Economic Recovery Pulse check

Fourth edition - 3rd of September
Key storylines

Industry has returned to pre-crisis levels, with the exception of Transportation & Logistics. Consumer recovery has stagnated in the late summer, with the UK lagging behind. Where France once led the pack, it now trails its major neighbors. All eyes are on the months ahead, with tougher measures being put in place across the Continent to combat the virus' return.

A strong recovery in the economy, partially driven from there not being a full lockdown. Watch for the bump to turn into a slide in the coming months as the sectors cool off. Consumer activity is still weak, reflective of market confidence.

Has continued its return to growth through the summer. Transportation & Logistics has seen a full recovery. Of major countries, it is the only back to full strength.

With Covid-19 numbers rising in late summer, the recovery has stagnated. A few industries have recovered, but most have been flat throughout the summer. Healthcare is still low due to low confidence in the sector in the past months.

Though not to pre-crisis levels, there has been a steady recovery for sectors most impacted. Expect a continuing recovery.
Methodology | A custom methodology to define BCG Economic Recovery Pulse check

A data-driven index to track activity by sector and country

For all other sectors: Cross sector activity
- Aggregation of data sources into refined composite index
  - Sector confidence index
  - Financial index
  - Employment index
  - Consumer activity index
  - Macro economic index
  - Specific data source by sector

Part of BCG Lighthouse a central planning center for COVID-19 response
How to understand our methodology?

For each sector, our composite index informs on **gap to recovery** (i.e. normal state set to 100)

- Index >100 indicates above normal activity
- Index <100 indicates below normal activity

*Normal state corresponds to activity*
- **One year ago for Cross Sector Activity**¹

Illustration of the Cross Sector Activity

1. Activity today and at normal state are computed with an 4-week exponential smoothing
Exhibit 1 | Most countries have nearly recovered, and China is back to growth

**Economic Recovery Pulse check on August 23rd, 2020**

<table>
<thead>
<tr>
<th>Sector</th>
<th>Average</th>
<th>USA</th>
<th>Europe</th>
<th>FR</th>
<th>DE</th>
<th>IT</th>
<th>SP</th>
<th>UK</th>
<th>JP</th>
<th>BR</th>
<th>CN</th>
</tr>
</thead>
<tbody>
<tr>
<td>Engineered Products &amp; Infrastructure¹</td>
<td>100]%</td>
<td>105]%</td>
<td>95%</td>
<td>85%</td>
<td>95%</td>
<td>100%</td>
<td>100%</td>
<td>105%</td>
<td>85%</td>
<td>85%</td>
<td>100%</td>
</tr>
<tr>
<td>Materials &amp; process industry²</td>
<td>105%</td>
<td>105%</td>
<td>105%</td>
<td>100%</td>
<td>105%</td>
<td>110%</td>
<td>105%</td>
<td>100%</td>
<td>95%</td>
<td>100%</td>
<td>105%</td>
</tr>
<tr>
<td>Energy</td>
<td>95%</td>
<td>95%</td>
<td>95%</td>
<td>95%</td>
<td>95%</td>
<td>95%</td>
<td>95%</td>
<td>95%</td>
<td>85%</td>
<td>95%</td>
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</tr>
<tr>
<td>Automotive</td>
<td>105%</td>
<td>100%</td>
<td>105%</td>
<td>105%</td>
<td>100%</td>
<td>105%</td>
<td>105%</td>
<td>110%</td>
<td>90%</td>
<td>90%</td>
<td>100%</td>
</tr>
<tr>
<td>Transportation &amp; Logistics</td>
<td>95%</td>
<td>100%</td>
<td>80%</td>
<td>75%</td>
<td>85%</td>
<td>85%</td>
<td>85%</td>
<td>80%</td>
<td>75%</td>
<td>85%</td>
<td>100%</td>
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<tr>
<td>Financial Institutions</td>
<td>100%</td>
<td>105%</td>
<td>100%</td>
<td>100%</td>
<td>95%</td>
<td>105%</td>
<td>95%</td>
<td>100%</td>
<td>95%</td>
<td>95%</td>
<td>105%</td>
</tr>
<tr>
<td>Technology, Media &amp; Telecom</td>
<td>105%</td>
<td>105%</td>
<td>100%</td>
<td>95%</td>
<td>95%</td>
<td>95%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>95%</td>
<td>100%</td>
</tr>
<tr>
<td>Health³</td>
<td>&gt; 110%</td>
<td>&gt; 110%</td>
<td>105%</td>
<td>110%</td>
<td>110%</td>
<td>110%</td>
<td>105%</td>
<td>95%</td>
<td>85%</td>
<td>105%</td>
<td>105%</td>
</tr>
<tr>
<td>Retail &amp; consumer goods</td>
<td>90</td>
<td>85</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>85</td>
<td>80</td>
<td>80</td>
<td>90</td>
<td>90</td>
<td>90</td>
</tr>
</tbody>
</table>

1. Aerospace & Defense, Infrastructure, Machinery & Industrial Automation
2. Chemicals, Metals and mining, Building Materials, Forest Products, Paper and Packaging
3. Medical Tech, Biopharma, Consumer Health (excluding Hospitals)

Trend from now through Q3: ↘: down, →: flat, ↗: up
Back-up | Rebound of economic and consumer activity in Europe

<table>
<thead>
<tr>
<th>Sectors</th>
<th>France</th>
<th>Germany</th>
<th>Italy</th>
<th>UK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Drop</td>
<td>-24</td>
<td>-22</td>
<td>-21</td>
<td>-22</td>
</tr>
<tr>
<td>Rebound (July)</td>
<td>+5</td>
<td>+4</td>
<td>+3</td>
<td>+5</td>
</tr>
<tr>
<td>Rebound (Aug.)</td>
<td>+7</td>
<td>+12</td>
<td>+14</td>
<td>+12</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Consumers</th>
<th>France</th>
<th>Germany</th>
<th>Italy</th>
<th>UK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Drop</td>
<td>-49</td>
<td>-32</td>
<td>-51</td>
<td>-43</td>
</tr>
<tr>
<td>Rebound (July)</td>
<td>+45</td>
<td>+27</td>
<td>+43</td>
<td>+22</td>
</tr>
<tr>
<td>Rebound (Aug.)</td>
<td>+41</td>
<td>+27</td>
<td>+41</td>
<td>+26</td>
</tr>
</tbody>
</table>

Note1: Top 4 Europe: France, Germany, UK, Italy
Note2: Drop of ERPC/CAI level between mid-February and mid-April. Rebound of ERPC/CAI between mid-April and mid-August (or early-July)

France no longer leading economic recovery
Exhibit 2 | Some stagnation among Consumer, but overall strong recovery across sectors, except Transportation & Logistics

- **Automotive** showing positive signs, partially driven by strong seasonal sales. Nevertheless, current outlook is unlikely to hold in the coming months.
- **Transportation & Logistics** while still the most impacted sector, is steadily recovering.
- **Financial sector** is still recovering whereas it carries the uncertainty of other sectors and will suffer more with longer term impact (potential default and credit loss).
- **Health Care sector** is still above normal but the positive impact from the crisis is declining.

- The CAI has been stagnating in Europe since the beginning of July as new infectious epicenters forced local authorities to reinstate containment measure despite the summer vacations.
- **Spain’s** consumer activity (CAI: 87) has been severely impacted by the second wave and its index has been decreasing steadily since mid-July.
- **France’s** and **Italy’s** consumer activity (CAI: 91 and 90) have dropped by nearly 4 points since end of July, while **Germany’s** CAI remains stable.
- While still lagging behind other EU countries, the **UK** is starting to catch up (CAI: 82) but is still dragged down by various factors:
  - Transit mobility: -39% vs. pre-crisis baseline
  - Retail mobility: -20% vs. pre-crisis baseline
Exhibit 3 | Decline in Consumer activity in the past month with many sectors increasing again after a summer lull

- **Automotive** showing positive signs, partially driven by strong seasonal sales. Nevertheless, current outlook is unlikely to hold in the coming months.
- **Engineered Products & Infrastructure** faced a slight decrease in July and August due to a drop in the confidence in the Infrastructure sector.
- **Transportation & Logistics** sector was highly hit with diminution of international imports and exports. After staying mostly flat in July, recovery seems to pick up again in August.
- **Financial sector** carries uncertainty of other sectors and will suffer more with longer term impact (provisions to anticipate default and credit loss).

- Following Europe’s overall trajectory, **France’s CAI** has decreased significantly for the first since April, dropping from 94 in July to 91 in August.
- However, the economic activity slow-down can be partially explained by the summer vacations; most of the underlying indicators remains solid vs. pre-COVID baseline:
  - Grocery mobility: +5%
  - Retail mobility: -7%
  - Residential mobility: +5%
- Even during the vacations, **transit mobility** is still struggling to recover (at -17% vs. pre-COVID levels)
Exhibit 4 | Sectors back to pre-crisis levels but Consumer activity hasn't changed since early summer

- Overall, sectors are not suffering as much as in European countries because lockdown measures were progressive and not generalized to the whole country. For example, Automotive sector was less hit than other countries and has recovered in July (dealers were opened during lockdown as essential goods stores).
- Many sectors have recovery to pre-crisis levels, with notable exception of the Energy sector.
- Transportation & Logistics that was lagging a bit behind is close to full recovery.
- Healthcare is strong as the sanitary crisis is still important in the USA.

- Since its sharp decline early July caused by the second wave in the South, the US activity index has been stagnating (CAI: 87)
- Beside for a few Northwestern states (e.g. Montana, Wyoming, Idaho, South Dakota) most of the country has been struggling through the summer to fight off the pandemic, leading to a stagnating economic activity e.g.
  - Rideshare spending down 81% YoY in MA\(^1\)
  - Airline spending down 86% YoY in New York

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1. Massachusetts
Exhibit 5 | Economy still below pre-crisis levels with majority of sectors stagnating

- Overall there has been little economic improvement over the past two months, with most sectors having stagnated.
- Transportation & Logistics sector was highly hit with diminution of international imports and exports, but recovery has picked up in the last two months.
- Technology, Media & Telecom continues its recovery, driven by the Technology sector.
- Healthcare is still low due to low confidence in the sector in the past months.

- Japan has managed to keep a strong CAI throughout the early phase of the pandemic (never going below 70) and managed to recover despite the early May dip. On August 19th, Japan’s consumer activity index is at 89.
- However, the government’s unique approach to the pandemic causes the recovery to be quite erratic compared to that of the US/EU
- Compared to pre-crisis levels, some indicators are close to recovery...
  - Grocery mobility: +2%
  - Retail mobility: -8%
  - Residential mobility: +1.4%
- … while some others are still weighing on the CAI a bit
  - Workplace mobility: -31% and Transit mobility: -28%
Exhibit 6 | Steady recovery for sectors most impacted, with no indications of slowdown

- Brazil suffers a long impact of the Covid crisis. Drop of activity started with the lockdown in European countries and the US in March 2020.
- Brazil is now suffering from the sanitary crisis so recovery is slower than in other countries, with few sectors back to pre-crisis levels.
- Impact of the Covid crisis is high on all sectors, especially Automotive and Transport & Logistics due to decrease of international imports and exports.
- Some sectors such as Energy and Engineered Products & Infrastructure seem to flatten out.
- Healthcare sector benefits less from the crisis than in other countries.

Brazil consumer activity index has recovered quite a lot despite the intensity of the pandemic (CAI: 88)
- Though the virus reproduction rate in Brazil recently dropped below 1, the battle against the virus is far from over, with ~40k+ new cases each day
- Some mobility indicators are quite close to pre-crisis levels...
  - Grocery mobility: +6%
  - Workplace mobility: -12%
  - Residential mobility: +10%
- ... while some other metrics remains very low
  - Transit mobility: -30%
  - Retail mobility: -29%
Exhibit 7 | Continued growth through the summer. Of major countries, it is the only back to full strength

- China has continued to slowly grow through the summer for most sectors.
- Transportation & Logistics which was lagging behind has now seen a full recovery.
- Some sectors seem to flatten out such as Financial Institutions, Healthcare or Technology, Media & Telecoms.
Definitions
Consumer Activity Index | Mobility metrics

Place categories

Grocery & pharmacy
Mobility trends for places like grocery markets, food warehouses, farmers markets, specialty food shops, drug stores, and pharmacies.

Parks
Mobility trends for places like local parks, national parks, public beaches, marinas, dog parks, plazas, and public gardens.

Transit stations
Mobility trends for places like public transport hubs such as subway, bus, and train stations.

Retail & recreation
Mobility trends for places like restaurants, cafes, shopping centers, theme parks, museums, libraries, and movie theaters.

Residential
Mobility trends for places of residence.

Workplaces
Mobility trends for places of work.
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