

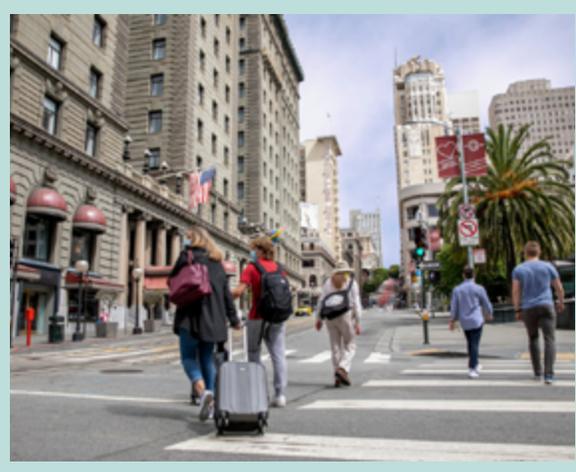
# REBUILDING WITH RESILIENCE:

## HOW WILL MARKETS RESPOND TO COVID-19 CONSEQUENCES?



San Diego is buzzing. Summer is upon us, social distancing is behind us, and traffic is up! The last 8 weeks have been characterized by the easing of pandemic related restrictions and a corresponding rise in travel, tourism, and nonfinancial consumer services. At a glance, the economic indicators signal optimism and growth, but a closer look reveals the symptoms of an economic lock down. Retail and hospitality sectors, to name a few, have experienced a surge in activity (pent-up demand) while handicapped by price increases in raw materials, labor shortages, and supply chain interruption. The pandemic, and the ensuing mitigation efforts, acted as a severe demand and supply shock to the global economy. As we emerge from the shadow of 2020, the collective focus shifts to recovery, rebuilding with resilience.

Many employers are struggling to secure a labor force to service the current levels of demand. With unemployment benefits readily accessible, employers are competing with the incentives offered by unemployment services to 'buy back' their staff. Labor shortages are most pronounced in consumer services, logistics, manufacturing, and construction related industries. This has created upward wage pressure and, in many cases, forced employers to offer non-wage cash incentives to secure and retain employees.



***"Because of the unemployment incentives offered we have had to operate our businesses this summer with two-thirds of the staff we would normally have... it places a lot of stress on our existing employees and the quality of our services has suffered greatly."***

***- Evan Salem, owner and manager of multiple hotel and grocery stores***

Similarly, the prolonged constriction of supply chains has compounded the inherent difficulties of operating a retail or hospitality business. Raw materials of all kinds are subject to strained supply chains – logistical delays and regulatory bottlenecks. Industries like hospitality and entertainment were among some of the hardest hit by the pandemic. Subsequently, many businesses in these industries had to lay off majority of their employees to survive. Price pressure is the inevitable result of a diminished labor force at critical stages of the supply chain.

The consequences of an abrupt economic lock down are undeniable. Ultimately, these economic growing pains should inform the 'go forward' strategy for businesses by signaling the need for a more resilient supply chain. I expect this recent economic shock will accelerate initiatives to fortify supply chain inputs like raw material, logistics, and labor with innovative technology. For some sectors, building resilience may take the form of vertical integration and for others resilience could mean utilizing smart technology to optimize staffing.

As retail businesses recover and retool, the importance of engineering resilience is paramount. Organizations and business leaders who respond to economic adversity with strategic innovation will be the leaders of tomorrow.

