



## COVID-19, A TRIPLE SHOCK FOR THE WORLD ECONOMY

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**Webinar Key Clients,  
Brokers and Partners**

**24 March 2020**

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Chief Economist**

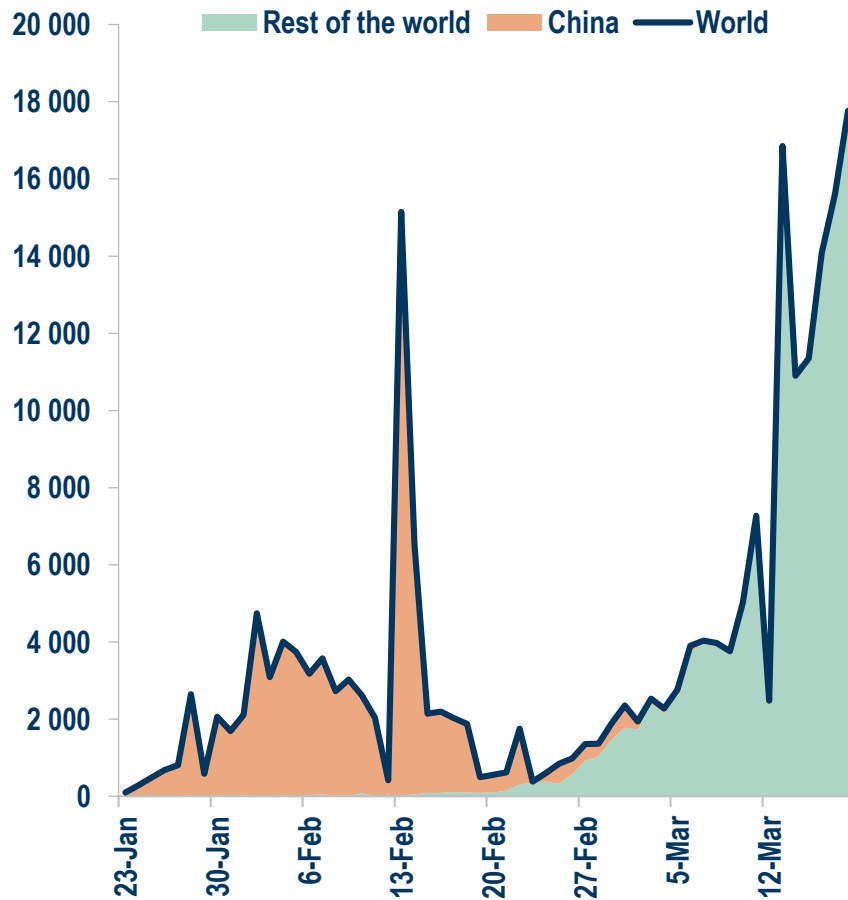
# CONTENTS

- Evolution of the pandemic
- Global economic scenario and updated business insolvency outlook
- Shock #1: disrupted supply chains
- Shock #2: depressed demand
- Shock #3: lower oil prices
- Central banks and governments are acting fast and strongly
- Covid-19: long-term consequences for businesses

# COVID-19: FROM A CHINESE EPIDEMIC TO A GLOBAL PANDEMIC

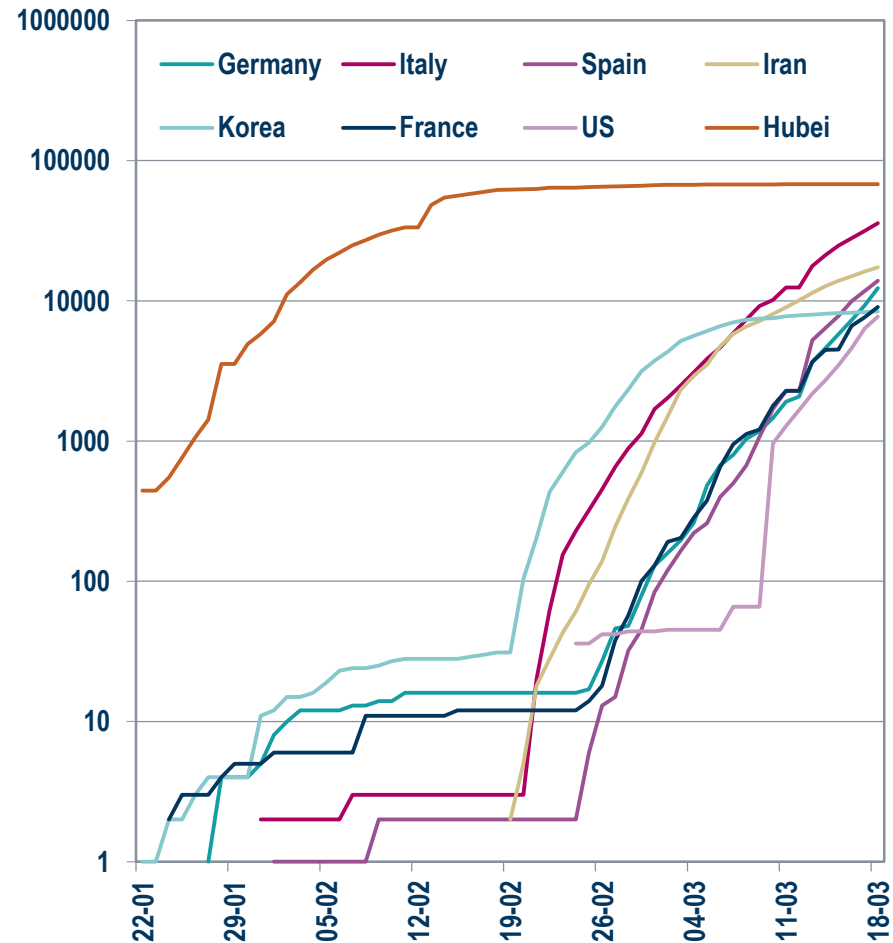
## Daily new confirmed cases of coronavirus

As of March 18, 2020



## Total confirmed coronavirus cases worldwide

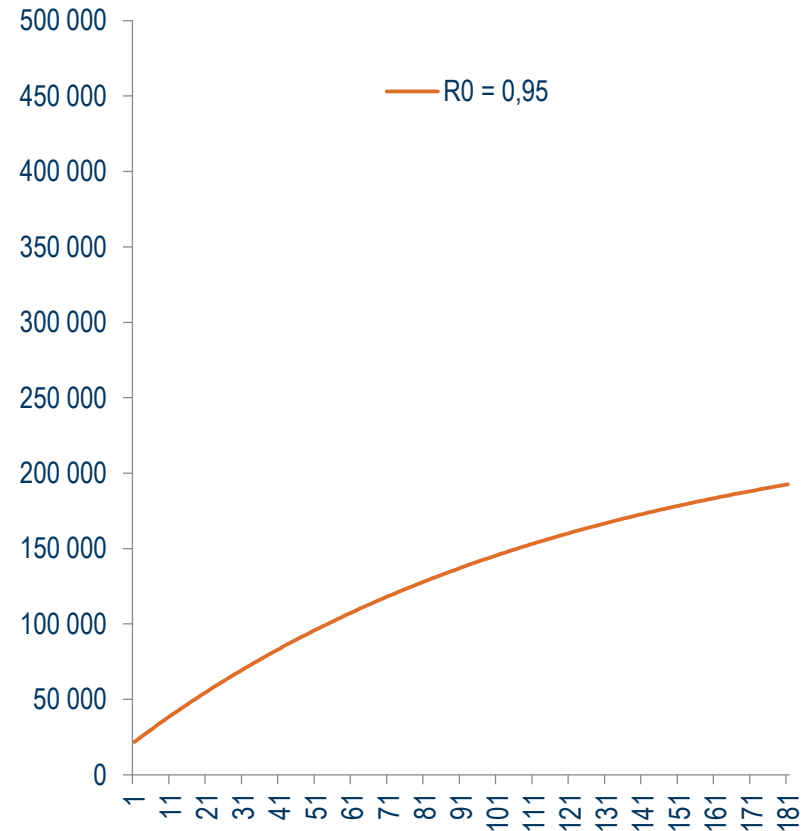
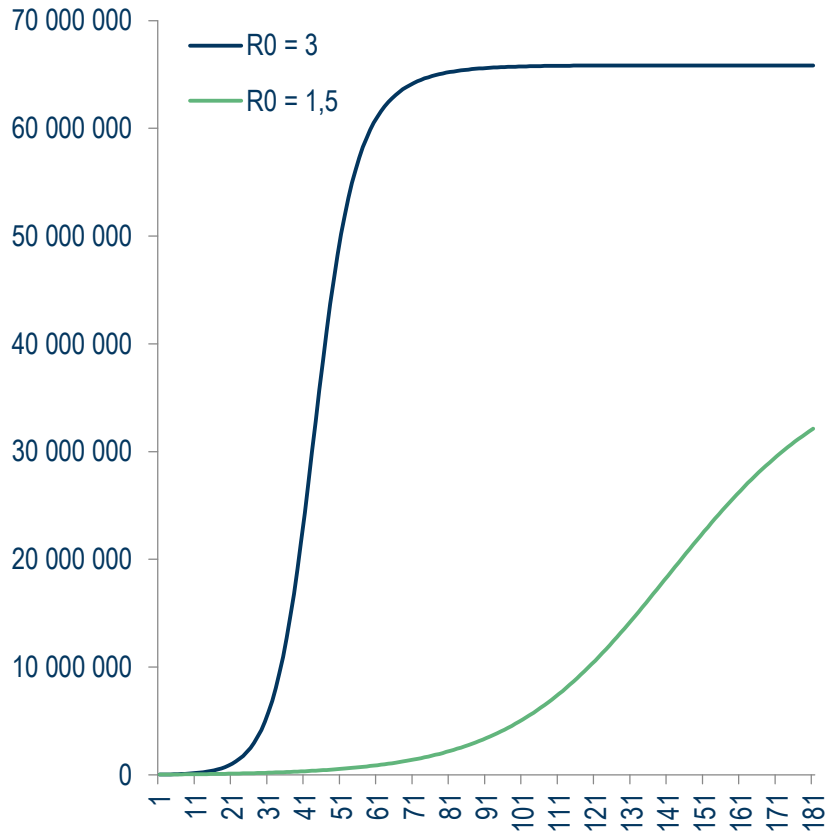
(log scale, source: John Hopkins)



# HOW LONG WILL THE LOCKDOWN LAST? LEARNING FROM MODELLING OF PANDEMIC PROPAGATION

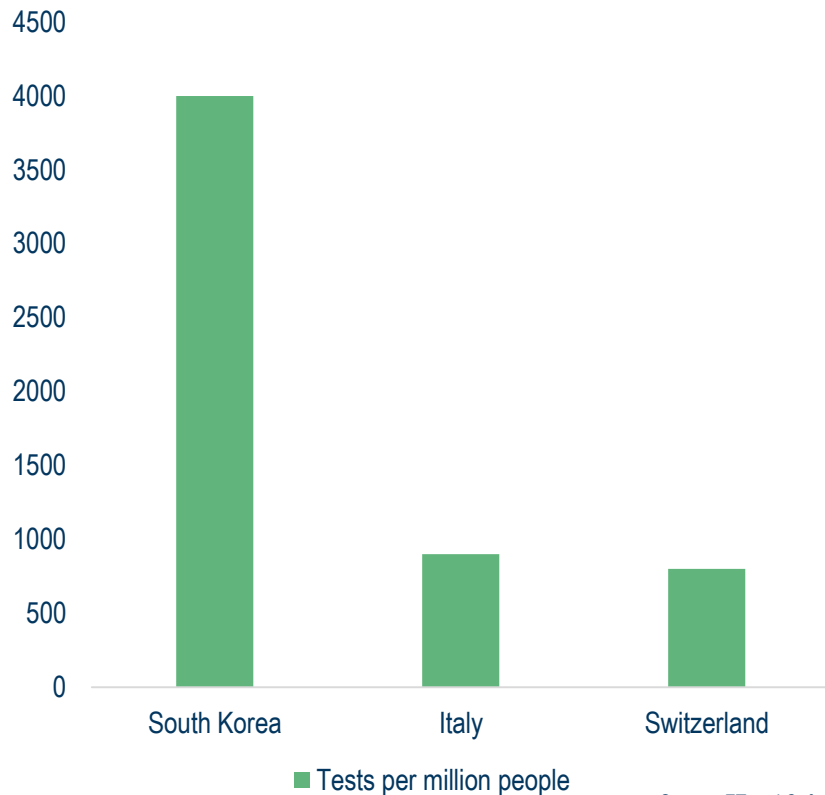
France: Scenerios of propagation of the outbreak (Y axis: population, X axis: days)

**R0** = Propagation rate = number of daily contacts X probability of contagion X length of disease



# HOW LONG WILL THE LOCKDOWN LAST? LEARNING FROM ASIA

## COVID-19's tests per million people

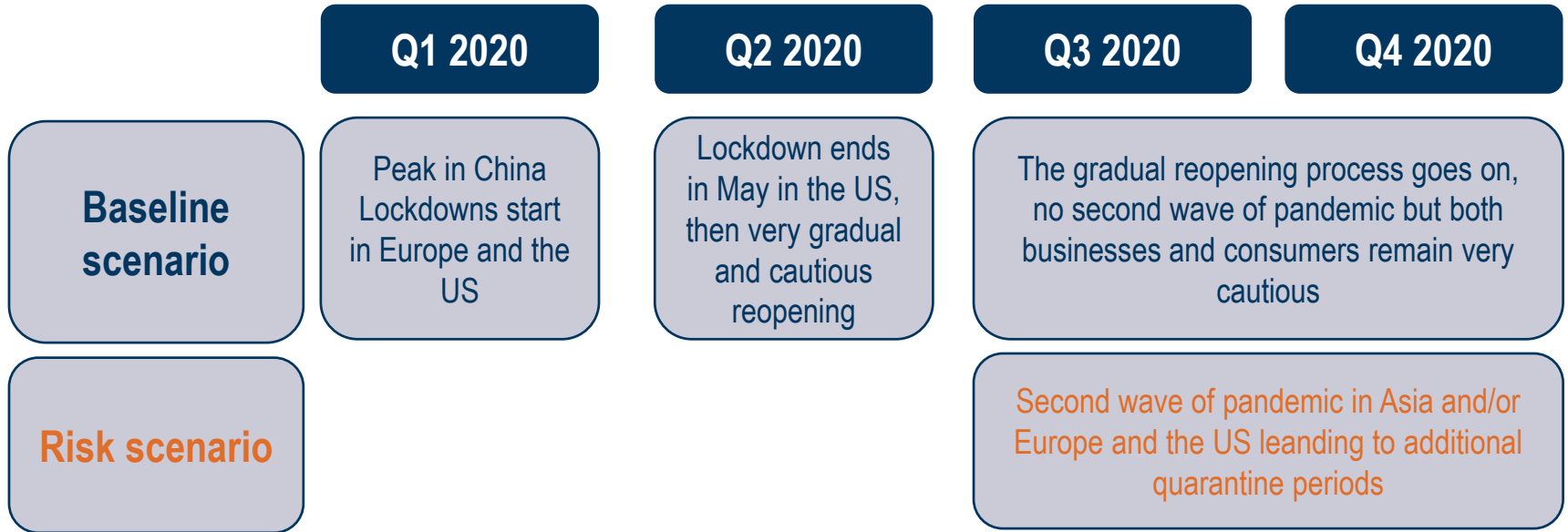


Source: FT and Coface

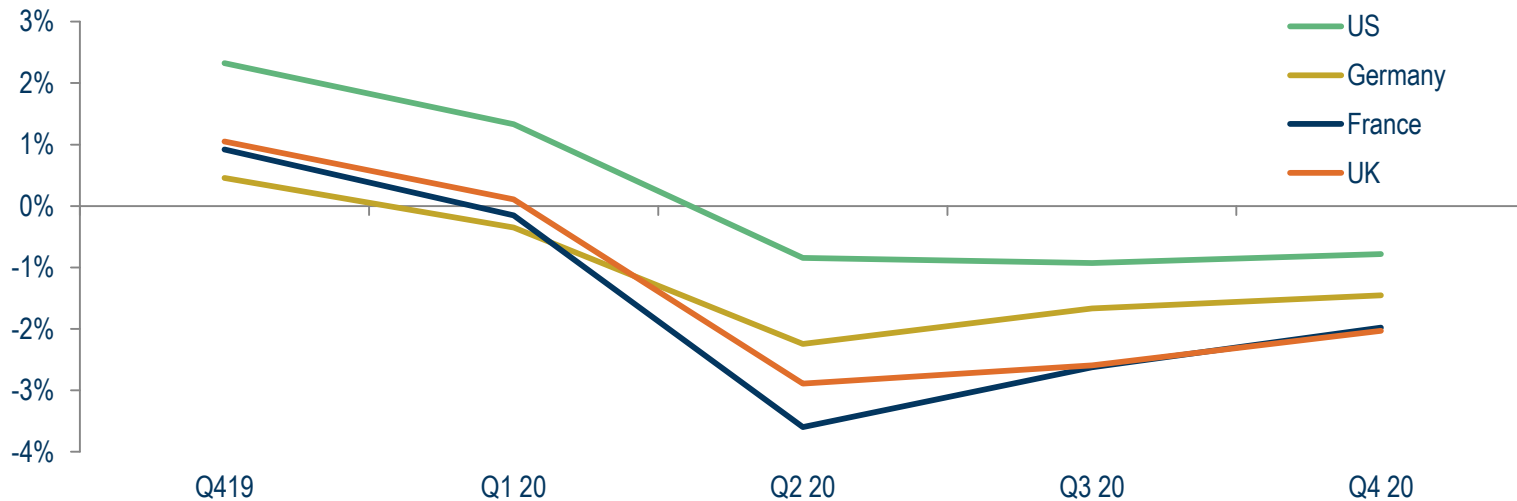
## China: Share of businesses that resumed work (national sources)

Provinces	March 3	March 17	%GDP
Sichuan	61%	73%	4%
Shandong	61%	73%	8%
Fujian	62%	72%	4%
Guangdong	60%	72%	10%
Jiangsu	59%	72%	9%
Zhejiang	57%	72%	6%
Hunan	61%	71%	4%
Shanghai	57%	70%	3%
Hebei	56%	69%	4%
Henan	52%	67%	5%
Beijing	49%	58%	3%
Hubei	29%	38%	4%

# THE PANDEMIC EVOLUTION DRIVES ECONOMIC PROSPECTS



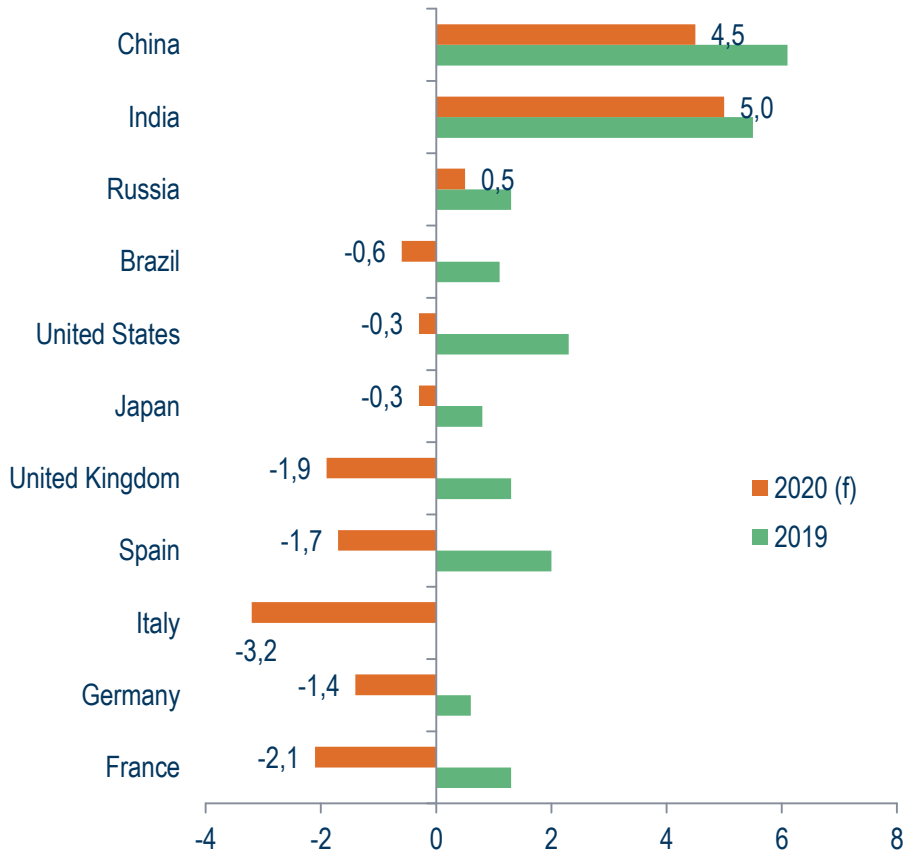
**Coface's GDP Growth Forecast** (year on year, baseline)



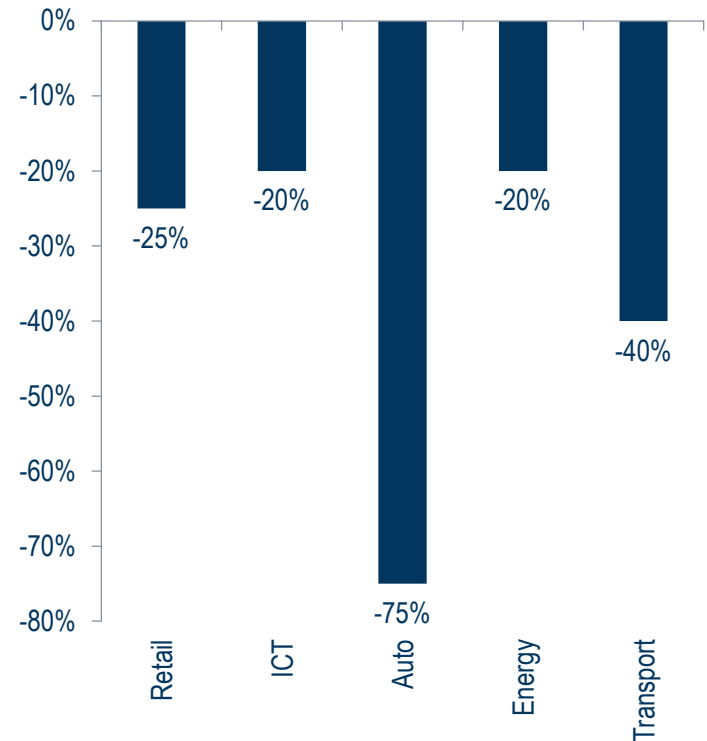
# THE SHARPEST DOWNTURN SINCE THE GLOBAL CREDIT CRISIS

## Coface's GDP Growth Forecast

(annual average, %)



## Assumptions of production cut by sector during lockdowns

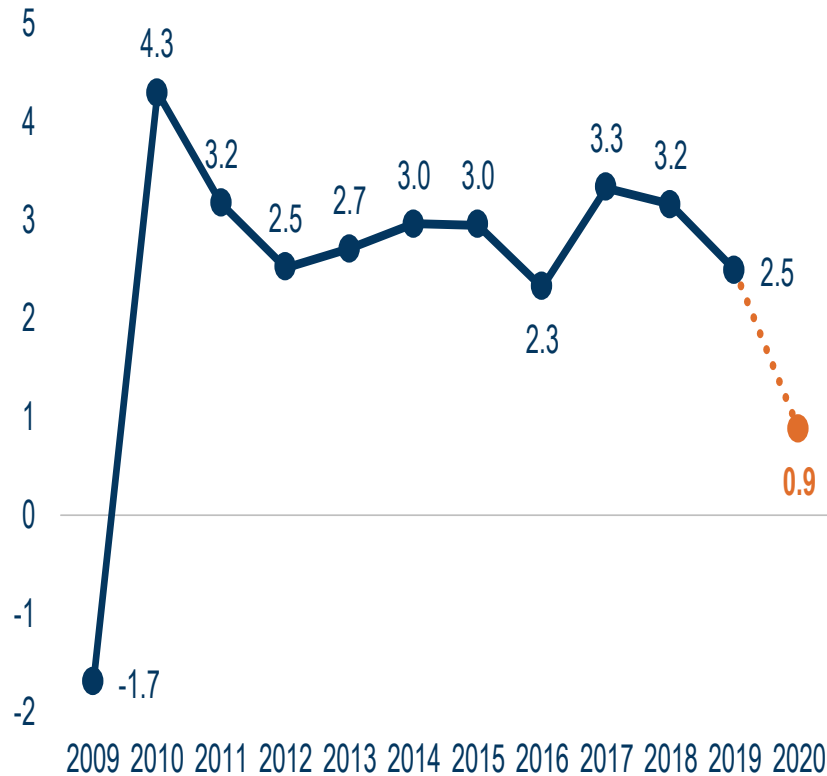




# THE SHARPEST DOWNTURN SINCE THE GLOBAL CREDIT CRISIS (2)

## Coface's world GDP estimates and forecasts

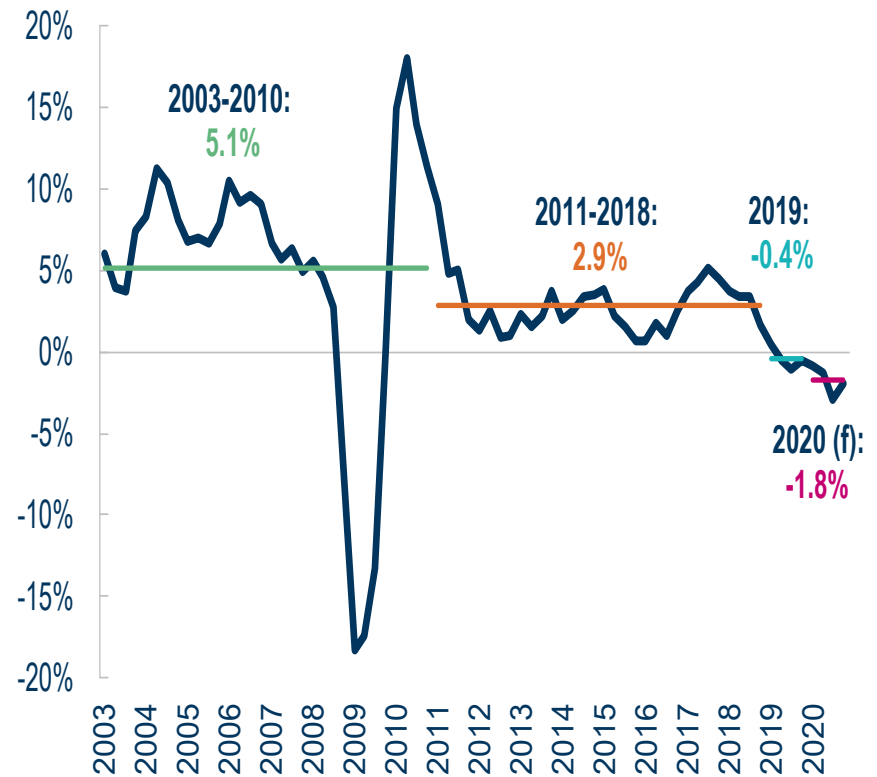
Annual average, %



Sources: IMF, National authorities, Datastream, Coface

## Global export volumes

YoY % change

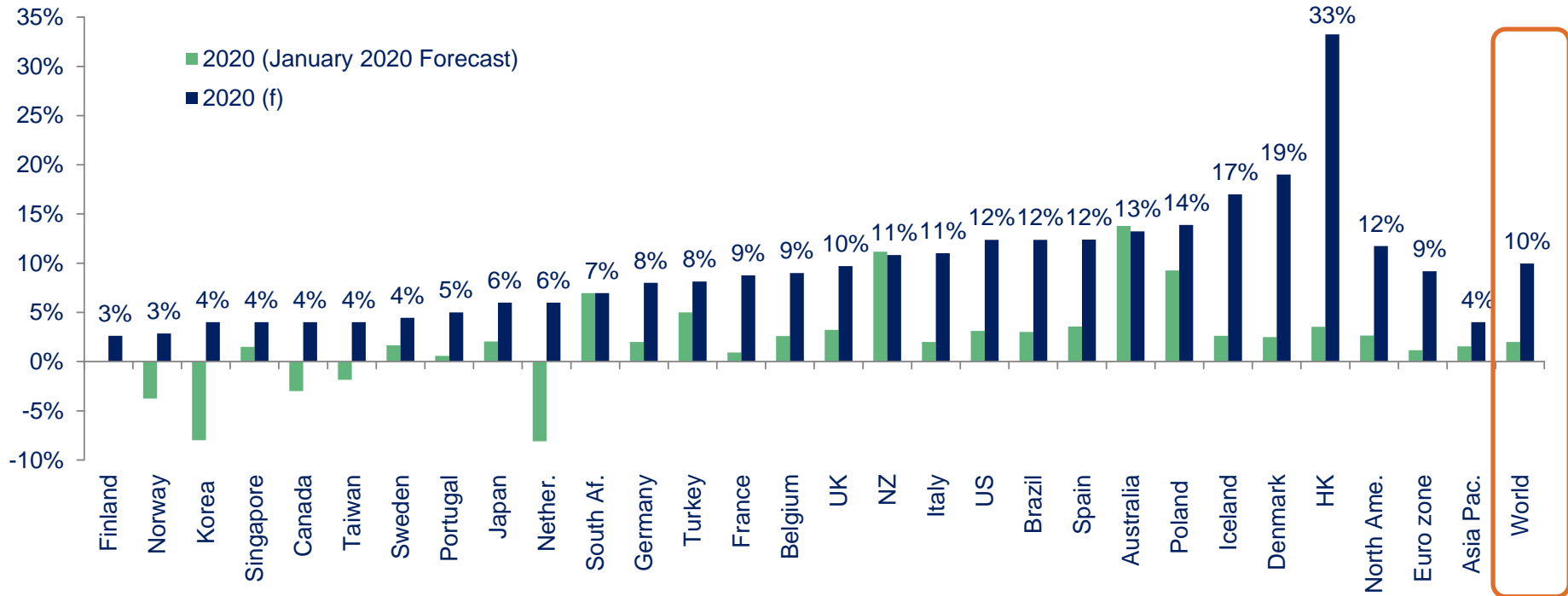


Sources: CPB, Datastream, Coface



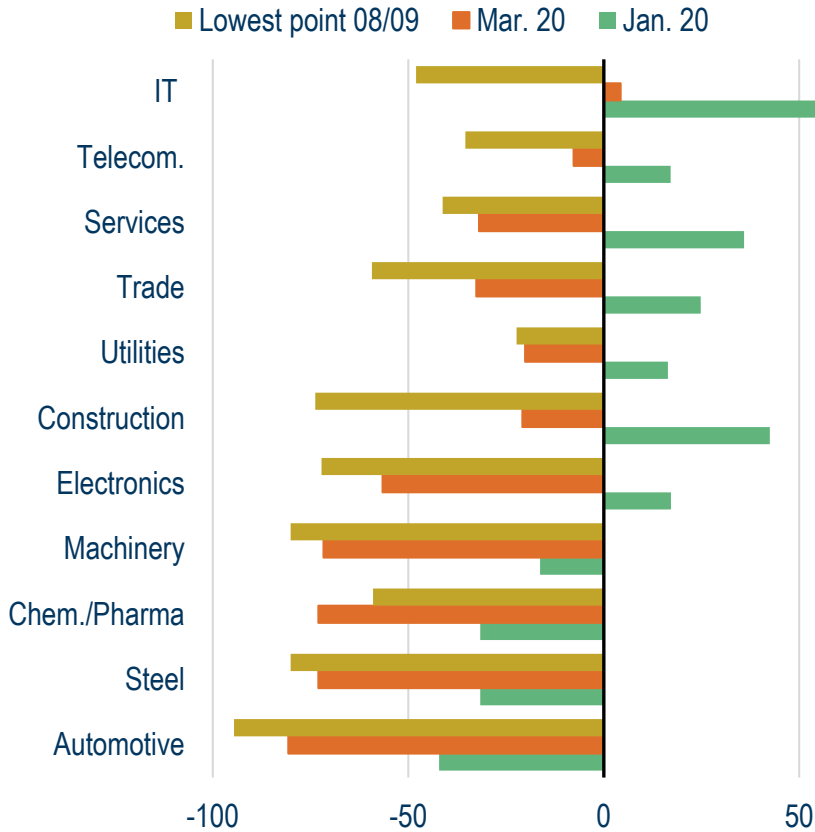
# TOWARD A BROADBASED AND DOUBLE-DIGIT INCREASE IN BUSINESS INSOLVENCIES IN 2020

## Coface's World Business Insolvency Forecasts (year on year % change)

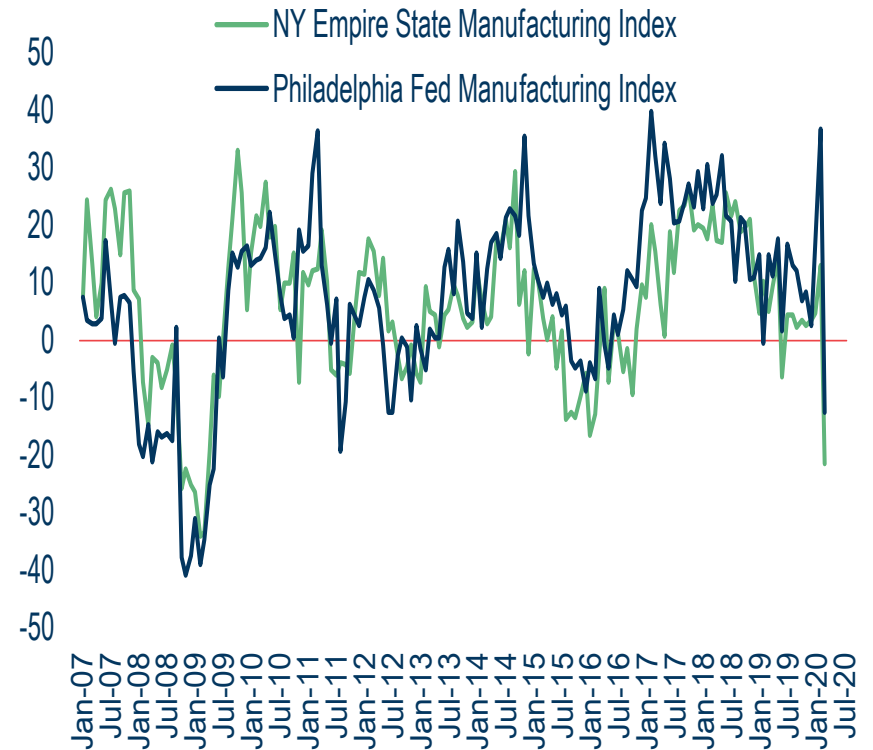


# THE FIRST SIGNS OF RECESSION ARE ALREADY VISIBLE

## Germany: ZEW business survey



## US: New York Fed and Philadelphia Fed Manufacturing Survey

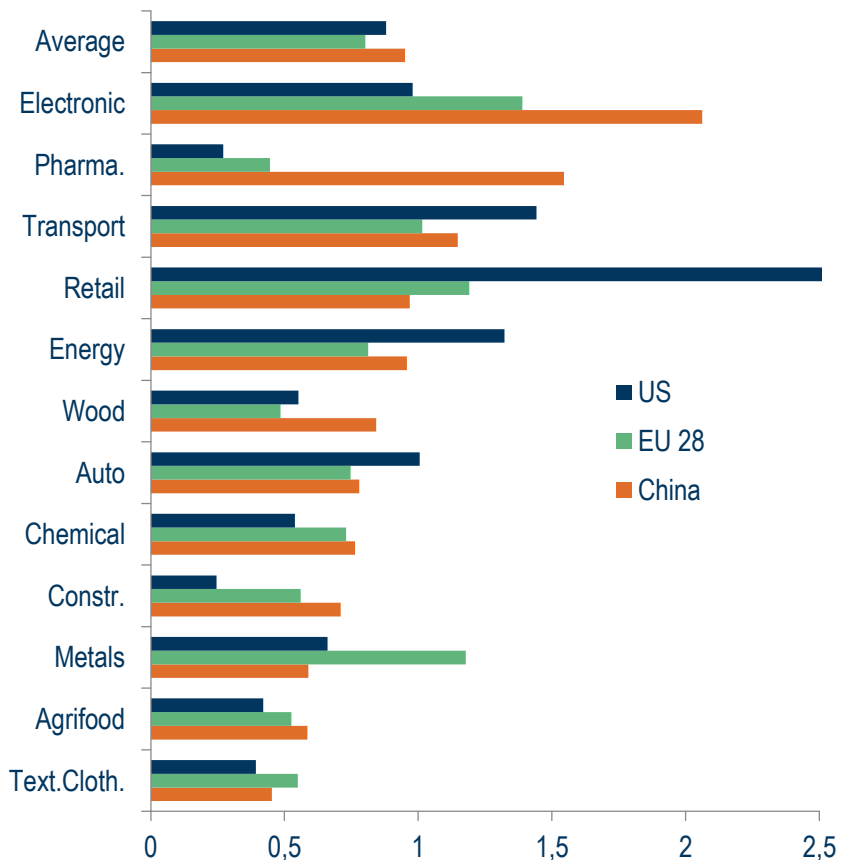


Sources: New York Fed, Philadelphia Fed, Datastream, Coface

# SHOCK #1: DISRUPTED SUPPLY CHAINS

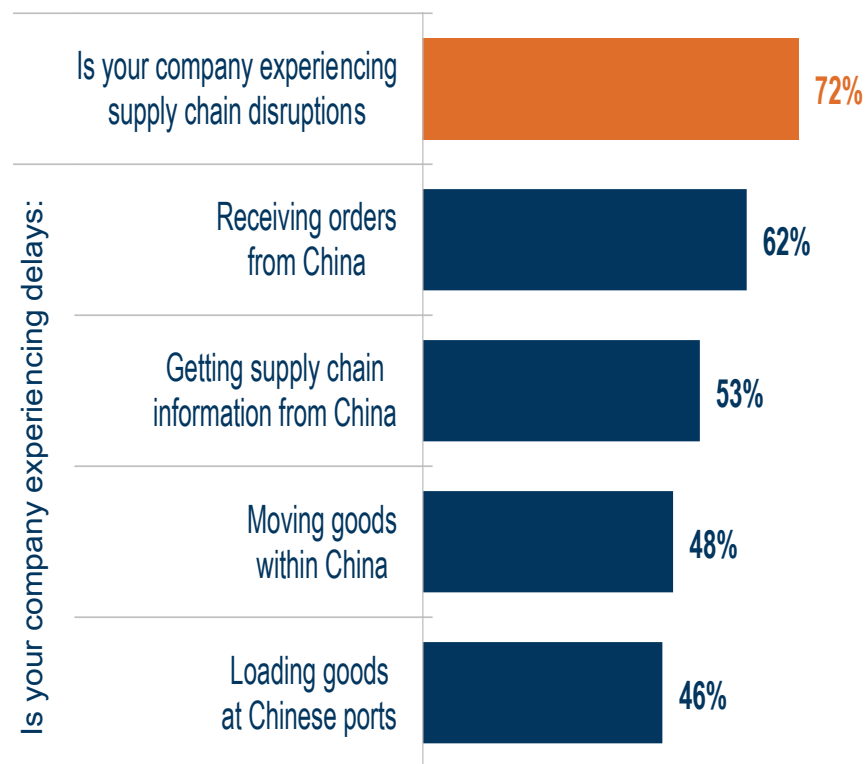
## Inventories to sales ratio

(in months, listed companies, sources: Datastream, Coface)



## US: ISM COVID-19 Survey

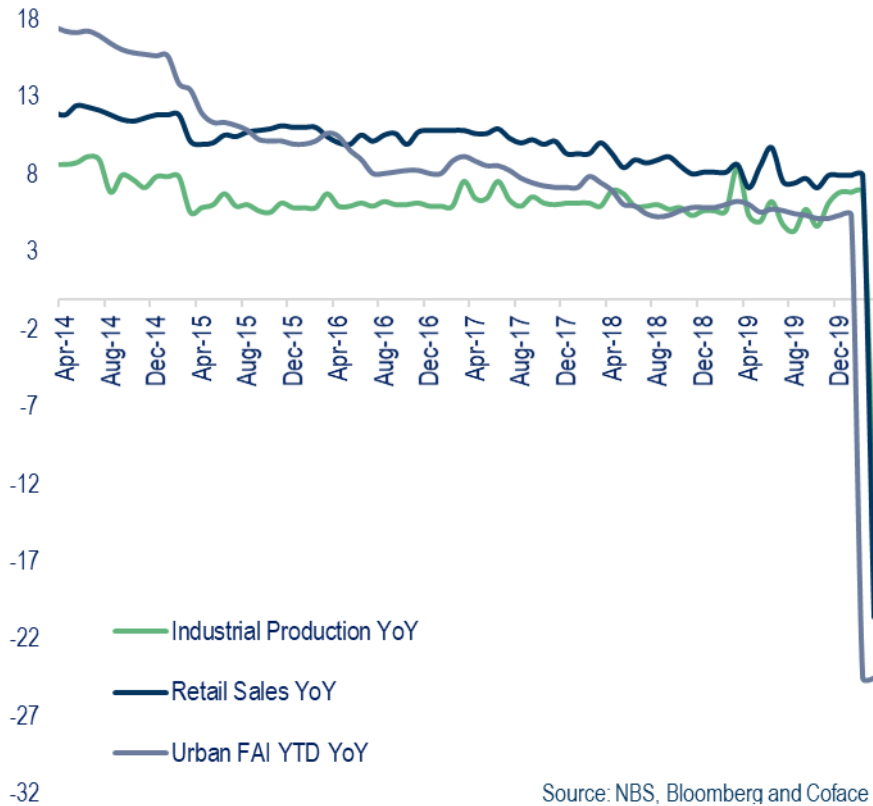
% of respondents answering "Yes" (March 2020)



Sources: Institute for Supply Management, Coface

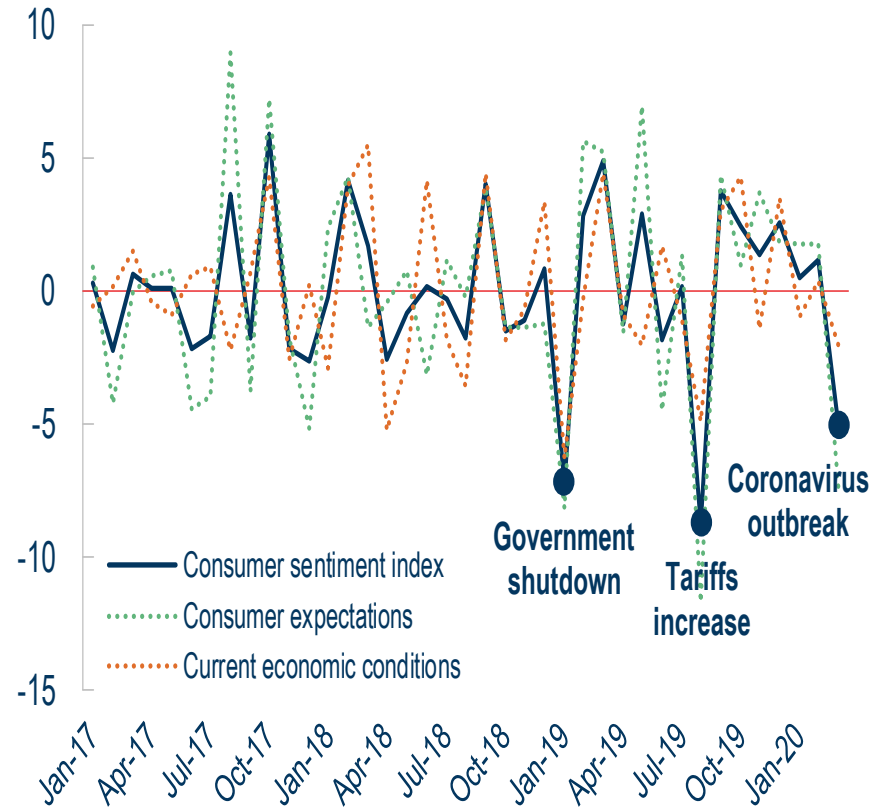
# SHOCK #2: DEPRESSED DEMAND

## China: Main activity trackers



## US: University of Michigan Survey of Consumers

Month on month % change, last data: March 2020

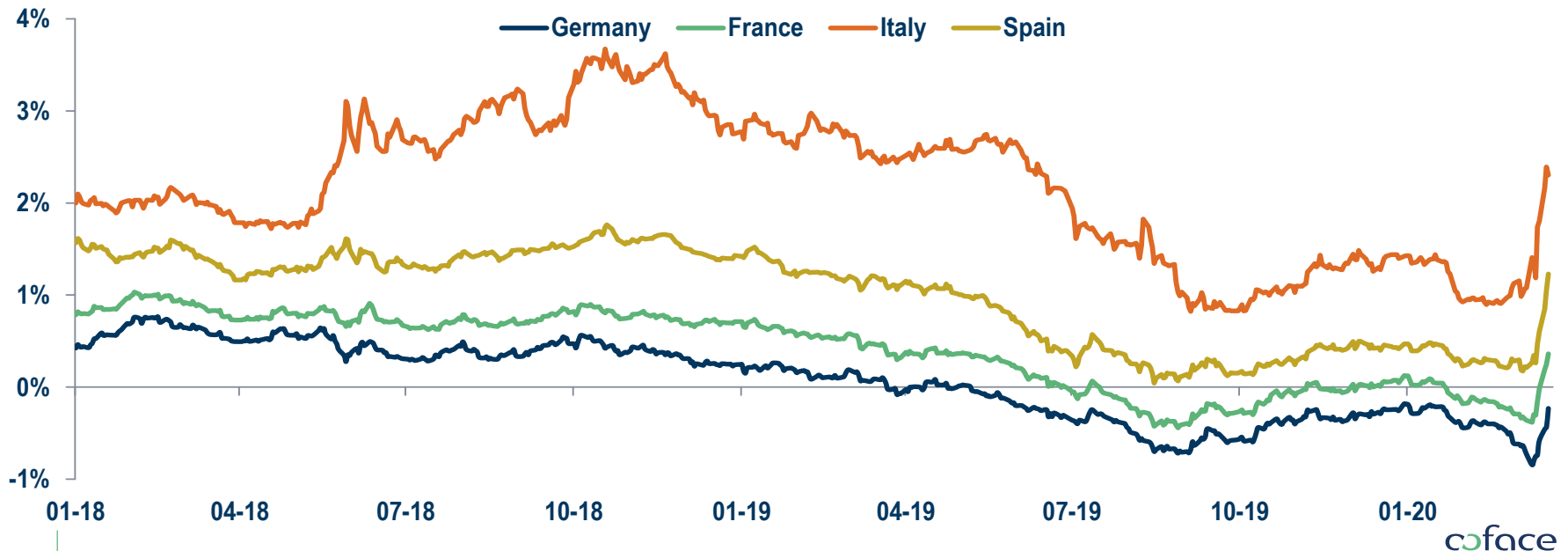


# CENTRAL BANKS AND GOVERNMENTS ARE ACTING FAST AND STRONGLY

## Eurozone: Key government measures

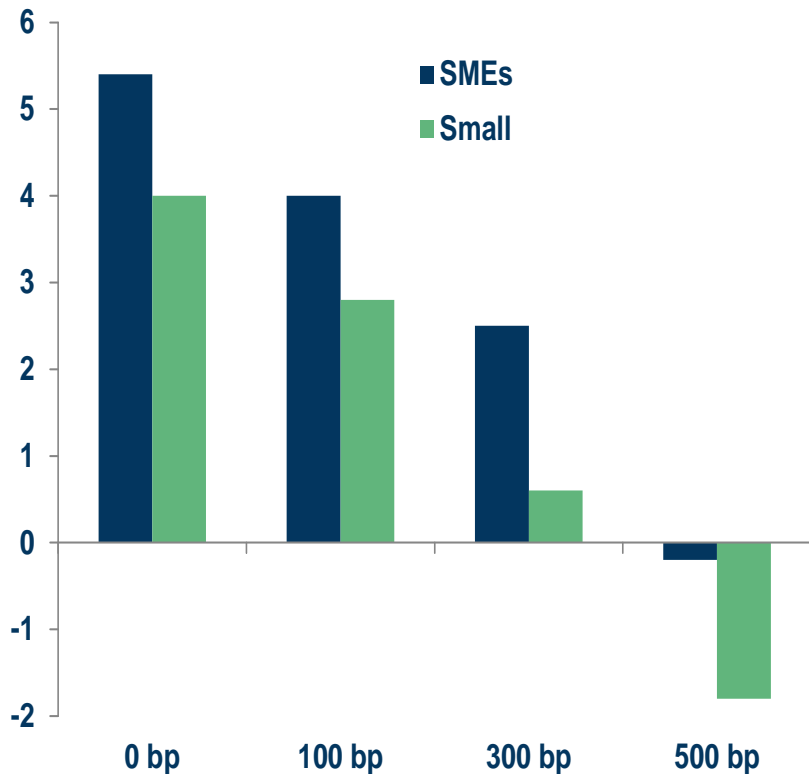
	Germany	France	Italy	Spain
Easier short-term working admissions	yes	yes	yes	yes
Tax liquidity help	yes	yes	yes	yes
Loan funds	unlimited credits by state owned KfW (amount up EUR 460 bn + extra buffer)	€300bn in government liquidity loan guarantees	not explicitly so far but expected soon	yes
Increase of guarantees	-	Guarantee to SMEs and ETIs on a confirmed overdraft over 12 to 18 months or on a loan of 3 to 7 years & extension of maturities by 6 months	25 billion in loans and guarantees for SMEs, further 350 billion could be unlocked next month	100 bn credit guarantee scheme to ensure liquidity struggling businesses

## Eurozone: Sovereign bond yields



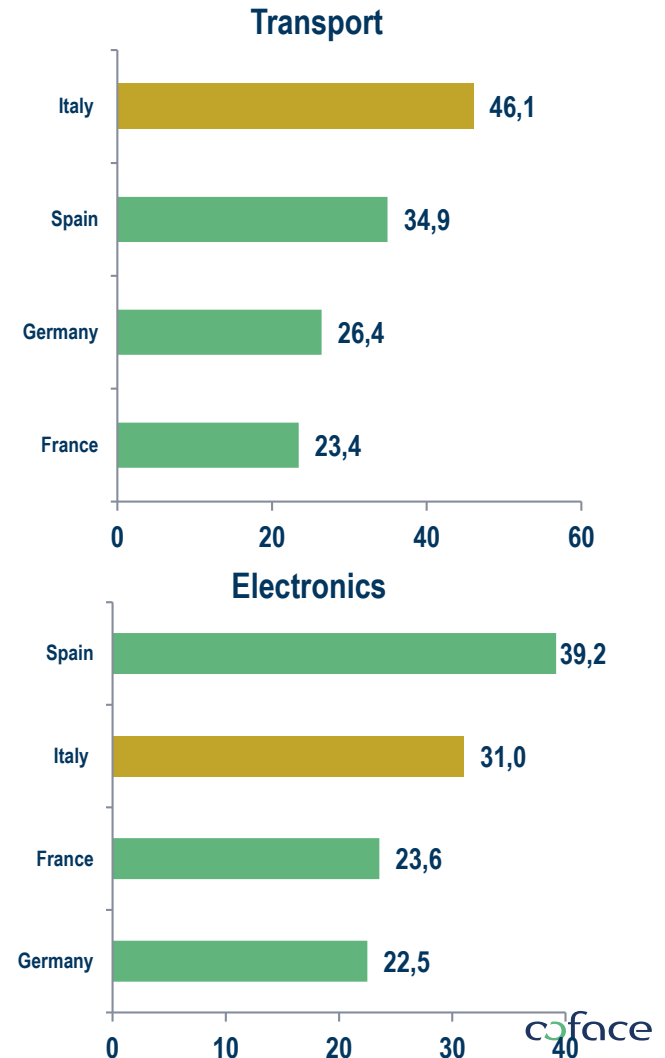
# EUROPEAN BUSINESSES ARE EXPOSED TO SOVEREIGN SPREADS, ESPECIALLY IN ITALY

**Italy: Impact on the ROE (%) of SMEs resulting from higher average cost of debt**



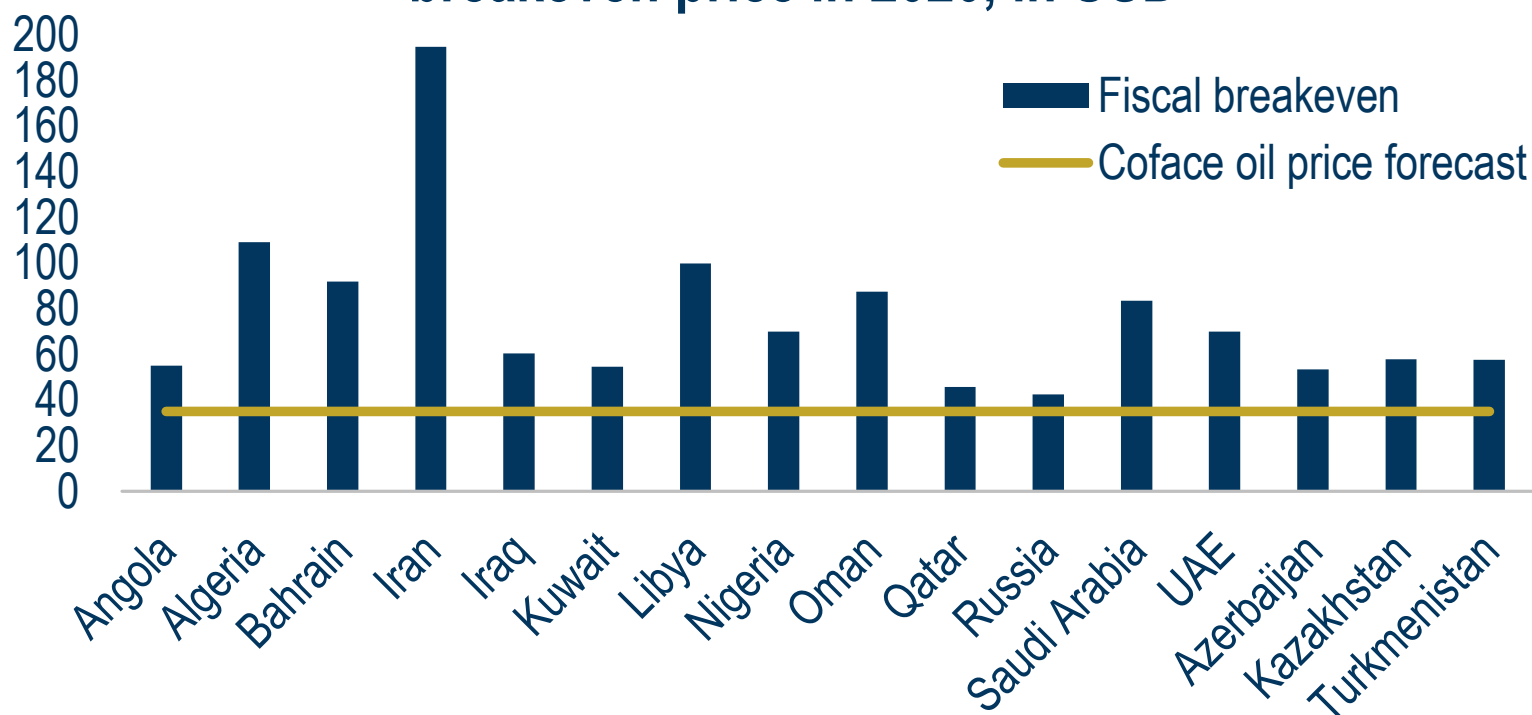
*Bp: basis points  
Sources: Cerved, Coface*

**Net debt to total assets ratio**  
(sources: Eurostat, Coface)



# SHOCK #3: OIL EXPORTING COUNTRIES, BACK TO 2015

## Oil exporting countries: Estimated fiscal oil breakeven price in 2020, in USD



Sources: National authorities, IMF, Coface



# COVID-19: WHAT LONG-TERM CONSEQUENCES FOR BUSINESSES?

- Greater political and debt crisis risks in emerging markets
- Faster « Japanization » of the world economy
  - Both corporate and public debt will increase further
  - Central banks will play a pivot role to support the private sector:
    - Direct support: central banks buy corporate bonds and even stocks
    - Indirect support: governments nationalise at risk companies, but the central bank buys more government bonds
- Future of globalization: no relocation, but more diversified suppliers
  - Usual drivers are still at play: 1) penetrating a fast rising market, 2) producing at lower cost, 3) accessing commodities
  - No massive relocations, but businesses will diversify their suppliers