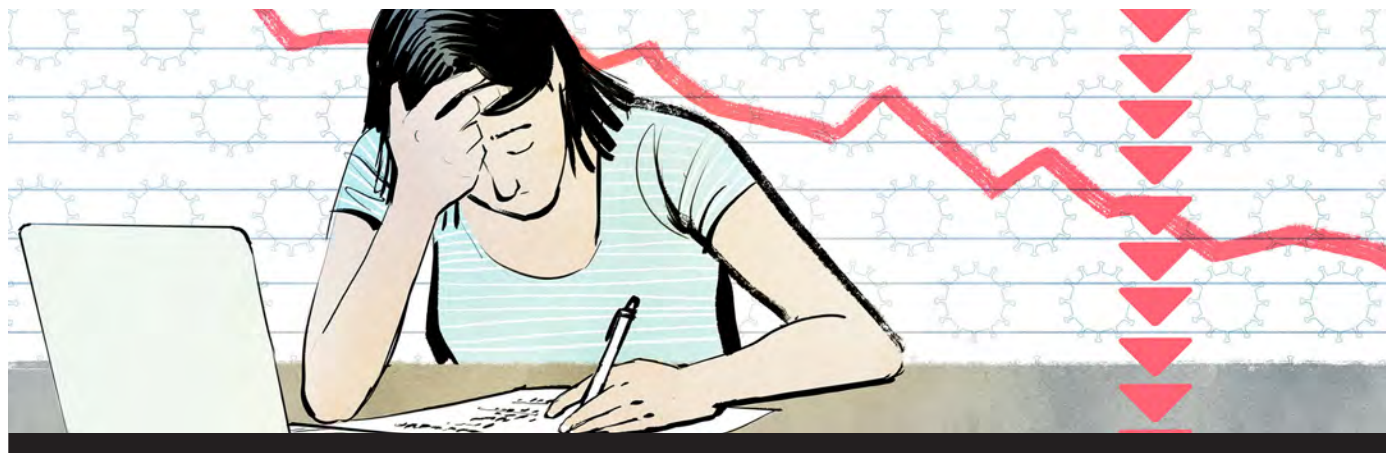




INTERNATIONAL

COVID-19 AND THE ECONOMY

– PANDEMIC SPARKS A MAJOR ECONOMIC DOWNTURN



A restaurant worker in Mississauga, Ontario has a family to support. But now, because of COVID-19, her workplace is shut down. Her boss had to lay her off. How will she pay her bills?

New federal and provincial programs might cover a portion of her income. Still, without customers, she can't collect tips. How will she make ends meet? And when – if ever – will her sense of financial security return?

People around the world are facing troubling questions like these. In different ways, they are dealing with financial problems because of the pandemic.

AN ECONOMIC TSUNAMI

In fact, the entire global economy is on shaky ground. One major reason why? **Social distancing.** Most

A STOCK MARKET PRIMER

A stock market is where investors connect to buy and sell shares of companies, called stock. Companies issue shares because they want to raise funds to help them grow – for example, by expanding their production and workforce. The five largest stock markets are in New York, Tokyo, Shanghai, Hong Kong, and London.

A stock purchase allows a person to own a part of a company. Say a firm issues 100 shares of stock. If you bought 10 shares, you would own 10 percent of the enterprise – and you would become a stockholder. Stockholders share profits in good times and suffer losses in bad times. Suppose you bought shares for \$10 each. When company profits go up, so does your stock, making it worth, say, \$12 or \$15, if you sell. But if the firm fails, those \$10 shares might each become worthless.

COVID-19 has hit stock markets especially hard. After years of growth, they began to crash in late February when the pandemic caused consumers to lose confidence in the economy. From February 24 to 28, worldwide markets had their largest one-week declines since 2008. By late March, the value of global stocks had fallen by up to 30 percent.

countries have adopted this measure to try to contain the pandemic. But that means workers in salons, coffee shops, stores, and other businesses have been **furloughed**. At the same

time, people are staying home instead of spending money.

That's causing many countries' gross domestic product (GDP) to drop. The GDP is the value of goods and services a country produces in a year.

DEFINITIONS

FURLOUGH: when an employee is told not to come to work and is not paid

SOCIAL DISTANCING: keeping a distance of two metres from others and avoiding large groups to prevent the spread of disease



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In a healthy economy, jobs are created and businesses prosper, causing the GDP to grow. When jobs are lost and people don't spend as much, however, it falls. And when that happens, even more jobs are lost and people have even less money to spend. That causes the GDP to drop further. It's a vicious circle.

At the same time, most government revenue comes from taxes. But the government collects less in taxes when people spend and earn less, too. So to pay for needed programs and services, governments will have to borrow huge sums.

Another problem? The pandemic has disrupted the worldwide **supply chain**. Fewer people are moving raw materials to factories. That's slowing down all manufacturing. Even when firms do make products, there is a shortage of workers to get the goods to their global destinations.

"Now, anywhere you look in the global economy we are seeing a hit to domestic demand on top of those supply chain impacts," says economist Innes McFee. "It's incredibly worrying."

WHO'S HARDEST HIT?

Some industries face a bigger impact than others. Tourism and travel-related businesses, affected by strict social distancing rules, are suffering big losses. Airline revenues could drop as much as US\$113 billion this year. Hotel companies' profits are plunging, too. Movie makers everywhere could lose over US\$5 billion as people stay home from theatres.

A GLOBAL RECESSION

All this has caused economists to say we are set to undergo a deep global **recession**. The U.S., the world's largest economy, could have a period of **negative growth**. Europe, Canada, Japan, South Korea, Singapore, Brazil, Argentina, and Mexico will also be affected. China, the world's second-largest economy, will suffer, too. In fact, the world economy could grow at its slowest rate since 2009.

"This is a generation-defining moment," said one expert. "I've never seen an economic stop on this scale, certainly never in big countries and all at once."

GOVERNMENTS REACT

Some governments are trying to shore up their own economies.

For example, the U.S. passed a \$2 trillion package to support businesses and laid-off workers.

Canada, too, is trying to keep its citizens afloat. The federal government has set up a \$200-billion program. Among other measures, it will pay for a 75 percent wage **subsidy** for qualifying businesses for up to three months. **Employment insurance** will be easier to get. Some income tax payments were **deferred**. And banks can access \$25 billion to give small businesses interest-free loans.

IS IT ENOUGH?

Yet if the downturn is harder and lasts more than a year, analysts fear these measures may not be enough.

"This [could be] the deepest dive for the global economy in over 100 years," said analyst Kenneth Rogoff.

However, others are more optimistic.

"[This could be] temporary," economist Marie Owens Thomsen stated. "You hit the pause button, and then you hit the start button, and the machine starts running again." ★

DEFINITIONS

EMPLOYMENT INSURANCE: a program allowing Canadians who have lost a job to get temporary financial assistance

DEFER: to delay something

NEGATIVE GROWTH: a decrease in a country's gross domestic product (GDP) during any quarter of a given year

RECESSION: a time of declining economic activity and job loss

SUBSIDY: money paid by a government to help a business or organization to continue to function

SUPPLY CHAIN: a network between a company and its suppliers to produce and distribute products to buyers



ON THE LINES

Answer the following in complete sentences:

1. Explain what **GDP** stands for. What is GDP a measure of?

2. How has **social distancing** affected the global economy? Explain.

3. Where do governments get most of their revenue from?

4. What will most governments need to do if they want to maintain programs and services?

5. What is a **supply chain**?

6. How has the pandemic affected global supply chains?

7. List at least three industries that have been especially hard hit by the pandemic.

8. Explain what a **recession** is.

9. What do many experts say will happen to the global economy in the future because of the pandemic?
