COVID-19

The Germans are starting to get restless (again)

After the summer break new cases have picked up strongly in most of Germany’s neighboring countries. In many cases (France, Spain, UK, Netherlands, Poland, Czech Republic), numbers are (by far) exceeding the peaks reported in spring or are back at these levels (Belgium, Austria). Various governments have introduced new measures, such as Paris shutting down parts of the hospitality and leisure sector, and Spain ordering a partial lockdown in Madrid, albeit not as encompassing as in April. In other countries, social distancing and mask-wearing rules have been tightened or are being discussed.

German infections are rising but not as dramatically as in neighboring countries

In Germany, infection numbers have risen to a daily average of above 2,000 during the last two weeks. On Wednesday they jumped to 4085. This compares to 5,000 new cases per day during the height of the pandemic in late March and early April. While the renewed increase was initially seen as temporary and triggered by holidaymakers returning, it has so far not abated and is now to a large extent the result of more people returning to work and private events. Since the weather conditions only started to deteriorate at the very end of September, the increase can at best be in part explained by people staying indoors more again.

Strong political intention to avoid a second lockdown

At the end of September, Chancellor Merkel and Länder MPs agreed on a set of measures, which are all in all rather homeopathic. There are limits for the number of participants in public and private parties if the local infection rate is too high and fines are introduced for providing fake identities when visiting restaurants and bars. Starting October 15th the government will introduce widespread usage of antigen tests in hospitals and retirement homes, so that patients and visitors can be frequently tested. People returning from risk areas have to self-quarantine for 10 days, but can shorten this to 5 days if they test negative. Berlin and Frankfurt, where cases are rising towards the threshold of 50 per 100k inhabitants over 7 days (in same parts of Berlin they are already above this level) have announced curfews for restaurants and pubs after 10 p.m. Clearly city councils and the German government do not want to disrupt the economy with such measures but are aiming at avoiding a second lockdown or the widespread closure of schools.
COVID-19

Warning signals from high-frequency data
In March/April, one could observe that people started social distancing even before official measures were introduced. In our forecast for the winter half we have assumed higher infection rates will lead to more voluntary social distancing again. There are signs that this might have started.
Google trends suggest that the increase in German infection numbers since the end of the summer holidays is, at least, getting people’s attention (see Chart 2). While in Germany the number of searches with key words such as COVID-19 or corona are clearly below their peaks, Google searches about new infections (“Neuinfektionen”) have risen strongly. This begins to be mirrored in activity trackers like the Apple mobility index or pedestrian traffic in Germany’s 10 top high streets, which are looking increasingly toppish.

Probably a more limited response by the people to rising infection rates
Admittedly, these trackers (which are also influenced by weather and holiday effects) do at best show a first reaction in people’s behavior and we do not expect any kind of responses similar to the experience from March/April when streets were largely empty and retail sales fell by 8.3%. Most importantly, we do not expect a countrywide lockdown. Secondly, the virus and its behavior are no longer completely new to people and they have – to some extent – learned to live with the virus. Thirdly, we have so far not experienced a parallel increase in mortality rates as new infections occur largely within the younger cohorts.
With a much smaller number of severe cases the German health system currently has sufficient capacity to cope. About 30% of Germany’s more than 30,000 intensive care beds are currently available. On the other hand, the prevalence of the virus among younger more mobile and possibly less careful cohorts implies the risk of faster dispersion, increasing the risk that numbers will rise further.

Sober outlook for the winter half
The recent flare-up in infections adds to our concerns that consumer spending, which should have provided the lion’s share to the Q3 GDP of about 6%, will soften in Q4. This will negatively affect sectors like tourism, restaurants and personal services. Moreover, the strong rebound in orders from other EMU countries (+85% since their trough in April) which is in part the result of – admittedly stronger than expected – catch-up effects, is expected to stall towards year-end, given the escalating infection rates in many EMU countries mentioned above. We therefore expect growth to slow strongly during the winter half. GDP could even shrink if it surprises to the upside in Q3, as indicated by some of the hard data.
Pedestrians in major German shopping streets

Source: hystreet.com

New infections: Age distribution

Source: RKI, Deutsche Bank Research