Intelligence MEMOS

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To: Canadians Concerned about COVID-19's Economic Impact

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Re: **Looking Beyond Macro-Economic Policies to Address Consequences of COVID-19**

COVID-19 is causing a sharp and immediate disruption to economic activity, and the drastic measures needed to slow its further spread have created a negative ripple effect across the global economy.

The pandemic has also created significant uncertainty, which is amplifying the economic slowdown by overturning plans based on business-as-usual scenarios, which makes it harder to see a positive turning point.

Overall, growth is decelerating sharply, due to a combination of supply disruptions and curtailed consumer demand, including that curtailed temporarily by express government policy to limit the spread of the virus. The economic outlook has quickly become more negative; revised forecasts are pointing to a Canadian recession of two or more quarters. Similar forecasts are emerging for other countries.

Initial economic policy responses have included monetary stimulus through deep cuts to interest rates and providing liquidity to affected firms. We also anticipate extensive fiscal action to shore up demand and aim to reduce uncertainty and build confidence.

The pain of blunt measures taken by authorities and individual themselves to contain the virus affects different types of industries, workers and households in wildly different fashions, however. Governments need to think further ahead about such impacts in at least three areas:

The deep and quick cuts to interest rates will reduce the cost of carrying debt. Lower rates will free up cash flow from existing debt loads with flexible interest rates, but it could also help increase even more the demand for assets like housing, resulting in higher real estate prices and households taking on more debt.

Second, the public health guidance to avoid travel and cancel large events and social interaction helps to contain the pandemic, but is bound to worsen the already-negative economic impact on specific sectors beyond that created by the general downturn. Prominent affected sectors include hospitality and tourism; airlines, cruise ships and even goods transportation; hotels; the meetings industry; and large public sporting, arts and entertainment events. If firms in these sectors are to survive the slowdown, many will likely require targeted liquidity and bridge financing.

Third, the public health guidance to reduce social interaction will likely fuel a further shift of consumer retail spending toward digital transactions, and away from existing stores. Workers in these existing businesses may feel the result.

To mitigate these consequences, governments could take steps such as dispensing targeted help for affected sectors on condition that it flows through to their workers, while deploying a more direct financial safety net for those who do not hold "standard" jobs or employment insurance coverage, based on their recent earnings. A program could entice consumers to buy gift certificates for use for when affected services are able to resume normal activities – a sort of "war bond" effort providing liquidity to firms in sectors most affected now in exchange for future services, and mopping up excess liquidity from the monetary stimulus.

At the same time, we should consider that even as the crisis subsides, things are unlikely to return to status quo ante, whether in terms of industry value chains, organization of work, or health and other policy. Governments can encourage those who try to find ingenious ways to continue to work under constraints about face-to-face interaction, by providing credits or subsidies for training on and investments in virtual collaborative tools, in addition to expanding the virtual provision of health services. Indeed, it is not too early to start thinking about how new ways of working together under strained conditions, including via virtual technologies, that could improve well-being and productivity under non-pandemic conditions.

The implication is that economic policy will need to be nimble in the coming months, and policymakers prepared to make adjustments beyond the initial round of broad policy announcements. Initial monetary, financial and fiscal policy intervention can help prevent a cratering of spending and support public confidence, but current actions will have to start building in a policy response to next-round effects.

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