

LOXIT strategies: the economic and social implications of ending lockdown

The price for managing the COVID-19 pandemic has been the shutdown of the economy as the world has sought to control the spread of the virus and prevent what otherwise could be catastrophic consequences.

With the UK appearing to have reached a peak in the COVID 19 pandemic, attention is turning to when social and economic life might return to normal. Unfortunately, even when the number of new cases drops to manageable levels, the vast majority of the people in the UK will still be susceptible to the virus. The concern of policy makers and the NHS is that relaxing the lockdown will lead to a second wave of infections. It is not known precisely how many people in the UK have already been infected by COVID-19 (and who are therefore now immune to the virus), but the consensus opinion is that this number amounts to less than 5% of the entire populace, even accounting for mild and asymptomatic cases that have not been recorded. To achieve "herd immunity", approximately 85% of the UK population would need to be immune, something only realistically achievable through a widespread vaccination campaign.

Despite a huge international effort, development of an effective vaccine to COVID-19 is likely a year away. A prolonged lockdown until then is unrealistic, both for social and economic reasons. The longer the lockdown, the harder it will be for the economy to recover once it is relaxed, and the more likely the country could face social unrest. An alternative scenario would be that the lockdown is relaxed once the number of cases falls below a threshold, but then resumed if and when cases or death rates begin to climb. This could allow short windows of economic activity but, overall, would be only slightly less disruptive to the economy.

In a briefing on 17 of April, the foreign secretary, Dominic Raab, set out five criteria for the relaxation of the lockdown:

- Confidence that the NHS can still provide sufficient critical care and specialist treatment across the UK
- The need to see a sustained and consistent fall in the daily death rate so that we can be confident that we are beyond the peak
- Reliable data from SAGE that the infection rate has decreased to manageable levels
- Testing capacity and PPE is in hand to meet supply for future demand
- Not risk a second peak of infection that overwhelms the NHS.

These criteria are broadly in alignment with the [roadmap](#) set out by the European Commission for relaxing the lockdowns in place across most European countries, namely:

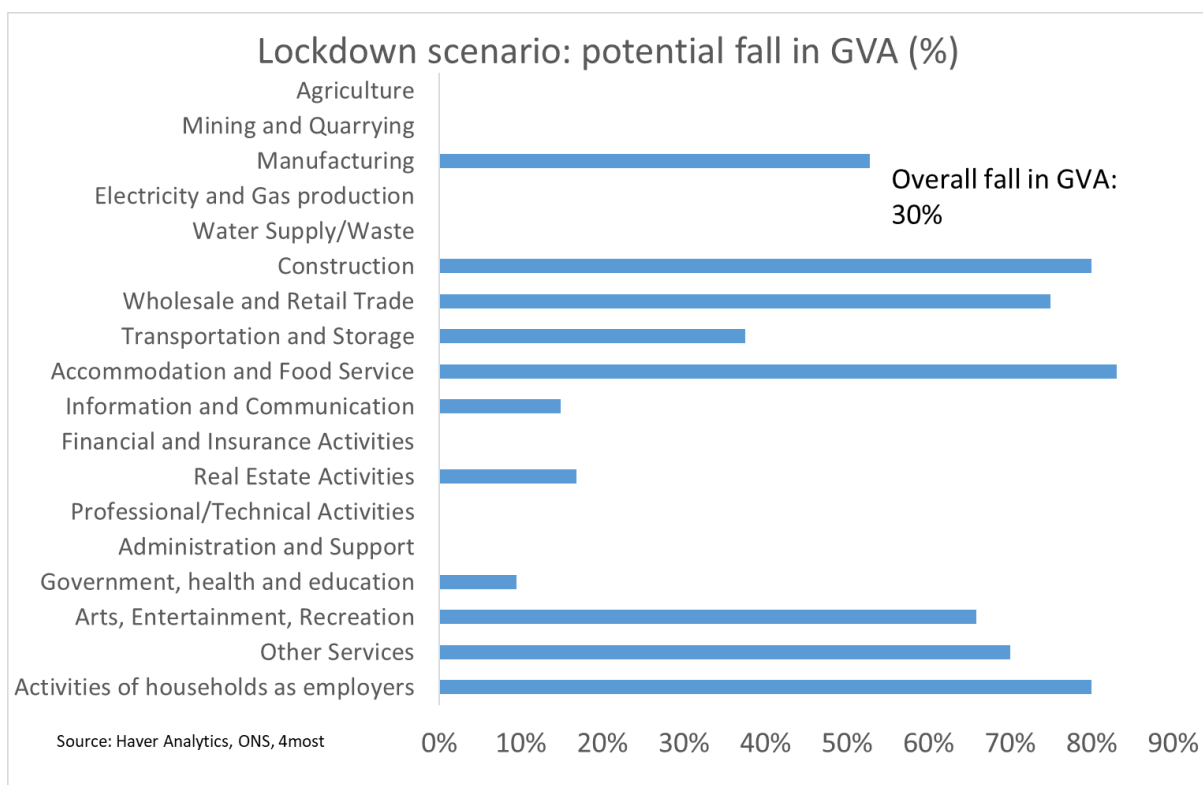
- Epidemiological criteria indicating a sustained reduction and stabilisation in the number of hospitalisations and/or new cases for a sustained period of time
- Sufficient health system capacity, for example in terms of an adequate number of hospital beds, pharmaceutical products and stocks of equipment

- Appropriate monitoring capacity, including large-scale testing capacity to quickly detect and isolate infected individuals, as well as tracking and tracing capacity.

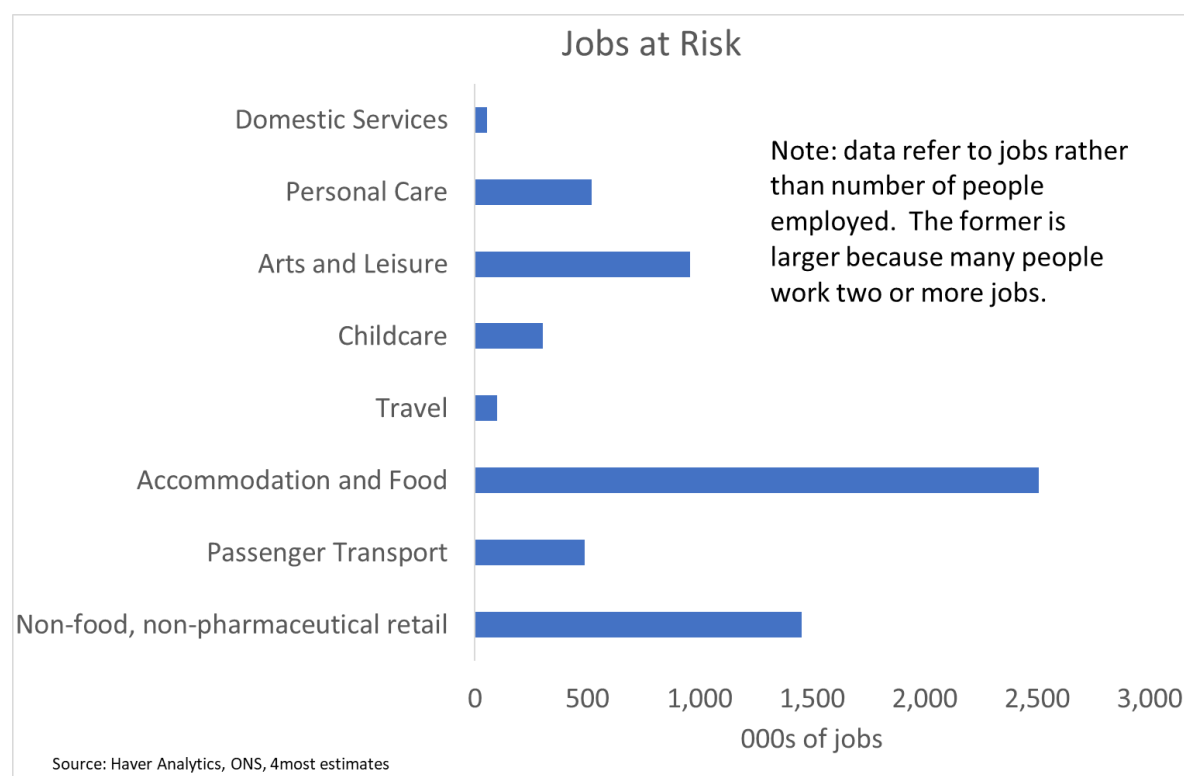
The UK government has yet to set out the full details of their plan or to provide a possible timetable.

The longer the lockdown lasts, the greater the prospect that the economic damage will be permanent

The current recession looks likely to be deeper than any other episode in UK economic history, but it is not the pandemic itself that will create the contraction; it is the freezing of economic activity which encourages the spread of the virus that will see GDP fall by perhaps 30%. The fall will be most pronounced in industries such as wholesale & retail, accommodation & food service, the arts, entertainment & recreation, and construction.



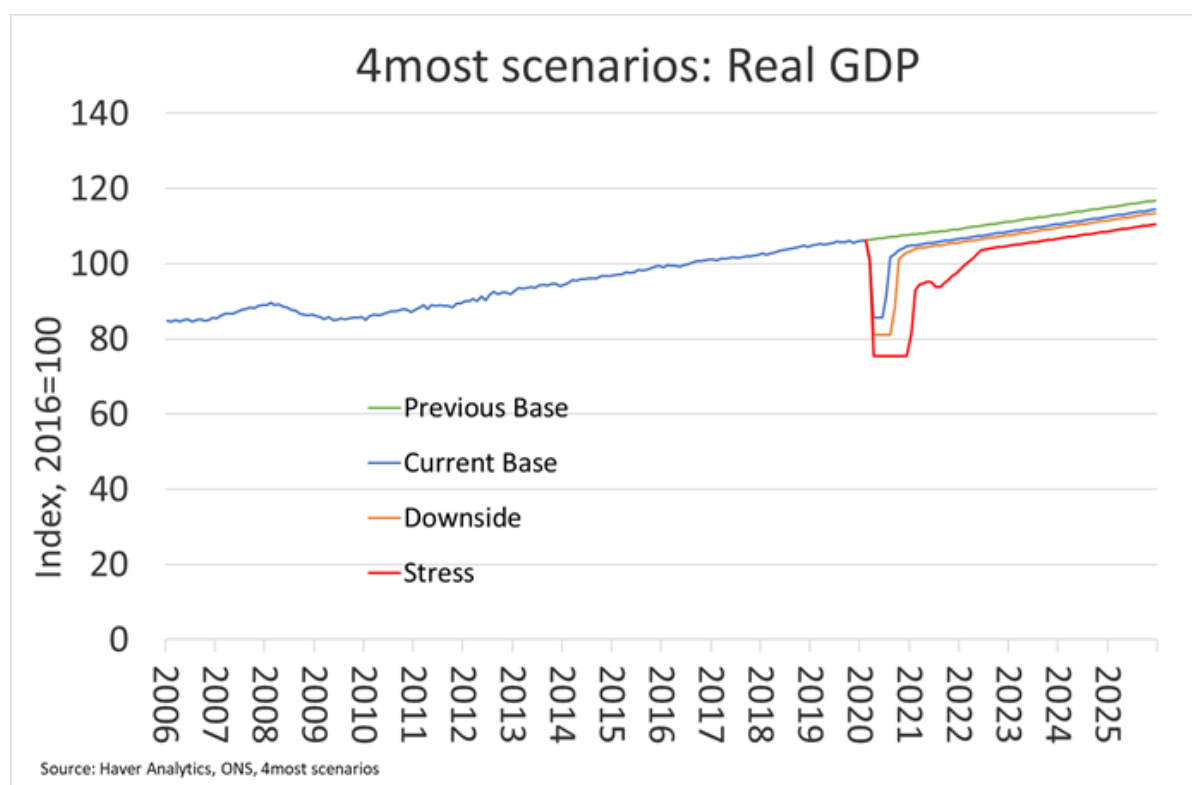
Most of the jobs at risk are in the first two of these categories, with young people proportionally more likely to be employed in these at-risk sectors. According to the Institute for Fiscal Studies, 34% of those aged under 25 work in the shut-down sectors, with women more affected than men. It is likely that the 1.4 million new claims for Universal Credit will be dominated by the young.



Experience in previous recessions tells us that the longer people are unemployed, the greater the risk to their long-term prospects. Those that become unemployed for a prolonged period often struggle to re-join the labour market because their skills atrophy or become less relevant in the changed world.

Cohorts of younger people coming of economic age during recessions also tend to do worse earnings wise through their careers than their luckier counterparts. The damage can be permanent.

Our own scenarios show a permanent loss of GDP of around 2%-5% relative to no-virus counterfactual. We might expect unemployment to eventually return to similar levels as before, but this will be a world where the economy is less productive and, as a consequence of that, real wages will be lower than they were previously expected to be.



At the moment, economists and scientists are on generally on the same page: letting the disease run free would have been more disastrous on a human and economic level than the current alternative. But there will be a moment where the balance between the two concerns shifts.

The focus now is on an exit strategy that will restore economic activity without jeopardizing lives

While the April 17 press briefing sets out the criteria for relaxing the lockdown, the UK government has not yet provided details of the approach and there are several alternatives that are being considered or enacted in different countries:

- Use COVID 19 antibody tests as a "passport" allowing those who have recovered to re-enter the economy
- Resumption of economic activity in stages, with those businesses and industries requiring less social contact resuming ahead of industries that carry a higher risk of infection

- Drastically reduce infection levels and pursue a contact “trace and test” policy to quarantine remaining cases.

Serological “antibody” passports

Several recent announcements from the Health Secretary, Matt Hancock, have championed the idea that serological tests for anti-COVID-19 antibodies in people’s blood could be used as a “passport” to signal that these people have recovered from the infection, possess immunity, and can safely travel and work. This approach has the advantage that it would allow those who have been infected (including those with no or mild symptoms who may not realise that they had been infected) to return to the economy, and would be very advantageous for ensuring that those in essential roles with a high risk of exposure (e.g. nurses, bus drivers and shop sellers) are no longer in danger from the virus. There are two main difficulties with the “antibody” passports, however – the test itself would need to be highly specific to COVID-19, and it would only be practical if a large proportion of people in the UK had been infected.

Although several firms are rushing development of an antibody test, the rapidity with which these tests have been developed has raised questions about how specific to COVID-19 they are. With several other human coronaviruses in circulation, there is a real risk that the serological tests may give false “all clear” readings to people who are susceptible to COVID-19 but may be carrying antibodies to one of the other, far milder, coronavirus species. As to the proportion of the UK population that have been exposed to the virus, the consensus view among epidemiologists is that it is unlikely to be more than 5% of the population at present. As a method of testing (and protecting) people in specific high risk and high exposure roles, these tests will have value, but as a way of restarting the UK economy, the numbers involved are far too small. There is also the concern that it may create a perverse incentive for people to try and get sick, in order to be able to work, and in doing so restart the pandemic.

Staged Resumption of Economic Activity

A second approach, now underway in Austria, is to allow a gradual relaxation of restrictions and resumption of economic activity, while still emphasizing social distancing. Factories and businesses that can maintain a reasonable level of safety for employees would open first, while those that carry a high risk of spreading infection (e.g. restaurants and bars, schools and universities) would remain closed or be conducted remotely. In Austria, DIY stores, garden centres and small shops are opening with strict rules. Italy is tentatively moving in the same direction. Denmark has opened schools to those aged 11 and under. This approach – as recognised in the EU’s roadmap for the lifting of restrictions – is only feasible once the number of new cases has dropped significantly, and on its own would carry a very high likelihood that the pandemic would resume. Coupled with a strong regime of regular testing, however, this approach could be seen as a first step in a managed lockdown relaxation.

Contact “trace and test” Policy

The mass testing of individuals for COVID-19 is limited by both the number of reagents available for testing and the requirement for people and machines that can process the large number of tests. However, once the number of new infections has dropped to negligible levels, managing the epidemic through a program of vigorous testing and contact tracing becomes viable. This approach, being piloted in Singapore and South Korea, involves quickly screening any patients with COVID-19 symptoms, identifying and testing any others who the infected person may have contacted, and quarantining individuals as necessary. Visitors arriving at the borders would be tested to prevent reintroduction, and technological solutions (e.g. tracing of people’s movements) may be marshalled to help identify and test potentially exposed individuals. The risk of a second pandemic wave would still remain, but if done effectively, potential loci of infection would be identified and treated before COVID-19 could spread widely throughout the populace.

Properly managed, it is possible to restart the economy without waiting until “herd immunity” has been achieved

However, if handled badly, we could enter a vicious cycle of epidemic flare-ups and lockdowns that would prove ruinous to both the economy and the social fabric of the UK. The UK government is yet to release a clear national exit strategy; but the most likely scenario would be a staged resumption of activity combined with “trace and test” once case numbers become low enough to be manageable by the NHS and allow testing to be effective. Without details, however, it is difficult for UK businesses to plan the resumption of activity. Until such time as details are released, the best strategy for businesses may be to look to the EU roadmap as a guide and assess the impact of lockdown relaxations taking place on the continent.

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