Monthly economic webcast: Taming the second wave
Report card

NEGATIVE DEVELOPMENTS

• COVID-19 still expanding globally
• U.S. infection rate remains high
• Infections are rising in many emerging markets and now some non-U.S. developed countries
• We have downgraded our U.S. growth forecast given evidence the U.S. economy is stalling
• Global output expected to return to normal at a later date than previously assumed.
• Geopolitical challenges persist

POSITIVE DEVELOPMENTS

• The most adversely affected U.S. states may be starting to stabilize or even improve their virus count
• We have upgraded our non-U.S. developed world growth forecasts
• The global economy continues to advance and risk assets remains reasonably optimistic
• Housing markets have proven surprisingly resilient so far
• Vaccine news remains incrementally positive

INTERESTING

• We are gaining a better sense for what economic activities are and are not possible
• Gold prices hit a record high; U.S. yields near record low
• U.S. election and Brexit deadline approach
COVID-19 global daily cases still rising; fatalities edging higher

Spread of COVID-19 globally, cases and deaths

7DMA new cases, indexed to peak = 100

Global daily cases  Global daily deaths

Note: As of 7/30/2020. 7-day moving average of cases & deaths indexed to 100. Source: ECDC, Macrobond, RBC GAM
Many EM nations continue to struggle with COVID-19

Spread of COVID-19 in Brazil

Spread of COVID-19 in India

Note: As of 7/30/2020. Source: ECDC, Macrobond, RBC GAM
U.S. finally enjoying slight decline in new COVID-19 cases?

Spread of COVID-19 in the U.S.

- New daily cases, U.S. (RHS)
- Total cases, U.S. (LHS)

Note: As of 7/30/2020. Source: ECDC, Macrobond, RBC GAM
Florida and Texas may now be improving
However, other parts of the developed world are starting to get worse. 

Spread of COVID-19 in Spain

New daily cases, Spain (RHS)  Total cases, Spain (LHS)

Note: As of 7/30/2020. Source: ECDC, Macrobond, RBC GAM
Canadian virus numbers have improved but no longer falling

Spread of COVID-19 in Canada

New daily cases, Canada (RHS)  Total cases, Canada (LHS)

Note: As of 7/30/2020. Source: ECDC, Macrobond, RBC GAM
U.S. economic activity index has stopped advancing

Note: As of 07/25/2020. Economic Activity Index is the average of ten high-frequency economic data series measuring the percentage change versus pre-COVID (year-over-year or versus a defined period before COVID-19 outbreak). Source: Bank of Goldman Sachs, OpenTable, Macrobond, RBC GAM
Hours worked in U.S. has started to retreat again

Percentage change of hours worked by hourly workers in the U.S.

Note: As of 7/18/2020. Impact compares hours worked in a day vs. median for the same day of the week in January, 2020.
Source: Homebase, Macrobond, RBC GAM
Rebound visible across all countries, but U.S. now lags

Severity of lockdown varies by country

Note: Based on latest data available as of 7/25/2020. Deviation from baseline, normalised to U.S. Source: Google, University of Oxford, Apple, Macrobond, RBC GAM
How will the economic recovery proceed from here?
New preliminary forecasts – U.S. down, rest of world up

### Global growth forecast 2020

**Med. depth/med. recovery scenario**

<table>
<thead>
<tr>
<th>Annual average % change</th>
<th>U.S.</th>
<th>Canada</th>
<th>Eurozone</th>
<th>Germany</th>
<th>France</th>
<th>Italy</th>
<th>Spain</th>
<th>U.K.</th>
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<th>China</th>
<th>Developed</th>
<th>Emerging</th>
<th>Global</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S.</td>
<td>-8.0</td>
<td>-6.8</td>
<td>-6.6</td>
<td>-5.6</td>
<td>-6.8</td>
<td>-8.2</td>
<td>-7.5</td>
<td>-8.7</td>
<td>-7.3</td>
<td>1.3</td>
<td>-7.4</td>
<td>-1.7</td>
<td>-4.4</td>
</tr>
</tbody>
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**Note:** As at 2020-07-20

**Source:** RBC GAM

### Global growth forecast 2021

**Med. depth/med. recovery scenario**

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<tr>
<td>U.S.</td>
<td>4.7</td>
<td>4.3</td>
<td>2.9</td>
<td>2.5</td>
<td>3.2</td>
<td>3.2</td>
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**Note:** As at 2020-07-20

**Source:** RBC GAM

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**Key developments:**
- U.S. revised down in 2020
- Others revised higher in 2020
- Recovery limited until vaccine
- Full return to normal delayed
U.S. economic scenarios depicted

Potential trajectories of U.S. economic growth

- Actual
- Fast scenario
- Medium scenario
- Slow scenario

Note: As of 7/18/2020. Fast, medium and slow scenarios are RBC GAM projections based on different assumptions on duration and depth of COVID-19 impact to economic activities. Source: Macrobond, RBC GAM
We are gaining a better understanding of what is and isn’t possible

Bars, indoor restaurants and gyms may transmit the virus too freely:

1) U.S. states opened these first and most enthusiastically → serious second wave

2) These states then closed such facilities → second wave now starting to be tamed

3) Rest of developed world recently re-opened these → virus count starts edging higher

Admittedly there are other factors to consider: mask usage, compliance with rules, (de)politicization of virus, etc.
Housing has been stronger than expected – so far

Note: For the week ending 07/24/2020. Source: Mortgage Bankers Association (MBA), Macrobond, RBC GAM
Some sectors have rebounded surprisingly quickly, though bumping into limitations.
China rebounds, an encouraging signal for ROW

Chinese economy managed to return to growth quickly

Note: As of Q2 2020. Source: CNBS, Macrobond, RBC GAM
COVID-19
• Stops flow of people and slows flow of goods
• Big economic hit means huge blow to trade
• Renewed push to diversify supply chains, onshoring, building domestic capabilities

Geopolitics
• U.S.-China relations deteriorating
• Arguably inevitable in newly multipolar world
• Hot spots include tariffs, sanctions, HK
• U.S. election could reduce heat but not end
• Outright war quite unlikely

U.S.-China
• Limited deal signed Jan 15, 2020
• Effective tariff rate 4.6% → 4.2%
• Medical tariffs lifted due to COVID-19
• Phase 2 deal no longer seems likely
• Anticipate ongoing trade frictions

Trade frictions

U.S.-EU
• Recent Airbus ruling allows U.S. tariffs
• France to levy tax on tech giants
• U.S.-EU trade negotiations stalled
• U.S. threatens tariffs on beer, chocolate, olives

U.S.-Japan
• USJTA came into force Jan 1, 2020
• But agreement not yet finalized
• Auto sector remains unresolved

USMCA – U.S., Mexico and Canada
• Implemented as of July 1, 2020
• Despite new deal, U.S. threatens Canadian dairy and aluminum again

Auto tariffs?
• U.S. could revisit auto tariffs globally
• But logically it shouldn’t as already securing broader deals with main auto partners

Note: As at 2020-07-29. Source: RBC GAM
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