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Week in Focus

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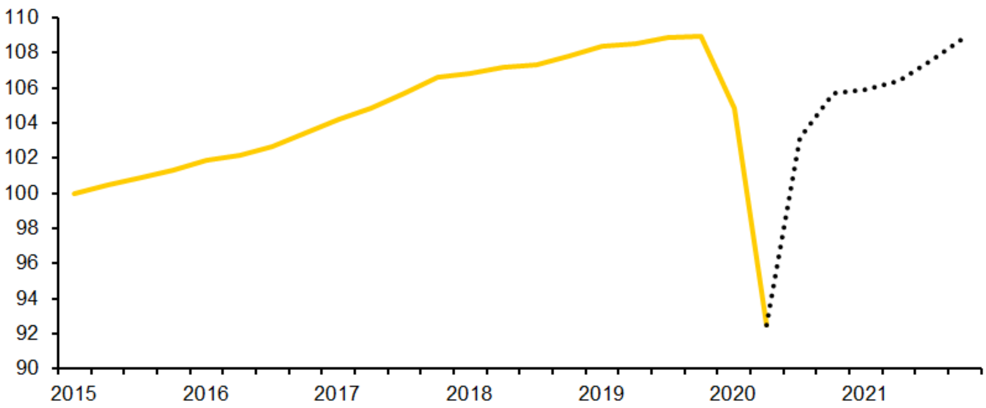
Second wave of infections, second recession?

Due to the sharp rise in new corona infections, fears of a renewed economic slump are growing in the euro area. But the tightening of corona restrictions is hitting sectors such as tourism, which are largely already on the floor. In contrast to the first wave of infections, production and demand for other goods are unlikely to be affected. A look at the USA also shows that a second wave of infections does not necessarily mean a second recession. **Page 2**

Despite second Corona wave, euro zone economy will continue to recover
Real GDP, Q1 2015 =100, forecast from Q3 2020



Source: Eurostat, Commerzbank Research

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Second wave of infections, second recession?

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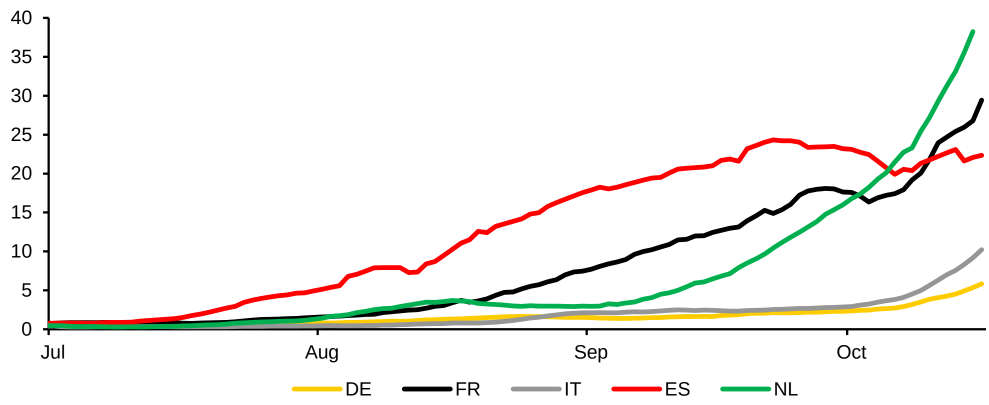
Due to the sharp rise in new corona infections, fears of a renewed economic slump are growing in the euro area. But the tightening of corona restrictions is hitting sectors such as tourism, which are already largely on the floor. In contrast to the first wave of infections, production and demand for other goods are unlikely to be affected. A look at the USA also shows that a second wave of infection does not necessarily mean a second recession.

In the euro area, the coronavirus has been spreading strongly again since August. Particularly affected are the Netherlands, France and Spain, where the average number of reported new infections over the last seven days has now risen to well over 20 per 100,000 (chart 1). Also in Germany and Italy, the infection rate has risen significantly since the beginning of October.

Chart 1 - The virus is spreading rapidly in the Netherlands, France and Spain
New infections per 100,000 inhabitants, 7-day average



Source: ECDC, Commerzbank Research

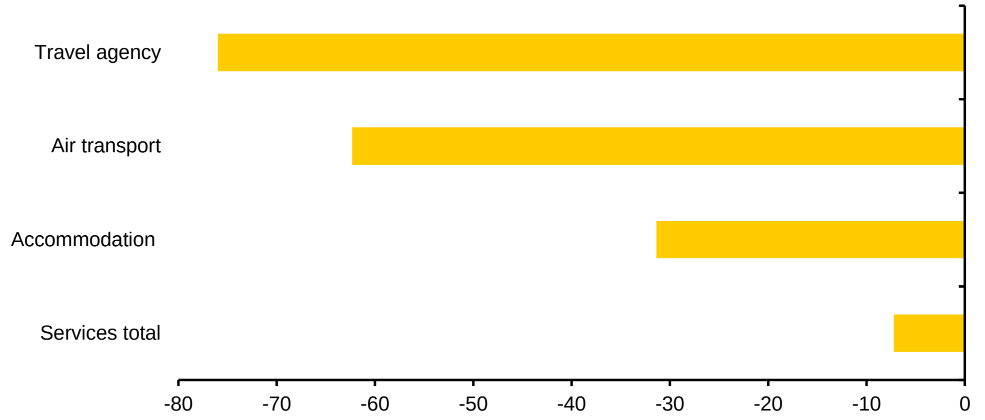
To regain control of the virus, many governments have tightened corona restrictions significantly. This is clouding the economic outlook for the winter half of 2020/21, but we do not believe a renewed recession like the one we experienced in the spring is very likely for three reasons:

(1) It hits above all the industries that are already in the doldrums

Measures such as wearing a face mask, restricting festivities or limiting personal contacts are affecting social life but have no direct impact on economic activity. More painful for the economy are the accommodation bans for vacationers from risk areas and the regional closing hours in bars and restaurants. If the situation worsens, broader closures of bars and restaurants, as is now the case in the Czech Republic, cannot be ruled out.

The new restrictions will primarily affect industries that are already in the doldrums. For example, sales at travel agencies and tour operators in July were still 76% below pre-crisis levels (chart 2). Aviation and the hotel and catering industry are also far from normal. A similar percentage decline in sales in these sectors as in March/April would not slow down growth of the total economy to the same extent this time around due to their significantly shrunken share in the overall economy.

Chart 2 - Some industries are still largely on the floor
Turnover in services in July, change on January/February 2020 in %



Source: Eurostat, Commerzbank Research

(2) Politicians have learned lessons from the first wave

Other sectors of the economy are likely to get off relatively lightly this time, as politicians have learned from the first wave of infection.

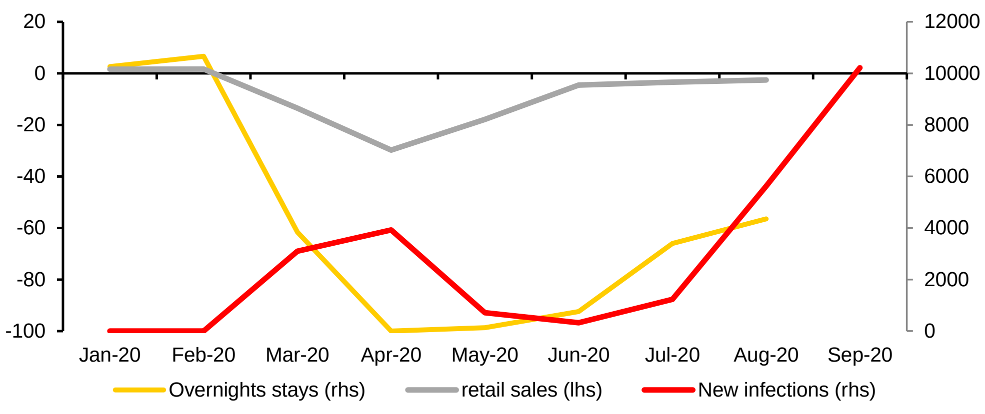
- A nationwide closure of kindergartens and schools is unlikely to happen again. This means that employees will not be forced to stay at home and be absent from work due to a lack of childcare.
- In addition, companies and employees now have more experience with working from home. A renewed expansion should be more frictionless than in April.
- Shops should also remain open during the second wave of infections. There will therefore not be an abrupt slump in retail sales like in April.
- The EU aims to prevent border closures, like those in the spring, wherever possible. This will also reduce the risk that exports will once again be hampered because, for example, specialist staff are not allowed to enter the country to set up exported machinery.

(3) Consumers have become accustomed to living with the virus

In addition, the shock for private households is unlikely to be as severe as it was during the first wave of infections. In the meantime, consumers have become accustomed to living with the coronavirus and can better assess their personal risk.

A look at Spain, where the second wave of infections started first, confirms this assessment. Although new infections there have risen sharply again since the middle of the year, retail sales and the number of overnight stays in hotels continued to recover in July and August (chart 3). Retail sales even almost reached the previous year's level again.

Chart 3 - Spain: Retail and tourism did not notice a second wave of infection until August
Spanish retail sales and nights spent at tourist accommodation establishments in July, y-o-y in %,



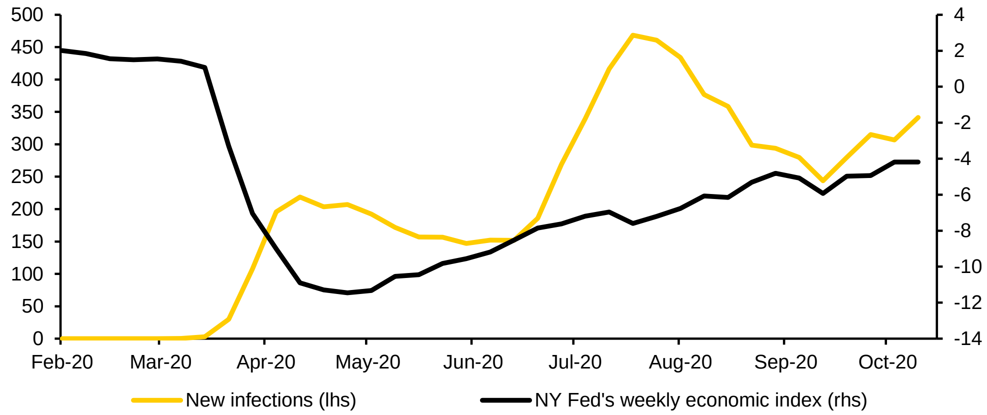
Source: Eurostat, Commerzbank Research

US economy not thrown off track by second wave of infection

The experience gained in the US also suggests that the economic stress during a new wave of infection will be less severe:

- The first wave, which began in March, led to extensive closures of factories and schools in most US states. This and the voluntary self-isolation of numerous households caused the economy to crash in March and April.
- The second wave of infections, which began in early summer, offered a completely different picture. Against the background of the enormous costs of the lockdown in the spring when 22 million Americans lost their jobs, the authorities imposed new restrictions only very selectively. These spared industrial plants and numerous businesses and concentrated on particularly endangered sectors. The economy therefore coped with this second wave without interrupting its recovery. This is well illustrated by the New York Fed's weekly economic index, which has continued to recover to date (chart 4). In the third quarter, the economy is likely to have grown by around 7% compared with the second quarter (over 30% at an annualized rate). This strong growth was driven by a dynamic recovery in the consumption of goods, where latest data show that in real terms it was 5% higher than in January. This partly compensated for the sluggish recovery in the consumption of services.
- Even the third wave of infections, which now appears to be rolling in, has not yet caused a new economic slump, even though the pace of growth will naturally slow down noticeably in the fourth quarter following the strong recovery in the summer.

Chart 4 - US economy remained unimpressed by 2nd wave
Weekly positive Corona tests in thousands, New York Fed's weekly economic index in %



Source: Bloomberg, Commerzbank Research

Conclusion: No new economic slump

Although the second corona wave will delay the recovery of the economy in the euro area, it is unlikely to lead to another recession. However, this is conditional on containing the rise in infections before the healthcare systems reach their limits, a point which has by no means been reached yet. Otherwise, as the example of Israel shows, a second lockdown would not be avoidable.

US energy policy: Fossil fuels vs. Green New Deal

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The energy policy plans of the two US presidential candidates are fundamentally different. Incumbent Trump stands for an adherence to fossil fuels, while challenger Biden supports a shift to more sustainability and climate protection. We assess Trump's successes during his first term in office and take a look at what would change in energy policy should Biden win.

The outcome of the election on November 3 will also determine which direction the USA will take in future energy policy. A re-elected US President Trump is likely to continue the energy policy of his first term in office.This can be summarized in the following words: Energy dominance. This includes everything that contributes to making the USA the world's dominant supplier of (fossil) energy resources. Looking at the figures, Trump's first term in office was quite successful in this respect. In 2019, the USA became the world's largest oil producer, ahead of Russia and Saudi Arabia. As a result, the USA also became a leading crude oil exporter and, taking oil products also into account, even a net oil exporter. This seemed unthinkable just a few years ago. The USA has also become a net exporter on the gas market. Trump was unable to stop the loss of importance of coal, although this had a lot to do with its replacement by natural gas in power generation.

A President Biden, on the other hand, would take a completely different approach to energy policy. Biden's primary goal is to make the USA climate-neutral by 2050. Particularly ambitious seems to be the plan to enable carbon-free power generation in the USA as early as 2035. Coal-fired power would then become obsolete even faster than in Germany. More regulation, stricter environmental requirements and higher corporate taxes are also to be expected. A general ban on fracking will probably not be imposed under Biden. However, he does want to prohibit the approval of new oil and gas drilling on federal territory. The role of the USA as the world's largest oil producer and as a net exporter of oil and gas would thus be at risk. There could also be a change of direction as far as international agreements are concerned. The USA would probably return to the Paris Climate Accord under Biden. The same could be imagined for the international nuclear agreement with Iran. If US sanctions against Iran were also eased in this case, Iran would increase its oil production.

An election victory by Trump would come as a surprise according to the latest polls. In this case, Biden's plans, which are negative from an oil market perspective, such as a possible ban on oil drilling, higher taxes and more regulation, would be avoided. Moreover, there would then be no risk of a return of oil supply from Iran. The adverse effects of Biden's energy policy on oil prices could be cushioned in the short term by the expectation of declining US oil production. Hence, we do not expect a negative price reaction in the event of Biden's election victory for the moment. This would change, however, if Biden should actually ease the sanctions against Iran. This would lead to the oil market being oversupplied in the current market environment and put pressure on oil prices. The detailed analysis of the impact of the US election on energy policy can be read here.

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