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MACRO STRATEGY

Life After COVID-19

Key Takeaways

- Once COVID-19 has been brought under control, we will face a new normal.
- Some changes appear relatively straightforward, and just accelerate recent trends: more online living and working; urban depopulation; more precautions taken in supply chains; and greater awareness of income inequality.
- Other changes will be harder to predict: the impact of the pandemic on geopolitics; the behaviors of current younger generations; the effects on long-run productivity; and the effects on long-run domestic political ramifications.

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After the Storm:
U.S. Long-term Effects of COVID-19

Eventually, humanity will figure out COVID-19. Through some combination of testing, therapeutic treatment, vaccines, and herd immunity, we expect to bring down infection and mortality rates to levels that are manageable for our health systems. Companies will catch up to the hand sanitizer and toilet paper demand. The fear will recede.

But some things will have changed. What, exactly?

Other pandemics have had profound effects on societies.[1] We argue that the COVID-19 pandemic will accelerate several existing economic trends.

Supply Chains:
Acceleration of Risk Management, Consumer-proximate Production

Supply chains are expected to become more robust, at the expense of cost-minimizing efficiency.

In this crisis, supply chains have been exposed as fragile. Lean operations meant that inventories were razor thin throughout the supply chain, exacerbating shortages. Some firms relied on a single low-cost supplier at critical points in their supply chain, creating bottlenecks. Other producers suffered as countries closed their ports or barred cargo ship crews from disembarking, effectively choking off supply chains.

In the U.S., the supply of food and household goods proved to be very rigid. Demand shifted from institutions, such as work or school cafeterias and restaurants, to retailers that supplied households. Supply chains struggled to accommodate the repackaging and shifting of production that this change in demand required.[2]

Although this pandemic is a rare event, it should be clear to firms that their supply chains are vulnerable. This is now the second major supply chain disruption in 18 months—the other being the U.S.-China trade war—and the third in recent years including the Fukushima nuclear disaster in 2011 that disrupted supply chains in the auto industry.[3]

It is likely supply chain management will increasingly require the analysis of risks and "revenue-protection" rather than a sole focus on cost mitigation. Certain firms already began to rethink their supply chains following the Fukushima nuclear disaster in 2011. More generally, there has been a trend, at least among some industries, to move toward a more regional model, where production happens closer to the consumer, away from a fully global-distributed network.[4]

An important point to consider is that this is not simply a matter of turning inward. The most recent supply chain disruptions both had to do with China, but imported inputs are not the only source of risk. A more robust supply chain defense includes sourcing from a variety of suppliers, whether abroad or domestically, and closer to the ultimate consumer, whether those consumers are abroad or based domestically.

Living Online:
Acceleration of Online Shopping and Entertaining

People are likely to emerge from the lockdown even more comfortable doing their shopping and living online.

Life increasingly shifted online during the stay-at-home phase of the pandemic. Many people will adopt new habits, which are likely to be reinforced the longer this phase continues. Firms will respond to these new behaviors. At least some percentage of people have been forced to go online for some of their grocery shopping.[5] Some share of these people will likely stick to online grocery ordering even after the pandemic. Some people may decide cooking is better and cheaper than going to a restaurant. Others may become used to shopping for apparel online. Many of these habits are just accelerating the pre-virus trend toward online shopping, but these shifts are likely to further stress bricks and mortar stores.

More than just a shopping phenomenon, there may be an acceleration toward moving one's life online. Multiple online entertainment and educational subscriptions may become a staple of the household budget, just as cable and cellphone bills did in previous generations.[6]

Working Online:

Acceleration of Digitization, Remote Work, Remote Locations

Some share of the population may rethink their need to work in big cities.

Everyone who can (and even some who really can't) is now set up for remote work. Up to 62% of people can do some or all of their job from home.[7] Some are now better equipped to do so than before, and some may even prefer it. This has forced the hand of some—both employers and employees—that have until now resisted the move. Some technologies—like digitization of approval processes, or telemedicine and digital recordkeeping—have evolved rapidly in response to the virus.[8]

This pandemic has hit globally connected large cities especially hard. Part of New York City's vulnerability was the high traffic between it and hard-hit European cities, and another part has been its reliance on public transportation and its population density, which is more than twice as high as the next most dense metropolitan area in the U.S.[9] Many city-dwellers fled the city during the pandemic, and perhaps some are rethinking their commitment to urban life.[10]

If remote work becomes more accepted by employers, there could be some permanent migration away from cities. Combined with the higher cost of living from state and local taxation, this could accelerate the movement of populations toward smaller cities and towns.

Inequality:

Acceleration of Divisions

Although COVID-19 has been called the great equalizer—it can kill regardless of how much money you have since there are no failsafe treatments to be had—the reality is that the disease has had differential effects across the U.S. population. There has been a disproportionate burden on population-dense, largely Democratic states. There has been a disproportionate burden on low-wage workers. Some low-wage workers—in restaurants and retail—were disproportionately laid off or furloughed. Other low-income workers were more likely to need to keep going outside during the lockdown because their jobs require physical presence.[11] They are also more likely to suffer from underlying medical conditions (diabetes, heart disease, obesity) that exacerbate the symptoms of COVID-19.

It's not clear what the repercussions will be, but we should expect some political and policy response to the massive economic and social upheaval. In the same way that the global financial crisis contributed to far reaching political and policy changes, like the establishment of Obamacare and the election of President Trump, we believe that this crisis will lead to some changes in the policy sphere.

We believe the sphere of change is more likely to be economic than medical. Most people will not get ill enough to have to interact with the healthcare system.[12] On the other hand, with 30 million people—and counting—being laid off, far more people will be directly affected by unemployment.

Interest Rates:
Acceleration of Savings Bias

Individuals saving for retirement have seen their returns erode. In ordinary times, people save less when interest rates are low: low reward for savings has historically meant that people will decide it's not worthwhile to save and will just spend their money. But since the 2008 crisis, low real and nominal rates have meant that people will fail to meet their savings goals, which has led to an increase in savings due to lower rates. This unusual behavior may be exacerbated by the current crisis. If savings are hard hit by the stock market losses, precautionary savings would continue to dominate.

In addition to this, there is some historical evidence that pandemics have historically tilted the balance somewhat away from returns on capital and toward returns on labor (i.e. wages).[13] One reason given is an increase in risk-aversion—similar to the reason given above—and another is that there is an excess of capital given the lower surviving population. Although this pandemic has hit older people—i.e. those out of the workforce—particularly hard, there are reports of low-wage service industry and healthcare workers being disproportionately hit. Such sectors could face shortages and thereby upward wage pressure, and commensurate declines in capital returns. But it is uncertain whether wage increases will occur in this case: capital could be used to replace virus-susceptible humans with technological solutions including robots and artificial intelligence, particularly in factory settings where the virus can spread easily. Dislocations may also be localized within sectors as well, with certain sectors having too much capital (retail stores) and others having too little (healthcare).

Conclusion

The pandemic has turbocharged several trends that we have been seeing over the past decade. Although none of these trends are new, taken together they represent a new normal.

In this article, we have considered only a few changes. There are likely other changes. The pandemic may have implications on broader geopolitics, beyond the rethinking of supply chains. These could include a parallel shift toward a more national or regional, and less global perspective. The domestic political map could shift, with currently urban populations moving to small cities and towns across the country; as is already the case, the coasts could see a decline in population and political power. Another trend that is not addressed is whether there will be more acceptance of publicly shared data to prevent future pandemics. Generation Z, the generation after Millennials, are likely to have a profoundly different outlook on life than prior generations. The sharing economy, particularly anything involving close quarters, may have to be rethought or adapted; even public transportation may need to adjust to a new world.

Still other changes will be completely unanticipated. The pandemic is still ongoing and may continue for some time to come. But it is not too early to begin to consider the long run effects. In whatever way they manifest, the pandemic appears likely to have far reaching consequences far beyond the initial economic shock.

Endnotes

1 Jorda, Singh, Taylor, "Longer-Run Economic Consequences of Pandemics," NBER Working Paper 26934, April 2020. The Guardian, "Cities after coronavirus: how Covid-19 could radically alter urban life," March 26, 2020. https://www.theguardian.com/world/2020/mar/26/life-after-coronavirus-pandemic-change-world.

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3 Knowledge@Wharton, "Coronavirus and Supply Chain Disruption: What Firms Can Learn," March 17, 2020.

4 The Economist, "Supply chains for different industries are fragmenting in different ways," July 11, 2019. https://www.economist.com/special-report/2019/07/11/supply-chains-for-different-industries-are-fragmenting-in-different-ways

5 One in four people ordering groceries online have never done so before the crisis. Krishna Thakker, "Nearly one third of U.S. households shopped for groceries online in the past month, report says," March 27, 2020. https://www.grocerydive.com/news/nearly-one-third-of-us-households-shopped-for-groceries-online-in-the-pas/575038/

6 Bursztynsky, Jessica, "Netflix says these three effects of the coronavirus crisis are impacting its business," CNBC, April 21, 2020. https://www.cnbc.com/2020/04/21/netflix-q1-2020-earnings-three-effects-coronavirus-has-on-business.html

7 GlobalWorkplaceAnalytics.com, https://globalworkplaceanalytics.com/telecommuting-statistics Note that this study was made before the lockdown occurred, so these numbers have likely risen.

8 Fine, Howard, "Patients Turn to Telehealth," LA Business Journal, April 13, 2020. https://labusinessjournal.com/news/2020/apr/13/patients-turn-telehealth-companies/

9 The New York City metropolitan area has a population density of 56k people per square mile, while the second most dense is Los Angeles with 23k. https://en.wikipedia.org/wiki/List_of_United_States_cities_by_population_density

10 Shenker, Jack, "Cities after coronavirus: how Covid-19 could radically alter urban life," The Guardian, March 26, 2020. https://www.theguardian.com/world/2020/mar/26/life-after-coronavirus-pandemic-change-world

11 Wage Workers Face Brunt of Coronavirus Crisis," The Wall Street Journal, March 20, 2020. https://www.wsj.com/articles/i-have-bills-i-have-to-pay-low-wage-workers-face-brunt-of-coronavirus-crisis-11584719927

12 Despite the massive number of infected people, interaction with the healthcare system due to Covid-19 is much lower than the number of unemployed. In the U.S., there have only been about 3.2 million tests conducted, and only a small fraction of those people wound up hospitalized. Hospitalization rates range from as few as 0.04% for people between 10 and 19 years old to an 11.8% hospitalization rate for those in their 50s. On average, hospitalization rates are around 10%. Mundell, E.J., "Odds of Hosptalization, Death With COVID-19 Rise Steadily With Age: Study," USA Today, March 31, 2020. https://www.usnews.com/news/health-news/articles/2020-03-30/odds-of-hospitalization-death-with-covid-19-rise-steadily-with-age-study.

13 Jorda, Oscar, Sanjay Singh, and Alan Taylor, "Longer-Run Economic Consequences of Pandemics," NBER Working Paper 26934, April 2020.

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