

## Recalibrating the outlook: cautious optimism

The unexpected COVID-19 outbreak placed us suddenly in unknown territory. Without recent historical references to help us understand the new context, the information published in recent weeks has come as a godsend for us economic analysts. While there are still many unknowns, the data released provide us with a more solid foundation upon which to lay out the economic scenario we are dealing with, as well as the characteristics of the recovery that we are beginning to glimpse. Broadly speaking, there are three key dimensions of the macroeconomic picture that we are now in a better position to gauge and which, when viewed together, invite cautious optimism.

Firstly, we have found that the sensitivity of economic activity to the measures adopted to combat the COVID-19 epidemic is very high. During the month of April, when mobility restrictions were stricter, the economic collapse reached unprecedented levels. This was initially suggested by less conventional indicators that seek to estimate the evolution of the economy in real time, and the publication of official statistics have since corroborated this hypothesis more accurately. For example, the decline in GDP for Q2 as a whole stood at around 10% quarter-on-quarter in economies where the lockdown measures were less severe, such as the US and Germany, while it exceeded 15% in those where they were stricter, such as in the case of the Spanish economy where GDP fell by 18.5% quarter-on-quarter.

But it is important to emphasise that economic activity is also proving to be highly sensitive to the lifting of social distancing measures and the recovery in mobility. In fact, the highest-frequency indicators now paint a picture of a notable rebound in economic activity and suggest that about half of the activity lost during the first half of the year could be recovered in Q3. In the case of the Spanish economy, for instance, GDP growth could reach around 12% in Q3. All this highlights the care that must be taken when choosing how strict the measures imposed to deal with the pandemic should be.

Secondly, we are now much more aware of the effectiveness of the various measures implemented to combat the pandemic. In the sphere of health, we know that by imposing strict lockdown measures, if necessary, we will once again be able to curb the spread of the pandemic relatively quickly. We also know that, when an outbreak occurs, if mass tests are carried out and rapid action is taken, local measures can be sufficient to curb the spread. The increase in social interactions that the end of the holiday season and the return to school will bring will once again put us to the test. However, it seems likely

that over the coming months the rapid scientific advances that are taking place will allow us to perform mass tests more often, perhaps even at home. This would certainly be great news, as it would further reduce the likelihood of having to impose a strict lockdown like that of the spring. The speed at which research into obtaining effective COVID-19 vaccines is progressing is also very encouraging.

In addition, the measures adopted in the economic sphere give us further reason to be cautiously optimistic. On the one hand, the rapid and decisive action of the major central banks has managed to maintain stable and accommodative financial conditions in an extremely demanding context. On the other hand, among the many other economic policy measures adopted, the temporary workforce reduction programmes that have been widely implemented in most developed countries have proved rather successful. They made it easier for many firms to reduce their workforce during the weeks of less activity, as well as helping to preserve labour relations between firms and workers. Proof of this is the fact that, with the rebound in economic activity that is currently taking place, people who were furloughed are quickly resuming their job positions. In Spain, between April and August, the number of people temporarily out of work under the country's ERTE scheme has decreased by 2.6 million.

Finally, the third dimension of the macroeconomic scenario worth highlighting is the fact that the pandemic is having a highly heterogeneous impact, both between sectors and among the various groups of society. In this regard, here at CaixaBank Research we have launched a globally-pioneering project, in collaboration with researchers from Pompeu Fabra University and the Institute of Political Economy and Governance, to monitor the impact of the crisis on wage inequality in Spain in real time. The initial results – [which can be found on our website](#) – indicate that the rise in inequality would have been profound if it had not been for the activation of the mechanisms that define our welfare state. Nevertheless, there remain certain vulnerable groups to whom it is imperative that we provide effective protection. We can be cautiously optimistic and confident that the recovery will gather strength over the coming months. However, in order to take full advantage of the potential of our society and our economy, it will be necessary to continue to support those sectors and groups that the crisis is hitting the hardest.

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