

**MORE OF THE SAME**

Managing COVID -19  
uncertainty

**2020**

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## MANAGING COVID -19 UNCERTAINTY

Many macro variables have rebounded sharply, but the true picture will not emerge until government support schemes start to be withdrawn. And the broader economic outlook remains highly volatile due to the unpredictability of the virus and the effectiveness of the prevention mechanisms in place. Customer behaviour is still changing and will probably continue to do so for some time.

As a result, for business planning purposes perhaps little has really changed since lockdown began. Firms now have six months' worth of data on how they have been affected, and it would be sensible to glean as many insights as possible from the findings. But overall, decision-makers are well advised to remain watchful: we are likely to be still some way from the end of the beginning.

### THROUGH A GLASS DARKLY

Predicting the future is difficult even at the best of times, so businesses always have to factor a degree of uncertainty into their decision making. But a global pandemic is one of the worst times for predicting the future. The uncertainty facing firms and the change in people's behaviour are arguably greater than at any time since WW2.

As we wrote back in April, in a pandemic the future path of the economy depends on three main factors:

- How the virus develops – the timing of the peak and the ebb of the epidemic, how many people are infected and where, and their health outcomes;
- The government response – the type, nature and effectiveness of government policy responses, such as local or national lockdowns and their easing, social distancing, travel restrictions and industry support measures; and
- Customer behaviour – the ways in which customers alter their habits and the extent to which the changes stick or 'reset' in different sectors.

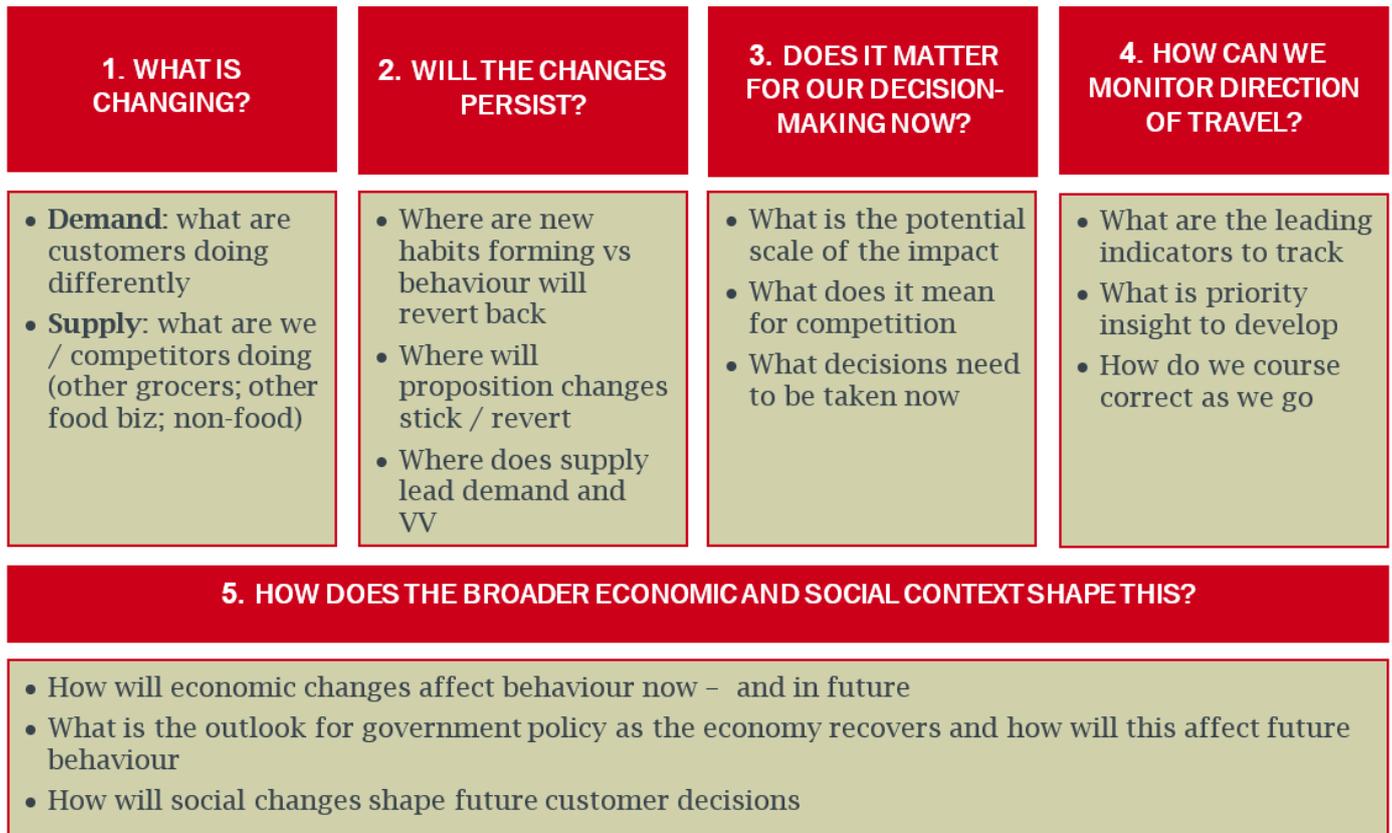
We shared a simple framework to help firms start working through this uncertainty by filtering out the noise and focusing on the facts that matter for decision making now. At a high level, businesses should be looking to answer five questions.

### EXEC SUMMARY

Six months ago the coronavirus pandemic plunged the global economy into recession and most European countries into lockdown. Since then things have started to return to some sort of normal: workplaces are slowly reopening, children are back at school (for now) and people are being encouraged to return to the high street and even take foreign holidays.

But the recovery is seemingly on a knife-edge.

FIGURE 1 FRAMEWORK TO HELP FIRMS START WORKING THROUGH THIS UNCERTAINTY



Source: Frontier Economics

We also cautioned decision-makers against trying to achieve certainty. In the midst of a pandemic you should look at “what if” scenarios to draw out implications that different versions of the future would have on your business. Be prepared for the worst case but also be ready to seize opportunities offered by the best case.

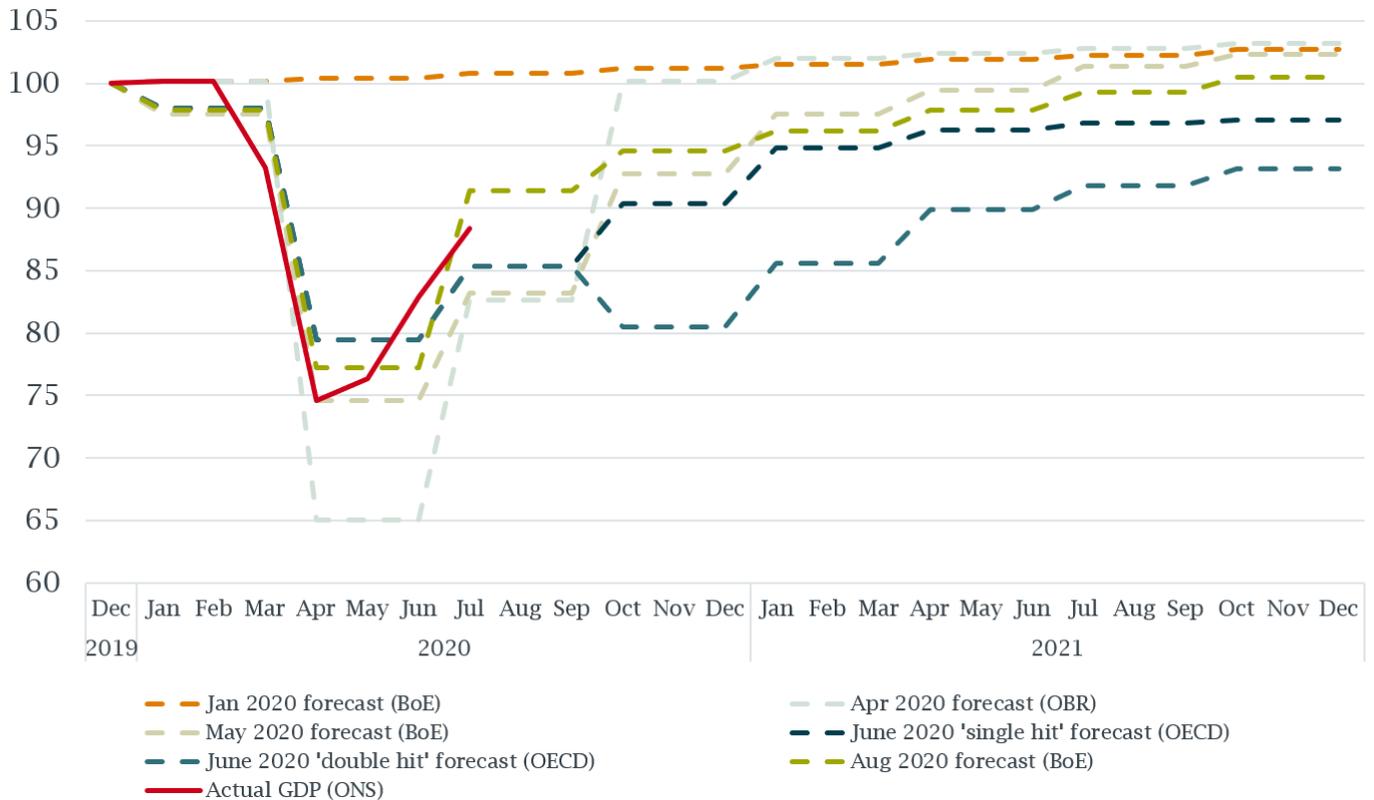
We saw thousands of businesses innovate and implement operational changes that would have normally taken months of planning – many of them unthinkable before the pandemic, such as removing mobile data limits or training new store employees in hours instead of days. Just as firms were able to adjust their offer quickly to meet customer needs at the start of the pandemic, they should also be ready – and even expect – to make course corrections again as new information emerges.

## THE OCTOBER 2020 VIEW: PLUS ÇA CHANGE?

Lots has happened since the start of lockdown in March. Infection numbers in Europe came all the way down, and have been on the rise again in most countries. The toughest of the lockdown curbs have been eased, but local restrictions are still being imposed in infection hotspots.

In many respects, a huge amount has changed in 2020. But six months on we still find ourselves mired in deep uncertainty. A V-shaped recession with a sharp initial drop in activity and a complete recovery by the end of 2020 (as the OBR predicted in April) remains possible, but is not consistent with the latest projections. As time has passed, forecasters have become more optimistic about the size of the initial downturn, but more pessimistic about the longer-term fallout. Expect the economic outlook through 2021 to remain highly uncertain and subject to continual revision.

**FIGURE 2**      **COMPARISON OF UK REAL GDP PROJECTIONS AND ACTUAL GDP INDEX, 2019Q4 = 100**



Source: Frontier Analysis

The main factors to monitor will continue to be:

- How the virus develops
  - The rise in infection rates in recent weeks in most European countries suggests that a second wave is increasingly inevitable, rather than a distant possibility. Even if a second upsurge is tackled in a similar way to the first, the possibility of further waves remains.
  - More generally, even if the virus is contained at relatively low levels, it will remain part of the new normal until an effective cure or vaccine is found - and as of now there is no clear indication when this might happen.
- The government response
  - Governments around the world responded to the first wave of the virus by locking down, but it is not clear that they would react to future breakouts in the same way. And even if they did, it is unclear whether the economic impact would be similar: going back into lockdown might be less disruptive for some firms that have adjusted well to remote working, but it could also push over the edge other firms that only barely made it through the first lockdown.

- In the UK the government has prevented a spike in unemployment thanks to a furlough support scheme. The end of the programme in October can be expected to have a big impact on economic activity as many people lose their jobs.
- Customer behaviour
  - Even though we are no longer facing strict lockdown measures, life is still far from normal for the vast majority of people. Out of all the changes in behaviour during the pandemic – shopping online rather than in store, video calls instead of business meetings, running outside instead of going to the gym – it remains to be seen which ones turn out to be temporary adjustments that ‘reset’ once a vaccine is rolled out and which become permanent habits. As a result, the debate on the future of the office and the high street remains live and its conclusion uncertain.

## GAINING INSIGHTS FOR THE NEXT BUSINESS PLANNING ROUND

Since uncertainty remains acute, our advice to businesses six months ago remains remarkably consistent today. Decision-makers should observe what is changing, try to understand how likely those changes are to persist and monitor the direction of travel.

Inspired by the early forecasts of a V-shaped economic recovery at the start of the pandemic, many businesses made plans on the assumption of a return to normal within a few months. With the passage of time, there is no reason to believe that this is going to happen. Until there is a clear path out of the pandemic the uncertainty will remain. The best that we can do is embrace it, continue to model scenarios and monitor changes.

The one important difference between March and today is that we now have six months of data on how the world has changed. It is easy to dismiss this data as abnormal and hence a poor indication of the future. But to do so would be to deprive yourself of the opportunity to acquire insights into how your business has been affected. This is perhaps the biggest natural experiment your business will go through in your lifetime.

Chances are the impact of the pandemic will offer insights when data is viewed across channels, customers, products and geographical areas. Companies need to understand the different patterns that the data reveals, what is causing them and the strengths and weaknesses they expose in the business model. Doing so will help decision-makers anticipate how various future scenarios might unfold. For example:

- How the overall impact on sales has played out between different stores and online channels; what proportion of the sales has shifted channel and what proportion has been lost.
- How shopping frequency, choice of channel and basket size have changed among different customer groups.
- How different product types have been impacted – for example, necessities, luxuries or travel-related items.
- How the impact varies by region and between urban and rural areas.

We are unable to predict the future, but unpicking what has changed and why can help firms better understand whether various shifts are likely to stick and how best to monitor the direction of travel. Those who stay flexible and embrace ongoing change in their decision making – and look for opportunities to do



things differently in response to evolving patterns of behaviour – will have the best chance of successfully navigating this storm.

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