Quantifying the Toll of Covid-19

Lorié, J.A.; Smid, T.

Publication date
2020

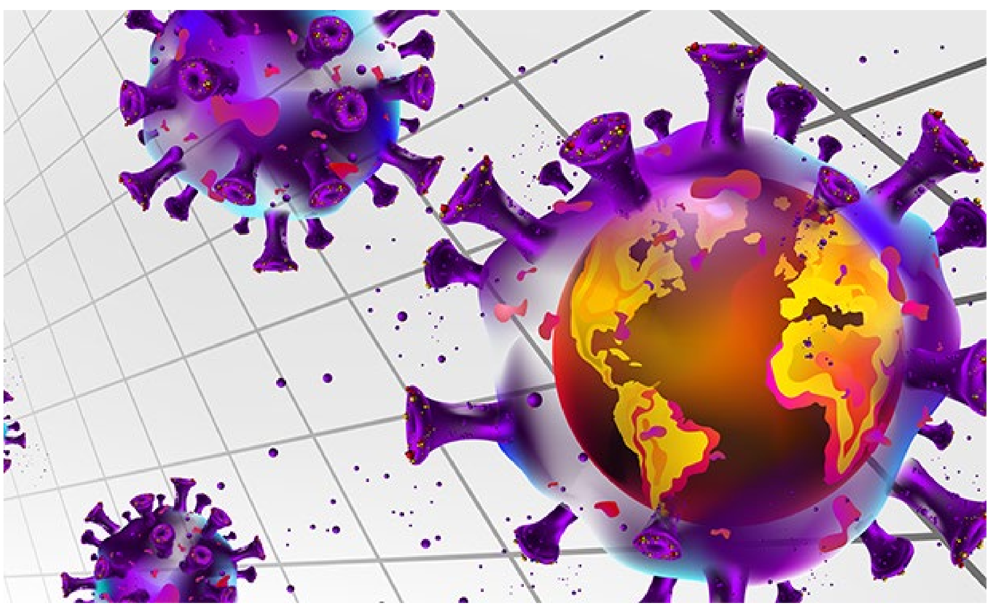
Document Version
Final published version

Analysis

Quantifying the Toll of Covid-19

The latest economic research from Atradius suggests global GDP may recover rapidly in 2021—but only if some key assumptions are met.

By **John Lorié & Theo Smid** | augustus 19, 2020 at 10:35 PM



As Covid-19 spread around the world this spring and governments locked down their economies to slow the virus, both advanced and emerging-market economies suffered greatly. These lockdowns prevented nonessential businesses—such as restaurants, barbershops, and sports and arts venues—from opening their doors for an indeterminate period of time. They also prohibited many employees from traveling to work, even if working from home was not an option. As a result, a large swath of businesses, including many factories, were not able to operate.

This created a supply-side shock, as products and services could not be produced. On top of that, demand fell as workers lost their income and economic uncertainty climbed. Precautionary savings rose. Consumption fell. Businesses, facing lower demand and higher uncertainty, reduced capital expenditures. Falling equity prices exacerbated the situation, restricting financing opportunities. Indeed, even demand for many products and services that could still be produced in lockdown fell precipitously.

The ultimate result was a supply shock, in combination with a demand shock. The impact on countries' gross domestic product (GDP) has been profound. In Q2/2020, the U.S. economy shrank at a quarterly rate of 9.5 percent, which translates into an annualized rate of 32.9 percent—the sharpest downturn since the U.S. Commerce Department began tracking quarterly GDP in the 1940s.