The economy resists the second wave

«Fear is always ready to see things worse than they are». These words by Tito Livio are not only old, but also wise... and particularly relevant in the context of the current pandemic. We are surrounded by a steady stream of negative and concerning news. Many households and businesses are in a critical situation. In these circumstances, discerning that some things are going better than we expected a few months ago seems to be somewhat wishful thinking. But even if it does not seem to be the case, the economy – as a whole – is one of them. The surge in infections in the major developed countries and the severity and persistence of the restrictions on mobility and activity have brought us back to the worst moments of last April. But we have adapted, with resignation and also with a spirit of perseverance.

The fall in economic activity that occurred last year was certainly historic (feel free to replace this adjective with another more grandiose one), but it was lower than that expected just a few months ago by at least the vast majority of economists, including our own. For the US, the euro area and Spain, in October 2020 (not so long ago) fewer than 15% of the think-tanks that participate in the so-called consensus of economists either got their forecasts right or were overly optimistic. The bulk of us were overly pessimistic, and that was when we were not even expecting such a virulent second wave of infections. If we had known what was around the corner, we would no doubt all have painted an even gloomier picture of the economic scenario. When we take this factor into consideration, the resilience that the economy has shown over the last few months is even more surprising. Once again, the difficulties we have in anticipating changes in the behaviour of people, policies or technology have become apparent, and in recent months there has been much improvement on all fronts. Will we be overly pessimistic once again?

The latest indicators suggest that the recovery process has stalled in the major developed economies. Some closed Q4 2020 with slight advances in quarter-on-quarter terms, such as the US (+1.0%), Spain (+0.4%) and Germany (+0.1%), while others, such as France (–1.3%) or Italy (–2.0%), took a step backwards. Indicators for the month of January show that this pattern persists. The recovery process is on pause. There is no significant progress, but we do not see any falls like those experienced in the first wave either. In Spain, the year-on-year rate of change in the number of people registered with Social Security who are not affected by an ERTE furlough scheme improved only slightly in January compared to the figures for the previous months. Household consumption followed a similar pattern, according to CaixaBank Research's real-time indicator. And wage inequality, which rose sharply in April and May but improved markedly in the following months, has not spiked after the outbreak of the second wave, also according to CaixaBank Research's real-time inequality monitor.

The IMF's new forecast scenario envisages that this dynamic will continue until the distribution of the vaccines has protected the risk groups. This is a milestone that most developed economies expect to achieve during the second quarter. Until this point is reached, the downside risks will continue to dominate: the technical difficulties posed by the ambitious vaccination plans underway are evident and the new strains of the virus pose a frightening threat. However, the IMF also indicates that, once this milestone is achieved, there could be substantial positive surprises: the improvement in confidence that could occur once the population is immunised may be accompanied by a higher-than-expected rebound in consumption and investment. Overall, the IMF forecasts global growth of 5.5% this year and of 5.9% for Spain (very similar to the figures in the CaixaBank Research scenario). However, it points out that growth could be 0.75 pps higher at the global level if the upside risks materialise, and that the rebound could be even greater in developed economies.

In the financial sphere, the IMF stresses that, while non-financial firms have had limited solvency issues to date, the pressure on the business sector will remain high in all countries. On this note, it expects there to be a rise in defaults, especially if the measures introduced to support the economy's productive fabric are withdrawn before the recovery is well established. In this regard, it should be recalled that Spain has seen a surge in corporate debt, but that the starting point, at the aggregate level, was relatively comfortable following years of debt reduction. The level of debt thus remains clearly below the levels reached during the previous crisis and also below that of the euro area as a whole. This does not mean that over-indebtedness is not an issue at all, especially in the sectors hardest hit by the crisis, but it is not a widespread problem.

Portraying the economic reality that surrounds us is an extremely difficult task. It requires us to constantly combine grandiose words, because we feel that these are historic times, with a great assortment of nuances, because there is great uncertainty and events are happening at a breakneck pace. However, the confusion and exhaustion that this can lead to should not cloud our view and make us see things as being worse than they already are.

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