

Research Briefing | Global

Coronavirus Watch: Economic costs mount

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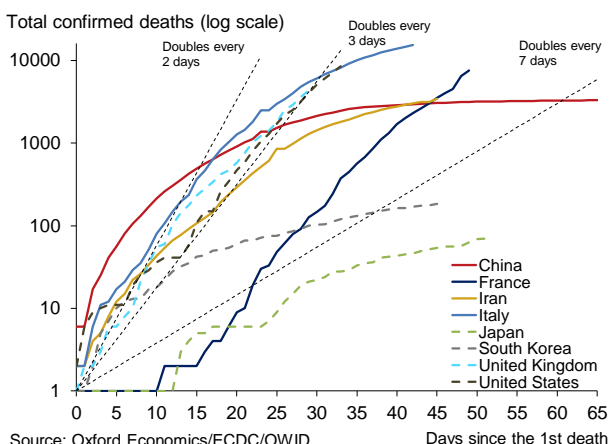
- Signs are emerging that the growth rate of COVID-19 cases may be starting to slow in a number of hotspots, suggesting that lockdowns are working. But it's also becoming increasingly clear that the economic costs in China and the rest of the world will be significant.
- Recent economic news and anecdotal reports suggest that China could see a double-digit quarter-on-quarter fall in GDP in Q1 on a seasonally adjusted basis – larger even than our baseline forecast of a -9% cut.
- Meanwhile, some dire business survey readings for the services sector in March, plus mounting evidence of a major broad-based labour market shakeout, support our view that any rebound in China in Q2 will be swamped by slumping activity in the US and Europe.
- While we still think that global GDP growth in H2 will rebound sharply, the scale of the fall in H1 suggests that the contraction in GDP through all of 2020 may surpass the -1.1% drop recorded at the height of the global financial crisis.

The headline COVID-19 figures continue to show the scale and severity of the pandemic. Globally, confirmed cases have surpassed 1.25 million, while the number of deaths in the last week has climbed to 35,819, bringing total deaths to 69,490 (heatmap on page 6).

Despite these appalling statistics, some signs are emerging that the measures imposed by policymakers to reduce the spread of the disease – lockdowns and social distancing – are beginning to have some effect. As **Figure 1** shows, the number of confirmed cases appears to be flattening in many of the worst-affected regions, suggesting transmission of the disease is slowing. Still, the economic costs of these policies will be huge.

Figure 1:
Containment
measures in Europe
and the US are
having a positive
effect

COVID-19: Confirmed fatalities



COVID-19 cases here are plotted using a logarithmic scale, such that changes in the gradient provide an indication of the rate of growth in the number of cases. The continued and broad-based flattening of the curves confirm that the disease is now spreading less rapidly in the current main coronavirus hotspots.

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China provides a benchmark to assess the economic effects of lockdowns. Some hard data spanning the shutdown period is available, while other indicators provide a guide to the speed of the recovery after restrictions are relaxed.

As **Figure 2** shows, Citigroup's economic surprise indices show that China's economic data in early 2020 has been persistently weaker than economists had anticipated, implying that the costs of the lockdown have been larger than first expected.

There has been some debate about what the rebound in the Chinese PMIs implies for growth in March. Despite picking up, the composite, manufacturing and services PMIs did not rise decisively above 50 – a figure of more than 50 signals that, in theory, the majority of respondents reported a monthly rise in output.

But in reality, PMIs are a poor guide to monthly changes in activity – they often correlate better with quarterly or, in the case of the China composite PMI, annual growth rates (**Figure 3**). In addition, based upon the historical relationship, a reading of 50 tends to be associated with positive rather than zero growth.

At this point we would be wary of using monthly survey readings to draw strong conclusion about how quickly the Chinese economy grew. But given the above, we think the March PMIs probably point to some kind of pick-up in activity as opposed to stagnation or a further contraction.

This is consistent with other timely unofficial activity data. As **Figure 4** shows, coal consumption for electricity production has recently increased and is now only around 17% lower than a year ago. Steel production, road congestion, and property transactions are closer still to normal levels (see heatmap on page 6). Even the hotel sector, which is likely to be one of the last sectors to experience a resumption of more normal activity, has seen a modest improvement (**Figure 18** in the Appendix).

For now, our current baseline assumes that Chinese GDP fell by a hefty -9% in Q1 on a seasonally adjusted quarter-on-quarter basis, which puts our forecast at the pessimistic end of the forecast spectrum. But despite this, the tone of the recent data and anecdotal evidence suggests that the risks around our forecasts, and to a greater extent the consensus, are still tilted firmly to the downside. A double-digit quarterly fall in GDP in Q1 would be no great surprise.

Figure 2: China data disappoints as data from the lockdown period are published

World: Economic surprise indices

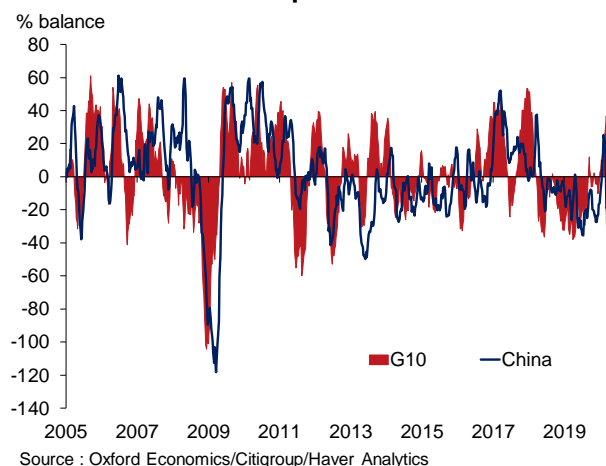


Figure 3: China's March PMI rebound provides some reassurance

China: GDP & composite PMI

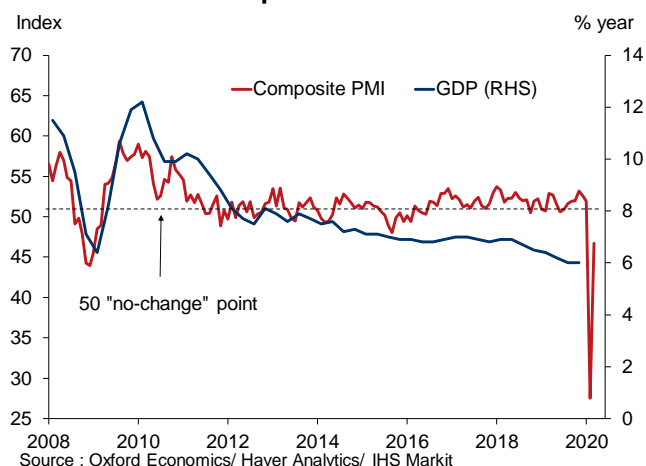
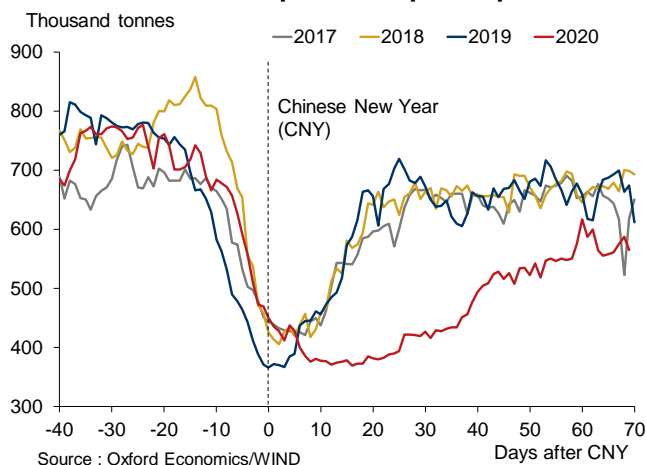


Figure 4: Coal consumption for electricity continues to rise back to more normal levels

China: Coal consumption of 6 power producers



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Elsewhere, it is still too early to gauge the impact of lockdowns on domestic activity. But the data suggest that the impact on the services sector has been huge.

In March, the global services PMI plunged from 47.1 to 37, close to the trough seen during the global financial crisis (**Figure 5**). What's more, worse may be to come. Although the period over which the survey was taken is not disclosed, some responses may have predated more recent tightening in restrictions on movement. As **Figure 13** in the Appendix shows, restaurant reservation data from OpenTable suggest that in some economies' restaurants were still taking booking, albeit far lower than normal, as late as March 20.

The dive in the eurozone services PMI suggests quarterly services sector output growth might fall to as low as -2%, (**Figure 6**). But the near 100% decline in activity in a number of sectors, such as bars and restaurants, and major hits to others, such as retail and aviation, suggest that services activity could fall more sharply yet in the eurozone and elsewhere.

This conclusion is supported by the deterioration in labour market conditions, which worsened substantially through March. Even before the imposition of lockdowns and social distancing, [US non-farm payrolls](#) fell by 700,000. And since the measures to combat the spread of the coronavirus were implemented, jobless claims have surged by a further 9.9mn (or 6.3% of employment).

The huge labour market shakeout is not just a US phenomenon. In the UK, [applications for universal credit](#) – the system for disbursing benefits – reached about 950,000 between March 16 and 31, around 750,000 more than normal. Not all of these UK claimants will necessarily have lost their jobs – but the fact that a quarter of all respondents in a recent survey of UK firms reported cutting staff levels suggests a large number of jobs will be lost or furloughed.

Figure 7 provides a snapshot of some recent labour statistics. While the figures measure different things in each country, they highlight the huge effect that COVID-19 has had on employment already.

Overall, the outlook remains uncertain and highly fluid. But it seems increasingly likely that a China rebound will be swamped by weakness elsewhere. This will prompt another quarterly fall in global GDP in Q2 on a par with that seen at the height of the global financial crisis.

Figure 5: Compared to the global financial crisis, the latest slump is more services orientated

World: PMIs

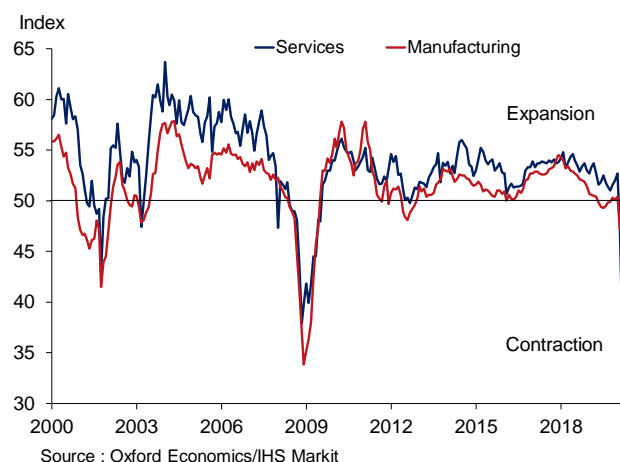


Figure 6: Eurozone services PMI at a record low and may understate the hit to the sector

Eurozone: Service output and sentiment

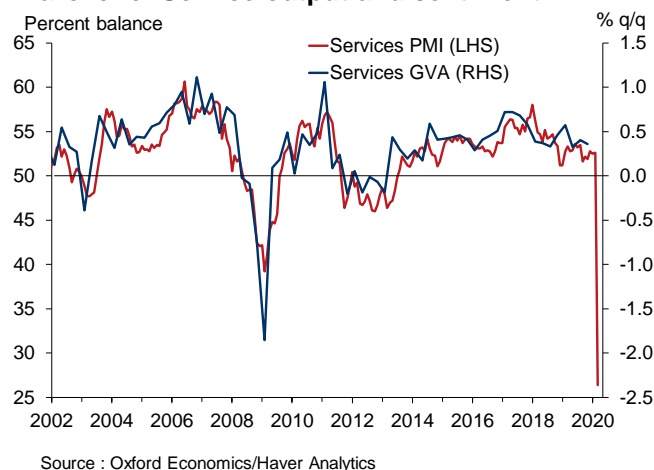
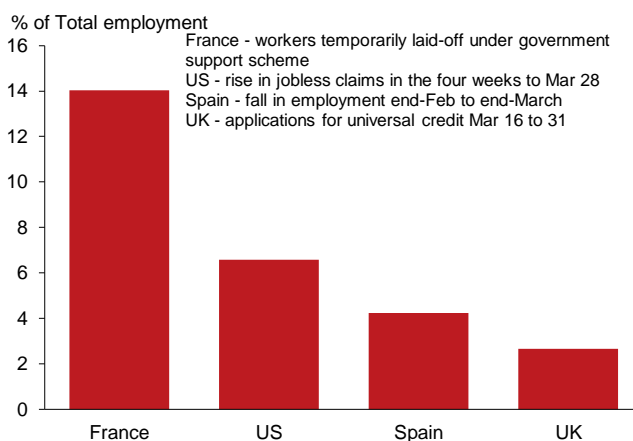


Figure 7: The great labour shakeout

Labour shocks



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Appendix

Figure 8

Global: COVID-19 cases & deaths

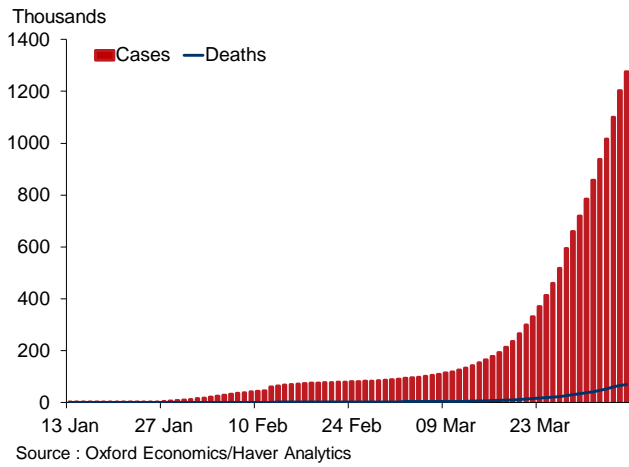


Figure 9

Global: Coronavirus cases

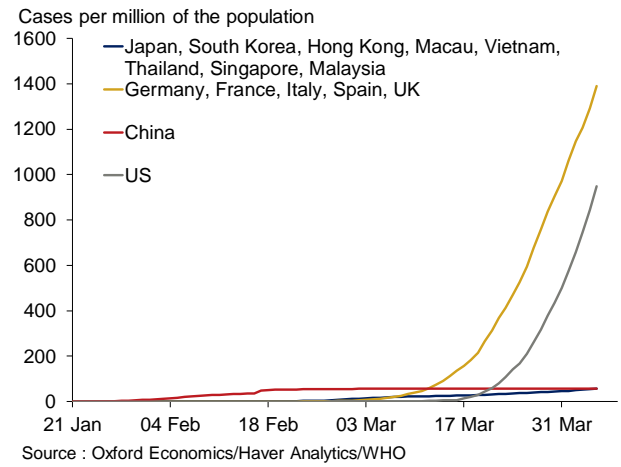


Figure 10

Global: Coronavirus cases

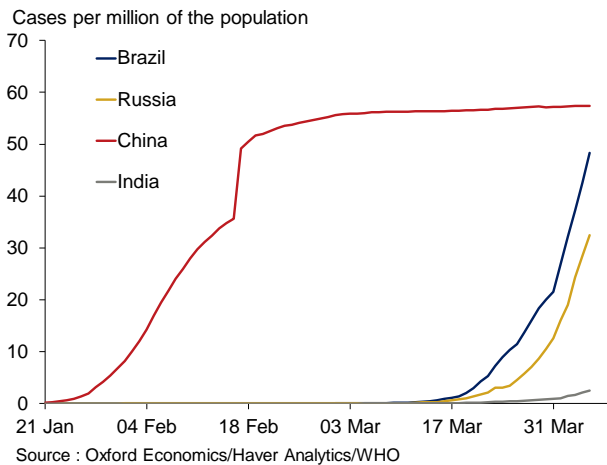


Figure 11

Google searches for "coronavirus"

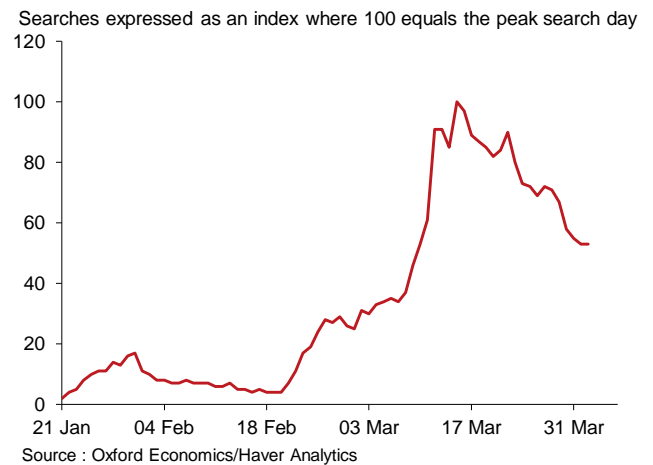


Figure 12

National closures of schools & universities

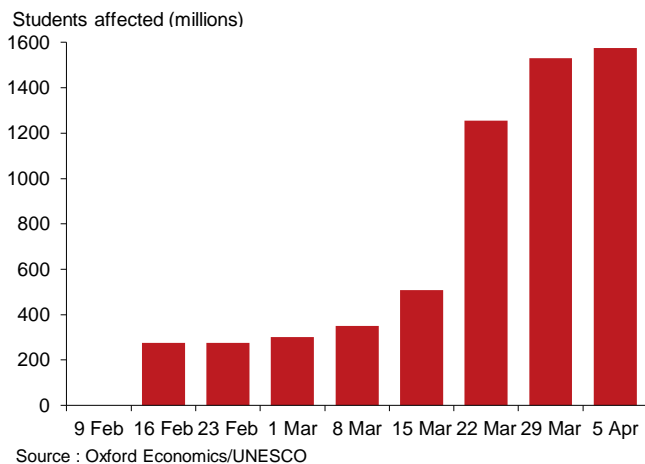
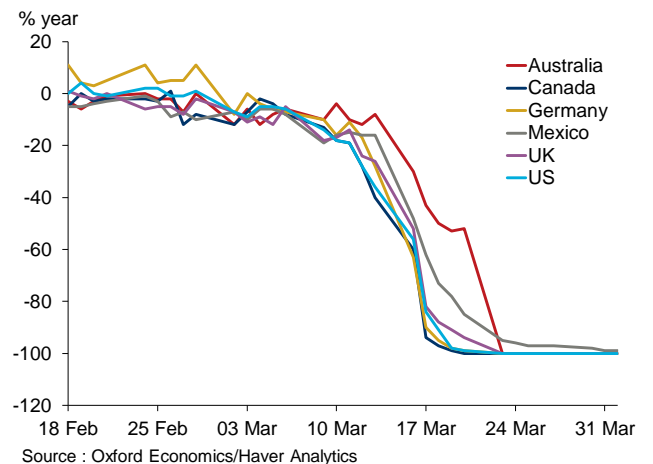


Figure 13

Opentable: Restaurant bookings

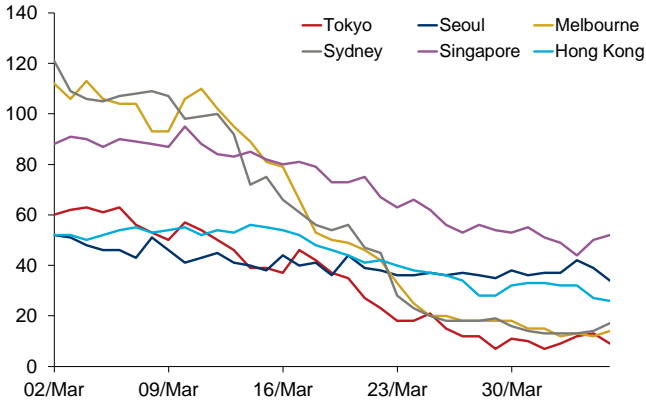


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Figure 14

Citymapper mobility index: Asia

100 = city movement in line with previous trends

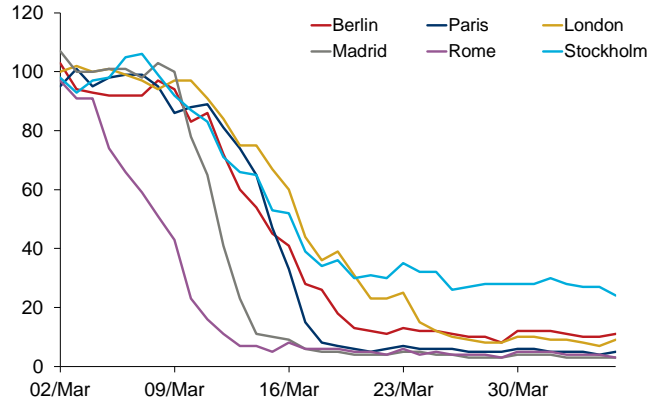


Source : Oxford Economics/Citymapper

Figure 15

Citymapper mobility index: Europe

100 = city movement in line with previous trends

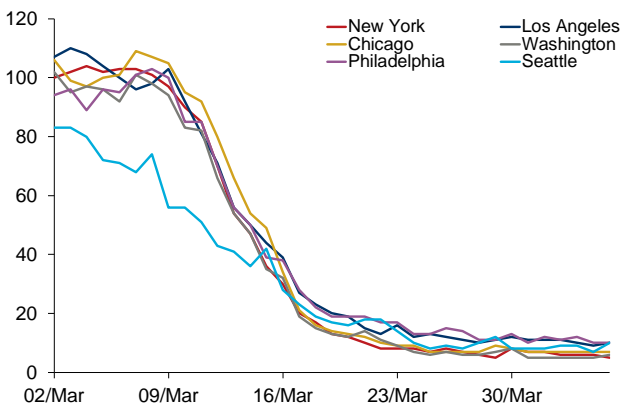


Source : Oxford Economics/Citymapper

Figure 16

Citymapper mobility index: North America

100 = city movement in line with previous trends

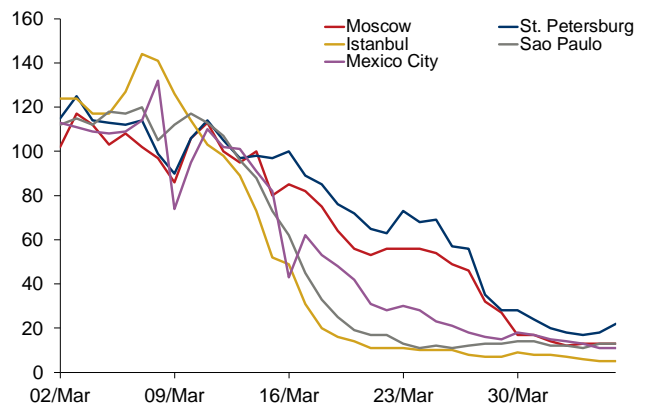


Source : Oxford Economics/Citymapper

Figure 17

Citymapper mobility index: Emerging Markets

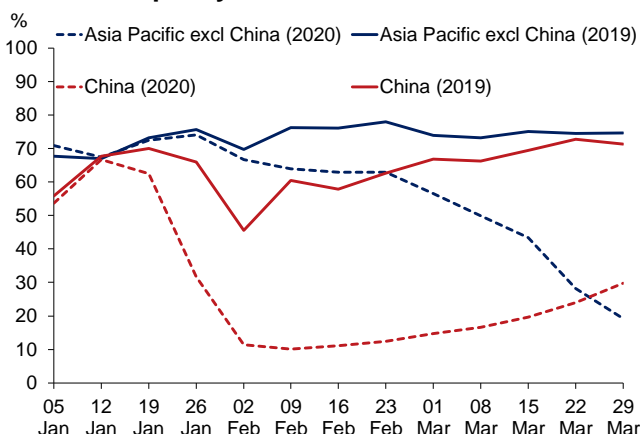
100 = city movement in line with previous trends



Source : Oxford Economics/Citymapper

Figure 18

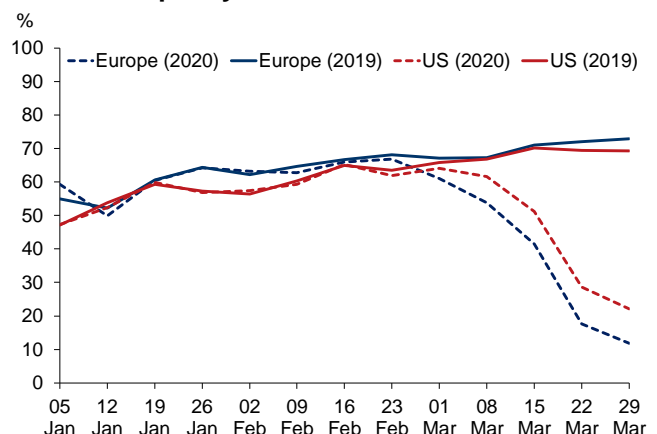
Hotel occupancy rates



Source : Oxford Economics/STR

Figure 19

Hotel occupancy rates



Source : Oxford Economics/STR

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Coronavirus Economic & Financial Impacts												
Indicator	13-19 Jan (Pre-outbreak)	20-26 Jan	27 Jan - 2 Feb	3-9 Feb	10-16 Feb	17-23 Feb	24 Feb-1 Mar	2-8 Mar	9-15 Mar	16-22 Mar	23-29 Mar	30 Mar-5 Apr
Outbreak metrics (End period)												
Confirmed coronavirus cases - global	121	2,760	17,389	40,554	71,331	79,127	88,999	109,361	165,498	330,157	719,921	1,274,956
weekly change	121	2,639	14,629	23,165	30,777	7,796	9,872	20,362	56,137	164,659	389,764	555,035
Confirmed coronavirus deaths - global	0	80	362	910	1,775	2,469	3,044	3,809	6,440	14,483	33,671	69,490
weekly change	0	80	282	548	865	694	575	765	2,631	8,043	19,188	35,819
Google search interest for Coronavirus (100=peak of popularity for the term)	0	7	13	7	6	7	25	33	75	88	72	55
China activity indicators												
Coal consumption for electricity use (relative to a year ago and adjusted for CNY)	120.1	123.7	102.0	76.6	59.3	58.9	67.0	75.7	78.5	79.7	88.6	83.3
Steel furnacing operating rate (relative to a year ago and adjusted for CNY)	101.9	101.7	101.7	97.7	95.4	94.1	99.8	102.0	101.7	100.6	97.3	96.4
Urban road congestion (relative to a year ago and adjusted for CNY)	103.2	97.4	86.3	77.2	75.6	75.2	76.5	81.5	84.2	87.7	92.5	91.8
Residential property sales (relative to a year ago and adjusted for CNY)	133.6	78.3	14.6	1.6	11.6	28.7	45.0	50.3	48.0	59.8	119.4	93.8
US activity indicators												
Bloomberg consumer comfort index	66.0	67.3	66.5	65.7	65.6	63.5	63.0	62.7	63.0	59.7	56.3	
Unemployment insurance, initial claims (Thousands)	208.2	211.3	201.3	202.9	213.9	220.0	218.0	210.7	281.0	3307.1	6648.3	
Raw steel production (relative to a year ago)	100.9	99.9	101.2	100.2	101.1	99.8	99.9	98.0	97.2	95.6	87.1	
Hotel occupancy rates												
China (Relative to a year ago)	89.2	48.0	25.1	16.8	19.3	19.8	22.0	25.1	28.4	33.0	41.9	
Asia Pacific excluding China (Relative to a year ago)	98.9	97.9	95.6	84.0	82.7	80.8	76.4	68.2	57.8	37.8	25.7	
Europe (Relative to a year ago)	99.6	99.9	101.6	97.2	98.9	97.9	90.7	79.9	58.5	24.5	16.3	
US (Relative to a year ago)	101.1	99.3	101.8	98.2	100.5	97.5	97.4	92.2	73.1	41.2	32.0	
Global supply chains												
National school & university closures (Millions of students affected)	0	0	0	0	275	276	300	351	507	1,254	1,531	1,576
Baltic Dry Index (% difference from pre-coronavirus outbreak)	0.0	-16.9	-32.0	-42.5	-45.1	-39.1	-32.0	-24.9	-17.8	-18.3	-23.3	-20.4
Dow Jones Global Shipping Index (% difference from pre-coronavirus outbreak)	0.0	-4.3	-11.4	-14.2	-14.7	-15.4	-22.7	-24.5	-30.9	-40.6	-38.8	-36.0
Maersk stock price (% difference from pre-coronavirus outbreak)	0.0	-2.5	-6.7	-5.4	-3.8	-4.9	-17.8	-24.3	-29.7	-35.9	-36.1	-32.8
Financial markets data												
S&P 500 (% difference from pre-coronavirus outbreak)	0.0	0.5	-1.2	0.3	2.0	2.1	-6.7	-7.8	-17.8	-27.1	-25.3	-23.1
EuroStoxx 50 (% difference from pre-coronavirus outbreak)	0.0	-0.2	-2.3	-0.7	1.4	1.4	-7.0	-11.5	-26.4	-34.6	-28.2	-28.1
Shanghai SEE (% difference from pre-coronavirus outbreak)	0.0	-2.0	-4.0	-8.4	-5.1	-1.8	-2.4	-1.2	-4.4	-12.2	-12.4	-11.4
US 10-year Treasury yield (%)	1.8	1.8	1.6	1.6	1.6	1.5	1.3	1.0	0.8	1.0	0.8	0.7
German ten-year government bond yields (%)	-0.2	-0.3	-0.4	-0.4	-0.4	-0.4	-0.5	-0.7	-0.7	-0.3	-0.4	-0.5
Italian 10-year government bond spread (bps)	162	159	139	136	134	135	157	173	229	245	184	200
US Bloomberg Barclays High Yield OAS (bps)	320	334	380	365	348	347	439	494	673	913	1017	910
US Bloomberg Barclays Investment Grade OAS (bps)	95	94	100	98	96	97	112	130	190	295	329	279
VIX	12.3	13.1	17.0	15.9	14.4	15.1	31.9	36.8	57.8	74.6	62.8	53.1
Commodity price: Brent Oil (\$ per barrel)	64.5	63.2	58.5	54.7	55.4	58.5	53.5	50.0	35.0	28.1	26.7	28.4
Citigroup economic surprise index	1.7	9.0	10.4	16.6	17.3	17.4	21.9	11.3	14.6	2.8	-5.1	-7.5

Source: Oxford Economics / Bloomberg / Datastream / Google / Haver Analytics / STR / UNESCO / WIND