

-- Speaker 0 00:03 Welcome to the trade security podcast. The goal of the trade security podcast is to help Canadian businesses trade and grow securely and in this time of COVID-19 knowing how to do that can be difficult. On this episode of the trade security podcast, Speaker 1 00:18 we're going to get an understanding of the evolving economic impact of COVID-19. I'm Janet Eastman and my guest is Ruben Izar. He's the Kofax economist for the North American region. Kofax is a worldwide leader in credit insurance and for over 70 years they've been helping companies manage and protect their accounts receivable against the risk of nonpayment and trade safely around the world. Kofax has a direct presence in approximately 70 countries with global coverage and on the ground knowledge to make thousands of credit decisions each day. And I am really pleased to have Ruben joined me today to get us sort of sorted out and understand the current situation. So Ruben, welcome to the show. Thank you. Thank you for tracking me. My pleasure. So we'll, we'll cut right to this chase. Can you please provide an overview of the impact that COVID-19 is having on a global level at this time?

Speaker 1 01:12 Well, it's, it's the shock being provoked by COVID-19 is unprecedented in modern times with more than 2 billion people, I think to stay at home worldwide and businesses all over the world for us to be shut down. Well, the world is coming to a standstill since the beginning of the year. As the virus spread globally, the situation has shifted from a localized supply shock in China to a global crisis and unfolding through three main channels. First, a supply shock, which is now reaching almost all economies globally and not only China. Second, demand shock with the prospects of massive layoffs and quarantine measures being implemented globally, having an impact on consumers behavior and third, a global commodity price shock, which is notably a result of these lower demand. And that will primarily affect emerging commodity exporting countries. As a consequence, we already know that the shock to the global economy will be massive.

Speaker 1 02:13 I say seeing the exact magnitude of the shock remains very challenging because the situation is still fast evolving. But what we can say at this stage is uh, uh, the global economy will take multiple weeks. It's the biggest shock since the 2008, 2008 recession. Great recession with global GDP growth slowing to, to its lowest level since uh, since 2009. Wow. So let's talk about the evolving impact on North America. Is it similar to the rest of the world and what the rest of the world has gone through? Okay. So on North America, in North America, it will probably be very similar to the rest of the world. The triple shock I just described will also very much affect the region and there is almost no doubt that we will see your recession in the U S and the recession in Canada. However, one major difference, and it's especially true for the U S is and will probably be the authorities response to this crisis for now lockdown then social distancing measures to prevent the spread of the disease.

Speaker 1 03:21 Again, particularly in the U S are not as restrictive as in Europe. Admittedly president Donald Trump starting pushing for easing initiatives to slow the spread of the disease about a week ago, but he has also into this week that he's now increasingly concerned and worried about the economy's costs of these measures. So in the tradeoff of slowing the spread of the disease at the expense of economy activity, the U S president's choice could be different than the one made by European governments and eventually it will probably change a little the nature and the magnitude of the shock that we will see in the U S. Hmm. Okay. So the U S is right beside Canada. What's, what's the impact of that going to be on Canada? Well, obviously, uh, what is happening in the U S will have an impact, uh, on Canada because the U S is the biggest trade partner for Canada. But we will also see these triple shock effects in Canada, uh, that I described.

Speaker 1 04:25 We do not forecast that the kind of global economy will contract in 2020 by 1.3%. The shock on demand that, that, that will <inaudible> that will all economies will feel also Canada. Yeah. And it's, it is expected to translate into a drastic fall in household spending and it will weigh on overall activity. The Kennedy and supply --

-- ly chains <inaudible> will also face disruptions, uh, as a result of the social distension measures being second, uh, here in Canada. Uh, and also in these us. It will also be affected by business closures in both countries. So these two first shock will hit very hard Canada, but it is in the case of this country. It was also very important joints. This on the impact of the third shock, the shotgun company G prices and on oil prices. As you know, the country is a net or an Explorer and as such, it will suffer from the sharp decline in crude oil prices.

Speaker 1 05:27 Devil UTI, crude oil prices is one of the benchmark, uh, for oil, uh, fell by about, by more than 50% since the beginning of the year. So it means lower and energy and resource investments and Rico exports for Canada. It will weigh on economic activity, particularly in the provinces of Alberta, Saskatchewan, Newfoundland and Labrador. We, we, we will, it will affect also the local oil. And gas industry and it will translate into higher bankruptcies in the canny Nadian energy sector. And what is interesting is that also the stock will trickle down to the reacts of the economy. For instance, the metal sectors engineering construction. They will feel the impact of the slower activity in the energy sector. In audition, it's important to note that low oil prices is already weighing and we'll continue weighing on the value of the Canadian dollar. So what it means, it means a weaker currency that will make imported goods more expensive, more expensive for both households and businesses. It will erode further. They are really easy to spend and to reinvest in their new term eroding further, uh, Canadian economy activity.

Speaker 0 06:41 Hmm. So you've talked about, you know, bankruptcies related to industries in the oil sector, et cetera, but with consumer spending dropping and things like that, we're likely to see bankruptcies kind of across the board. Are we?

Speaker 1 06:54 Yes. Um, so we, we, what is important to note in Canada is that business bankruptcies were already on a rising trend. Okay. In 2019 they increased by 2.6% according to the most recent data. Uh, so it was the first increase since 2001 according to <inaudible> studies to extend it out. And we can expect these scoping 19 shock to translate into iron solvency because these triple shock will tech agree on the car, Kenyan and economy. Our latest forecast <inaudible> forecast is that business B and B and bankruptcy's willing cry crease by at least 55% in 2020 and there is a significant upside risks do these projection, the Canada Canadian trend, uh, will be matched by the <inaudible> and is very similar to what we'll, we'll, we'll see at the global level. I mentioned that we expected this, the steepest decline in GDP at the global level since 2009. That's why we are also expecting the steepest rise in bankruptcies since 2009.

Speaker 1 07:56 Um, we expect the, uh, rise in bankruptcies to be broad-based across the globe and in many instances it will be double digit growth in business bankruptcies. Um, there will probably be a domino effect along the supply chain that will translate into a lot of claims activity. Particularly, we will see that, uh, in the coming weeks and, and, and we'll see a lot of that in the second quarter of, of 2020. And that's why I believe that trade credit insurers, including Kofax, are very exposed to the, to this crisis. Um, and that, and with that, we will play an important role in this crisis.

Speaker 0 08:34 Hmm. I'm curious and you know, I'm thinking from Canada's perspective and wondering all of the things that as a country we could have done has Canada's response to the rapid spread of coven 19 being similar to how the rest of the world has reacted. Have we done it? Yeah,

Speaker 1 08:51 properly. So, kind of as a response has been quite seminar, uh, social guidance, uh, social distancing guidance had been issued by the federal States. Provinces have declared a state of emergency to contain the spread of the disease, asking for business to close. Uh, and, and for, and, and for, and for people to stay at home. Mmm <inaudible> also, what is really important to, to, to see and to mention is that the support measures to the economy are also very similar. Uh, these, we are seeing the biggest stimulus programs since the great recession in 2008, 2009. Uh, so bank of Canada as substantially easily its monetary policy was too --

-- aggressive rate cuts these months, like many other central banks worldwide. Um, the BOC is also coordinating with other major central banks worldwide, uh, including the European central banks, the federal reserve in the U S the bank of England, bank of Japan, uh, to try and enhance the provision of liquidity and to make sure that that businesses have enough liquidity available.

Speaker 1 09:58 Um, just like in Europe and in the U S we are seeing record fiscal stimulus program being announced. Uh, so in Canada it's a fiscal stimulus and tax deferral program worth about 82 billion Canadian dollars. So it's about three to 4% of <inaudible> GDP. And like in many other country, it includes, uh, extended employment insurance, <inaudible> benefits, uh, to try to mitigate the economic fallout of this crisis. And they are also support measures to businesses to try to the void, sharper rise in bankruptcy. That will will, we will probably experience anyway. Uh, but to try to mitigate these shock. So too many respects, the Canyon response has been very similar. Uh, there's, there is some lag with the, with Europe where the <inaudible> <inaudible> spread of the disease and where the pandemic, uh, as I started to spread a beach earlier, uh, but it's definitely similar to what we're seeing, uh, in Europe.

Speaker 0 11:03 Okay. We've been watching Jada and I'm like, you've been watching China. China has begun to have a bit of a turnaround. So what can we actually learn from what China's been through because they're just a little bit ahead of us in what are we seeing happening there that we should be watching out for?

Speaker 1 11:20 So, um, China is obviously an interesting example because they, they were the first one to expand this crisis and they already provide some interesting lessons. So the first lesson that we learn, and it's an important one, is that the health situation can be contained after two months of intense log down the outbreak in China and now it seems to be in control and it seemed that the economic activity can start to recover. Um, what we learn from China because we have some data from these barriers, is that the impact will be unprecedented. We're going to see a very sharp downturn <inaudible> all indicators. Uh, so what does it mean? It means, uh, it means that we will see double digit declines in industrial production in retail sales and invest <inaudible>. That's what we're gonna w we see in, in, in China. And that's what we'll do probably C, uh, in, in the next data released, uh, that we will see in Europe.

Speaker 1 12:19 And then in North America. What we are also currently learning from them is how the economy recovers from the Colby 19 shock. Uh, and it's quite interesting to look at the available figures because what we see is that about three quarters of companies are reportedly operational, uh, after two months of intense logged down. And, and about two weeks of, of easing measures, uh, of easing log downs. So it suggests that the recovery, uh, discovery 19 shock is this is both far but also gradual, uh, <inaudible> will probably be very difficult to, to run back at full capacity, uh, overnight after all measures are being lifted and all social distancing measures and, and, and L's prevention's measure are, are lifted. So that's a very important lessons. Uh, in terms of what we're going to see, we're probably going to talk a lot about Colby 19, even after, uh, the, the, the health situation is, uh, is contained because we will continue to feel some of the impact over 2020.

Speaker 1 13:34 Hmm. Now I've heard, um, indications, I saw it in the news yesterday very briefly, something about possibly a second wave of covert 19. Um, where are we at with that? Has China seen a second wave? So for now, uh, there's, there's, uh, there's an a decline and a dramatic decline in new cases in China. Uh, and, and, and that's good news. So it seems that, that, that there's the crisis has been contained, but all right, the domain risks is that we will see the second rise of cases because when you look at it, China as being hit only in a very localized spied on the stair obvious territory and remains very vulnerable to a second way all these, uh, of these endemic, uh, so we cannot exclude that there will be some cases could be imported from the rest of the world in the next, uh, in the next few months.

Speaker 1 14:34 And uh, it would trigger a second wave of, --

-- uh, uh, or, or, uh, or <inaudible> 19 disease spread in China and all over the world. So that's, that's what we called our risk scenario at Kofax. That we would create a double deep in economic activity and it will be even more damaging to the global economy and to, to businesses worldwide because we wouldn't see a recovery and a fast recovery we expect now, but we will see the economy fall again because you measure it would be implemented and it will, it will, it would translate into an even higher level of, of, of business bankruptcies. Uh, <inaudible> I a level lower level of economic activity. So we hope that it won't be the case. Uh, at this stage. It's too early to say that there's a second way B in China. Mmm. But that's definitely a part of our risk scenario.

Speaker 1 15:35 Hmm. Okay. So what should we be learning from, from the global impact of covert 19 and how this, how this thing has spread. What are some lessons here? <inaudible> so there, there are several things that that winner from, from Golding 19. There's they, we are learning things about how the economy and while the 21st economy works, uh, it's already changing the way we work and communicate, uh, because at a larger scale than ever, uh, we are seeing people working from home and continue communicating. Uh, it's by, uh, very, very hard restrictions on, on, on movements of people. So I believe it will leave a legacy, uh, after coping 19, uh, it shows how technology can help too, to mitigate some risks and can be a very valuable too, uh, two businesses to, uh, to continue activity at least in some capacity, uh, at least in some capacity, obviously, because, well, not everybody is able to, to work from home on a separate note.

Speaker 1 16:42 I think that, well, it will, it will. One of the legacy will also be, uh, an intensified debates on supply chains, on relocating and diversifying supply chains to try to <inaudible> minimize and mitigate, uh, the risks, uh, from, from global crisis such as this one. And because we cannot exclude that in the future, we will see these type of avails and sanitary situation repeat, uh, in the future. So, so it will own and intensify a debate on, on, on, on, on supply chains as a debate that we were, that was already launched recently by trade tensions, uh, at the global level, uh, and, and about the necessity to, uh, to relocate and, and diversify away from China supply chain. So these are the, this latest crisis. It will intensify that debate and, and it will probably, uh, change a little bit the way supply chains are structured.

Speaker 1 17:48 Hmm. So that could be one change. What other long lasting economic impacts do you expect to be seen from this? So it's, it's very difficult to answer that question. Okay. Well, we're still in the middle of the crisis, uh, but at these stages, I think one very important things to note is that these crises, <inaudible> is not a systemic crisis like the 2008, 2009 great recession. So in terms of long lasting impact, it means that, it probably means, it means that we will probably see less long lasting impact, economic impact. Uh, after the 2008, 2009, nine, great recession, we had lower productivity level at global level. We have lower gross and lower trade volumes, uh, at global level. Well, I don't think, uh, these crisis is going to trigger these type of systemic changes and this type of <inaudible> of change in the trend that we were seeing before the Colby 19, uh, the Covey 19, uh, crisis.

Speaker 1 18:57 I believe that after economy starts to open again and gradually a return to normal, uh, we'll see a recovery and at some point, uh, that will be supported by, by the very aggressive monitoring <inaudible> fiscal stimulus plan being carried out worldwide and will, it will allow to come back to, wow, we were, well, we, you before this crisis. That's what I, I think, uh, that's what I think now. Okay. Now do you have any keys, suggestions or tips to leave our listeners with at this point in time? So while the first tip and the most important one is stay safe, uh, it's important to, uh, to stay safe in this situation. Uh, the EI situation is preoccupying and, and we should, Oh. How we should all implant and the practitioner measures with risk. The roughly, uh, I think it's important. Uh, I think we need a also Mmm.

Speaker 1 20:01 To be ready for very difficult time. Uh, I think <inaudible> and businesses are already seeing, uh, the --

-- difficulties that rising from this crisis. And I think that Q two is going to be very challenging for everyone. Uh, so you should be prepared for that. Um, but there are better days ahead. Uh, there, there is some positive news, uh, in terms of treatment. There are some, there is some aggressive, uh, aggressive steps being taken and some aggressive programs being implemented by in the pharma industry to try to find a treatment fast to try and help to contain, uh, the spread of the disease. So, so hopefully, hopefully, uh, we will, we'll be stronger after Speaker 0 20:48 these crisis. We will be able to true continue business as usual situations. Hmm. Ruben, you've given us a lot to think about and you shed some very good light. I really appreciate you taking the time to talk to us today. Thank you. Thank you for having me again. My pleasure. I hope maybe if you don't mind, I might check in with you again sometime. Oh wait, we'll go. Pleasure. Ruben desire is the economist for the North American region at Kofax. I hope that you will take the time to share this trade securely podcast with your business colleagues to get some insight on how to proceed through this crisis. The trade security podcast is brought to you by the receivables insurance association of Canada is member brokers entered. Sures are helping Canadian businesses succeed and grow by enabling them to trade securely at home and abroad. Thank you very much for listening. Please check out our Twitter and LinkedIn feeds that subscribe and share this podcast with your business associates through iTunes, Google play, and Spotify. Until next time, I'm Janet Eastman. Thanks for listening to the trade securely podcast and stay safe.

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