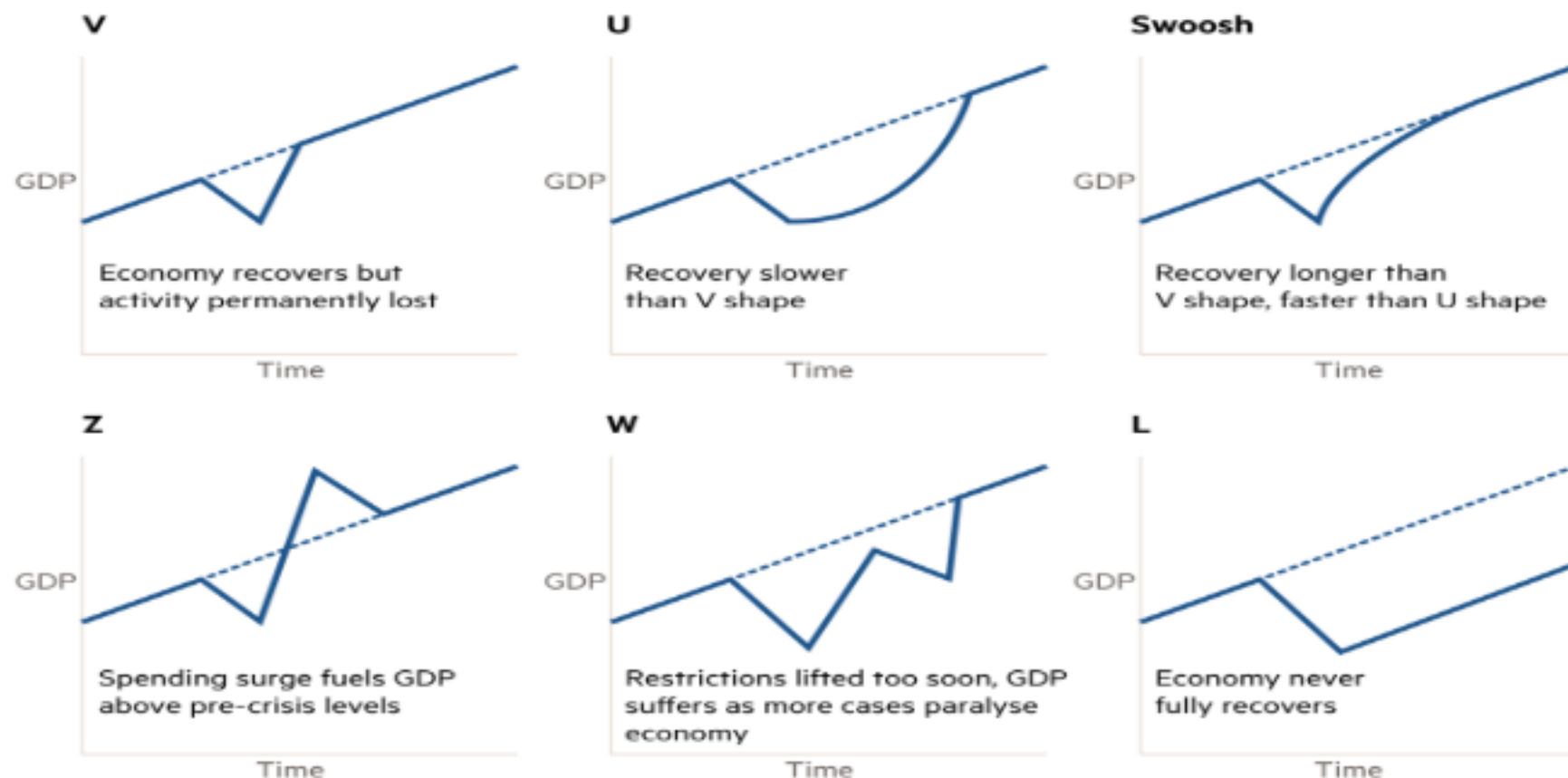


Source: Indeed calculations using Bureau of Labor Statistics data



# Which Way Are We Headed?

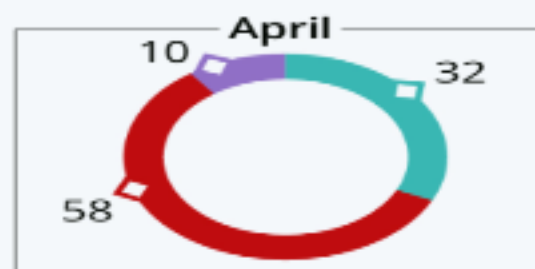
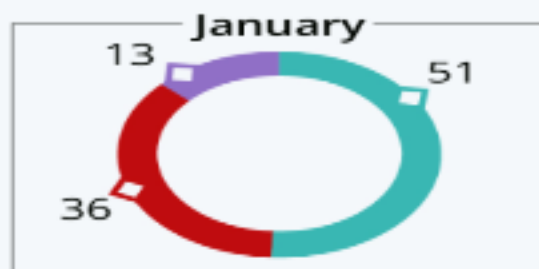
## Shape of recovery



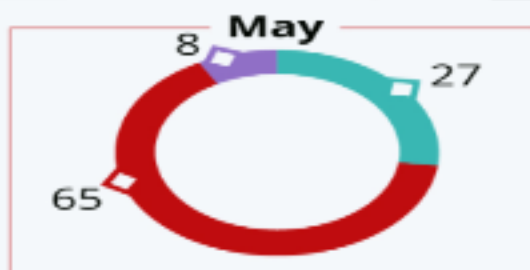
Source: Brookings Institution  
© FT

## Pessimism in Future of U.S. Economy

Percentage of U.S. adults who say the economy is on the right or wrong track in 2020



- Right track
- Wrong track
- Unsure



Source: Harvard/Harris

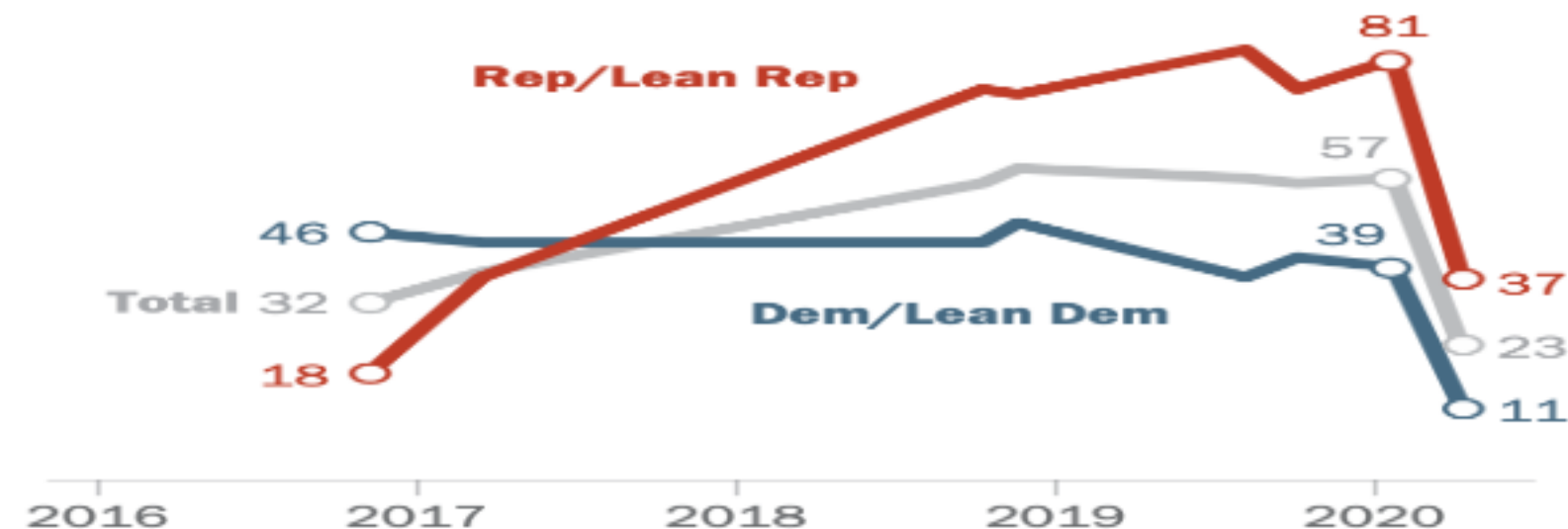


statista 

# Attitudes Sour Quickly

## As coronavirus strikes the U.S., positive assessments of the economy plummet

*% who rate national economic conditions as excellent or good*



Source: Survey of U.S. adults conducted April 7-12, 2020.

PEW RESEARCH CENTER

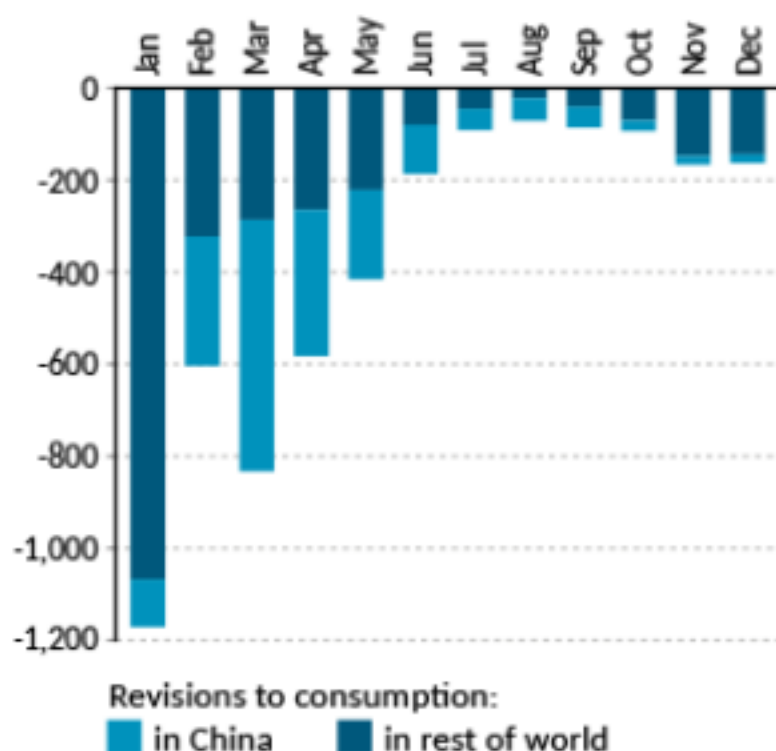
# Big Hit in Exports



# Oil Consumption

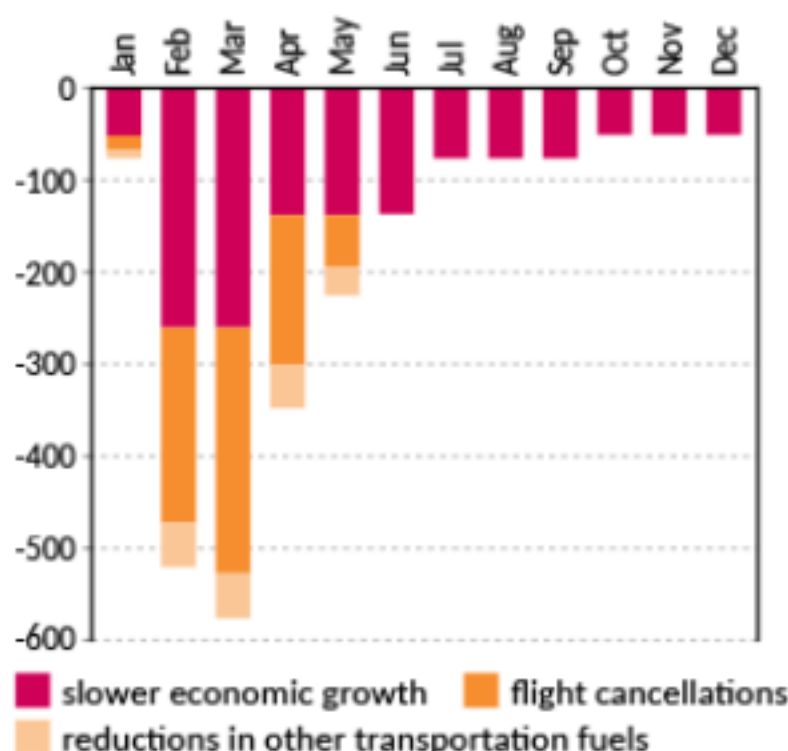
## Revisions to global petroleum consumption forecast (2020)

Thousand barrels per day



## Coronavirus-related changes to China petroleum consumption (2020)

Thousand barrels per day



Source: BIMCO, US Energy Information Administration

# Oil Reacts Differently This Time

## Great Recession (Dec. 2007-Jun. 2009)

- While oil prices continued to increase during the early stages of the Great Recession through June, the long-term economic impact can be observed one year later where the prices of WTI and Brent crude oil fell by almost 50%.
- Over time, travel and other factors affecting oil prices slowed down as a result of economic downturn, whereas for COVID-19 pandemic, effects can be observed earlier as a result of strict travel ban/ limiting policies.

### Average Spot Prices For The Month

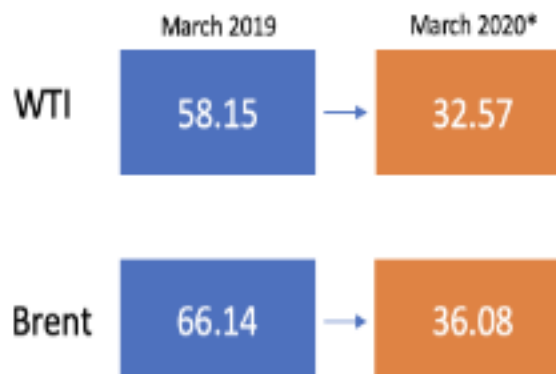


Source: EIA, BRAC Analysis

## COVID-19 Pandemic

- During the COVID-19 pandemic, the price of crude oil has dipped due to the actions of several international factors. Brent crude oil went from 57.35 dollars per barrel on February 18<sup>th</sup> to 35.33 on March 9<sup>th</sup>. WTI dropped from 52.1 DpB to 31.05 in timeframe.
- Crude oil prices have not been this low since January of 2016. One can observe that both indicators are nearly half of what they were in the previous year.
- As of March 23<sup>rd</sup>, prices were as low as 25.06 DpB for Brent crude oil and 19.48 for WTI.

### Average Spot Prices For The Month

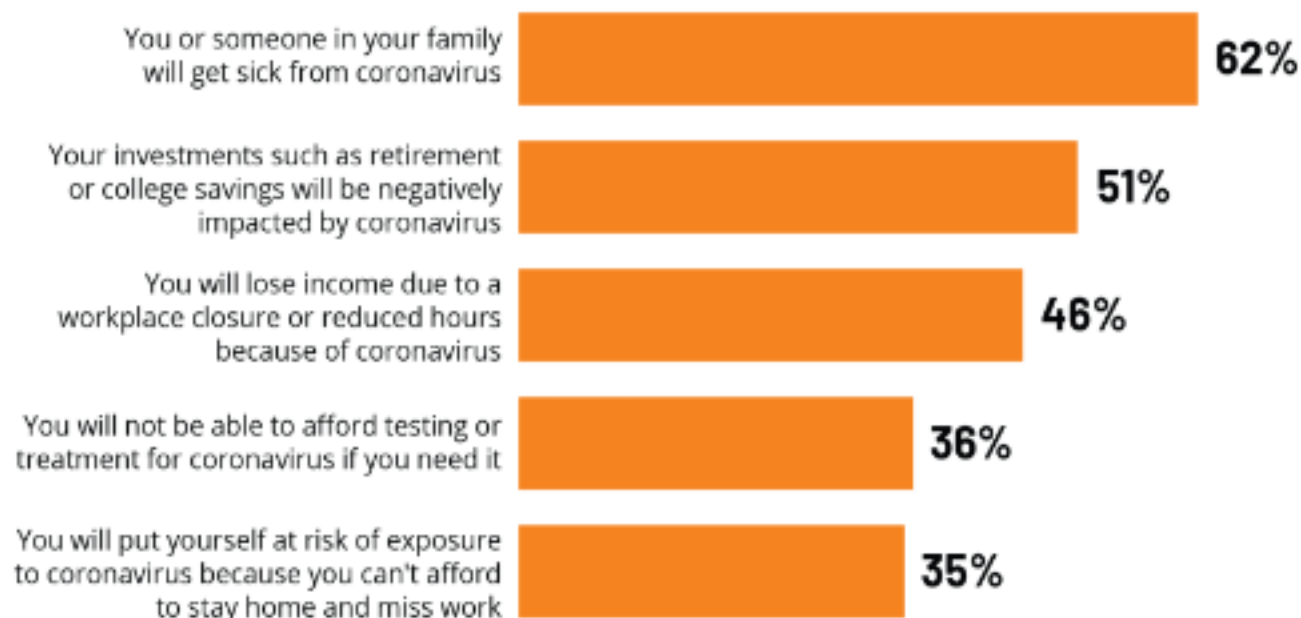


\*March 2020 numbers are an average of available data.

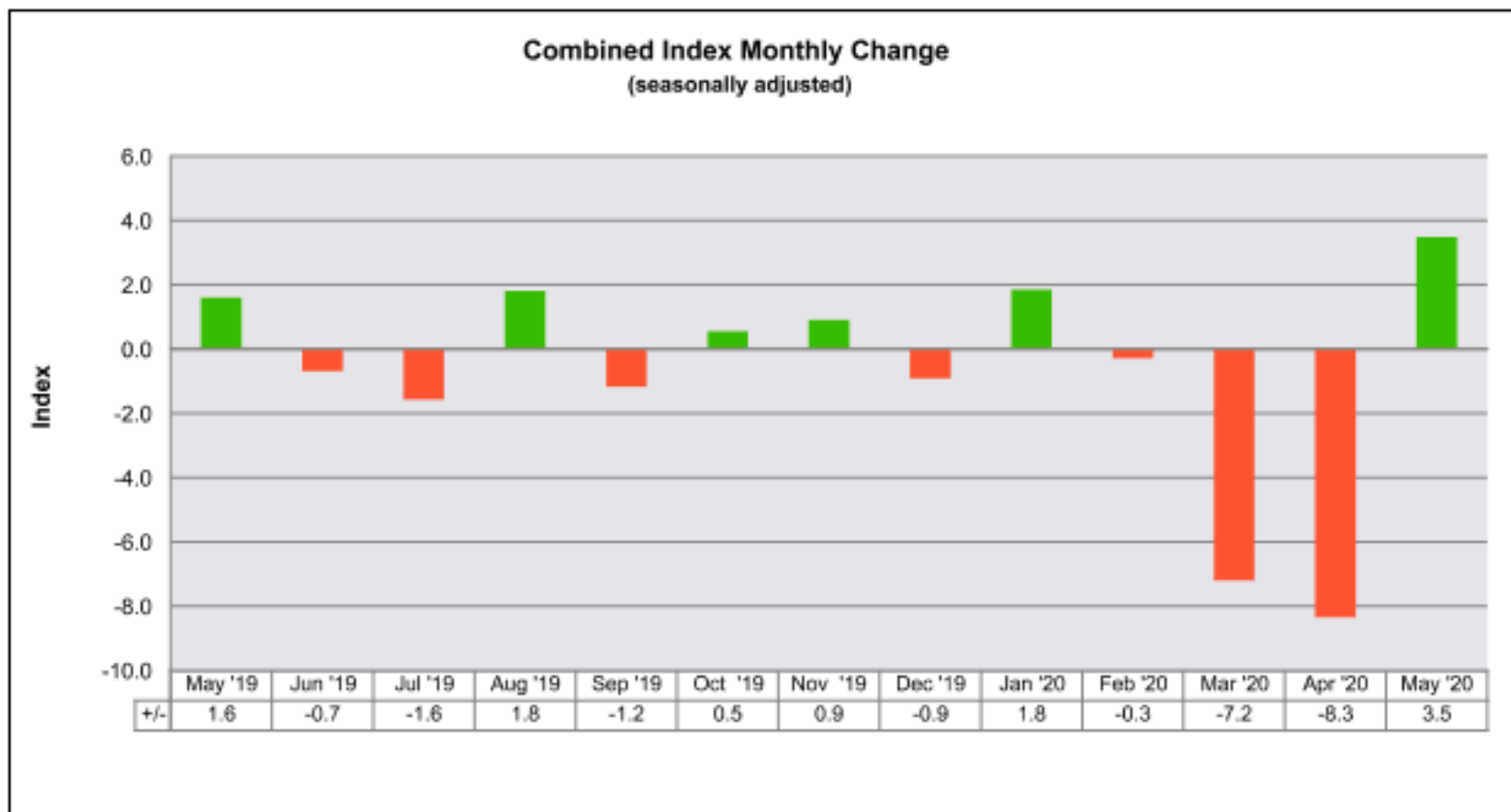


## Personal Worries About Coronavirus Include Family Member Getting Sick, Various Economic Impacts

Shares who say they are "very" or "somewhat" worried that:

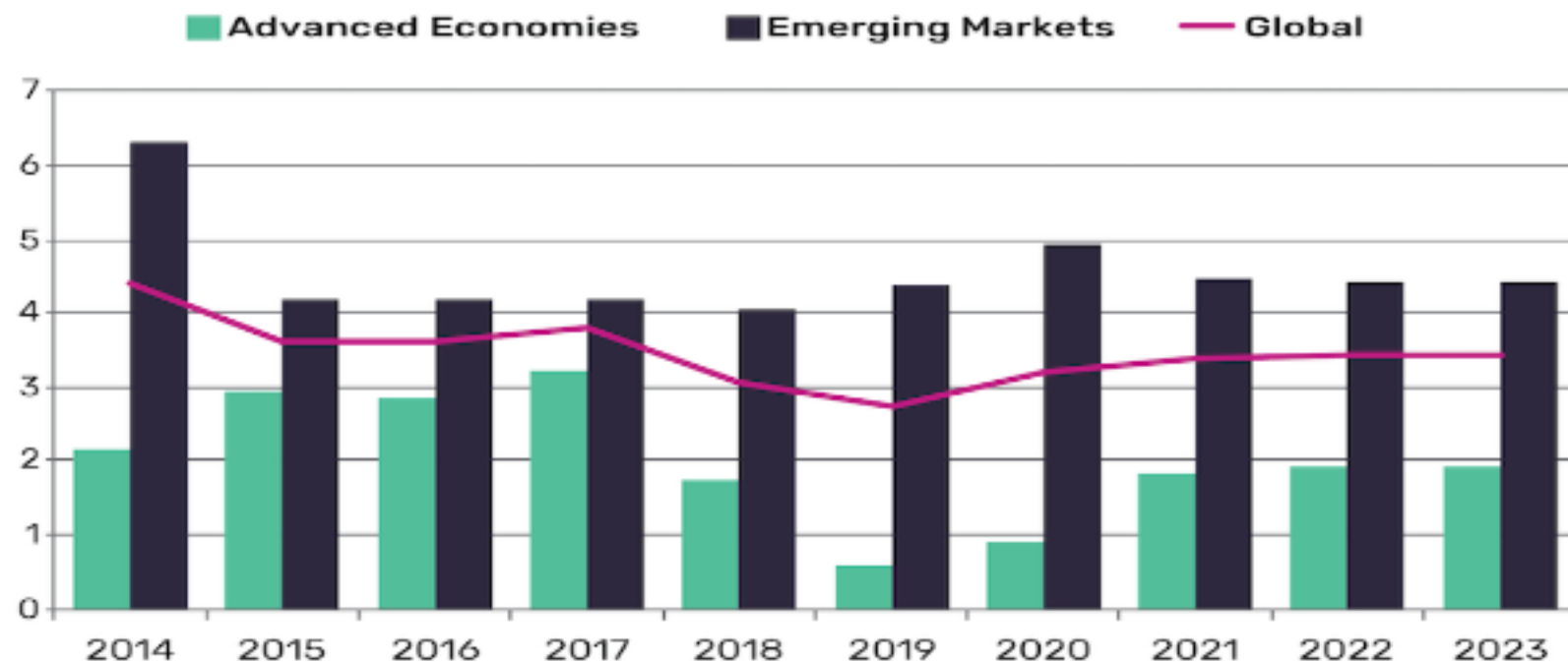


# CMI Overall – Nice Little Rise



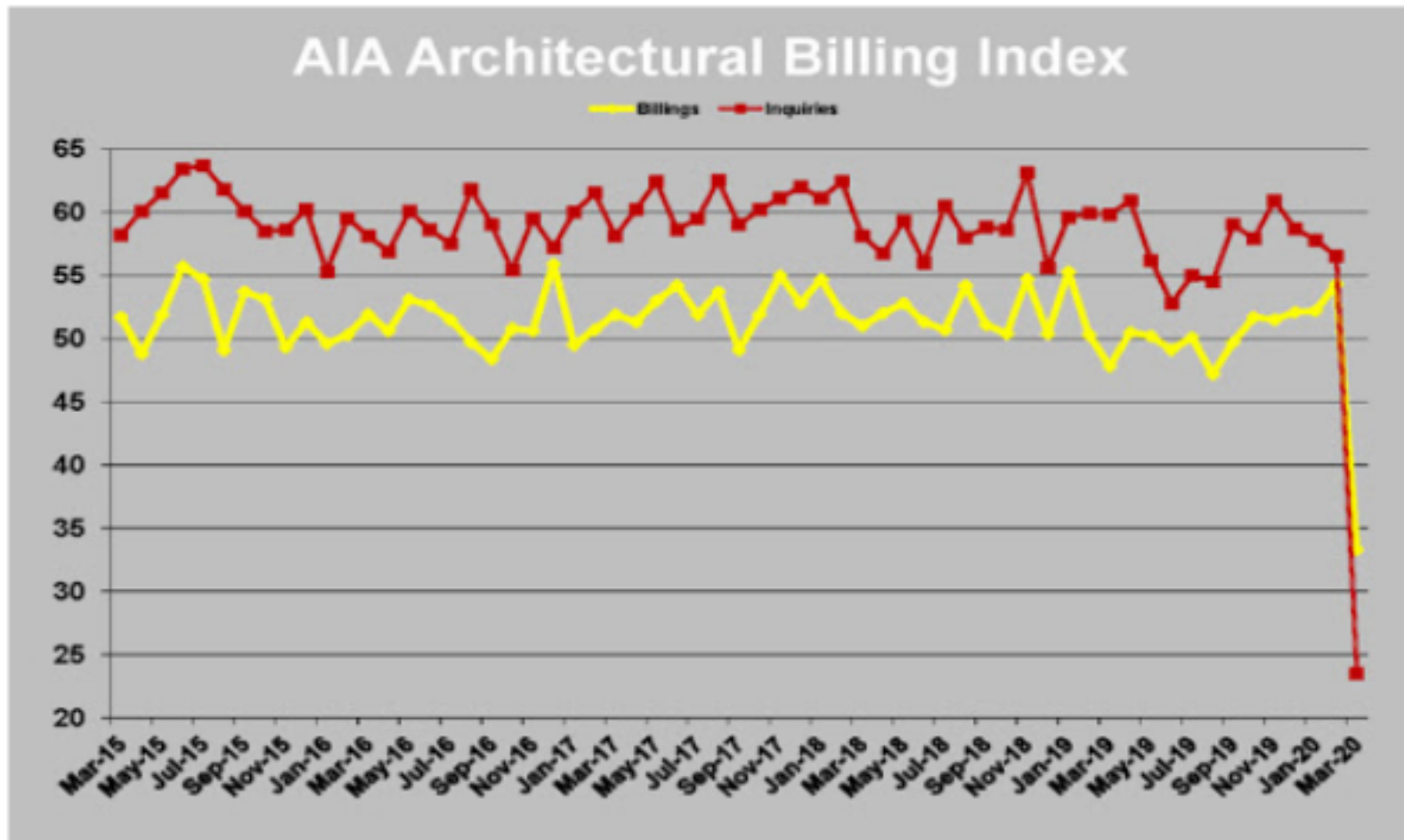
# Improving But Not Great

Global construction output growth (Real, % change), 2014-2023



Source: GlobalData, Construction Intelligence Center

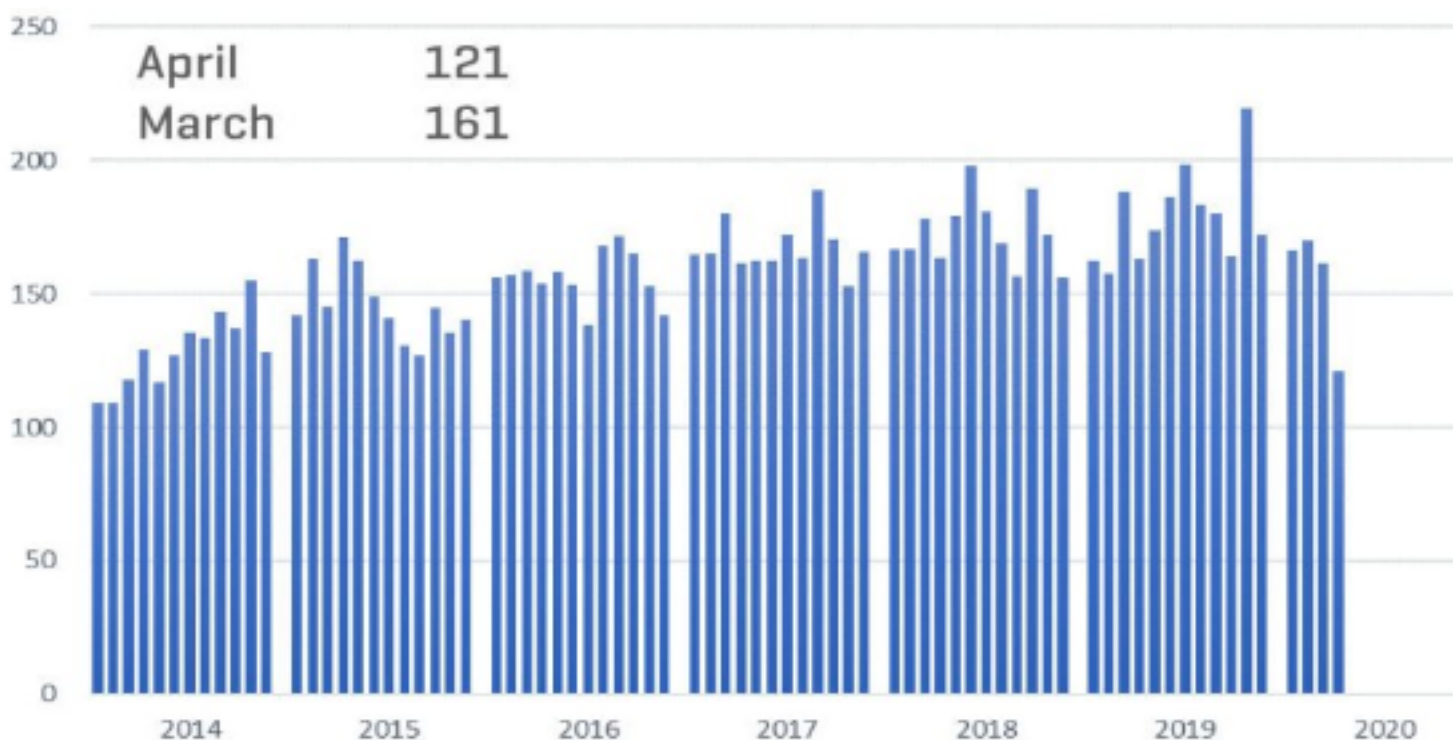
# Decline in Filing Index



# Numbers Looking Weaker

## THE DODGE INDEX

(2000=100, Seasonally Adjusted)



# Some of This is Pre-COVID Crisis

realtor.com

HOUSING 2020 FORECAST

Home sellers will remain on the sideline, but millennials are on the move.



Source: realtor.com 2020 Economic Forecast

# Some Scenarios

## ING base case

Assumptions



**Full lockdowns end by summer** (varies by country)



**Global travel** remains restrictive



**Home-working** stays in place where possible



**Social distancing** remains a feature for 6-12 months



**Winter outbreak** seen as more manageable

Possible health drivers



**Widespread testing** gives better data on possible winter outbreak



**Better contact tracing** helps manage another outbreak without full lockdowns

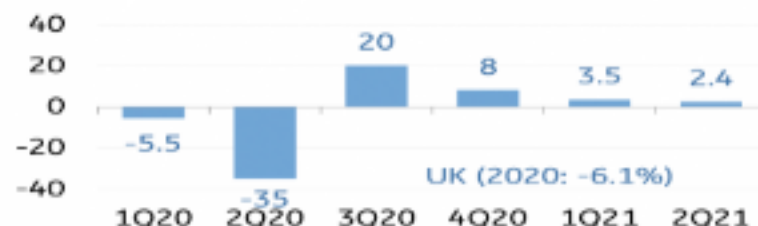
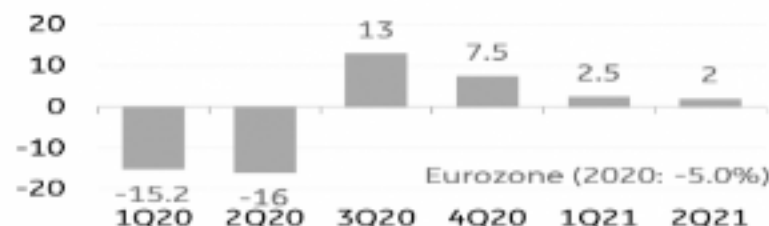
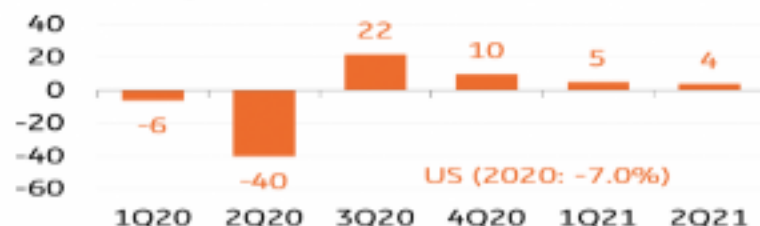


**Progress made on vaccine** by year-end but not widely available until 2021



**Critical care surge capacity increases.** Certain drugs available to help reduce time in hospital

### Real GDP growth (QoQ% annualized, YoY% for China)



	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21
US 10Y yield (%)	0.65	0.50	0.75	0.75	1.00	1.00	1.25	1.50
EUR/USD	1.10	1.12	1.15	1.20	1.18	1.15	1.12	1.10

- **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.**



# Life has Altered



# You KNOW You Want More



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