



Economic Impacts of the Covid-19 Pandemic

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Introduction

As of the writing of the study, the covid-19 pandemic, which hit the world with full force two years ago, has caused more than 6 million deaths around the world, with nearly 460 million confirmed cases. After the outbreak of the pandemic, governments around the world took drastic and sometimes draconian measures—including social distancing, shelter-in-place, shut-down and closure orders—to stem the spread of the coronavirus. As the covid-induced crisis unfolded, many households and firms were ill-prepared to withstand an income shock of the length and scale of the pandemic. In response, many government implemented unprecedented, large-scale stimulus packages along with the easing of monetary policy. Nevertheless, the world economy fell into recession in 2020. The pandemic has been a truly global economic shock.

The purpose of this study is to provide an assessment of the economic impacts of the covid-19 pandemic. To this end, it focuses on the major macroeconomic variables in 2020.

As shown in Table 1, global gross domestic product (GDP) fell by 3.29% in 2020. In the five years prior to the pandemic, the world economy grew at an average rate of 3.05% per year. Among the 196 economies with valid data, 158 (or 81%) of them suffered an economic downturn. Only 39 (or 19%) economies eked out a positive growth.

The World Bank assigns the world's economies to four income groups—low, lower-middle, upper-middle, and high-income economies. High-income economies suffered the most compared to other income groups. According to the latest standard by the World Bank, the hurdle to become a high income country is a gross national income (GNI) per capita of at least \$12,695. In 2020, high-income economies declined by 4.49%. Low-income countries, defined as having a GNI per capita below \$1,064, actually edged up by 0.62%. Meanwhile, lower-middle income countries (with a GNI per capita of \$1,046 – 4,095) fell by 3.42%, while upper-middle income countries (with a GNI per capita of \$4,096 - 12,695) fell by 0.71%.

Table 1 also presents the results of economic growth in selected regions. Not surprisingly, the Pacific island and small states and the Caribbean small states suffered the most because of their heavy reliance on tourism. The economy of the OECD, a club of rich economies, declined by 4.47%, and the European Union's economy fell by almost 6%. The region that was least affected is East Asia & Pacific, the GDP of which dropped by merely 0.13%.

Table 1 Economic Growth (%)

	2019	2015-19 Average	2020	2020-2019 Difference
World	2.60	3.05	-3.29	-5.89
Low income	4.42	2.56	0.62	-3.79
Lower middle income	3.56	4.87	-3.42	-6.98
Upper middle income	4.12	4.55	-0.71	-4.83
High income	1.76	2.16	-4.49	-6.25
Africa Eastern and Southern	2.08	2.41	-2.94	-5.02
Africa Western and Central	3.19	2.27	-0.88	-4.08
Arab World	2.05	2.32	-5.28	-7.33
Caribbean small states	0.62	0.50	-8.16	-8.78
East Asia & Pacific	4.06	4.64	-0.13	-4.20
European Union	1.82	2.20	-5.96	-7.77
Latin America & Caribbean	0.80	0.94	-6.72	-7.52
North America	2.14	2.41	-3.55	-5.69
OECD members	1.74	2.21	-4.47	-6.21
Pacific island small states	0.91	3.11	-9.90	-10.81
South Asia	4.04	6.43	-5.71	-9.75
Sub-Saharan Africa	2.58	2.34	-2.01	-4.59

In 2019, global GDP was 87,568 billion in current dollars. It fell to \$84,747 billion in 2020, a shrink of \$2,821 billion compared to the previous year. If we assume that without the pandemic the world economy would have grown at 3.05% in 2020, which is the five-year average rate prior to the pandemic, the true damage to the world economy amounts to a staggering \$5,492 billion, more than the size of Japan's economy.

Table 2 Unemployment (%)

	2019	2015-19 Average	2020	2020-2019 Difference
World	5.36	5.52	6.57	1.22
Low income	4.89	4.90	5.62	0.73
Lower middle income	5.07	5.21	6.61	1.54
Upper middle income	6.00	5.85	6.77	0.77
High income	4.79	5.66	6.49	1.70
Africa Eastern and Southern	6.91	6.69	7.56	0.65
Africa Western and Central	6.06	5.66	6.77	0.71
Arab World	10.01	10.63	11.49	1.48
Caribbean small states	8.02	9.53	9.83	1.81
East Asia & Pacific	3.82	3.89	4.32	0.49
European Union	6.69	8.25	7.05	0.35
Latin America & Caribbean	7.93	7.63	10.06	2.13
North America	3.89	4.63	8.21	4.32
OECD members	5.40	6.01	7.10	1.70
Pacific island small states	2.88	2.85	3.13	0.26
South Asia	5.02	5.11	7.24	2.22
Sub-Saharan Africa	6.61	6.32	7.28	0.67

The initial government responses to the outbreak of the pandemic, including shelter-in-place, shut-down and closure orders, caused tremendous job losses, especially in the early stage of the pandemic. Though the labor market gradually improved in the second half of the year, the world unemployment rate rose to 6.573% in 2020, from 5.36% in 2019, as shown in Table 3. Unlike economic growth, unemployment is not much different among the four income groups, ranging from 5.62% for low-income economies to 6.77% for economies with upper middle income. Nevertheless, unemployment in all income groups rose in 2020. In particular, unemployment of the high-income economies rose by 1.7%.

The Arab world had the highest unemployment, at 11.49%, in 2020. It should be noted, however, that this high figure is not totally attributable to the pandemic. The region had the highest unemployment (10.63%) in 2019 as well. It is North America that suffered the most in terms of job losses as its unemployment rose from 3.89% in 2019 to 8.21% in 2020. The unemployment rate of OECD members rose to 7.1% in 2020, compared to 5.4% in 2019, while the corresponding figures for the EU are 7.05% and 6.69%, respectively. To be sure, the annual unemployment figures belie the immediate shocks in the labor market. For instance, at the worst point the employment rate in the U.S. exceeded 10%. Additionally, people with low income and less skills were disproportionately affected by the pandemic.

Table 3 GDP Per Capita (in constant 2017 dollars)

	2019	2015-19 Average	2020	2020-2019 Difference
World	16,897	16,572	16,189	-708
Low income	2,022	1,958	1,988	-34
Lower middle income	7,115	6,693	6,765	-350
Upper middle income	17,393	16,218	17,103	-291
High income	50,495	48,922	48,028	-2,467
Africa Eastern and Southern	3,711	3,723	3,516	-195
Africa Western and Central	4,159	4,149	4,022	-138
Arab World	14,340	14,258	13,399	-940
Caribbean small states	15,976	15,922	14,814	-1,162
East Asia & Pacific	17,649	16,282	17,549	-100
European Union	44,388	42,578	41,684	-2,704
Latin America & Caribbean	16,043	15,944	14,826	-1,217
North America	61,253	59,173	58,823	-2,430
OECD members	44,701	43,363	42,486	-2,215
Pacific island small states	7,339	7,209	6,390	-949
South Asia	6,244	5,745	5,814	-430
Sub-Saharan Africa	3,890	3,893	3,718	-171

Bear in mind that though low-income countries suffered less in dollar terms, they are poor to begin with. A loss of a dollar in income means much more to them than rich economies. In fact, when measured in percentage loss, the region that suffered the most in 2020 is Pacific island small states, with a drop of 13.2% in per capita income.

Concluding Remarks

The covid-19 pandemic has wreaked havoc on the world economy. Global GDP declined by 3.29% in 2020. The damage to the world economy is estimated to be \$5.5 trillion, more than the size of Japan's economy. In terms of GDP per capita, the world was \$708 (in constant 2017 dollars) poorer in 2020 than it was in 2019.