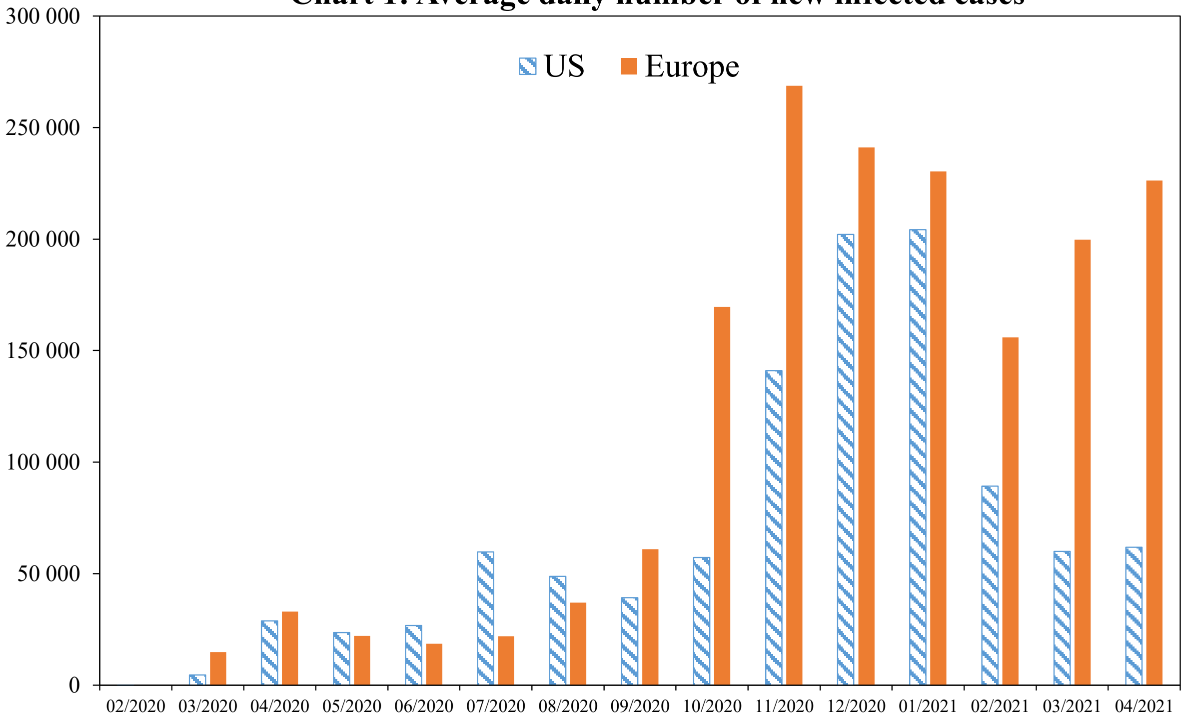
Box 2.1

Comparison of economic situations in the US and Europe during the first and second waves of COVID-19 epidemic

It has been more than a year since the World Health Organization declared the COVID-19 outbreak a pandemic. After the rapid spread of the disease in March and April 2020 (the first wave), the epidemic situation in major economies including the US and Europe showed signs of stabilisation in the Summer. Yet, there was a resurgence of COVID-19 cases towards the end of last year (the second wave). This box article compares the economic situations in the US and Europe during the first and second waves of the epidemic, and discusses some potential factors contributing to the difference.

Judging from the number of new infections, the second wave of epidemic in the US and Europe is arguably more severe than that in last Spring. As shown in ***Chart 1***, the average daily number of new infected cases in the US increased notably in the latter part of 2020 and reached its height of 204 000 in January 2021, which was much higher than the corresponding numbers in March and April 2020. The situation in Europe was broadly similar, though the average daily number of new infections peaked earlier in November 2020 before experiencing another uptick in recent months.

Chart 1: Average daily number of new infected cases



Source: World Health Organization

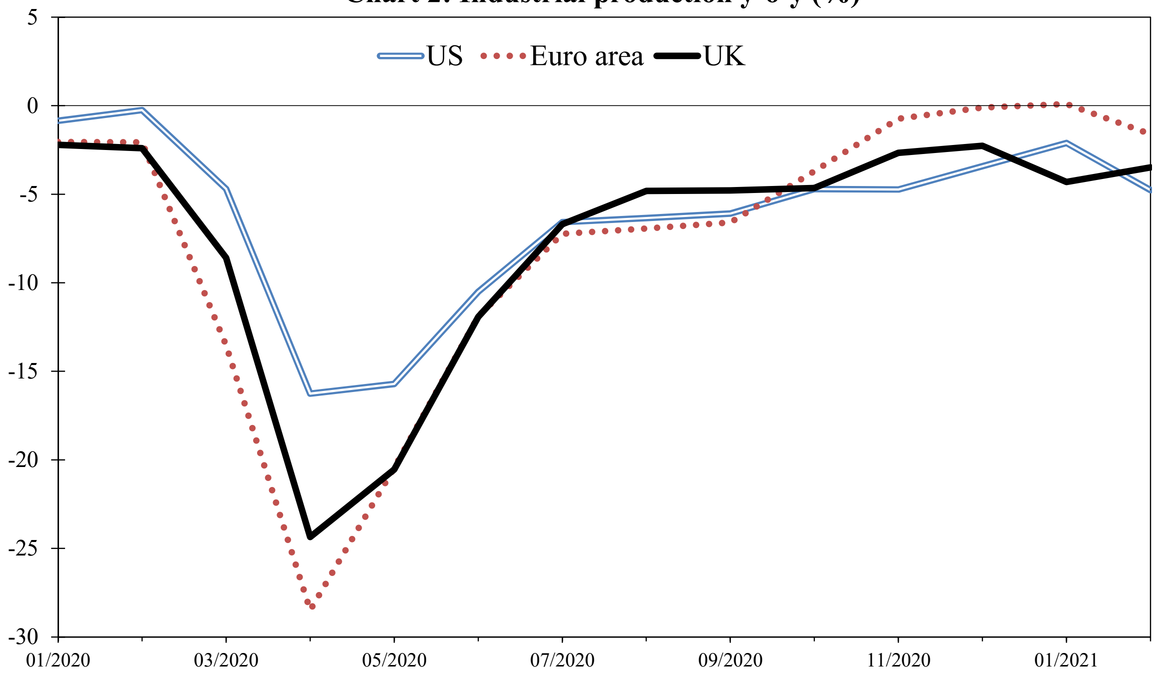
Despite the severity of the second wave of infections, its negative impact on the US and European economies seemed to be less pronounced as compared to the first wave. In the second quarter of 2020, the economies of the US, the euro area and the UK underwent unprecedented contractions of 9.0%, 14.6% and 21.4% year-on-year respectively. The corresponding contractions in the fourth quarter were much milder, at 2.4%, 4.9% and 7.3% respectively. With that said, the second wave of epidemic did weaken or even reverse the recovery trajectory of the major economies. On a quarter-to-quarter basis, real GDP growth in the US and the UK slowed markedly to 1.1% and 1.3% in the fourth quarter of 2020, while the euro area economy relapsed into a contraction of 0.7%.

Box 2.1 (Cont'd)

There are various factors contributing to the milder impact of the second wave of COVID-19 infections on these economies relative to that of the first wave. Importantly, anti-epidemic measures imposed by governments have turned more targeted and overall less restrictive, thereby causing fewer disruptions to economic activities. For instance, some economies (e.g. Italy and some states in the US) adopted night curfews in lieu of full lockdowns. Even if lockdowns were imposed, commuting to work would typically be allowed. Measures were also more region-specific, as some governments applied different levels of restrictions in different regions in accordance with their epidemic situation, avoiding the need of nationwide lockdowns as seen in last Spring.

Specifically, many factories in the US and Europe were shut down in last Spring, leading to a halt in manufacturing production and disrupted the downstream supply chain. Yet government restrictive measures were more focused on the services sector during the second wave of the epidemic, and manufacturing activities were much less affected. Industrial production plunged by 14.2%, 20.2% and 18.9% year-on-year respectively in the US, the euro area and the UK in the second quarter of 2020. The corresponding declines in the fourth quarter of 2020 were visibly narrower, at 4.3%, 1.6% and 3.3% ***(Chart 2)***.

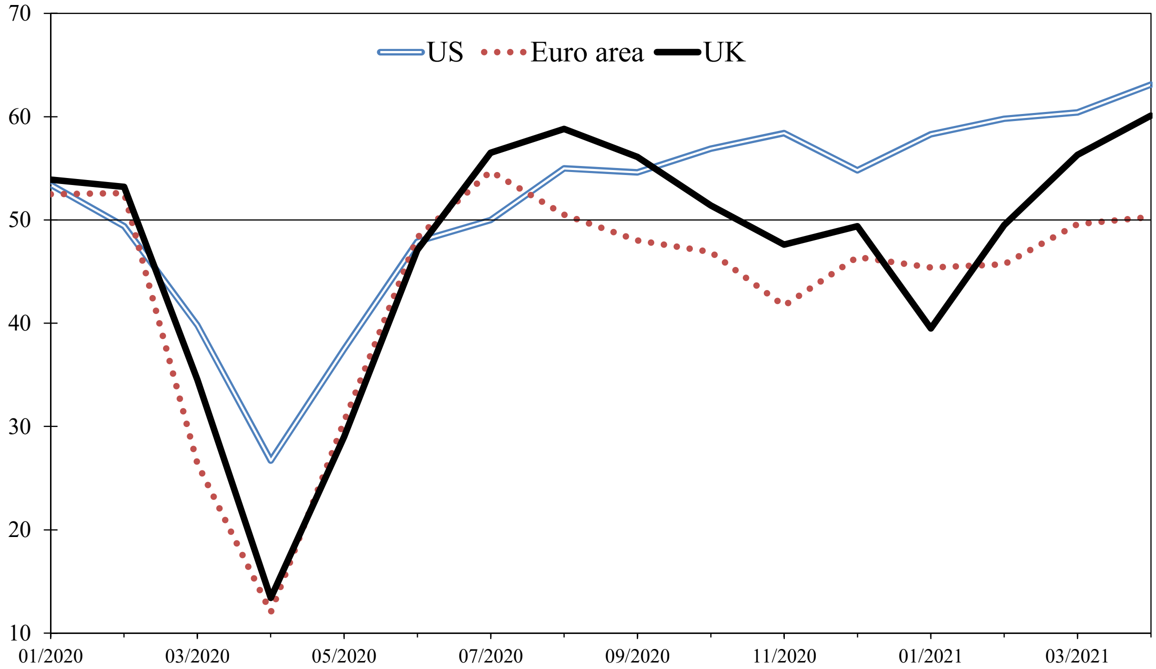
Chart 2: Industrial production y-o-y (%)



Even restrictions in the services sectors have been generally less restrictive during the second wave. For example, restaurants were allowed to open before 6pm and shopping malls were allowed to open on weekdays in some areas of Italy, instead of an outright closure as in last Spring. Moreover, after experiencing the first wave of infections, enterprises and individuals were generally better prepared to operate under the epidemic situation by way of better work-from-home arrangements, improved online platforms / channels for provision of services, enhanced delivery services, etc. Markit services PMIs indicated that the situation of the services sector in these economies during the second wave was not as austere as in last Spring ***(Chart 3)***. Yet, the recovery of the services sector has been much weaker than the manufacturing sector, and the hospitality sectors in particular remained in dire condition.

Box 2.1 (Cont'd)

Chart 3: Markit services PMIs



The pandemic's drag on domestic consumption demand had also eased. Retail sales in the US, the euro area and the UK registered year-on-year growth of 3.9%, 1.3% and 3.8% in the fourth quarter of 2020 respectively, compared to declines of 7.8%, 6.5% and 12.7% in the second quarter. Seemingly, individuals have started to adapt their way of life under the epidemic. This, together with the less stringent lockdown, has rendered some support to domestic consumption.

Last but not least, governments across the world have rolled out massive supportive measures throughout 2020. For instance, the US' Paycheck Protection Program offered forgivable loans to small businesses to cover payroll expenses, while the UK introduced Coronavirus Job Retention Scheme allowing employers to claim 80% of furloughed employees' usual monthly wage costs. Other support measures include loan schemes, tax deferrals and grants to the most affected sectors. These measures have helped keep businesses afloat and workers employed, providing a cushion to the economy during the second wave.

While the US and European economies faced less significant drags from the second wave of COVID-19 infections, their pace of economic recovery would remain constrained and uneven until the pandemic is fully contained. If the threat of the pandemic could be gradually alleviated alongside the progress of mass vaccination campaigns, global economic conditions should improve over the course of 2021. Various economies have also floated the idea of "vaccination passport" (e.g. Digital Green Certificate proposed by the European Commission) to facilitate the resumption of cross-border travel and allow more economic activities to revive, paving way for a broader based global economic recovery.