The Great Lockdown: Dissecting the Economic Effects

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Francesca Caselli, Francesco Grigoli (co-lead), Weicheng Lian, and Damiano Sandri (co-lead)

With support from Jungjin Lee and Xiaohui Sun
Introduction

• To contain the COVID-19 pandemic most countries imposed stringent lockdowns
  ➢ Meanwhile, economic activity contracted very sharply

• Against this backdrop, this chapter tackles the following questions:
  ➢ To what extent was the economic contraction driven by lockdowns rather than by people voluntarily avoiding social interactions?
  ➢ Can we expect an economic rebound when lockdowns are lifted?
  ➢ Did lockdowns have uneven effects across segments of the population?
  ➢ Did lockdowns help to contain the spread of COVID-19?
  ➢ Did tighter lockdowns perform better than milder ones?

• These answers not only provide a retrospective analysis of the crisis but can also inform current policy decisions as the virus continues to spread
Takeaways from the literature

• Some papers highlight the role of voluntary social distancing in driving the recession

• Other studies document significant effects from lockdowns

• Lockdowns impact especially the most vulnerable (minorities, less educated, women)

• Lockdowns tend to reduce COVID-19 infections
Preliminary evidence on the impact of lockdowns using cross-country data
Lockdowns are associated with lower economic activity

- Countries with more stringent lockdowns experienced weaker economic activity
  - across a broad set of indicators
  - even after controlling for COVID-19 confirmed cases
Impact of lockdowns on mobility as a high-frequency proxy for economic activity
Lockdowns significantly reduce mobility

- We estimate the impact of lockdowns on mobility using national data for 128 countries.
- Mobility declines by about 25 percent a week after the lockdown.
  - The effect dies out over time as the lockdown stringency declines.
Similar results are obtained with subnational data

• We test for the robustness of the negative effect of lockdowns using subnational data

• We consider regions less affected by the virus in countries that imposed national lockdowns
  ➢ Better identification since lockdowns were largely exogenous for these regions
  ➢ However, the analysis is limited to 15 countries (422 subnational units)

• The results confirm a substantial negative impact of lockdowns on mobility
Voluntary social distancing is also important

- We also analyze the response of mobility to COVID-19 cases controlling for lockdowns
  - Higher cases lead to a considerable drop in mobility
  - This response likely reflects voluntary social distancing

- Lockdowns and voluntary social distancing played a similar role in reducing mobility
  - Voluntary social distancing was stronger in advanced economies
Lifting lockdowns leads to only partial recovery

- Can we expect an economic rebound when lockdowns are lifted?
  - The impact of lockdowns is weaker when COVID-19 cases are higher
  - Lifting lockdowns prematurely is unlikely to provide a decisive economic boost

- A lockdown loosening tends to increase mobility, but the effect is smaller than from a lockdown tightening
Impact of lockdowns on job postings
Lockdown effects are also visible in job postings

- Consistent with the analysis of mobility, job postings data from Indeed reveal that
  - Lockdowns have a significant negative impact on job postings
  - Lockdowns and voluntary social distancing contributed similarly to job declines
- The impact of lockdowns on job postings appears more persistent than on mobility
  - Possibly reflecting permanent scarring in labor markets
Analysis of sectoral jobs supports previous findings

- Analysis of job categories shows importance of both lockdowns and voluntary distancing
  - Jobs in contact-intensive sectors declined before lockdowns
  - Manufacturing jobs declined around the adoption of stay-at-home orders
- Job postings have recovered very marginally since the lifting of stay-at-home orders
Impact of lockdowns across gender and age groups
The COVID-19 crisis is having unequal effects

• Different from previous recessions, the current crisis is affecting women disproportionately
  ➢ The most affected sectors have predominant female employment
  ➢ Schools closures impact especially working mothers

• We examine these issues using anonymized and aggregated mobility indicators differentiated by gender provided by Vodafone for provinces in Italy, Spain, and Portugal

• We leverage the richness of the Vodafone data to also test if lockdowns have different effects across age groups
Young women are more affected by lockdowns

- Regression discontinuity design around the time of lockdowns
- 25-44 year old women experienced a larger decline in mobility than men around lockdowns, especially school closures
  - Smaller gender difference in 45-64 year old group (less likely to have young kids)
Lockdowns have a stronger impact on the young

- Lockdowns reduced mobility across all age groups
- But the effects were significantly more pronounced on the young
  - Likely to worsen inequality since the young rely on labor income and have less stable jobs
Lockdowns and COVID-19 infections
Impact of lockdowns on infections

- We estimate the effectiveness of lockdowns in reducing infections
- COVID-19 cases start declining 3 weeks after the adoption of a lockdown relative to a no-lockdown scenario; after 30 days, cases are about 40 percent lower
  - Results are similar using subnational data and excluding the most affected regions
Early lockdowns appear to pay off

- Countries that adopted lockdowns early had better epidemiological outcomes
  - Left chart differentiates countries based on the number of days between the first case and the maximum lockdown stringency
  - Right chart differentiates countries based on the number of per capita weekly cases at the time of maximum lockdown stringency
Do lockdowns entail a trade-off?

• Prevailing narrative is that lockdowns entail a trade-off between saving lives and supporting livelihoods
   True in the short-run, but possibly misleading once we factor in medium-term effects

• The analysis highlights the economic cost of voluntary social distancing

• By reducing infections and thus the extent of voluntary social distancing, lockdowns may pave the way to a stronger and more sustainable economic recovery
   The short-term costs of lockdowns could be compensated by faster medium-term growth
Nonlinear Effects of Lockdowns
Stringent lockdowns seem preferable to mild ones

- We examine if more stringent lockdowns continue to have similar marginal economic and epidemiological effects. As they become more stringent, lockdowns have:
  - marginally weaker negative economic effects
  - marginally stronger positive effects in reducing infections

- Stringent and short-lived lockdowns seem preferable to mild and prolonged ones
Conclusion

- Lockdowns and voluntary social distancing are both key determinants of economic activity
  - Economies are unlikely to return to full potential while health risks remain
  - Policymakers should be wary of removing policy support too rapidly
  - Need to find ways to support economic activity consistent with social distancing: enhance WFH, promote new technologies to limit contacts, facilitate reallocation to less contact-intensive sectors

- Lockdowns tend to have move severe effects on the mobility of women and the young
  - Targeted policy intervention is needed, for example strengthening unemployment benefits for vulnerable categories and supporting paid leave for parents

- Early and tight lockdowns are powerful instruments to contain infections
  - But need to also find less costly ways to contain infections: face masks, cleaning protocols, isolate vulnerable people

- Short-term costs vs medium-term gains
  - By containing infections and reducing voluntary social distancing, lockdowns may lead to stronger economic recovery