
Coronavirus: earthquakes, aftershocks and recovery

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Aftershocks are a frequent and disruptive result of an earthquake caused by the displacement effects of the main shock. While alarming themselves, they are often a reasonably predictable outcome of the main event. Large earthquakes can have hundreds of aftershocks. While there are familiar patterns to the distribution and magnitude of aftershocks, there can be surprises. However, they typically tend to decline in magnitude and frequency with time.

The world is currently suffering from a large economic earthquake. The “epicentre” of the global economic earthquake is not a geographic location, but the widespread containment efforts designed to reduce the rate of infection of Covid-19, resulting in the short-term shut down of many areas of economic activity. To provide perspective on that, one in five people around the globe are currently under stay-at-home orders or advisories¹. The predictable economic and social aftershocks are now beginning.

With the next US Department of Labor report², we will see a massive increase in new jobless claims in the United States, a number that, while likely to shock, is an understandable outcome of the containment efforts. We will get more data points in the coming weeks that will also be unprecedented in their size and shock value. If the containment measures are successful in decreasing the daily infection rate, as they have been reported to be in China, South Korea and even Italy in the past few days, markets can begin to anticipate a reduction in “seismic” economic data releases.

The earthquake in Tangshan, China, in 1976 is reported to have caused 255,000 deaths. Clearly, a tragedy for the people of that region and largely a result of unreinforced masonry buildings that were not adequately engineered for an earthquake. Today, buildings are being

¹ The Guardian, Around 20% of global population under coronavirus lockdown, 24 March 2020

² Due on 26 March 2020

retrofitted to improve durability and provide an architectural structure that can better withstand an earthquake.

Similarly, we saw a retrofitting of the banking system in the US and UK after the 2008/09 global financial crisis. The substantial improvements in capital and liquidity have greatly improved the ability of the financial system and economy of those countries to withstand an economic earthquake and its aftershocks.

The actions of global central banks in recent days have been significant in magnitude and impressive in timing. Governments are rushing to add liquidity through fiscal stimulus to help people, small business and local authorities/municipalities. This combination of a strong retrofitted banking system and the impressive array of liquidity measure gives me confidence that we will withstand this shock and emerge with a functioning economy as the tremors subside.



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