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COVID-19 Economy, the New Digital Normal and its Demands

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Covid-19 and the Lockdown Economy

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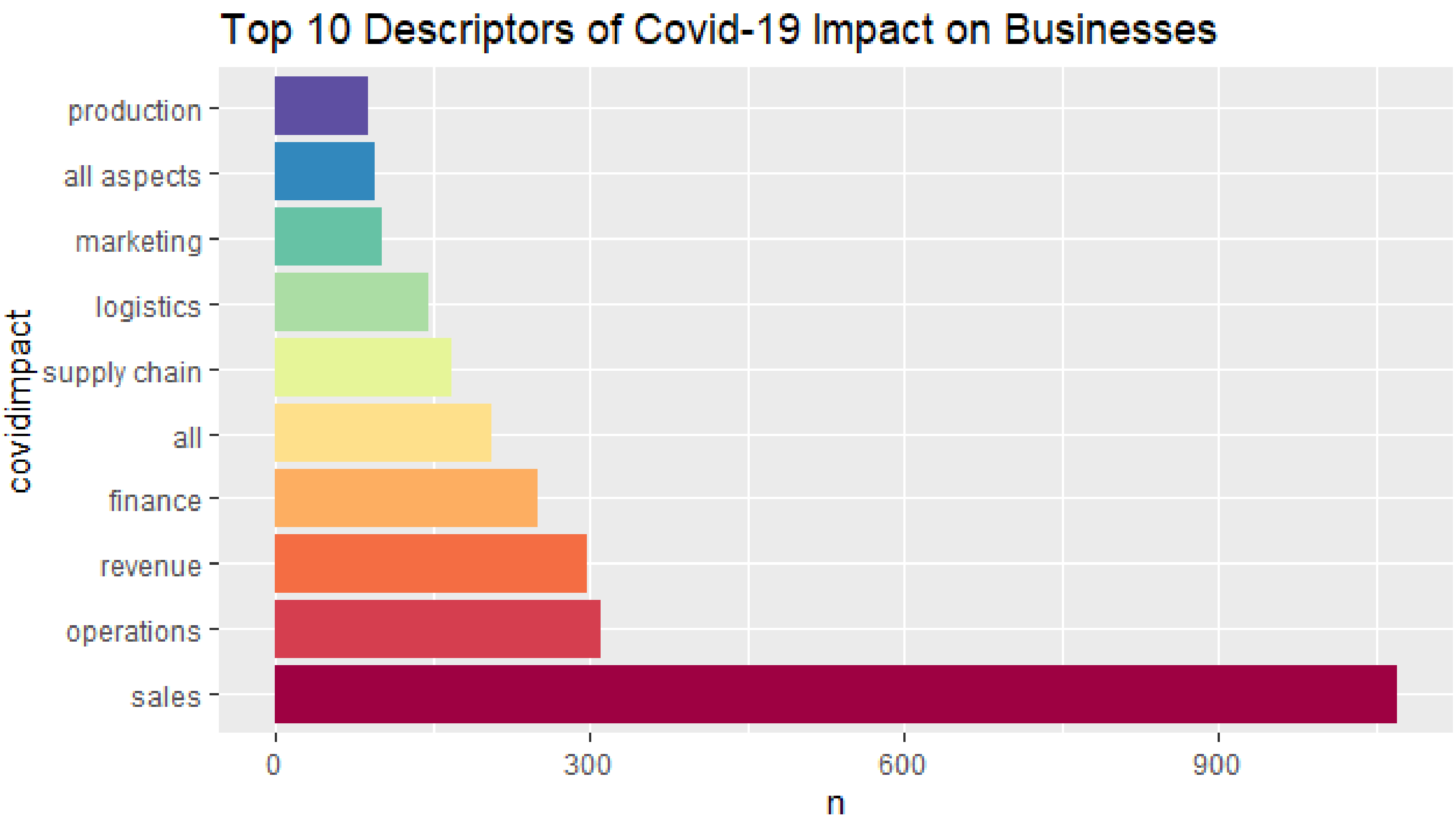
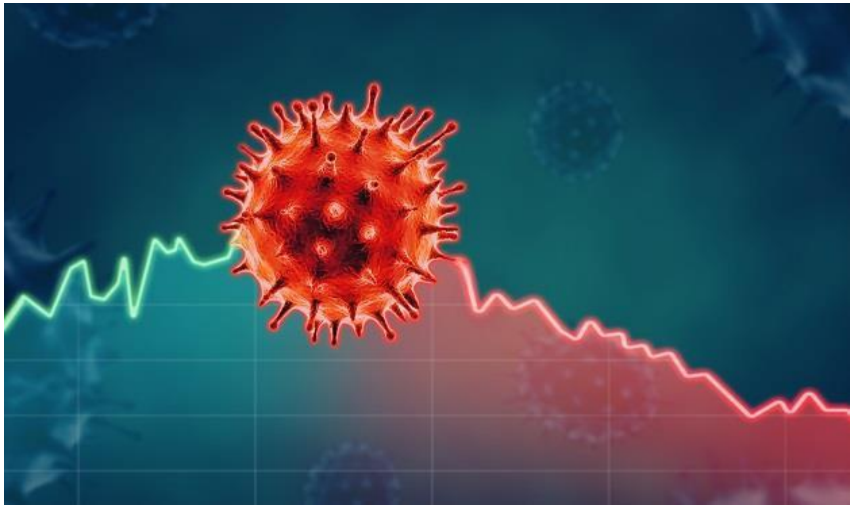
Caution!

- CEOs and founders are proclaiming: "we will emerge from Covid-19 better than ever." Great powerful words. But I ask you to use awareness and observation because no one really knows, and some leaders will never admit to truth. This is the deal: no one knows it all, and do not outsource your thinking believing everything. Think - and avoid surprises!

Impact of Covid-19

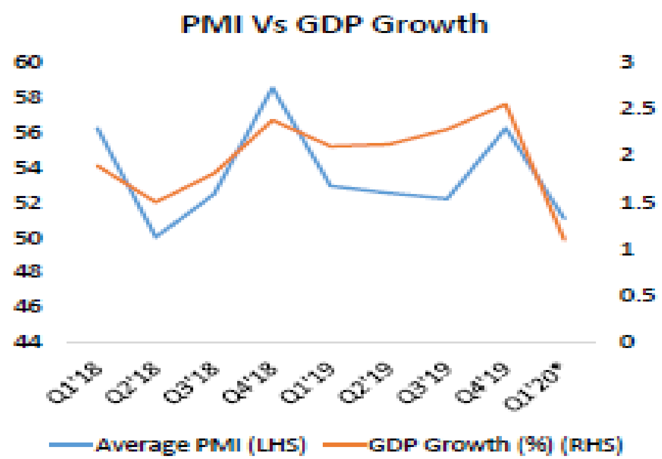




- All sectors affected and business shutdown
- Panic buying and supply-chain disruption induced price hikes across board
- Forex and money market were rattled.

The Economy in Lockdown

- PMI crashed to 45.8 points in April
- Its output sub-index fell to 40.5 points – lowest since 2017
- Manifesting he effects of the lockdown and poor access to raw materials
- Average power output rose to 4,099 MW
- NIBSS settlement volumes surged.
- Banks were shut down in Lagos, Ogun
- Check clearing was suspended



Source: FBNQuest, NBS, FDC Think Tank

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The Economy in Lockdown

- Airports were shut and interstate movement was curtailed
- All local carriers have suspended services
- Jet fuel price dropped to $26pb
- Profit margins are compressed and will fall further
- Spares, training & maintenance costs all forex denominated will spike
- Dollar purchasing power is down, impacting passenger traffic adversely

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The Economy in Lockdown

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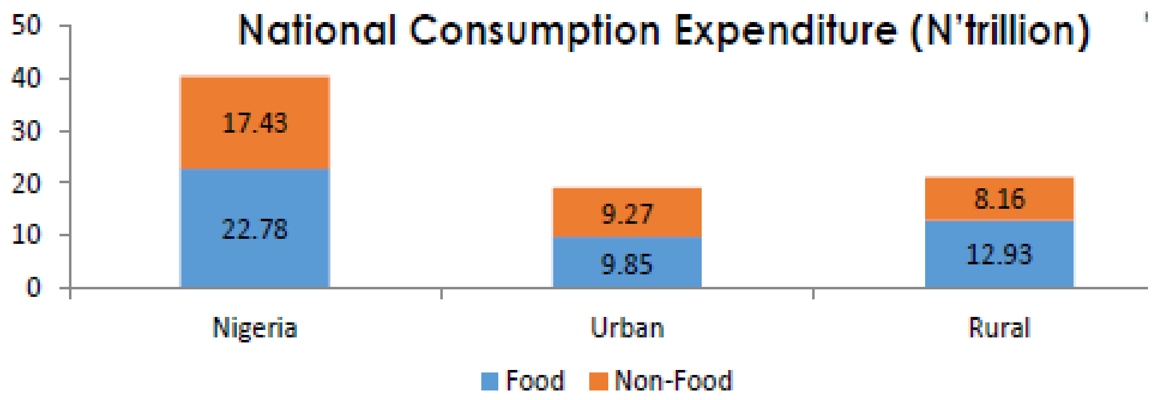
- Expenditure cut by 0.67% to N10.523 trillion
- Revenue sharply lower to N5.158 trillion
- Budget deficit widens to **N5.365trillion**
- To be funded by:
  - Domestic and foreign borrowing
  - Foreign borrowing will be limited to concessionary loans (IMF, World Bank etc)
  - Privatization revenue
- No new taxes but more efficient collection

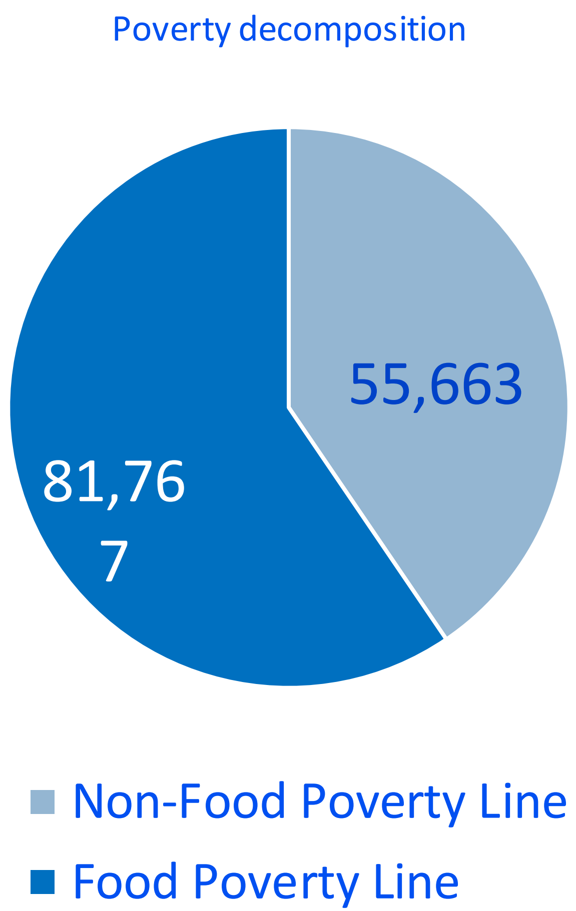
Key Parameters	Revised Assumption	Approved Budget
Budget size (N'trn)	10.523	10.594
Oil Price ($pb)	25	57
Oil production (mbpd)	1.94	2.18
Exchange rate (N/$)	360	305

The Poverty of the Nation: Food Consumption



- Consumption lowest in North East (only 6% of total consumption)
- South West and South-South regions account for over 50% of consumption
- In rural areas, significant share of total consumption goes to sustenance –food expenditure

The Poverty Nation



- National Poverty Line (per capita, per annum) = N137,430
- 40% of Nigerians live below the poverty line

Lockdown Dynamics: Nigeria’s Case

After a few weeks, the easing of the lockdown started

Some countries more aggressive than others

Rapid relaxing without healthcare support leading to 2ndwave or surge

We call this the **‘W’**infection-fatality curve

Followed by **‘U’** economic downturn & recovery curve

For Nigeria, expect a **W** infection-fatality curve and a **U** economic downturn & recovery curve

Impact Analysis - Corporates

- High corporate mortality
- High unemployment
- Defaulting bank debtors
- Rise in toxic assets & failing banks – Lehman Brothers
- In the last recession in 2008
  - US unemployment rate peaked at 10%
  - Bank failures rose to 165 between 2008 and 2009

Impact Analysis - Government

- Oil revenues likely to decline by 70-80%
  - Oil contributes 90% of exports
  - 30% of bank credits
  - 50% of fiscal revenues
- Other domestic revenue sources negatively affected by COVID-19
- Fiscal gap estimated at $15-$17 bn –government revenues under intense pressure
- FG is struggling with the reduction and elimination of subsidies without sparking social unrest
- Tax collection, mobilization & prudent management of tax revenues will be topmost priorities

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Impact Analysis - Government

- Total external debt has risen to $31 billion
- And will climb further with more lending from multilaterals to $36 billion
- Debt service burden is already in excess of 96% of independent revenues

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COVID-19's Toll on Nigeria's Economy

LEI	Mar'20	Apr'20	% Change	Comments	May' 20*
GDP Growth (%)	2.55 (Q4'19)	1.10 (Q1'20)*	-1.45	Higher unemployment level to accompany economic recession	-3.50(Q2'20)
Inflation (%)	12.26	12.95*	0.69	Panic buying and exchange rate pass through effect	13.00
Oil Production (mbpd)	1.85	1.70*	-8.11	Further output cuts to reduce oil revenue	1.45-1.50
Oil Price ($pb; avg)	33.73	26.63	-21.05	Sharp fall in oil prices on supply glut and storage concerns	35-40
Power (MW; avg)	3,912	4,099	4.78	Gas remains the major constraint to power generation	4,200
PMI (FBN):	47.90	45.80	-4.38	Contraction in manufacturing activities as an attendant consequence of the lockdown	45.00

COVID-19's Toll on Nigeria's Economy

LEI	Mar'20	Apr'20	% Change	Comments	May' 20*
Primary T-Bills (%): 91-days	2.20	2.51	0.31	Rates increased on N1.4trn CRR debit	1.80-2.00
Average Opening Position (N'bn)	328.99	541.85	64.70	Reduced intervention by the CBN	300-400
External Reserves ($bn; month-end)	35.16	33.52	-4.66	Reserves to pick up on IMF loan drawdown	35-37
Exchange Rate (N/$; month-end): Parallel	415	470	13.25	Crash in the naira due to a fall in inward foreign portfolio investment	430-450
Stock Market Cap (N'trn)	11.10	12.00	8.12	Market gained as lockdown eased	13

- ✓ *Summary: 2 positive, 9 negative*

*Source: CBN,NBS, EIU, *: FDC's forecast*

- ✓ *LEIs point to a weak economy*

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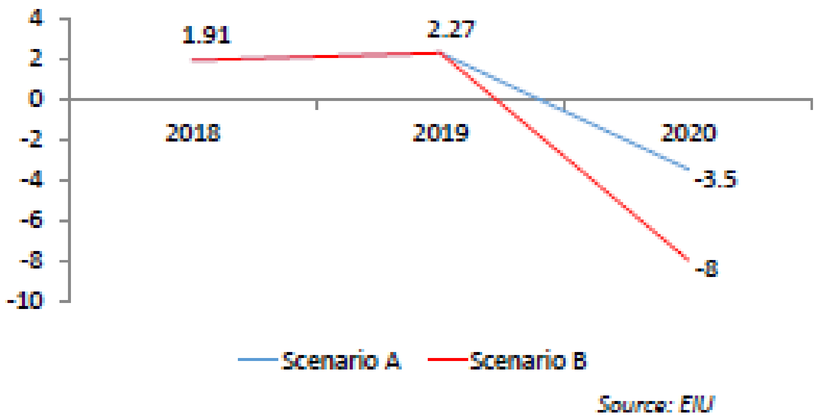
The Economy Already Recessed

	Y	= C	+ I	+ G	+ X - M
2019 (2.27%)	$475bn	$345.0bn	$88bn	$27bn	-$16bn
2020 (-3.5%)	$374bn	$311.0bn	$66bn	$25bn	-$28bn
2020 (-8.0%)	$295bn	$271.0bn	$49.5bn	$23.5bn	-$49bn



- ✓ If the worst happens, it will get to -8% with economic disruption becoming unbearable
- ✓ Current and forward indicators confirm that 2020-21 will be the toughest year in decades

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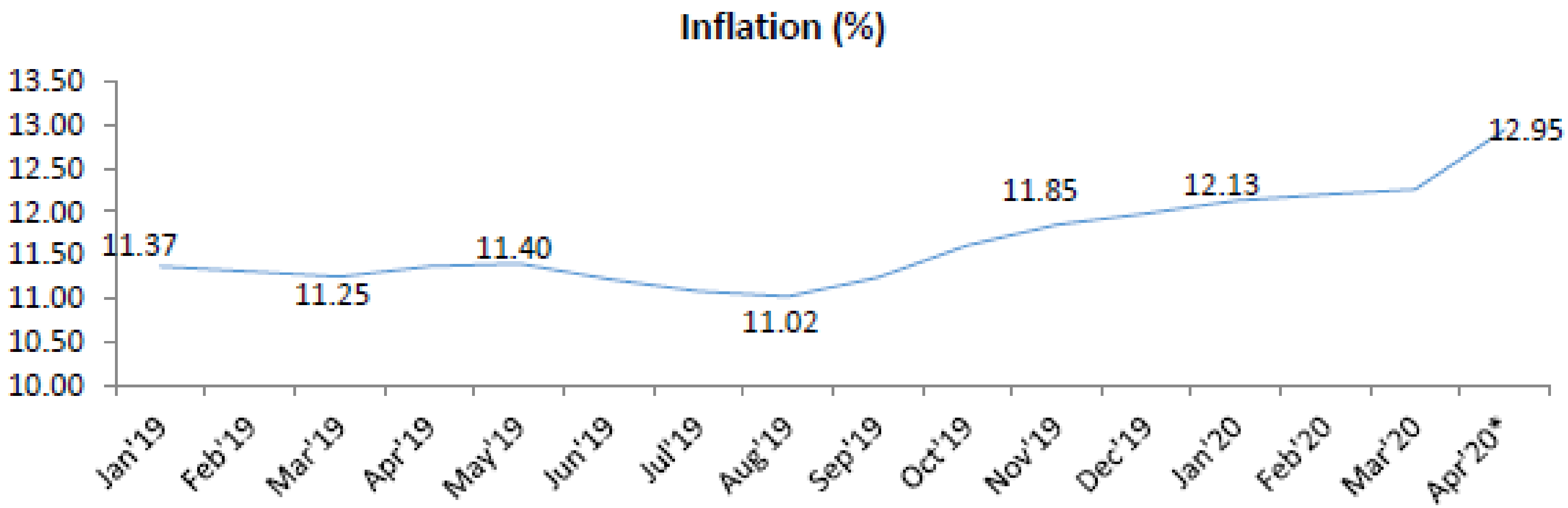
Inflation spike

- ✓After reaching 15% in June
- ✓MPC may move rates up by the July meeting



Source: NBS, FDC Think Tank

Exchange Rate Adjustment to Increase Import Costs

	Before (N/$)	Now (N/$)
Official	305	360
IEFX	365.58	380.02
Customs duty	326	361

- Slight devaluation of the naira
- Will increase import costs of companies that are highly import dependent
- Possibly undermine margins
- And push up service costs of dollar obligations
- Meanwhile, dollar investments will appreciate in value

Low Buffers but High Vulnerabilities

- Terms of trade to deteriorate sharply from 31 to 18 in 2020
- Export prices are down by 60% and import prices are down by 15%
- Oil export volumes are estimated to fall to 1.3 mbpd
- Balance of trade to fall from $3 bn to -$5 bn
- Current account will remain in deficit (-$7.9 bn)
- Gross external reserves down to $33 bn before increasing to $36.5 bn due to IMF loan
- Naira adjustment to reflect trading partner competitiveness
- Non-deliverable forwards are up to N530/$ for 365 days

Sectors with low Risk

Telecoms	Information technology	E-commerce
Electronic payment	Mining & Quarrying	Distributions & storage
Healthcare	Pharmaceuticals	Oil & gas upstream

Risky Sectors

Sector	Level of Contraction
Aviation	High
Hospitality	High
Trading	High
Catering	High
Brewing	High
Real Estate	High
Entertainment	Medium
Transportation	Medium
Crude Petroleum	Medium
Health Insurance	Medium
PFA	Medium

The New Digital Economy

Some Insights

Airlines, restaurants, hotels, cinemas, artists and sports clubs are the most frequently mentioned victims of the covid-19 induced quarantine, but not the most affected.

Precisely they, either through their access to credit, financing, state aid or injection of funds from their owners, will somehow float.

The foregoing, provided that it is not even more convenient for them to request a restructuring of their liabilities.

The Entrepreneur Distress

It is the entrepreneurs who will feel the blow the most, since all doors are closed to them, at a time when they observe how the supposedly successful effort of decades disappears after a few weeks of crisis. Given this, they will conclude that it is better to be employed in the public sector or to look for some salaried job.

Therefore, the greatest harm of this crisis is that it can severely undermine the urge to risk undertaking.

Adapt or Perish

Banks will require greater guarantees, the amounts available will be lower and the most ambitious projects will be relegated in favour of the safest, although with less profitability.

The question is to adapt or to die, there is no mercy in the laws of the economy. There is also no possibility of appeal.

From a positive perspective, crises cause a removal of society foundations and sometimes this is a driving force for new inventions and better laws.

The Marshall Plan, so often used as an example, has the virtue of having provided funds destined that the devastated nations have fishing rods, not the fish already served.

Adapt or Perish

Hopefully, the state funds are used to promote projects and recover jobs, rather than to provide subsistence funds. This, since businesses tend to be sustainable for years, while aid plans only sustain consumption for a very short time.

In short, when we get out of this gradual quarantine, we will find a world that, except for the obvious in sight (masks and distances), has also changed its customs, once again modifying people's preferences and their consumption habits.

Whoever is able to read this new reality and glimpse the later scenario, will be better prepared for the new times, which will be changing and indefinite as always.

It is the right time to transform ideas into realities.

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The New, Digital, Normal

The rapid migration to digital technologies driven by the pandemic will continue into the recovery.

Recent data show that we have vaulted five years forward in consumer and business digital adoption in a matter of around eight weeks.

Banks have transitioned to remote sales and service teams and launched digital outreach to customers to make flexible payment arrangements for loans and mortgages.

Grocery stores have shifted to online ordering and delivery as their primary business.

The New, Digital, Normal

Schools in many locales have pivoted to 100 percent online learning and digital classrooms.

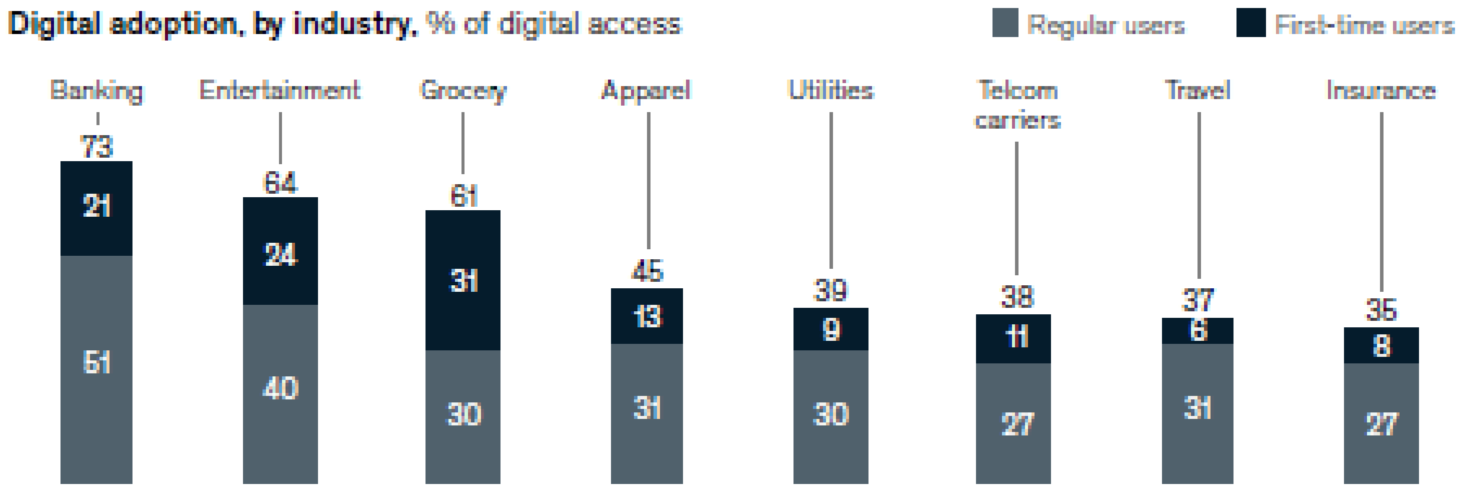
Doctors have begun delivering telemedicine, aided by more flexible regulation.

Manufacturers are actively developing plans for “lights out” factories and supply chains.

The list goes on.

Irreversible Digital Adoption

US consumers are accelerating adoption of digital channels, a trend seen across global regions.



Note: Figures may not sum to listed totals, because of rounding.

Source: McKinsey COVID-19 US Digital Sentiment Survey, Apr 25–28, 2020

Based on data from countries already in the recovery phase, consumption patterns will be uneven and unlikely to return to pre-COVID-19 levels quickly.

Lessons for the New Digital Normal

- Companies will need to ensure that their digital channels are on par with or better than those of their competition to succeed in this new environment.
- Digital laggards will be substantially disadvantaged during the recovery
- As the economy lurches back, demand recovery will be unpredictable; uneven across geographies, sectors, product categories, and customer segments; and often slow to return to precrisis levels.

Lessons for the New Digital Normal

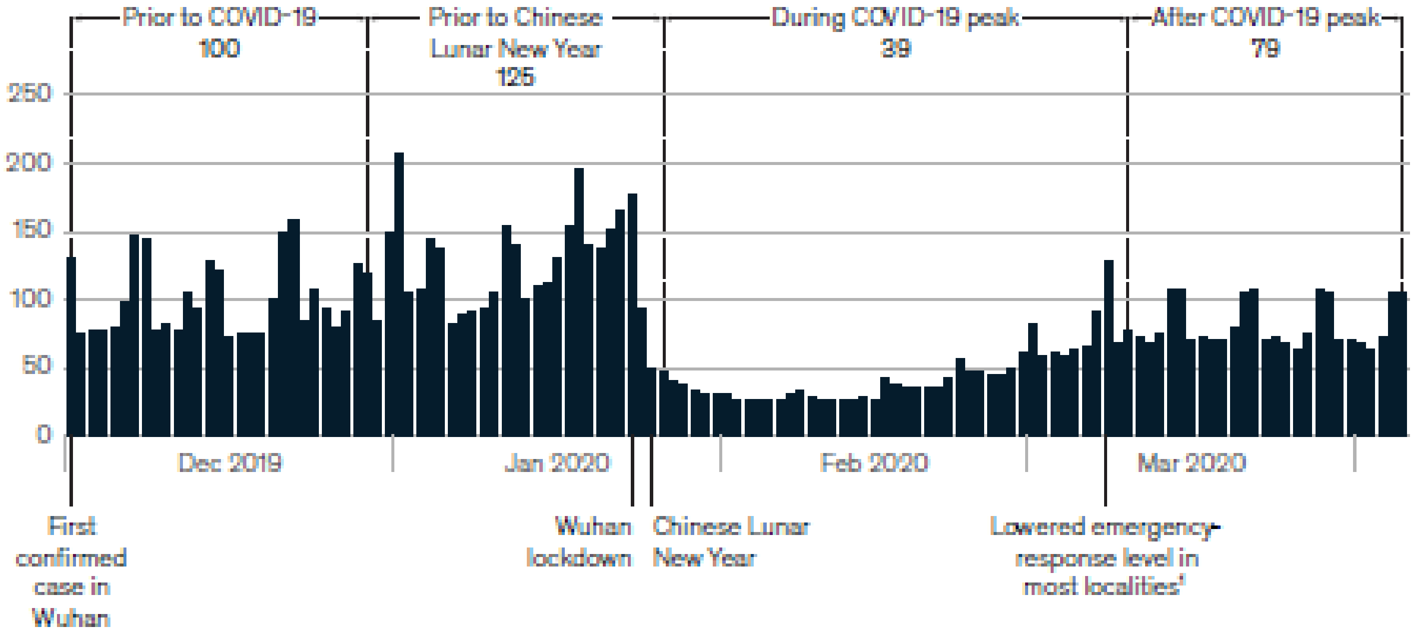
- While a few sectors will face unusually strong demand, leaders in many industries must deal with periods of structural overcapacity
- Those companies face the painful need to rightsize the cost base and capital of their operations, supply chains, and organizations overall and to transition their fixed costs to variable costs aggressively wherever possible.

Historical Data Obsolescence

- Complicating matters for leaders as they grapple with ways to deal with an uneven recovery is that historical data and forecasting models will be of little use to predict where pockets of demand will emerge and where supply will be necessary. New data and completely rebuilt analytical models will be essential to steer operational decisions.
- The step change in remote adoption is now arguably substantial enough to reconsider current business models.
- Pivoting to digital is clearly going to be a sure competitive advantage in the new normality

Based on data from countries already in the recovery phase, consumption patterns will be uneven and unlikely to return to pre-COVID-19 levels quickly.

Average daily China offline consumption, % (100% = daily average consumption in Dec 2019)

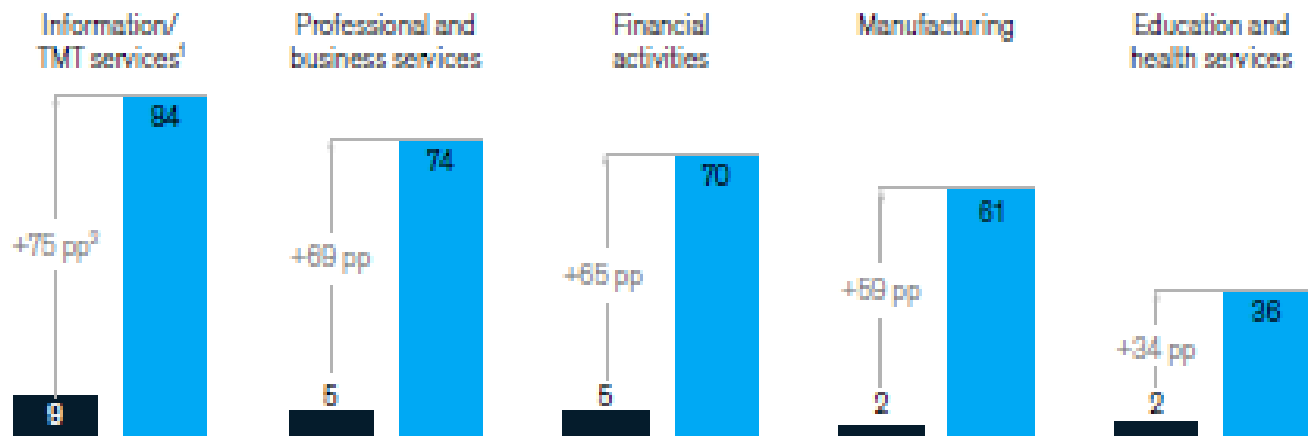


[1]On Mar 8, 2020, 21 Chinese provinces (involving >70% of country's population) announced lowering of epidemic-response level.

Source: MIYA; McKinsey analysis

The levels of remote working have skyrocketed during lockdowns and are likely to remain higher than precrisis levels for some time.

Share of employees working remotely full time, %



[1] TMT = technology, media, and telecom. Pre-COVID-19 figures for remote-work frequency in sector sourced from internal survey (unavailable in American Time Use Survey).
[2] Percentage points.

Source: American Time Use Survey, US Bureau of Labor Statistics, n =134; expert interviews; press search; McKinsey analysis

Conclusion

Strategy for the New Digital Normal

A plan for the first 90 days has four efforts to launch immediately.

	Refocus digital efforts toward changing customer expectations	Use new data and AI[1] to improve business operations	Selectively modernize technology capabilities	Increase organizational drumbeat
Sprint 1: days 1–29	Align organization to new digital priorities	Assess performance of critical decision-support models	Create rightsizing plan for shifting to variable cost structure and begin assessing cyberrisks	Assess where organizational velocity is needed and where remote-work models could drive productivity
Sprint 2: days 30–59	Bring digital channels to parity or better vs competition	Recalibrate and/or rebuild models	Set up cloud-based data platform and automate software-delivery pipeline	Deploy new models leveraging agile and remote
Sprint 3: days 60–90	Launch new digital offerings or channels	Develop next-generation data sets and models for optimal performance	Begin strengthening technology talent bench	Upskill organization for accelerated digital world

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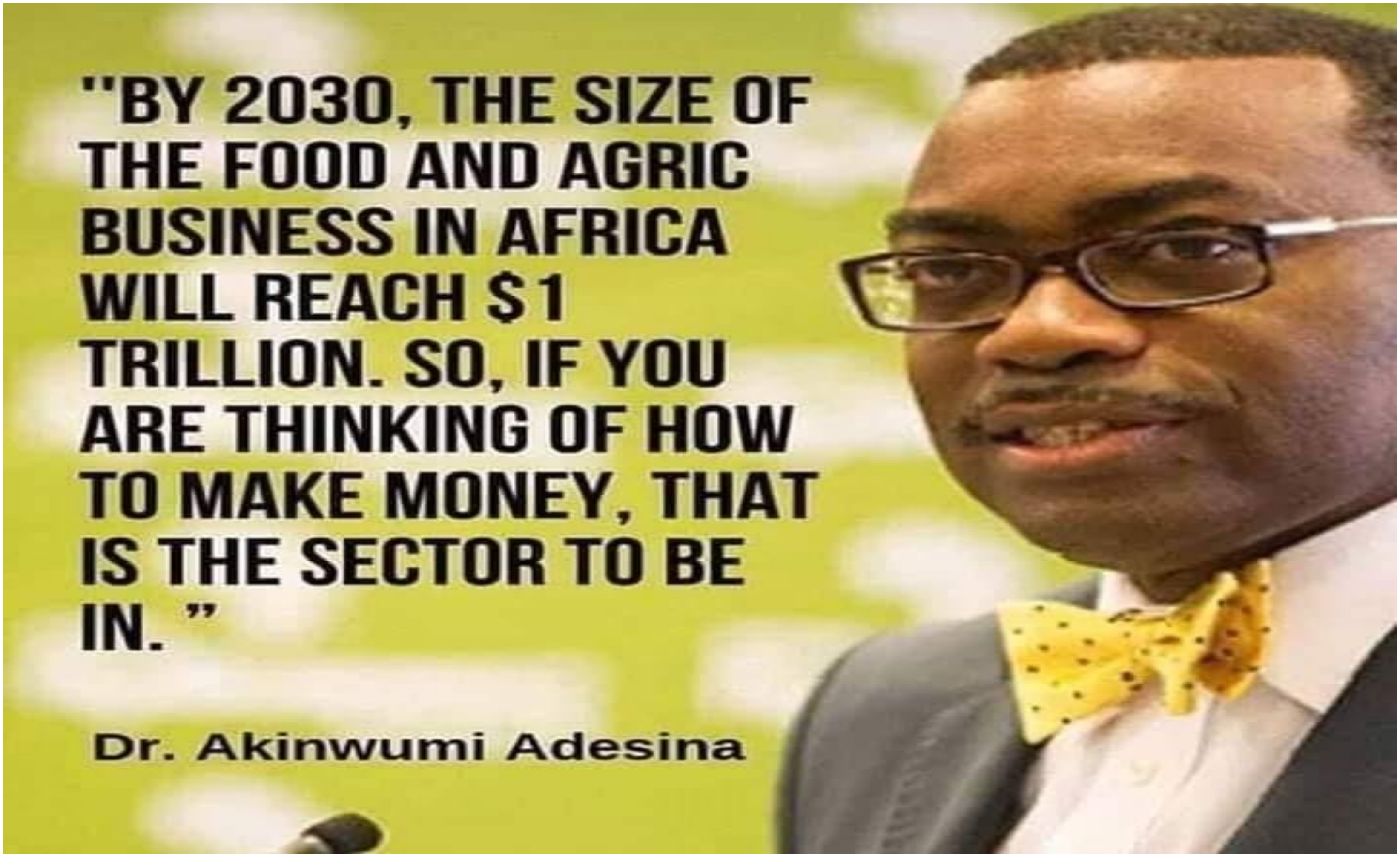
Thank You!



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Dr Bongo Adi

- Bongo Adi holds a full-time faculty position in the Economics, Data Analytics and Strategic Business Intelligence department of Lagos Business School, Pan-Atlantic University, Nigeria. He is a Development Economist, Data Scientist, PPP & Project Finance expert with over two decades of experience in Development Economics research, consulting and policy advisory; capital raising, business development and data analytics.
- Dr Adi holds a PhD in Regional Science and Development Economics and M.Sc in Economic Development and Policy Management under the Joint Japan/World Bank Graduate Scholarship of the University of Tsukuba, Japan. He did a postdoctral training in Data Mining at the National Agricultural Research Center, Japan.

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