An Analysis of Covid-19 Supply and Demand, and Impacts on the Post-Pandemic World

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Abstract

Covid-19 has impacted the world in an unprecedented way. The astounding rate that Covid-19 spreads has made it a universal and ubiquitous threat, affecting every facet of our daily life, causing changes in behavioral characteristics among individuals, communities, and governments. Accordingly, there have been drastic changes in domestic markets, governmental policies, and decision-making processes in this environment in supply and demand. This paper reviews the current market situation facing Covid-19, economic sector’s responses so far and its impact on post-pandemic era. Covid-19 has been a warning sign that we have to do better. Although the world was unprepared for this global crisis, this could be an opportunity for governments and businesses to learn from the experience and harden up to do better under abrupt challenges that could arise in the future.

Keywords

Covid 19, Supply and Demand, Post pandemic, economics.

INTRODUCTION

When reporters started talking about the new infectious coronavirus, no one expected it to last so long. Covid-19 has impacted the world in an unprecedented way. In an environment filled with uncertainty, behavioral and decision-making frameworks change dramatically as people continuously attempt to adapt to a “new normal.” These efforts have long-lasting effects, and will continue to persist even after the pandemic, forever altering how decisions are made across different hierarchies. The astounding rate that Covid-19 spreads has made it a universal and ubiquitous threat, affecting every facet of our daily life, causing changes in behavioral characteristics among individuals, communities, and governments. Accordingly, there have been drastic changes in domestic markets, governmental policies, and decision-making processes in this environment.

A new driving factor in decision-making across all levels is the fear of mass infection. Not only do individuals prophylactically limit their human interactions, but governments have also enforced measures such as social distancing or lockdowns. This implicit limitation on social and economic
activities have caused significant consequences on the economy, as it decreased overall consumption and affected global productivity, especially taxing on the manufacturing sector. These direct effects on the demand and supply have built recessionary pressure in many countries, including the US, which officially entered into an economic recession in February 2020.

**EFFECT ON MARKETS: SUPPLY, DEMAND, AND THE EFFECT OF UNEMPLOYMENT**

The pandemic has clearly depressed domestic markets by impacting the labor force. The virus has made it impossible for many industries to operate properly; many workers were physically unable to attend work. The implications are shown in both companies and individual employees. As consumers go out less and change their consumption behavior (e.g., some companies reported an increase of up to 700% in their sales of toilet paper) (Garbe, Lisa, Richard Rau, and Theo Toppe; 2020). SMEs are being disproportionately affected. Restaurants and retailers change the way they operate or face closure (Deloitte Consulting; 2020). This problem is exacerbated by low consumer confidence as worries about household finances and property value drive down optimism about the future and increase uncertainty (Nolse, Eir; 2020). To cope with this fall in demand, companies minimized the cost of production via temporary shutdown or workforce reduction. In the UK, unemployment rate has risen by 0.7% over the previous three months to 4.8%. The Bank of England expects numbers to rise to 7.7% by mid-2021 (Palumbo, Lora Jones and Daniele; 2020). Such increase in unemployment causes further uncertainty and exacerbates the problem of consumer confidence, potentially leading to a downward spiral if unaddressed. Moreover, uncertainty and vulnerabilities to pandemic measures led businesses to diverge from taking risks and hold back investments, especially in sectors such as tourism or professional services, which have less flexibility to invest in new ideas, resulting in hindering potential growth (Dutta, Soumitra; 2020).

**RESPONSE SO FAR, AND WHAT NEEDS TO BE DONE**

The analysis above has shown that there has been a slowdown in both the demand and supply of the economy, and unemployment has exacerbated this situation. In order to stimulate the economy, all parts of this puzzle must be addressed.

On the demand side, governments need to incentivize consumers to spend and invest. Taking traditional Keynesian thought into context, heavy government spending in the short run can help stabilize the current downward trend. Government spending using monetary policy tools like Quantitative Easing and Forward Guidance can increase aggregate demand in the short run; stimulus checks can prompt people to consume and invest further, shifting aggregate demand to the right. Lowering interest rates and thus increasing the money supply creates an environment beneficial to consumers and firms to invest and has already been one of the key drivers of the recent rally in US stock markets. But of course, this comes with a cost. Increased government activity comes with its own host of problems, and governments need to play a delicate balancing act to determine how to use these tools effectively.

In fact, various policies are implemented by governments: expansionary monetary and fiscal policies, investment in vaccines, and regulations on social events.

Two types of expansionary policies are implemented by the government, fiscal and monetary. Immediate fiscal policies by the government aim to cushion the severe fall in the economic activity driven by both firms and households. Measures include ease of tax policies or subsidizing small businesses. For instance, the South Korean government has implemented tax reductions for SMEs in highly harmed regions, and doubled income tax deduction rate for credit card payments from March to June 2020 (KPMG; 2020). Governments also provide individual households a relief fund and utilize monetary policies such as purchasing local bonds or reducing interest rate to encourage economic activities. The Federal Reserve in the US offered low interest rate loans of currently 0.25% up to 90 days to primary dealers in the country to stimulate credit markets (Cheng, Jeffery, Tyler Powell, Dave Skidmore, and David Wessel; 2020). Fed chair Jerome Powell has even announced a landmark change
in the Fed’s approach to interest rates moving forward, allowing inflation to run hot in the short run and aiming for 2% inflation in the long run, as opposed to capping inflation at 2% as was previously done. This extremely dovish attitude is also reflected in the 700 billion USD quantitative easing program announced in March (Federal Reserve System; 2020). The Monetary Authority of Singapore also enacted support measures by extending the repayment date for individuals and SMEs (Monetary Authority of Singapore; 2020).

But these do not address the root issue: the virus itself. The fastest way to resolve economic crises is to end the pandemic. Countries have invested billions in R&D for vaccines. The US has allocated more than $9 billion in developing vaccines to pharmaceutical companies that hold candidates (Weise, Karen Weintraub and Elizabeth; 2020). Meanwhile, governments attempt to minimize the spread of Covid-19 cases through social distancing and daily health measures, including mandating masks or total lockdown.

**POST COVID?**

As an unprecedented crisis presented to the world, the awareness of the existence of global pandemic and following decisions made by firms and governments are also likely to change the post-covid landscape.

In the short term, once the pandemic ends, it is likely that consumer spending will increase enormously. As demand increases, prices will be driven back up. By the same vein, this will in turn signal producers and incentivize them to increase production. However, since this excess demand cannot be met by the suppliers in the short-term, prices cannot be balanced out in the short run, and we are likely to observe post-pandemic inflation. Moreover, because of Fed Chair Powell’s dovish attitude, domestic US inflation may run hot post-inflation.

In the long term, there will be fundamental changes in decision making by authorities. Firms are likely to shift to a more conservative stance and take less risks. According to the Australian Bureau of Statistics’ (ABS) survey, 23% of businesses had decreased or cancelled actual or planned investments, and 59% of businesses responded uncertainly about future investment decisions (Hutchens, Gareth; 2020). In the post-pandemic world, companies will consider public health and safety carefully when investing abroad. To prevent interruptions and financial losses from infectious disease, a country’s public healthcare and administrative processes will become under strict scrutiny. Furthermore, learning from how single-sourced companies experienced major disruptions with their supply chain, businesses would seek to diversify their supply chains to prevent complete disruption of production and to mitigate sudden changes in demand.

Government policies around the world will show similar patterns. Overall alertness of the importance of healthcare will lead to an increase in government spending on health. A much-needed warning about the pervasiveness of a global pandemic on our daily lives will hopefully kickstart nuanced, thoughtful reforms in how to deal with an epidemic, and how to provide for different people across socioeconomic backgrounds. Furthermore, decisions will become more conservative under the idea of ‘protecting a nation first.’ Governments funneled supplies such as masks to themselves, potentially sabotaging previously-established trust. For instance, the US halted the trading of masks to Canada and Latin America and many countries blocked the export of medical supplies. This trend may extend to the post-covid world.

The International Labor Organization (ILO) has called Covid-19 “the worst global crisis since World War II.” (Financier Worldwide; 2020). As such, due to cluelessness of the existence of a virus along with the severity of the impact on the world economy, every domestic market has been severely impacted. The inability of the labor force to work as well as the shutdowns of major manufacturers have led to serious recessionary pressure. The consequences on domestic markets resulted in governments implementing various policies to compensate for the losses. Decision making and attitudes towards economic and diplomatic issues within businesses and governments will also change post-pandemic. However, there may be a silver lining. Covid-19 has been a warning sign that we have to do better.
Although the world was unprepared for this global crisis, this could be an opportunity for governments and businesses to learn from the experience and harden up to do better under abrupt challenges that could arise in the future.

**Acronyms**

SMEs: Small and Medium-Sized Enterprises  
R&D: Research and Development  
ABS: Australian Bureau of Statistics  
ILO: International Labor Organization  
KPMG: Klynveld Peat Marwick and Goerdeler  
UK: United Kingdom  
US: United States  
USD: United States Dollar

**REFERENCE**


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