

Research Briefing | Global

Coronavirus Watch: Second wave is still the key risk

Economist

Ben May
Director of Global Macro
Research
+44(0)20 3910 8015

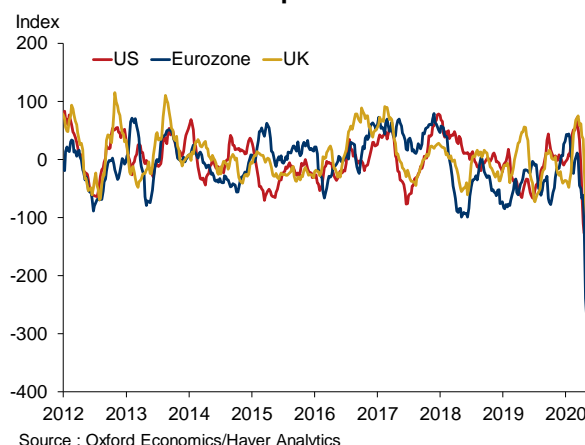
- **The release of more hard economic data for May provided further evidence that global activity is already rebounding fairly sharply. Still, the path of growth over the next six months or so remains highly uncertain.**
- **The biggest uncertainty surrounds the potential for a renewed and sharp pick-up in Covid-19 cases. While concerns about a second wave have grown recently sparked by a rise in case numbers in some regions, it's too early to conclude that another wave is coming.**
- **However, rising case numbers and associated media headlines could stoke individuals' fears of catching Covid-19, triggering more voluntary social distancing to the detriment of the economic recovery. Encouragingly, for now, we've seen little evidence that this has occurred.**

After several months of dire downward surprises, the picture from the economic data for the US, and to a lesser extent other advanced economies, has improved decisively. The US Citigroup surprise index is now at a record-breaking high, indicating a substantial and consistent outperformance of economic data compared to economists' expectations (**Figure 1**).

However, we recommend caution over this development. The key takeaway from the recent rollercoaster growth profile is that economists were initially too conservative in their estimates of the size of the economic contraction in the US and elsewhere after the introduction of lockdown measures, and were then surprised by the scale of the rebound in activity as restrictions were relaxed and emergency state benefits reached recipients. At this point, monthly growth rates paint a misleading picture of the underlying position. It makes more sense to look at the level of activity in comparison to that seen at the turn of 2020. By this metric the situation still looks pretty dire. Even after the May bounce, retail sales are 8% to 9% lower than in January in the US and UK (**Figure 2**).

Figure 1: Economic surprise indices are improving as May data is published

World: Economic surprise indices



Strong hard data for May has helped to push the US Citi economic surprise index up to a record high. The eurozone index has also staged a rebound, but remains deep in negative territory.

Coronavirus Watch: Second wave is still the key risk

Based on the available official hard data and the various alternative indicators in the Appendix, it seems global activity probably recorded a sharp bounce back in May. This points to [further upside risks](#) to the Q2/Q3 GDP growth rates in our baseline forecast. **While clearly encouraging, the bounce tells us little about the state of the global economy in six months' time, which for firms, households and financial markets is far more important than the precise scale of the immediate post-lockdown jump.**

On this question, a key factor will be whether a second wave of Covid-19 emerges and how individuals respond to such a threat. Our own scenario analysis suggests that a global second wave might lead global GDP in Q1 2021 to be 11% lower than the Q4 2019 peak, compared to just 1.5% lower in our baseline scenario. (Figure 3) But even a less disastrous regional second wave or a change in behaviour triggered by concerns about a renewed outbreak could lead activity to recover more slowly than in our baseline.

In this respect, concerns are growing that cases in parts of the US, Beijing and Berlin may indicate a second wave is coming. At this stage, the true significance of these developments is hard to know – and in any case is perhaps better left to epidemiologists to assess. The rise in cases in some US states is perhaps better characterised as a failure to ever contain the original spread of Covid-19. But it clearly has the capacity to undermine the recovery (Figure 4).

Meanwhile, the new cases in Beijing, Berlin, and New Zealand – places which seemingly had previously contained or even eradicated the virus – aren't automatic grounds for panic. While the disease remains prevalent around the world, odd hotspots are inevitable, even in regions with low levels of cases. The key issue is not that these flare-ups have emerged, but whether policymakers can quickly prevent further spread and the extent to which drastic restrictions in activity need to be re-imposed to achieve this.

These flare-ups also show that setbacks in containing the virus are inevitable and emphasise more generally that a full return to the old norms will only be possible once a vaccine has been discovered and produced. While South Korea has received plenty of plaudits for its handling of the crisis, the avoidance of a national lockdown has not meant business as normal. Its “track and trace system” has limited the spread of the virus, but the situation remains [far from normal](#). For economies emerging from lockdown, the path to normality will be long and winding.

Figure 2: Retail sales recovery in May, but remain down sharply compared to January

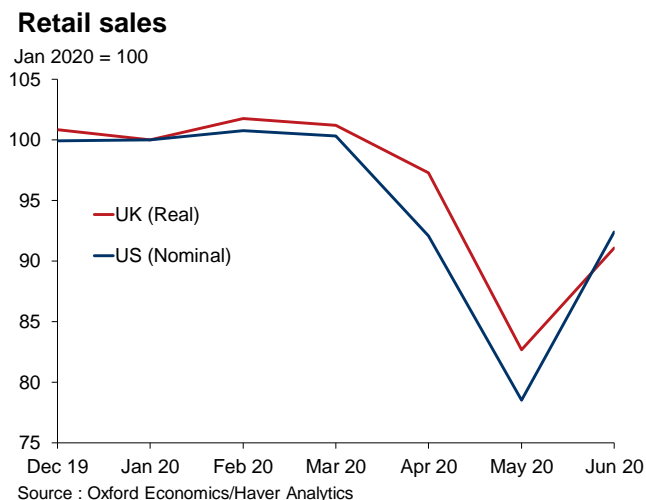


Figure 3: Even after an impressive bounce likely in Q3, 2020 GDP will still be well below Q4 2019

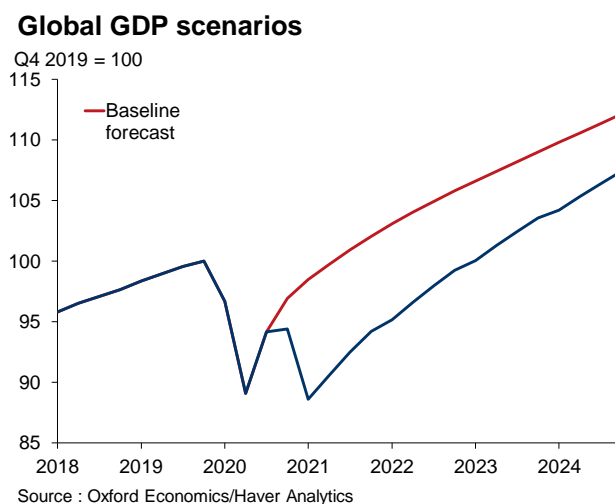
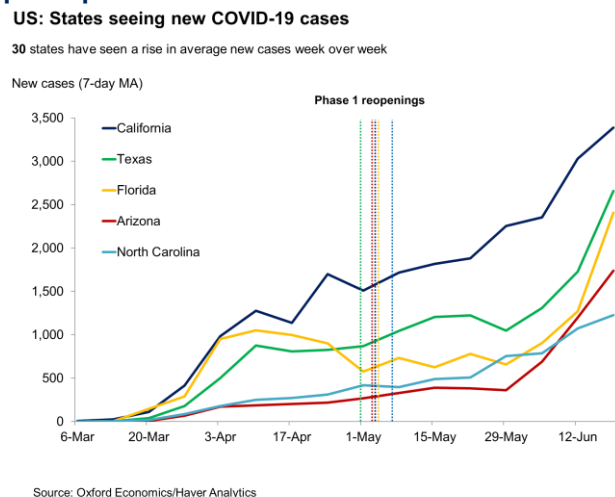


Figure 4: Some US states are seeing a bit of a pick-up in cases



Coronavirus Watch: Second wave is still the key risk

The economic impact of renewed rises in Covid-19 cases will depend on a variety of factors. One risk is that some policymakers will be reluctant to reimpose restrictions due to lockdown fatigue among the public. Doing so might also be perceived as a tacit admission that the government had previously made mistakes. Failure to act to a sustained rise in case number could lead to more severe restrictions to contain the virus. A weak or delayed government response may also not provide any economic benefit from allowing business to continue if it triggers a sharp rise in voluntary social distancing.

So far, though, evidence from the US suggests that higher Covid-19 cases are not yet leading to a renewed increase in voluntary social distancing. The Dallas Fed Mobility and Engagement Index (formerly the “Social Distancing Index”), shows greater mobility at national and state levels and no obvious change in trend (Figure 5). The process of returning to more normal behaviour is likely to be a factor behind the rise in Covid-19 cases, but higher case numbers does not yet appear to have in turn triggered individuals to behave more cautiously.

Admittedly, the recent high rates of Covid-19 cases in California, Texas, and Florida have coincided with a small dip or levelling off in restaurant seat covers compared to a year ago (Figure 6). The equivalent ratios for Illinois and Pennsylvania – where cases are on the wane – have continued to climb. However, these data are volatile and at this stage it would be unwise to draw any strong conclusions from the recent slight fall. Note that other states for which data are available have even more limited histories.

More generally, our heatmap in the Appendix continues to show a gradual but broad-based improvement in the timely activity indicators that we focus on. In addition to the rise in restaurant bookings, hotel occupancy has risen while air traffic volumes have also increased (Figure 7).

Overall, while at this stage we would not draw too much comfort from the strong monthly numbers seen in the hard economic data for May, neither would we panic about the less positive Covid-19 statistics from parts of the world just yet. The occurrence (or not) of a second Covid-19 wave is the single biggest uncertainty surrounding the economy over the next six months. But the performance of the labour market and the speed at which emergency fiscal measures are withdrawn will also be crucial. We will examine these issues in upcoming research.

Figure 5: Mobility is not being affected by rising Covid-19 cases in parts of the US

US: Lockdown & social distancing measures

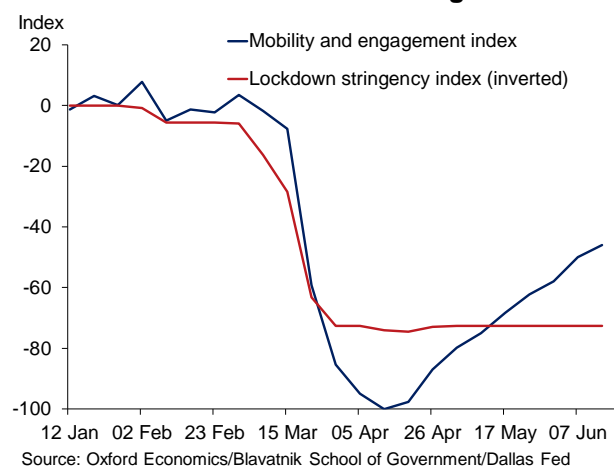


Figure 6: Covers have dipped in some states, but too early to draw firm conclusions

OpenTable: Seated Diners*

100=unchanged from a year ago, seven-day moving average

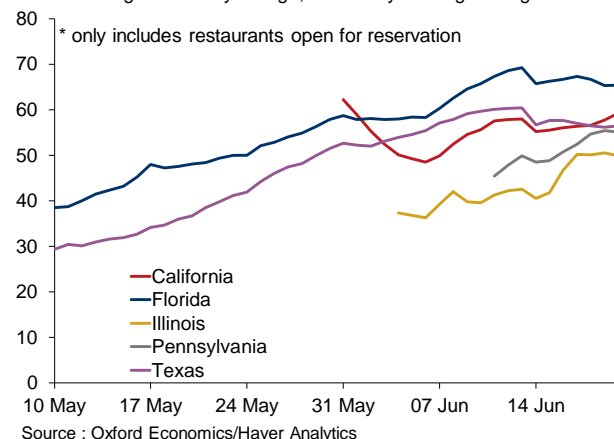
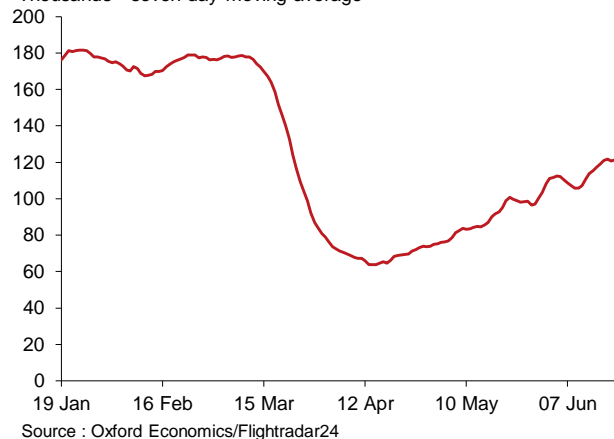


Figure 7: Number of air flights has continued to trend higher

Global: Daily airline flights

Thousands - seven-day moving average



Coronavirus Watch: Second wave is still the key risk

Appendix

Figure 8

COVID-19 cases

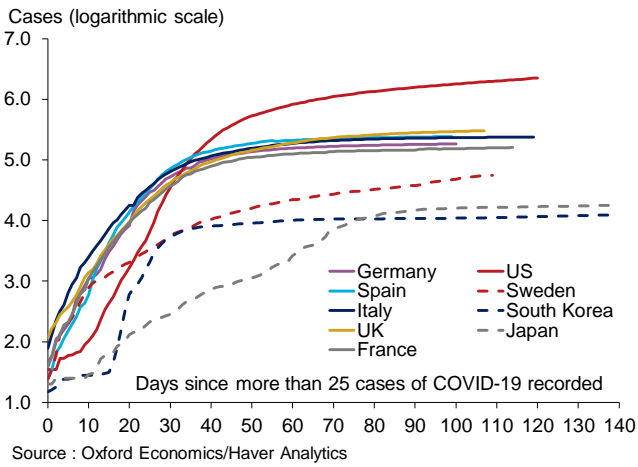


Figure 9

COVID-19 cases

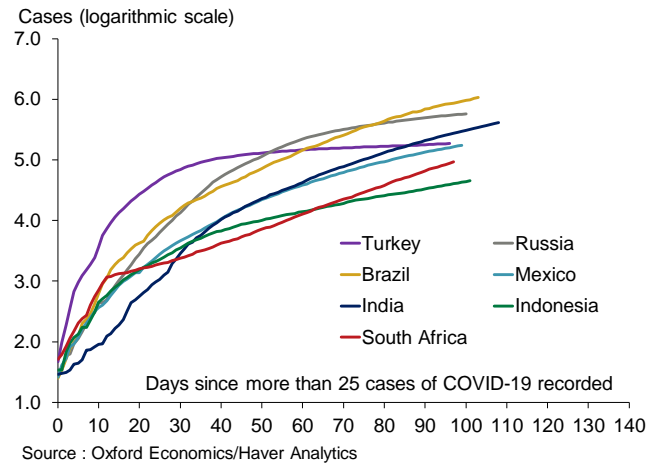


Figure 10

Global: Lockdown stringency index

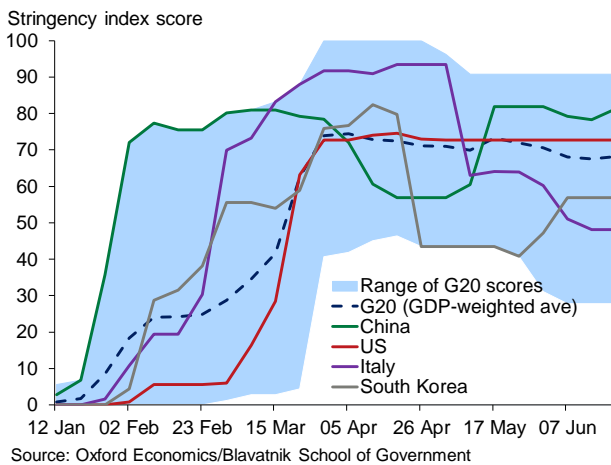


Figure 11

G20: Lockdown stringency scores

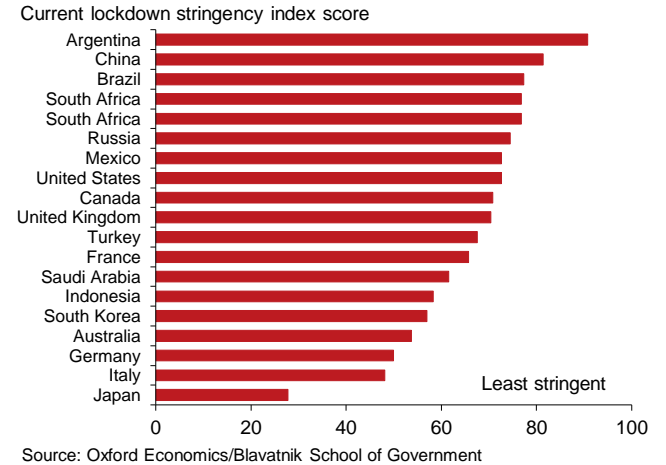


Figure 12

G20*: Google mobility trends

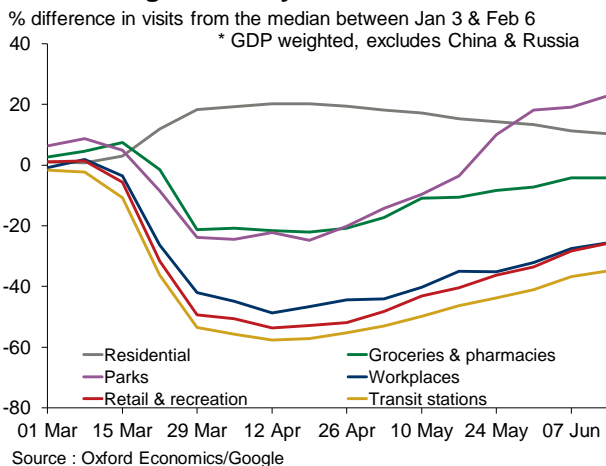
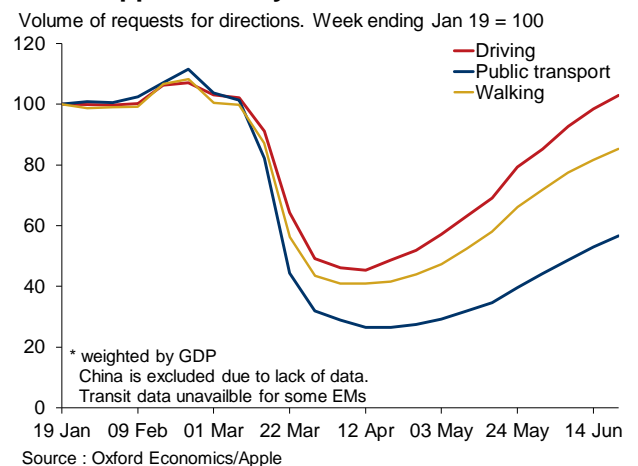


Figure 13

G20*: Apple mobility trends



Coronavirus Watch: Second wave is still the key risk

Figure 14

G20*: Google mobility trends - residential

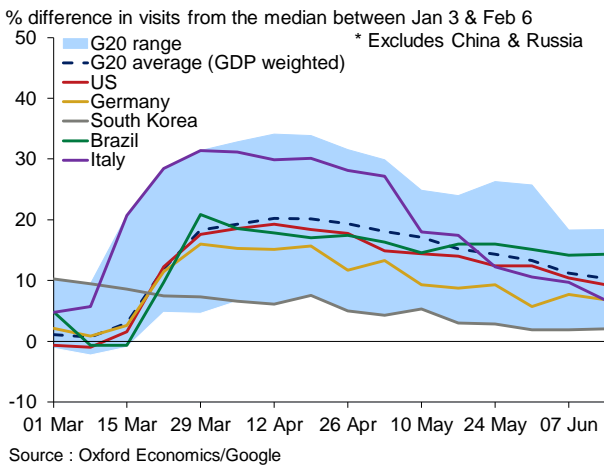


Figure 15

G20*: Google trends - groceries & pharmacies

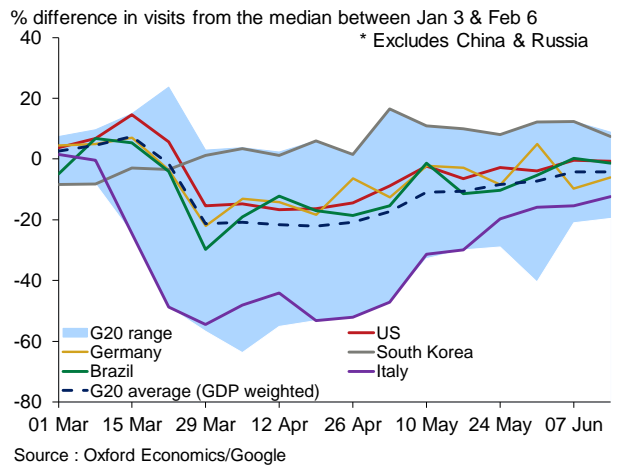


Figure 16

G20*: Google trends - groceries & pharmacies

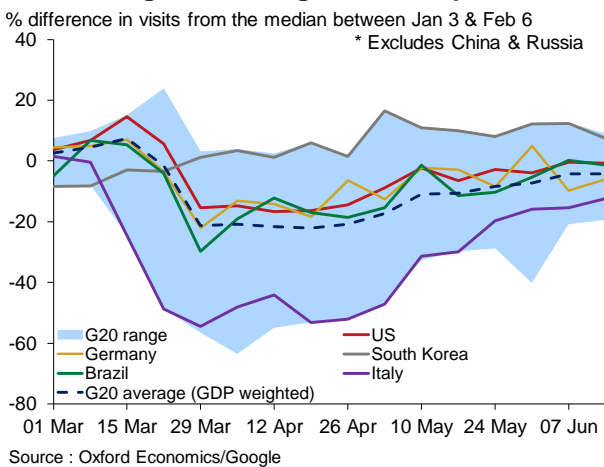


Figure 17

G20*: Google mobility trends - retail & recreation

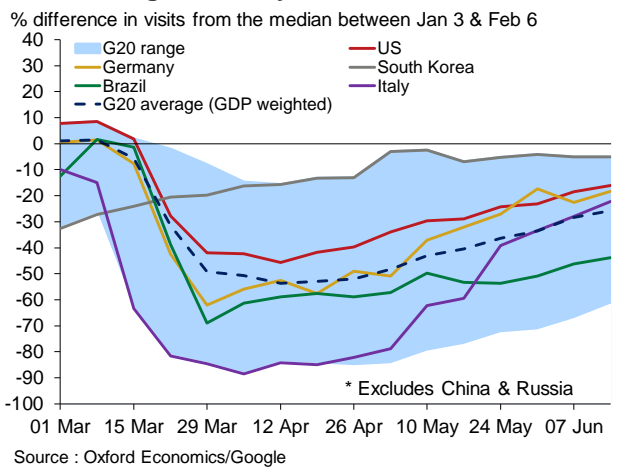


Figure 18

G20*: Google mobility trends - work

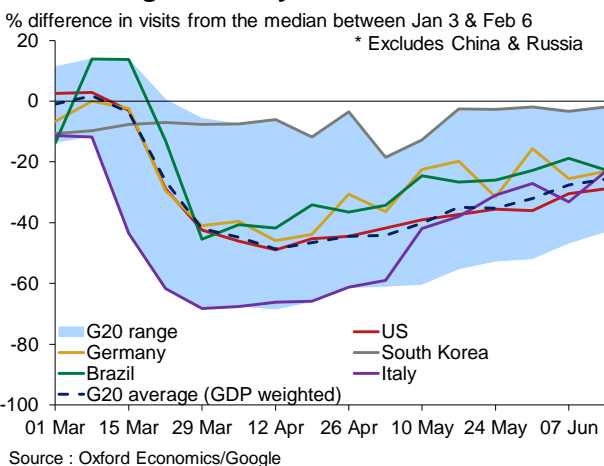
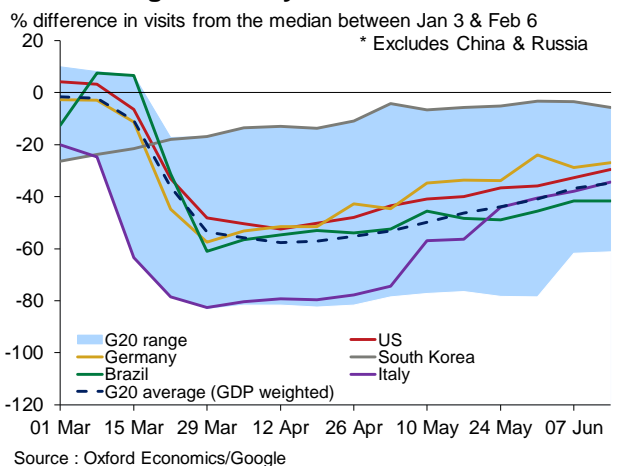


Figure 19

G20*: Google mobility trends - transit stations



Coronavirus Watch: Second wave is still the key risk

Figure 20

G20*: Apple mobility trends - driving

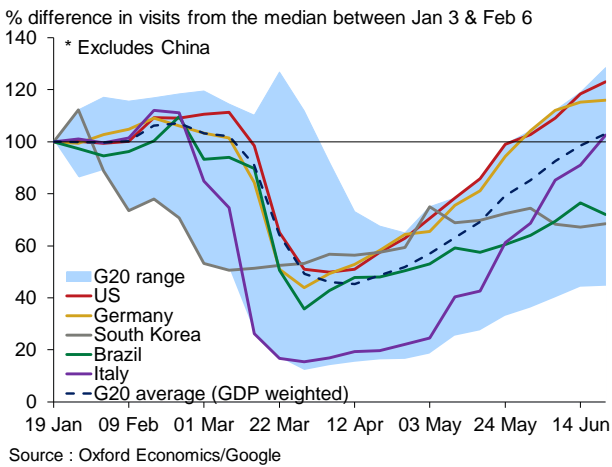


Figure 21

G20*: Apple mobility trends - walking

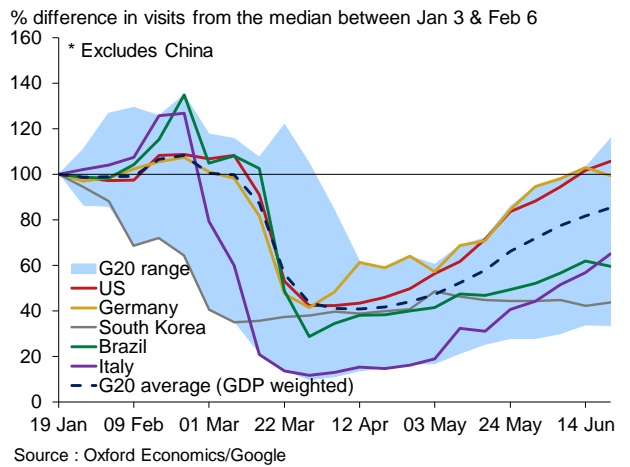


Figure 22

National closures of schools & universities

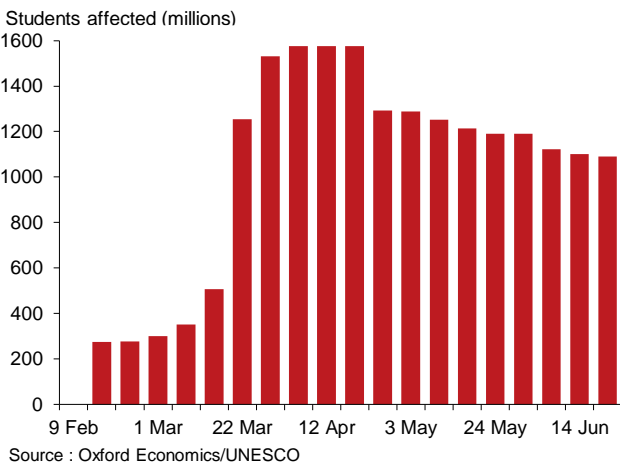


Figure 23

Opentable: Restaurant bookings

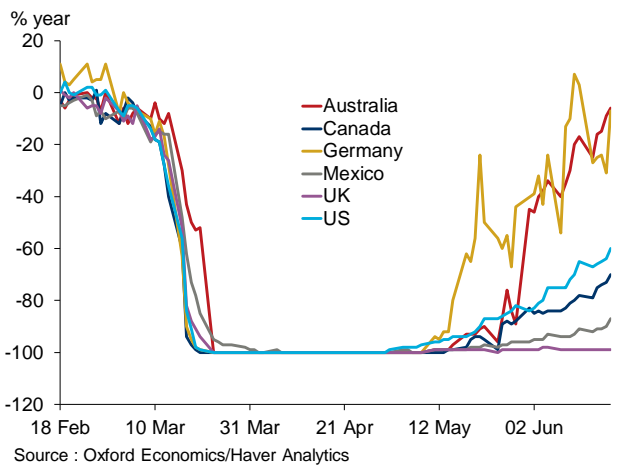


Figure 24

Hotel occupancy rates

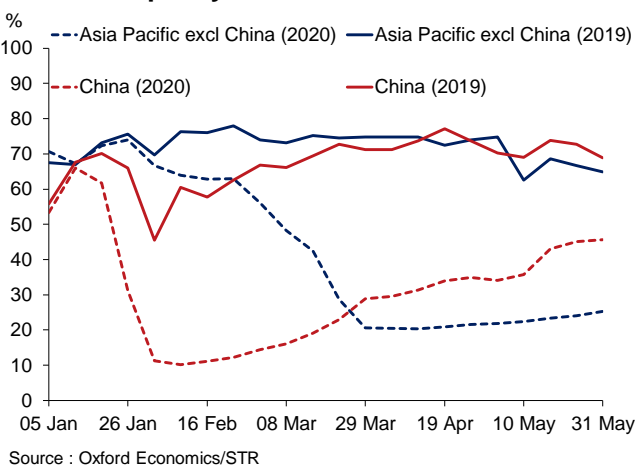
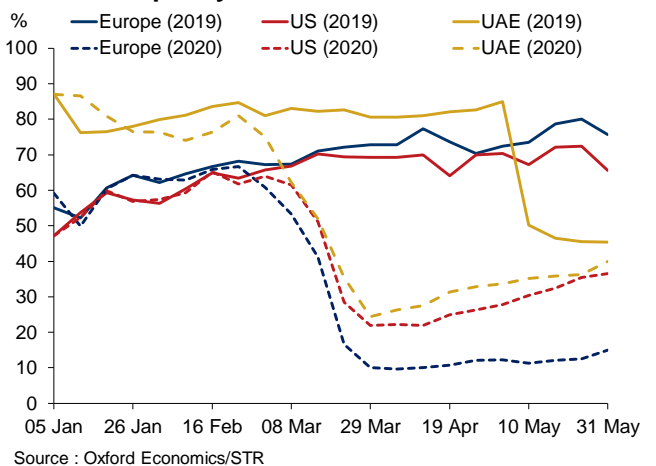


Figure 25

Hotel occupancy rates



Coronavirus Watch: Second wave is still the key risk

Coronavirus Economic & Financial Impacts																	
Indicator	13-19 Jan (Pre-outbreak)	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	27 Apr - 3 May	4-10 May	11-17 May	18-24 May	25-31 May	1 - 7 Jun	8 - 14 Jun	15-21 Jun
Outbreak metrics (End period)																	
Confirmed coronavirus cases - global	123	109,808	167,447	336,824	719,794	1,247,879	1,819,532	2,382,053	2,945,441	3,500,813	4,098,391	4,711,648	5,406,766	6,166,995	7,009,345	7,900,924	8,930,664
weekly change	123	21,439	57,639	169,377	382,970	528,085	571,653	562,521	563,388	555,372	597,578	613,257	695,118	760,229	842,350	891,579	1,029,740
Confirmed coronavirus deaths - global	0	3,801	6,472	14,821	35,314	73,047	119,807	167,699	209,788	247,344	282,583	315,225	345,060	372,037	402,727	433,391	467,676
weekly change	0	805	2,671	8,349	20,493	37,733	46,760	47,892	42,089	37,556	35,239	32,642	29,835	26,977	30,690	30,664	34,285
China activity indicators																	
Coal consumption for electricity use (relative to a year ago and adjusted for CNY)	120.1	75.7	78.5	79.7	88.6	86.0	90.1	89.7	103.9	91.9	95.6	107.3	121.5	100.9	91.4	98.4	106.1
Steel furnacing operating rate (relative to a year ago and adjusted for CNY)	101.9	102.0	101.7	100.6	97.3	96.4	97.2	97.3	97.3	100.4	100.0	99.0	98.3	98.8	99.0	99.4	103.0
Urban road congestion (relative to a year ago and adjusted for CNY)	103.2	81.5	84.2	87.7	92.5	91.8	93.8	94.1	102.4	99.4	98.1	101.2	101.7	103.3	102.2	102.7	103.9
Residential property sales (relative to a year ago and adjusted for CNY)	133.6	50.3	48.0	59.8	119.4	78.3	66.2	79.4	172.9	80.2	78.0	104.1	106.9	137.8	91.7	94.7	87.7
US activity indicators																	
Bloomberg consumer comfort index	66.0	62.7	63.0	59.7	56.3	49.9	44.5	41.4	39.5	36.9	35.8	34.7	35.5	37.0	38.7	40.2	
Unemployment insurance, initial claims (Thousands)	208.2	210.7	281.0	3307.1	6867.4	6614.9	5236.9	4441.5	3845.7	3176.4	2687.1	2445.8	2125.9	1897.0	1566.0	1508.4	
Raw steel production (relative to a year ago)	100.9	98.0	97.2	95.6	87.1	79.6	65.6	67.1	66.0	59.8	62.4	62.2	63.0	63.7	63.7	64.1	
Hotel occupancy rates																	
China (Relative to a year ago)	88.2	24.3	27.5	31.5	40.5	41.5	42.5	44.0	47.3	48.5	51.8	58.3	62.0	66.4			
Asia Pacific excluding China (Relative to a year ago)	98.7	65.9	56.6	38.6	27.6	27.3	27.1	28.8	29.3	29.2	35.7	34.1	36.2	39.1			
Europe (Relative to a year ago)	99.6	79.2	57.9	23.1	13.7	13.2	13.0	14.6	17.2	16.9	15.4	15.4	15.7	19.7			
US (Relative to a year ago)	101.0	92.0	72.9	41.0	31.7	32.1	31.4	38.8	37.7	39.5	45.2	44.9	48.9	55.7			
Global supply chains & lockdowns																	
G20 lockdown stringency index (0 -100)	2	35	42	63	74	74	73	72	71	71	70	73	72	71	68	68	
National school & university closures (Millions of students affected)	0	351	507	1,254	1,531	1,576	1,576	1,575	1,292	1,288	1,252	1,213	1,190	1,190	1,123	1,101	1,091
G20* Apple Mobility Data - Driving directions requests (13-19 Jan = 100)	100	102	91	64	49	46	45	49	52	57	63	69	79	85	93	98	103
G20* Apple Mobility Data - Transit directions requests (13-19 Jan = 100)	100	101	82	44	32	29	26	27	27	29	32	35	40	44	49	53	57
G20* Apple Mobility Data - Walking directions requests (13-19 Jan = 100)	100	100	87	56	44	41	41	42	44	47	52	58	66	72	77	82	85
G20* Google Mobility Data - Residential activity v median (Jan 3 - Feb 6)		1	3	12	18	19	20	20	19	18	17	15	14	13	11	10	
G20* Google Mobility Data - Parks activity v median (Jan 3 - Feb 6)		9	5	-8	-24	-25	-22	-25	-20	-14	-10	-4	10	18	19	23	
G20* Google Mobility Data - Groceries & pharmacies activity v median (Jan 3 - Feb 6)		5	7	-2	-21	-21	-22	-22	-21	-17	-11	-11	-8	-7	-4	-4	
G20* Google Mobility Data - Workplace activity v median (Jan 3 - Feb 6)		2	-4	-26	-42	-45	-49	-47	-44	-44	-40	-35	-35	-32	-28	-26	
G20* Google Mobility Data - Retail & recreation activity v median (Jan 3 - Feb 6)		1	-6	-32	-49	-51	-54	-53	-52	-48	-43	-40	-36	-34	-28	-26	
G20* Google Mobility Data - Transit activity v median (Jan 3 - Feb 6)		-2	-11	-36	-54	-56	-58	-57	-55	-53	-50	-46	-44	-41	-37	-35	
Flightradar24: Average number of flights (13-19 Jan =100)	100	103	93	62	39	34	28	35	38	41	39	53	49	62	55	62	68
Baltic Dry Index (% difference from pre-coronavirus outbreak)	0.0	-24.9	-17.8	-18.3	-23.3	-20.4	-16.8	-8.4	-7.9	-15.9	-25.6	-44.9	-38.5	-34.5	-22.2	3.1	66.4
Dow Jones Global Shipping Index (% difference from pre-coronavirus outbreak)	0.0	-24.5	-30.9	-40.6	-38.8	-36.0	-35.2	-32.9	-30.1	-27.5	-32.7	-34.0	-32.1	-29.9	-26.6	-23.5	-26.1
Maersk stock price (% difference from pre-coronavirus outbreak)	0.0	-24.3	-29.7	-35.9	-36.1	-32.8	-24.9	-26.9	-26.8	-24.4	-27.9	-27.4	-24.2	-24.2	-24.2	-24.2	-24.2
Financial markets data																	
S&P 500 (% difference from pre-coronavirus outbreak)	0.0	-7.8	-17.8	-27.1	-25.3	-23.1	-17.3	-14.8	-15.2	-12.6	-12.9	-13.1	-10.6	-8.8	-5.7	-5.1	-6.0
EuroStoxx 50 (% difference from pre-coronavirus outbreak)	0.0	-11.5	-26.4	-34.6	-28.2	-28.1	-24.4	-24.3	-24.9	-22.4	-24.2	-25.4	-22.9	-19.8	-14.6	-13.9	-14.5
Shanghai SEE (% difference from pre-coronavirus outbreak)	0.0	-1.2	-4.4	-12.2	-12.4	-11.4	-9.6	-8.8	-8.3	-7.2	-5.8	-5.5	-6.3	-7.6	-4.5	-3.6	-3.5
US 10-year Treasury yield (%)	1.8	1.0	0.8	1.0	0.8	0.7	0.7	0.7	0.6	0.6	0.7	0.7	0.7	0.7	0.8	0.8	0.7
German ten-year government bond yields (%)	-0.2	-0.7	-0.7	-0.3	-0.4	-0.5	-0.3	-0.4	-0.4	-0.5	-0.5	-0.5	-0.5	-0.4	-0.4	-0.4	-0.4
Italian 10-year government bond spread (bps)	162	173	229	245	184	200	197	223	246	229	244	239	212	196	184	183	179
US Bloomberg Barclays High Yield OAS (bps)	320	494	673	913	1017	910	850	728	757	759	737	736	696	648	579	580	574
US Bloomberg Barclays Investment Grade OAS (bps)	95	130	190	295	329	279	251	208	210	205	208	211	190	179	160	153	148
VIX	12.3	36.8	57.8	74.6	62.8	53.1	43.7	39.6	41.7	33.9	32.6	32.1	29.1	28.0	26.2	31.6	33.9
Commodity price: Brent Oil (\$ per barrel)	64.5	50.0	35.0	28.1	26.7	28.4	32.3	29.2	21.7	23.5	29.7	30.5	35.3	35.9	40.0	40.0	41.0
Citigroup economic surprise index	1.7	11.3	14.6	2.8	-5.1	-7.5	-18.6	-30.6	-51.3	-69.4	-71.8	-64.9	-65.6	-51.9	-21.4	0.5	-4.0

* Subject to data being available

Source: Oxford Economics / Apple / Blavatnik School of Government, Bloomberg / Datastream / Flightradar24 / Google / Haver Analytics / STR / UNESCO / WIND