

Forecast: The Economic Impact of COVID-19 on the Connector Industry

How long will the pandemic last? How fast will world economies recover once the pandemic is over? What will be the economic impact on the connector industry?

These are big, important questions that have no clear answers. However, one can postulate by analyzing past performance in downturns and developing assumptions on what might happen next.

In the two most recent downturns, connector industry sales declined for up to six consecutive quarters. The sales declines were in the high double-digits, with the worst quarter (Q109) down -35.6%.

2001-2002 Dotcom Bubble and September 11 Attacks

Connector industry sales declined -18.8% in 2001 and -6.8% in 2002. At the time, this was the worst downturn the connector industry had experienced since Bishop started tracking industry performance in 1980.

The following table shows the industry's performance by quarter during the 2001-2002 dot-com bubble crisis and in the months following the September 11 attacks.

**2001-2002-2003
Year-Over-Year
Change in Sales by Quarter**

Quarter	2001	2002	2003
1st Quarter	4.7%	-27.5%	8.8%
2nd Quarter	-18.0%	-6.5%	7.3%
3rd Quarter	-28.3%	6.3%	8.6%
4th Quarter	-30.9%	6.9%	20.7%
Full Year	-18.8%	-6.8%	11.4%

The downturn lasted five quarters, the longest contraction in connector industry history. Following the downturn, connector industry demand came back strong, growing +11.4% in 2003.

2008-2009: Financial/Housing Crisis and H1N1

Undoubtably, the H1N1 pandemic had some measurable effect on the global economy. However, it paled in comparison to the financial crisis's devastating impact.

The following table shows industry sales performance by quarter for the period 2008 through 2010.

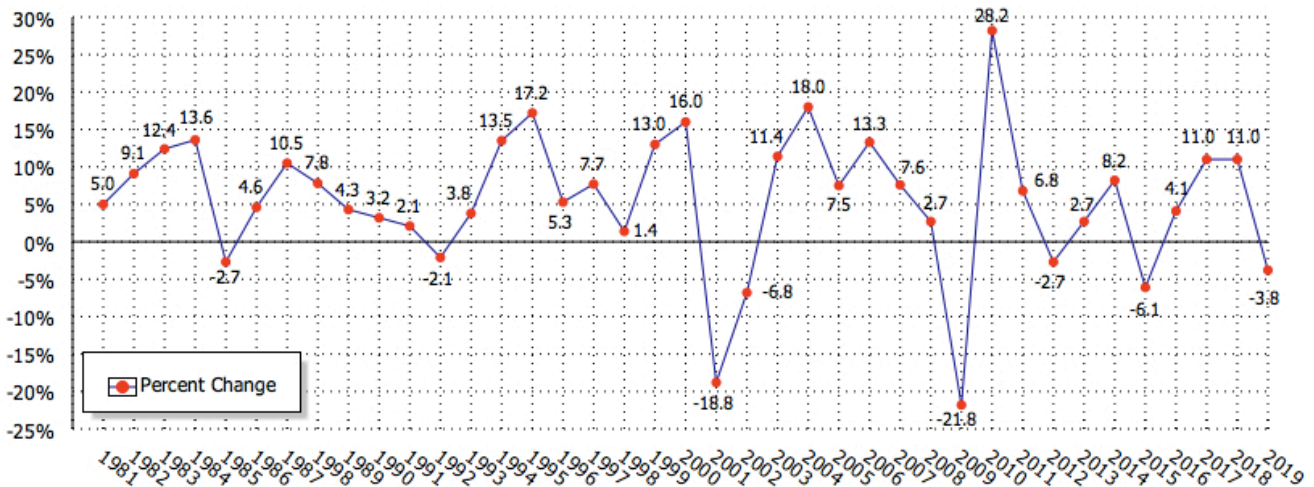
**2008-2009-2010
Year-Over-Year
Change in Sales**

Quarter	2008	2009	2010
1st Quarter	11.5%	-35.6%	39.1%
2nd Quarter	12.4%	-32.1%	35.5%
3rd Quarter	6.3%	-21.4%	26.3%
4th Quarter	-18.1%	8.4%	15.9%
Full Year	2.7%	-21.8%	28.2%

This downturn lasted only four quarters but produced the two worst quarters in connector industry history (1Q09: -35.6% and 2Q09: -32.1%).

The following chart shows the percentage change in connector industry sales since 1980.

World Connector Market Year-Over-Year Growth 1980 – 2019



Some interesting observations:

- In 2001, sales declined -18.8%, followed by a 2002 decline of -6.8%. The downturn lasted five quarters (three quarters in 2001 and two quarters in 2002). The worst sales decline was -30.9% in 4Q01.
- Sales rebounded +11.4% in 2003 and +18.0% in 2004. The industry achieved growth in the six consecutive years following the dot-com downturn.
- During the 2009 financial crisis, industry sales declined -21.8%. This downturn lasted only four quarters, but it resulted in the industry’s historical worst year and worst quarter (2009: -21.8% and 1Q09: -35.6%).

As you will see, we are forecasting that 2020’s COVID-19 crisis will result in a new industry record for a decline in sales.

Forecast Assumptions

The following are the assumptions we are using to develop the connector industry forecast. As more information comes in from our supplier community, we will update these assumptions and the connector industry forecast.

- The COVID-19 pandemic will mostly be over in the July/August timeframe.
- In the interim, critical/essential industries will continue operations (i.e., trucking, food production and distribution, medical, infrastructure, etc.).
- Other industries (shopping malls, restaurants, beauty salons, barbershops, and other nonessential businesses) will start to slowly come back into operation in May and June. In the US, this will vary by state, county, and city.
- World economies will recover slowly throughout the second half of 2020. We expect a U-shaped and not a V-shaped recovery, meaning that it will take the second half of 2020 and all of 2021 to reach previous levels of demand.
- There will be some pent-up demand for lower-priced consumer goods (mobile phones, televisions, appliances, laptops, etc.) in the second half of 2020.
- Consumers will be very conservative with big-ticket purchases, such as cars, boats, recreational vehicles, pickup trucks, vacations, etc. We expect demand for these products will not ramp up until 2021.
- Recovery will be uneven by geographic region, country, and market sector and will not return to previous demand levels until the second half of 2021. For some market sectors, like the commercial cruise industry, it may take even longer.

Assumptions by Quarter

1Q20 (JFM) -0.9%: January and February connector sales were good, growing +0.7% year-to-date. Industry executives advised that orders in the first two weeks of March were also good. However, social distancing and the closures of nonessential businesses started in mid-March. As a result, we believe that the second half of March resulted in a significant enough decline to make the full quarter slightly negative.

The connector industry will record a sales decline of -0.9% in 1Q20.

2Q20 (AMJ) -70.8%: The US has been ordered to shelter in place through the entire month of April. All nonessential businesses remain shuttered. Most major countries are under similar restraints. At this time, we anticipate that the pandemic will not have sufficiently dissipated to allow nonessential businesses to begin normal operations in 2Q20. Instead we are assuming that businesses will start to gradually begin operations in May and June. In effect, nonessential businesses will be closed for most of 2Q20. The result is a business disaster, the likes of which there is no comparison.

The connector industry will record a sales decline of -70.8% in 2Q20.

3Q20 (JAS) -39.1%: We are assuming that nonessential businesses will begin operations in July and ramp up to near-normal capacity throughout July, August, and September.

The connector industry will record a sales decline of -39.1% in 3Q20.

4Q20 (OND) -11.5%: All businesses that can reopen will begin full and normal operations throughout 4Q20. We are assuming that COVID-19 will not return in a way that would cause major disruptions in business activity.

The connector industry will record a sales decline of -11.5% in 4Q20. Full year 2020 sales will decline -30.8%.

1Q21 (JFM) -6.0%: Assuming no COVID-19 disruptions, businesses are back to full normal operations. Demand is returning for consumer goods, including big-ticket items such as automobiles.

2Q21 (AMJ) +222.9%: Businesses are recovering and COVID-19 is becoming a bad memory. The consumer is becoming more optimistic. A COVID-19 vaccine has been developed.

3Q21 (JAS) +55.9%: Businesses are fully recovered.

4Q21 (OND) +24.7%: The connector industry achieves full-year growth of +41.9%.

Forecast 2020-2021

The following is our sales forecast, by quarter, for the world connector industry for the years 2020 and 2021.

Connector Industry Forecast By Quarter (2019-2020-2021)

Quarter	2019	2020	% Change	2021	% Change
1st Quarter	\$15,890	\$15,750	-0.9%	\$14,800	-6.0%
2nd Quarter	\$16,097	\$4,704	-70.8%	\$15,190	222.9%
3rd Quarter	\$16,475	\$10,033	-39.1%	\$15,640	55.9%
4th Quarter	\$15,707	\$13,900	-11.5%	\$17,334	24.7%
Total	\$64,169	\$44,387	-30.8%	\$62,964	41.9%

\$ Millions

Note, we forecast 2021 connector sales of \$62,694 million, up +41.9% over 2020. However, it is important to understand that 2021 results are \$1.2 billion below the \$64,169 million achieved in 2019.

Our intent is to closely monitor the accuracy of our assumptions and recast the industry forecast as facts change.