Coronavirus Storm Warning

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Each day brings constant reminders that coronavirus poses a huge threat to every country. The updates on increasing incidences of infection that are increasing at an alarming rate together with, tragically, deaths, show precisely why WHO (World Health Organisation), have declared coronavirus to be a pandemic that has the potential to create human suffering that governments and officials in every part of the globe fear.

The fact that we are seeing restrictions on movement being imposed in countries across the world and, significantly, including Italy and the Republic of Ireland, that, even in war, would seem draconian tells us how seriously the threat of coronavirus is being taken. It will be for those affected, literally anyone, but especially the elderly and those with pre-existing health conditions, a matter of life and death.

As we've now seeing on a daily basis, fear being created by coronavirus is causing contagion on the financial markets. This is because investors believe there will be significant falls in demand by consumers for products and services. We've already seeing this in the travel industry. Add in an oversupply of oil as a result of disagreement between Saudi Arabia and Russia, resulting in a huge fall in the price of oil, and the consequence is a kind of Armageddon for financial and commodity markets across the world that will have severe implications for investment and planning.

Some suggest that we will see a "Minsky moment"; economist Hyman Minsky's theory that markets crash amid widespread panic caused by a rush to safety. The fact that yields on government bonds are at an all-time low, and yesterday for the UK were briefly negative, tells us that fear among investors in palpable.

We are in a vortex in which countries and companies appear relatively powerless to do anything about. And very sadly, as occurred in the aftermath of the GFC of 2008, many companies may find the crisis causes them to suffer losses that puts them out of business. Flybe, already ailing, was the first corporate casualty and, given the outlook for travel in coming months, many in the travel and hospitality sector will experience intense pressure through vastly reduced profit (if any) and, potentially, administration.

A tweet on Thursday lunchtime from the BBC's business editor Simon Jack describing a friend who's "an Airbnb host" having experienced 100% in cancellations and, having informed their cleaning firm that there was no work for them, described the owner of the cleaning from being in tears presents tells a very human side to the catastrophe that is/will befall many as a result of coronavirus.

The cycle we're experiencing follows recent financial crises when really bad days are followed by days when there is an apparent respite only for the next day to be even worse. 'Dead cats' bounce only to die again!

That China appears to be over the worst was cause for some optimism. However, as is pointed out, China imposed restrictions on people that, should they be replicated elsewhere, will have vast repercussions as far as consumer behaviour is concerned. Interestingly, *New Scientist* describes the opening of a new hospital ward "run entirely by robots has opened in Wuhan, China, in a bid to protect medical staff from contracting the coronavirus"[1].

Italy's example of shutting down all events and closing every shop apart from those selling food and pharmacies tells us how bad things may become. At the time of writing, though, the sort of measures used by Italy in, which the entire population is effectively quarantined do not appear likely to be implemented in this country.

At some point coronavirus will become manageable. There will be a return to normality as the threat of contagion eases and panic buying that's been seen in recent days ceases. However, like previous crises, most particularly the GFC of 2008, there will be reflection and reckoning as to what can be learnt and how to make the financial and supply systems we so utterly depend on, more resilient to the sort of shock that coronavirus has created.

Larry Elliott, the *Guardian's* Economics editor argues that one of the major problems we have with the current financial system was the fact that what he calls 'cheap money' has created the fuel for a boom in asset prices but at the price of lowered rates of investment that has led to "historically weak productivity growth"[2].

Elliott asserts that it is the "disconnect" between interest rates and productivity growth that coronavirus has exposed. Crucially, he asserts, what we are witnessing is a falling apart of the international order through the fallout between Saudi Arabia and Russia, both of which are G20 members. The result of the current crisis may be, similar to what occurred later in the decade following the 1973-74 oil shock, "a second – even more serious – dislocation."

In the 1973-74 oil crisis, the result was raging inflation that reached almost 25%. This time, however, Elliot suggests, the effect may be the opposite; deflation. We'll see if dropping interest rates back to their historic low of 0.25% will make any difference. Many believe that it won't and that the problems we are seeing, are far more complex than those caused by the GFC.

Contrary to Elliott's analysis, I'd suggest, there's the possibility of shortages in certain goods that, because of coronavirus, will have had supply-chains seriously disrupted. I have heard that container ships from the far east have declined markedly in recent days. The overall consequence of inflation in an economy that is still sluggish because of the difficult headwinds is another blight that impacts us all; stagflation. We become poorer as a society.

In delivering his first budget Rishi Sunak, absolutely correctly, focused in dealing with the immediate challenges that are being felt by coronavirus. Whether the £30 billion dedicated is sufficient remains to be seen. Let's hope that the effects turn out to be less dreadful that is being seen elsewhere though this is simply blind faith.

Chancellor Sunak's announcements of investment in infrastructure indicate that he is thinking about the longer term. There is no doubt that investment in regions outside of the south east is urgently required to attempt to restore optimism that will improve the prospects of citizens who perceive they've been left behind.

Critically, what has been so cruelly exposed by the coronavirus crisis is that systems lauded as being agile and, in fact, extremely fragile. There is a need for ways of operating and methods of producing what we need that are far more resilient. This would potentially make the economy more robust in dealing with shocks such as coronavirus. It might also ensure that we use valuable resources less ruthlessly than has been the case and which, it should be stressed, poses risk through future environmental disasters.

This is precisely what Sky economics editor Ed Conway advocated in a recent column for *The Times*, 'Virus can trigger a new industrial revolution'[3], Conway contends that coronavirus is a catalyst to urgent change and believes that we need to end use of supply-chains providing us with products that are cheap because labour costs are lower elsewhere.

Accordingly, Conway suggests, and because our economy is based on yesterday's technologies and techniques, coronavirus may be the shock that enables governments and companies to contemplate "leaps they were hitherto too nervous to make" including more widespread adoption of 3D printing, AI (artificial intelligence), and robotics to ensure that we have secure supply of goods and services.

Whatever happens in the next few months, there will surely be serious reconsideration of the ways in which business is undertaken, the effectiveness of systems of moving components and products through elaborate and highly dislocated supply chains as well as the patterns of employment that have been adopted.

As such, coronavirus has provided a 'storm warning' to all governments for urgent action to address many aspects of business and finance.

Dr. Steven McCabe is co-editor of *Brexit and Northern Ireland, Bordering on Confusion* (published by Bite-Sized Books, ISBN-13:978-1694447807)

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