HUGH LATIF + ASSOCIATES

COVID – 19 Business and Economic Analysis

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This **Executive Summary Report** has been prepared to provide a quick overview of the **CORONAVIRUS** pandemic. The report covers the **US** and **Canadian markets** and includes my **research**, my key **assumptions** behind my **forecast** and my **recommendations**. I wrote it specifically for my clients and a selected audience of close associates. Seeing in March the severity of the "Coronavirus storm " I wanted to help my clients during these testing times. I decided to offer my service on a complimentary basis for March and April and for as long as long as they are going through hardship, I will also share in that pain. This report is my way of wanting to further help by providing independent research and suggestions. In retrospect, we are all experts but predicting the future is difficult. Since my report includes forecast, only time will tell if my projections are correct.

Here is a table with a summary of my assumptions and the potential progress I hope materializes over the next 9 months of 2020. At the end of this report you can read my forecast for the short, medium, long term and my recommendations.

Key Areas + Actions 2020	March	April	May	June	July	August	Sept.	Oct.	Nov.	Dec.
Testing T	Not enough		Better T	Better T	Better T		Testing OK and steady			
Containment Efforts CE (*)	Limited CE	More CE	Enforcing CE	Some pull-back but still in effect			More Pull back		Medium CE	
Stimulus + Government help	None	Introduced	Improving help and introducing more assistance				Stabilizing Phase		Monitoring Phase	
Infection Cases IC	Limited	More IC	Some Stability	More Stability		Potential effect of Wave 2		Return to Stability		Decline
Deaths D	Few D	More Deaths		Stability	Better stability Some Decline		More Stability in D		Decline in D	
Ventilators V	Limited	Shortage	Shortage	Better	Better	Capacity OK	Capacity OK	Sufficient Capacity		
Drug Treatments DT	No or very limited DT Mainly Treating symptoms				New DT being tested		OK and improving – now several options DT			
Targeted Antibodies TA	None				Testing TA		R&D improving TA			
Vaccine V	None	Active V R & D on-going					V R & D positive and showing options			
Severity Index and Early Warning System needed	It is disappointing that China did not communicate the severity of CORVID – 19 until **January 2020** and that the WHO did not declare a pandemic until **March 11, 2020**. In future, an early **warning system is needed** to help provide a much better and timely response to potential global pandemic.									

(*) Containment and restrictions introduced to implement social distancing and quarantine periods, all aiming to contain the contamination. Source: HL

MY RESEARCH

While my research is certainly limited and comes from few sources, I selected my sources on the basis that they are reliable and independent. Some question mark has surfaced around WHO, but I decided to continue using their numbers as they were the first to gather global numbers. My objective is to put the COVID-19 numbers in perspective, so I compared the key numbers with other **historic pandemics** as well as **fatalities from past wars.**

As of April 13, 2020, there was 1'773'084 confirmed reported cases and 111'652 deaths (Ratio of 6.2%) reported globally by WHO (World Health Organisation). These numbers will certainly continue to increase. The official tracking of COVID – 19

started in mid-January 2020 (based on information coming from China) and then WHO officially declared COVID – 19 a pandemic only on March 11, 2020.

Global numbers as reported by WHO for April 13, 2020:

Country	CASES	Deaths	%	TREND
China	83'597	3'351	4.0%	Down
Spain	166'019	16'971	10.2%	Stable-Down
Italy	156'363	19'901	12.7%	Slowing and Down
Germany	123'016	2'799	2.2%	Slowing but UP
France	94'382	14'374	15.2%	Slowing but UP
UK	84'283	10'612	12.6%	Slowing but UP
US	**524'514**	**20'444**	**3.9%**	**Some stability but UP**
Canada	**23'702**	**674**	**2.8%**	**Stable-Down**
TOTAL WORLD	1'773'084	111'652	6.3%	Slowing but UP

Source: WHO for the numbers and HL for the trend comment.

Comparison with past pandemics:

By comparison, the **PANDEMIC INFLUENZA** also called **Asiatic Flu and Russian Flu** of 1889 and 1890 had **one million** fatalities. Since it became widespread in the 19th century, **CHOLERA** has killed **tens of millions** of people. The **ASIAN FLU** of 1957–1958, first identified in China in late February 1957 caused about **two million** deaths globally. The **HONG KONG FLU** of 1968–1969 was first detected in Hong Kong in early 1968 and spread across the world, lasting until 1972. This pandemic killed approximately **one million** people worldwide. By comparison, **CORONAVIRUS Numbers appear modest**.

Comparison with fatalities from WWI and WWII:

By comparison, **World War I** from 1914 to 1918 was one of the deadliest conflicts in history, with an estimated **nine million** combatant and **seven million** civilian deaths as a direct result of the war, while resulting genocides and the related 1918 influenza pandemic caused another **17 to 50 million** deaths worldwide. **World War II** was the deadliest conflict in human history, marked by **70 to 85 million** fatalities. By comparison, **CORONAVIRUS numbers appear modest and should be contained within a shorter period of time.**

Comparing COVID -19 numbers with previous pandemics provides a helpful guidance as expressed by a **potential SEVERITY INDEX.** The comparison with WW I and WW II deaths provides helpful insights as countries' **economies** come back from huge number of deaths and wide destruction.

ASSUMPTIONS and SECTORS FORECAST:

Since March 2020, the US and Canadian governments have been working on improving and fine tuning their actions to respond to COVID–19. These actions can be summarized in having 3 distinct objectives:

1) **Containment efforts** to test and capture the real number of people infected with the virus and then **restricting economic activities** by forcing social distancing, quarantine, temporary closure of non-essential businesses and schools, cancelling gathering of people and various other restrictive orders to contain the **transmission**.

2) Introducing **economic stimulus and assistance plans** to businesses and the people affected by the restrictions to reduce potential bankruptcies, assist unemployed people, and avoid a collapsing demand.

3) **Directing resources to produce, acquire and make available** testing tools, ventilators and medical equipment, R&D for developing drug treatments and vaccines and where needed increase healthcare staff and volunteers and provide temporary hospital beds and ICU facilities to improve the health system capacity to handle the extra volume of demand for medical and health services.

The economic forecast will be influenced **directly** by governments' mandated reduced economic activities and **indirectly** by lower demand. In general terms, every week is equal to 1/50th of GDP or +/- 2% of the year (based on a 50 weeks per year to simplify calculation). A slow-down of 8 weeks equals 16% of the year and 12 weeks equal more or less a quarter of the year. This is a mathematical calculation which gives us a general estimate. It is general because the **GDP mix** is different for each country. For example, in the US, 70% of GDP is from businesses that are exempt from restrictive orders. The Canadian economy rely on exports (+/- 35%) while the US consumer spending is the most prominent part contributing almost 2/3 of GDP. Canada's export to the US is almost 70% of total exports and so on.

GDP distribution and mix will greatly influence final GDP results. **Some businesses will do OK while others will suffer significantly.** Activities such as agriculture, utilities, construction, logistics, healthcare, banking, manufacturing, grocery and drug, pharmaceuticals and public services will do OK or even prosper while other activities such as retail, travel, restaurants, hotels, gyms, salons, entertainment, sports and services will be severely challenged and many may fail unless rescued by specific initiatives.

ECONOMIC FORECAST:

For the short term (0 to 6 months), **Q1 and Q2 - 2020 will see a significant shrinkage of GDP for both, the US and Canada; the economies will slip into a recession.** The hardest economic consequences will be a rise in unemployment, lower tax revenues for the government accompanied by a large outflow of assistance to businesses and people through stimulus programs which will translate into higher deficits. Recessionary periods are usually accompanied with an increase in business failures, a reduction of consumer demand and tougher times for the not for profit organisations. **Unfortunately, my forecast is no surprise, and overall a negative scenario for the first half of 2020.**

For the medium term (6 months to 18 months), as economic disruptions are reduced, the **economy should start to return to growing again.** The return to "work" though will not be uniformly for all sectors of the economy, as described earlier. The US and the Canadian governments must work closely with Canada Central Bank and the US Federal Reserve respectively to initiate fiscal and monetary stimulus. Both governments must also work closely with banks, financial institutions, and landlords to assist in particular small and medium size enterprises (SMSE). It is very hard to forecast the medium term as opinions are split between the **BULLS** that predict a significant growth of demand and the **BEARS** who predict a cautious and reserved return to economic activity.

Shown below is the GDP of Canada and the US for actual results for 2019 and the **forecast of 2020 and 2021** by the Chief Economists of the 6 largest Canadian banks as reported by ACUS Consulting and reproduced kindly by permission from Alberto Calva, a member of my consultants' roster.

CANADA & USA: GDP GROWTH RATE FORECASTS
Alberto Calva // Acus Consulting // April 14, 2020

	GDP Canada			GDP USA		
	2019 actual	2020 forecast	2021 forecast	2019 actual	2020 forecast	2021 forecast
Average	**1.6%**	**-4.4%**	**4.6%**	**2.3%**	**-3.6%**	**4.4%**
Maximum		-3.9%	6.5%		-2.0%	6.0%
Minimum		-4.9%	3.4%		-5.5%	3.0%
Sources:						
BMO		-4.5%	6.5%		-4.0%	6.0%
CIBC		-3.9%	4.7%		-3.3%	4.8%
RBC		-4.9%	3.4%		-5.5%	5.1%
Scotiabank		-4.1%	5.1%		-2.0%	4.1%
TD		-4.2%	3.6%		-3.5%	3.6%
NBC		-4.8%	4.0%		-3.4%	3.0%

Source: These forecasts are based on the average of forecasts from some institutions like:
BMO, CIBC, RBC, Scotiabank, TD, NBC
GDP=Gross Domestic Product

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For the Long-term (18 months plus), I forecast a **return to a healthy steady economic growth**. History clearly indicates that humanity does not learn much from past mistakes. "We" – in general – are quick to forget and adjust to new market dynamics. The stock market has consistently bounced back from every storm; be it financial, economic, terrorism, pandemic or other.

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While all 6 economists, as usual, did not agree on the numbers, they at least agreed on the direction of the US and Canadian economies for 2020 and 2021. Considering that it is a miracle for economists to agree, I will close my report on this positive note and conclude that <mark>the Short term is negative, the medium term is promising and the long-term is almost intact, if not even better.</mark>

RECOMMENDATIONS and LESSONS LEARNED:

There are many takeaways from the CORONAVIRUS storm. I have selected the most practical 7 to share quickly with you.

1) **Employees are always the most important asset of any organisation**. The "people" make all the difference. As entrepreneurs and business owners face vanishing demand and many have to shut close, the **team safety and well being must be the number 1 priority.** Not only by saying it, but in practical terms must be reflected in (a) safety of operations and (b) continued compensation (Whether reduced pay for reduced activity or through assistance from government). In addition to other specific initiatives that may include counseling, extended benefit programs, coping with stress and anxiety, temporary services etc. Genuine leaders show their real value during "stormy weather".

2) **Customers are the lifeblood of any business and organisation**. Protecting the customers goodwill is Priority number 2 right after the employees. Here too, protecting the goodwill not just by saying it but by genuinely helping the customers. Many companies say the right words but are still in the "mood" of selling. Customers can read through "fake empathy". Over the last 5 weeks I received many "no-answer" emails that were empty of any real assistance. Better to reach out to customers in a real manner, even if it is just to say "hello, how are you doing?" Protect and preserve the relationships.

3) **Managing the balance sheet**: Working and advising entrepreneurs for the last 23 years have taught me that most entrepreneurs neglect their balance sheet. All the focus is directed towards managing the P&L (Profit & Loss). The CORONAVIRUS storm should teach us the importance of keeping the balance sheet clean. What do I mean by clean? Good liquidity, adequate capitalisation, and reasonable debt to worth.

4) **Access to credit:** Entrepreneurs should review their line of credit needs yearly and make sure they have reasonable access to credit. Protect your credit rating. Your credit rating does not depend much on size, it depends on honoring your obligations. Entrepreneurs should go shopping for credit when they do not need the money so that they are better prepared when they do need the money! Good planning does not guarantee success, but lack of planning is almost a plan to fail.

5) **A healthy bottom line:** Aim for a healthy bottom line so that you can declare an attractive dividend every year while also investing for a strong tomorrow. Update your strategic plan every year and always seek independent professional advice. Complacency is the worst enemy of all businesses and organisations, large and small.

6) **Smart procurement:** Good purchasing is not just shopping for the lowest price. Nothing is riskier. Partner with your suppliers and vendors and aim for a WIN-WIN relationship. Seek best Value not just the cheapest. Think reliability, flexibility, ethics, choice, durability etc.

7) **Always save for a rainy day**

References and sources of information:

- WHO (World Health Organisation)
- Morningstar Research
- WIKIPEDIA
- The Fraser Institute
- The Globe & Mail
- ACUS Consulting