COVID-19: the final season?

The first season of the COVID-19 series caught us by surprise and totally unprepared. It was short, lasting barely a few months in the major developed countries, but the experience was terrible. The second season was not so intense, but it was longer, which in the end made it also very difficult. The surprise effect dissipated and, with some imagination, we were able to recover part of our old life, but we still had no tools to deal with the virus. In the third instalment of the series, in which we are currently immersed, we now have effective tools to combat the virus. We are quickly recovering much of the life we had a year and a half ago, and this is fuelling the recovery of social and economic activity.

The macroeconomic data published during the summer reflect this. Overall, they have been positive and corroborate the idea that global activity is making a rapid recovery. In the US, as anticipated, GDP already stood above pre-COVID levels. It grew by 1.6% quarter-on-quarter in Q2, and the latest data show that the economy remains buoyant in Q3 despite the surge in COVID-19 cases. In this regard, the slowdown in the vaccination rate in recent months is concerning. The percentage of the population that is immunised stands at 52%, well below the 60% in Germany and France or the 71% in Spain.

The dynamics of the Chinese economy are also encouraging. GDP grew by 1.3% quarter-on-quarter in Q2, slightly higher than expected. The latest indicators have slowed slightly, but this is consistent with an economy that is already in a more mature phase of the recovery process and is reducing the stimuli. We can rule out alarmist readings that interpret the latest data as a shift of trend.

The biggest surprise of the summer has occurred in the so-called Old Continent. The euro area's GDP grew by an extraordinary 2.0% in Q2, exceeding expectations, and it now lies «only» 3.0% below pre-pandemic levels. The economic revival was widespread across the major countries of the bloc, thanks to the easing of restrictions on mobility and activity, as well as the rapid vaccination of the population. In addition, the highest frequency data suggest that this buoyancy persists in Q3.

The Spanish economy has performed particularly well. GDP grew by 2.8% quarter-on-quarter in Q2, and the latest indicators suggest that growth will remain at around 3.0% in Q3. The revival of tourism is key to this growth. While still a far cry from pre-pandemic levels, tourism is experiencing a rapid recovery and in Q4 it could reach a level of activity equivalent to 75% of the pre-pandemic level (in Q4 2020 it was at 25%). However, the area which best illustrates the rapid and vigorous nature of the recovery is the labour market: the number of workers registered with Social Security and not on furlough now lies just 1.4% below the pre-COVID level.

If there are no new mutations of the virus that reduce the effectiveness of the vaccines – a risk that will accompany us for a long time to come – then the global economic revival will be consolidated in the coming quarters and we will likely close 2021 and 2022 with high growth rates. The precise extent of those high growth rates will end up depending, above all, on two factors. On the one hand, it will depend on the lack of supplies in several key sectors. If this situation persists for longer than expected, besides acting as a restraint for the recovery, it will also keep inflation high for longer, and the major central banks could be forced to bring forward the process of monetary normalisation. Right now, all the indicators suggest that both the Fed and the ECB will begin to reduce the volume of net asset purchases during the last quarter of this year, but we continue to expect the financial conditions to remain highly accommodative for a long time into the future.

The second element that needs to be closely monitored over the coming quarters is investment. Unlike the previous expansionary cycle, in which it performed very poorly, the macroeconomic outlook anticipated by the main analyst groups foresees vigorous growth in investment, spurred on by the fiscal stimulus plans, the demands arising from the fight to combat climate change and the acceleration of the digitalisation process after the pandemic. If this trend in investment is confirmed, in addition to boosting the short-term recovery it will also make medium- and long-term growth more sustainable. We are confident that the working assumptions which underpin this macroeconomic outlook will be confirmed, and that this will be the third and final season of the COVID-19 series.

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