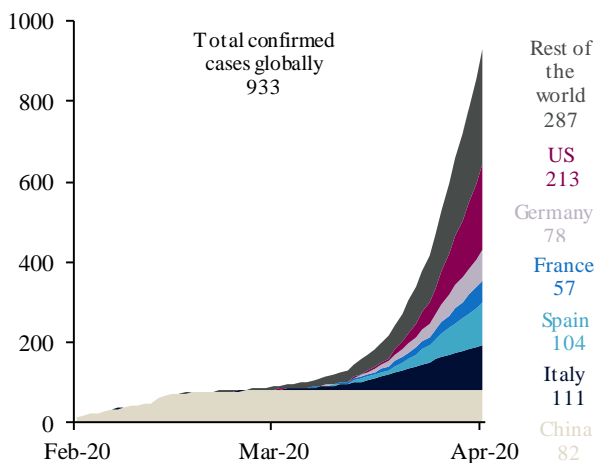


Potential global economic rebound requires aggressive virus mitigation

There is no future without a certain degree of uncertainty. In fact, all meaningful activities that are undertaken continuously or within a particular time frame carry risks, i.e., measured uncertainties. In a modern society, most events tend to fall within the confines of our regular expectations. However, certain occurrences are complete outliers, standing in the very extreme of the probability curve and unfolding consequences of massive impact to society. It is a convention now to call such events “black swans.” Deriving their name from the legendary birds of Western Australia, black swan events are not only rare but also extremely difficult to predict and, not least, hard to quantify.

Covid-19 confirmed cases
 ('000, as of 1st of April 2020)



Sources: John Hopkins University, QNB analysis

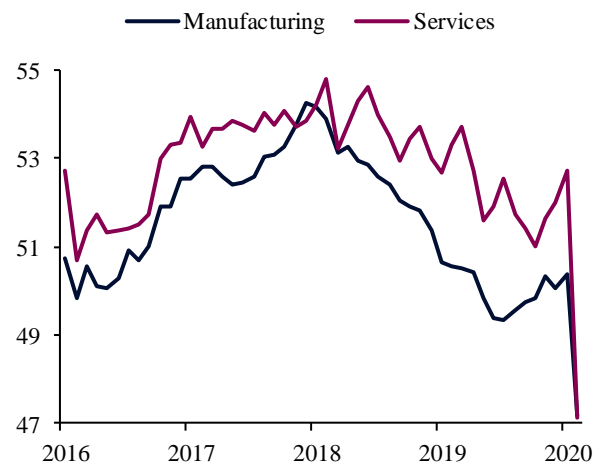
The spread of the pneumonia-like virus Covid-19 is a classic black swan event. After a massive outbreak in the city of Wuhan in China in late 2019 and early 2020, the virus spread throughout Asia before producing other outbreaks globally, including in Western Europe and the US. While the possibility of a global pandemic was widely known and even openly discussed by experts, the probability of its occurrence at any particular point in time was rather low or hard to predict. Moreover, the overall impact of a pandemic was knowingly high but difficult to measure properly. Thus, it is not evident to find immediate, effective and unanimous response on a global level. As ever more countries had to move

from containment to mitigation strategies globally, given the existence of community or local outbreaks of the virus in Asia, Europe and the US, stronger actions had to be taken in those countries.

At the time of writing, mass testing and different degrees of social distancing measures such as quarantines and lock downs have proven to be the “only game in town” in terms of credible mitigation strategies. The main objective of mitigation measures is to lengthen the time through which the virus spreads, flattening the curve of infections before hospitals get overloaded by a sudden surge of severe cases. The aim is to save lives, increase recovery rates and avoid unintended consequences associated with an overwhelmed health system.

While necessary for mitigation, social distancing comes with economic costs. This piece dives into three key points associated with the strong relationship between mitigation measures and the global economy, which are expected to dominate the worldwide macro-economic agenda over the coming quarters.

Global Purchasing Managers' Index
 (SA, 50+ = expansion)



Sources: Haver, QNB analysis

First, social distancing on a global scale produces powerful cascading sudden economic stops that bring both supply and demand to a virtual halt. As such, even the service sector, which is normally more resilient and less cyclical than manufacturing, is

particularly affected. In this sense, large service-based economies such as the US, UK and other advanced economies are particularly vulnerable. The global economy is expected to head this year to the sharpest and deepest slowdown since the post-World War II demobilization in the late 1940s.

Second, over the medium term, there is no trade-off between Covid-19 mitigation and the economy. Make no mistake, there is hardly any chance of “normal” economic activity if a large share of the population gets infected in a short period of time and health facilities collapse. Moreover, preliminary studies support that early and aggressive social distancing measures during the Spanish influenza outbreak in 1918 were key to reduce both mortality and the adverse economic consequences of the pandemic. The recent experience of early adopters during the initial phase of Covid-19 spread (Hong Kong, Taiwan, Korea and Singapore) are consistent with the above findings.

Third, in countries with significant outbreaks, an orderly transition to economic and social normalcy requires a cautious stance with the use of new tools and approaches to prevent a “second wave” or further spread of the disease. After transmission slows down and health infrastructure is scaled up to safely handle the outbreak, a gradual “re-opening” of the economy

can take place. But this requires adequate testing capacity for early identification and isolation of existing cases. Data is of utmost importance to pinpoint areas of the spread and the rate of exposure and immunity of the population. This, along with infrastructure for case containment and sufficient medical supplies, would be important for a smooth transition from horizontal social distancing (entire populations) to vertical social distancing (only the most vulnerable and the infected patients). Such a transition would precede a full-scale normalization.

All in all, the Covid-19 pandemic will have a deep but rather temporary effect on the global economy. Comprehensive fiscal and monetary support in all major markets should provide “economic security” during the slump and set the conditions for a healthy recovery. In fact, we expect an economic rebound in Q3 and Q4 2020. However, this requires early and aggressive actions for Covid-19 containment and mitigation globally in an orchestrated manner.

QNB Economics Team:

James Mason

Senior Economist
+974-4453-4643

* Corresponding author

Luiz Pinto*

Economist
+974-4453-4642

Abdulrahman Al-Jehani

Research Analyst
+974-4453-4436

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