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Global Monthly

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End of pandemic in sight, but testing times ahead

- **Our new global baseline scenario sees a slow population-wide roll-out of an effective vaccine underpinning a gradual global economic recovery. Starting in summer 2021, this roll-out will last into Q2 2022.**

- **In this scenario all mobility restrictions are lifted from Q2 2022. Only then can the global economy break into a growth spurt to make up the lost output versus trend growth.**

- **As things stand, however, the combination of a second wave with partial lockdowns and second-round effects from the first wave has plunged the eurozone into a deeper double dip.**

- **But the slump will be less severe than during the first wave, partly because China is sustaining a robust recovery and pulling global industrial trade in its slipstream.**

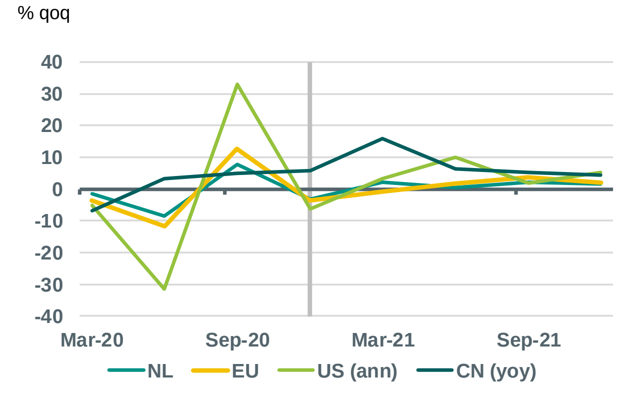
- **The US is going through a third wave of infections. Despite the staggeringly high infection rate, partial lockdowns have only been introduced in roughly one third of the states. The decline in production will therefore remain limited (6 to 7%) compared to the first wave (some 30%).**

- **Forecasting is fraught with uncertainties in times of crisis, hence the need for two alternative scenarios. In our negative scenario the roll-out of an effective vaccine is delayed, so that the restrictions can only be lifted six months later, with the world not fully reopening for business until 2023.**

- **In our positive scenario, a rapid roll-out of an effective vaccine combined with mass rapid testing paves the way for a full reopening of the global economy as early as Q4 2021.**

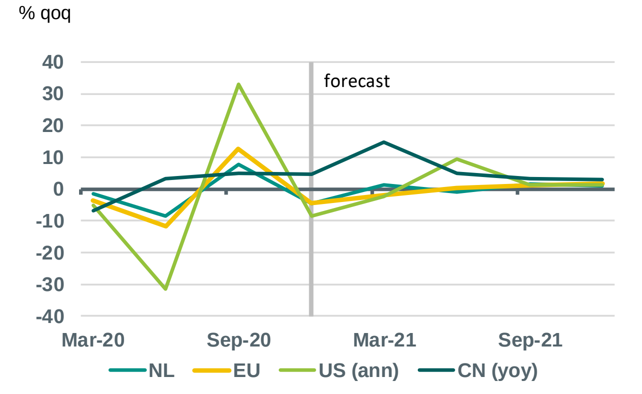
The three scenarios see the major economies and the Netherlands developing this and next year as follows:

GDP - Baseline scenario



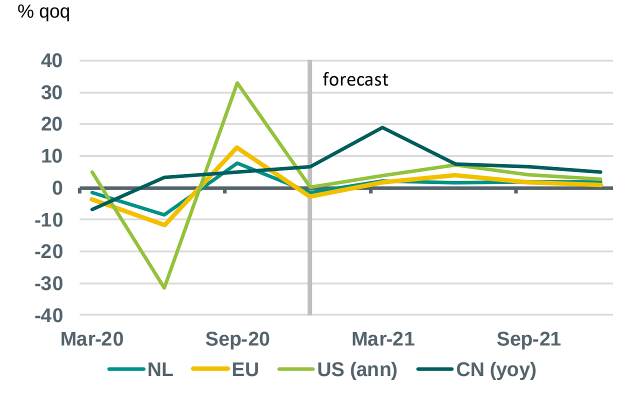
Source: Refinitiv, estimates ABN AMRO Group Economics

GDP – Negative scenario



Source: Refinitiv, estimates ABN AMRO Group Economics

GDP - Positive scenario



Source: Refinitiv, estimates ABN AMRO Group Economics

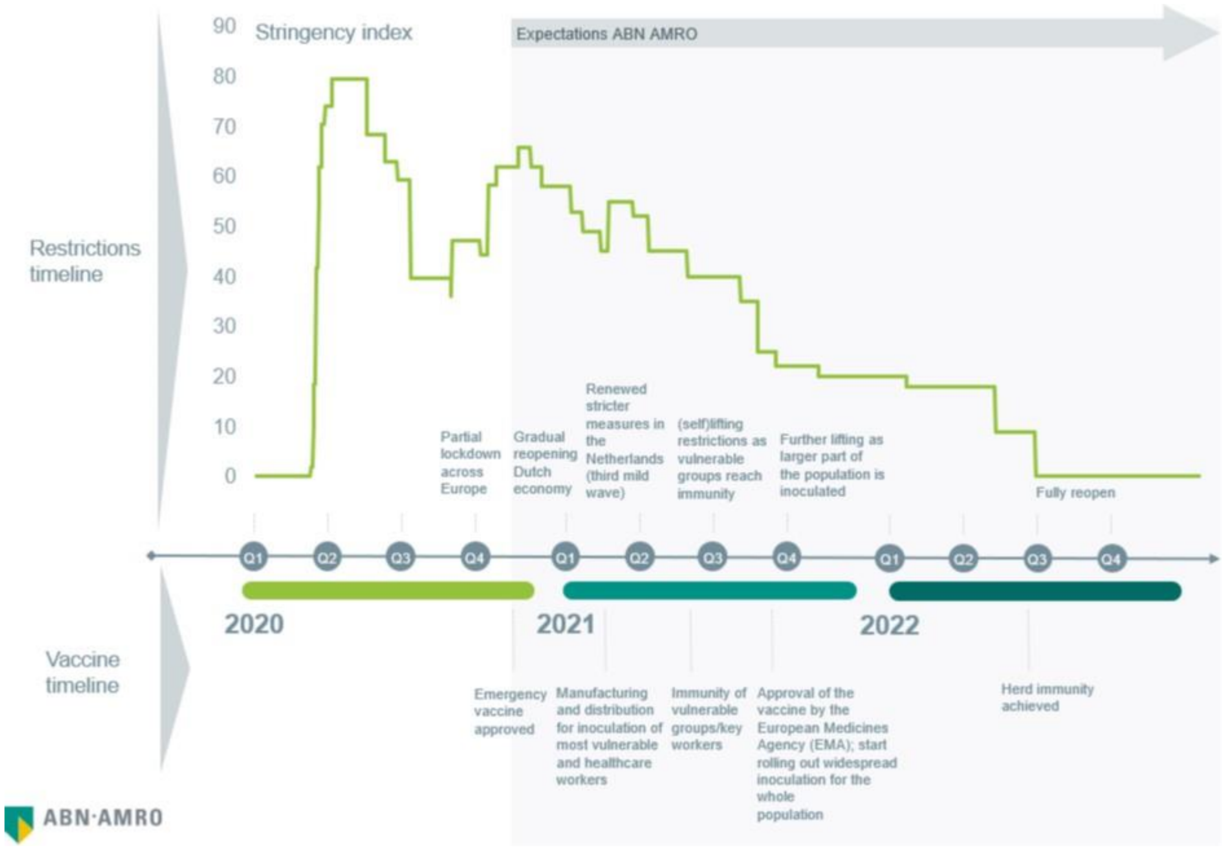
Baseline scenario: the vaccine and restriction timelines

With the onset of the second wave triggering a new partial lockdown, we seemed to be heading for a long dark winter, but the news of a vaccine breakthrough has brought some very welcome light at the end of the tunnel. Even so, the full herd immunity that is necessary to restore our lives to pre-Covid normality will not be achieved until around summer 2022.

That is an alarmingly long road ahead, but the first steps towards vaccinating the entire population will already get under way in summer 2021, starting with the elderly, followed by the younger age groups. During this process, the restrictions can be lifted at an accelerated rate without fresh outbreaks of the virus. As fears of a virus comeback and renewed restrictions ebb away, the economy will be able to stage a vigorous recovery from Q3 2021.

But first let's briefly return to the here and now: when the vaccine developed by Pfizer and BioNtech is granted Emergency Market Access in a few weeks' time (December 2020), we will enter a difficult phase. Because testing times still lie ahead. The vaccine is tantalisingly close, but still out of reach. The tail-end of 2020 and the first quarter of 2021 will be devoted to setting up the infrastructure that is necessary to make the vaccine accessible to highly vulnerable groups and key occupations such as health and emergency workers. In Q2, when more is known about the effectiveness of the vaccine outside the laboratory, the manufacturers can apply for a licence for full market access. As this type of vaccine has never previously been trialled on humans, this extra time is deemed necessary to make sure it is entirely safe.

The restrictions timeline will then look as follows:



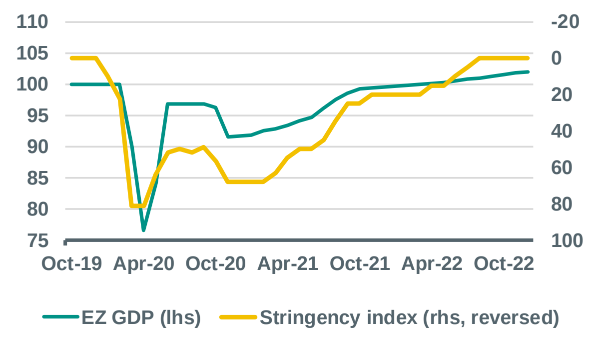
Europe: muddling through until the vaccine comes on stream

Meanwhile Europe is in the midst of the second wave of infections. Since the second half of October, virtually all European countries have gone into partial lockdown. Though less crushing than the hammer blow of the first wave, the economic impact of this second wave and the accompanying lockdowns comes against a backdrop of slowly rising unemployment, a demoralised business community and, just for good measure, a grumbling population. One worry is that popular discontent could force an overhasty lifting of restrictions and give the virus a chance to strike again.

The duration of the second round of lockdowns will differ from country to country. Other eurozone countries went into partial lockdown several weeks earlier than the Netherlands. We expect the current restrictions in the eurozone (outside of the Netherlands) to remain at more or less the current level until February 2021. The monthly eurozone GDP is moving in line with the restrictions implemented so far and our forecast for the economic recovery therefore also runs in parallel with the anticipated restrictions. In 2020 the eurozone is expected to contract 7.6%. 2021 will show cautious growth of 2.7%, with a strong acceleration to 5.2% only taking place in 2022 once the restrictions have become entirely unnecessary. Though this would restore GDP to its pre-Covid level by the end of 2022, it will still be far removed from trend growth and the potential GDP volume will not be achieved. Core inflation is thus likely to remain stuck at around zero percent in the mid-term. Headline inflation, by contrast, will probably rise.

Eurozone GDP vs Stringency Index

Index, GDP 19Q3=100, Stringency Index 19Q3=0



Source: University of Oxford, ABN AMRO Group Economics

Our assumption for the Netherlands is that the current partial lockdown will end in mid-December, with Dutch contraction working out at 4.5% for full-year 2020. The first-wave dip in Q2 (-8.5%) in the Netherlands was considerably less severe than elsewhere in Europe. With this in mind, we expected the recovery in Q3 to be less strong - particularly as consumer spending was already flagging towards the end of the summer even before restrictions were introduced. Which makes the stronger-than-expected recovery of 7.7% in Q3 (qoq) all the more surprising. The second partial lockdown will lead to contraction of just over 3% in Q4. That is significantly less damaging than the first lockdown in Q2. The section below describes the reasons behind this reduced impact.

Second wave less damaging

Several causes can be cited for the more subdued economic impact of the second infection wave. First of all, production in the worst-afflicted sectors was already much lower due to the first wave, so the potential drop in revenue from this lower level was obviously much smaller.

Secondly, businesses, citizens and governments have learned from the first wave. Businesses have become more adept at operating digital sales channels, citizens have rapidly embraced online shopping and digital working, and governments now know that keeping schools, industry and shops open is an effective way of minimising economic damage.

But the most important reason is China. In the first wave the global economy shrank due to the toxic combination of a lockdown-induced demand shock, scared consumers and a supply shock caused by large parts of the Chinese manufacturing industry grinding to a halt. There is no such supply shock this time around. China has the virus under control and in the West manufacturing industry remains largely intact.

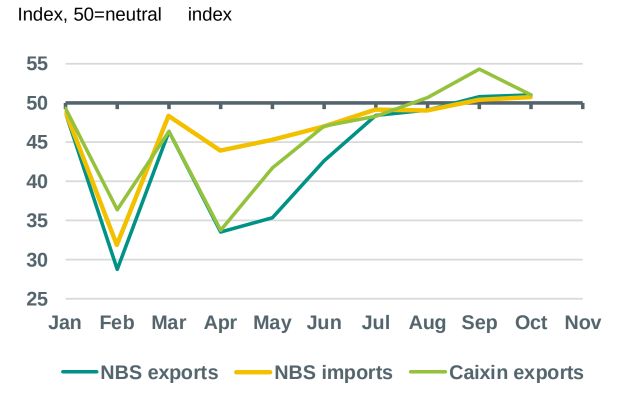
China benefiting from monopoly on ‘virus control’

The tale is all too familiar: the Chinese economy is back up and running. New outbreaks in China are quickly nipped in the bud by governmental micro-control measures. Crucially, China only reopened for business after the first wave when its IT infrastructure and test and tracing capacity were fully operational. The country's culture of discipline and collectivism probably also play a role, as do its high level of government control and experience with previous epidemics.

The rapid clampdown on the virus set the scene for a vigorous recovery, with China's GDP growth already rebounding to 4.9% annualised in Q3. We expect Chinese economic expansion to be 1.8% on average for full-year 2020 and 8% in 2021. Strong export growth is a major driver of the Chinese recovery. Chinese companies benefited from the fact that they managed to get 'back on track' before their competitors in other countries, while demand for specific goods such as medical equipment and computers/tech products is also fuelling Chinese exports.

But there's a downside to all these 'advantages' for China. Whilst the imminent vaccine roll-out is also good news for China, the marginal effect will probably be less spectacular there than in, for instance, the eurozone and the US precisely because the Chinese economy has already normalised to a stronger extent.

China: PMI exports and imports



Source: Refinitiv

US heading for new lockdowns in multiple states due to third wave

The US briefly seemed to have dodged the bullet. Retail sales (40% of total consumption), for instance, held up relatively well despite the second wave in June and July. Even so, signals of the recovery slowing were already visible. The steady and substantial growth in permanent layoffs was particularly worrying. And in October new job creation was half the expected rate.

Now, the US is already going through its third wave of infections. We assume that the states that go into lockdown will account for about one third of the US population. That is a lot less than in Europe. The main reasons why some states lock down and others stay open are the differences in the virus infection rate as well as different policy standpoints. Particularly Republican states are less inclined to intervene.

This partial lockdown will lead in Q4 to an estimated production loss of 6 to 7% in Q4 (yoy). That is a lot lower than in Q1 (-30% yoy).

For America, too, we expect the economic recovery to keep step with the roll-out of an effective vaccine, albeit that our baseline scenario has become slightly more negative about that roll-out than our previous assumptions. For 2020 as a whole, economic contraction will be slightly less negative than previously thought -4.2% (versus -4.8%). Due to the less deep contraction, growth for 2021 will also not be as high as previously assumed 3.2% (versus 3.4%).

One downward risk for our baseline scenario is the possible imposition of a nationwide lockdown for a four- to six-week period as soon as President-elect Biden has been inaugurated. An upward risk concerns the *Blue Wave* scenario, where the Democrats also secure control of the Senate. This would enable them to realise their ambitious stimulus plans. Another consequence would be much tighter regulation of the big-tech sector.

The table below shows the most important macroeconomic variables in our baseline scenario, as well as the growth expectations for the Netherlands and the major economies in our negative and positive scenarios.

base	20Q1	20Q2	20Q3	20Q4	21Q1	21Q2	21Q3	21Q4
NL	-1.5	-8.5	7.7	-3.1	2.1	0.3	2.2	1.7
EU	-3.7	-11.8	12.6	-3.7	-0.8	1.8	3.6	2.0
US (ann)	-5.0	-31.4	33.1	-6.2	3.4	10.0	1.8	5.2
CN (yoy)	-6.8	3.2	4.9	5.7	16.0	6.4	5.2	4.5

negative	20Q1	20Q2	20Q3	20Q4	21Q1	21Q2	21Q3	21Q4
NL	-1.5	-8.5	7.7	-4.5	1.3	-1.0	1.6	1.1
EU	-3.7	-11.8	12.6	-4.3	-1.8	0.3	1.1	1.7
US (ann)	-5.0	-31.4	33.1	-8.4	-2.2	9.4	1.2	1.2
CN (yoy)	-6.8	3.2	4.9	4.8	14.8	5.0	3.3	3.0

positive	20Q1	20Q2	20Q3	20Q4	21Q1	21Q2	21Q3	21Q4
NL	-1.5	-8.5	7.7	-1.6	2.0	1.6	1.8	1.7
EU	-3.7	-11.8	12.6	-2.7	1.7	3.9	1.7	0.9
US (ann)	5.0	-31.4	33.1	0.3	3.7	7.3	4.2	2.8
CN (yoy)	-6.8	3.2	4.9	6.5	19.0	7.5	6.5	5.0

Source: Refinitiv, ABN AMRO Group Economics

	Base scenario	
Indicator	**2020**	**2021**
NL - GDP	-4.5	2.6
NL - Private consumption	-7.5	0.2
NL - Fixed investments	-4.7	-0.3
NL - Unemployment	4.0	6.4
NL - House market index	7.2	0.0
NL - Commercial real estate index	1.5	-6.8
Oil (Brent)	43	48
Eurozone - GDP	-7.6	2.7
US - GDP	-4.2	3.2
China - GDP	1.8	8.0
Interest rates		
3m interbank interest rate	-0.50	-0.50
10yr state	-0.65	-0.40

Source: Forecasts ABN AMRO Group Economics