

PCS Information Bulletin #40: COVID-19 Review

Wednesday, October 28, 2020

As always, please remember that **this report is for informational purposes only** and does not constitute the designation of a PCS event. We have decided to provide this report simply to help the market understand the COVID-19 situation and to provide access to some of the resources our team uses daily for intelligence on this event.

Is it time to prepare for a disrupted demand chain again?

The flow of goods to the point where they are available to the end consumer is always heavily studied and deeply considered during events of global significance. The number of inputs into finished goods has become staggering, as has the amount of handoffs involved in getting something from one point to another. The point of sale, though, is merely the convergence of two “chains” involved in commerce. The other side – the demand chain – is arguably as delicate and susceptible to disruption during regional, national, and international crises.

Demand chain disruption occurs when consumer behavior is altered sharply by outside stimuli in a way that runs counter to prevailing demand forecasting efforts and that can't be adjusted for on the fly. The supply chain, with its complexity and worldwide reach (for most finished goods), may be sufficiently nimble to adjust for evolving consumer preferences and behaviors, but an abrupt change can leave original materials, input components, and finished goods in limbo. At the same time, such near-immediate changes can result in shortages of demanded goods that can take time to replenish. Accelerated efforts to remedy shortages can result in a glut if surges in demand are shorter than expected.

We saw the demand chain respond to the global COVID-19 crisis in several ways in the first and second quarters of 2020, from the much-publicized mass consumption of toilet paper to empty grocery store shelves, to the ongoing shortage of dumbbells that the PCS team wrote about in earlier editions of our information-only bulletins on the pandemic.

Currently, we're seeing a significant increase in reported cases of COVID-19 worldwide, especially in some regions that had been hit hard in March and April. Western Europe has shown signs of a surge, and we're seeing this in the United States, as well. The fact that the increase in transmission appears to be coming before the onset of flu season suggests that the impact could be more significant than what we saw with the initial spread of COVID-19 earlier in 2020. As local markets absorb the prospect of a greater pandemic threat and begin to see large increases in reported cases, the prospect of demand surge for key consumer goods could become more acute.

News reports suggest that retailers are getting ahead of the possibility of a spike in demand (<https://news.yahoo.com/grocery-stores-preparing-second-wave-160000506.html?guccounter=1>), a demand chain measure that should alleviate pressures on the supply chain. That said, the concern of a mismatch between preventive measure and actual demand could become a concern. Here's what we learned earlier this year:

- The need for raw materials can change, meaning that original sources may have allowed for more extraction than the latest demand trends call for. There is thus a risk in fluctuation in pricing that (for some materials) can result in futures market fluctuations. Hedging behavior and pricing could also be affected.
- For items currently in the supply chain, changes in demand can lead to backlogs. Goods in transit can back up at distribution centers and warehouses. In addition to increased frictional costs and the prospect of decreased pricing, the accumulation of goods can also become an accumulation of risk.
- Shipping and transportation could be disrupted – or at least face the need for fast changes – during the holiday shopping season, which is of course the busiest time of year. Increased frictional costs and changing shopping patterns could have financial implications for retailers in the month with the busiest shopping days of the year.
- Demand – and consumer behavior in general – could be impacted by economic strain that makes individuals more risk averse. We’ve seen this behavior throughout the pandemic, with grocery sales up significantly, for example. Increased unemployment, along with the fear of unemployment among the employed, has likely reshaped demand relative to a traditional year.
- It’s important to remember the heightened SRCC risk environment, which could exacerbate consumer sales, demand, and economic activity in general.

COVID, Halloween and Claims

While some cities across the U.S. are outright banning the practice of “trick or treating” during Halloween and many other cities strongly encouraging residents to choose safer alternatives than traditional door-to-door trick-or-treating and referring citizens to review the CDC and local Departments of Public Health guidelines, there are some cities that are not imposing any sanctions at all against the Halloween activity.

In the four years prior to 2020, around 70% of Americans planned to participate in Halloween celebrations, according to Statista, a market and consumer data provider. And while COVID-19 is expected to put a damper on the holiday, 58% of Americans still plan to celebrate Halloween. An estimated 41.1 million kids between the ages of 5 and 14 went trick or treating in 2018, according to the most recent data from the U.S. Census Bureau. That seems like a pretty solid participation rate, considering there were 48.3 million kids in the U.S. between the ages of 6 to 17 that same year.

From an insurance claim perspective, Halloween was the third biggest holiday for stolen cars in 2018, according to the most recent data from the National Insurance Crime Bureau (NICB). While New Year’s Day (2,571 thefts) and President’s Day (2,380 thefts) had the most thefts, there were 2,275 car thefts on Halloween. In the last seven years of NICB’s stolen-vehicle data, Halloween typically lands in the top three spots for car thefts on a holiday. In 2015 and 2016, the most car thefts occurred on Halloween. The lowest number of car thefts on Halloween was in 2012 with 2,053 thefts, which was the fifth most that year.

The U.S. Centers for Disease Control and Prevention has advised against traditional American Halloween activities that are considered “high risk” for COVID-19 infection, including haunted houses, hayrides with anyone not in your household and “direct contact with trick-or-treaters.” With U.S. coronavirus cases surging past 8 million, the Halloween and Costume Association, working with the Harvard Global Health Institute, released a color-coded COVID-19 map of the United States to help parents determine the level of risk in their local community. Traditional door-to-door trick-or-treating, indoor parties, haunted houses, crowded cemeteries and communal candy bowls are all considered high-risk activities by the CDC. With U.S. confirmed COVID-19 cases approaching 9 million and COVID-19 related death exceeding 226,000. Health officials are worried the convergence of colder weather and more holiday social gatherings will cause more coronavirus transmissions.

COVID-19 and Thanksgiving: what to think about in advance

For our non-U.S. clients, Thanksgiving may be known as a significant holiday, but some factors, which may not be widely communicated, could result in unexpected pandemic transmission risk. And for our U.S. clients, some of the perspective below might be new or look at the issue in a different way. If you don’t find this helpful, just skim it on your way to the next section.

- Thanksgiving may be one day, but because it falls on a Thursday, it could create a heightened risk environment for more than a week. Schools and businesses usually close early on the Wednesday. Many people simply take the morning off, as well.
- While the Friday is not a holiday, schools and companies often offer the day off. Even if it’s not offered as a holiday, many take the day off anyway.
- The Friday after Thanksgiving has tended to be the busiest shopping day of the year. While several major retailers have modified their “Black Friday” plans for 2020, there could still be an increase in retail foot traffic relative to otherwise normal days, particularly if “COVID-19 fatigue” sets in and folks decide to try to reclaim normalcy.
- The day before Thanksgiving – historically – is the busiest flying day of the year. That may not be the case in 2020, but it does signal the potential for an increase in travel activity, which thus could increase the risk of COVID-19 transmission. The Sunday at the end of Thanksgiving weekend has historically been a very active travel day, as well.
- Even if flights and airports aren’t as full as usual, some travel should be expected, especially by car. There could still be family transmission, which has become an increasing issue in the latest surge of the virus.
- The increase in COVID-19 on university campuses could increase the risk of transmission among family members, as students return home for the Thanksgiving holiday.
- The Thanksgiving holiday often involves a lot of family members staying inside, due to seasonal weather.

Past holidays have been considered high-risk in the United States. Thanksgiving is the first to come during a colder season, and thus could come with additional concerns.

Surge in cases around the world

Some countries that avoided the worst of the first wave have now experienced a spike in cases for the first time and these late surges are most acute in parts of Central and Eastern Europe. For some countries this means stretching resources and prompting new restrictions.

New daily cases reached a record 13,628 in Poland on Saturday October 24, 2020, as the government announced it would transform the National Stadium in Warsaw into a field hospital. In the Czech Republic, where 12,474 new cases were recorded Saturday, Czech doctors who work abroad were asked to return home to help the country's overburdened health-care system. Poland and the Czech Republic were considered success stories and celebrated with "farewell" parties for the end of the crisis. As of Monday, the Czech Republic had 12,000 cases for the 7-day moving average of daily cases, making it one of the fastest-escalating outbreaks in the world – worse than global hot spots such as the United States and Spain. Other nearby countries in Europe were also seeing a wave of new cases, including Italy and Slovenia, one of the first countries to declare itself virus-free in May.

Back at the end of September when we were talking Latin America, we identified the area for higher risk to increased number of cases and deaths. Since then, even though the top ten countries with the highest number of cases has changed a bit, five out of the ten companies still come from the Latin America region. Despite some countries trending downwards in the number of active cases, the increase risk of SRCC, which we've mentioned several times during the summer can play a huge factor for secondary spike.

Country	COVID-19 Cases	COVID-19 Deaths	Notes
United States	8.9 million	230,000	Consistently the hardest hit country in the world and unlikely to change in the near future, it seems; experienced a drop in cases which has reversed since beginning of October
India	7.9 million	120,000	COVID-19 appears to be spreading aggressively still but the number of cases is declining
Brazil	5.4 million	158,000	Largest population in Latin America, and cases have surpassed 10,000 per day in the last few weeks, trending upwards
Russia	1.5 million	26,000	
France	1.2 million	35,000	Has seen a spike in cases and is implementing curfews

Spain	1.1 million	35,000	Reached over 50,000 cases per day and declares new state of emergency and national night-time curfew
Argentina	1.1 million	29,000	Population of only ~45 million – highest number of daily cases since the pandemic started, over 15,000 cases per day in the last week
Colombia	1 million	30,000	Population of only ~50 million
Peru	890,000	34,000	Population of only ~33 million – experienced the spike at the end of August and now has declining numbers for active cases
Mexico	890,000	89,000	

Source: Estimates based on Worldometers.info

On the Asian side India is a contender for the first place, however the daily number of cases has been decreasing. Sri Lanka on the other hand had a spike in new cases earlier this month that led to stricter curfews and bans on large gatherings. Jordan surpassed 2,500 cases per day this last week despite the imposed weekend curfews this month, and Lebanon shut bars and nightclubs. In Tunisia, a country of only 12 million people, daily case numbers have reached record highs with the country reporting 5,700 cases on October 17, 2020 and using curfews to fight the virus. However, delays and reporting issues in the number of cases in the country could factor into the high number reported on a single day versus the 7-day moving average of reported cases which stands at 1,700 cases.

Governments in these particular countries have imposed strict lockdowns and measures in place from the beginning of the pandemic because they knew their health-care systems couldn't handle a surge of moderate to severe cases. But as public pressure to reopen economies and societies came about, the virus found its way in and poses serious threats in the cold months.