Covid carnage

Much of global commerce has ground to a halt

Some companies will never restart

Business
Mar 21st 2020 edition ›

Mar 21st 2020
NEW YORK

Editor's note: The Economist *is making some of its most important coverage of the covid-19 pandemic freely available to readers of* The Economist Today*, our daily newsletter. To receive it, registerhere.*

"The covid-19 pandemic is having a significant impact around the world," warned Fred Smith, boss of FedEx, at his firm's earnings conference on March 17th. That is putting it mildly. The express-delivery giant announced that it was slashing its delivery capacity and, for the first time ever, refused to give earnings guidance. While economists debate whether this recession will be short-lived or sustained (see Briefing), bosses the world over already see mayhem. The virus has destroyed $23trn in global market value since mid-February.

As governments curb citizens' activities—including much of commerce—in an effort to save lives, the ranks of corporate casualties are swelling. Fewer people are taking planes (see article), hailing rides, eating out, staying in hotels, going to cinemas or gathering just about anywhere. Most American and European sports leagues have been suspended. Formula 1 motor-racing has ground to a standstill. Apple and Nike have closed most of their stores outside of China. Carmakers including Ford, Toyota and Volkswagen are shutting factories in Europe and America.

The bloodletting will continue. Scott Stringer, New York's finance chief, predicts that the city's hotels will be two-thirds empty until the end of June. Its restaurants and bars, ordered shut, could see sales drop by 80%. The American Hotel and Lodging Association fears a blow exceeding the impact of September 11th 2001 and the "Great Recession" of 2008 combined. Morgan

Stanley, a bank, reckons retail foot traffic may plunge by 60% in coming weeks, as more American cities follow many European ones into lockdown.

Many companies will pull through. Governments are rushing in to ensure as many as possible do. Britain this week unveiled a £330bn ($382bn) package of loan guarantees and other support for businesses. America's Federal Reserve earlier said it would create a new funding facility to provide liquidity to American issuers of commercial paper. President Donald Trump has called for $1trn in economic stimulus.

Even so, some firms will not make it. It is too early to say for sure who the corporate fatalities will be. To get a sense of which are most at risk, liquidity and business model are a good place to start.

Take liquidity first. American firms account for 55% of global non-financial debt maturing until the end of 2024, and 62% of debt rated junk, according to s&p Global, a rating agency. Non-financial firms in America will see $394bn in investment-grade debt and $87bn in junk debt fall due this year; the figures for next year are $461bn and $195bn. Potential trouble spots include construction (with nearly $30bn in junk debt due by the end of 2021), media and entertainment ($35bn), and energy and utilities ($56bn).

Oil companies in particular have been clobbered by the steep fall in the price of crude, which sank to $25 a barrel on March 18th, the lowest level in nearly two decades. Morgan Stanley calculates that the median exploration and production firm needs an oil price of $51 a barrel to break even. Saudi Aramco, the world's mightiest oil colossus, said it might cut capital spending by up to a quarter this year. America's ExxonMobil echoed that it will make "significant" cuts.

Oilmen are not the only ones trying to preserve cash. Many companies are sending workers on leave or worse. Norwegian Air Shuttle, an airline, is temporarily laying off 90% of its 10,000 employees. Marriott International, the world's largest hotel chain, said on March 17th that it will have to let go of tens of thousands of workers.

Companies are rushing to tap credit lines secured with their bankers.ab InBev, the world's biggest brewer, is drawing down its $9bn revolving credit. Boeing, a troubled aerospace giant, has accessed $13.8bn. Carnival Cruise Line hopes to stay afloat thanks to a $3bn lifeline. Bloomberg, a financial-data firm, reckons that if firms in five big sectors (health care, energy, transport, leisure and mining) drew down 70% of their credit lines, and the rest tapped 30% of theirs, America's biggest banks would be on the hook for $700bn.

Companies' second vulnerability besides a liquidity crunch arises from their business models. Some tried and tested ones suddenly look rather fragile in the age of pandemic. If Apple does not sell a new iPhone it may still convince consumers to buy one later. Revenues from a restaurant meal not eaten or a forgone trip to the cinema are lost for ever.

That is bad news for industries like the arts, which depend on a few big, one-off events—at least in countries like Britain, where state-funding of the arts is less lavish than in France, Germany or Gulf sheikhdoms. Art Basel Hong Kong was cancelled last month. The main Art Basel fair in Switzerland, which is due to open on June 18th, may also not go ahead. Galleries that depend on such fairs, as many do, could see as much as 80% of their sales evaporate.

No surprise, then, that the coronavirus is provoking some soul-searching, especially in conservative industries. On March 20th Art Basel Hong Kong will launch online "viewing rooms" with more than 231 galleries—over 90% of the original exhibitor line-up. They will offer over 2,000 artworks worth a total of $270m. The crisis is also breaking down Hollywood bosses' stubborn attachment to the old-fashioned model of distributing films in theatres. Universal Pictures is making some movies available at home on the same day as their theatrical release. "The Invisible Man" and "Emma" can now be streamed online. Disney has released its popular "Frozen 2" on its newish Disney+ streaming service well ahead of schedule.

Some companies may not only survive the pandemic but thrive, either now or once it recedes. Supermarkets are struggling to keep up with demand from panic buying. Kimberly Clark and other peddlers of toilet paper, which many people are frantically stockpiling, are riding high, too. So are purveyors of cleaning products such as Clorox and Purell.

This boomlet will probably not last. Early panic will inevitably die down. Other industries may prosper for longer. By forcing many people to work, shop and amuse themselves at home, the crisis may give a permanent boost to online companies. Zoom, Microsoft Teams, Slack, WeChat Work and other corporate-messaging services are experiencing a surge in demand. Data from Sensor Tower, an analytics firm, suggests that weekly new users of such apps leapt from 1.4m in early January to 6.7m in early March. A survey in Britain for Barclaycard, a payments firm, points to year-on-year growth of 12% in subscription entertainment services like Netflix in the four weeks to February 21st, and of nearly 9% growth in food takeaway and delivery spending. Amazon is hiring 100,000 new distribution workers in America to meet demand for internet shopping.

Bricks-and-mortar firms that have invested in online offerings are also cashing in. A survey of American shoppers conducted on March 13th by Gordon Haskett, a research firm, found that one in three bought food online in the previous week. Among the 41% doing so for the first time, over half chose Walmart, with its convenient grocery pickup and delivery service. In Britain Tesco and Sainsbury may be outpacing Aldi and Lidl, European discount chains that have invested less online.

And, of course, any firm that comes up with a vaccine or treatment for covid-19 can expect a bonanza. Amid the market meltdown the share price of Gilead, a biotechnology firm working on a coronavirus drug, is up by 20% this year.

One lasting consequence of the pandemic will almost certainly be further concentration of corporate power in the hands of a few superstar firms. The current airline carnage may leave skies everywhere resembling the uncompetitive ones above North America. JPMorgan Chase, a bank, observes that American carriers generate two-thirds of global airline profits with barely a fifth of worldwide capacity (not to mention shabby service). Similar consolidation now looks all too probable in Europe and Asia.

Companies with the most resilient businesses, deepest pockets and longest investment horizons may grow more super still through cut-price acquisitions. Rumours swirl that Apple, with a gross cash pile of over $200bn and Tinseltown ambitions, may swoop in to buy Disney, whose share price has nearly halved since January. Warren Buffett of Berkshire Hathaway, who is sitting on $128bn and has long grumbled about overpriced equities, may at last find a bargain or two. Having raised a record $888bn last year, private-equity firms are on the prowl. Steve Schwarzman declared earlier this month that the dislocation and fear caused by the coronavirus has created “a substantial opportunity” for Blackstone, the buy-out powerhouse he leads.

The Depression wreaked economic havoc but also produced radical new business models from carmaking and entertainment to beauty products. In time, today’s crisis, too, may lead to some corporate resurrections—and plenty of new births. Comparisons to that agonising time in world history must not be made lightly. That they look apt is a sign of just how bad things are looking right now.

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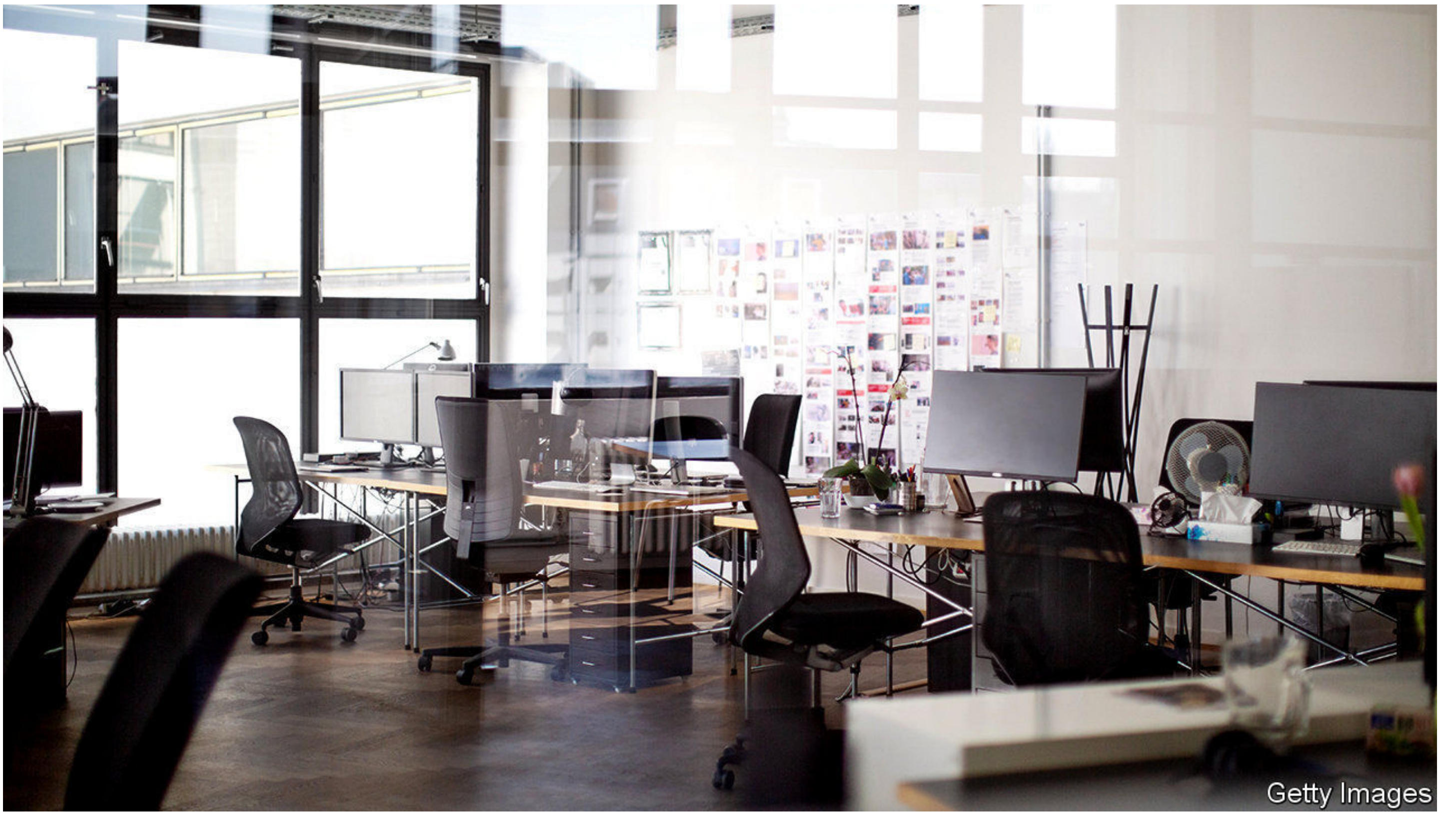

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