

Research Briefing | Global Coronavirus Watch: Emerging from lockdown

Economist

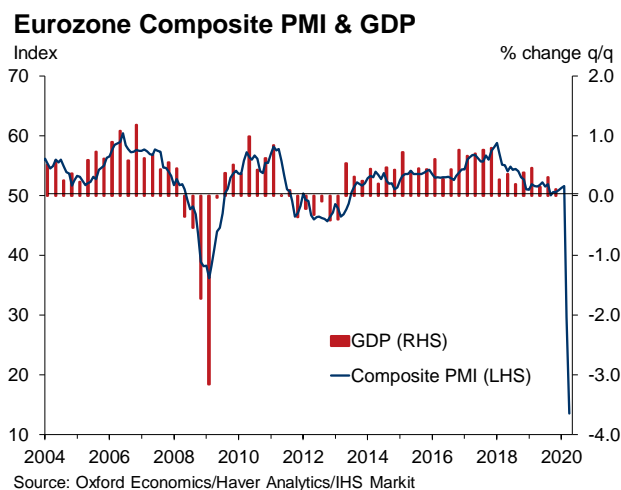
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- The plunge in advanced economy PMIs in April made for alarming reading, but these surveys provide little additional quantitative insight into the scale of the contractions in Q2 GDP around the world.
- The unprecedented weakness the PMIs depicted may lead to louder calls for lockdown restrictions to be lifted. Indeed, some US states have already unveiled plans to ease restrictions and allow the resumption of some activities that could be viewed as risky with respect to spreading COVID-19. In contrast, most of Europe is taking a more cautious stance.
- As well as increasing the risk of a second wave of new COVID-19 cases, a rapid lifting of restrictions could lead to a fairly underwhelming economic rebound if individuals voluntarily choose to continue social distancing. What's more, if temporary financial support measures are phased out too, some business may find themselves in a worse financial position than now.

The standout news from last week was arguably the flash PMIs far deeper than expected plunge into uncharted territory as a result of the global lockdown. Once again, the services PMIs were the poorest performers – after falling to a record low of 37 in March, the eurozone measure slumped to just 11.7. This made the unambiguously dreadful US services reading of 27.0 look relatively resilient.

But while the surveys provide a clear qualitative signal that the economic situation deteriorated markedly in April, we would caution against using the surveys to provide a quantitative gauge of the size of the GDP falls in early Q2. As **Figure 1** shows, during the global financial crisis, the last time the eurozone surveys fell deep into recession territory, the PMIs provided a poor guide to the extent of the downturn. For now, with the exception of one or two economies, we still expect quarterly GDP falls in the advanced economies in excess of 10% in Q2.

Figure 1: PMIs are not always a reliable guide



At face value, the latest composite PMI reading points to a 3%-4% quarterly decline in eurozone GDP. But we think the surveys are likely to be an unreliable quantitative guide to GDP contractions in Q2 and our baseline forecast assumes a much larger fall in GDP this quarter.

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The differing policy responses on either side of the Atlantic provide a natural experiment on the speed that restrictions can be lifted without risking a renewed surge in COVID-19 cases. In Europe, Germany became the first large economy to implement a meaningful lifting of lockdown restrictions last week. As well as allowing businesses, such as small shops, and some car manufacturers and dealerships, to reopen, some students will return to school from May 4.

These developments are encouraging – peak lockdown may now have been reached at the global level. With many other economies beginning to see a slowdown in the growth rate of new cases and deaths (**Figure 2**), our baseline view that there will be a widespread easing of lockdown restrictions in May and June remains plausible.

At the same time, though, it is abundantly clear that most European policymakers are taking a very cautious approach to lifting restrictions. The underlying strategy is to first get the number of infections from each COVID-19 case (the R-rate) comfortably below 1, then to gradually lift restrictions while ensuring that R remains well below the crucial 1 threshold. This should minimise the chances of having to undertake another full-blown and damaging lockdown.

But until a vaccine or medical treatments that greatly reduce the mortality rate are found – realistically months, rather than weeks, away – some economically damaging social distancing measures will still be needed. Some European policymakers have openly conceded that this is the scenario that we are in.

By contrast, in the US – the other major global COVID-19 hotspot – President Trump and many state governors are taking a rather different view and appear set to lift restrictions more aggressively, including the reopening of some businesses, such as gyms, cinemas and bowling alleys. On the face of it, this seems likely to increase the rate of transmission of the coronavirus. But it also seems likely that reducing the stringency of lockdowns, will be positive for the US economy – those economies with stricter lockdowns have generally recorded sharper falls in their composite PMIs (**Figure 3**).

Still, there are considerable economic risks of loosening too early. **As well as increasing the risk of a second wave of the virus, necessitating a lockdown policy reversal, the economic rebound may disappoint if infection fears among the public lead to a large number of households voluntarily continuing to social distance.**

Figure 2: COVID-19 cases are rising less rapidly in response to lockdowns

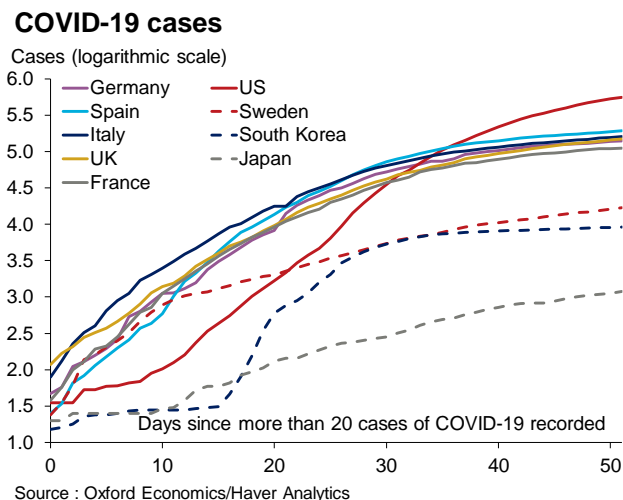


Figure 3: Sharpest PMI falls have generally been associated with most stringent lockdowns

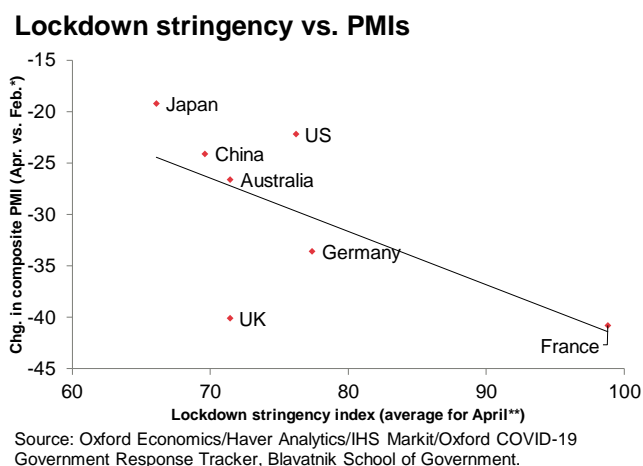
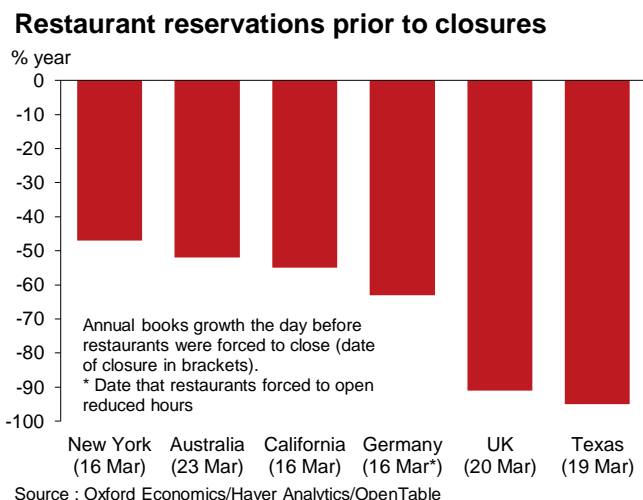


Figure 4: Restaurant visits had plunged before policymakers forced them to close



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In last week's [Coronavirus Watch](#) we noted that restaurant bookings had fallen substantially even before governments banned restaurants from opening (**Figure 4**). Apple mobility trends where lockdown restrictions have been eased, such as in Denmark, Norway, and Czech Republic, have risen but remain well below normal (**Figure 5**). And there is [ample evidence](#) from China that non-essential activities that may be risky for health have picked up more slowly than other forms of activity deemed essential, such as going to work.

South Korea Q1 GDP data also supports the view that perceptions as well as restrictions play an important role in the economic response to COVID-19. While South Korea at one stage struggled to contain the spread of the coronavirus, COVID-19 cases and deaths are far lower than in Europe and this has been achieved without implementing national lockdowns. Nonetheless, Q1 GDP fell by 1.4% compared to a quarter earlier, largely down to a 6.7% quarter-on-quarter plunge in household spending. By comparison, we estimate Chinese consumer spending fell by a seasonally-adjusted 15.3% in Q1. While this may partly reflect some social distancing measures inhibiting Korean spending, a key factor has clearly been the evaporation of consumer confidence caused by the COVID-19 outbreak (**Figure 6**). In societies where the proportion of older people is high, the resumption of "normal" behaviour may be particularly slow when lockdowns ease (**Figure 7**).

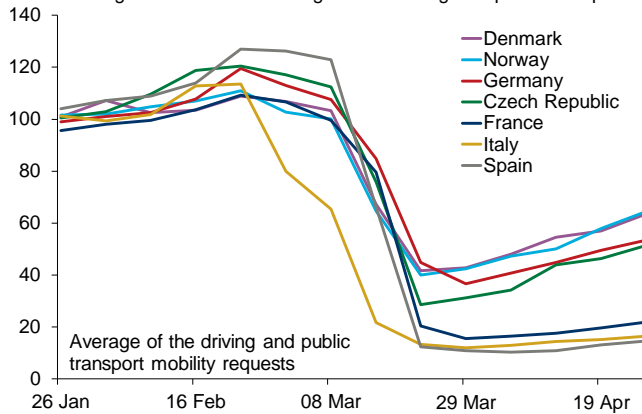
The upshot of all this is that lifting restrictions when the perceived threat from COVID-19 is high could lead to increased spread of the disease while providing an underwhelming economic boost. An easing of restrictions too early might even exacerbate problems for some businesses. If government support is simultaneously phased out as businesses reopen, but customers stay away, firms' financial positions could plausibly worsen.

Overall, then, to recover the activity losses in the first half of this year, it will be important not only to get people working again but to feel confident to leave the house and spend, particularly on discretionary services that require close social contact with others. While some bounce-back in spending is inevitable as businesses reopen, the revival in some sectors is likely to be characterised as slow-burning, rather than a sudden rebound of demand to near-normal levels. In that respect, policymakers may need to continue to provide the exceptional financial support for struggling firms and households throughout the slow transition period from lockdown to business-as-usual to minimise the longer-term costs from the outbreak.

Figure 5: Easing lockdowns have not yet triggered major behavioural shifts

Apple Mobility Data

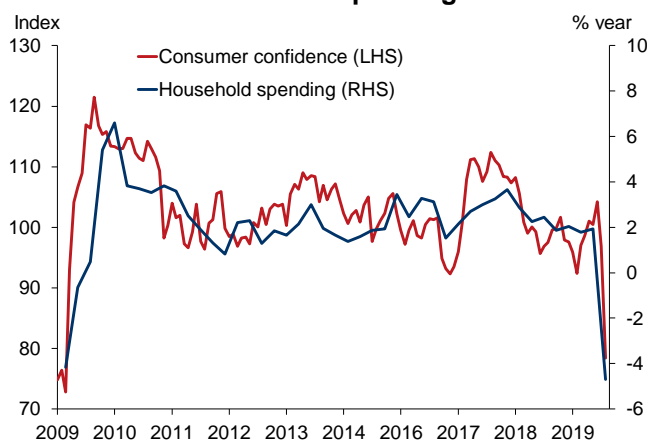
Week ending Jan 26 = 100 - Average of the driving and public transport



Source : Oxford Economics/Haver Analytics

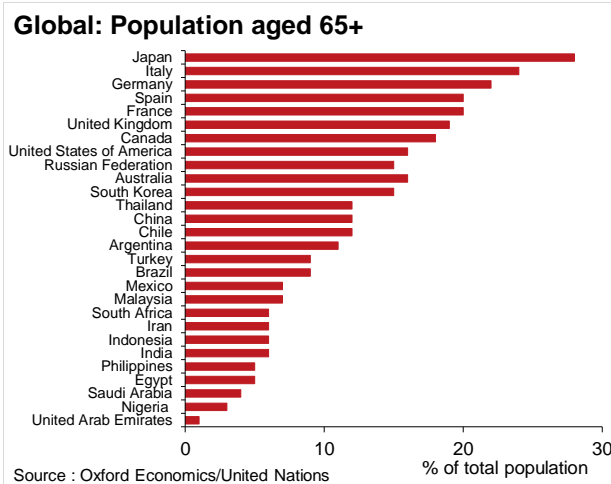
Figure 6: South Korean household spending plunged in Q1 despite no national lockdown

South Korea: Consumer spending & sentiment



Source : Oxford Economics/Haver Analytics

Figure 7: Older societies may see slower shifts in behaviour when restrictions are lifted



Source : Oxford Economics/United Nations

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Appendix

Figure 8

Global: COVID-19 cases & deaths

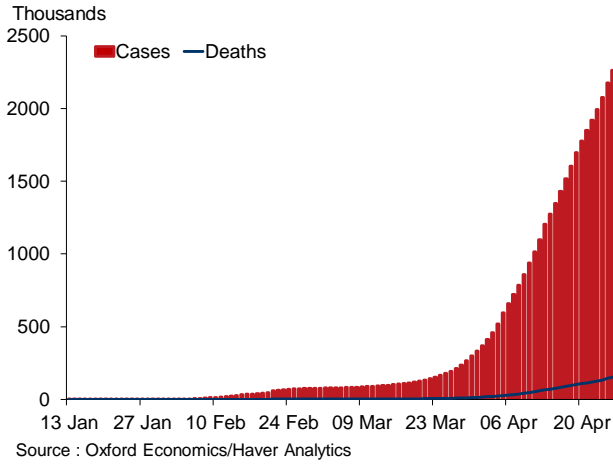


Figure 9

Global: Coronavirus cases

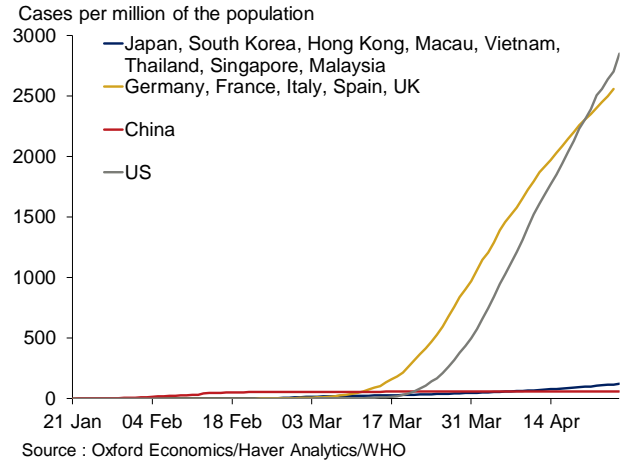


Figure 10

Global: Coronavirus cases

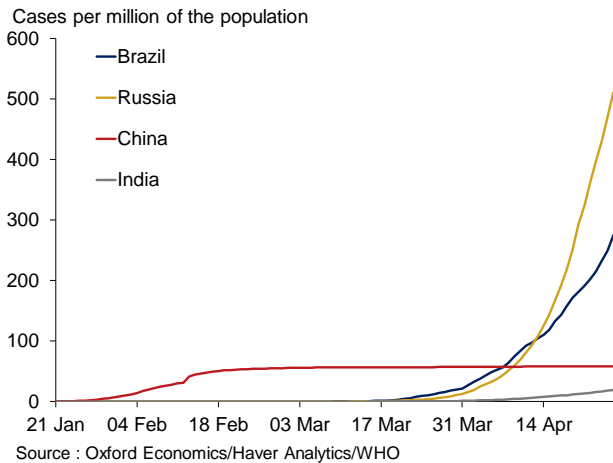


Figure 11

Google searches for "coronavirus"

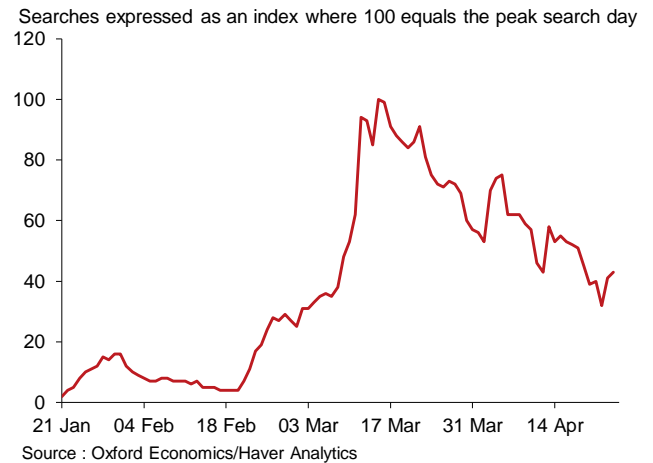


Figure 12

National closures of schools & universities

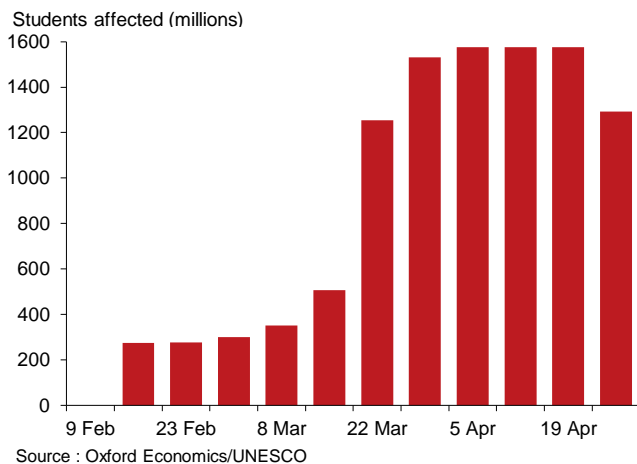
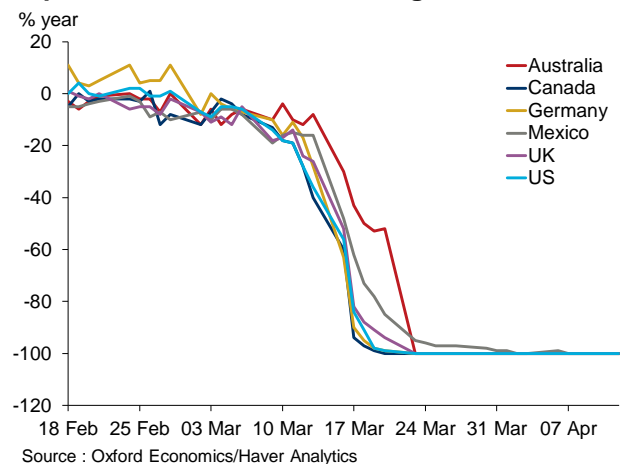


Figure 13

Opentable: Restaurant bookings



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Figure 14

Citymapper mobility index: Asia

100 = city movement in line with previous trends

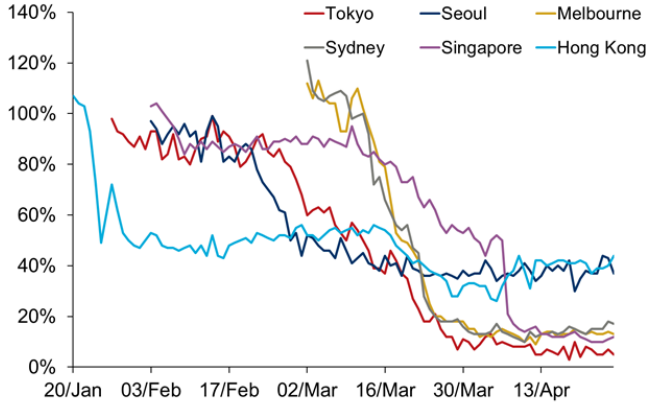


Figure 15

Citymapper mobility index: Europe

100 = city movement in line with previous trends

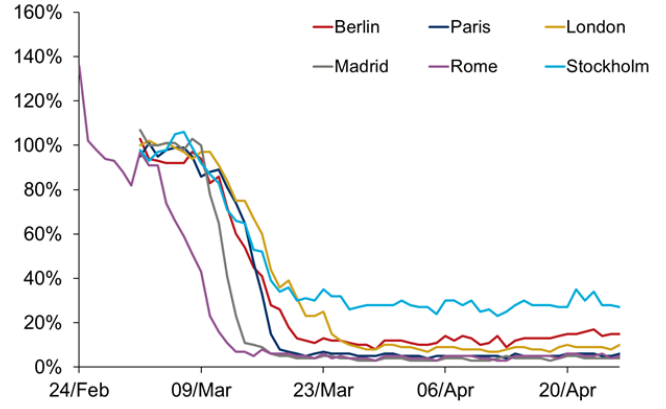


Figure 16

Citymapper mobility index: North America

100 = city movement in line with previous trends

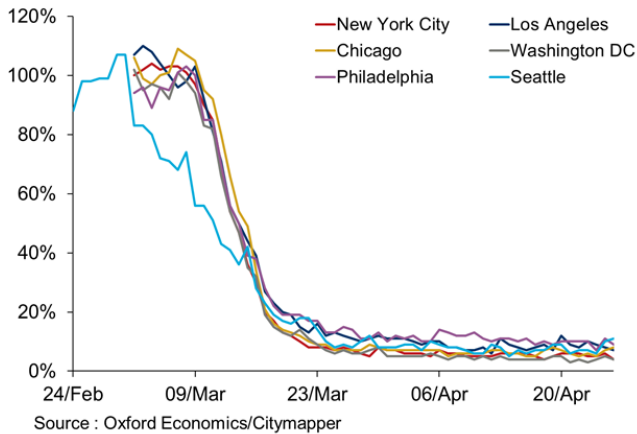


Figure 17

Citymapper mobility index: EM

100 = city movement in line with previous trends

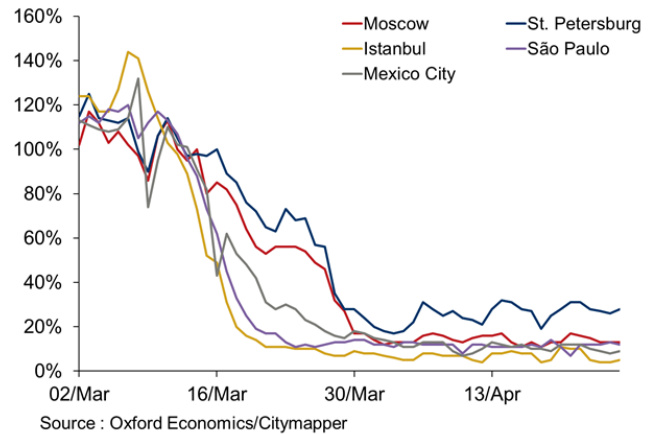


Figure 18

Hotel occupancy rates

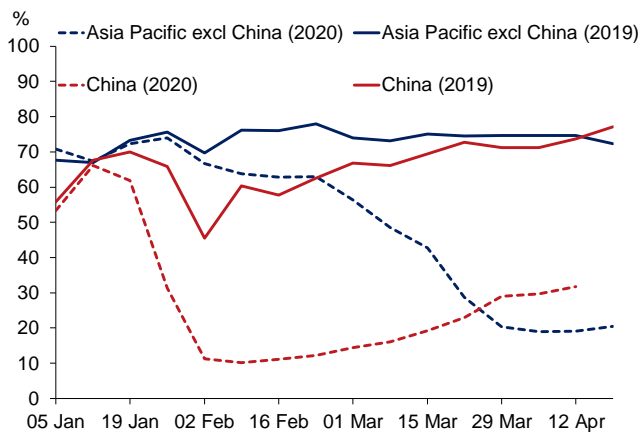
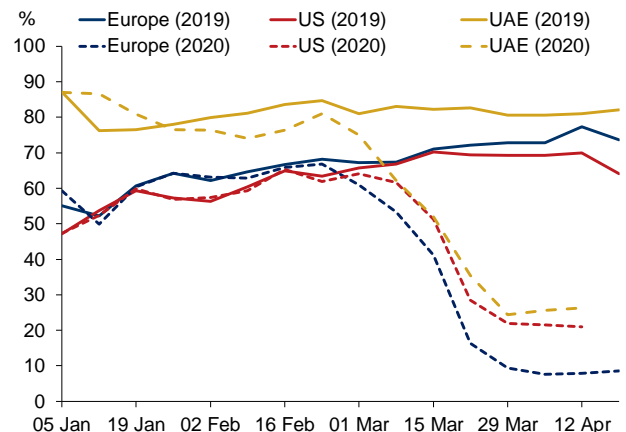


Figure 19

Hotel occupancy rates



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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	6-12 Apr	13-19 Apr	20-26 Apr	
Outbreak metrics (End period)																
Confirmed coronavirus cases - global	121	121	941	11,374	34,869	67,098	76,984	84,076	101,516	142,619	266,236	594,150	1,099,397	1,698,446	2,262,626	
weekly change	121	0	820	10,433	23,495	32,229	9,886	7,092	17,440	41,103	123,617	327,914	505,247	599,049	564,180	
Confirmed coronavirus deaths - global	0	0	41	259	638	1,526	2,358	2,875	3,462	5,388	11,200	27,235	59,156	102,799	154,212	
weekly change	0	0	41	218	379	888	832	517	587	1,926	5,812	16,035	31,921	43,643	51,413	
Google search interest for Coronavirus (100=peak of popularity for the term)	0	7	14	8	6	7	26	34	76	89	73	64	56	52	39	
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	86.0	90.1	89.7	103.9	
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	97.2	97.3	97.3	
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	93.8	94.1	102.4	
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	78.3	66.2	80.0	169.2	
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	49.9	44.5	41.4		
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	6867.4	6614.9	5236.9	4426.8		
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	79.6	65.6	67.1		
Hotel occupancy rates																
China (Relative to a year ago)	88.3	47.5	24.9	16.8	19.2	19.6	21.6	24.3	27.6	31.6	40.7	41.7	43.1			
Asia Pacific excluding China (Relative to a year ago)	98.8	97.9	95.6	83.8	82.7	80.8	76.1	66.3	56.9	38.6	27.2	25.5	25.6	28.3		
Europe (Relative to a year ago)	99.6	99.9	101.6	97.2	98.9	97.9	90.7	79.3	57.9	22.8	12.8	10.5	10.2	11.6		
US (Relative to a year ago)	101.1	99.3	101.8	98.2	100.5	97.5	97.4	92.1	73.0	41.1	31.6	31.1	29.9			
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	1,576	1,575	1,292	
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	-16.8	-8.4	-7.9	
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	-35.2	-32.9	-30.1	
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	-24.9	-26.9	-26.8	
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	-17.3	-14.8	-15.2	
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	-24.4	-24.3	-24.9	
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	-9.6	-8.8	-8.3	
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	0.7	0.7	0.6	
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	-0.3	-0.4	-0.4	
Italian 10-year government bond spread (bps)	162	159	139	136	134	135	157	173	229	245	184	200	197	223	246	
US Bloomberg Barclays High Yield OAS (bps)	320	334	380	365	348	347	439	494	673	913	1017	910	850	728	757	
US Bloomberg Barclays Investment Grade OAS (bps)	95	94	100	98	96	97	112	130	190	295	329	279	251	208	210	
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	43.7	39.6	41.7	
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	32.3	29.2	21.7	
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	-18.6	-30.6	-51.3	

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