

Economic Note

Thinking about coronavirus impacts on business

5 March 2020

Be prepared – it doesn't hurt

- The COVID-19 virus outbreak – and its economic impact – is spreading.
- It is prudent for businesses to ensure they have made adequate preparation for NZ and global disruption.
- In this note we cover some key things for businesses to double-check they are on top of.

Summary

COVID-19 has started to spread globally, including confirmation of NZ's first cases. With that comes the growing likelihood that NZ (and other countries) put in place containment measures that disrupt normal business activity, and also the risk that the virus reaches the pandemic stage. **There is time in the here and now to get better prepared.**

In this note we cover a number of things for businesses to consider, from the broad types of activity impacts through to ensuring you are ready to respond to various developments. Some of it may sound like being taught to suck eggs, but our interactions with our own customer base have shown a range of preparedness or responses, from none through to smoothly invoking contingency plans. Have a read nonetheless in case there is something you haven't thought of. Some of the impacts of the viral outbreak are indirect rather than obvious, and **it is worth taking the time to think hard about the range risks you face and how you would handle them.**

Consider three broad types of business impacts

NZ is being affected by three channels of adverse impacts: export demand; supply chain disruptions, and; social distancing (which is increasing). Individual businesses will be affected in differing ways and degrees.

Export earnings: to date the primary source of NZ economic disruption in NZ is coming through China's efforts to contain the spread of the virus and NZ's border restriction on travellers from selected countries. China is NZ's biggest export market and often NZ's number one or number two revenue source for the main export sectors. Any containment efforts in other countries that experience a viral outbreak could also cause further disruption.

Supply chain disruption: China is effectively the world's factory. Many goods are either manufactured or assembled in China or rely on Chinese-made componentry. Lengthy factory closures will create shortages and disrupt other businesses reliant on Chinese goods. Furthermore, global logistics chains have also been disrupted, particularly to and from China but also as flight cancellations and border restrictions broaden to other countries.

Social distancing: government quarantine policies, self-isolation or people's voluntary desire to minimise contact with other people can disrupt business staffing levels and change spending patterns. Employees may need to stay home to isolate themselves or care for their children if schools and early childhood facilities get closed. People may increasingly prefer to stay at home, eat delivered food and watch Netflix rather than going out for dinner and a movie.

There will also be some businesses that benefit from the virus outbreak. Some will be providing goods or services that are sought after in the fight against the virus. Others will benefit from a refocusing of spending. And domestic producers that compete with imported product may see greater interest in the short term and, potentially, the longer

term as businesses rethink supply chain risks.

Understand trends in your business

Changes in your business are pretty obvious if major export shipments to China get abruptly cancelled. Not all impacts will be that cut and dried. It will pay to:

- Closely track sales and revenue, and dig deep into any unexplained declines.
- Closely monitor the health of your cashflows and overall financial position for warning signs of potential challenges.
- If you have been unable to receive shipments, check whether you have the financial capacity to make larger than normal orders to catch up once shipments resume.

Understand your supply chain

There are already a number of NZ anecdotes about shortages of critical inputs that are sourced from China. And some factories in other countries have been shut because they have run out of crucial parts. You may not directly depend on China for what you do, but it is quite possible some of your local or global suppliers do – or their suppliers in turn. And, with the virus now in at least 74 countries, production elsewhere could get affected as well. The disruption to global shipping and airfreight may also affect delivery times from a range of countries, even if manufacturing itself isn't disrupted.

- Make sure you are in regular contact with your key suppliers to understand their supply chains and any obvious weak points.
- Explore viable alternative options for key supplies that you can switch to if needed.
- Explore the feasibility of holding more inventory of inputs and finished goods to reduce the impact of any future disruption.

Clarify your options

Having a clear idea ahead of time of how to respond to various developments will aid rational decision-making in the heat of the moment and may help to get ahead of the curve.

Make or update contingency plans: most businesses (particularly large ones) will have made comprehensive contingency plans and – in particular – have a good idea of how to respond to a [pandemic](#) scenario. If you haven't got a written contingency plan, it would be wise to put one together – your trusted advisors such as your accountant may be able to help. The Ministry of Business, Innovation and Employment also has a resource [here](#) in addition to the above Ministry of Health pandemic guidance. Some key actions to consider are

- Understand what key risks your business has.
- Determine how would you respond to losing key customers because of the virus outbreak, even if only for a period. Know who your alternative customers are, and determine if there is any paperwork that would need to be completed to ensure you can ship to them – particularly if crossing a new international border.
- Understand your health and safety obligations to your staff and have a plan for if one of your staff were to contract COVID-19.
- Plan for how you will manage employee staffing disruptions, for example if school closures require parents to remain at home. Assess if remote working is possible, and (re)check its effectiveness.

Keep well informed: being on top of developments and reliably informed will help you to make better-quality decisions.

- Check with your industry body for advice, information and any engagement that is being made with government ministries for assistance.
- Ensure you/your organisation understand the [symptoms](#) of COVID-19.
- The Ministry of Health (MoH) has coronavirus information [here](#), including health precaution [posters](#) for

displaying in workplaces. The MoH has a national [pandemic plan](#) prepared if the need arises, which will give you an idea of the responses the Government could make that affect you.

- Track the global [geographic spread](#) of coronavirus to check on the risks of global suppliers being directly affected.
- Read ASB [Economics Weeklies](#) and [Economic Notes](#) to keep track of our latest views on this rapidly-evolving situation.
- Make personal preparations in a calm and considered way. In addition to MoH advice, here is another [perspective](#) from a specialist in infectious diseases.

Seek help if needed: a number of businesses are already facing challenges, and others are likely to. There are learnings and support out there to leverage.

- Talk to your trusted advisors to see what helpful suggestions they have and perspectives they are seeing from other clients.
- If you are facing or think you could face financial pressures, talk to your bank sooner rather than later. Sooner usually leaves more options available. Otherwise-healthy businesses are being affected, and simply need some support to get through until the impact of the virus abates.

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