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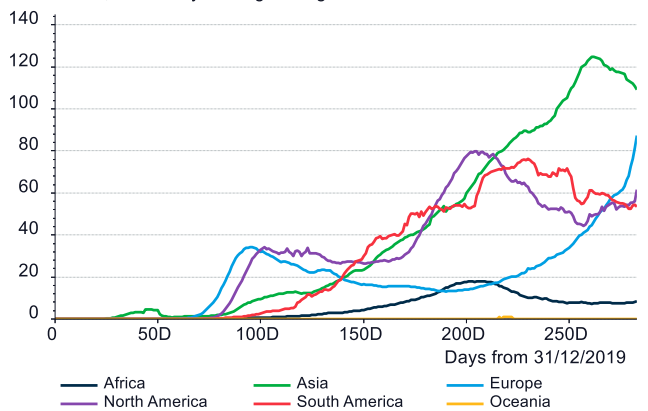
## Headlines

- President Trump recovers from the virus; financial markets rally on the news
- UK Conservative government announces policy response to battle second wave; three tiers of restrictions and targeted furlough scheme introduced, but the opposition Labour Party is already pushing for a more aggressive response
- IMF releases *World Economic Outlook*; revises 2020 global growth forecast up from -4.9% to -4.4%

With the number of COVID-19 cases on the rise once again in Europe, governments have announced a host of new measures targeted at bringing the virus back under control. However, politicians remain reluctant to reimpose the kinds of nationwide lockdowns seen earlier in the year. Rather, the tendency has been to adopt a more targeted approach, with a preference for imposing measures on selected industries or on targeted regions.

## New COVID-19 cases

Thousands, seven-day moving averages



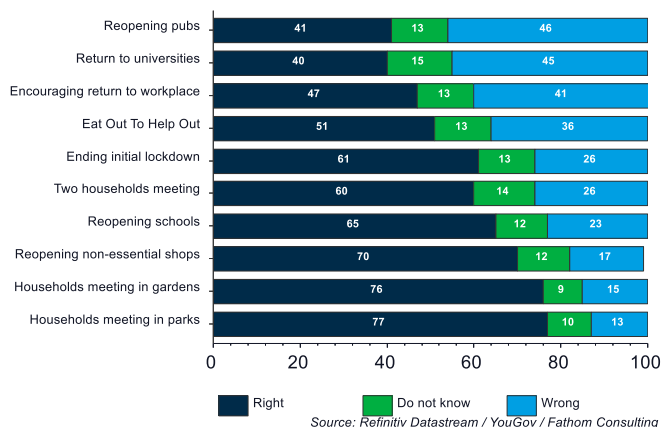
In the UK, this includes a second wave of restrictions on the hospitality industry, a sector whose fortunes the government was attempting to revive with the Eat Out To Help Out (EOTHO) scheme just a few weeks ago.

Announced in July, and running through August, EOTHO had been one of the UK government's flagship policy responses to the COVID-19 pandemic, providing discounted meals to eat-in diners up to a maximum discount of £10 per meal. Hailed as a bid to save the hospitality industry, EOTHO has proved popular with the general public. As with other policy initiatives, the scheme's introduction has affected a number of headline macroeconomic statistics as well as the industry itself. While this edition of *Recovery Watch* specifically covers the impact of the UK scheme, the discussion of EOTHO serves primarily as an example through which to explore more general issues.



## UK support for easing of lockdown measures

Per cent of respondents, poll date 29-30 September 2020

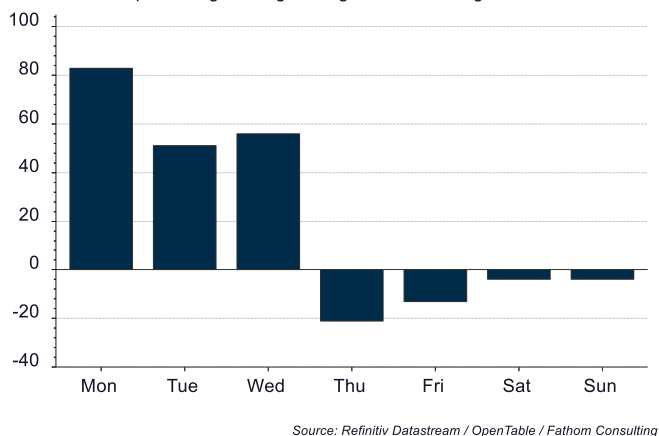


## Impact on dining volumes

Data from OpenTable show a substantial recovery in dining reservations throughout August. Indeed, reservations covering the first half of the week (Monday-Wednesday) were on average 63% higher than a year earlier. By contrast, the number of diners in the second half of the week (Thursday-Sunday) were on average 10% down over the same time period. Data from HM Treasury show that approximately 63 million meals had been claimed by 27 August, more than had been expected at the onset. This is most likely an upper estimate of the impact of the scheme — some meals would probably have been eaten anyway, others may have been brought forward from the latter half of the week, while some individuals might have swapped take-out for eat-in.

## UK seated diners

Twelve-month percentage changes, August 2020 averages



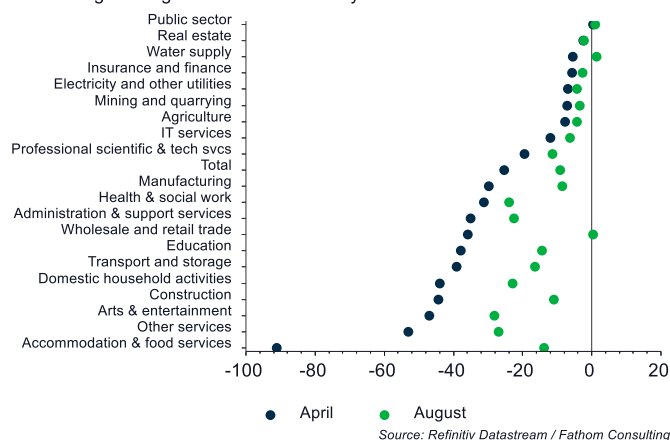
## Impact on the aggregate level of economic activity

Of all major industries, the UK's hospitality sector suffered by far the largest hit to output during the crisis — in April, during the depths of the crisis, it was operating at around 10% of normal capacity. It has recovered rapidly since, with output more than doubling in both June and July, and activity increasing by a further 70% in August.



## UK GDP by industry

Percentage changes relative to February 2020

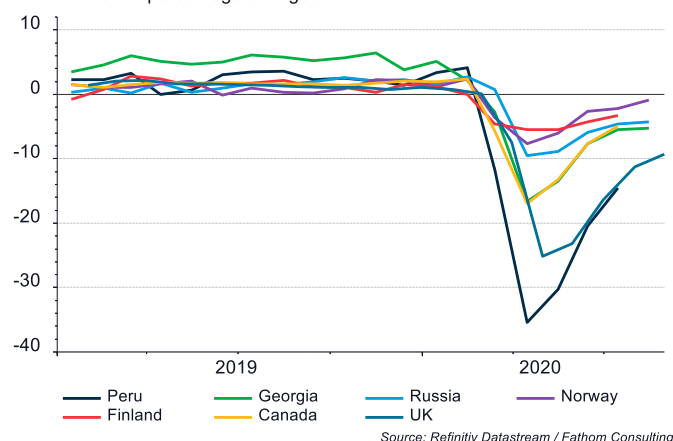


Although the hospitality industry is employment-intensive, it only represents a fraction of UK economic output. Indeed, despite the impact of EOTHO, growth in food and beverage service activities only added 1.3 percentage points directly to August's monthly GDP growth rate. The total impact on activity may be slightly larger than this once second-round effects are considered.

Despite such schemes, it seems unlikely that the UK's economy (and those of most other nations) will be able to recover their pre-crisis levels of output this year, even if the second wave of the virus is successfully headed off. Indeed, monthly GDP data are already consistent with Fathom's view that the rapid bounceback would slow a little towards the end of the year, but that the global economy is nevertheless likely to be within 3-4% of pre-crisis levels by the start of 2021. Taking the example of the hospitality sector once more, it seems unlikely that venues such as pubs and bars will be able to operate at full capacity while social distancing remains in place.

## Monthly GDP outturns

Twelve-month percentage changes



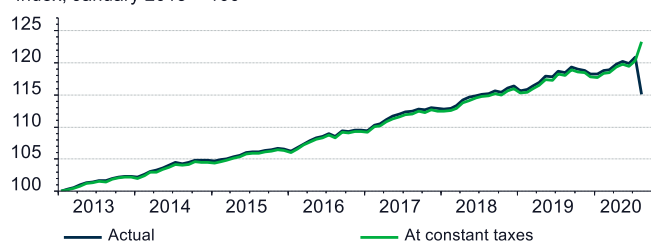
## Impact on inflation

In March, Fathom argued that the impact of the crisis on inflation was ambiguous, with the lockdowns affecting both the supply and demand sides of the economy in equal measure. This view has broadly been vindicated, with the fall in UK inflation since then largely due to short-term fluctuations in energy prices and the impact of government intervention. Indeed, it is worth noting that, after adjusting for changes in taxation, twelve-month inflation has been rising since May and is almost back to 2%. One might wonder whether the negative supply side shock is starting to assert itself.



## UK CPI: restaurants & hotels

Index, January 2013 = 100



## All items at constant taxes

Twelve-month percentage change

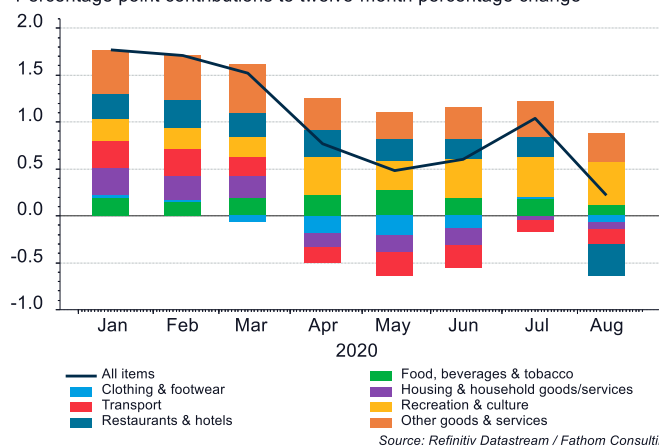


Source: Refinitiv Datastream / Fathom Consulting

EOTHO was largely responsible for the decline in August's inflation numbers. Since CPI is designed to reflect the prices paid by consumers, and the scheme is effectively a subsidy on private consumption, the ONS reported a substantial fall in the cost of dining out in August.<sup>[1]</sup> Despite a relatively small weighting in the overall consumption basket (12%), heavily discounted meals still knocked around 0.3 percentage points off the headline inflation rate having contributed 0.2 percentage points in July, a total swing of more than 0.5 percentage points. Given that the scheme no longer remains in place, a rebound in CPI is likely in September's rate.<sup>[2]</sup>

## UK CPI

Percentage point contributions to twelve-month percentage change



Source: Refinitiv Datastream / Fathom Consulting

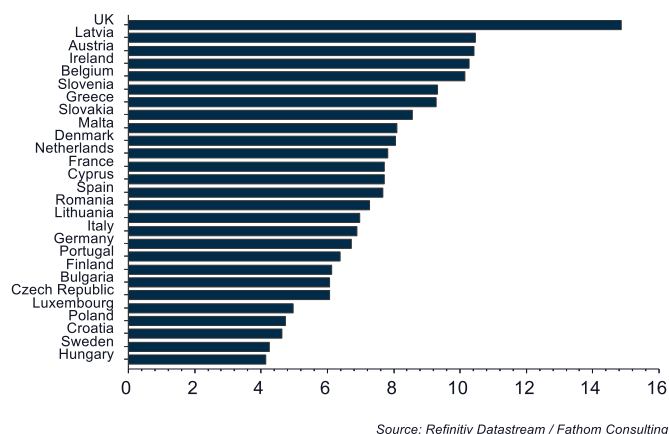
## Impact on public finances

Despite the publicity associated with the scheme, its impact on the public finances was relatively mild. With an average claim of less than £6, HM Treasury counts the damage to its coffers at less than half a billion pounds. Chancellor Rishi Sunak will welcome this news, given that the other measures introduced by the government have pushed national debt above 100% of GDP. As we touch upon in our latest *Global Economic and Market Outlook*, our research shows that (though alarming) public debt at this level remains sustainable, provided interest rates remain low and debt maturities are long.



## European government debt

Average residual maturities, January 2020



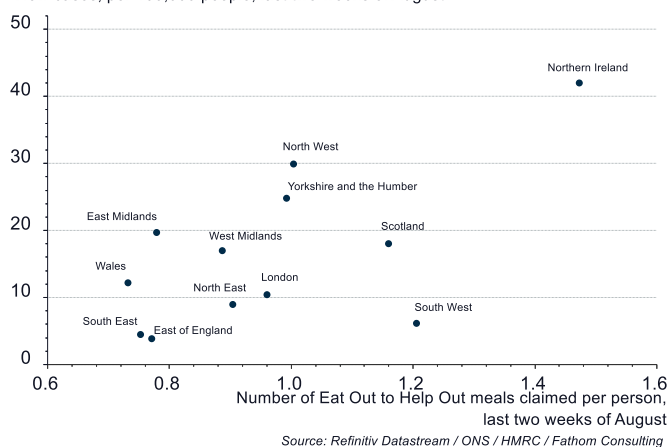
## Impact on cases

Gauging the impact of relaxing specific restrictions on the spread of the disease is hard, and it is still a subject of debate whether the hospitality sector is a vector of contagion.

There does seem to be some evidence of a relationship between the spread of the disease and take-up of the scheme, with infection rates rising faster where use of the scheme was higher. Indeed, analysis by Scottish health officials suggests that, since the start of September, around one-fifth of individuals who contracted the virus had been exposed to the hospitality sector in some manner.

## Eat Out to Help Out meals claimed and new cases

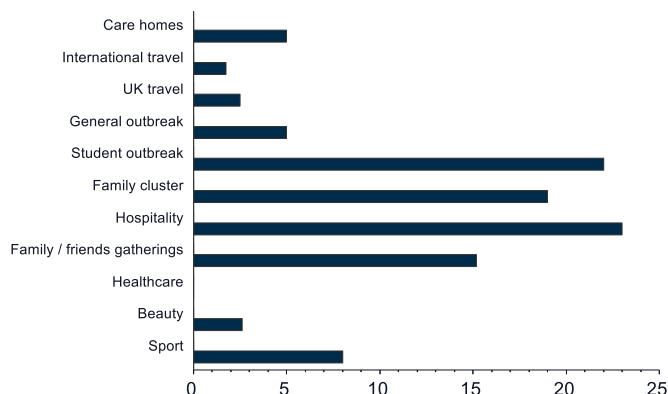
New cases, per 100,000 people, last two weeks of August





## Reported exposures of confirmed cases in Scotland

Per cent of cases exposed to different settings, week of 30/09/2020



Source: Refinitiv Datastream / Scottish Government / Fathom Consulting

However, whether the relationship is causal or not is difficult to say. Indeed, there are likely to be other factors highly correlated with both the tendency to dine out and the local reproduction rate of the disease. These may include (but are probably not limited to): age; earnings; social attitudes; and urban density. Moreover, it is not clear how the reported exposures of those who contracted the disease compare to the exposures of those who did not — i.e. do 20% of the population normally attend hospitality venues or visit family members?

Furthermore, the UK's COVID-19 track and trace app has reportedly only identified **one** outbreak that can be linked to a public venue since its introduction. The outlook for the hospitality industry probably depends on the accuracy of this result — if it is genuine, then the rationale for imposing further restrictions on the hospitality sector is unclear. However, if the result is false (i.e. a shortcoming of the app) and venues prove to be a common vector of contagion, then the outlook for the hospitality sector looks grim until a vaccine is found.

### Interesting reading

- Scottish health officials analyse how the disease is spreading: <https://www.gov.scot/publications/coronavirus-covid-19-evidence-paper-october-2020/>
- Brits believe allowing pubs to reopen was a mistake, YouGov finds: <https://yougov.co.uk/topics/politics/articles-reports/2020/10/02/covid-19-brits-believe-allowing-pubs-reopen-was-mi>
- IMF warns of subdued economic recovery in worst-affected countries: <https://www.imf.org/en/Publications/WEO/Issues/2020/09/30/world-economic-outlook-october-2020#Chapter%202:%20The%20Great%20Lockdown,%20Dissecting%20The%20Economic%20Effects>
- Spanish court rules against local lockdown restrictions in Madrid: <https://www.ft.com/content/b041cc5d-f545-4f6a-a475-54ba3c5b269b>

[1] In addition, the UK government cut the rate of VAT from 20% to 5% for other hospitality services, effective from 15 July.

[2] While some venues continued to offer discounts in September, and this may put some downward pressure on inflation, this is unlikely to be of the same magnitude as in August.

[3] <https://news.sky.com/story/coronavirus-contact-tracing-app-has-only-sent-one-alert-about-an-outbreak-in-a-venue-12099651>



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