

23 September 2020

Erik Britton



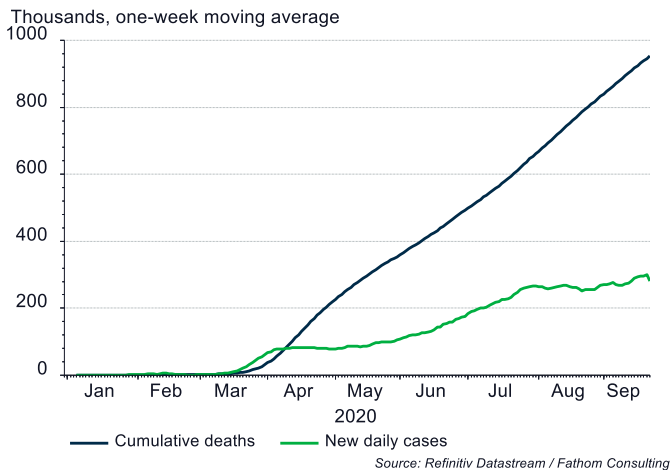
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Headlines

- Case numbers probably rising, new restrictions resulting; increased weight on W
- Transport usage continues to support a V, with caveats
- New evidence on savings suggests forced rather than precautionary — supports super-V
- UK government sets up a 'win'
- Excess deaths still low or non-existent for now, but lags
- Round one went to the disease; seconds out for round two

The number of new confirmed cases continues to rise globally, though this is in part because of an increased number of tests. Even controlling for that, though, it is likely that the 'true' number of new cases is rising globally, though not in all countries. New daily deaths attributable to COVID-19 are very unevenly spread across countries, even when expressed as a share of the population as in the second chart below.

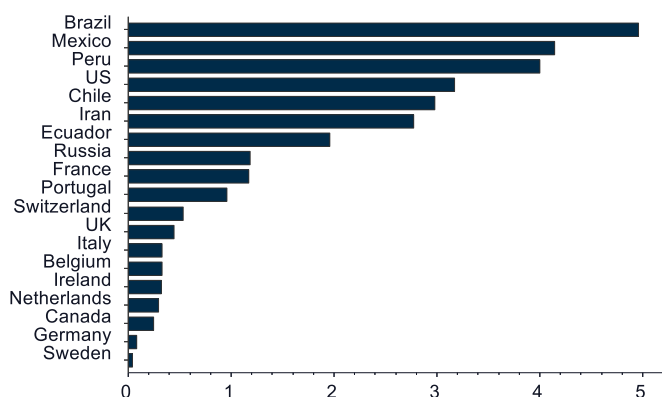
Global COVID-19 cases and deaths





COVID-19 new daily deaths per million

Number, seven-day moving average, ending 22/09/2020



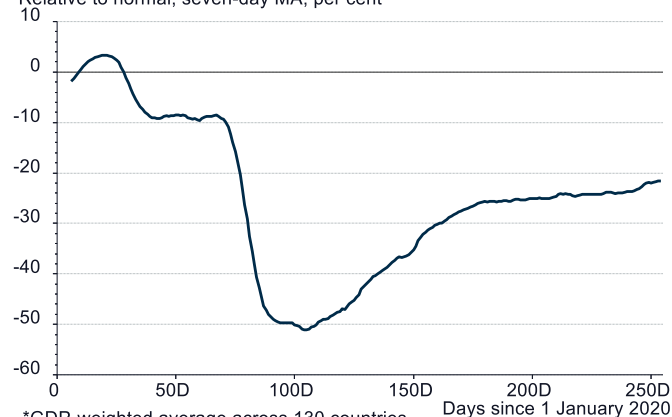
Source: Refinitiv Datastream / Fathom Consulting

The increase in the number of cases in recent weeks in some European countries has prompted fears about a corresponding pickup in deaths, leading to renewed tightening in restrictions on movement. That tightening will inevitably put a dent in economic activity, though how big a dent remains to be seen — and some such dent might have occurred anyway as a result of a behavioural response to increasing cases. A V is still our central case (with a 60% likelihood), with global economic activity returning to its pre-crisis level by the second half of 2021. But the risk of a W has increased slightly, from 20% to 30%.

The V is consistent with the data so far in the third quarter, including estimates derived from smartphone usage relating to the time spent on public transport relative to normal, across 130 economies. The shape of this chart proxies the path of global economic activity neatly. The trend in that line would bring it back to normal by the middle of 2021. However, our view is that it is unlikely ever to return to its pre-crisis norm. The crisis has taught at least some businesses and individuals that they do not need to travel so much by public transport (or, indeed, at all) in order to work and be productive. That learning will not disappear even when the virus is forgotten. As a global economy, we have learnt how to be more efficient in our use of public transport, and part of that efficiency gain will remain in place permanently. GDP may recover to its pre-crisis level even though public transport usage never does.

Time spent on public transport*

Relative to normal, seven-day MA, per cent



*GDP-weighted average across 130 countries

Source: Refinitiv Datastream / Google / Fathom Consulting

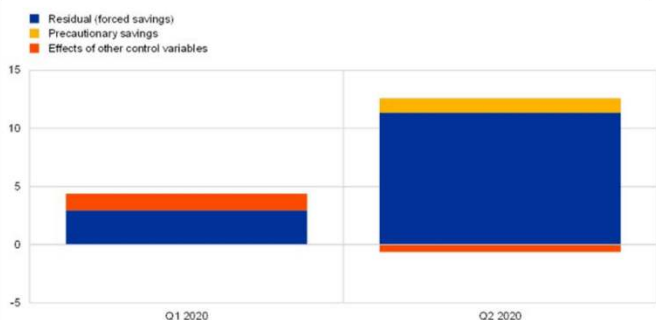
The V remains our central case, and the W has increased in likelihood. But a super-V also remains on the cards (a 10% shot). One of the factors supporting a super-V is the build-up in household savings during the crisis. To the extent increased savings reflected 'fear' about the spread of the disease or its impact on employment opportunities or future income, we should only look



for savings to decrease again once that fear is removed. But to the extent higher savings were 'forced' rather than precautionary, in the sense that because of restrictions on movement people simply did not have the opportunities for discretionary spending that they normally enjoy, a more bullish conclusion can be drawn. As soon as those opportunities present themselves again, the spending will increase. [Recent research](#) from the ECB suggests that, in Europe anyway, the bulk of additional savings were 'forced' rather than 'precautionary', pointing to the potential for a rapid bounceback in consumer spending in Q3 and beyond: a super-V. We retain a 10% weight on this scenario for that reason.

Drivers of the increase in the household saving rate

Change with respect to Q4 2019, percentage points of disposable income



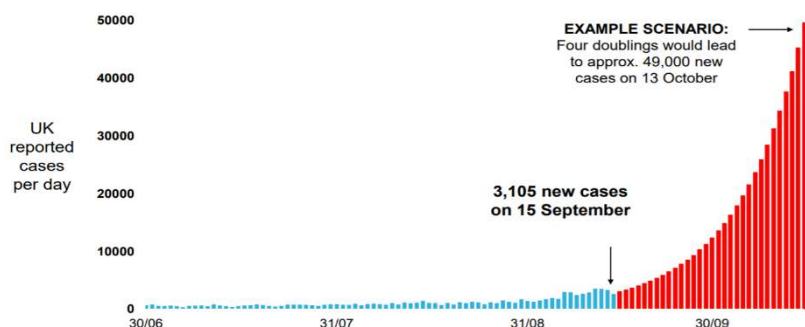
Sources: Eurostat and authors' calculations.

Note: The change in the saving rate in the first quarter of 2020 is based on official statistics, while the change in the second quarter of 2020 is an internal estimate.

Source: European Central Bank

The British prime minister announced a raft of new restrictive measures last night, set to run for six months (implying at least some restrictions will have been in place for a full year in the UK, if these new ones last that long). These measures have support — an incredible (to us) two-thirds of the British public would support another full lockdown if cases continue to rise, according to a recent Yougov poll. But there is a strong whiff of managing expectations in the latest set of briefings from the British government, commencing with a 'what if' scenario presented by Sir Patrick Vallance. The chart below shows what would happen to the number of new reported cases in the UK if they were to double every seven days. While this is no doubt informative about what one kind of exponential growth looks like, the choice of a seven-day period is rather arbitrary, to say the least. Cases were doubling at that rate in the UK for a few days at most, but the rate has already slowed (as the second chart below, our estimates of R across the UK regions, illustrates). It is highly likely that, with or without new restrictions, the rate at which new cases increased would be substantially slower than the red bars in the chart suggest. This is an easy 'target' for the government to beat — which is why they did not present it as a 'target'. Nevertheless, it is likely that, if and when the data come in substantially below the path in those red bars, that will be presented as a win: a demonstration of the wisdom of the new restrictions that have just been announced. However, just coming in below those red bars will not support that conclusion: it is a question of how far below.

If doubling occurred every seven days what would it look like?



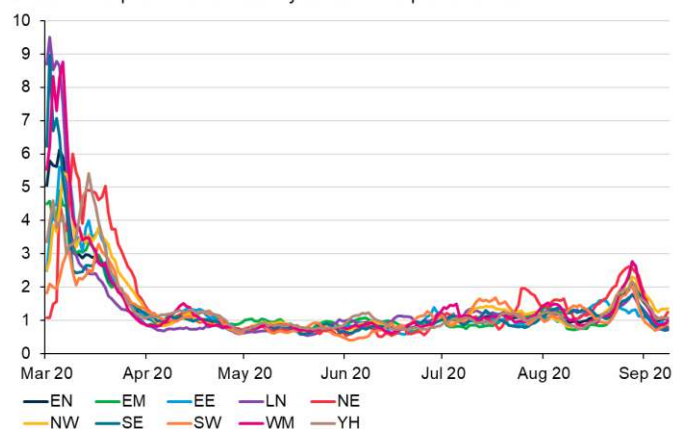
Data before 15 September represents reported cases from UK by reporting date (Public Health England). Example scenario after 15 September assumes for the purposes of illustration only a seven day doubling time between 15 September and 13 October

Source: Public Health England / GOV.UK



Estimate of 'R' across English regions

Cases in the past week divided by cases in the previous week

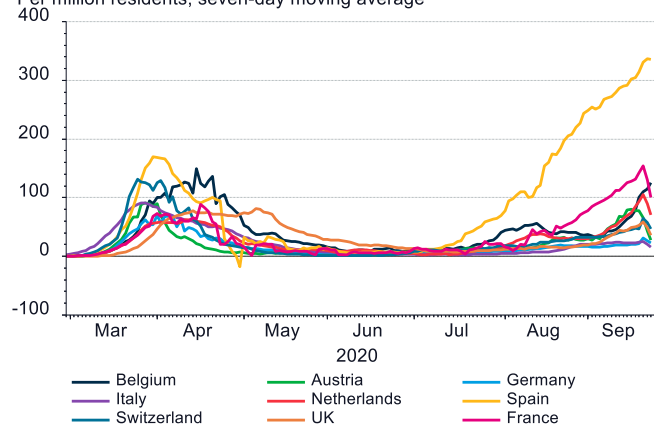


Source: Public Health England / Fathom Consulting

New cases are clearly important, if clouded in interpretation by the number and accuracy of tests (it is important to state here that of course all countries should be undertaking as many tests as possible, and pursuing contact tracing aggressively too). But the underlying and bigger concern is whether more cases will translate into more deaths (and/or persistent harmful symptoms). Data on deaths lags data on cases, so even though recent deaths attributed to the disease are few in many countries including the UK, it is not safe yet to conclude that they will remain that way. However, evidence from other European countries where the number of cases picked up earlier than they did in the UK is encouraging. The number of excess deaths from any cause (which is the single most comprehensive measure) fell to zero in France and Spain during June and July, and then picked up again during August, following the pickup in new cases in both countries. But the good news is that excess deaths have already turned down again towards the end of August in both countries, despite the continued increase in new cases. The peak was nowhere near what we saw in April — at least so far.

COVID-19 new daily cases, Europe

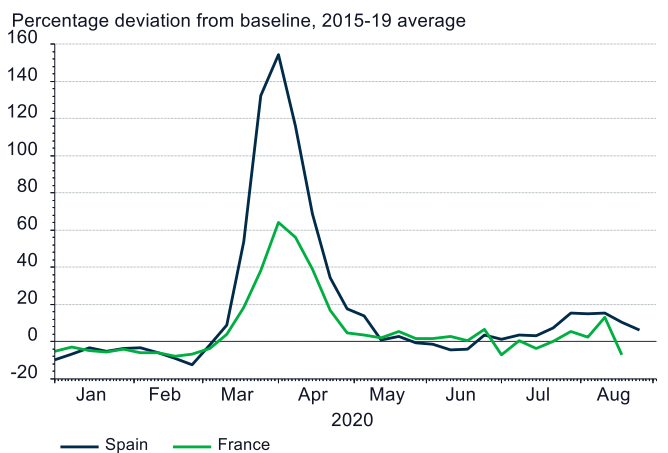
Per million residents, seven-day moving average



Source: Refinitiv Datastream / Fathom Consulting

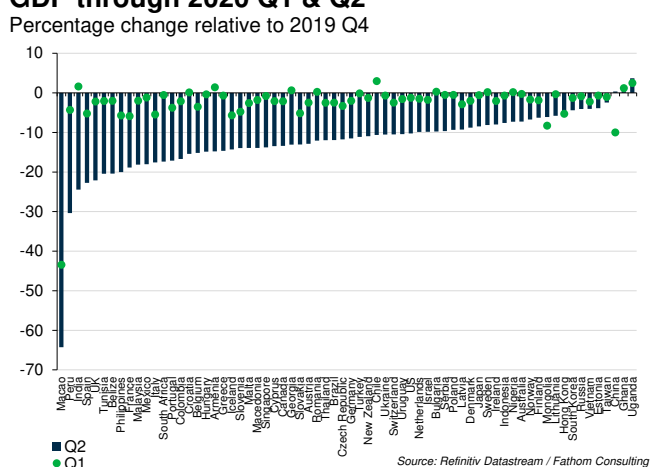


European excess mortality



We now have GDP data for 68 economies covering the first two quarters of 2020: it makes grim reading. With a very few exceptions, the first half of 2020 saw the steepest decline in GDP in recorded economic history. Round one in this battle went comprehensively to the disease; round two is commencing now.

GDP through 2020 Q1 & Q2



If we go to widespread new and aggressive restrictions on movement (the measures announced in the UK yesterday do not constitute 'aggressive' measures yet, in our judgement) then the chances of a W will increase sharply. If, on the other hand, we can adopt the more medically successful and less economically damaging contact-tracing regimes seen in South Korea and elsewhere in the first wave, then a W can be averted. Since we have a clear, recent example of what successful mitigation looks like, it would be a disastrous failure of government to avoid learning that lesson and applying it this time around. To put it crudely, the disease would then win round two as well. The early signs are not good.

Interesting reading

- Seconds out for round two: early evidence emerging of COVID-related default risk, in Zambia: <https://on.ft.com/3iSH83n>
- Encouraging research out of Bristol university on a potential treatment: <https://www.bristol.ac.uk/news/2020/september/spike-protein.html>



- The young bear the brunt of the economic impact in Britain: <https://www.bloomberg.com/news/articles/2020-09-15/britain-s-young-workers-took-a-big-hit-in-virus-lockdown-chart>
- The great rebalancing is underway: <https://www.theguardian.com/money/2020/sep/15/renters-fleeing-inner-london-in-race-for-space-data-suggests>



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