

Improving your ride on the COVID roller coaster

Where is your business at on the COVID Coaster ride? A strange question in today’s business environment. But the question is about the planning framework you are using to navigate the present economic environment and to what a recovery might look like. Why a metaphor? Because there is no model in our history that can explain the present COVID-19 environment. We need analogs. In an environment of relative stability and predictability reevaluating our planning frameworks have not been necessary.¹

Where you’re at on the ride will likely affect your planning process because it affects the signals you pay attention to.

Some of our business customers see themselves as riding a Drop Tower—the amusement ride in which a gondola carries riders up to the top of a large vertical tower, then releases the gondola to a free-fall. Brakes stop the gondola at the bottom and riders experience a free-fall followed by rapid heavy deceleration. After falling the only question is how quickly you get pulled back to the top. The Drop Tower ride is the “V”-shaped business recovery some economists are expecting. A dramatic fall followed by a quick recovery. The Congressional Budget Office is on this ride suggesting that following a 40% contraction in 2nd Quarter the economy will grow in late 3rd and early 4th Quarter.

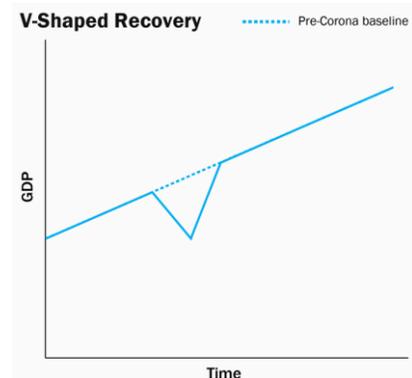
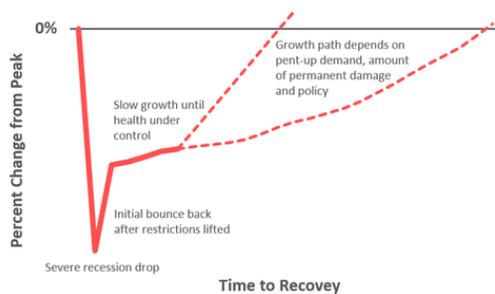


Figure 1 The Economic Drop Tower

No one can say with certainty however about how many times the Drop Tower ride drops. One drops, two drops, or three drops. Some economists see a more complicated “W”, or two “W’s” --a double or triple -dip recession: up – down – up -- down.



Source: Oregon Office of Economic Analysis
Figure 2 COVID-19 Square Root Recovery

Pat Tschosik and Rob Anderson, from Ned Davis, suggest that the ride will look more like an “inverted square-root” sign (“√”, see Figure 2). In this case the Drop Tower breaks mid-ride with riders hanging in midair, neither up, nor down, or able to get off. A steady swing well under the desired stopping point waiting. An economy visualized by a square-root symbol isn’t a good carnival ride.

¹ A disclaimer: I do not wish to ignore the human tragedy by suggesting 1700 average deaths per day from COVID-19, government estimates of unemployment rates of close to 25%, and shutting down of 40% of small businesses is akin to a carnival ride

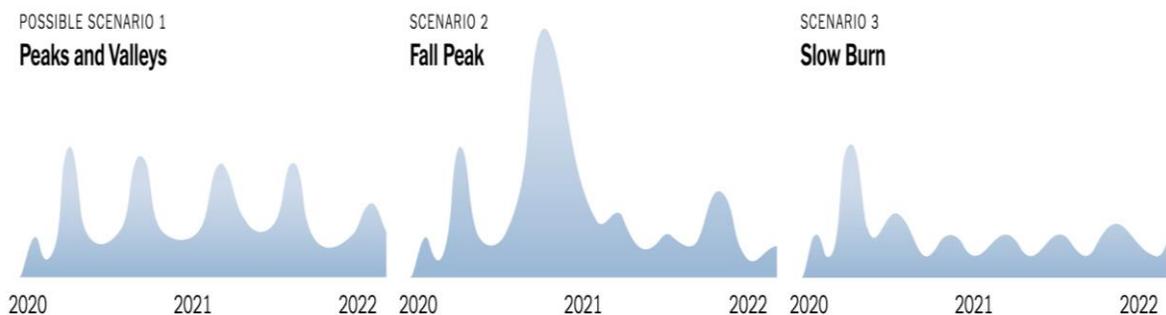
The economic ride may be a dramatic lift in a single shot or incremental inching along. If the ride is the ‘inverted square root’ then it will take some time for a growing economy to reach the same baseline as before the shock that caused contraction.

It is that slower-for-longer trend that informs the Ned Davis team’s point of view: “The market continues to rise on a flattening of the COVID-19 curve and hopes of new treatment and/or vaccine. Absent a high-efficacy vaccine, expect the recovery to settle into the ‘new normal’ of lifted stay-at-home orders, but a cautious, if not unemployed, consumer.”

Josh Lehner from the Oregon Office of Economic Analysis expounds on the point: “Even if the contours of recovery may be coming into focus, there are considerable ranges of outcomes at all of these key points. Just how severe is the initial drop? When do health restrictions begin to lift, when does the bounce back start? How strong will that be? Is it possible that even as consumer services rebound some, losses in other sectors offset those gains? How long until the health situation really is under control? How much permanent damage have we done to the economy in the meantime?”

The Tower Drop COVID economic metaphor is not the only ride at this carnival. The Tower Drop competes with the roller coaster COVID disease metaphor for attention—but the roller coaster ride is not one of economic impact but of outbreak--a Pandemic ride of ebbs and flows (see Figure 3).

A roller coaster best describes our infection future with COVID. Marc Lipsitch, Director of the University of Minnesota’s Center for Infectious Disease Research and Policies, in a study just published in Science, modeled previous Pandemics and the present COVID-19 infection, and reports one of three ‘roller coaster’ rides over the next two years is most probable. The roller coaster models ranged from same sized outbreaks and contractions (‘Peaks and Valleys’), a fall escalation followed by smaller outbreaks (‘Fall Peak’), and a series of smaller outbursts with no significant break out (‘Slow burn’). Which roller coaster are you planning to ride?



Modified from the Center for Infectious Disease Research and Policy

Figure 3 The Pandemic Roller Coaster

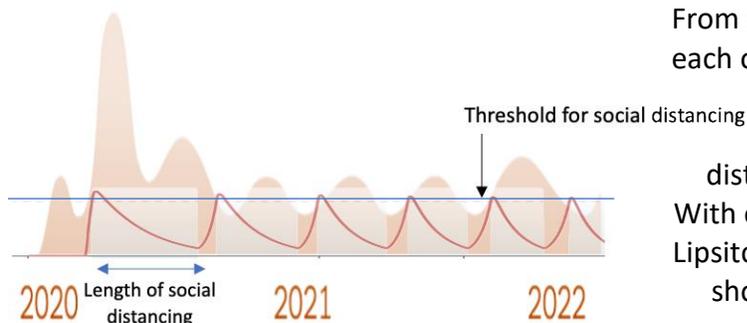


Figure 4 Infection Rates and Social Distancing response to Outbreaks

From a business planning perspective, with each oncoming hill, dip, loop, or turn, you can expect to see rising infection rates followed by periods of social distancing and government restrictions. With each hill, dip or loop, according to Lipsitch, the periods of restriction become shorter and shorter (see Figure 4). And for each geography, the threshold for social distancing will be different. In some places the

criteria for shutting down will be tougher. In other places the shutdown will be quick and dramatic. Each geography will be governed by health, population demographics and density, politics and economics. As a result, level of infection that kicks-off a government response will be different. For businesses, the rides will all play out locally.

The challenge is figuring out how to ride both rides together: the economic Drop Tower and the Pandemic roller coaster. When an outbreak occurs and infection rates climb, followed by re-instatement of social distancing and other measures, the open question will be how far is the

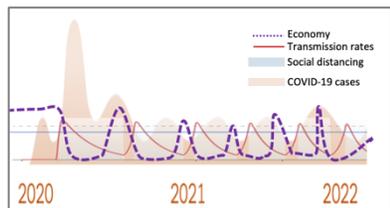


Figure 6 U-Shaped response to outbreaks

drop in the Drop Tower. Will it be economic recovery followed by low plateaus of economic disruption and lower revenues? A “U” shape (see Figure 5), with ample time at the bottom with lower economic performance and revenue impact. Or, a “V” shaped (see Figure 6) with economic rebounds occurring

faster and faster as locations become more and more comfortable with the roller coaster and quickly hop back.

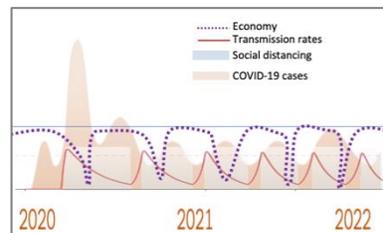


Figure 5 V-shaped response to outbreaks

Questions you will need to ask about the ride on the way up (see Figure 7):

1. What are the leading indicators that predict an outbreak Hill?
2. How sharp is the incline of the Hill in its rise to the peak? The sharper the slope the more disruption.
3. How long is the plateau before the dip?

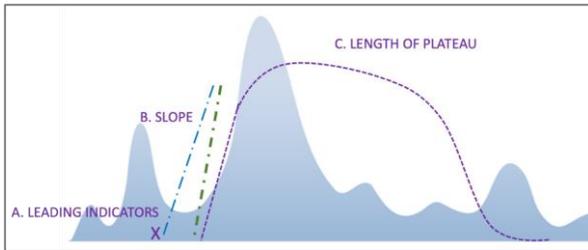


Figure 7 Outbreak indicators and subsequent disruption

Questions you will need to ask about the ride on the way down (see Figure 8 **Error! Reference source not found.**):

1. How sharp is the decline in the outbreak as a result of business closures and social distancing mitigations?
2. How much will relaxing business closures or loosening of social distancing result in changes in foot traffic on this hill?

1. How will the slope of this dip impact revenue?
2. What business categories are the best lead indicators for improvement in foot traffic indicating likely recovery?
3. What business categories are the best lead indicators for forecasting demand in a predictable manner?
4. What business categories or other factors are the best indicators of increasing the predictability of demand forecasts?
5. What impact did social distancing have on general demand of product? Or, by category?

These questions require new analytic models. The old models just won't work. They have relied on historical data which does not include any other COVID-19-like event. The different rides at each location creates a level of complexity and instability that is hard to model using traditional modeling approaches. Just like an amusement park ride designer, businesses need to analyze, design and plan in new ways in order to understand the impact of the hills, the drops, and all those other parts of roller coaster rides-- the Headchoppers, Camelbacks, Double dips and Wave turns of the COVID roller coaster.

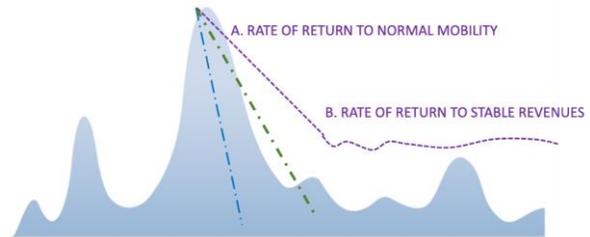


Figure 8 Outbreak

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Shortest Track contact: Mike Ward, (888) 276-0350, mikew@shortesttrack.com