

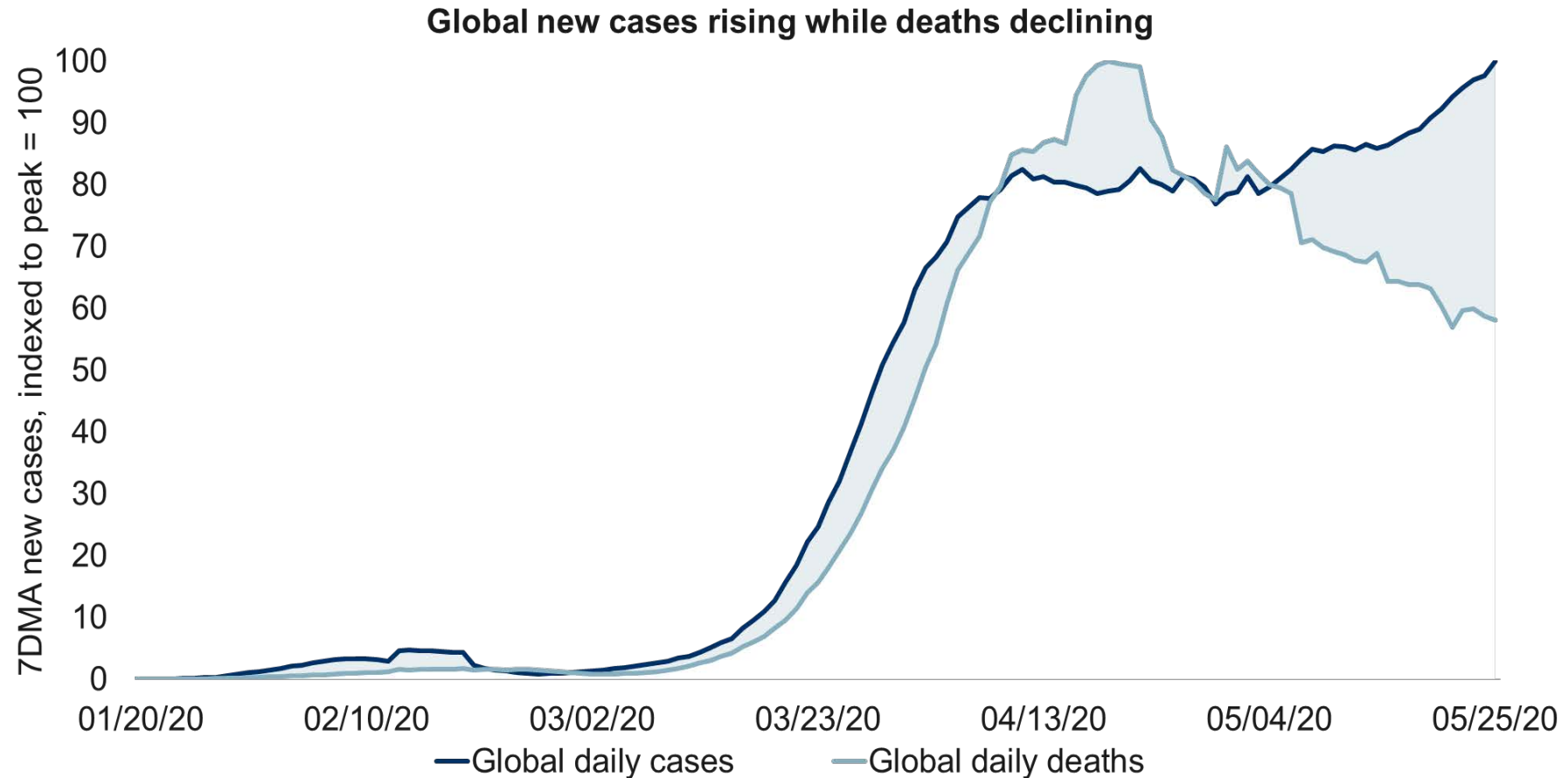
Is the COVID-19 recovery sustainable?



Eric Lascelles, Chief Economist

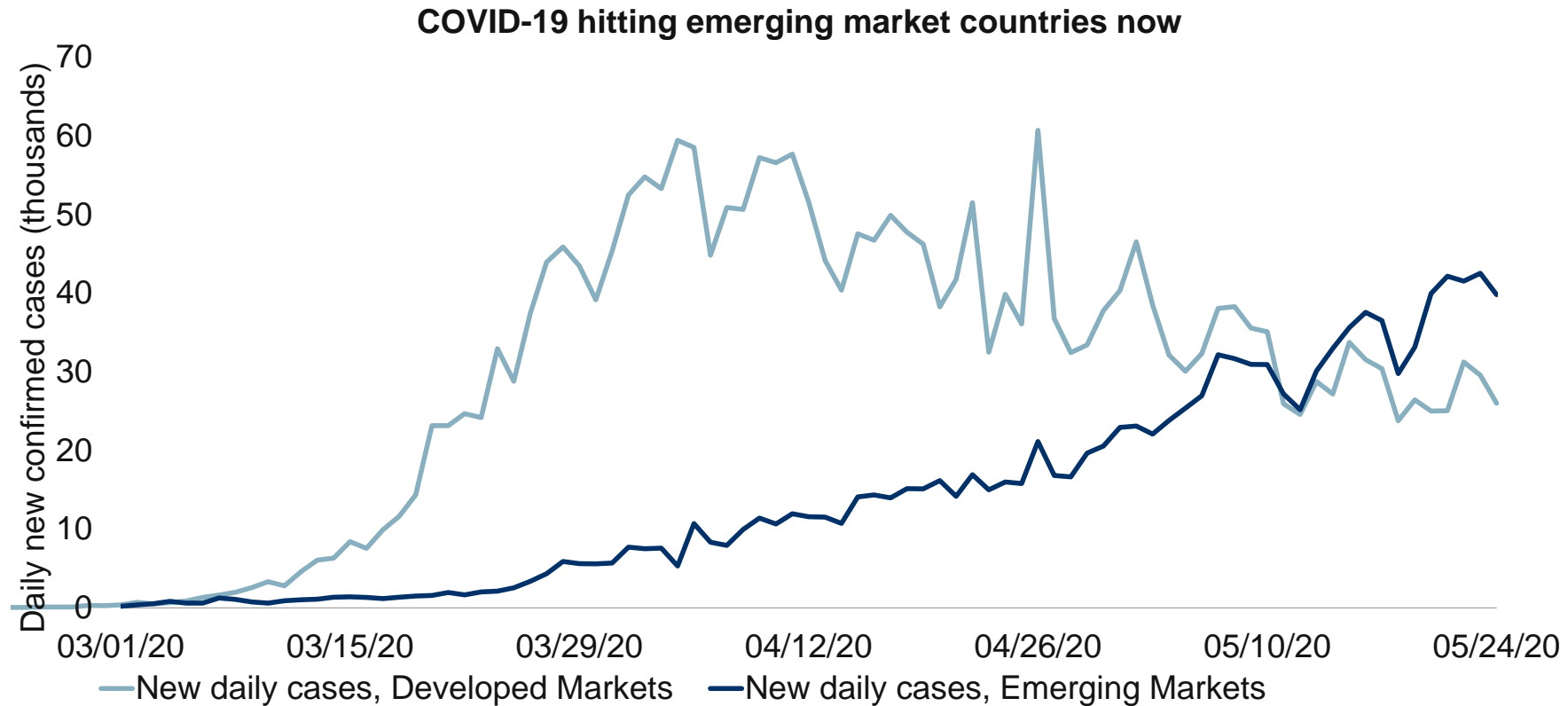
June 2020

COVID-19 global cases up but fatalities down



Note: As of 5/26/2020. 7-day moving average of cases & deaths indexed to 100. Source: ECDC, Macrobond, RBC GAM

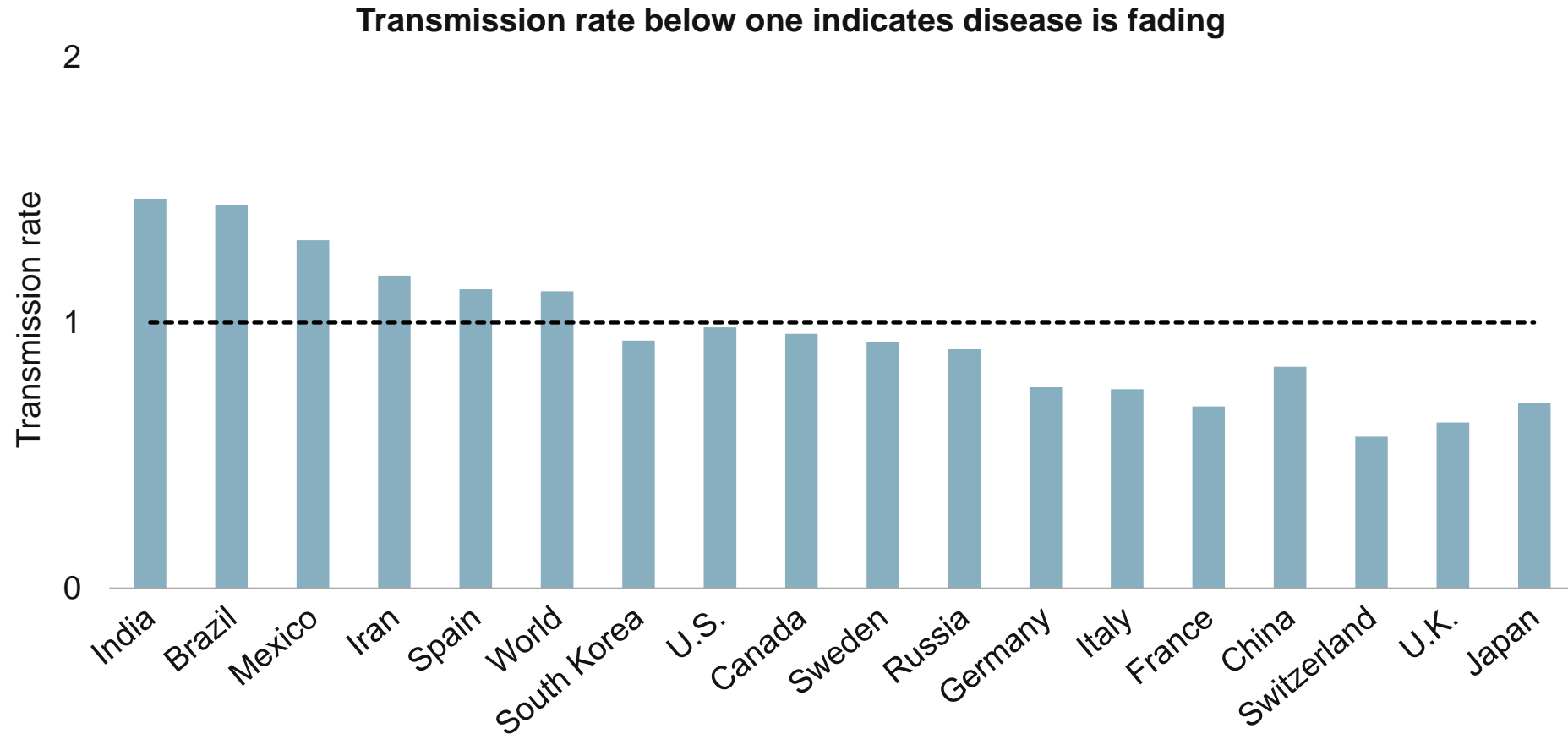
Deteriorating emerging market data / improving developed market



Note: As of 5/24/2020. DM aggregates case count from France, Germany, Italy, Spain, U.K, and U.S. and represents 50.6% of global cases. EM aggregates case count from Brazil, India, Iran, Peru, Russia, and Turkey and represents 23.1% of global cases.

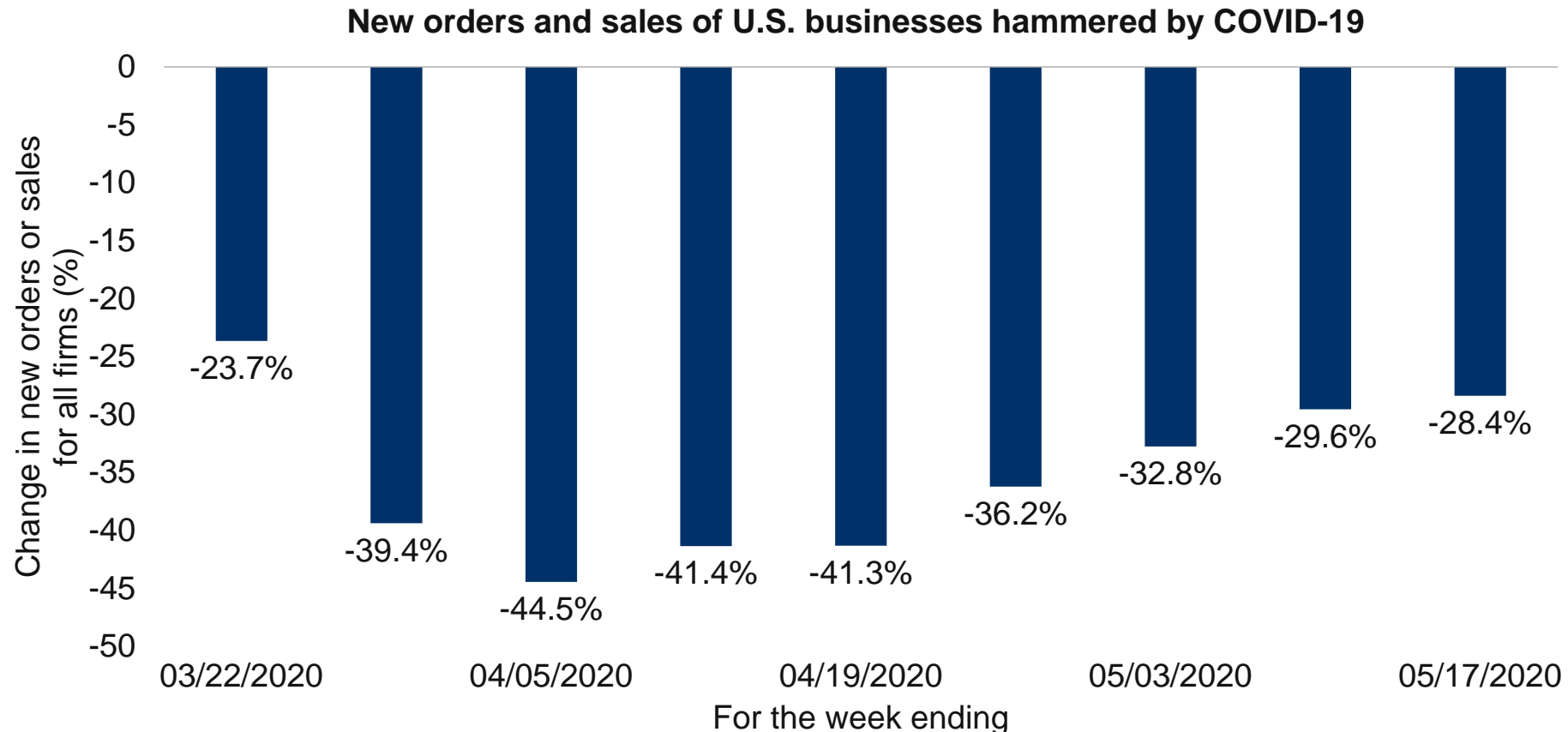
Source: ECDC, Macrobond, RBC GAM

Transmission rates have edged below 1 in major countries



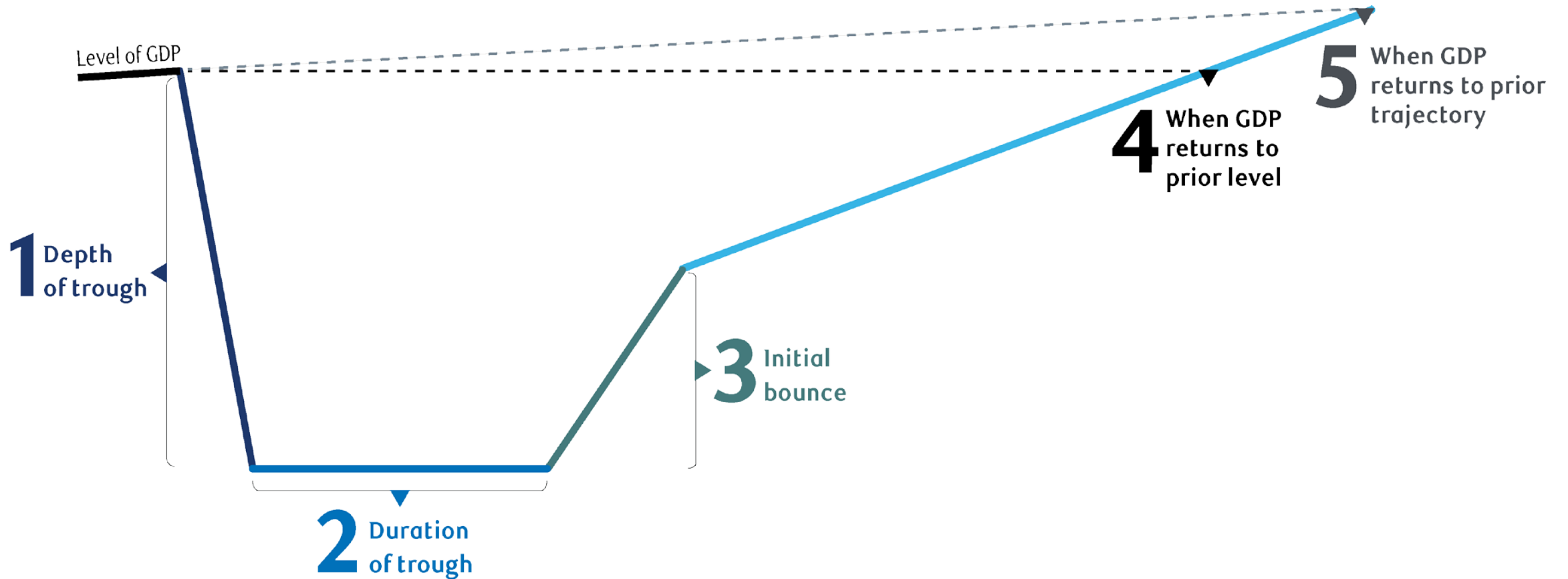
Note: As of 5/26/2020. Transmission rate calculated as 7-day % change of underlying 5-day moving average of new daily cases.
Source: ECDC, Macrobond, RBC GAM

Survey-based estimates of coronavirus impact to businesses: U.S. has recovered about a third of the decline



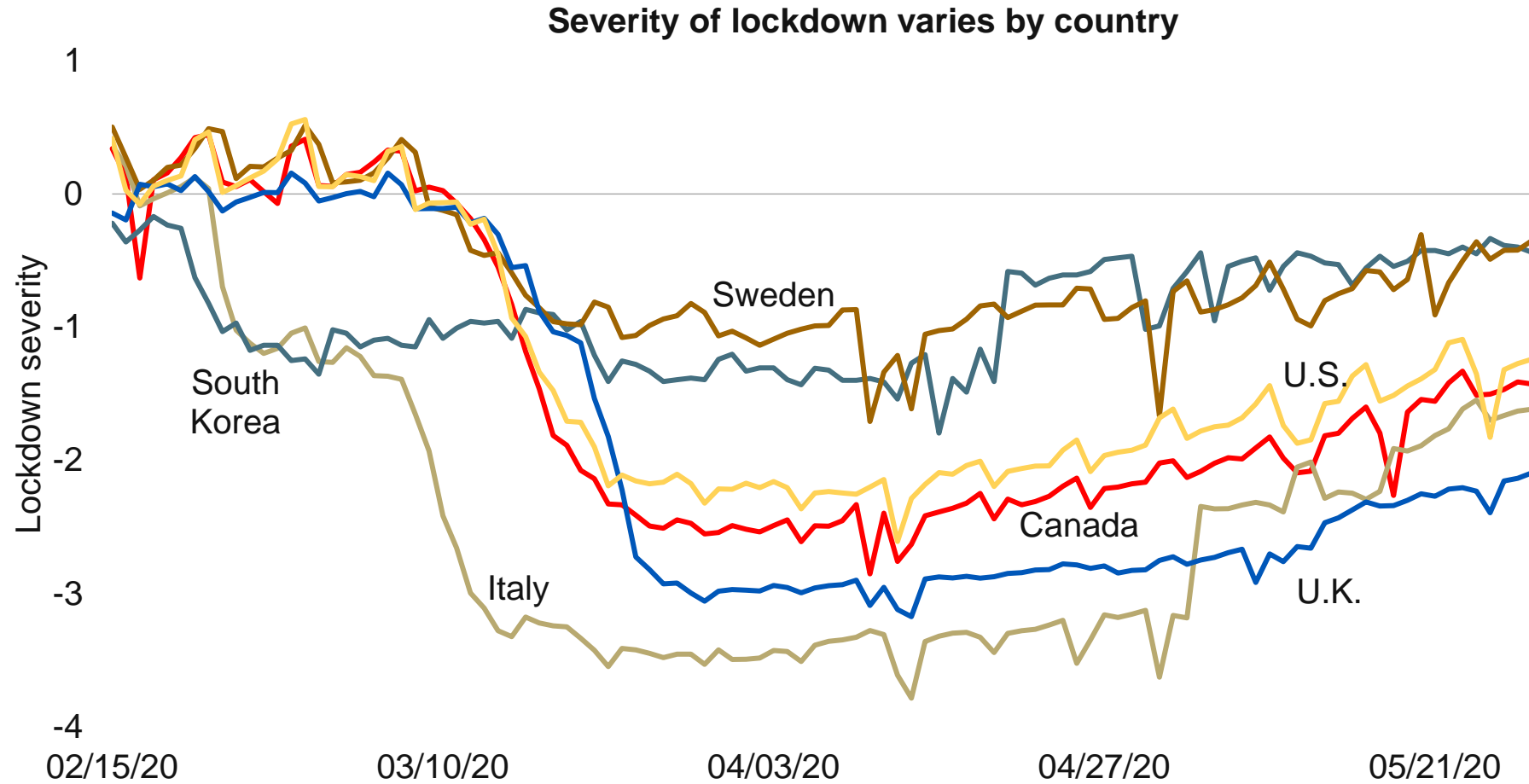
Note: Estimated as weighted average of % change in new orders or sales for all respondents. Source: Weekly Business Outlook Survey on the COVID-19 Outbreak, Federal Reserve Bank of Philadelphia, RBC GAM

Five key economic questions



Source: RBC GAM

Rebound visible across all countries



Note: As of 5/29/2020. Deviation from baseline, normalised to U.S. Source: Google, University of Oxford, Apple, Macrobond, RBC GAM

The economy is unlikely to completely recover for quite some time

Three reasons the economic recovery should be gradual:

1	Incremental re-opening	<ul style="list-style-type: none">• Government plans incremental restart• Limited by disease transmission• Cannot fully re-open until one of the following:<ul style="list-style-type: none">• Mass testing & tracing• Effective therapeutic• Vaccine• Herd immunity
2	Limited demand	<ul style="list-style-type: none">• Diminished income• Diminished wealth• Limited pent-up demand (virus hit services)• Generalized risk aversion• Specific aversion to social activities
3	Limited supply	<ul style="list-style-type: none">• Supply chain issues• Re-hiring workers could be challenging given generous government benefits

Source: RBC GAM

Upgraded U.S. growth forecast, but with big error bars

COVID-19 scenarios

2020 U.S. real GDP forecast

Annual average % change

			Recovery		
			Fast	Medium	Slow
Depth	Shallow	-10% trough	-2.8	-3.3	-5.2
	Medium	-18% trough	-6.2	-7.1	-10.6
	Deep	-30% trough	-11.4	-12.9	-18.7

Note: As at 2020-05-21 Assumes rapid decline into trough versus much lengthier recovery period.

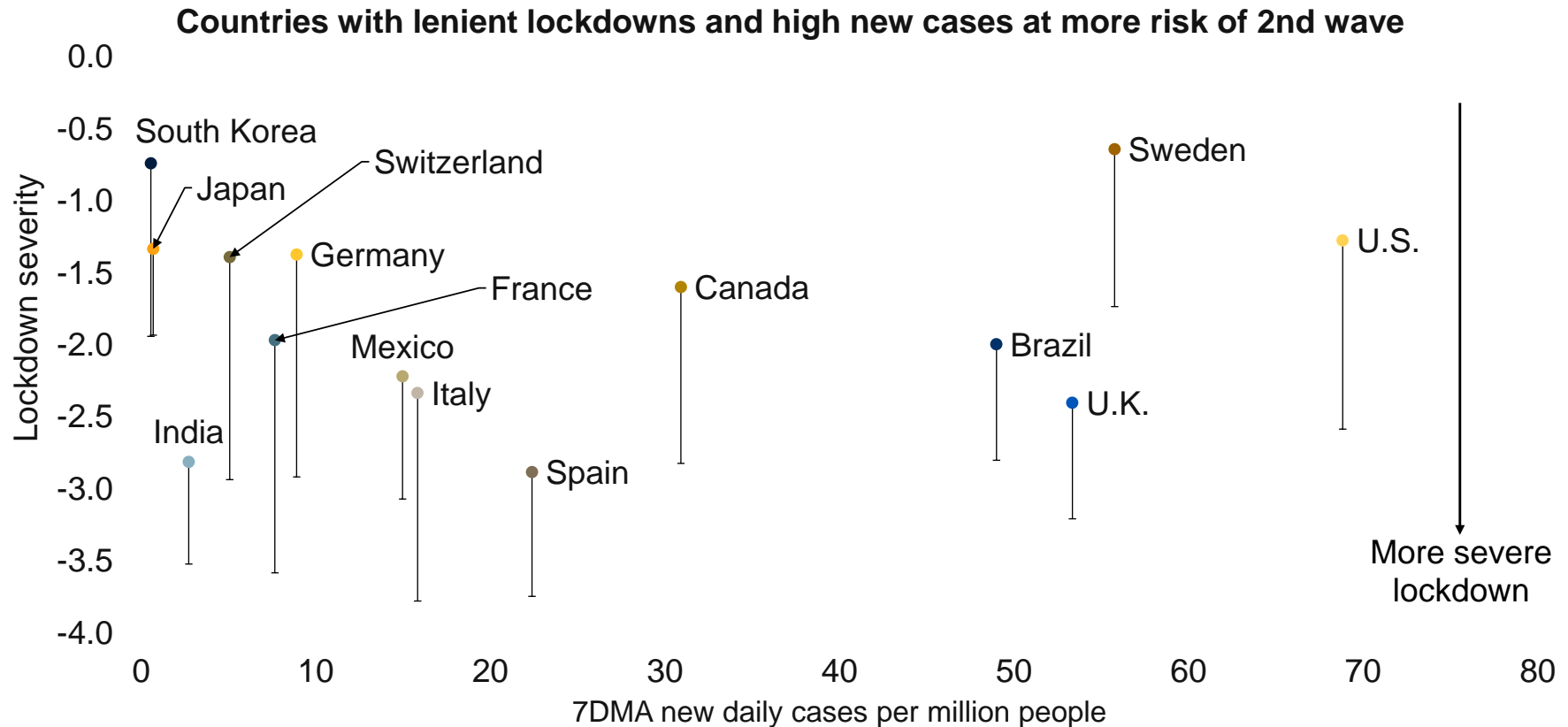
Source: RBC GAM

International growth forecasts

Country	Scorecard-based (5 is lowest impact)	Sector-based (% of GDP)	Mobility-based (% of GDP)	= Peak-to-trough decline (% of GDP)	Monetary and fiscal stimulus (% of GDP)	= GDP growth forecast (%)	
						2020	2021
Italy	2.5	-20.2	-31.8	-26.2	1.5	-13.2	2.8
Spain	2.6	-21.8	-32.8	-27.5	1.8	-13.0	2.3
France	3.0	-18.8	-27.9	-23.3	2.7	-11.4	1.8
U.K.	3.0	-18.8	-27.5	-23.1	5.5	-11.0	3.1
Eurozone	2.8	-19.6	-25.5	-22.6	2.2	-10.6	3.6
Canada	3.9	-18.2	-22.0	-19.7	5.9	-8.8	3.8
Germany	3.1	-19.2	-17.8	-18.4	4.1	-9.4	7.2
U.S.	3.3	-17.9	-18.0	-17.8	10.5	-7.1	5.7
Japan	3.4	-19.6	-7.7	-13.5	8.9	-7.9	1.8

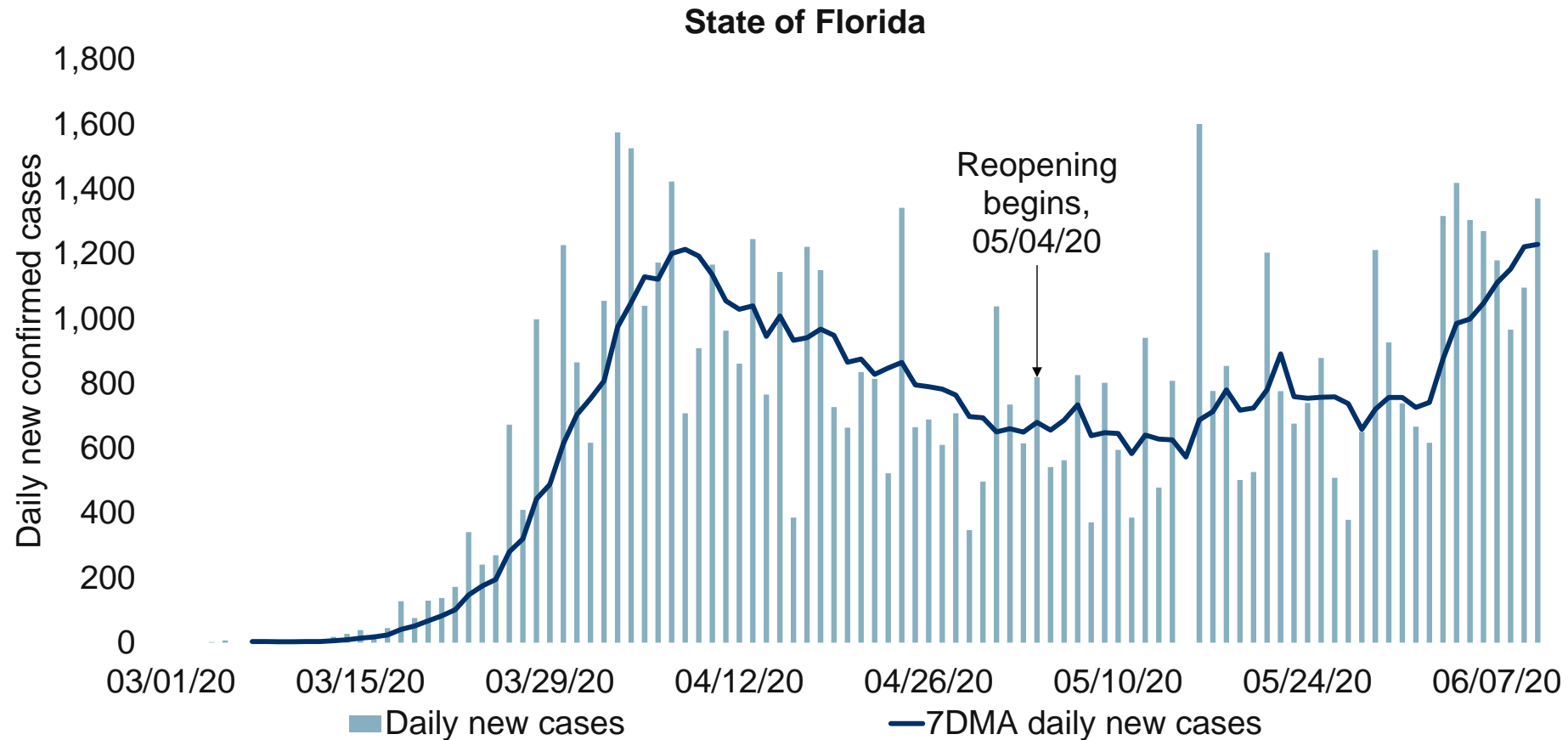
Note: As of 5/23/2020. Scorecard estimates based on factors including transmission rate, testing, containment, health care system, education, demographics, globalization, labour market flexibility, public debt and government policy response. Peak-to-trough decline in GDP combines assessment via scorecard, sector-based and mobility-based methodology. 2020 and 2021 GDP growth forecast based on medium depth and duration assumptions. Source: CIA, Google COVID-19 Community Mobility Report, kita.org, Knoema, Our World in Data, national government and central bank websites, Bruegel, ING, UBS, Haver Analytics, Macrobond, RBC GAM

Who's at greatest risk of a second wave of viruses?



Note: As of 5/16/2020. Y-axis: deviation from baseline, normalised to U.S. Error bars represent peak lockdown severity.
Source: Google, University of Oxford, Apple, ECDC, UN, Macrobond, RBC GAM

Some U.S. states suffering rising virus count again



Note: As of 6/10/2020. 7-day moving average of daily new cases used as trendline. Source: The COVID Tracking Project, Macrobond, RBC GAM

Deflation in the short run, but possibly more inflation in the long run

Deflationary pressures dominate in short run

Big shock to demand	Diminished income; can't shop
Sharply lower oil prices	From demand shock + price war
Lower inflation expectations	Market expects lower inflation
Structural forces	Deflationary demographics, etc.

Inflationary pressures could emerge over long run

Quantitative easing	<ul style="list-style-type: none">• Central banks are printing money• Diminishing central bank independence
Supply chain	<ul style="list-style-type: none">• Short term: temporary shortages• Long term: On-shoring raises costs
Labour shortage	<ul style="list-style-type: none">• Workers can't get to work? Minor point.
Inflate away debt?	<ul style="list-style-type: none">• Backfires eventually, but could be achievable if done discreetly

Long-term implications of COVID-19

General

Much will prove only transitory (Spanish flu, 9/11)

Populism – Unclear more vs less?

Low density > high density

Human life valued more highly than in past

More focus on low probability/high impact risks

Geopolitics get trickier; EU challenged?

Environment – less focus but better trajectory?

Lifestyle

Office – remote work / less travel / handshaking

Leisure – eat out less / less travel

Higher inequality

Baby boom? Doubtful

Economy and markets

More skittish about future viral outbreaks

More public debt / default risk

More private debt / default risk

Ultra-low interest rates to persist

Hazier distinction between monetary & fiscal policy

Permanent expansion of government? Maybe, but not convinced

Anti-globalization – less immigration / more onshoring

Accelerating automation

Loss of human capital from school & business closure (small)

Innovation – helped by new patterns of demand / hurt by remote work?

Online > Brick and mortar

Big business > small business

Less anti-trust pressure, fewer data privacy limitations

Lower long-term return on investment? Would require high death rate

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