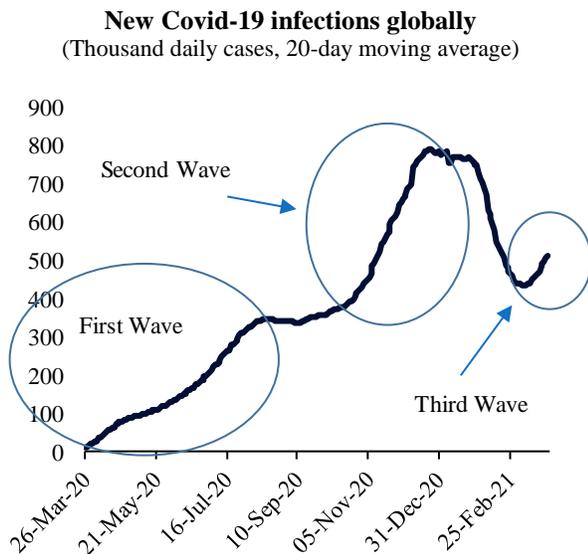


“Third wave” of new Covid-19 cases a threat for the global economy

Over the last few months, a decline of new Covid-19 cases and the beginning of mass immunization campaigns across several countries fuelled the world with optimism about a durable solution for the pandemic. However, a “third wave” of new Covid-19 cases is emerging globally, tempering the more optimistic views about a quick recovery from the pandemic.



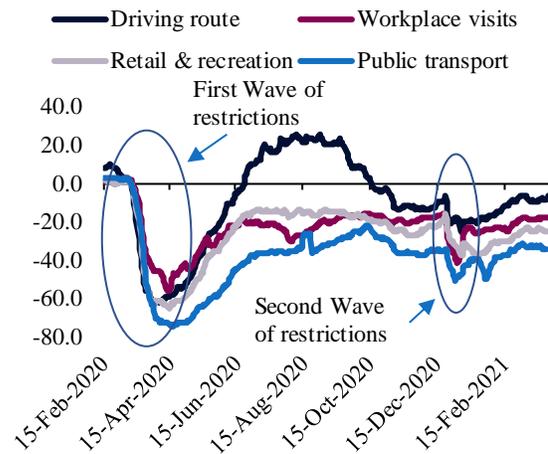
Sources: Haver, John Hopkins University, QNB analysis

Importantly, as the “third wave” of new Covid-19 cases accelerates, several countries are moving again towards more aggressive mitigation strategies. Those include the re-imposition of hard social distancing measures such as quarantines, curfews and lockdowns. The objective is to lengthen the time through which the virus spreads and to flatten the curve of infections before hospitals get overloaded by a bigger surge of severe cases. The aim is to save lives, increase recovery rates and avoid unintended consequences associated with strained healthcare systems.

This “third wave” of hard social distancing measures will come with costs to the global economy, potentially slowing more or even de-railing the economic stabilization process that started in Q3 2020. In fact, high frequency mobility indicators, a proxy for overall economic activity, show that economic activity comes to a halt each time with

restrictions and lockdowns. The first and second waves of restrictions led to economic contractions, which suggests that the ongoing third wave will have a similar impact.

Capital economics global mobility tracker
 (% difference from January 6th 2020, 7-day moving average)



Sources: Capital Economics, Google, Apple, Moovit, QNB analysis

This piece dives into the three main causes of the new wave of Covid-19 cases that are currently preventing a normalization of economic activity.

First, as Covid-19 spreads and mutates, new, more infectious strains of the virus are created. At least three major new strains of the virus have already been identified, including the ones circulating massively in the UK, Brazil and South Africa. More infectious strains are more challenging to be contained.

Second, compliance with social distancing measures became more relaxed due to a combination of fatigue and optimism with the approval of vaccines. The approval of several effective vaccines created a perception of safety among part of the non-immunized population, which affected their behaviour and increased their exposure to the virus. Constant flare ups of new cases create the need for tighter social distancing measures and “stop and go” economic patterns that are negative for investments and economic stability.

Third, supply constraints and bureaucracy have caused a slow start to mass vaccination programs, particularly in Continental Europe, Canada, Asia and lower-income emerging markets. Mass vaccinations require a plethora of professionals and infrastructure networks, including pharmacists, nurses, chemists, factory workers, truck drivers, pilots, data scientists and bureaucrats. Coordination efforts are critical to achieve a successful and impactful immunization program on a country level.

All in all, despite vaccine optimism, a “third wave” of Covid-19 cases proves that the pandemic is still expected to cause economic turbulence in 2021. We expect a more meaningful recovery to start only in the second half of 2021, when mass immunization is likely to be more advanced in the larger economies and a more permanent economic “open-up” can start globally.

QNB Economics Team:

[James Mason](#)
Senior Economist
+974-4453-4643

[Luiz Pinto*](#)
Economist
+974-4453-4642

* Corresponding author

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