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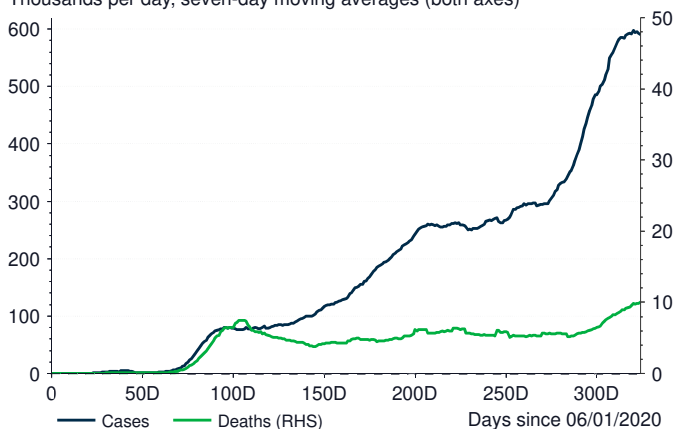
Headlines

- Second wave in full swing; lockdowns implemented, and appear effective — the worst might already be over
- Number of fatalities rising but far less out of line with normal seasonal experience than in the first wave, so far
- Highly effective vaccines likely to be available at scale early in the New Year
- Massive policy stimulus in place across DMs, more to come
- Second wave will mean a growth pause in Q4, Q1; but growth to return with a vengeance in Q2 and beyond
- OBR analysis breaks down impact by sector in the UK — some sectors in permanent trouble
- Scotch eggs back on the menu

The number of new cases of the virus has rocketed through November, globally, with the number of virus-related deaths following suit a week or so later. Drawing inferences from the recorded number of cases is unsafe because of the huge changes over time and differences across countries in testing regimes. What is clear is that the number of fatalities is mounting — although fatalities from any cause will normally tend to rise in the northern hemisphere at this time of year, and the fact that a death is attributed to COVID does not necessarily imply that it was caused by COVID. Even so, 'excess' mortality is high and rising (implying the overall mortality rate from any cause is high compared to what it normally is at this time of year). But, looked at in that way, the data indicate a second wave that is, so far, substantially less aggressive than the first.

Global new COVID-19 cases and deaths

Thousands per day, seven-day moving averages (both axes)



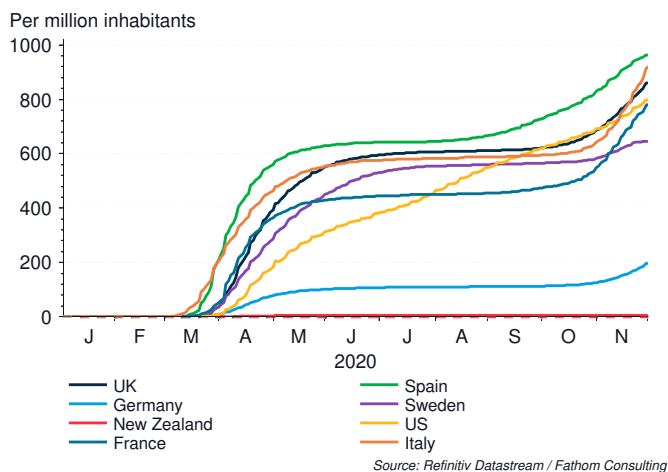
Source: Refinitiv Datastream / Fathom Consulting

The trajectory of the disease is far from uniform across countries. Deaths attributed to the disease are high and rising as a share of the population across a range of advanced economies, despite very different approaches to controlling the disease in each



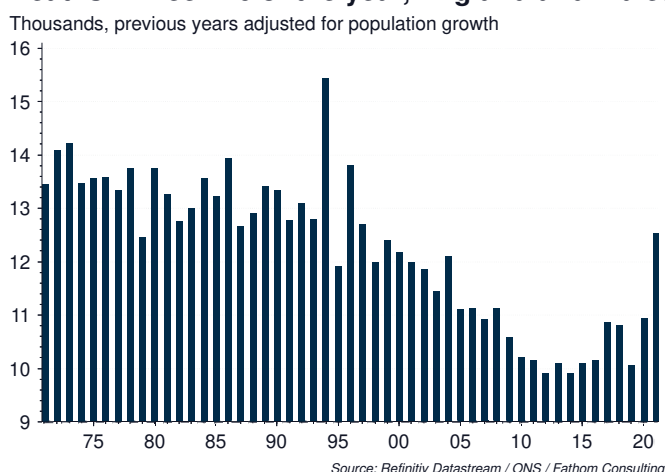
case. By contrast there are some advanced economies where the fatality rate is much lower, or non-existent (Germany and New Zealand, for example). In the case of New Zealand, a highly effective lockdown early on has proved an extremely successful strategy; while the relative success of the German strategy merits a good deal more analysis — they locked down early, but so did many other European countries who have subsequently seen their fatality rate soar. There remain many unknowns in understanding what determines the evolution of these patterns across countries.

COVID-19 deaths



The second-wave increase in excess mortality is clearly visible on the chart below, for which we are indebted to Ed Conway from Sky News: the chart shows the number of deaths in the UK from any cause in week 46 of each year. Week 46 in 2020 saw the mortality rate spike — but it remains below where it was on average in the same week in most years prior to 1995. That contrasts sharply with the experience of the first wave, when excess mortality far exceeded anything seen over the period since 1970. The second wave is, so far, much less aggressive than the first.

Deaths in week 46 of the year, England and Wales

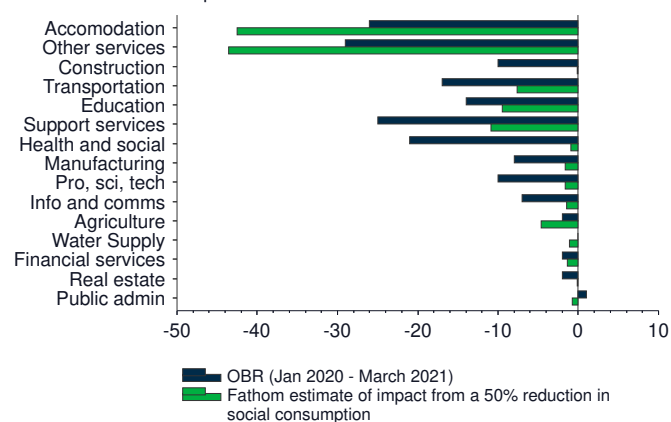


The UK government recently issued some very dispiriting advice^[1] on the likely economic impacts of the disease if no further action were taken — dispiriting because it amounted to saying: "It's very difficult to be sure about anything, so we're not even going to bother trying". However, analysis from the Office for Budgetary Responsibility, which had been shown to the government, was more helpful. It included an assessment of the likely short-term impact of the virus on the UK economy at the sectoral level. In Fathom's view, the sectoral impacts reported by the OBR are likely to understate the impact on the hospitality industry (including accommodation and other services), but perhaps overstate the impact on support services and health services, as well as, to a lesser degree, those on manufacturing, professional services and ICT.



UK first-round impact on GVA

Per cent deviation compared to baseline

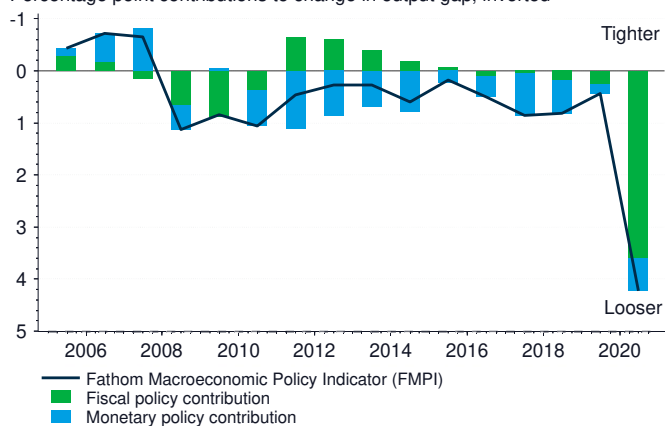


Source: Refinitiv Datastream / OBR / Fathom Consulting

The magnitude of those impacts provides ample justification for massive policy stimulus, which is indeed in place in the UK as it is across the whole of the developed world. The likely availability of highly effective vaccines in the New Year supports the case, if anything, for even more aggressive policy stimulus: the economy remains fragile and the disease real and harmful until those vaccines are widely available. Policy makers have an opportunity now to redouble their efforts to minimise both the harm to the economy and to health outcomes before the arrival of vaccines changes the picture. Without an effective vaccine, they would have to be thinking about long-term strategies for managing the virus and its impact on the economy. With one, it is just a question of navigating safely through the next few months.

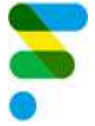
OECD FMPI

Percentage point contributions to change in output gap, inverted



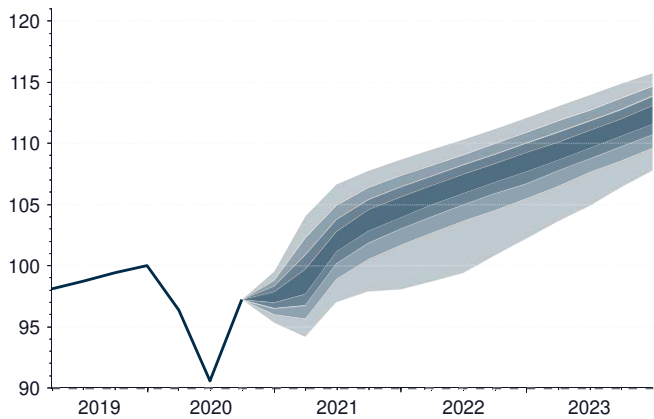
Source: Refinitiv Datastream / Fathom Consulting

The huge stimulus from macro policy is essential to support the economy in the absence of a vaccine — but it will continue to provide that boost once the vaccine arrives: and, again, that is entirely appropriate in the short term. The global economy has just experienced the steepest recession of all time, and it remains substantially below its long-run equilibrium. That lost ground will be recovered in large part from the second quarter of next year onwards: the second quarter is likely to be an exceptionally strong quarter, presuming the vaccines are rolled out early in the New Year.



World GDP

Index, 2019 Q4 = 100



While the economy as a whole is set to recover strongly next year, some sectors might never fully recover. International air travel has collapsed almost completely and, while tourism is likely to recover strongly, it could be that international business travel never returns to pre-Covid levels: people in business have learned that they can communicate with each other reasonably effectively without actually meeting face to face. Virtual meetings, in Fathom's view, are not as effective as face-to-face meetings — perhaps around 70% as effective, subjectively — but they will serve at least some of the time.

US international airline passengers

Millions

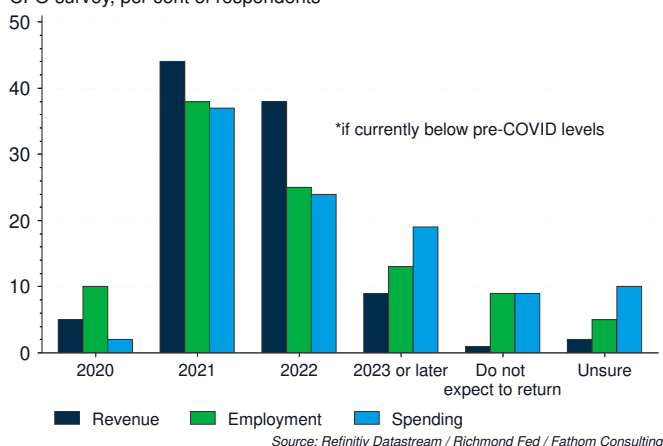


Echoing this point, a recent survey undertaken by the Richmond Fed shows that some 10% to 20% of companies in the US that are currently operating below their pre-COVID level do not expect to return to that level until 2023 or beyond. The aggregate picture will recover in full, probably, but its sectoral composition will change permanently.



Expected return to pre-COVID levels*

CFO survey, per cent of respondents



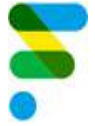
Finally, England shifts gears today from the national lockdown back to a 'tiered' system of restrictions that varies across the regions. Restrictions include, in some tiers, stipulations that you can only attend a pub if you partake of a 'substantial meal' while doing so — and arguments rage about what precisely constitutes a substantial meal. Beers of that name do not count. But, apparently, scotch eggs (a boiled egg wrapped in sausage meat and breadcrumbs and deep fried, for the uninitiated) [do](#). This author is not sure if it's worth it.

[1] In Section 3.20 of this report the government declines to estimate the economic impact of letting the virus run its course without intervention, saying merely it is "not possible to know with any degree of confidence". https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/939876/Analysis_of_the_health_economic_and_social_effects_of_COVID-19_and_the_approach_to_tiering_FINAL_SofS_.pdf

Interesting reading

- Is there a case for vaccinating the super-spreaders first? <https://www.wired.com/story/covid-19-vaccine-super-spreaders/>
- UK approves Pfizer vaccine: <https://www.reuters.com/article/health-coronavirus-britain-vaccine/uk-approves-pfizer-biontech-vaccine-for-use-first-in-the-world-idUSKBN28C0P4>
- OBR sectoral impact analysis can be found here: http://cdn.obr.uk/CCS1020397650-001_OBR-November2020-EFO-v2-Web-accessible.pdf
- England and Wales excess mortality statistics can be found here: <https://ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/%20deaths/bulletins/deathsregisteredweklyinenglandandwalesprovisional/weekending20november2020>
- Data cited above from the Richmond Fed, relating to the survey of business expectations about the timing of a return to normality: https://www.richmondfed.org/research/national_economy/cfo_survey/data_and_results/2020/20201007_data_and_results
- Encouraging optimism from Philip Aldrick in the Times on Saturday: should we expect a modern version of the roaring twenties to begin next year? (£) <https://www.thetimes.co.uk/article/roaring-twenties-may-be-about-to-get-a-modern-post-pandemic-sequel-s58jbslhr>





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