RBC Thought Leadership

After the crisis

How COVID will transform the economy and disrupt every business

By John Stackhouse

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If there is one lesson from the pandemic of 2020, it may be this: We are biological beings in a digital age. No matter how much technology we have, we've discovered we cannot escape nature's grip. And yet, no matter how humbling this crisis has been, it also should remind us that even a massive jolt to the planet cannot change the trajectory of the Fourth Industrial Revolution. If anything, we're emerging from this crisis with an even greater desire to harness smart technologies, new forms of intelligence and vast pools of data to transform pretty much everything we do. COVID did not crush the future. It merely brought it forward.

In the short term, the economic recovery won't be as fast as the consumer and social changes that are hitting every business and community. The scar tissue will take time to heal. We expect the Canadian economy, as measured by GDP, to decline 7.1% for 2020, as international trade limps along, unemployment remains elevated and consumers stay home, literally and figuratively. Even as provinces allow for businesses, community groups and eventually schools to reopen, a quiet nervousness will give the economy a collective pause, and people everywhere will focus anew on income security and health security.

This new age of insecurity will do more than pervade the Canadian psyche. We estimate that even with a modest recovery, the Canadian economy will be operating below pre-coronavirus levels until 2022, and the combined loss of economic output for Canada may exceed $1 trillion. The setback is already holding back investors and entrepreneurs, and may also give government leaders pause as they allocate unprecedented sums to kick-start an economy that may be reluctant to rev. Our regular tracking of small- and medium-sized business owners shows caution across the board: three-quarters have partially or fully closed, and a third have laid off staff. More worrisome, a quarter are not very confident they'll make it. And while one in five Canadians feel they're "sinking" economically, small business owners are twice as likely to hold that sentiment.

Who will be first back in the water is always a tough question, but that's when the pearls of opportunity are most plentiful. Yes, the novel coronavirus of 2019 has unleashed a massive global recession – but it's also unleashing waves of innovation as we all change the way we work, shop, eat and travel. And companies, old and new, that are watching this sudden sea change in human behaviour are starting to grow.

In this report, we look at eight major trends underway in the world, and pinpoint the possibilities for savvy business operators, investors and innovators. We all know how much our lives have changed, and how we're not likely to go back to our old ways. We'll be more cautious but we also may be more creative. As history likes to remind us, with unprecedented times come unprecedented opportunities.

1 How we work

Fewer offices, less paper, more productivity

What we're seeing

- Nearly 5 million more Canadians (~40% of work force) are working from home. WFH-ers are likely to be highly educated and concentrated in Finance, Real Estate, Professional Services, Management, Wholesale, and IT.[1]
- 75% of Canadians would prefer to work from home a little or a lot more often once restrictions ease.[2]
- 37% of U.S. jobs could be done from home. Pre-pandemic, only 4% of Americans worked from home.[3]
- 57% of Canadians are unwilling to go to a business conference until there's a vaccine.[4]

What this means

- Distributed technology and security will be competitive advantages. Remote work will be highly tech-dependent requiring mobile collaboration and virtual conferencing tools.
- Employers will need to develop new ways to manage distributed workforces, including for employees who don't have tools, space or comfort to work actively from home.
- Employers and office landlords will need to invest heavily in workplace PPE and office reconfigurations.

Up

- Technologies for remote collaboration. Video conferencing, digital white-boarding, communications/chat platforms.
- Home/office technologies. Smart speakers, coffee makers, fitness equipment.
- Flex and neighbourhood service providers. Childcare, cleaning, coffee delivery.

Down

- Conferences.
- Co-working spaces.
- Office equipment providers. Photocopier rentals, paper.

2 How we shop

More shipping, more local, more expensive

What we're seeing

- Nearly 3 in 10 Canadians are now shopping online for things they normally would have bought in a store.[5]
- 70% of Americans expect to avoid some public spaces after the lockdowns ease:
    - More than half say they expect to stay away from shopping malls.[6]
- "Buy local" has become a clarion call: 78% of Canadians are more likely to choose Canadian brands/products as a result of the pandemic.[7]

What this means

- Traditional brick-and-mortar business models, including malls, will be challenged while social distancing measures are in place.
- Digitally-enabled retailers can capture more customers outside their home base.
- Realignment of value chains. Fewer aircraft, less international shipping, more local supplies, potentially higher prices due to lost efficiencies.

Up

- E-commerce platforms and aggregators.
- Businesses pivoting to online services, such as online orders for delivery and pick-up.
- High quality local providers.

Down

- Department stores.
- Secondary and tertiary malls.
- High-density commercial property.

3 How we watch

More binging, more culture, more global

What we're seeing

- Less money on books and public entertainment and more on home entertainment.[8]
    - Users of Amazon's video live streaming platform, Twitch, streamed 50% more hours between March and April and now up to 1.6 billion hours per month.[9]
    - Netflix added 16 million subscribers in Q1.[10]
- Collapse of live events has led to a surge in virtual competitions:
    - Esports audience estimated to be 500 million people in 2020.[11]
    - 43% of Canadians won't go to an arena, stadium, or concert venue until there's a vaccine.[12]
- In-person arts and culture purveyors saw a spike in online traffic:
    - British Museum went from 2,000 daily online visits to 75,000.[13]
    - Vancouver Symphony Orchestra received more than 120,000 views for recent virtual performances.[14]

What this means

- Arts and culture providers will need to find creative ways to deliver entertainment to consumers, rather than expect them to leave their homes.
- Consumer spending on AR/VR is expected to be US$7 billion in 2020.[15] AR/VR headsets projected to grow 23.6% in 2020, and grow 10-fold over five years.[16]
- Professional leagues and teams will need to accelerate their "augmentation" strategies through gaming and streaming, including from fan-less venues.
- Content creators need to work with platforms to build global audiences.

Up

- Streaming services.
- Star performers and athletes with global followings.
- Challenger teams and leagues with global markets.

Down

- Museums, art galleries.
- Sports arenas.
- Cinemas.

4 How we share

More bandwidth, more data, more hacks

What we're seeing

- Big increases in cross-border data flows.
  - Data creation will grow to 175 zettabytes by 2025, 10 times the amount of data produced in 2017.[17]
  - Individuals are expected to interact with a connected device 4,800 times a day (five times per minute).[18]
- Big Tech is getting bigger:
  - Market cap of the Big Six U.S. tech companies was close to US$5 trillion in early May, up ~20% in the crisis.[19]
- More cyber hacks:
  - WHO experienced a 5-fold increase in cyberattacks since the start of the pandemic.[20]
  - Since 2013, records are stolen from breaches at a rate of 44 per second.[21]
  - Active phishing sites went up by 350% between January and March.[22]

What this means

- Greater demand for companies that transmit and store data safely:
  - Alibaba plans to invest US$28 billion into cloud business over the next three years.[23]
- Big investments in bandwidth for regions and centres, and shared buildings.
- More flexible approaches to privacy to balance safeguards against new and existing threats and the need for health security.

Up

- Big Data vendors.
- AI cybersecurity.
- Distributed software protection.

Down

- Breachable, data-rich organizations.
- Firms without scale or culture to analyze data for market advantage.
- Companies that do not demonstrate a commitment to privacy protections.

5 How we travel

More local, more modest, more active

What we're seeing

- 68% of Canadians are unlikely to take a vacation in 2020.[24]
- Canadians say they are significantly less likely to travel to other provinces due to COVID.[25]
- Once pandemic has ended:[26]
  - 63% prefer to drive than fly, and 62% prefer to stay in Canada.
  - Only 32% willing to stay at a hotel or resort, and 10% to take a cruise.

What this means

- Slow and thinly distributed recovery to tourism, with more road-based vacations to smaller centres.
- Decline of festivals, events and major attractions.
- More desire for localized adventures and experiences.

Up

- Car rentals and audio tours.
- High-end destinations within driving distance of major population centres.
- Curated wilderness experiences and mixed offerings, such as agri-tourism.

Down

- Large hotels, cruise liners.
- High volume destinations, such as theme parks and beach resorts.
- Border communities reliant on international travellers.

6 How we heal

More protection, more screening, more expensive

What we're seeing

- 3 out of 4 Canadians said they won't feel safe until a treatment or vaccine is available.[27]
- Screening technology such as thermal cameras in airports and train stations, as well as hospitals, clinics and possibly schools.
- "Active aging" industry in the U.S. is expected to triple in the next three years to US$30 billion.[28]

What this means

- Mass shift to remote healthcare through video-consultations.
- Centralization of clinics for digital capacity and 24/7 service, with field teams to serve WFH population and isolated seniors.
- More advanced tech in seniors' homes due to worker shortages.
  - By 2030, Canadian government spending on elderly benefits will triple to $99 billion, from $35 billion spent in 2010.[29]

Up

- Smart-living technologies.
- Biotech companies specializing in biometrics. Facial recognition technology, infrared body scanners.
- Contact tracing technologies.

Down

- Traditional seniors' communities.
- Businesses without sufficient health and safety protocols for customers and employees.
- Healthcare providers without a digital-first culture and infrastructure.

7 How we learn

Remote, interactive, personal

What we're seeing

- In March, 1.4 million Canadian university students shifted to online learning, and many universities now moving to a blended model for the fall term.[30]
  - Canada's largest online-only school, Athabasca University, saw April enrolment grow by 12.3% for undergraduates and by 10.7% for graduate studies.[31]
- UNESCO estimates nearly 1.6 billion learners worldwide have been affected by school closures, representing 91% of all students.[32]
- In 2019, digital spending was worth 2.5% (or US$142 billion) of all education expenditures. By 2025, it's expected to reach 4.3% (or US$350 billion).[33]
- Global EdTech investments surpassed US$18.5 billion in 2019, with more than half of venture capital activity occurring in China over the last decade.[34]

What this means

- Universities and colleges will spend more on technology infrastructure.
- Traditional course design and pedagogy will turn to alternative delivery methods, as past resistance to online learning fades.
- The need for reskilling/upskilling will be immense, leading to an increase in adult learning. Companies and institutions are beginning to provide experiential learning programs catered to adult learning styles.[35]

Up

- Menu-based degrees, with greater student choice and sharing between schools.
- Integration of micro-learning as partial credit within programs.
- Digital internships and other forms of work-integrated learning.

Down

- Schools with weak digital teaching cultures or that lack the scale to invest in digital and data capabilities.
- International student enrollment.
- Employers that don't provide high-touch digital experiential learning.

8 How we trade

More protectionism, fewer imports, higher prices

What we're seeing

- **Protectionism growing in political importance, largely for offensive positioning:**
  - WTO identified more than 100 protectionist measures in place.[36]
  - Japan offering incentives to repatriate factory production.
  - Korea, Taiwan protecting IP rights in semi-conductors and other tech.
  - India has banned the export of "key" medicines.
- **Baltic Dry Index – a key measure of international trade – is down 2/3 since December and down 80% since last summer.**[37]
- **Saskatchewan, B.C., Quebec launched marketing campaigns to promote local purchases.**

What this means

- **Countries re-evaluating economic security and restructuring supply chains, with more talk of economic nationalism.**
- **Shift to strategic stimulus may lead to more aggressive steps, including procurement restrictions.**
- **Consumers to eventually face higher prices and less selection.**

Up

- Strategic procurement.
- Bilateral and regional trade agreements.
- Higher value exports, such as specialized food.

Down

- Canadian firms relying on procurement from other countries.
- Low-margin producers that lack scale.
- Low-income and remote populations.

Appendix

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Researchers:

Trinh Theresa Do
Senior Manager, Strategy & Business Architecture, RBC

Andrew Schrumm
Senior Manager, Research, RBC

Ben Richardson
Research Associate

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