



## 3 Daunting Consequences COVID-19 Had on the Economy

### Description

Fear is a powerful thing. It has the power to break people, forge character, and show us the best and worst of humanity. This is one of the lessons the pandemic has re-taught the world. After all, it's the fear of a tiny virus that brought great economies to their knees. But just saying that COVID-19 brutalized the economy or that it had many negative consequences for the global and national economy doesn't really paint the full picture.

The pandemic *has* crippled the economy, but the effect is not as uniform as you might think. Some sectors and industries have just been grazed by the impact, while others have been knocked out cold and are having trouble waking up.

### Consumer behaviour towards discretionary spending

One of the most bitters pills we've had to swallow during the pandemic and how it's decimating the economy is that the economy relies far too much on discretionary spending and non-essentials. From entertainment to retail, several businesses rely solely on people's desire for entertainment and having nice things.

And when the pandemic instigated lockdowns and people began to fear for their income and savings, they shrunk their spending to necessities (i.e., groceries, medicine, etc.). This pulled a lot of money that was feeding and growing the economy out of the equation. That reflected even more strongly in the travel and tourism industry. Companies like **Air Canada** are still burning away millions a week just to stay operational.

### Businesses and jobs

Like people, businesses started taking a minimalist approach as well. They started cutting costs wherever they could, which ranged from cutting salaries to laying off half the staff. Even when the government intervened and introduced CEWS to keep people employed, millions lost their jobs and had to revert to government benefits and their savings.

It hurt the economy in two ways. People started pulling their savings and money out from banks and businesses. And the government had to pay billions in benefits, just so people could put food on the table. The distribution of money got disturbed, as the money flowing back into the market (i.e., to businesses) narrowed in range and scope. Some companies started getting a lot of money, while others couldn't get enough to retain their workforce.

## The stock market

The stock market crash didn't just impact the overall economy; it also shrunk the investment portfolios of millions of Canadians. Even stocks like **Fortis** ([TSX:FTS](#))([NYSE:FTS](#)) took a 28% dip. But if any investors discarded this extraordinary [Dividend Aristocrat](#) during the market crash, they made a huge mistake. The stock has already recovered its start-of-the-year valuation.

Having stocks like Fortis can help many investors hedge their portfolios. Other things that can help are gold or gold stocks. But nothing can genuinely recession-proof your investment portfolio. The 2020 market crash's economic repercussions will haunt the economy for years to come, especially when we are already expecting another market crash and battling the second wave of the pandemic.

## Foolish takeaway

The government budget deficit is continually growing. If the second wave proves to be even more destructive and creates fear among consumers and [investors](#), the economic consequences will only worsen. A sure movement towards recovery builds hope. But that hasn't happened yet, and might not happen for a while yet. A vaccine might change things and finally set the economy on a path to recovery.

### CATEGORY

1. Coronavirus
2. Dividend Stocks
3. Investing

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