

The 'Great Lockdown': the global economic impact of COVID-19

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Wine Australia

Financial survival during COVID-19 – Federal and state grants for the wine sector

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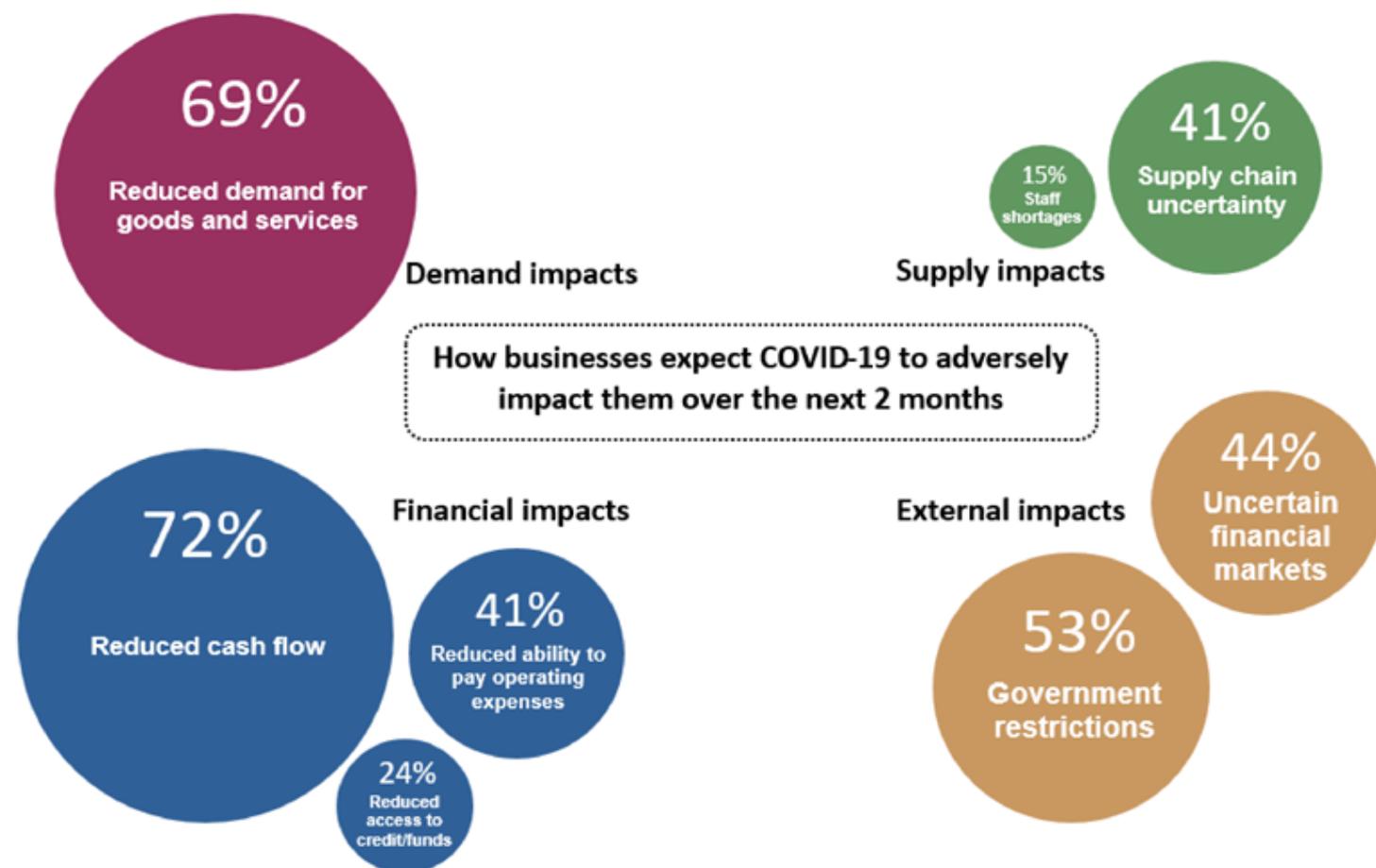
COVID-19 has had an unprecedented effect on the global economy in 2020. In previous weeks' bulletins, we have addressed the impact on wine and alcohol sales in Australia's key markets. Today, we will cover the greater impact on the global economy, which will no doubt affect consumer behaviour and spending in the months to come.

Business impact

The global economy has been thrown a curve ball by what some have called 'The Great Lockdown'. COVID-19 has generated a supply shock to many economies around the world, with many businesses forced to shut down as governments try to slow the spread of the disease. This makes it different to the Global Financial Crisis (GFC), which originated on the demand side – the crisis reduced consumer incomes and therefore their demand for goods and services^[i]. We will therefore start by examining the impact on the supply side – individual businesses.

The shutdown of economies around the world has had a profound effect on businesses confidence. Here in [Australia](#), seven in ten businesses have reported that reduced cash flow and reduced demand for goods and services are expected to adversely impact their business over the next two months^[ii]. More than half expect to be negatively impacted by government restrictions, while two in five expect supply chain uncertainty (see Figure 1).

Figure 1: Adverse effects of COVID-19 on Australian businesses



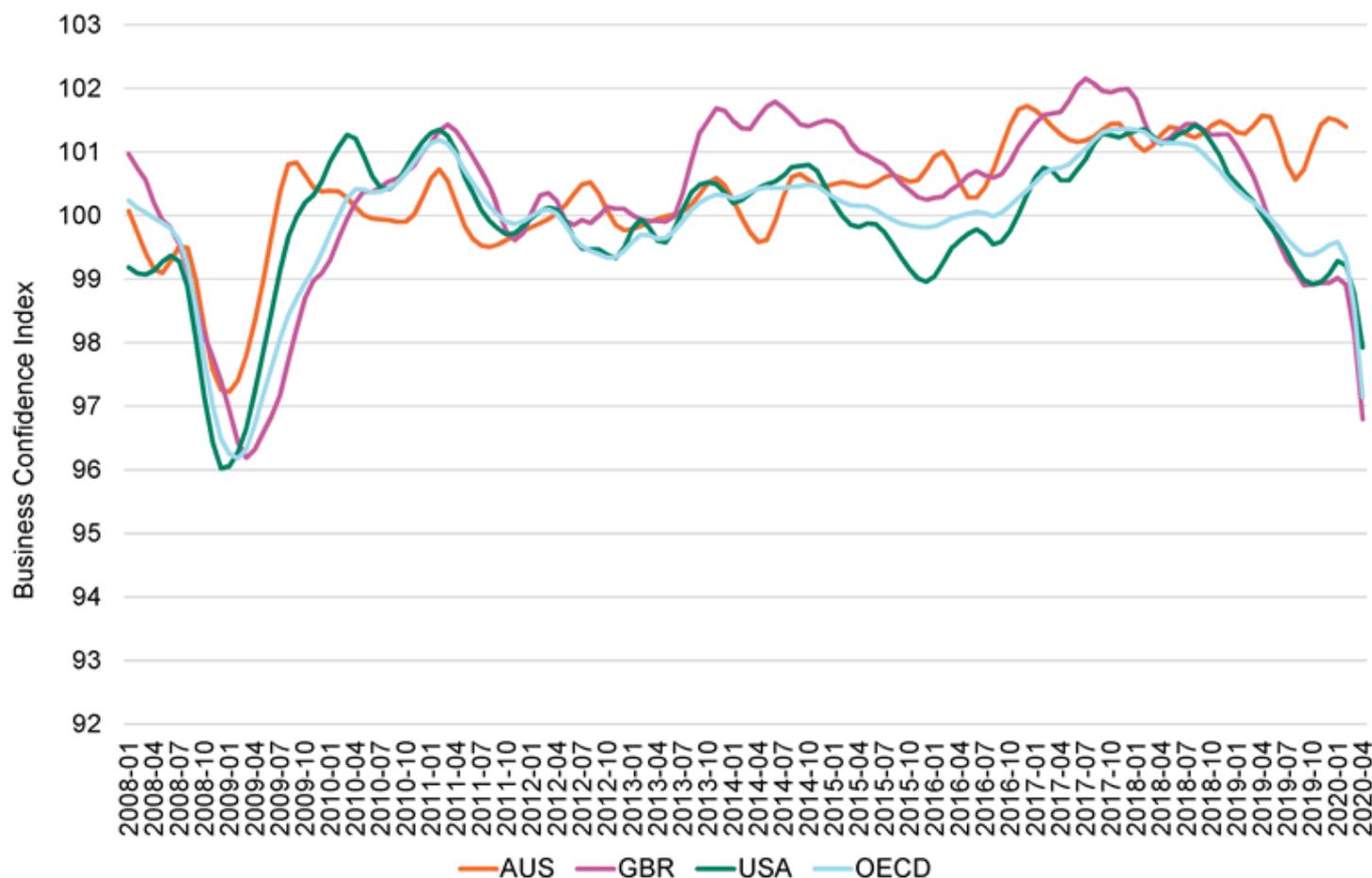
(Source: ABS – Business Impacts of COVID-19, April 2020)

In the United Kingdom (UK), the number of business owners in the restaurant and bar sector, one of the most heavily

affected sectors by lockdowns, who are optimistic about the overall market has plummeted from 60 per cent in February 2020 to 5 per cent in April 2020. Two-thirds of respondents identified being able to pay the rent as the biggest challenge, while just over half also identified access to loans as a major hurdle^[iii].

The Organisation for Economic Co-operation and Development's (OECD) Business Confidence Index shows a decline in optimism starting in February 2020 across all 37 member countries, with scores below 100 indicating a pessimistic outlook (see Figure 2). However, confidence has not yet fallen to GFC levels. Businesses in the UK are much more pessimistic than those in the United States of America (USA). Data is not yet available for Australia in March and April 2020.

Figure 2: OECD Business Confidence Index



(Source: OECD)

Unemployment

The forced closure of many businesses has caused a rise in unemployment across the world. In Australia, unemployment for the month of April 2020 rose by 1 percentage point to 6.2 per cent, a level not seen since 2015 (see Figure 3). However, this number does not reflect the additional workers who have been stood down temporarily or are working fewer hours due to COVID-19 lockdowns. More useful measures to gauge the full impact on the workforce are:

- hours worked – down 9.2 per cent
- the underemployment rate – up 4.9 points to 13.7 per cent, and
- the underutilisation rate – up 5.9 points to 19.9 per cent.

The ABS estimates that 2.7 million people in Australia have been affected by job loss or reduced hours.

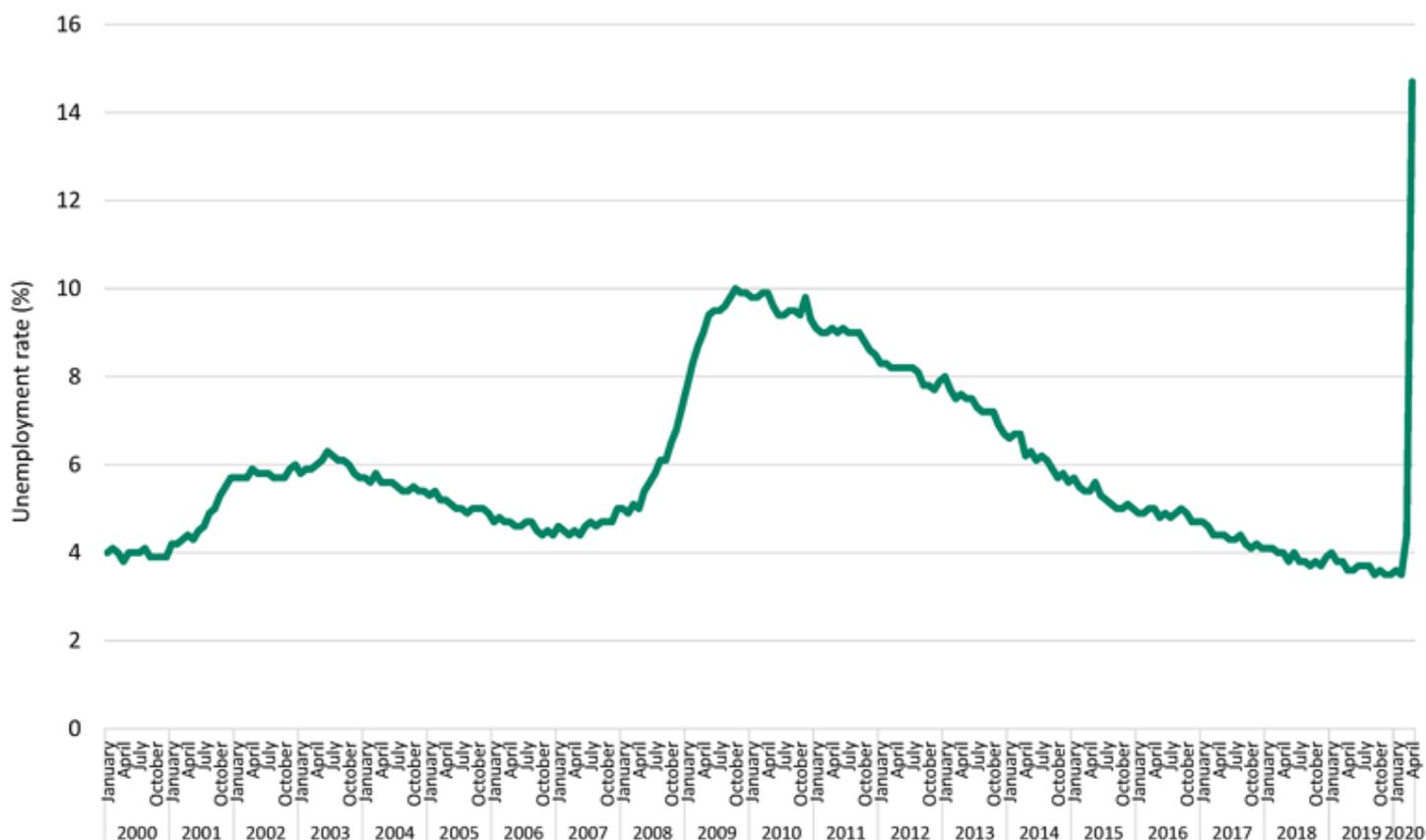
Figure 3: Australian unemployment rate



(Source: ABS)

The picture in the USA is even more bleak. In April, the official unemployment rate skyrocketed to 14.7 per cent, reaching a level higher than anything seen during the GFC (see Figure 4). Last week, Goldman Sachs warned that they expect the unemployment rate to rise to 25 per cent before coming down, rivalling rates seen during the Great Depression of the 1930s. Again, these figures are not reflecting the entire impact on the workforce as they exclude people who are not actively looking for work. The USA Labor Department has stated that if people who were absent from work for 'other reasons' had been classified as unemployed, the rate would be closer to 20 per cent.

Figure 4: USA unemployment rate



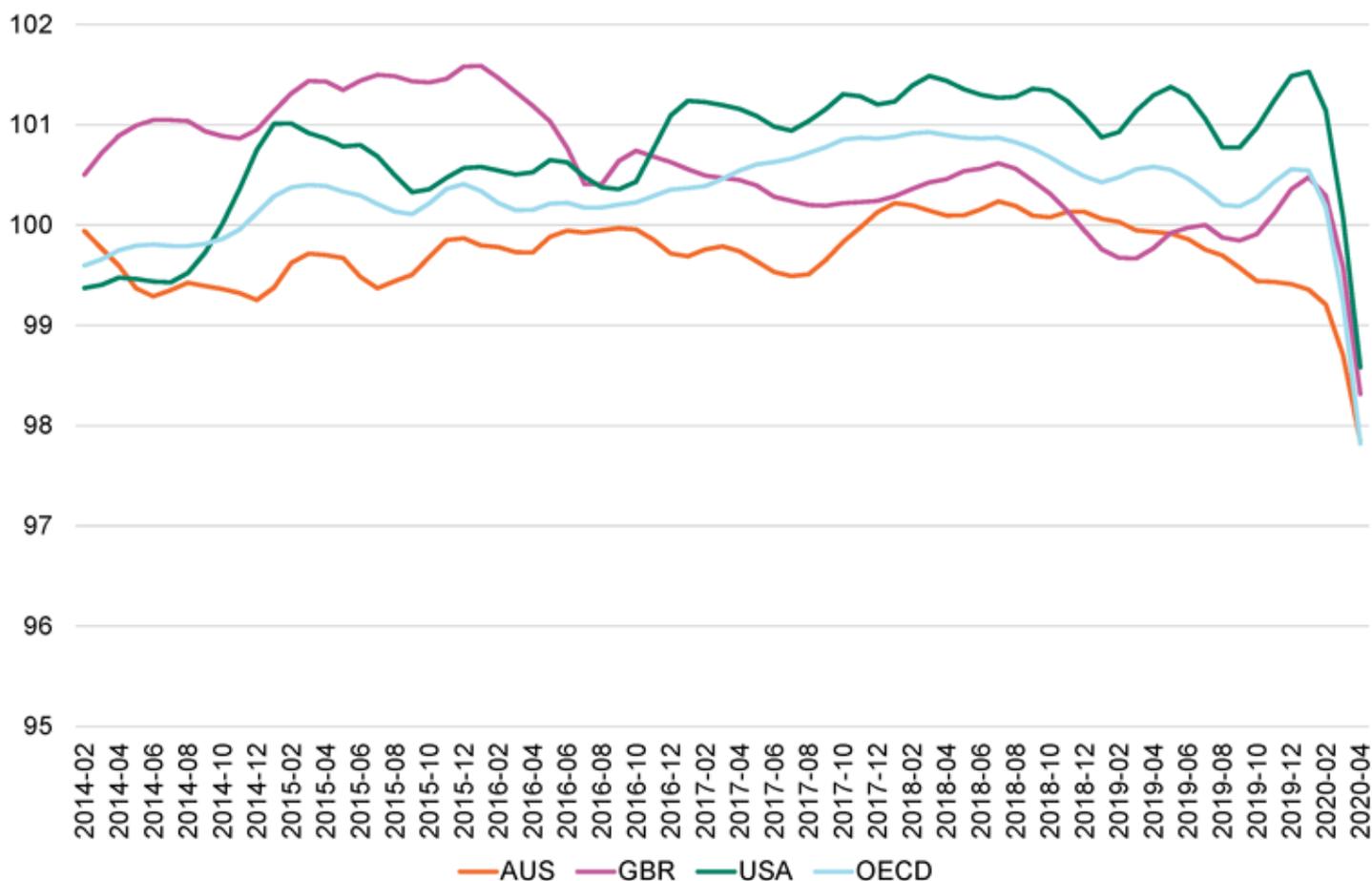
(Source: Bureau of Labor Statistics)

In mainland China, official government statistics report that after unemployment rose steeply in February 2020 to 6.2 per cent (from 5.3 per cent in January), it is starting to recover, reading 6.0 per cent in April. However, this number only reflects those unemployed in China’s urban areas.

Consumer confidence and spending

The lack of business confidence and high unemployment rates, to say nothing of the persistent presence of a life-threatening virus, have had an effect on consumer confidence around the world. The OECD’s Consumer Confidence Index for all member countries combined fell below 100 in March 2020, the first time this has happened since December 2014 (see Figure 5). While Australia sits at the average, the good news is that consumers in the UK and USA – while still conveying a dramatic drop in confidence – are overall less pessimistic about the future.

Figure 5: OECD Consumer Confidence Index



(Source: OECD)

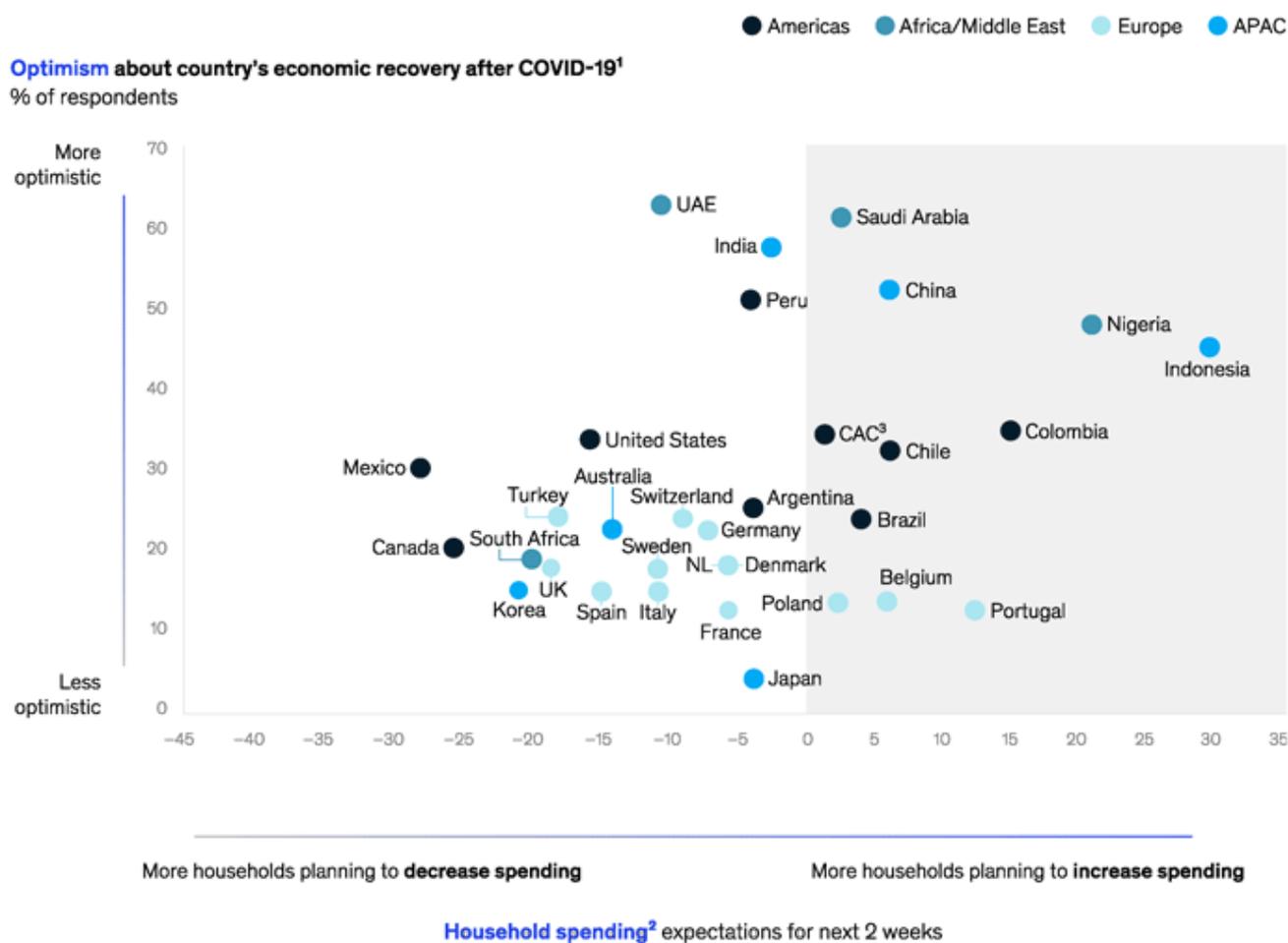
In Australia, there are also indications that consumer confidence may be improving. According to [ANZ-Roy Morgan's Consumer Confidence](#) measurement, after hitting a low at the end of March at 72.2, their index has gradually increased week-on-week, to reach 92.3 in mid-May.

The decline in confidence and income among consumers has affected their spending habits. In a global survey performed by [McKinsey & Company](#) at the beginning of May, a range of 30–70 per cent of consumers (depending on the country) experienced a decrease in income in the previous 2 weeks.

Optimism about a country's economic recovery post-COVID-19 is linked to the likelihood that a household is planning to spend more, see Figure 6. For example, Chinese consumers are much more optimistic about their country's recovery and are planning to spend more in the short-term. In contrast, Spain, Italy, and France are all more pessimistic about recovery and are planning to reduce their spending.

Figure 6: Optimism about a country's economic recovery and likelihood to spend

Optimism and anticipated spending are largely correlated globally.



(Source: McKinsey & Company)

After the stockpiling that took place in many markets in March, the economic upheaval that ensued is causing consumers to be more careful about spending their money. According to IRI, in the USA grocery market, lower-priced private-label brand sales were up 19 per cent in the 4 weeks to 3 May, while all brand sales were up 12 per cent. Spending is also shifting away from non-essential items such as travel and transportation, apparel, and furnishing and appliances^[iv].

Global economic growth

All these factors are influencing the global economy. The International Monetary Fund has estimated that global Gross Domestic Product (GDP) will decline by 3 per cent in 2020, which is 6.3 percentage points lower than estimates in January 2020. However, this estimate is assuming that the pandemic will fade away in the second half of 2020 and that governmental policy actions around the world are effective. So, it is considered to be an optimistic view.

As for the Australian wine sector's top markets, rates of annual GDP change in 2020 are estimated to be^[v]:

- Australia, down 6.7 per cent
- China, up 1.2 per cent

- USA, down 5.9 per cent
- UK, down 6.5 per cent, and
- Canada, down 6.2 per cent.



So what does this mean for the wine sector?

The [International Wine and Spirit Record](#) (IWSR) is predicting that the current recession will have a much longer lasting impact on the global drinks industry than the GFC. There are similarities in consumer behaviour between the two time periods, such as increased at-home consumption and consumption at the lower end of the price spectrum. However, the differences include on-trade consumption practically ceasing altogether and the lack of international travel. They also forecast that the effects of the economic downturn will be worse for beer, the consumption of which is heavily dependent on the on-trade, sports fixtures, festivals, and events.

The net effect of the shift from on-trade to off-trade consumption on total alcohol consumption volumes remains to be seen. [Nielsen](#) has estimated that in the USA alcohol beverage market, it will take a volume growth rate of 22 per cent in the off-trade to level off the amount lost in the on-trade. Wine and spirits have been performing above this threshold but the beer category (including hard seltzers and ciders) has fallen short.

IWSR's most recent data release predicts a decline of 13 per cent in wine consumption globally in 2020, falling by 3.2 billion litres to 20.9 billion litres. The forecast recovery is slow; an average growth rate of just 3 per cent per annum to reach 23.3 billion litres by 2024. For context, global wine consumption in 2019 was estimated to be 24.1 billion litres. Next week's Market Bulletin will give an update on global wine supply in the context of this expected decrease in demand.

On a more positive note, Wine Intelligence research in Australia, the UK, and the USA, has found that regular wine

drinkers have actively engaged with the category during lockdown. In the UK and USA frequency of consumption has increased while in Australia it has remained stable. And although wine drinkers indicate that they will be more cautious about their spending choices as lockdowns ease, wine will remain one of the preferred ways of treating themselves.

[i] Professor Filippo Taddei, Johns Hopkins University

[ii] Australian Bureau of Statistics – Business Impacts of COVID-19, April 2020

[iii] CGA Business Confidence Survey Q2 2020

[iv] McKinsey & Company

[v] The International Monetary Fund

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