

# Macro Monthly

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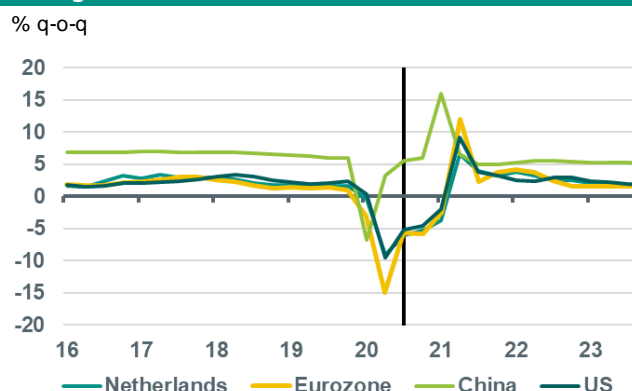
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## What if there is a second lockdown and what if there isn't?

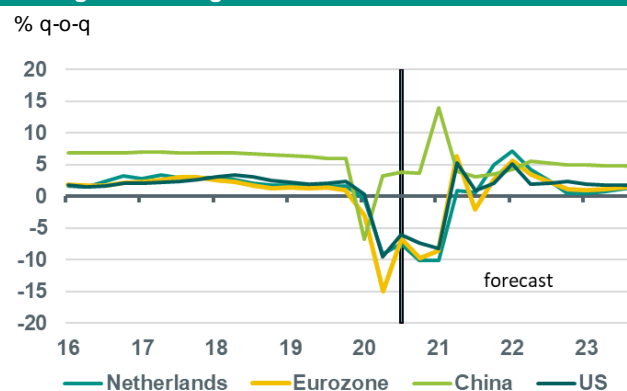
- ▶ What if we get a second round of lockdowns because the virus resurges? How great will the economic damage be? What will happen to unemployment and how can governments and monetary policymakers still intervene to protect jobs, businesses and banks?
- ▶ These are questions that we as economists are asked every day. There are also the optimists who dismiss the idea of a renewed lockdown. They ask us how fast the recovery will be, now that the major economies are out of lockdown and a vaccine is (most likely) on the way.
- ▶ Since the onset of the pandemic, uncertainty has been so pervasive that a scenario approach provides the best insight into what the future holds. Here we give our outlook on the Netherlands and the world's major economies (China, the eurozone and the United States) for two scenarios: one with and one without a second wave of the virus. We will start with the Sour (second wave with major lockdowns) before moving onto the Sweet (no extensive lockdowns, which is our more probable baseline scenario).

GDP growth – baseline scenario



Source: Thomson Reuters Datastream, ABN AMRO Group Economics

GDP growth – negative scenario



Source: Thomson Reuters Datastream, ABN AMRO Group Economics

## Negative scenario: a second wave of infections and a second lockdown

If the infection rate continues to rise and the virus slips out of control, hospital capacity would once more be stretched to breaking point and a second lockdown would be inevitable. This scenario assumes renewed lockdowns in Q4 2020 and Q1 2021, again triggering a global economic contraction, albeit to a much lesser extent than earlier this year. China's economy would also shrink in Q1 2021, but full-year growth would remain positive. Though still considerable, the economic damage would be less severe than during the first lockdown. Firstly, because the measures would be more locally targeted, avoiding unnecessary restrictions. Secondly, the initial fear of the virus will have subsided, making consumers less scared to venture into the public domain. At the same time, escalating social unrest and less acceptance of sweeping restrictions could engender chaos and impede efforts to control the virus. All in all, the consumption shock would probably still be substantial.

Business investment, which already sank during the first wave, would slide further. The ensuing rise in bankruptcies would erode employment. What's more, anticipating an economic decline, consumers would start to save rather than spend. All of this points to a double dip. World trade would once again suffer a major contraction as countries close their national borders to stem the second wave of infections.

Two risks that have been eclipsed by the pandemic, but remain highly relevant for the economic outlook, are Brexit and the US-China trade conflict. If Brexit ends with the UK trading on WTO terms after December 2020, European commerce will take a hit. In addition, escalating rhetoric over the US-China trade conflict ahead of the US elections would impair sentiment, while a Trump victory would raise the spectre of chaotic disruption to world trade.

The global economy would be plunged into renewed recession, with monetary policymakers powerless to prevent a tightening of financial conditions. Risky asset spreads would widen, sentiment would deteriorate sharply and investors would flee to the dollar and yen safe havens. In this scenario, a sustainable recovery would not take hold until a vaccine becomes widely available in 2022. In the course of 2023, the economy can then move back towards trend growth.

## Baseline scenario: Second wave less severe, no renewed lockdowns

Although the risks of a renewed lockdown are still substantial, our baseline scenario assumes that the virus remains reasonably under control. Local outbreaks will continue (as at present) and fresh measures will be taken where necessary, but no national lockdowns will be imposed. Pending the *widespread* availability of a vaccine – which, going by the WHO prediction, will be in late 2021 – the economic recovery will be slow at best. The global recovery in Q3 2020 is primarily technical and far from spectacular. High frequency consumer spending indicators already suggest that the recovery, notably in the eurozone, will stall at between 90 to 98% of the pre-pandemic level. Judging by our own transaction data for the Netherlands, the revival of private consumer spending has been losing momentum since August. The recovery in the US has continued, with the shortfall in debit card payments less severe despite the virus resurgence. The official retail sales statistics do not yet reflect this stagnation. One reason might be that these data tend to be lagging. In France, for instance, we see that industrial consumption (which we call 'retail sales') were already higher in June than in the pre-pandemic period, but that the consumption of services still remained at a much lower ebb. Another reason for the more negative high frequency indicators is that the transport and entertainment spending categories have been hit hard, and these are not fully included in retail sales data.

**Netherlands – Transaction Volume**

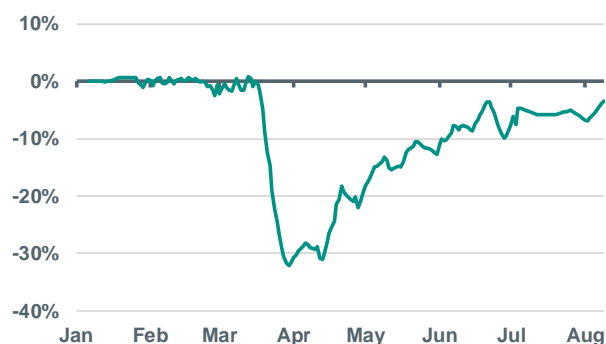
2020, % YOY



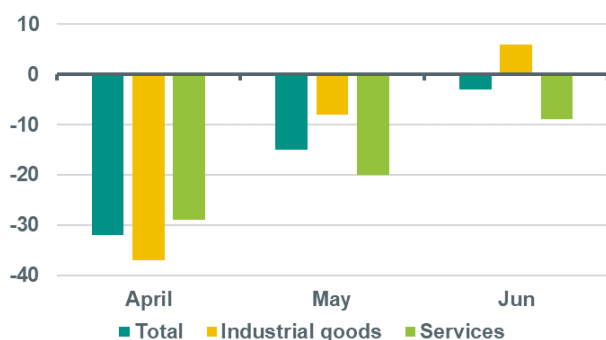
Source: ABN AMRO

**US - Transaction Volume**

2020, % YOY



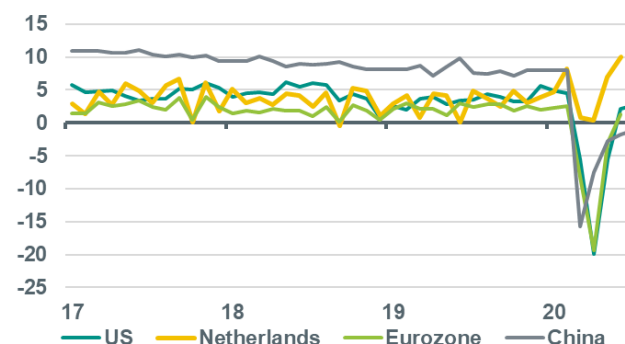
Source: Affinitiv

**France Difference in private consumption compared to 'normal' in that period, %**

Source: INSEE

**Retail sales**

% YoY



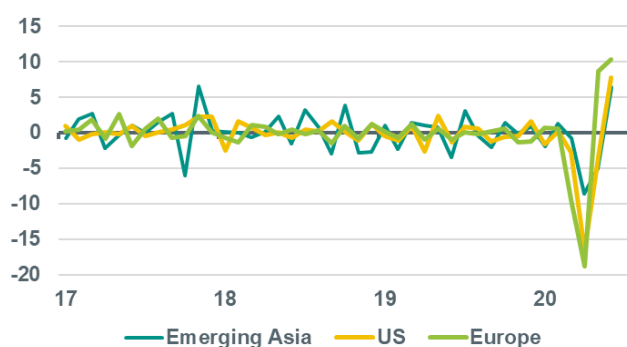
Source: Bloomberg

We expect social distancing to remain the norm until a vaccine becomes available, and that consumers will stay cautious and even cut down their spending in response to local outbreaks. Large events, international travel and tourism will also remain well below pre-pandemic levels, despite businesses and consumers beginning to adapt to the new circumstances. Moreover, the shock of the first lockdown will have delayed second-round effects, which are already becoming visible in many countries. Growing unemployment, a possible renewed tightening of financial conditions, rising bankruptcies and contracting investment will prove to be a toxic cocktail. Further factors are the continuing disruption to supply chains and the fact that the most relevant export countries are contending with more or less the same issues. All in all, therefore, sufficient negatives are in place to cause a double dip in Q4 2020 and a possible spill over to Q1 2021.

Whilst government support packages have so far largely shielded households and businesses from economic damage, these are now being wound down in countries where the virus is more or less under control. This will set an adjustment process in motion, which is already factored into our baseline scenario.

### World Trade

Index, % m-o-m



Source: CPB (Netherlands Bureau for Economic Policy Analysis)

Even without a second wave and renewed lockdowns, world trade will suffer sharper contraction than witnessed during the financial crisis. Despite the substantial catch-up growth in June (+7.6% m-o-m), world trade volume still contracted in Q2 by 12.5%. Global industrial output also showed a clear recovery in June (+4.8% m-o-m), but even then was still 8% below the level at year-end 2019.

Regarding Brexit, our baseline scenario still assumes that the UK and the EU will agree on a trade deal. Our baseline scenario for the US is that Democrat candidate Joe Biden will win the elections. That is not to say that the decoupling of trade and other ties between the US and China will be entirely halted, but at least the tariff war will likely end, and the edifice of international cooperation can be rebuilt. Sentiment would brighten as soon as a vaccine becomes available. The European recovery fund will galvanise economic growth in the eurozone from mid-2021. 'In the 2021-2023 period eurozone growth will be lifted by around 0.8-0.9 percentage points per year during the period 2021-2023'.

In the 2021-2023 period eurozone GDP growth could be 0.8-0.9pp above potential, with the growth impulse for the peripheral countries three to four times greater than for the core countries. The Dutch economy will mainly benefit from this through accelerating exports to the most direct beneficiaries of this revival, notably Italy, Spain and Greece.

Indicator	Base scenario	
	2020	2021
NL - GDP	-5,2	2,4
NL - Private consumption	-5,2	3,4
NL - Fixed investments	-10,6	-3,8
NL - Unemployment	4,3	7,0
NL - House market index	6,0	-2,0
NL - Commercial real estate index	1,2	-6,1
Oil (Brent)	42	48
Eurozone - GDP	-7,4	3,6
US - GDP	-4,8	3,4
China - GDP	2,0	8,1
<b>Interest rates</b>		
3m interbank interest rate	-0,45	-0,44
10yr state	-0,35	-0,30

Source: Thomson Reuters Datastream, forecasts ABN AMRO Group Economics

	base scenario (% y-o-y)								negative scenario (% y-o-y)							
	2020				2021				2020				2021			
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
<b>GDP</b>																
Netherlands	-0,4	-9,2	-6,1	-5,3	-3,8	6,6	3,9	3,2	-0,4	-9,2	-7,5	-10,1	-10,1	0,9	0,6	5,0
Eurozone	-3,1	-15,0	-5,6	-5,8	-2,4	12,0	2,2	3,7	-3,1	-15,0	-6,8	-9,8	-8,6	6,3	-2,0	2,5
US	0,3	-9,5	-5,3	-4,6	-2,0	9,2	3,8	3,2	0,3	-9,5	-6,1	-7,4	-8,2	5,2	1,0	2,1
China	-6,8	3,2	5,5	6,0	16,0	6,5	5,0	5,0	-6,8	3,2	3,8	3,6	14,0	4,0	3,0	3,5

Source: Thomson Reuters Datastream, forecasts ABN AMRO Group Economics

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