

The COVID-19 pandemic has been a V-shaped crisis

Last year, when we witnessed the heavy blow that the pandemic dealt to the economy, an intense debate began regarding what shape the recovery would take. The more pessimistic predictions opted for somewhat disheartening letters, such as L, W or K, while the more original ones proposed symbols of sports brands which did not convey much optimism either. Now that the outline of the recessive cycle has been completed, at least in terms of the main aspects that define our economy, the debate has taken second stage. But it is worthwhile revisiting it and taking stock.

In the labour market, the letter that best represents the COVID-19 crisis is, fortunately, V! The initial fall in the number of people registered with Social Security was unprecedented, both because of the magnitude of the debacle and due to the speed at which it took place. But the recovery that has taken place has been extraordinarily rapid. When the pandemic irrupted, in just two months more than 4 million people stopped working, counting those who actually lost their jobs as well as those who did not work because they were on furlough. Let us put these figures in context: in the financial and real estate crisis that occurred between 2008 and 2013, which at the time we described as historic, a little more than 3 million jobs were destroyed over a period spanning more than five years. The shape of the recovery on this occasion is also quite different. In just over a year, the number of people in work is already higher than before the pandemic. In the previous crisis, five years passed before this milestone was reached. Plot a chart comparing the two episodes and the V shape will quickly become clear.

Consumption, the pillar on which much of the Spanish economy is supported, is also showing very encouraging signs according to CaixaBank's internal data. Card payments, including both Spanish and foreign cards and purchases carried out face-to-face as well as online, plus cash withdrawals at CaixaBank ATMs, plummeted by more than 30% in Q2 2020. But in Q2 2021 the year-on-year rate of change had already turned positive, and in Q3 the growth rate exceeded 10% compared to pre-pandemic levels. In recent weeks, the sectors hardest by the crisis, such as retail, leisure and catering, have registered strong growth. Also of particular note is the trend in online sales, which continue to register very high growth rates despite the fact that the restrictions on mobility and the capacity limits have already been lifted. Over time we will see that the pandemic has acted as a catalyst for this sales channel.

The indicator where the V-shaped recovery is less evident is GDP. The figures published by Spain's National Statistics

Institute (INE) have been lower than expected by the community of analysts, including those here at CaixaBank Research. We have all found it somewhat disconcerting to see the low growth figures suggested by the INE for Q2 and Q3 of this year. The forecasts we were all working with, based on the evolution of indicators such as those mentioned above, pointed towards a clearly higher growth rate. The exceptional nature of the crisis has made it very difficult to accurately measure the evolution of economic activity, and we have all been forced to reinvent our methods in order to obtain new sources of reliable information. In this context, therefore, we must all be highly cautious. But the evolution of the aforementioned indicators, such as those related to the labour market and consumption which are not revised because they are based on direct information, suggests that the INE will likely end up revising its GDP estimate upwards. Indeed, the Minister for Inclusion, Social Security and Migration has said as much himself. We hope that, in the end, GDP will also follow a V-shaped recovery.

However, the voices that constantly warn of the risks posed by the macroeconomic outlook remain very much active. In many developed countries there is a marked rebound in the number of COVID-19 cases and, to some extent, in the number of people hospitalised. A mutation of the virus or a faster than expected drop in the level of protection provided by the vaccines could lead to new waves of infections. This is the main risk we continue to face. The battle against the virus is not yet over and it seems as though we are already stumbling into another battle before we have even emerged from the last one. Added to this are fears that the economic recovery will lose momentum due to the rise in inflation brought about by the escalating energy prices and the tensions in global supply chains, which are already limiting the productive capacity of industry and pushing up the price of intermediate goods. These new sources of risk have intensified in recent months, causing some confusion in the financial markets. As usual at times of limited visibility, the markets overreact in one direction or another depending on the colour of the information they receive each day. For the time being, however, the most likely scenario remains that these pockets of risk will fade over the coming months. We hope that, following the V-shaped recovery we have just witnessed, we will be able to focus our energies on analysing the new expansionary cycle that opens up in order to ensure that it is more sustainable, from both a social and an environmental point of view.

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