

# Macro Monthly

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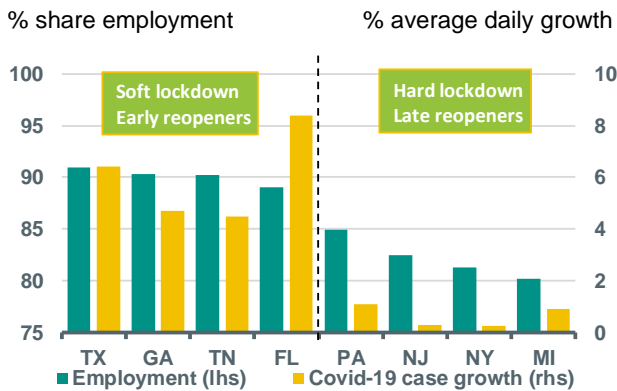
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## The pitfalls of a fast rebound

- ▶ While the world is eagerly coming out of its shelter, the difficulty is how to navigate between maximizing the rebound and minimizing the chance of a renewed wave of infections. In some parts of the world, particularly the US, we see a faster than anticipated rebound, a subsequent increase of infections leading to renewed restrictions and a dip in economic activity.
- ▶ In other parts of the world, most noticeably China, we see a much more slowly and orchestrated rebound taking place. Although local mini waves of infections have occurred, it seems relatively well contained and therefore unnecessary to re-instate restrictions on economic activity.
- ▶ For Europe the key question is whether it is able to learn the lessons from the East, avoid the pitfalls from the West, and find the precarious balance to economic recovery. Our base case scenario of a slow and protracted recovery, still seems most probable. But the hunger for a V-shaped rebound is also gaining traction. Given the above mentioned risks of a hurried reopening, we also see growing risks of a second wave of infections and a renewed lockdown, albeit in a lighter variant.
- ▶ In the coming weeks however, all eyes in Europe will be on the recovery fund negotiations, which centre more around dividing the pie, than about the rebound potential that it could entail. Plotting the Commission's proposed budget allocation against allocations based on actual Covid-19 damage reveals that large allocation changes are at stake this week.

## Early reopeners in the US

In the US the dynamic of hastily reopening, surging infections, and as a consequence renewed restrictions of economic activity is particularly notable. While the rebound in the US consumer spending and the return to work of furloughed workers was striking, we also saw that regional hotspots of new waves of infection have emerged. In fact, the figure below shows that states where lockdown restrictions were eased early, like Texas and Florida, indeed employment recovered closer to pre-pandemic levels, but infections have since surged. This chart shows only correlations and not causal relationships, and it is more likely that states with surging infections are now seeing a renewed rise in layoffs as restrictions are reimposed. The fact that we have seen the opposite so far if anything underlines the relationship between reopening, employment gains, and subsequent infection surges.

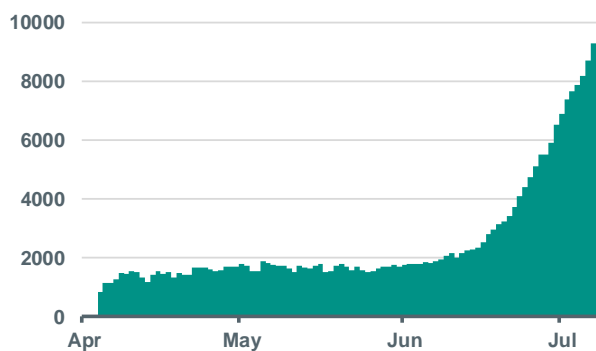
**US: Soft vs hard lockdown**

Source: Thomson Reuters Datastream, ABN AMRO Group Economics

In one of the earliest reopening states Texas, new infections are now growing unsustainably. In Texas and other states where infections are surging, we see consumers shying away from eating out. This could mean the start of a reversal of the economic rebound that had started in May

**Texas hospital admissions continue to grow unsustainably**

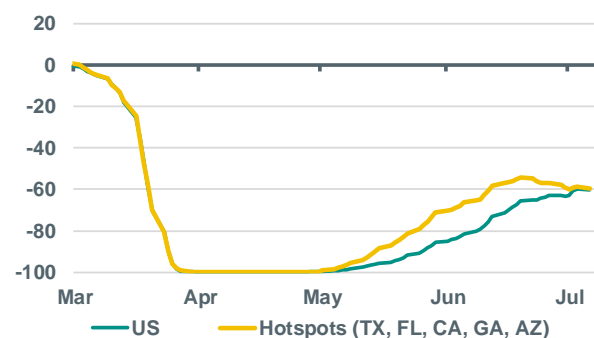
Number of covid-19 patients in Texas hospitals



Source: Texas Government, ABN AMRO Group Economics

**Seated dining is falling back modestly in pandemic hotspot**

OpenTable seated dining, % yoy



Source: Bloomberg, ABN AMRO Group Economics

While this dynamic significantly increases downside risks, we do not yet see reasons to adjust our forecast. Until now, local governments, particularly those in the hotspot states are less inclined to reimpose lockdowns as long as hospital capacity is not scarce. We do feel however that it is a gamble to keep economies open while infection rates surge, both to public health and to the economy. Recent studies (see for example [here](#)) that use mobile phone data to track the locations of consumers, convincingly show that legal restrictions explain only 7 percent of the 60 percent drop in consumption during the lockdown in the US, with fear of infection causing the main economic damage. These results suggest that a 'public health first' approach also causes the least economic damage.

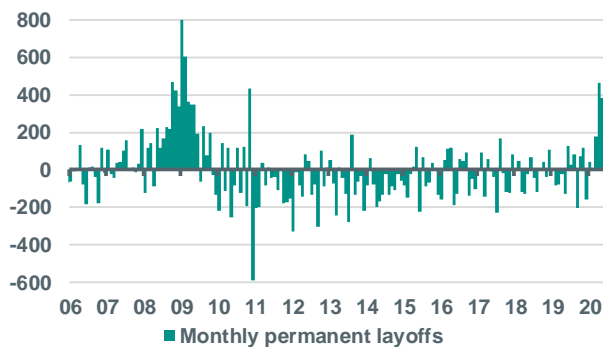
**Permanent unemployment rising**

Another factor that may reduce consumers' willingness to spend is the increase in permanent unemployment (see our US jobs analysis [here](#)). While the movements up and down in the number of furloughed workers was making spectacular

headlines, the underlying trend is one of a steady increase of permanent unemployment. In fact the fast rising permanent unemployment to 3,7 million workers has wiped out six years of labour market gains in just a few months.

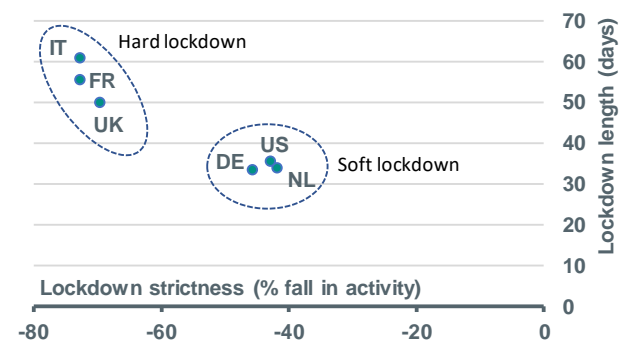
### US labour: monthly permanent layoffs

Thousands



Source: Thomson Reuters Datastream, ABN AMRO Group Economics

### Lockdown strictness vs number of days



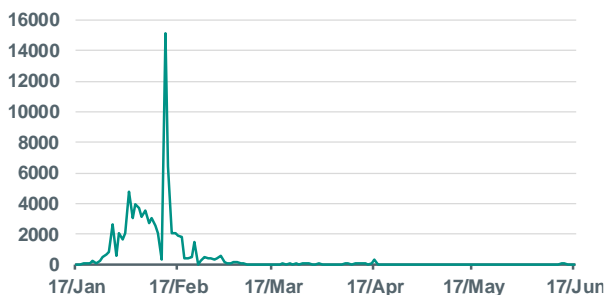
Source: Google, ABN AMRO Group Economics

## China is showing us a way out

In terms of what one can reasonably expect in terms of economic rebound, China seems to be leading the way. The combination of strict regulations, micro-quarantining and technology driven national surveillance has been pretty successful in enabling China to deal with its third mini wave of reinfections (see also our China Watch [here](#)).

### New confirmed covid-19 cases: '2<sup>nd</sup> wave' no game changer

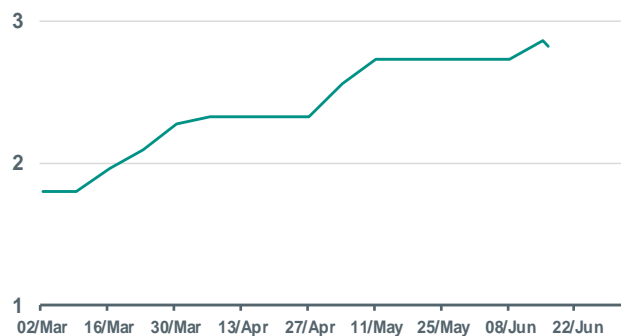
Number



Source: Bloomberg, ABN AMRO Group Economics

### Nationwide, emergency measures have eased since March

Average emergency level, regional GDP-weighted (higher score=less restrictive)



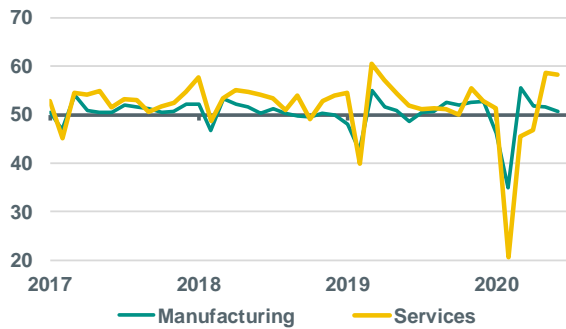
Source: IHS, ABN AMRO Group Economics

## Cautious reopening creates a steady rebound

On the back of a cautious reopening, the manufacturing industry is moving back to pre-corona levels in an orchestrated fashion. While second quarter growth figures coming out this Thursday will give us a clearer picture of the rebound, PMIs for both manufacturing and services are already reaching levels well above 50 where growth is expected instead of contraction. Services have lagged the manufacturing rebound until now, but seem to have started catching up as households realize that the virus seems to be well managed. Underscoring the industrial rebound is that even Hubei, the epicentre of the virus, is showing production growth again

**China: PMI Caixin**

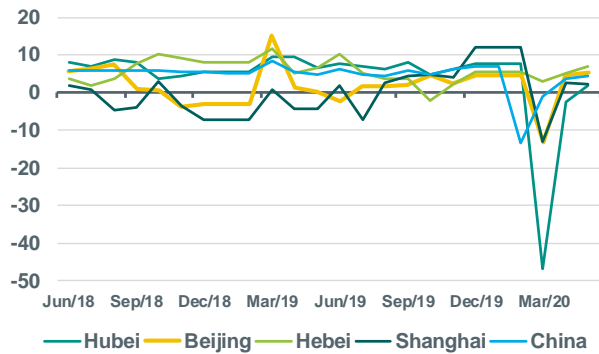
Index, 50=neutral



Source: Thomson Reuters Datastream, ABN AMRO Group Economics

**Positive annual production growth in epicenter Hubei**

Industrial production per region, % yoy



Source: IHS, ABN AMRO Group Economics

**Could China pull us out?**

Whether China's rebound can pull the world out of its global recession, as it did after the global financial crisis is very doubtful however. Despite the potential for an easing in trade tensions with the US if Joe Biden indeed would win the elections in November, China's engine role for pulling global demand is very different today. This is because a) China's economy has been hit much harder than during the global financial crisis, b) a stimulus as large as 13 percent of its output in 2008 is unfeasible today because of its debt levels, and c) China has become less dependent on imports of raw materials.

**Will Europe learn from others?**

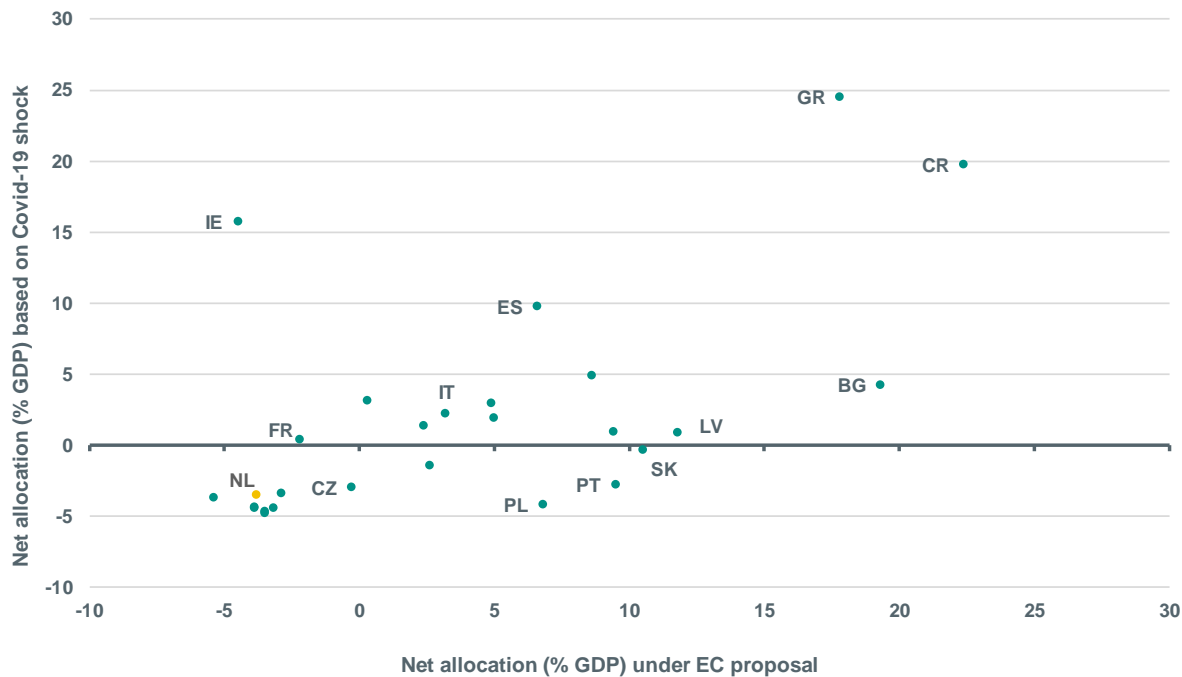
Is Europe going to avoid the pitfalls of the US where unsustainable infection rates are occurring as it is opening up? If it is, what will be its rebound potential?

To a large extent the answer to these questions can be found in the move for a common approach to recovery. In its original proposal, the European Commission calculated that the Recovery Fund could add up to 3.2 percentage points to GDP by 2024. We believe however that the probability that the initial proposal will be watered down is very high. Nevertheless, even if the proposed size is less than the EUR 750 billion proposed, the division of grants versus loans changes and the allocations shift, a common approach is still to be favoured in terms of Europe's rebound potential.

Without such a common approach, the economic impact of the rebound potential will vary significantly per country depending on the length and the strictness of the lockdown and the fiscal stimulus of individual member states. The Netherlands for example, has had one of the shortest (35 days) and least strict (-42 % activity) lockdowns, while in Italy, activities shrunk with more than 70 % for 60 days. These differences in lockdown do not only affect the depth of the economic downturn, but also the rebound potential. Other important factors driving different degrees of damage and the rebound is the dependence on tourism, which is obviously much higher in the Mediterranean countries, but also whether online consumption can easily substitute offline consumption. France's consumption was relatively hard hit due to the lack of digital infrastructures and online consumer habits. (see [here](#) for our analysis of differences in economic impact in Europe).

### Net allocation based on Covid-19 shock vs under EC proposal

% GDP



Source: ABN AMRO Group Economics

### The rebound potential

Rebound potential depends to a large extent on consumers' willingness to go out into the streets and consume and the ability of entrepreneurs to adapt their businesses to get as close to pre-corona revenue levels as possible. For this to happen, consumers need to feel safe as a first prerequisite.

For the Netherlands we keep track of private consumption by payment transaction data of our clients. These show that consumers were cautiously increasing their consumption when lockdown measures were first relaxed. Since most restrictions except social distancing were relaxed in June, consumption looks to be approaching 95 percent of pre-corona levels.

	Lockdown imposed											First relief		Restart			
	Consumer expenditure by category, % change yoy, weekly basis																
	2 march	9 march	16 march	23 march	30 march	6 apr	13 apr	20 apr	27 apr	4 may	11 may	18 may	25 may	1 jun	8 jun	15 jun	22 jun
Groceries (online)	60,7	135,6	93,0	156,3	181,3	287,3	311,1	212,2	351,4	380,8	254,8	226,5	243,1	226,1	236,4	197,5	221,9
Electronics	3,4	12,7	40,5	29,3	29,2	38,5	32,0	36,2	35,3	23,7	40,2	27,6	29,3	43,9	17,4	20,1	23,2
Groceries (offline)	9,4	45,2	38,3	25,4	24,9	27,8	17,8	26,4	22,9	23,4	27,2	28,1	31,3	21,7	22,8	17,7	18,5
House and garden maintenance	7,9	14,2	5,2	-8,6	-4,7	19,2	6,8	19,6	26,3	31,2	37,3	45,3	14,2	48,1	23,4	24,7	30,8
Others*	24,4	24,8	26,2	28,9	36,9	41,0	27,4	37,0	38,0	40,4	49,5	29,5	49,0	48,1	38,9	23,5	35,2
Wellness	15,5	25,5	0,6	-21,9	-28,0	-30,8	-31,2	-29,3	-26,1	-19,1	3,8	-14,8	6,3	0,5	0,2	1,6	-2,3
Transport	3,5	-9,0	-34,7	-42,9	-43,3	-41,2	-41,0	-33,6	-32,2	-26,4	-23,1	-27,7	-8,7	-19,0	-10,1	-10,7	-5,3
Appearance***	-6,4	-22,4	-61,7	-55,9	-58,4	-53,7	-54,2	-49,4	-38,3	-24,5	-5,1	-17,6	-6,6	-6,8	-9,6	-17,2	-9,0
Restaurants & bars ***	7,3	-12,1	-61,0	-53,6	-49,5	-49,0	-48,1	-40,9	-47,6	-43,9	-39,2	-37,6	-39,3	-1,3	-11,9	-4,3	2,3
Travel	-7,1	-20,8	-66,6	-75,3	-78,6	-81,4	-81,7	-82,6	-83,9	-77,0	-73,5	-71,3	-71,5	-65,7	-63,6	-50,8	-41,5
Entertainment	7,0	-55,1	-91,7	-93,3	-92,3	-89,7	-91,4	-94,1	-92,6	-92,1	-87,7	-86,5	-83,5	-75,5	-80,2	-72,1	-58,0

Total amount of pin transactions, online payments and cash withdrawals, ex. Creditcard payments; nominal data not correct for seasonality, holidays and/or other trends

\* amongst others: books, toys, flowers; \*\*\* online and offline

Source: transactiendata ABN AMRO Group Economics

### All that glitters is not gold

Caution remains however on a too optimistic interpretation of consumption data. In France for example, monthly consumption jumped in May by 36.6%, seemingly making up for the losses during lockdown. While that number is certainly positive, it is partly a statistical rebound that results from the mere fact that it has been so extremely subdued before.

Broadly speaking, consumption levels are still nowhere near pre-corona levels; not even in China. Moreover, there are second round effects ahead of us. As unemployment levels creep up as government support is slowly unwound, uncertainty will cause precautionary savings which in turn weigh on consumption. Reduced investment and tightening credit conditions are also expected to start weighing on the rebound starting from the end of the third quarter, despite aggressive monetary stimulus. We expect these second round effects to cause a double dip in the eurozone towards the end of 2020.

Recovery fund: who gets what?

Against this backdrop, the European Commission's proposed recovery fund will be a much-needed fiscal boost to reduce long lasting economic damage going forward. The proposal is an historic one in terms of the plans to issue mutualised debt in capital markets directly (for a detailed overview of the Recovery fund see [here](#)). One of the key issues in the ongoing discussions on the fund is whether members should receive budget based on their ability to get out of the crisis, or based on the extent to which they were harmed by Covid-19. An increasing number of member states are thinking the latter would be fair, while the Commission's proposal is based on the former. A member's ability to get out of the crisis – the Commissions allocation criteria – crucially depends on historical economic variables, such as GDP per capita, population and unemployment. The outcome of the negotiations on the budget allocation will have significant implications for some member states. Together with Floortje Mertens, who has recently become our recovery fund specialist, I have plotted the net allocation outcome under the proposed key by the Commission (horizontal axis) against the allocation based on actual covid-19 damage as assessed by the European Commission (vertical axis). For member states in the upper left, and those in the lower right corner, there are substantial implications of the outcome of these negotiations. Ireland for example, will be a net contributor under the initial proposal, but will be a net recipient if the actual covid-19 damage counts. For member states like Poland and Portugal, the opposite holds. For the hardest hit country – Italy – it does not make much difference.

Main economic/financial forecasts										
GDP growth (%)	2018	2019	2020e	2021e	3M interbank rate	02/07/2020	09/07/2020	+3M	2020e	2021e
United States	2.9	2.3	-4.8	3.4	United States	0.30	0.27	0.20	0.20	0.20
Eurozone	1.9	1.2	-6.9	3.2	Eurozone	-0.42	-0.43	-0.40	-0.45	-0.44
Japan	0.3	0.7	-4.3	1.1	Japan	-0.05	-0.05	-0.10	-0.10	-0.10
United Kingdom	1.3	1.5	-8.5	5.2	United Kingdom	0.14	0.12	0.80	0.30	0.30
China	6.7	6.1	2.0	7.0						
Inflation (%)	2018	2019	2020e	2021e	10Y interest rate	02/07/2020	09/07/2020	+3M	2020e	2021e
United States	2.4	1.8	1.4	2.2	US Treasury	0.67	0.61	0.5	0.50	1.00
Eurozone	1.7	1.2	0.4	1.0	German Bund	-0.43	-0.46	-0.7	-0.55	-0.50
Japan	0.9	0.5	0.3	1.0	Japanese gov. bonds	0.04	0.01	0.0	0.00	0.00
United Kingdom	2.5	1.8	1.0	1.9	UK gilts	0.19	0.16	0.3	0.30	0.70
China	2.1	2.9	3.0	2.5						
Key policy rate	09/07/2020	+3M	2020e	2021e	Currencies	02/07/2020	09/07/2020	+3M	2020e	2021e
Federal Reserve	0.25	0.25	0.25	0.25	EUR/USD	1.12	1.13	1.08	1.12	1.20
European Central Bank	-0.50	-0.50	-0.50	-0.50	USD/JPY	107.5	107.2	108	110	116
Bank of Japan	-0.10	-0.10	-0.10	-0.10	GBP/USD	1.25	1.26	1.22	1.25	1.38
Bank of England	0.10	0.75	0.10	0.10	EUR/GBP	0.90	0.90	0.89	0.90	0.87
People's Bank of China	3.85	3.70	3.50	3.40	USD/CNY	7.07	6.99	7.15	7.20	7.20

Source: Thomson Reuters Datastream, ABN AMRO Group Economics.

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