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PUBLIC AFFAIRS

Corona crisis: short, medium and long term effects



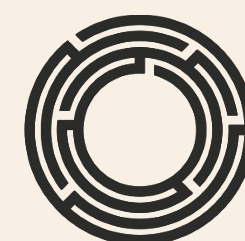
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Introduction: Will the Corona-crisis change the world?

As this report is written, the Corona-crisis is beginning to severely restrict human activity in Sweden. Thus far, deaths are few and the number of reported cases has just surpassed 1000, but both figures are expected to rise.

We write this report for the clients of The Labyrinth in an effort to try to make sense of what this will mean for Swedish society in the short, medium and long term. It is not all covering, we certainly do not have all the answers, but it is an effort to put the right perspectives on the table to allow you to ask the right questions for yourself and your organisation.

Depending on the continuation of the crisis, this report will be updated accordingly.



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Key takeaways

- The economical slowdown caused by measures to dampen the spread of the Corona-virus, risk causing significant negative effects to the Swedish economy reaching beyond the immediate epidemic
- In the short term, there is a political ceasefire as politicians struggle to deal with the immediate crisis. Once the crisis has passed, expect conflicts and finger pointing about who to blame for its consequences
- In the short term, it will be nigh impossible to be relevant in the societal debate or the news without relating to the crisis
- In the medium term, nationalism vs globalism will become a central topic, as the world coming out of isolation will be one where the economy has come under heavy stress. Some will argue the need for protectionism to focus all efforts to get the economy started at home and some will argue that increased trade and openness is the only way to get the economy going again.
- Climate issues will receive less attention in the short to medium term, as the crisis and the economy takes precedence. Expect the issue to return to the top in the long term.
- Digital services and products, from healthcare to home movies and online meetings, will see a sharp incline in demand. This will most likely translate into new behaviours as we come out of the crisis
- Increased government control and centralization of healthcare services is likely to become big political topics as society evaluates what can be done to prepare for the next crisis
- Any company managing to stay strong during the crisis will see many opportunities, both in terms of buying up weaker competitors, or parts of, and attracting talent that was laid off during the crisis
- The mother of all economy packages will come as the crisis fades out. This poses huge opportunities for anyone with the right ideas to get the economy back on track, especially within the infrastructure sector.



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Background: What is the Corona-crisis

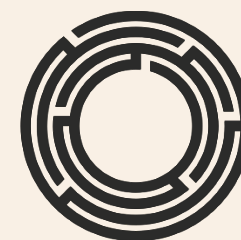
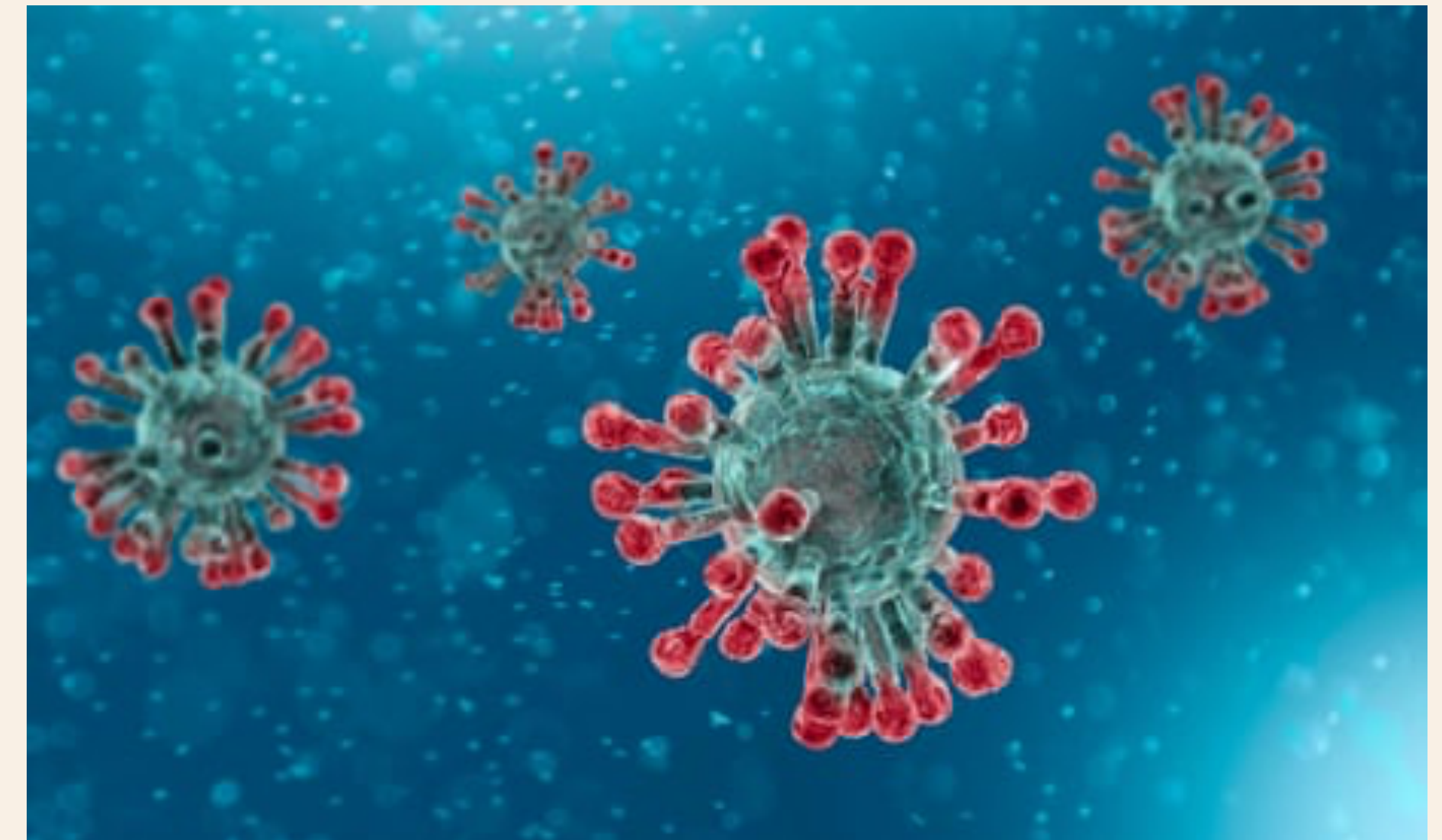
The Corona-virus (Sars-cov-2) or as the disease itself is called, COVID-19, is a global pandemic with its origins in the Chinese Hubei province. **The first cases were reported on December 31 2019**, as 27 people with a connection to a local fish and live animal market had come down with pneumonia of unknown origin.

On January 30, the WHO declared the outbreak of the Corona virus to be a public health emergency of global concern.

On February 22 the Italian authorities reported clusters of the infection in the region of Lombardy. Over the following days, more and more cases were reported, originating from domestic spreading of the virus.

The Director General of the World Health Organization declared COVID-19 **a global pandemic on 11 March 2020**.

Currently, most of the world is in lockdown. In an effort to reduce the spread of the virus people are working from home, flights and meetings are cancelled or moved to a digital format. We do not yet know what will be the full extend of the pandemic in terms of human lives and economic damages.

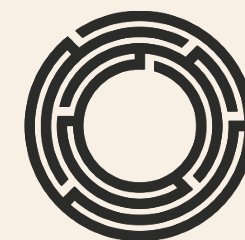
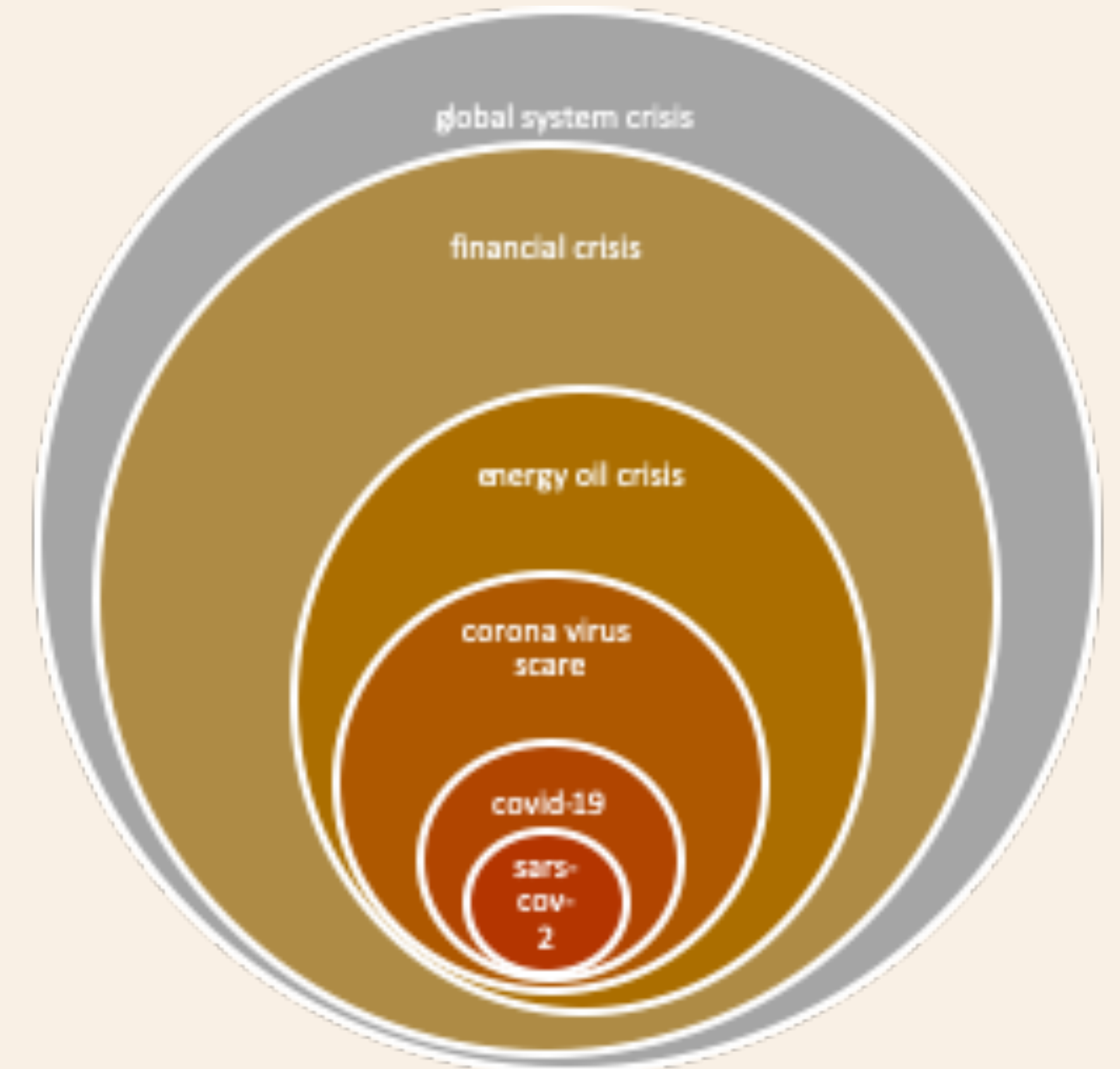


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Corona Crisis and the big picture

The Corona crisis is not happening in a vacuum. It affects and interplays with other international events.

- The new virus, sars-cov 2 with unknown properties generates unrest as people worry for their health and future
- The spread of covid-19 to vulnerable groups risks causing a healthcare collapse
- The "Corona crisis", i.e. how it is dealt with by society, causes crises in trust in both the economical and political establishment
- US economy is a major risk, due to poor public health and general unavailability of healthcare to large parts of the population
- The media, experts and politicians communicate the crisis to the population
- Lack of demand for oil, especially in China, has created a price war amongst producers as the price per barrel nears 33 USD.
- The oil crisis generates increased credit risk for banks
- The international powerplay between the worlds largest nations continues in the shadow of the Corona crisis



The scopes

This report focuses on three different scopes.

Short term, which we name “The crisis phase”

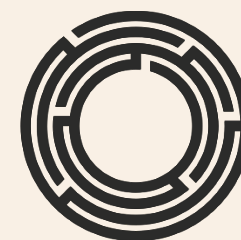
This scope covers the effects the crisis is having on society and organisations right now, and how the government and other relevant actors respond to the crisis.

Medium term, which we name “The transformation phase”

This scope covers what will happen once the crisis phase is over and society adapts to a new situation in which the Corona virus has taken its toll on society in terms of both economic and human terms.

Long term, which we name “The post crisis reality phase”

This scope covers the period after the transformation phase, where society has begun stabilizing again, having adapted to the realities of a long period of social limitations.



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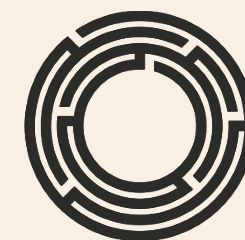
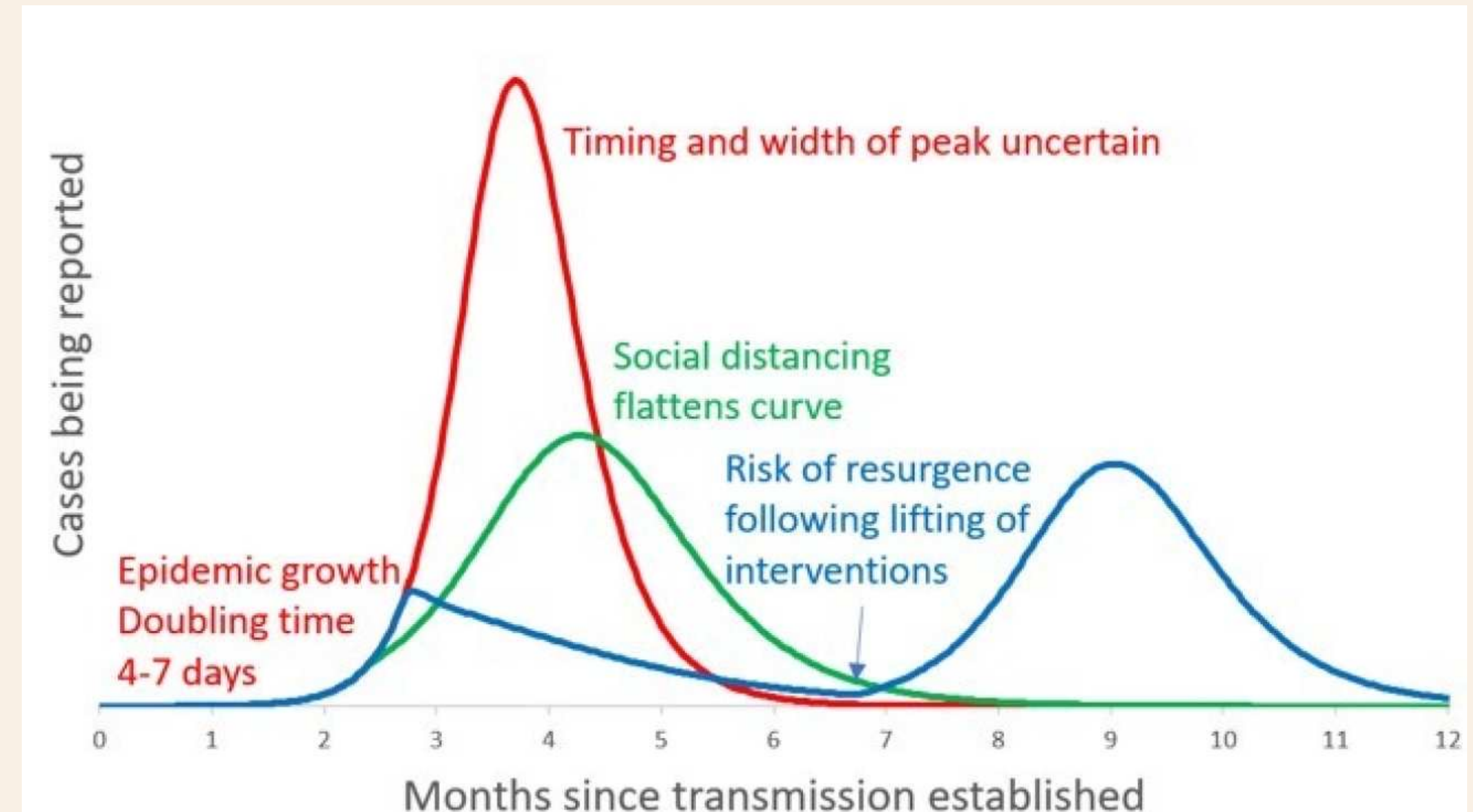
Projection of the Corona-crisis

To create an accurate projection of how the crisis will develop is impossible at this time. The graph on the right shows the effects different strategies might have on the spread of the disease. As can be seen, too drastic measures in the beginning also means a risk of the disease resurging at a later date.

Thus, for the sake of this report. We estimate that **the crisis phase will take place during the months of March to June 2020.**

The transformation phase will be July to December 2020.
However, this might be a significantly longer period in the case of a global depression.

The post crisis reality will start to kick in beginning in January 2021.



The crisis phase

As a response to the crisis, the government has recommended people to avoid contacts with others and to work from home. In most parts of Sweden, meetings, conferences and other events are cancelled or changed to digital meetings. Travel, both locally, regionally and internationally has been mostly suspended.

The healthcare sector will see a heavily increased focus, especially hospitals and the intensive care units dealing with patients from the pandemic, but digital healthcare providers will also come under increased pressure as citizens seek medical services without the risk of getting infected or infecting others. **This hurts above all actors within the travel, restaurant and hospitality industry**, but even large companies whose global value-chains are affected by disruptions, such as Scania, are severely affected. **Many thousand people have already gotten notices that their contracts might be terminated.**

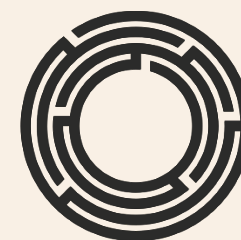
However almost every single business is affected in one way or the other, or risks being affected, either by direct effects such as sick employees, cancelled meetings or similar, or by indirect effects following the closing of schools creating a need for parents to care for their children during working hours. **The demand for most products that are not immediately necessary for peoples day to day lives is down.**

The property sectors, with its long timelines, is not expected to take a big hit during the immediate crisis. However, with shops going bankrupt which results in loss of rental incomes and foreign staff not being able to travel to do construction work in Sweden, there will be negative effects.

The politics sector, from national to local level focuses exclusively on dealing with the crisis and there is a common understanding between parties from all sides that at the current time, issues that are not crisis related should not be bothered with. There is also an understanding that it is more important to implement measures to address the crisis, than to get exactly the measures proposed by your own party.

Climate issues, having dominated the agenda for most of 2019 and the beginning of 2020, **is going to see a significant drop in attention over the short term**, as the practical here and now of the crisis sets the agenda.

Globally, governments and other bodies will do what they can to mitigate both the spread of the infection and the economical consequences of the slowdown. As production goes down, so does the demand for oil. All these things happening at the same time, **causes significant both short and long-term risks to the global economy.**



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The crisis phase: what to expect

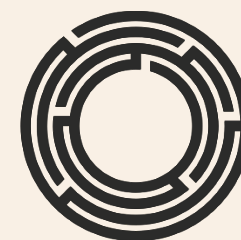
In this first stages of this crisis, where we are right now as this report is being written, the following is to be expected:

- Severe loss of jobs within travel, hospitality and restaurant businesses
- Overall lower demand on consumer products not immediately necessary, such as home electronics and clothing
- Disruptions of global value chains, hurting above all “right on time” production models
- Sharp increase in use of digital services, including both simple products such as meeting tools and a shift of more advanced services from analogue to digital formats, such as conferences and marketing campaigns
- Interventions from the government to dampen effects on the crisis amongst business. Both in general and with specific measures targeting the most affected sectors
- Interventions from national banks to dampen effects of the crisis on the general economy
- Political unity, as parties put down their differences in the fact of the crisis
- Being relevant in the societal discussion without connecting your topic to the ongoing crisis will be next to impossible. However, it is recommended to steer clear of any message that can be seen as crisis profiteering



A photograph of an airport departure board. The board is dark with white text for flight details and red text for the status. All flights listed are marked as 'CANCELLED'. The destinations shown are Berlin, New York, Toronto, Madrid, Beijing, Houston, Paris, and Sydney. The flight numbers, gates, and times are also visible.

DESTINATION	FLIGHT	GATE	REMARKS
BERLIN	LH543	09	:CANCELLED
NEW YORK	AA978	28	:CANCELLED
TORONTO	AC902	11	:CANCELLED
MADRID	IB342	15	:CANCELLED
BEIJING	CX654	02	:CANCELLED
HOUSTON	AA384	08	:CANCELLED
PARIS	AF893	14	:CANCELLED
SYDNEY			



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The transformation phase

The uncertainty of the crisis phase will mean that for a long time, industrial activity will be significantly reduced. Goods will not be bought, companies will not be started, projects will not be initiated and houses will not be sold. **Thus a temporary recession is guaranteed, but depending on the duration of the crisis phase, things might develop into a global depression.** Less industrial activity will mean less carbon emissions, beneficial to the climate, but it will also mean that politicians and business leaders will be hard pressed to focus on survival and growth going forward.

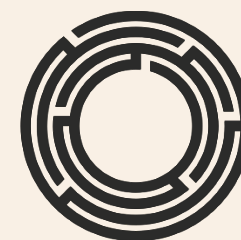
In the short term, less spending might actually lead to improved results in some sectors. No more business trips and expensive conferences means improved bottom lines in sectors where demand is not hurt, or even improved by the crisis, such as digital services, toilet paper and canned goods. However, most sectors will probably not be better off after the crisis than before. As companies come out at the end of the crisis, there are going to be winners and losers. **Actors with a lot of funding is going to be able to cherry pick from the crumbles of the industries that are hurt the most, such as the travel and hospitality industry.**

It will also be an important time for society to determine whether new habits formed during the crisis will be permanent or temporary. People who have been working from isolation, doing most meetings and conferences through digital means, it is not unlikely that most people will feel more comfortable using that technique even going forward. **Some business travel, in order to attend meetings that for months have been done digitally, might not make a return at all.**

There will also be a surplus of available staff, especially coming from the most affected sectors. This will be an opportunity both for companies that have weathered the crisis and is ready to adapt to the increased demand of services and goods as people take to restaurants and trips, tired after months of isolation. But also for sectors where the demand for staff has been constant, that has been able to provide emergency education to people laid off during the crisis.

The political ceasefire from the initial crisis phase will end and through questions from all sides will be asked about why society was not more ready to deal with the crisis. This conflict will likely carry over into a broader debate on how societies can become more prepared for dealing with other crises. The main political topic going forward will be how to get the economy going again and it is likely that globalism vs nationalism becomes the political battlefield, some arguing that protectionism is needed to improve things at home and others that free trade and openness is needed to get the economy up and running again.

The focus on how to get the economy up and running again, **offers opportunities both for reforms and state aid to sectors hurt by the crisis.** With both the private sector, municipalities and regions being hurt financially by the crisis, **there is a clear opportunity for a significant infrastructure deal spanning all of Sweden,** to get the entire economy back on track.



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The transformation phase: what to expect

As the crisis ends and society begins to adapt to the post crisis reality, this is what we expect to see:

- A post crisis call to reforms to improve the economy. As the need will be huge, there is a clear window to push through reforms and infrastructure-packages that will get the economy back on its feet
- Winners buying up the losers. There is going to be consolidations within the sectors most hurt by the crisis
- Opportunities to recruit staff laid off during the crisis, both in sectors where demand returns as people break the social isolation, but also to sectors where demand has been constant, that has been able to offer re-education packages
- Significant political opportunities as the crisis ceasefire breaks and politicians and voters begin looking for who to blame. Anyone that can argue for a cause that will improve future societal preparedness to crises stands to gain
- In the healthcare sector, politicians from left to right will look at how to increase government control. A debate on the nationalization of the Swedish healthcare system is not unlikely
- Globalism vs nationalism comes into focus as politicians debate on how to get the economy back up and running again



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The post crisis reality

The new reality phase, being the future point in time when crisis is starting to fade as a distant memory, is indeed a speculative reality to deal with. What new behaviour's, policy's and structures will follow society out of the corona-crisis is not something we can say at the moment with any high degree of certainty. **However, that being said, it is indeed very likely that a society that has spend several months at home, seeing a society strain under the burden of a global virus infection, will not be the same as the one going into the crisis.**

We expect society post Corona to be more digital than the one going into the crisis. Never before have so many people for such an extended period of time been working from home. Many conclusions will be drawn post crisis on whether working from home is good for business or not. Inefficient physical meetings, requiring people to give up a workday for a one hour meeting at some distant location, will more than likely be a thing of the past. The need to do business will not have disappeared due to the crisis, and **the winners will have been the ones figuring out how to still make sales without the need for trade fairs and face-to-face meetings.**

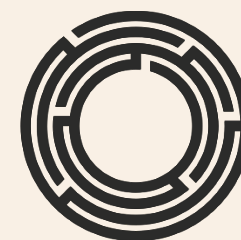
New methods will be explored for human collaboration and rationalization decisions that previously have been held back due to an unwillingness to use digital services will have been pushed through by the sheer need to adapt.

We also expect there to be **a cultural backlash towards physical** meetings as people coming out of a long drawn social isolation gets the opportunity to be social again. This will likely take many shapes or forms, since it is something more motivated by the human need to interact with others rather than strict business sense.

Companies will have adapted to the crisis during the crises, there will have been a need for new competencies and **some will have been made redundant not due to the company being unprofitable as a whole, but due to the lack of need for certain functions.** The winners, as always, will have been the ones being able to adapt to the new circumstances, with the reduction of in person meetings being the key variable.

Companies coming out of the crisis will be evaluating their global value chains from a risk perspective and there will be a lot of focus on how to make sure that one does not end up in the same situation again, either in the future or if the virus resurfaces before a vaccine is discovered. **Circular economy will most likely play a big role in making sure that companies are less reliant on factories and supplies of raw material from other parts of the world.**

The climate challenge will return as the key societal challenge once the immediate crisis has passed and people start getting their jobs back. Companies are urged by us not to loose track of this issue and at the very minimum make plans to prepare for a transition. This is not a challenge that is going to go away.



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The post crisis reality: what to expect

In the post crisis reality, this is what to expect:

- A more digital society. Everyone will have had to adapt to an extended period of time with limited in person interactions, this will have formed new behaviours and needs within most organisations and for society as a whole
- Unless a clear and beneficial need of returning to old habits can be presented, such as expensive business trips and trade fairs, expect many changes to stay permanent
- A cultural backlash towards real human interaction as people break their social isolation
- The travel and hospitality industry will have changed permanently in a ruthless way. Only the strongest, most efficient and profitable companies will have survived
- The climate challenge will return as the big and looming threat to human civilisation, having taken a setback in momentum over the course of the crisis
- Circular economy will be seen in a new light, playing a part in making companies more resilient to disruptions in global value chains
- Most people in Europe will have lived through their first real crisis since the second world war. This will change the dynamics of politics for years to come



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What does this mean for you?

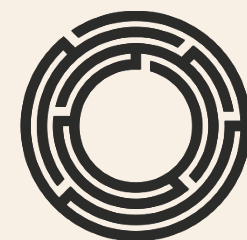
This report has been made through the combined efforts of the staff at The Labyrinth Public Affairs, with the focus of trying to make sense of where society is heading.

If you want us to focus specifically on what this new reality is going to mean for your organisation or your industry, please do not hesitate to contact us.

Best regards,
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