17 April 2020

Flattening the curve: the first step to economic recovery

**COVID-19 - daily confirmed cases (log-scale)**

- **Virus progress:** Major European economies, along with the US and Canada, are managing to “flatten the curve” of the coronavirus. The number of daily confirmed cases of COVID-19 has plateaued across the west – see chart. The progress remains tentative and subject to potential reversals. Still, it does support the hope that the number of daily cases could fall (further) soon. It has encouraged leaders on both sides of the Atlantic to discuss or even take the first steps towards lifting some of the harsh restrictions on daily life and economic activity.

- **Latest on the lockdowns:** Yesterday, US president Donald Trump announced a series of guidelines for states to lift restrictions. It is down to individual states to decide when to act. While some states will begin to open up cautiously sooner than others, as a best guess, expect most to wait until early May. In Germany, most small shops will reopen on Monday while some other restrictions on schools will be lifted gradually from 4 May. While Spain and Italy have eased restrictions a little, most measures will remain until early/mid-May – as in the UK and France. Thereafter, expect those countries to lift some key restrictions gradually – probably along the lines that Germany has set out.

- **Rebound can begin in May:** The harsh lockdowns are crippling economic activity. As a best guess, the hit to economic output is around 30% for most advanced economies while the restrictions last, with risks tilted to the downside. We expect a modest snapback once some measures are lifted. Shops that are currently closed should enjoy at least some level of business as soon as they reopen, for instance. With luck, the recovery can tentatively begin in May. Chances are that April will be the bottom of the coronavirus recession.

- **On track for tick-shaped recovery:** The plans to lift the lockdown gradually and in a series of steps is in line with our underlying assumptions for a tick-shaped rebound in Europe – that is, the current sharp downturn will be followed by a somewhat flatter upturn that ultimately goes beyond the pre-corona level of GDP. For major European economies, we expect GDP to surpass its late-2019 level roughly two years after the trough. Growth can remain modestly above-trend through 2023 and 2024 as the lagged impact of the monetary and fiscal stimulus continues to support demand.

- **Second-wave risks?** Governments face a tricky balancing act. If life returns to normal too fast, a potential second wave of infections that matches or even exceeds the first would require renewed harsh lockdowns. The very cautious approach to lifting the lockdowns, the better preparedness of healthcare systems, plus the changes to daily life – such as wearing masks in public – suggest that a major second wave can be prevented. The risk will be even lower in countries that test the most and take a thorough approach to contact-tracing. Nevertheless, a resurgence of the virus is the risk to watch. On top of the massive economic shock from the first wave, the economic damage and the risk of a financial crisis would be even more severe during a second round of harsh lockdowns.

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