Between A Forest and A Piece of Furniture: Pandemic Control or Growth?

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I think it has become clear that authorities cannot limit the coronavirus and restore global growth to December 2019 levels. So what is next?

Authorities around the world are between a 'rock and a hard place': they need policies that both limit the spread of the coronavirus and allow their economies to open for business. The two demands are inherently incompatible, so neither one can be fulfilled. The problem is the intrinsic natures of the virus and the global economy.

The virus is highly contagious during its asymptomatic phase, and therefore impossible to control with conventional tools such as isolating people with symptoms. Isolation has to be done for the whole population and not just those with symptoms. Covid-19 is not like normal flu, though the vast majority of those that succumb to the disease are the elderly and those with chronic health issues; there is an element of semi-random lethality in younger and healthier people. In a regular flu season, people with a healthy immune system have little fear of dying from the flu.

To avoid moral hazard, most countries have opted for some form of Movement Control or Lock Down of their economies, together with financial compensation and stimulus packages.

These financial packages in most cases for most countries can only be generated by the creation of more debt. However, over the past 12 years, debt has been exploding higher to maintain weak global growth. Debt is like a shark: it must keep moving forward in growth or it dies. The difference we have here is that new debt is being created but the economy is in real decline and not growing, the consequences will be significant in many ways.

The problem is debt must be serviced: interest must be paid and the principal paid down. Even at near zero interest rates the principal payments loom large. This applies equally to companies and individuals as it does to nation states, that is why we are entering a time of extreme uncertainty.

So what happens when income falls as it is doing now? There is no longer enough income to pay all the expenses, as a result large sectors of the economy will default on the debt. The lenders will then pursue legal action to collect the debt, but heavily indebted companies will then have no choice but to declare bankruptcy and the lenders will need to take the losses.

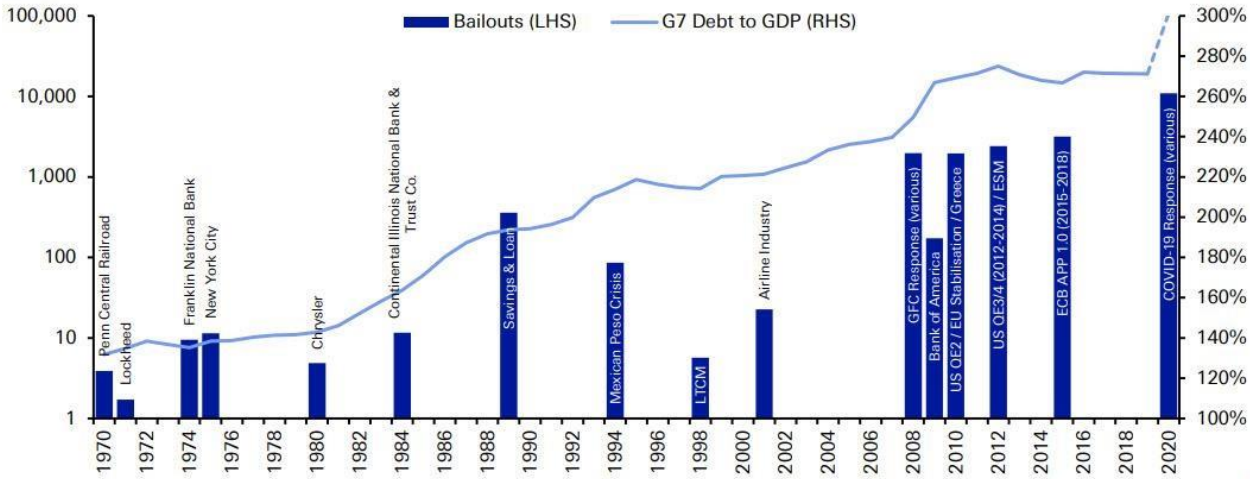
If this happens we enter a negative feedback loop where less lending, less profit, and more losses pile up. Bailouts are short-term emergency measures, they do not create sustainable debt and will not create credit worthy borrowers - in fact they do the opposite.

If we summarise the uncertainties:

- Covid-19 is not as risk-free for healthy people as ordinary flu. Therefore, this uncertainty is causing nations to be cautious and undertaking risk-free strategies, such as limiting the economy through movement control.
- From the point of view of borrowers, there is uncertainty about the future, so lowering risk makes sense. The easiest way to avoid risk is to avoid new debt and discretionary purchases.
- From the point of view of lenders, there is uncertainty to the credit worthiness of borrowers. So to mitigate the risk, reduce the lending and as a result halt or limit future growth.

The global economy is optimised for a vast and steady expansion of debt to fund an equally vast and steady increase in consumption. Once the global economy slips out of this narrow band of control, it crashes.

Figure 1: Largest bailouts in history in 2020 USD on a log scale ($bn) vs. G7 debt to GDP



Source : Deutsche Bank, Haver, IMF

Central banks and governments can mask this in the short-term by substituting bailouts for revenues, but bailouts are not sustainable replacements for revenues, incomes, profits and debt servicing. The only question is how long will the current bailout fuel last? Like an aeroplane with no fuel, the global economy will either glide or crash to the ground.

There is no way authorities can limit the coronavirus until a vaccine becomes universally available and until then global growth and debt expansion will be greatly reduced.

I believe Malaysia has made significant progress in bringing the Pandemic under control, but the economic price for doing so has been very high. Our Wood Panel business has only been able to operate between 30% to 40% capacity at best during this difficult time.

The time has now come for us as an industry to "Emerge from the Twilight of this Coronavirus Pandemic". As we restart our operations, many things have changed while challenges remain. Our Supply Chain has been totally destroyed, and this will need time to rebuild.

On the Raw Material supply, we need the resumption of the replanting of Rubber Plantations (our main source of wood), Loggers need to be able to return to the forest, Saw Mills have to reopen and lorry drivers must be able to transport materials freely without restrictions. I believe that other essential raw materials such as chemicals, inks and packaging items can be resupplied more easily.

On the Demand or Market side, domestically we need the Furniture Makers of which Malaysia has some of the best in the world, to restart their businesses. Export markets need to be informed that Malaysia and Malaysian Manufacturing is "Back in Business" or as we say in Malaysia – "**Buatan Malaysia Terbaik**" (Malaysian Made is the Best). To the rest of the world and especially to the Malaysian Domestic Market we would like to clearly announce that we are back in business and ready to meet your requirements. We would like to wish the best of luck and good health to all our customers wherever they are and hope that they are able to restart their businesses as soon as possible.

Our industry and businesses will not escape this catastrophe, the only positive thought is that as our industries suffer, our forests will continue to thrive, grow and flourish.