Visa Business and Economic Insights

Global Economic Insights

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Three potential surprises in 2021

The advent of effective vaccines raises hope that in the coming year, the world economy will finally escape COVID's terrible toll. Assuming mass vaccination succeeds, economic forecasters now expect the global economy to grow 4-5 percent year-over-year (YoY)* in 2021, potentially its strongest growth in a decade.

As promising as that sounds, could the global economy beat those forecasts? Looking back, most economists were overly pessimistic: the downturn after the lockdowns was milder than expected and growth in the following quarter was stronger. Our team of economists was not as surprised because close reading of high-frequency transaction data revealed greater resilience in the economy. Currently, the data point to three potential surprises that could cause growth in the near term to outperform again in 2021.

In This Issue

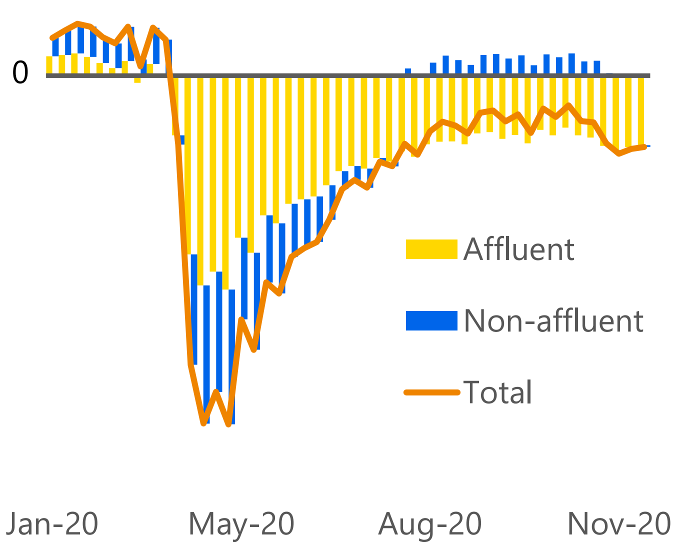
Pent-up demand from affluent households could boost spending

Unlike past recessions, affluent households[1] globally still remain on the sidelines. Their potential reemergence once mass vaccinations are completed could help expedite the recovery.

While spending by affluent households rebounded after the spring lockdowns lifted, it did not recover as much as that of other income groups. Additionally, affluent households pulled back on their spending over the last few weeks, driving an overall deceleration in global consumer spending.

Even in spending categories that have generally done well, such as retail goods, affluent households have been much more restrained. Since October, affluent households have only contributed at most 20 percent to the growth in transactions. Between January and February of this year, their contribution was closer to half.

Affluent households' weak spending caps the global recovery (YoY transaction growth)



Sources: Visa Business and Economic Insights, VisaNet

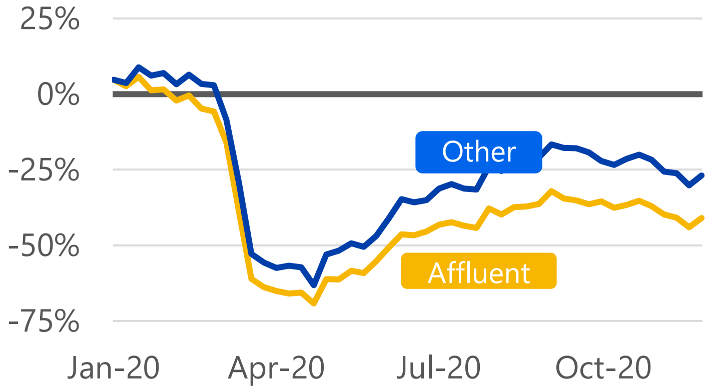
* Real gross domestic product (GDP)

Pent-up demand from affluent households (cont.)

Mass vaccinations could reduce the potential risks of consumption in categories involving greater social interaction, such as travel and entertainment. That could induce more affluent households to re-engage in this hard-hit sector.

Once the lock-downs were lifted, middle- to lower-income households responded more readily to the discounting in travel globally. These households began to close the gap that formed earlier this year, until the coronavirus started to surge again in the fall. Affluent households' travel and entertainment purchases, in contrast, remained much more depressed, even before the current contagion.

Affluent households' restraint limits the recovery in travel and entertainment purchases (YoY transaction growth)



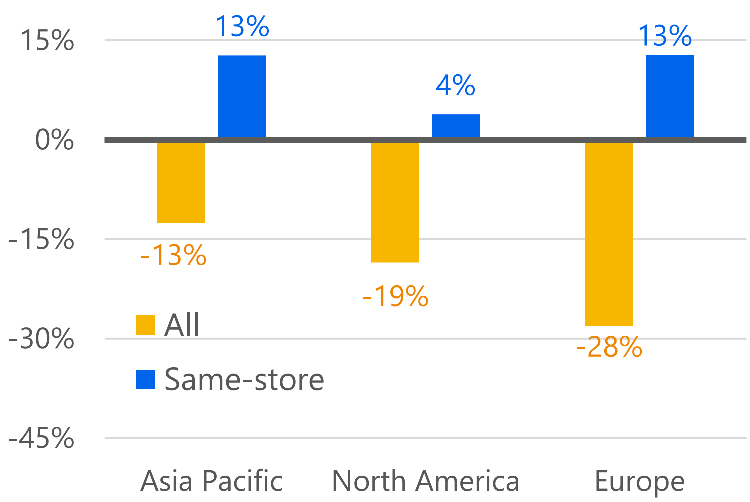
Sources: Visa Business and Economic Insights, VisaNet

Surviving small- and medium-sized businesses could fuel the recovery

Small- and medium-sized businesses (SMB) have suffered the brunt of the economic costs from the pandemic. In November, for example, SMB domestic sales in retail and food services fell by double digits year-on-year across regions. Despite the losses, SMBs could again be the engines of the recovery, with new champions emerging from those that survived. When including only merchants that were open in both Nov-2020 and Nov-2019, same-store sales figures were much better across the board. The strong performance of stores that remained open suggests the survivors may be entering the new year with more resilience than generally believed.

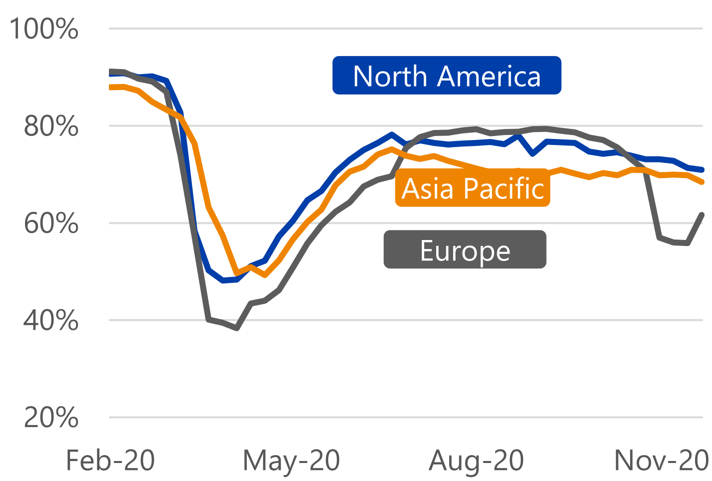
Additionally, the disease's resurgence over the last few months in regions such as North America and Europe has led to renewed SMB closures, either through new public health mandates or continued social distancing. Concerns that these restrictions will sink firms that survived the spring, however, appear misplaced. The severity of the restrictions on commerce has not been as extreme as it was in the spring, as shown by the number of firms that have remained open during the last months of the year. This gives hope that while significant pressures remain, businesses that have survived might continue to do so until widespread vaccinations provide the necessary protection for their customers and employees, and finally put an end to the crisis.

Retail and food service SMB sales, Nov-2020 (YoY, weighted average of local currency growth rates)



Sources: Visa Business and Economic Insights, VisaNet

Retail and food service SMB re-openings (Percent active businesses in 2019)

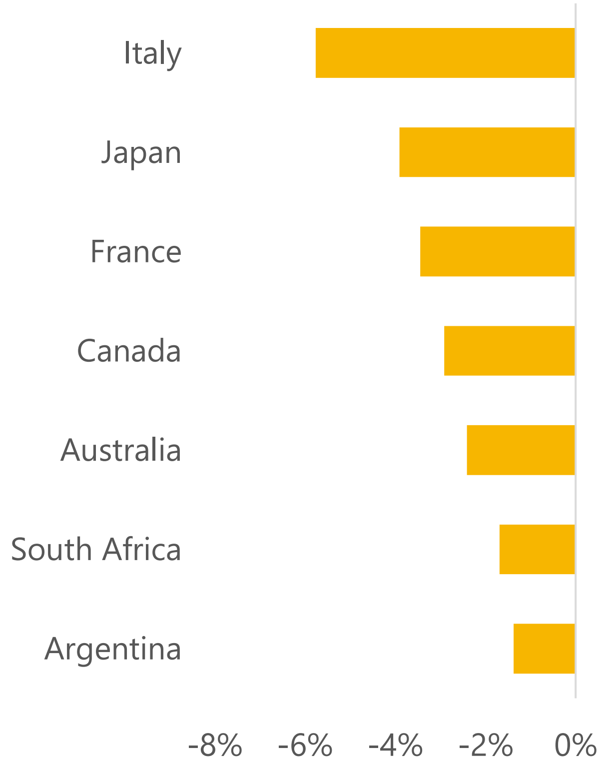


Return to large cities could provide additional support

The pandemic and widespread teleworking precipitated an unprecedented exodus from large cities, raising fears that the population losses could accelerate a decline of large cities. These fears may be overblown given the small share of households that have left; moreover, those who left could help to speed the recovery if they return. From Rome to Toronto, around 2 percent of the consumers in central cities on average have migrated out in 2020, according to a comparison of anonymized active Visa cardholders in 30 countries. People who relocated have favored less densely populated suburbs like Chiba over Tokyo in Japan or coastal areas like Marseille over Lyon (inland) in France. Cities harder hit by the pandemic (Milan, Melbourne) have also seen the greatest out-migration.

As the recovery proceeds, those that left could help fuel a stronger recovery than the aggregate trends would suggest. One reason for the weak recovery in spending so far is that cardholders who moved had lower average spend relative to those who remained, most likely due to the lower cost of living in those outer areas. Those returning would reverse these trends, allowing spending to accelerate. Thus, over the medium term, an increase in growth in large cities—typically more productive, centers of innovation—could provide a bigger boost to the national economy than elsewhere.

Est. change in resident population in top five cities, by country (Q3-2019 to Q3-2020)



	Cities losing population		Cities gaining population	
Italy	Rome	-2%	Napoli	+1%
	Milan	-12%	Genoa	+3%
Japan	Tokyo	-8%	Kanagawa	+3%
	Osaka	-7%	Chiba	+7%
France	Paris	-3%	Marseille	+2%
	Lille	-10%	Montpellier	+3%
Canada	Toronto	-3%	Hamilton	+3%
	Montreal	-4%	St. Catharines - Niagara	+2%
Australia	Sydney	-2%	Gold Coast	+1%
	Melbourne	-6%	Sunshine Coast	+3%
South Africa	Johannesburg	-3%	Cape Town	+2%
	Durban	-4%	East London	+3%
Argentina	Buenos Aires	-5%	Cordoba	+3%
	Santa Fe	-1%	Corrientes	+4%

Sources: Visa Business and Economic Insights, VisaNet

The economic cost and hope for a better year ahead

Covering the pandemic and its economic impact has been a humbling experience this year. Assumptions often became obsolete as parameters shifted. Expectations of how the disease might progress were often confounded, as areas that were successful in the spring became overwhelmed in the fall.

Looking back on the year, the damage from the pandemic is all too clear. With at least 1.8 million lives lost in one year, COVID-19 is on track to rank within the top 10 most deadly diseases over the last two millennia of human history in absolute terms. Even relative to population, it ranks within the top 30.[2] While it will be some time before the full economic cost of the pandemic is known, prior pandemics suggest global incomes have fallen an estimated 1 percent based on the loss of life alone, while total costs due to pandemic-related disruptions could be as high as 3 percent of total global output.[3,4]

Beyond the figures, there are the families and communities disrupted, and the widening gap in opportunities. Nevertheless, as the new year gets underway, effective vaccines bring hope for a better year ahead.

Asia Pacific

Weiwen Ng

- **In Asia, economic activity indicators such as the PMIs confirm the region has emerged from the worst recession since the Asian Financial Crisis,** though the recovery remains uneven across economies. AirAsia CEO is optimistic that air travel could return to pre-COVID-19 levels within the year. Regional travel is likely next to bounce back, with domestic travel already seeing a robust recovery. Nonetheless, given record high infections in Indonesia and Malaysia, as well as the recent infection resurgence in South Korea, Japan, Hong Kong, and China, many countries have implemented fresh social-distancing measures, which has dampened overall flight recovery. Successful deployment of a vaccine is the only way for economic activities to return to normal.
- **China's external trade is resilient amid trade tensions, pandemic and currency appreciation.** Specifically, China's exports have expanded 2.5 percent YoY from January to November, reversing the contraction during the same period in the preceding year. Electrical equipment and products, which account for 59 percent of China's total exports, surged 25 percent YoY in November. The surge in the high-tech electrical exports could be partly due to frontloading of cargoes with the U.S. expanding its blacklist of Chinese companies.
- **In Australia, the household sector is driving the economic rebound.** Loosening restrictions and improving sentiment have prompted a strong rebound in consumption. The early release of superannuation and income tax cuts, as well as restricted spending options during lockdowns, drove the household saving rate to record highs.

CEMEA

Mohamed Bardastani

- **Regional PMIs of the three largest MENA economies continued to diverge in November.** Against a backdrop of differing epidemiological outcomes, economic and business conditions diverged in MENA. The Purchasing Managers' Indices for Saudi and Egypt went past the 50-nuetral mark in November as both countries managed to reign the first wave. On the other hand, the UAE's economy seems unable to find a solid footing, with a second consecutive month of declining activity in November as the country struggles with a strong second wave.
- **UAE unveils slew of reforms to support long-term economic growth prospects and benefits from travel corridor with the U.K.** The UAE, the second largest Arab economy, unveiled a series of measures to support long-term economic prospects and attract foreign direct investment, including allowing 100 percent foreign ownership of businesses in the country. In addition, after the U.K. announced it would add the UAE to its safe travel corridor list in early November, reports showed London-to-Dubai flight bookings surged by 112 percent.
- **Intra-Gulf dispute inches towards resolution.** The diplomatic crisis between Gulf Cooperation Council members, which included a diplomatic, travel and trade embargo on Qatar, imposed by the quartet (Saudi Arabia, the UAE, Bahrain and Egypt), finally seems to be moving toward resolution after four years of diplomatic standoff.

Europe

Adolfo Laurenti

- **On Tuesday 8 December, the United Kingdom was the first European country to start administering COVID-19 vaccinations to the public.** Other countries are expected to follow suit in coming weeks, rekindling hopes for a broader economic recovery in 2021.
- **Economic indicators weakened further in November,** as the region struggles to contain the pandemic's second wave. PMI surveys and consumer and business confidence indicators point to a contraction in activity in October and November, with the services sector being particularly affected by the restrictions. Manufacturing's greater resilience stems from it being less dependent on demand from home markets, which are being disrupted by the disease, and its ability to sell more to foreign markets, which are currently less impacted.
- **Germany is in a nation-wide lockdown from 20 December to 10 January following a surge in cases and hospitalizations.** Italy will also restrict movements during the holiday season. The United Kingdom ended lockdown on 2 December, and mobility indicators reported a pickup in retail traffic and visits to restaurants. Nonetheless, as cases continue to rise, more U.K. regions are likely to experience stricter rules in the coming weeks.

United States

Jeffrey Roach

- **Nominal personal spending in November** fell 0.4 percent month-over-month (MoM) after increasing 0.3 percent (MoM) in October. Overall spending on goods slowed while services still contracted. In the goods category, spending on IT equipment accelerated while clothing contracted. In services, outpatient health care was an anomaly, recovering almost fully to pre-recession spending levels.

- **Housing activity remained strong** as mortgage rates were exceptionally accommodative and households moved away from densely populated metro areas. November new home sales rose more than 20 percent from a year ago, indicating that the housing market will support GDP growth in Q4.

- **December consumer confidence fell** to 88.6 from 92.9 in November. The 'present situation' component was above the 'expectations' component as consumers continued to worry about the future. The labor index deteriorated, falling the lowest in five months and indicating a possible slowdown in job growth. Future consumer spending plans appeared mixed: plans to buy a car fell the lowest since April but home buying and major appliance buying plans remained elevated as borrowing costs were at all-time lows.

Canada

Mariamawit Tadesse

- **Canada approves the Pfizer-BioNTech Covid-19 vaccine as cases top 500,000.** The vaccine has an efficacy rate of 95 percent. The first batch, which contains 30,000 doses will be shipped to 14 different sites. Moderna, AstraZeneca and Johnson & Johnson are waiting on approval from the Canadian government. Canada hopes to vaccinate 3 million people by March 2021.

- **Canada's economic recovery will likely be long and choppy,** according to the Bank of Canada. However, the bank anticipates that the recovery in international trade will be much quicker compared to the global financial crisis. Already, export of goods has improved since the initial lockdown, while services exports remain behind. The labor market showed a slight recovery in November.

- **Canada positions itself to compete** in the accelerated adoption of the digital economy during the pandemic. Canada's export of knowledge-intensive services grew 12 percent in the past three years. COVID-19 has further increased the demand for cybersecurity solutions, cloud computing, tele-medicine and virtual office spaces.

- **Prices are expected to rise 9.1 percent in 2021 in the Canadian housing market.** The Canadian Real Estate Assoc., which represents 130,000 agents, reported high demand in Ontario and Quebec. Housing starts rose by 14.4 percent in November as compared to October, according to the Canadian Mortgage and Housing Corp.

Latin America & Caribbean

Mariamawit Tadesse

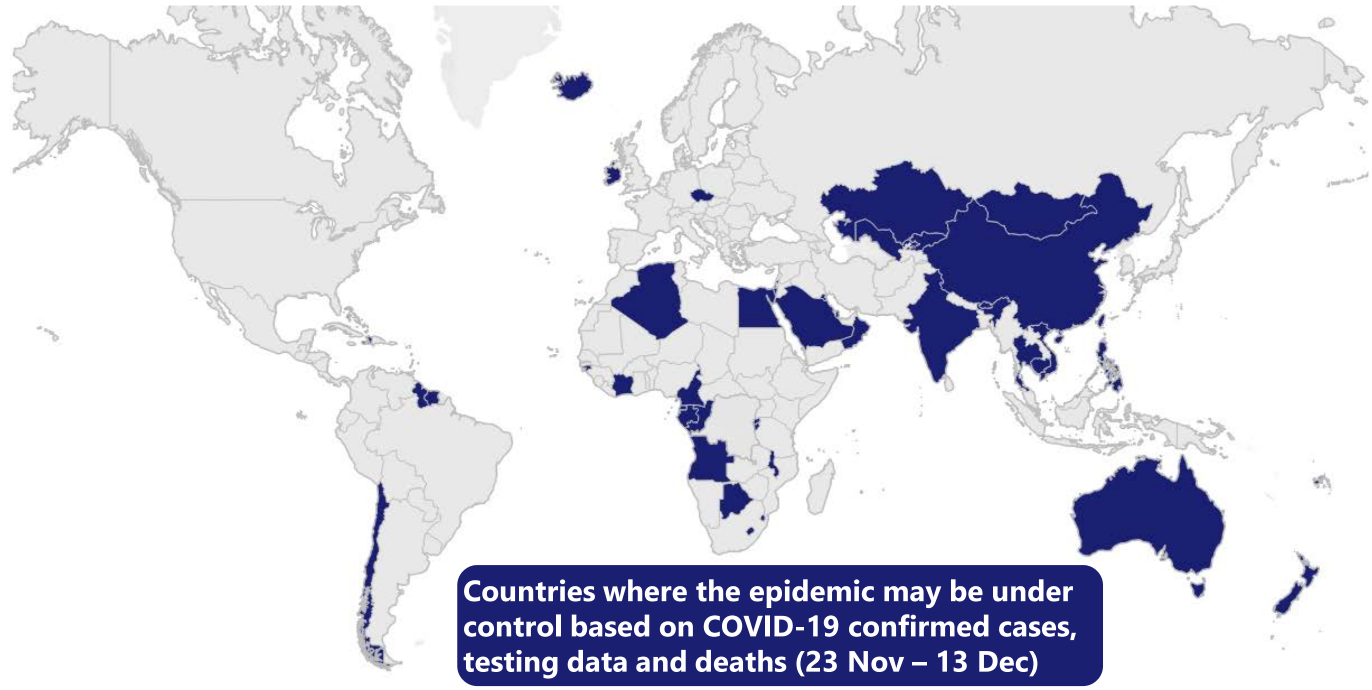
- **While headline inflation eased in Mexico, Colombia and Chile, it nearly doubled in Brazil** to 4.3 percent year-over-year in November from 2.4 percent year-over-year in August. The easing of inflation is due to the shopping holidays in November with Buen Fin in Mexico and Black Friday elsewhere. Colombia also added VAT exemption. Mexico plans to raise workers' daily minimum wage by 15 percent in 2021.

- **In November, Honduras was hit by two back-to-back hurricanes.** The storms impacted 4 million people and caused an economic loss of an estimated $1.9 billion, according to the United Nations.

- **The La Niña weather is expected to impact crop production in Latin America.** The dry weather is impacting Argentina's crop and soybean production more than that of its neighbor Brazil, which is starting to see some rainfall. Argentina's GDP fell 10.2 percent in Q3-2020, year-over-year.

Global cross-border travel and COVID-19 trends (23 Nov – 13 Dec)

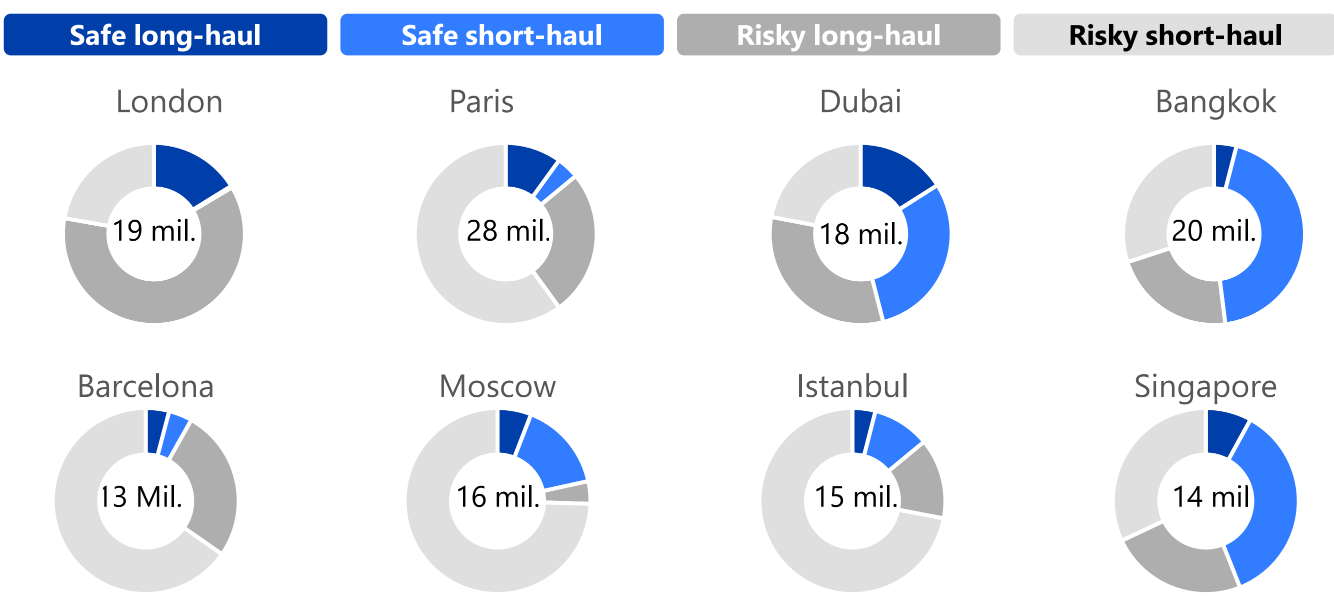
- The number of safe countries declined from 64 to 60 since our last update. South Korea and Hong Kong are among the list of countries that are now unsafe.



Source: Johns Hopkins University/Haver Analytics, ourworldindata.org/coronavirus-testing;

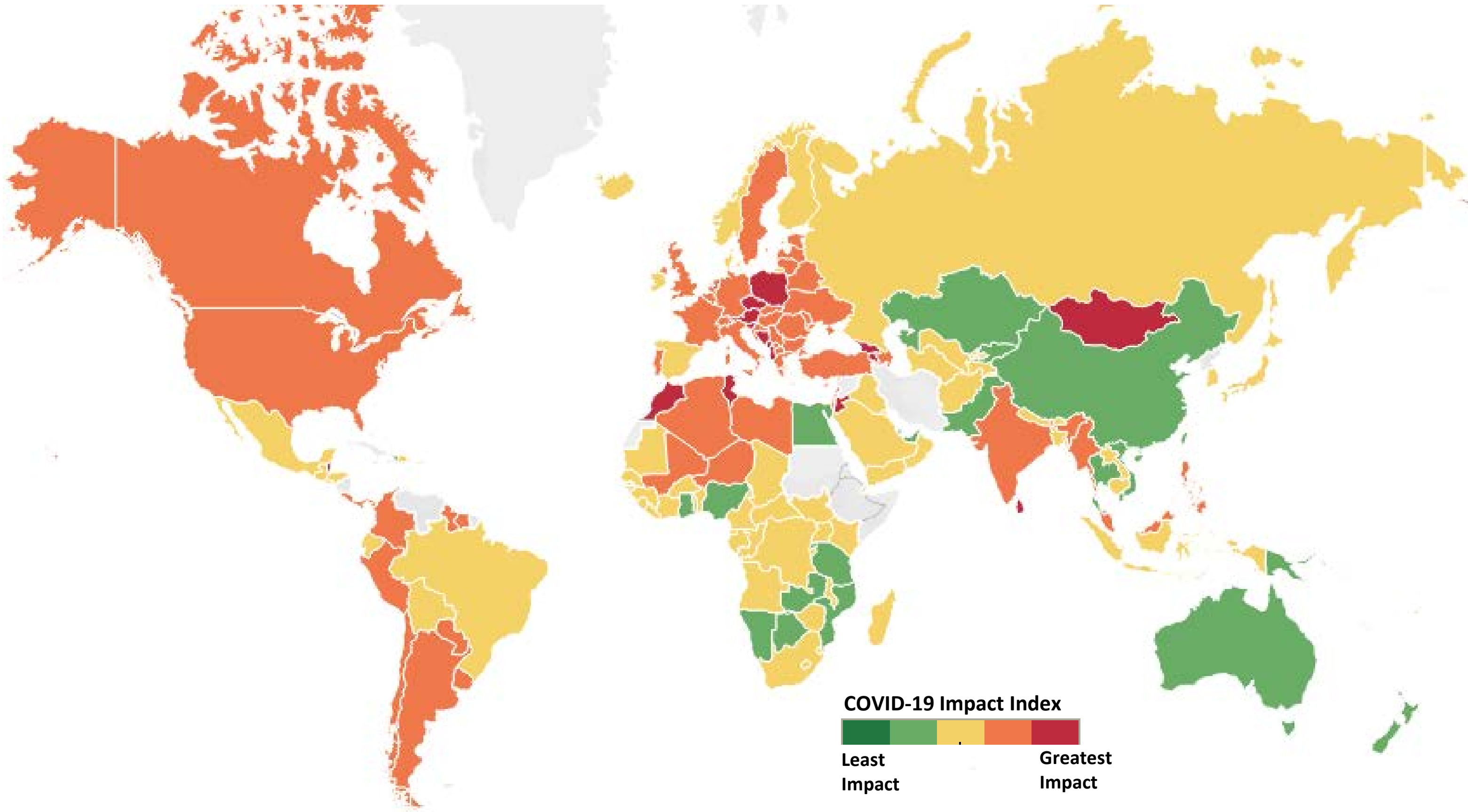
Key travel destinations (2019-2020 winter arrivals, by degree of virus control in origin countries)

- Europe's ski resorts, which make up a third of the world's ski resorts, have been impacted by the pandemic twice. First in March and now December, with many resorts shut down again and international arrivals banned.
- The International Air Transport Association (IATA) is in the final stages of developing an IATA Travel pass, which is expected to launch in Q1-2020. This digital health pass or digital "passport" will in the form of an app that contains test results or proof of vaccination. It is expected to bring confidence in cross-border travel.



Sources: Visa Business and Economic Insights, Visa International Travel (VISIT) database.

Economic impact of COVID-19 (by country as of November 2020)



- The economic impact of the coronavirus continued well into November, with more countries being impacted compared to October. North America, Europe and North Africa were impacted the most.
- The recent vaccine approvals arrived as COVID-19 cases had reached 76.8 million as of 20 December, 2020. The vaccine rollout gives first priority to health care workers and vulnerable groups.
- New strains of COVID-19 that are 70 percent more transmissible were found in the United Kingdom and a few other countries, prompting new restrictions.
- Despite the lockdowns, discretionary spending and transactions held up in November due to the holiday shopping season and e-commerce adoption compared to the first wave of the coronavirus.

The **Visa COVID-19 Economic Impact Index** tracks how the pandemic has affected economic activity across the globe through 12 key indicators: COVID-19 confirmed cases, COVID-19 death rates, airline transactions, cross-border lodging transactions, discretionary spend, discretionary transactions, restaurant spend, restaurant transactions, Google COVID-19 community mobility, consumer confidence, Purchasing Managers' Index (PMI) and leading economic indicators.

Notes

1. Affluence levels are imputed per country based on spending on Visa-branded credentials in 2019, with those in the top quartile of spending within each country classified as affluent. In the case of the United States, cardholders who were above this spending cut-off generally had annual household incomes equal or greater than $150,000.
2. Pasquale Cirillo and Nassim Taleb, "Tail risk of contagious diseases," *Nature Physics* 16, 606–613 (May 2020)
3. Victoria Fan, Dean Jamison and Lawrence Summers, "Pandemic risk: how large are expected losses," *Policy and Practice, Bulletin of the World Health Organization 2018*
4. Olga Jonas, "Pandemic risk," *World Development Report,* World Bank, October 2013

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