

## Flash Note: 20/04/2020

Alex Fusté

[@AlexfusteAlex](#)

[alex.fuste@andbank.com](mailto:alex.fuste@andbank.com)

### The path ahead. Questions & answers

#### Where exactly are we in the pandemic cycle?

This depends on each geographical area. In the Euro area, the number of daily new infections has been on a downward trend for two weeks, prompting some governments to start relaxing their lockdowns. A clear example comes from the German government's decision to allow small shops to open from today, or the Spanish government allowing construction and manufacturing companies to go back to work. We could say that Asian economies are one month ahead, and America is between two to three weeks behind Europe.

#### When economies will be fully reopened?

Some may think that in Europe, the reopenings announced by Germany, Denmark and Austria are the exception rather than the rule, meaning that in the rest of economies (specially France and Italy) the exit from lockdowns is going to be long—maybe a matter of months -. We think that the rest of big European countries will follow suit with phased reopening beginning at various points in May. Admittedly, many Western nations could see how the economic activity will remain at levels below normal until August, but other economies could do it much sooner. Maybe in June or July

#### Why two speeds? Which ones will be the winners?

As in the economy, there are also two groups as to the efficiency of the pandemic management, and thus, also two speeds in the normalization of activity. The good news is that driving nations (such as China or Germany) are showing a greater effectiveness in managing the pandemic, which could lead to a reopening and normalization before August. As for China, there seems to be little doubt about this (it is experiencing a "V" shaped recovery, with the industrial activity index falling by 12% yoy in February, but only -1.1% in March). Germany is also ahead in the control of the pandemic (registering several days with a negative daily variation in the number of active cases, meaning that there are fewer patients every day).

#### What is the path ahead in the US? Will the US manage to control the disease and accelerate the economy before August?

Most states remain under stay-at-home order until the end of April, meaning that populated states with a modest disease burden so far could well **start reopening in early May**.

The most economically important states (with the largest outbreaks) are likely to maintain strict policies until well into May (meaning that will not reopen until 15 May). In New York, for example, daily deaths and cases have started to decline but has

extended its stay-at-home order until May 15. In my view, the US should follow a similar trajectory than Germany, maybe with a longer lag (1 month maximum).

If China is the template, then: 1) The flattening of the case curve started around two weeks after the imposition of controls. 2) The spread was controlled after about six weeks after the imposition of controls. 3) Formal restrictions have been reduced to about half after 10-12 weeks from the imposition of controls, with the activity running at around 80-90% of normal. That is to say about two months from the start of the controls to achieve a high degree of normality.

As the shape of the pandemic is similar in most European countries and US states (new case and fatality curves began to flatten roughly a month after social controls were imposed in mid to late-March), and as long as current social restrictions stay in place in the US for some more days (in some states will remain until 15 May), it's reasonable to assume that case counts and fatalities will follow sustained downward trajectories over the next couple of weeks, paving the way for **restrictions to be eased beginning in the first half of May**. By mid-June, most jurisdictions should have exited from the extreme forms of lockdown.

#### **How much are the economies going to fall?**

Western countries ended up taking approaches very similar to China's. Their responses are quantified in the "Policy response stringency index" compiled by Oxford University's Blavatnik School of Government. According to this index, most countries have adopted similar types of restrictions, and thus, their overall economic impact is likely to be much the same. So China's report of a -6.8% yoy contraction in GDP in 1Q2020 (or -9.8% saar on a quarter-on-quarter basis) is a good approximation of the likely 2Q20 outcomes in the US and European economies.