

VP Bank Corona Crisis Barometer

News from the financial markets

The measures taken to control the spread of the coronavirus have been drastic. The global economy is severely impaired, resulting in an unprecedented drop in gross domestic product (GDP). The question is now, how fast the economy will rebound if the restrictions are lifted. How well the economy is recovering will be illustrated by the VP Bank Corona Crisis Barometer.

Many if not most countries have taken containment measures to stop the spread of the Covid-19 virus. These so-called lockdowns have similar features everywhere: Shops were closed, industrial production was shut down, cultural and sporting events were cancelled. After the first wave of the disease has ebbed, the restrictions in public life are gradually relaxed. The question is, how fast and how strongly the economy will rebound. Are we back to pre-corona levels quickly, or are developments very slow? Information at the macroeconomic level is often delayed, though. That is why we are trying to obtain a more timely picture of the current situation using alternative data. Our barometer is based on four so-called high frequency data with daily updates. The data sets are "condensed" into a single indicator using a statistical procedure - the main component analysis - to arrive at the VP Bank Corona Crisis Barometer.

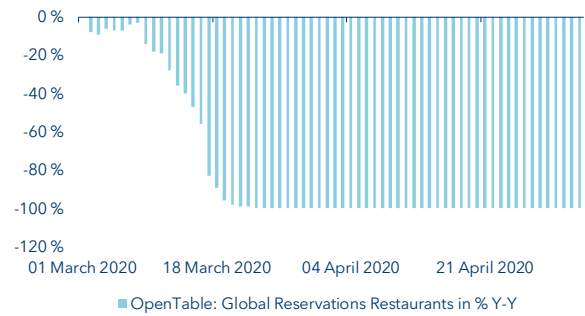
Measuring activity and stress

The availability of useful high-frequency data to measure economic activity is limited. Yet, VP Bank has identified four which measure the degree of constraints and the current financial "stress", mainly for the US economy. As the US is lagging Europe and Asia in ending the lockdown, the data are of great interest to investors. Only when the US economy resumes can the global paralysis gradually approach its end. In particular, the data include:

1. Restaurant transactions

OpenTable, a provider of online restaurant reservations, provides publicly available data. However, the development of the reservation behaviour of individual countries can also be traced on a global level. Restaurant visits are an indication of the functioning or non-functioning of public life. We use global figures. It should not come as a surprise that a 100% fall was recorded year on year.

OpenTable: Global restaurant bookings in % (year on year)

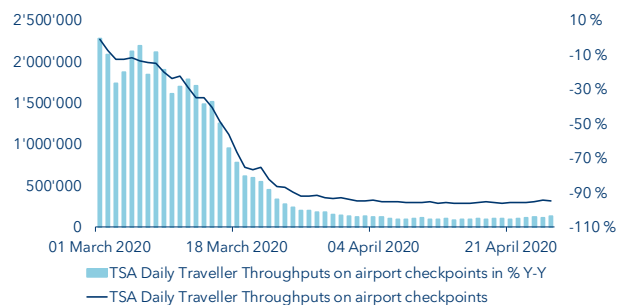


Sources: OpenTable, VP Bank

2. Air traffic

Air traffic has practically halted in recent weeks. If airlines start operating again, this indicates that the economy is recovering from its shock. The US Transportation Security Administration (TSA) has been providing passenger throughput at US airports on a daily basis since 1 March as the corona virus spread.

US passenger traffic compared to the previous year



Sources: TSA, VP Bank

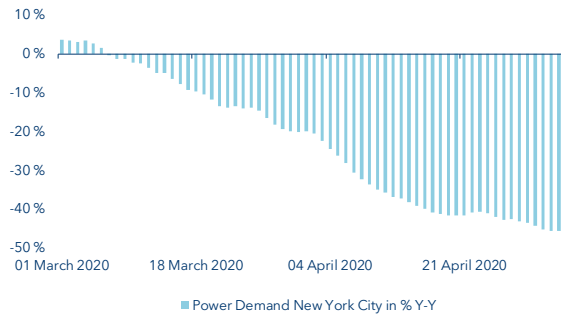
3. demand for electricity

Hardly any number gives as reliable an insight into economic activity as electricity consumption. In times of high economic growth, when conveyor belts, computers and other technical devices are in use, power plants must produce a large amount of electricity. By contrast, if activity slows, it is reflected in weaker energy consumption. Current demand for electricity is readily available for the US state of California, the city of New York, and the Mid-West. We also include these data in the calculation of the VP Bank Corona-Crisis-Barometer.

VP Bank Corona-Crisis-Barometer

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New York City electricity consumption compared to last year

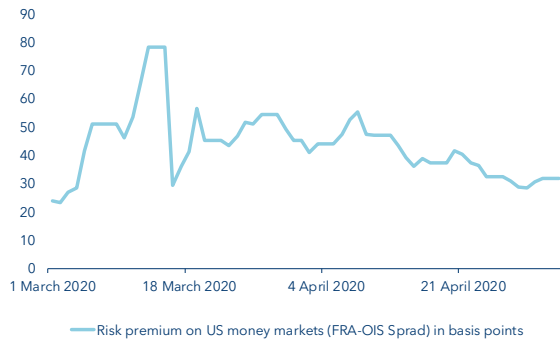


Sources: Bloomberg, VP Bank

4. Interbank stress

There is no doubt that the current situation leads to considerable financial stress. Companies rely on government emergency loans, and distrust among banks is growing again. Meanwhile, central banks are trying to prevent a possible liquidity crunch by easing monetary policy at unprecedented levels. The impact of these measures and the tensions in bank refinancing can be seen in the risk premiums on the interbank market. In this market, banks exchange liquidity short-term. When mutual trust is absent, the money market is stalling. The tension shows in the difference between the money market rate (such as Libor) and the interest rate on indexed overnight swaps (OIS). A swap is an exchange of a payment based on a fixed interest rate against a payment based on a floating interest rate. The latter is linked to a daily rate. The greater the difference, the less banks trust each other. Or vice versa: The smaller the difference, the greater the trust. So the stress in the interbank market generally tells us how acute the financial and thus the economic risks are. This is why we do not want to ignore this signal in our barometer.

US money market risk premiums



Sources: VP Bank, Bloomberg

VP Bank Corona Crisis Barometer

We scale the values of the Corona Crisis Barometer on a scale from 0 to 100. In this respect, a 100 corresponds to the situation in the US in early March 2020. As the barometer shows, economic activity in the US is still severely paralysed, with only minimally higher levels compared to the previous week. The still significant drop in electricity demand certainly speaks volumes.

Das VP Bank Corona Crises Barometer



Source: VP Bank

So the virus still has a grip on the world's largest economy. A return to normal operation levels is not yet apparent. While the industrial sector will try to restart production in the coming weeks, public life will continue to suffer for some time to come. This will particularly affect the hotels and restaurants. So the virus will keep us busy for some time. The VP Bank Corona Crisis Barometer will be able to tell us on a daily basis whether economic activity is rekindling and how far away we are from pre-crisis levels.

The latest version of the VP Bank Corona Crisis Barometer can be found at: vpbank.com/en/news/2020/corona-crisis-barometer

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