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The Impact of the Covid-19 Pandemic on Economic Markets

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Introduction

The Covid-19 pandemic has had a great impact on the world's economies as it has affected more than 200 countries. As of writing this article, over 6,000,000 positive cases and more than 300000 deaths have been recorded (WHO, 2020; Wang, Hong, Li, & Gao, 2020).

In particular, the pandemic has impacted on (1) labour markets, (2) goods and services markets, and (3) money markets (interest rate) (WHO, 2020; Wang et al., 2020).

The effects on labour markets have been immediate and very significant, and are likely to continue. Many millions of workers have been directly impacted by lockdowns. Many workers have lost their livelihoods, increasing the unemployment rate in global labour markets (Fouad, 2020; (Henrekson, 2020; International Labour Organization, 2020; Wilson, Cockett, & Papoutsaki, 2020).

In addition, the goods and services markets have also been directly affected by the shutdowns and disruptions to supply chains, stalling economic growth. The effects have already been dramatic, particularly for commodities related to transportation. While most food markets are well supplied, concerns about food security have risen as countries announce trade restrictions and engage in excess buying (Fernandes, 2020; Luonga & Nguyen, 2020; Simola & Solanko, 2020). Finally, the global money market (interest rates) has also been affected negatively. Although this is not nearly as high a priority as protecting people's health and well-being, it is still important for the money market to learn from these challenges (Ashraf, 2020; Fernandes, 2020).

The Labour Market

The job market or the labour market refers to the supply of workers to meet employers' demand. The labour market is an important component of any economy and is closely related to

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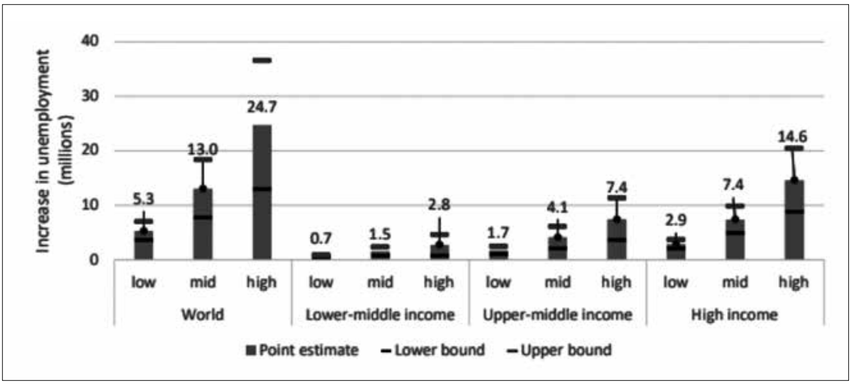
the capital, goods, and services markets. At the macroeconomic level, supply and demand are influenced by national and international market dynamics, as well as by factors such as migration, population age, and levels of education. Related factors include unemployment, productivity, participation rates, total income, and gross domestic product. At the microeconomic level, individual companies interact with wages and work hours, increasing or reducing them. The relationship between supply and demand affects employee working hours and the compensation they receive for wages, salaries, and benefits (Henrekson, 2020; International Labour Organization, 2020; Mankiw, 2020).

The Covid-19 pandemic has had far-reaching effects on labour market outcomes. Beyond pressing concerns about the health of workers and their families, the pandemic and the subsequent economic shocks have affected the world of work in three main dimensions: 1) the number of jobs (unemployment and underemployment); 2) quality of work (for example, wages and access to social protection); and 3) effects on specific groups that are more vulnerable to negative labour market outcomes (Henrekson, 2020; International Labour Organization, 2020; Mankiw, 2020).

Initial ILO estimates indicate a significant increase in unemployment and underemployment due to the virus. Based on different scenarios of the effect of the pandemic on global GDP growth (see Figure 1), International Labour Organization (ILO) preliminary estimates indicate an increase in global unemployment between 5.3 million ("low" scenarios) and 24.7 million ("high" scenarios) from a base level of 188 million in 2019. A "medium" scenario indicates an increase of 13 million (7.4 million in high-income

Figure 1

The Impact of A Slowdown in Global Growth on Unemployment on the Basis of Three Scenarios, World and Income Groups (Millions)



Source: International Labour Organization countries). Although these estimates are still very uncertain, all figures indicate a significant increase in global unemployment. For comparison, the global financial crisis in 2008-2009 increased unemployment by 22 million (International Labour Organization, 2020; Sumner, Hoy, & Ortiz-Juarez, 2020).

It is expected that underemployment will increase widely. As noted in previous crises, the impact of labour demand is likely to translate into significant downward adjustments in wages and hours of work. While self-employment does not usually react to economic downturns, it acts as a "hypothetical" option for survival or income maintenance, often in the informal economy. For this reason, informal employment tends to increase during crises. However, current restrictions on the movement of people and goods may restrict this type of coping mechanism. The decline in economic activity and the restrictions that affect people's movements affect both manufacturing and services. The latest data indicates that the total value added of industrial companies in China decreased by 13.5 per cent during the first two months of 2020 and global and regional supply chains were disrupted. The services, tourism, travel, and retail sectors are particularly vulnerable. A preliminary assessment by the World Trade and Tourism Board predicts a decrease in the number of international arrivals by up to 25 per cent in 2020, putting millions of jobs at risk (International Labour Organization, 2020).

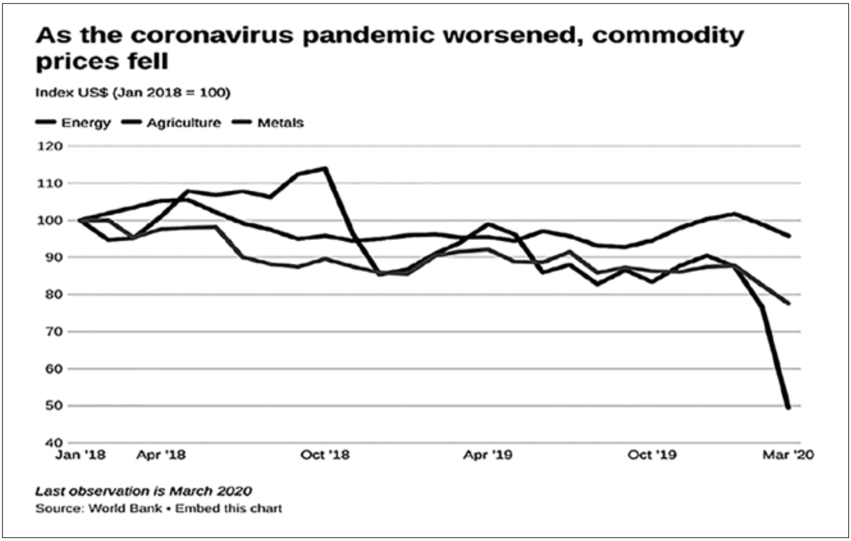
The Goods and Services Market

Commodities such as pens, salt, apples, and hats are generally (but not always) tangible goods. Services are activities that others, including doctors, gardeners, dentists, barbers, waiters, online servers, etc. provide. Together, the production, distribution, and consumption of goods and services supports all economic activity and trade. According to economic theory, consumption of goods and services should provide a benefit (satisfaction) to the consumer or end-user, although companies also consume goods and services in the context of producing other goods and services (Mankiw, 2020; Marshall, 2009).

As countries around the world face the health emergency of the Covid-19 pandemic, the economic effects of almost all activities being suspended immediately have affected global commodity markets and are likely to continue to affect them in the next months (Barua, 2020; Dev & Sengupta, 2020).

The epidemic has affected demand for and supply of goods alike, according to the April release of Commodity Market Reports. These effects are direct as a result of the closure to mitigate the spread of the virus and disturbances in supply chains. They are also indirect, as the global response slows the growth and leads to what is expected to be the largest global recession. (Ishiwata & Furuya, 2020; Sukharev, 2020).

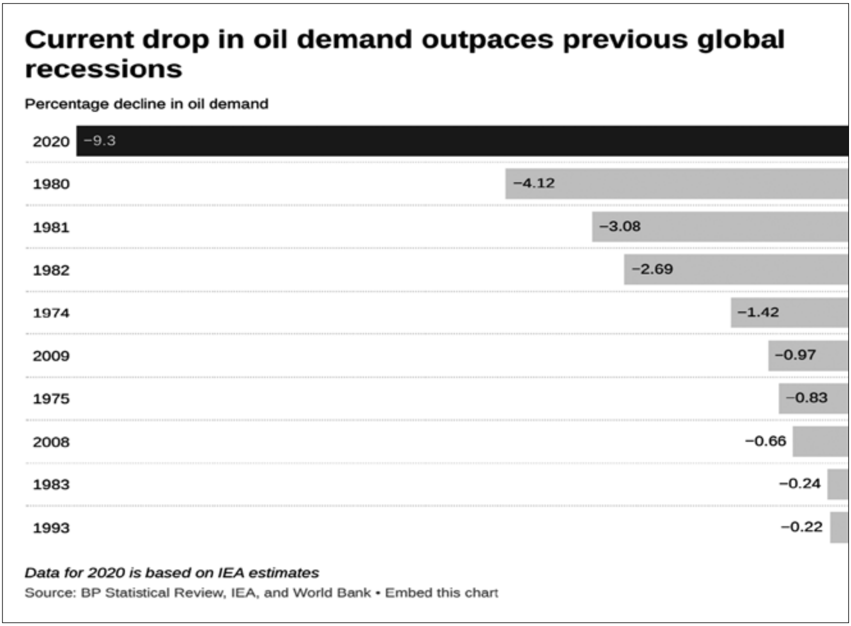
The full impact of the pandemic on commodity markets will depend on



how severe and how long it lasts and how countries and the international community decide to respond to it. The pandemic can lead to permanent changes in the supply and demand for products, especially in supply chains that transport these products from producers to consumers around the world (Ishiwata & Furuya, 2020; Sukharev, 2020).

The effects were really exciting, especially for transport-related products. Oil prices fell beginning January 2020, and prices hit a record low in April 2020, with some indices operating at negative levels. This decrease reflected a sharp drop in demand and was exacerbated by the uncertainty about production levels among the major oil producers. Due to the easing efforts that have limited most travel, oil demand is expected to drop by 9.3 million barrels per day in 2020 in an unprecedented way from the 2019 level of 100 million barrels per day. Oil prices are expected to average $ 35 a barrel in 2020, a sharp downward revision to the October forecast, and a 43 per cent drop from the 2019 average of $ 61 a barrel. The prices of natural rubber and platinum, which are widely used by the transportation industry have also fallen (Bloom, 2009; World Bank, 2020).

The recent efforts of the Organization of the Petroleum Exporting Countries and other oil producers to reduce production in response to lower demand will reduce some of the pressure on oil markets. However, in the long run, the current agreement, to the extent that it supports prices, will be subject to the same forces (the emergence of new producers, as well as exchange and efficiency gains) that led



to the collapse of previous agreements and other commodity treaties. Part of the report looks at OPEC in the context of past coordinated efforts to manage prices (Cashin, Mohaddes, Raissi, & Raissi, 2014; Greene, 2010; Van de Graaf, 2020; World Bank, 2020).

Average gross energy prices, which also include natural gas and coal, are expected to decrease by 40 per cent in 2020 compared to 2019, although a major recovery is expected 2020-2021. Natural gas prices fell dramatically in 2019-2020, but coal prices have been less affected as demand for electricity has been less affected by mitigation measures (Janzen, Davis, & Kumar, 2020; world-bank, 2020).

Money Market

The money market refers to trading in short-term debt investments. At the wholesale level, it involves large-scale exchanges between enterprises and merchants. At the retail level, it includes mutual funds in the money market that individual investors buy, and money market accounts opened by bank customers (Levi, 2005; Stigum & Crescenzi, 2007).

Merchants and institutions are more buyers of other money market products, such as euro deposits, bank acceptance, commercial paper, federal funds, and repurchase agreements. In all cases, low-risk investments with maturities of overnight to slightly less than a year are considered. This short life makes it almost liquid-like liquidity. In other words, the exit is safe and the money cannot be reached for a long time (Cook & LaRoche, 2010; Gorton, Metrick, Shleifer, & Tarullo, 2010).

Bridging the economies during the Covid-19 crisis creates conditions in which private sector demand can go unlimited while protective savings increase. This article indicates that the crisis will further reduce the real interest rate for equilibrium, which has declined since the 1980s. However, increased government spending to combat the crisis could offset this trend. The overall impact on the balanced rate of interest will depend in part on the extent to which the growing public debt can provide the private sector with a safe asset to maintain protective savings (Gavin Goy, 2020; Lagoarde-Segot, 2020).

Savings and Spending

The Covid-19 crisis began as a supply-side shock turned into a shock in demand. High uncertainty and strict bans are increasingly affecting the economy, which have led to increased private savings in the short term. The decline in aggregate demand is offset, at least in part, by higher government spending as governments announce important fiscal policy measures. Although changes in public savings can be considered a mirror image of short-term private savings, the effects of the Covid-19 outbreak on total savings are less clear in the future (Gavin Goy, 2020; Krugman, 2020).

Assuming that the Covid-19 crisis is a temporary shock that does not affect preferences for long-term savings, accumulated demand will result in a higher interest rate once the crisis is resolved (since the equilibrium interest rate is the relative price of future goods on today's commodities). However, due to budgetary constraints in the euro area, budget conditions must be improved at some point so that the fiscal stimulus provided is temporary. This reduces the space available for a permanent reduction in public savings (Gavin Goy, 2020; Krugman, 2020).

If the Covid-19 multiple waves require the blocks to persist for a longer period, the recession may be longer, unlike the V-shaped recovery. In this case, the marginal propensity to consume may decrease and unemployment risks can increase the preferences of prudential savings. In this context, the findings of Jordà, Singh, and Taylor (2020) suggest evidence that the shift towards preventive saving is a typical feature of epidemic periods. Such an increase in risk aversion, similar to that observed after the global crisis, will further lead to a lower interest rate on the equilibrium. As a result, the economy is moving towards a new balance (or balanced growth path) with greater uncertainty and less economic growth (Gavin Goy, 2020; Krugman, 2020).

Conclusion

The Covid-19 crisis will lead to significantly negative effects on the global labour, goods and services and money market in future years. Firstly, the labour market will face high unemployment that comes from the high number of companies that will be closing resulting from this crisis. Secondly, the goods and services market will be affected by this crisis through the high numbers of companies that will be closed due to this crisis. Thirdly, the money market (interest rate) will be negatively affected by the high reduction of interest rate as governments try to increase investment in their economies. Government support measures are trying to prevent this by increasing the money supply in the markets. There will be an upward impact on the labour market, the goods and services market, and the money market. However, the crisis has also had a downward impact on the equilibrium rate of potential growth declines and risk premiums remain high due to increased risk aversion ■