Swiss Re Institute

Issue 12/2020

Economic Insights
COVID-19 growth roadmap: are we ready to re-open?

Key takeaways

- The curve of new COVID-19 infections has peaked in most advanced economies, although the US and UK lag.
- The peak of activity restrictions occurred in early April in most advanced economies.
- The magnitude of restrictions was directly correlated to the drop in first-quarter GDP growth.
- We see China, Australia and Germany as most resilient to the negative shock from the shutdowns.
- Several large emerging economies are still on the upward trajectory of the pandemic curve.
- Political pressure can lead to premature re-opening; this heightens the risk of flare-ups or second waves and could also disrupt economic recovery.

About Economic Insights
Analysis of key economic developments and their implications for the global re/insurance industry.

Managing Editor
Jérôme Haegeli
Swiss Re Group Chief Economist

Author
Thomas Holzheu
Chief Economist Americas

We welcome your feedback. For any comments or questions, please contact: institute@swissre.com

In a nutshell

The pace of new daily COVID-19 cases has peaked in most advanced economies. Mobility data indicate restrictions measures were at their most stringent in early April, and many markets are now easing lockdown. The stringency of lockdown correlates strongly with the degree of decline in economic activity in the first quarter. We see the economies of China, Australia and Germany as most resilient to the lockdown shock. Arguably, the current momentum for re-opening is more politically-driven than by advances on the pandemic curve. This could risk a second-wave of infections, which in turn could jeopardize economic recovery.

The COVID-19 pandemic is choking off the global economy. Government policies to flatten the curve of infections resulted in mandatory lockdowns for some 3.9 billion people in 92 countries by the beginning of April.[1] New infections have peaked in most advanced economies: some have begun to ease lockdown restrictions, and the same is being debated in others. The lifting lockdown measures should depend on whether the outbreak has been brought under enough control that available healthcare resources would be able to manage a potential second wave of infections. However, political pressures have created a momentum to ease that is not always linked to the progression of the pandemic along the curve. This is the case, for example, in the US where some states are re-opening as infection numbers are rising.

Monitoring the number of new infections is an indicator of a nation's epidemic trajectory, but identifying the peak of the pandemic using new case counts is difficult. The figures are affected by the extent of testing, which has increased in many countries over time. With more testing, there is an upward bias to the number of new cases. There is also the issue of data quality: reporting standards vary across nations and have been adjusted over time. Finally, there is the risk of second wave flare-ups, like recently in Australia, Korea and Iran.

Figure 1 graphs the number of days since new infection peaks in different countries, and the magnitude of how much new cases have declined since. China leads in terms of handling the pandemic and economic re-opening. Most European countries are well advanced (ie, well beyond the first peak) on the pandemic curve, and many are easing restrictions. So too are the US and UK which, while they may have reached the peak, are still registering a high number of new cases relative to peers (the orange curve represents the average experience). This suggests that the pace of re-opening *should* be slower than elsewhere. Meanwhile, new cases are rising in countries like Brazil, India, Indonesia, Mexico, Russia and South Africa, giving them less leeway for re-opening. Nevertheless, many are debating easing restrictions.

[1] *The Economist*, based on data compiled by the Blavatnik School of Government at Oxford University.

20 May 2020

The link between the pandemic (curve) and the economic downturn lies in the interplay between the severity of activity restrictions and the vulnerabilities of the economies to shutdowns. We see China, Australia and Germany as most resilient to the negative shock from the shutdowns.[2] We monitor limitations to relevant activities with a mobility index derived from Google and Apple daily mobility data (see Figure 2). In most countries, restrictions peaked early April. The magnitude of restrictions correlates well with the drop in first quarter GDP growth. Economic activity is currently less restricted in the US, Germany and Australia – in the 30-35% range - than in most European countries (60-70%), even though the US lags on the curve. Constraints in Japan started later and were less but have now caught up with the lower range of advanced markets.

Resurging mobility will be an indicator to monitor for the predicted rebound of economic activity. After the early start in Asia, most advanced economies plunged into the COVID-19 recession simultaneously, dragging along emerging economies. Different positions and trajectories of countries on their pandemic curve suggest a more divergent growth path during the recovery phase. Risks of flare-ups or second waves add uncertainty to business planning and all baseline economic forecasts.

Figure 1 Relative position of countries on their pandemic curve. Days since and magnitude of new cases vs peak

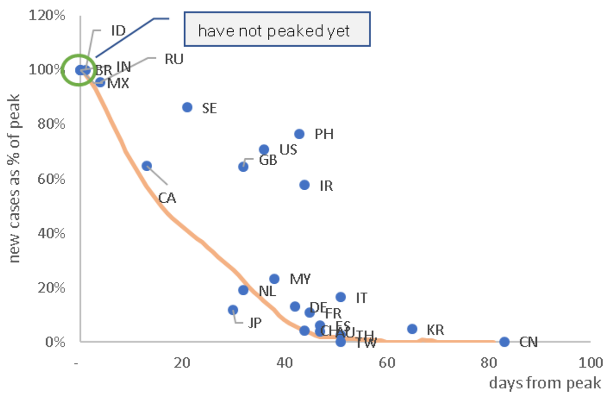
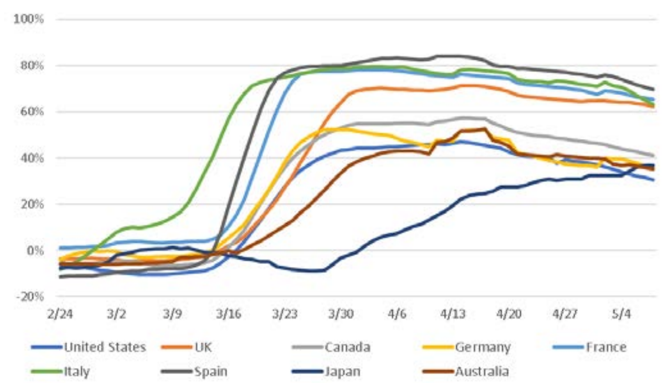


Figure 2 Change in mobility restrictions over time; composite index of Google and Apple mobility data



Source: Figure 1: European CDC via Our World in Data and Swiss Re Institute. Data as per 17 May, based on seven-day moving averages of new confirmed cases. Figure 2: Google and Apple mobility data and Swiss Re Institute. The mobility index is based on equal weights of the Google mobility index for retail and recreation, the Google mobility index for workplaces and the Apple mobility index for driving.

[2] See Economic Insights 9/2020 *COVID-19 crisis to widen the economic resilience gap*, Swiss Re Institute.