From endless winter to new dawn: What might a post–COVID-19 economy look like?

The goal posts keep moving—almost as speedily as the virus.

In this case, the goal posts refer to when CFOs expect their companies to return to "normal" post–COVID-19. Back in the Q2 2020 *CFO Signals*™ survey, almost one-third (32%) of respondents expected to be back to a pre-crisis level of operations by the end of 2020,[1] and 42% agreed with that assessment in the Q3 2020 edition.[2] But in the most recent survey,[3] nearly two-thirds of respondents said they do not expect to return to pre-crisis levels until the second half of 2021 or later, and 26% do not expect to get there until Q1 2022 or beyond (see Figure 1).

Part of the explanation for shifting views is the lack of a clear line of sight into what "normal" will look like. Two critical uncertainties include: the government response to the pandemic and its economic consequences, and the levels of vaccine distribution and adoption. Further complicating matters is the global nature of the epidemic and the fact that not all countries have responded equally. There's also the risk that the virus might mutate further, or that the vaccine's benefits won't last as long as hoped.

Given the multiple variables, several of Deloitte's economists, futurists, and scenario planners recently created four economic scenarios for 2021 (see "The World Remade: COVID-19 and beyond," February 2021). The scenarios are designed to guide leaders in their strategic, financial, and operational planning for this year. And while they do not predict what will happen, the scenarios offer hypotheses about what *could* happen. In this issue of *CFO Insights*, we'll examine the four scenarios and their implications for companies and their finance leaders.

Four outcomes; two critical uncertainties

Deloitte published its first iteration of "The world remade by COVID-19," describing several cases for how the virus could reshape business and society, back in April 2020.[4] Given that first iteration was developed early in the pandemic and took a three-to-five-year view, however, it became clear that many of those cases could be complemented by a more tightly focused economic view to address some of the immediate concerns of executives.

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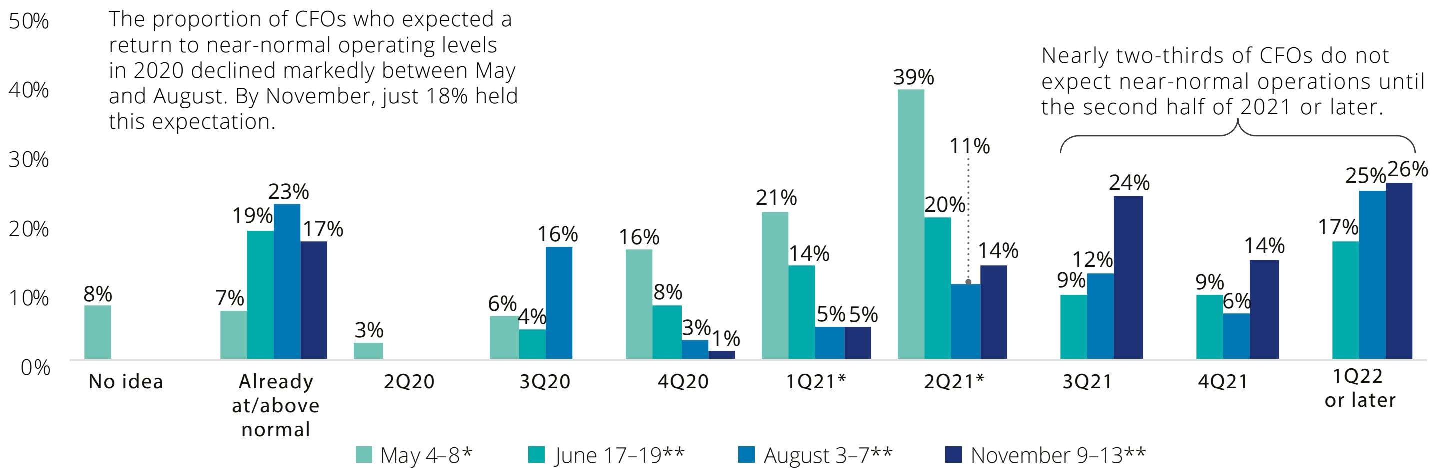
Figure 1: Expected timing of return to near-normal operating levels

What is your best guess for when your company will return to a pre-crisis (or near-normal) level of operations?

Percent of CFOs selecting each option/timing



*Respondent options for the Q2 2020 quarterly survey (May 4-8) ended at Q2 2021 or later.

**Options for our mid-cycle poll (June 17-19), the Q3 2020 survey (August 3-7), and the Q4 2020 survey (this survey) ended at Q1 2022 or later.

Source: *CFO Signals*, Q4 2020, CFO Program, Deloitte LLP

Each new scenario posits a potential future state leading to corresponding economic implications. And while many CFOs may have already completed their 2021 budgeting and planning cycles, the scenarios offer insights into some of the nuances of the pandemic, as well as possible impacts on the US, Europe, Asia/Pacific, and global economies. The insights, in turn, can inform mid-cycle revisions, investment decision-making, and return-to-work estimates and policies—at least for this year. What follows are the economic conditions the scenarios describe:

Endless winter. In this scenario, the high hopes associated with the vaccines are muted by ongoing distribution challenges that result in far fewer shots delivered than the number needed to control the pandemic. Vaccine nationalism and production challenges mean that globally, dozens of middle-income countries can't get enough doses and suffer from both slumping supply and demand as a result. Widespread skepticism of the vaccine means that even places that have access can't reach herd immunity—and continued mutations spread more quickly than the virus itself. As a result, the pandemic and its restrictions are felt globally far into 2021. *Estimated date by which pre-COVID-19 GDP level reached in the US: Q3 2022; Globally: Q4 2021.*

Hard rain. After some initial bumps, vaccination programs are embraced, so by late spring, a significant number of people living in advanced economies are ready to get back to normal. One problem: normal isn't ready for them. Ineffective policy has meant that many small and medium businesses haven't been able to survive 15 months of pandemic. Bankruptcies become common, debt burdens have become unmanageable, and there's a growing wave of defaults. The resulting demand-side shock in some of the world's largest economies sends ripples around the world. *Estimated date by which pre-COVID-19 GDP level reached in the US: Q2 2022; Globally: Q4 2021.*

A new dawn. If 2020 seemed to hit one low after another, 2021 turns out to be the antidote. COVID-19 vaccine rollouts grow increasingly effective through the spring. While some people remain cautious about receiving one, herd immunity is reached over the summer for wealthy countries and is on track for most emerging countries. Meanwhile, policymakers and central banks respond with strong stimulus, allowing businesses to remain stable, steadying employment, and maintaining consumer confidence. Moreover, the measures to suppress the virus open the door for economic activity to rebound. The result: a wave of confidence that unlocks new business investment, new consumer spending, and new public infrastructure. *Estimated date by which pre-COVID-19 GDP level reached in the US: Q3 2021; Globally: Q2 2021.*

Sun showers. The calendar may have turned, but the unexpected lingers. The most disappointing surprise is that even with multiple vaccines approved, the logistics of reaching billions are unachievable. Weaknesses of distribution, distrust, and a disease that begins spreading faster than the human response are implacable. But another, more positive, surprise, emerges: the political conflicts that marked 2020 yield to growing confidence in some of the world's most influential markets. Strong government support of business and workers in the US, as well as consistent health mandates, help maintain economic activity. And those supports created through effective policy buy time for the vaccines to make a difference. *Estimated date by which pre-COVID-19 GDP level reached in the US: Q4 2021; Globally: Q2 2021.*

What it means for corporate planning

As CFOs have learned over the past year, forecasting for the short- and long-term impacts of COVID-19 necessitates agile and responsive decision-making under fast-changing business conditions. And that likely requires extensive cross-functional collaboration; real-time, crisis-specific, and business-relevant data and metrics; analytical and forecasting capabilities; and a strategic focus. It also requires expecting the unexpected.

The unexpected remains a critical factor in all of the Deloitte scenarios, and each was developed to reflect two major ones: whether the vaccine is fully implemented in a reasonable amount of time and whether the virus suppression policies (e.g., fiscal stimulus, lockdowns, mask mandates) of major governments prove to be adequate. The resulting matrix (see Figure 2) allows CFOs to:

- **Stress test their current assumptions.** When they finalized their 2021 forecasts, CFOs and FP&A leaders likely made assumptions based on when they thought vaccines would be rolled out worldwide and who would be eligible. Inadequate vaccine distribution, though, may have a chilling effect on consumers who are not comfortable that the virus is behind them—and that, in turn, may negatively affect demand projections.
- **Identify markers of change.** The timing of the rollouts may also be an impetus to revisit a scenario. If rollouts slow markedly or simply fail to reach substantial portions of the population quickly, CFOs may need to assess whether they should lower expectations for overall GDP growth in regions critical to the company as a supplier or a market. Vendor relations may be another such marker: lagging receivables, for example, may indicate potential problems 30 or 45 days ahead.
- **Determine appropriate contingencies.** Finally, using the scenarios, CFOs can identify the key actions to take depending on which case materializes. For example, how a company manages cash may be very different if the US returns to a fully functioning market in six months (A new dawn) versus nine months (Sun showers).

How CFOs should confront the possibilities

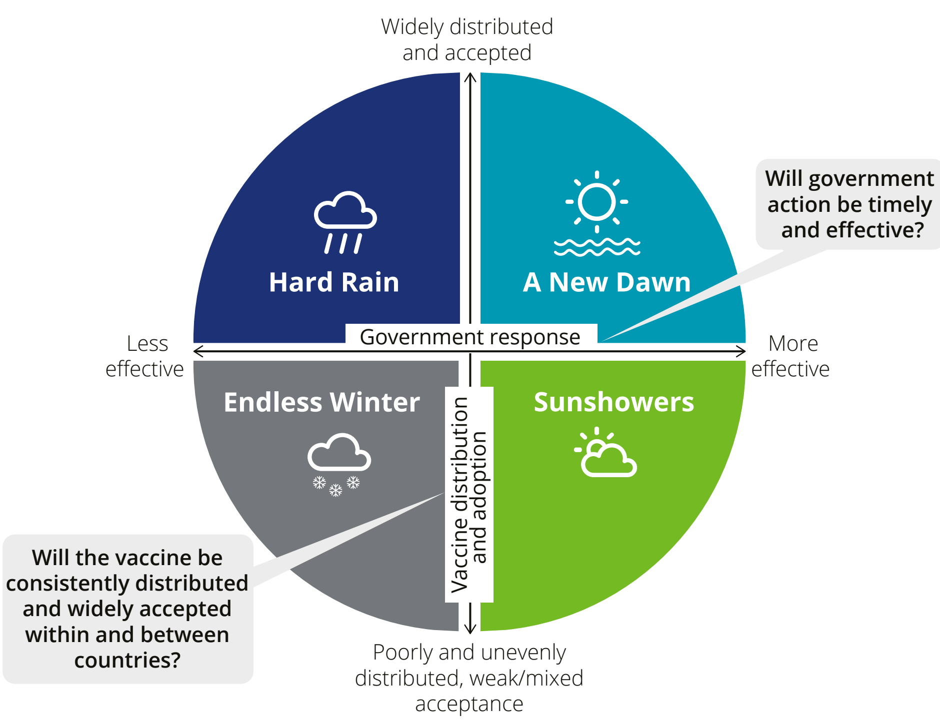
Which of the scenarios will come to fruition? That, of course, remains to be seen. Undoubtedly many uncertainties will fade as the year evolves. A surer sense of whether the vaccine is being successfully distributed will develop, for example. In addition, the size and scope of the US stimulus package may soon become clearer, as may any additional European government response.

At the same time, there is the real possibility that the return to "normal" may be uneven at best. Given that scenarios are global in nature, they do depend on what happens within each of the regions studied. Theoretically, vaccine distribution could be very successful in Europe and not in the US, or vice versa. Additionally, since each scenario is fueled by continued strong growth out of Asia, particularly China, any change in that trajectory would have major impacts on the return to the next normal.

What's clear is that the scenarios also point to long-term trends that CFOs need to prepare for as they enter that next normal. Patterns of consumer behavior, for example, may have fundamentally changed. In China, online retail sales were up almost 15% in 2020, rising from 4% of sales in 2019 to about one-quarter of retail sales in 2020.[5] And it is the companies with strong digital channels to consumers that may have the competitive advantage. Little wonder, then, that in the Q3 2020 *CFO Signals* survey, two of the great pandemic-related strategic shifts that CFOs mentioned were the acceleration of business digitization, as well as more remote/touchless customer interactions.[6]

At the start of 2020, nobody would have predicted what was right around the corner: the spread of COVID-19, triggering a lockdown, tripling the federal deficit, and doubling the national unemployment rate. So, even armed with the scenarios, plenty of opportunities exist for variety and surprise before this year is out. Now, however, leaders ought to take decisive action to cushion the shocks, and at the same time prepare for what may change as the future unfolds. As President Dwight D. Eisenhower famously said, "plans are worthless, but planning is everything."

Figure 2: Four economic cases for resilient leaders



Source: "The World Remade: COVID-19 and beyond," Deloitte Development LLC, February 2021

End notes

1 *CFO Signals*: Q2 2020, CFO Program, Deloitte LLP, May 2020.

2 *CFO Signals*: Q3 2020, CFO Program, Deloitte LLP, August 2020.

3 *CFO Signals*: Q4 2020, CFO Program, Deloitte LLP, December 2020.

4 “The World Remade by COVID-19,” Deloitte Development LLC, April 2020.

5 “China's retail sales dip 3.9% in 2020 amid pandemic; positive growth expected in 2021,” *Global Times*, January 18, 2021.

6 *CFO Signals*: Q3 2020, CFO Program, Deloitte LLP, August 2020.

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