

US COVID-19 surge

Downside economic risks as restrictions grow

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Economics - United States

- ◆ COVID-19 surge across the US means more restrictions...
- ◆ ...posing downside risks to growth in the coming months...
- ◆ ...and potentially a more pressing need for fiscal stimulus

The surge in new COVID-19 cases in the US in recent weeks poses clear downside risks to the economy in the near term. Many states are already introducing new measures in response to the spike in cases and high-frequency data have shown some early signs of economic softening as consumers become more cautious again.

While daily cases have been high for some time (roughly 40k per day in September), numbers have risen sharply in recent weeks to over 150k cases per day. And far more states are being hit than in previous waves. In some, the numbers are staggering. North Dakota and South Dakota, for example, are seeing more than 150 cases per 100k population per day: that's more than three times the numbers seen in European hotspots.

Whilst the recent breakthroughs on the vaccine front are clearly good news, they do little to change the economic or health impacts of the current surge in cases.

This creates risks to the economic outlook – even if restrictions imposed so far are less stringent than those put in place in the spring. In Europe, where the restrictions have been tightened again, we are now expecting negative prints for GDP in Q4. For the US, it would not take much for growth to suffer if stricter lockdowns were to be imposed in the coming weeks. Any new downturn in consumer spending, especially for services that depend on physical proximity, would also pose downside risk growth.

If this surge in cases leads to further restrictions and declines in employment as in the spring, then the need for additional fiscal support would become more pressing. The economic rationale for new transfer payments to households and businesses would strengthen. The monetary policy outlook could be impacted as well: we currently expect the FOMC to maintain a USD120bn per month pace of asset purchases after the 15-16 December policy meeting, but the prospects for additional easing could increase if near-term downside risks for the economy are realized.

On top of the announcements from states on new restrictions, there are a few data points to watch in the coming weeks to see the extent of any retrenchment in consumer spending. The high-frequency Google Mobility and Open Table data will give an early indication of changes in behavior, while consumer surveys and more timely economics releases such as the Census Bureau's Household Pulse survey will be worth keeping an eye on. The signals from these data will come much sooner than the hard economic data, which may not fully capture the impact in November given that many new restrictions will not be in place for the whole month.

This is a redacted version of the report published on 18-Nov-20. Please contact your HSBC representative or email AskResearch@hsbc.com for information

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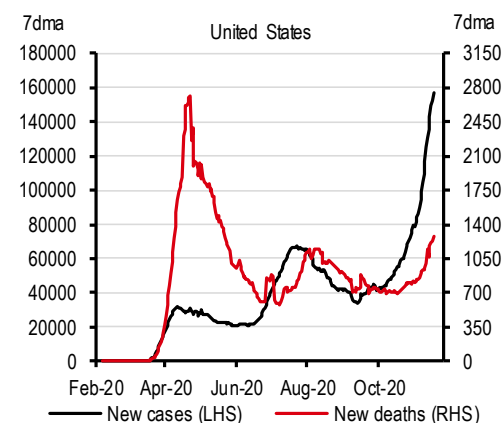
Another surge in cases

- ◆ A sharp rise in COVID-19 cases across the US...
- ◆ ...is leading to tighter restrictions on activities...
- ◆ ...that are likely to slow the economic recovery

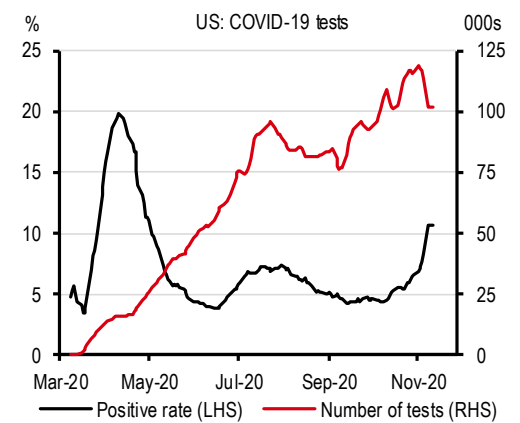
Cases up across the US

The COVID-19 situation in the US has started to mirror that of Europe. While Europe's "second wave" started in late summer, the numbers in the US only started to accelerate in October. Only in November has the acceleration in cases taken the daily readings above the prior peak. While some of this may be as a result of more testing, the test positivity rate has risen notably in recent weeks, suggesting that the viral spread is increasing. While the mortality rate remains some way below the April peak, the increase in hospitalizations across the country is a clear cause for concern.

1. More cases in the past month...



2. ...are not just the result of more tests



Why is this increase happening now? Analysis of the pick-up in COVID-19 cases across the US by Jed Kolko, Chief Economist at Indeed, suggests that since March, cases have picked up most in states with weather in extremes – those where it is very cold (<40°F, 4°C) or very hot (>80°F, 27°C) – where people are forced inside much more. In the absence of strict containment measures in many states, this has led to the number of cases rising very quickly.

The economic risks are clear. Dallas Fed President, Robert Kaplan, highlighted this as a key risk during remarks at Bloomberg's Future of Finance 2020 conference on 10 November, suggesting that the need for tighter restrictions could pose downside risks for growth in Q4 and Q1 2021. Fed Chair Jerome Powell similarly struck a note of caution in a question and answer session on 17 November, saying that the recent spread of the coronavirus has created a major near-term risk for the economy.

“ If the resurgence gets bad enough where it overwhelms health care systems in various cities, they may not have a choice but to institute lockdown

Robert Kaplan, Dallas Fed President, at Bloomberg’s Future of Finance 2020 conference, 10 November 2020

Anthony Fauci, the director of the National Institute of Allergy and Infectious Diseases, has said that while he sees “no appetite” for further lockdowns on a national basis, Americans should “double down” on the fundamentals of limiting the spread of disease: wearing of masks, avoiding crowds, and maintaining physical distances¹. President Trump has said that his administration will not order any nationwide restrictions.

“ I can tell you this administration will not go to a lockdown.”

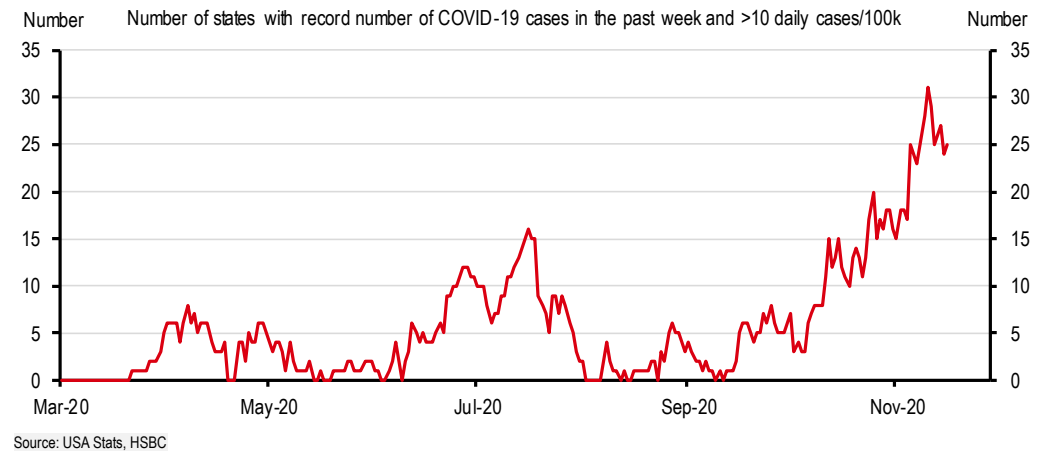
Donald Trump, speaking at a press conference on 13 November 2020

That doesn't mean that states and cities won't tighten their own restrictions to fight the spread of COVID-19. Some have started already: For example, in Chicago, a stay-at-home advisory will last for 30 days from 16 November, while in Oregon a two-week “freeze” has been announced, which will further limit social gatherings and order restaurants to close all dine-in seating starting on 18 November. New Mexico has gone into a two-week shutdown, from 16 November, prohibiting in-person dining amongst other restrictions.

The main difference between this wave and previous ones is the share of states that this is impacting. As chart 3 shows, the spike in cases has affected many more states than any of the other waves across the country. While April saw large outbreaks in New York and Washington, much of the rest of the US saw relatively small numbers. During July, the pick-up in cases was concentrated in Sunbelt states such as Florida and Texas. In the latest acceleration, a majority of states are seeing case numbers at record highs.

¹ Fauci urges American public to double down on COVID-19 safety measures amid surge, The Hill, 12 November 2020

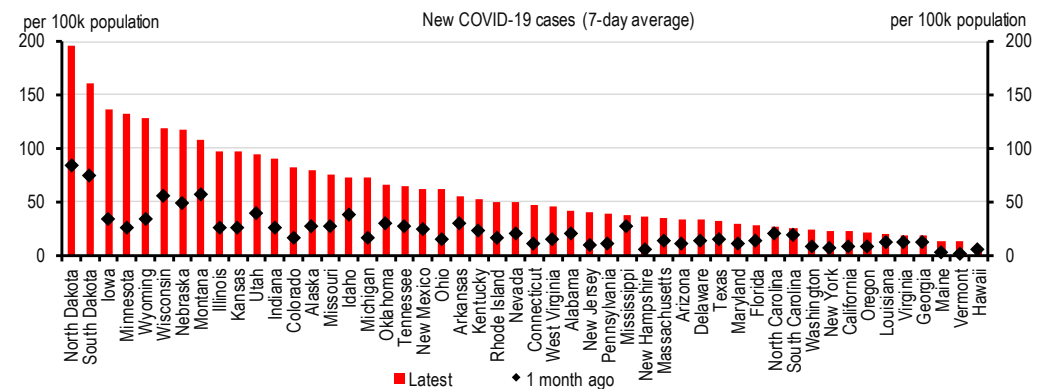
3. This spike in cases has been far more widespread than the wave in the summer



New case rates have soared in many states

The data across states is striking. As chart 4 shows, the case numbers have soared in the likes of North Dakota, South Dakota, and Iowa, with well over 100 cases per 100k of the population reported on a daily basis. This compares to 30-60 cases per 100k per day in the most affected major European economies such as France, Spain, and the UK.

4. Case numbers are worrying in many states



5. Some states are far more affected than others

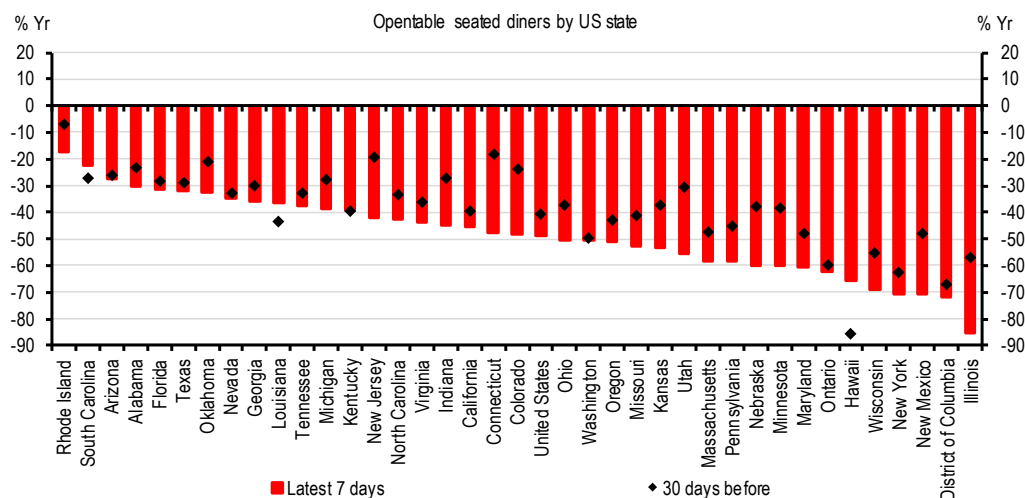
States	Daily COVID-19 cases/100k (7dma)	Daily COVID-19 deaths/100k (7dma)	COVID-19 Hospitalizations/100k	COVID-19 test positivity rate
Alabama	41.9	0.5	24.5	8.2%
Alaska	79.1	0.3	17.0	10.8%
Arizona	33.8	0.3	19.5	8.3%
Arkansas	54.6	0.6	27.1	9.4%
California	22.4	0.1	10.5	4.3%
Colorado	82.3	0.4	22.6	11.4%
Connecticut	47.4	0.2	18.0	7.0%
Delaware	33.7	0.2	12.7	4.6%
Florida	28.0	0.3	14.5	7.3%
Georgia	18.5	1.0	19.0	7.5%
Hawaii	6.1	0.0	4.9	2.7%
Idaho	72.9	0.5	20.1	24.0%
Illinois	97.7	0.7	41.6	13.5%
Indiana	89.7	0.6	38.3	13.1%
Iowa	136.8	0.6	39.4	22.2%
Kansas	97.1	0.4	25.0	21.1%
Kentucky	52.9	0.3	29.6	11.7%
Louisiana	19.5	0.3	15.4	5.8%
Maine	13.8	0.1	4.6	2.9%
Maryland	29.0	0.2	14.6	6.2%
Massachusetts	34.4	0.4	10.0	2.5%
Michigan	72.4	0.6	32.3	11.2%
Minnesota	132.1	0.6	24.5	15.9%
Mississippi	36.9	0.5	25.8	11.3%
Missouri	74.9	0.5	37.8	18.9%
Montana	107.7	0.9	44.1	27.9%
Nebraska	117.6	0.6	45.7	22.0%
Nevada	49.6	0.3	32.4	14.3%
New Hampshire	36.0	0.1	5.1	4.6%
New Jersey	40.0	0.2	21.4	7.7%
New Mexico	62.4	0.7	22.1	13.0%
New York	23.1	0.1	9.0	2.7%
North Carolina	27.1	0.3	12.8	7.1%
North Dakota	196.5	1.8	53.2	18.1%
Ohio	61.6	0.3	26.0	8.5%
Oklahoma	66.5	0.3	31.1	16.1%
Oregon	22.0	0.1	8.5	8.1%
Pennsylvania	39.4	0.3	17.8	7.8%
Rhode Island	50.1	0.5	22.8	4.2%
South Carolina	25.3	0.3	15.1	9.3%
South Dakota	161.0	1.7	63.3	22.2%
Tennessee	65.2	0.7	28.8	11.6%
Texas	32.2	0.4	24.1	11.7%
Utah	94.0	0.3	15.3	16.9%
Vermont	13.6	0.0	3.2	0.9%
Virginia	18.7	0.2	15.0	8.6%
Washington	24.3	0.2	7.0	5.8%
West Virginia	45.2	0.4	18.3	5.6%
Wisconsin	118.2	0.9	36.1	16.6%
Wyoming	128.0	0.7	33.0	9.8%

Source: USA Facts, covidactnow.org

Impact on the economy

This spike in cases is already impacting economic activity in many states, even before tighter restrictions are rolled out. Data from Open Table on the number of diners at partner restaurants shows a decline in most states over the past month. Only in Hawaii has there been a notable improvement, albeit to a level that is still 65% lower than a year ago.

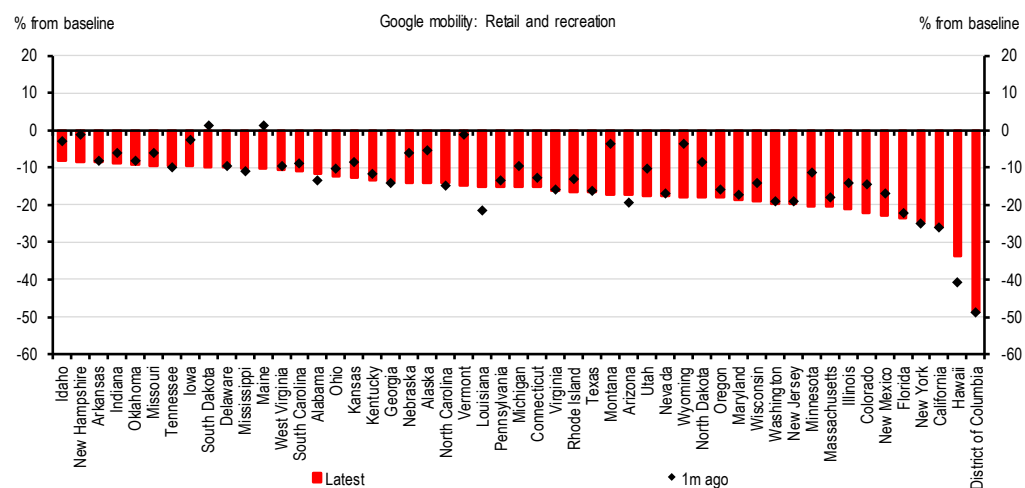
6. Restaurants are reporting fewer diners than previously



Source: OpenTable, HSBC. Note: data to 17 November 2020, and represent a 7-day moving average. Includes walk-ins and online bookings. Data not available for all states.

Google's mobility data paint a similar picture. Here, we have data for all states, and although not quite as dramatic, it is clear that the recovery has, at best, stalled, and is going into reverse in many states. While these data are extremely timely, they will still tend to lag behind the changes in COVID-19 case rates. As new restrictions are imposed, the potential downside risks to economic activity in November and December are likely to increase.

7. Google's mobility data suggest a slowdown already



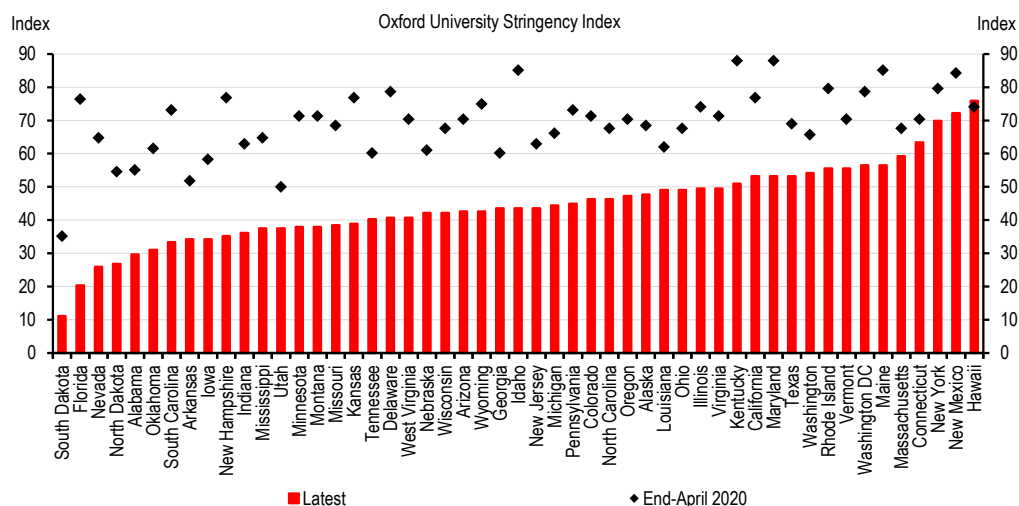
Source: Google Mobility reports. Note: Baseline is from Jan-Feb 2020. Latest data runs to 13 November 2020, and represent a 7-day moving average.

A variety of indicators will be worth watching in the coming weeks for a guide to the true economic implications. The University of Michigan consumer confidence indicator fell in November on the flash reading, with the survey commentary saying that "The outcome of the presidential election as well as the resurgence in COVID-19 infections and deaths were responsible for the early November decline". Timely labor market data, including weekly jobless claim filings and the monthly employment report, should be tracked closely. The Census Bureau's Household Pulse survey will provide a useful bi-weekly guide to household finances and employment. The Census Bureau also conducts a Small Business Pulse survey that may serve as a useful, timely guide to how businesses are faring as a result of tighter restrictions.

Restrictions

The overall impact on the economy will depend on the degree of restrictions that come into force and the degree to which consumers change their behavior. We're already seeing consumers pull back in both the Google and Open Table data, but the real economic hit could come from greater restrictions. While restrictions on schools are in place in all states, some, such as Iowa have only a handful of other restrictions in place currently. Forecasting what restrictions could come into force is impossible but with rising case rates there is a clear risk that we could see restrictions increase towards the levels they were at back in the spring. While Oxford University's stringency index (chart 8) is not a perfect measure, we can see the gap between the degree of restrictions in April versus now is one that could be (at least partly) closed. The state of restrictions in different states is outlined in table 9, over the page.

8. Most states' restrictions are far looser than they were in the spring



Source: HSBC, Hale, Thomas, Noam Angrist, Emily Cameron-Blake, Laura Hallas, Beatriz Kira, Saptarshi Majumdar, Anna Petherick, Toby Phillips, Helen Tatlow, Samuel Webster (2020). Oxford COVID-19 Government Response Tracker, Blavatnik School of Government.

Many states, such as Alaska, Alabama, Florida, Maryland, Missouri, New York, Oregon, South Carolina, and Washington have tightened restrictions in one form or another in recent days – varying from stay at home orders to limiting the size of groups that are able to meet or closing eating venues early.

States have also warned of tighter restrictions that could come in the coming weeks: in recent days, New York Governor Andrew Cuomo has said that restrictions could be tightened further, on top of a new directive that bars, restaurants, and gyms must close after 10pm, while social gatherings are capped at 10 people. Clearly, whilst it may not be by the same degree in every state, restrictions are likely to tighten across the country in the coming weeks.

9. Latest restrictions show what is currently in place – and therefore where there is scope for tightening

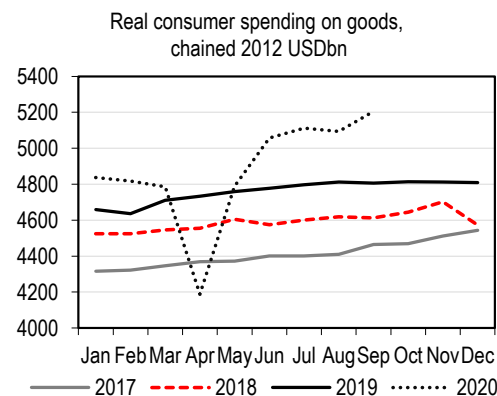
	School closing	Workplace closing	Cancel public events	Restrictions on gatherings	Close public transport	Stay at home requirements	Restrictions on internal movement	International travel controls	Aggregate index
South Dakota	2	0	0	0	0	0	0	0	11.1
Florida	1	0	1	0	0	2	0	0	20.4
Nevada	1	1	1	2	0	0	0	0	25.9
North Dakota	2	1	2	0	0	0	0	0	26.9
Alabama	2	1	1	0	0	1	0	0	29.6
Oklahoma	2	0	1	2	0	1	1	0	31.0
South Carolina	1	0	1	4	0	1	0	0	33.3
Arkansas	1	2	1	3	0	0	0	0	34.3
Iowa	2	1	1	3	0	0	0	0	34.3
New Hampshire	2	1	1	0	0	1	1	0	35.2
Indiana	2	1	1	0	0	0	1	2	36.1
Mississippi	1	1	1	4	0	1	0	0	37.5
Utah	2	1	1	4	0	1	0	0	37.5
Minnesota	3	1	1	3	0	1	0	0	38.0
Montana	1	1	1	3	0	2	0	0	38.0
Missouri	2	1	2	3	0	1	1	0	38.4
Kansas	2	0	1	3	1	0	0	2	38.9
Tennessee	2	1	2	3	1	1	0	0	40.3
Delaware	1	2	1	2	0	1	1	0	40.7
West Virginia	2	0	2	3	0	1	1	2	40.7
Nebraska	1	0	2	4	1	1	1	0	42.1
Wisconsin	2	1	1	4	1	1	0	0	42.1
Arizona	3	2	1	3	1	0	0	0	42.6
Wyoming	2	1	1	3	2	0	0	0	42.6
Georgia	2	1	2	3	0	1	0	0	43.5
Idaho	3	1	1	3	0	0	1	0	43.5
New Jersey	2	1	1	3	0	1	1	0	43.5
Michigan	2	1	1	4	1	1	0	1	44.4
Pennsylvania	2	2	2	3	0	0	1	0	44.9
Colorado	2	2	1	4	1	1	1	0	46.3
North Carolina	2	2	1	3	1	1	1	0	46.3
Oregon	2	2	2	4	0	0	1	0	47.2
Alaska	3	1	0	3	0	1	2	2	47.7
Louisiana	2	2	2	2	1	1	0	0	49.1
Ohio	2	1	1	4	0	1	1	1	49.1
Illinois	2	1	1	4	0	2	2	0	49.5
Virginia	2	1	1	3	0	1	2	0	49.5
Kentucky	2	1	1	4	2	0	1	0	50.9
California	3	2	2	3	0	1	1	1	53.2
Maryland	2	2	2	4	0	0	2	0	53.2
Texas	1	3	2	4	0	2	1	1	53.2
Washington	3	2	2	4	1	1	1	1	54.2
Rhode Island	2	1	1	4	0	2	1	2	55.6
Vermont	2	2	2	4	0	1	1	0	55.6
Washington DC	2	2	2	3	0	0	2	0	56.5
Maine	1	2	1	3	1	1	2	0	56.5
Massachusetts	2	2	1	3	1	1	2	2	59.3
Connecticut	2	2	1	4	1	1	2	2	63.4
New York	2	3	2	4	1	1	2	2	69.9
New Mexico	2	2	2	4	2	1	2	2	72.2
Hawaii	2	2	2	4	1	2	2	2	75.9

Source: HSBC, Hale, Thomas, Noam Angrist, Emily Cameron-Blake, Laura Hallas, Beatriz Kira, Saptarshi Majumdar, Anna Petherick, Toby Phillips, Helen Tatlow, Samuel Webster (2020). Oxford COVID-19 Government Response Tracker, Blavatnik School of Government. Key: School closing: 0 - no measures, 1 - recommend closing or all schools open with alterations resulting in significant differences compared to non-Covid-19 operations, 2 - require closing (only some levels or categories, e.g. just high school, or just public schools), 3 - require closing all levels, Workplace closing: 0 - no measures, 1 - recommend closing (or recommend work from home), 2 - require closing (or work from home) for some sectors or categories of workers, 3 - require closing (or work from home) for all-but-essential workplaces (e.g. grocery stores, doctors), Cancel public events: 0 - no measures, 1 - recommend cancelling, 2 - require cancelling, Restrictions on gatherings: 0 - no restrictions, 1 - restrictions on very large gatherings (the limit is above 1000 people), 2 - restrictions on gatherings between 101-1000 people, 3 - restrictions on gatherings between 11-100 people, 4 - restrictions on gatherings of 10 people or less, Close public transport: 0 - no measures, 1 - recommend closing (or significantly reduce volume/route/means of transport available), 2 - require closing (or prohibit most citizens from using it), Stay at home requirements: 0 - no measures, 1 - recommend not leaving house, 2 - require not leaving house with exceptions for daily exercise, grocery shopping, and 'essential' trips, 3 - require not leaving house with minimal exceptions (e.g. allowed to leave once a week, or only one person can leave at a time, etc.), Restrictions on internal movement: 0 - no measures, 1 - recommend not to travel between regions/cities, 2 - internal movement restrictions in place, International travel controls: 0 - no restrictions, 1 - screening arrivals, 2 - quarantine arrivals from some or all regions, 3 - ban arrivals from some regions, 4 - ban on all regions or total border closure

More stimulus to come?

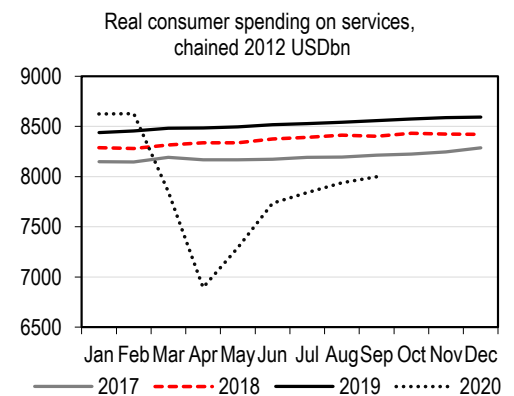
So all of this poses some clear downside risks to the economy in Q4 and into Q1 2021. A vaccine will likely not be readily available to Americans until late April (and even then not everyone will get it), according to Dr Anthony Fauci², and so there could be a need to support the economy up to then, particularly if strict lockdowns were to lead to a renewed downturn in consumer spending, especially for services that depend on physical proximity. Employment in the industries that saw the biggest declines this past spring would once again be at greatest risk.

10. New lockdowns would put mean new downside risks for consumer spending...



Source: Bureau of Economic Analysis. Note: Seasonally adjusted annual rates.

11. ...creating fresh headwinds for service industries that have already been hard hit



Source: Bureau of Economic Analysis. Note: Seasonally adjusted annual rates.

If tighter restrictions were to lead to new business closures and declines in employment, then the need for additional fiscal support would become more pressing. President-elect Biden has called for further stimulus, with his Chief of Staff, Ron Klain, saying, "This is a national crisis, it needs bipartisan action now"³. President Trump has said on Twitter in recent days that there is need for a relief bill, but this may not be enough to break the current impasse in Congress. There remains only a small window of time for potential legislative action in 2020, primarily in the first half of December when both the House of Representatives and the Senate are scheduled to be in session.



Congress must now do a Covid Relief Bill. Needs Democrats support. Make it big and focused. Get it done!

Donald J. Trump (@realDonaldTrump) 14 November 2020

If economic activity data were to deteriorate, this could also have an impact on the Federal Reserve's discussions about the appropriate settings for monetary policy. In his press conference following the 4-5 November FOMC meeting, Fed Chair Jerome Powell said that the Committee had discussed potential changes to the size, composition, and lifecycle of its asset purchases, but that Committee viewed the current USD120bn per month purchase pace as providing the appropriate amount of accommodation. We expect this purchase pace to be maintained following the 15-16 December FOMC meeting, but the prospects for additional monetary easing could increase if strict lockdowns are imposed and lead to a realization of near-term downside risks for the economy.

² Fauci says vaccine could be available to all by April, CNN, 10 November 2020

³ US surge in coronavirus cases darkens outlook for economy, FT, 15 November 2020

Disclosure appendix

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