COVID-19 on the Rise in Several U.S. States

Lockdowns had been at least partially lifted across most of the United States by the end of May, when new coronavirus cases were broadly trending lower. However, a wave of new COVID-19 outbreaks now appear to be spreading throughout the country. As of the third week of June, new coronavirus cases are trending higher in over 20 states, several of which are seeing record highs (Figure 1). This uptick in case growth has raised concern over the likelihood of a steady U.S. economic recovery.

Figure 1

New COVID-19 Cases per 100,000 Residents
7-Day Moving Average

Renewed outbreaks of COVID-19 could cause state and local governments to slow down or even rollback re-opening plans. While limiting social interaction may be necessary from a public health perspective, it would curtail economic activity and potentially set back the recovery. Even without official government intervention, there is also the risk that a renewed outbreak could curb spending if households pull back from the economy or businesses close out of fear of the virus.
To Lockdown or Not to Lockdown: That Is Not the Only Question
At this point, there seems to be little appetite for widespread stay-at-home orders or business closures such as those implemented in most states in late March and April. Still, the intensification of the virus could by itself harm economic activity, even in the absence of new lockdown orders. We see two main takeaways:

1. Even if states refrain from ordering residents to stay at home, cities and localities may choose to impose more restrictive measures, or businesses/residents might opt to self-restrict activity. The resultant decline in activity likely would not be as steep as in a full lockdown, but might nevertheless be substantial.

2. Formal, state-wide lockdowns tend to depress activity and mobility substantially more than other mitigation measures. Figure 2 shows a clear difference in mobility in states that implemented stay-at-home orders versus those that did not. Recent research from economists at UC Davis confirms this finding.¹ Barring another round of widespread stay-at-home orders, we have probably seen the bottom in output.

U.S. mobility to retail and recreation sites abruptly declined starting around March 15 (Figure 2). This sharp drop predates stay-at-home orders in many states, some of which were not implemented until early April. Instead, the initial drop-off in mobility may have been caused primarily by school closures (most of which occurred right around March 15) and increasingly cautionary news coverage. Nationwide, Google searches for “coronavirus” peaked on March 15, and a state of emergency was declared on March 13.

Figure 2

Source: Google LLC "Google COVID-19 Community Mobility Reports" and Wells Fargo Securities

Several states directed some ‘nonessential businesses’ to close but never issued statewide stay-at-home orders (Arkansas, Iowa, Nebraska, Utah, North Dakota and Wyoming). In these states, mobility still declined sharply, albeit not to the same extent as in those states which implemented formal stay-at-home orders (“Stay-at-Home States” in Figure 2). A similar pattern can be observed in South Dakota, which was the lone state to refrain from implementing a statewide stay-at-home order or mandated business closures throughout March and April.² Retail and recreation activity in the state abruptly pulled back on March 15, about a week before state officials offered recommendations for businesses to safely remain open.³ Jobless claims in the state also began to

² South Dakota closed public schools but did not order nonessential businesses to close nor did it implement a formal stay-at-home order.
³ The outsized dip in South Dakota mobility in mid-April may be attributable to a record-breaking snowstorm and cold snap across much of the state during Easter weekend.
spike during the week ending March 21, meaning South Dakota businesses clearly saw a down shift in demand. However, looking only at measures taken at the state level misses important nuances. Several localities and cities in South Dakota issued states of emergency, mandated business closures, or limited capacity at restaurants and other establishments. Even in areas where closures and restrictions were not mandated, businesses in some cases decided amongst themselves that temporary closures were the right approach.4

The Road Ahead
Texas serves as an important example. Among the states that have seen the sharpest increase in cases, Texas has drawn particular attention due to the rising pressure on its hospital system. In a recent press conference, Texas Governor Abbott said that closing down the state again “will always be the last option.” However, Abbott also granted more leeway to county officials to restrict outdoor gatherings, and there have been increasing reports of bars and restaurants closing, particularly in major cities such as Dallas and Houston. Rather than reverting to a full lockdown, states such as Texas with surging case numbers may instead opt to slow or halt phased re-openings and take other marginal measures depending on the severity of new case growth. South Dakota reminds us of the importance of focusing on local mitigation measures in addition to state-wide restrictions.

Overall, the rise in new cases presents a nuanced threat to the U.S. and global economic recovery. A decline in activity on the order of what we saw in March/April seems highly unlikely given the apparent unwillingness of many states to fully lock down again. However, periodic setbacks on the road to recovery seem likely as parts of the United States continue to see spikes in cases. Thus, rather than a straight line higher, the path of output from here is likely to be more uneven until a vaccine or other treatment is made widely available.

DISCLOSURE APPENDIX

Analyst’s Certification
The research analyst(s) principally responsible for the report certifies to the following: all views expressed in this research report accurately reflect the analysts’ personal views about any and all of the subject securities or issuers discussed; and no part of the research analysts’ compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the research analyst(s) in this research report.

Important Disclosures Relating to Conflicts of Interest and Potential Conflicts of Interest
Wells Fargo Securities does not compensate its research analysts based on specific investment banking transactions. Wells Fargo Securities research analysts receive compensation that is based on and affected by the overall profitability of their respective department and the firm, which includes, but is not limited to, investment banking revenue. Wells Fargo Securities may sell or buy the subject securities to/from customers on a principal basis or act as a liquidity provider in such securities.
Wells Fargo Securities Fixed Income Research analysts interact with the firm’s trading and sales personnel in the ordinary course of business. The firm trades or may trade as a principal in the securities or related derivatives mentioned herein. The firm’s interests may conflict with the interests of investors in those instruments.

Additional Information Available Upon Request

About Wells Fargo Securities
Wells Fargo Securities is the global brand name for the capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including but not limited to Wells Fargo Securities, a U.S. broker-dealer registered with the U.S. Securities and Exchange Commission and a member of NYSE, FINRA, NFA and SIPC, Wells Fargo Prime Services, a member of FINRA, NFA and SIPC, Wells Fargo Bank, N.A. and Wells Fargo Securities International Limited, a U.K. entity investment firm authorized and regulated by the Financial Conduct Authority.

Notice to U.S. Investors
Unless prohibited by the provisions of Regulation S of the 1933 Act, this material is distributed in the U.S., by Wells Fargo Securities, which takes responsibility for its contents in accordance with the provisions of Rule 15a-6 and the guidance thereunder, under the U.S. Securities Exchange Act of 1934. Any transactions in securities identified herein may be effected only with or through Wells Fargo Securities.

This report was prepared by Wells Fargo Securities Global Research Department (“WFS Research”) personnel associated with Wells Fargo Securities and Structured Asset Investors, LLC (“SAI”), a subsidiary of Wells Fargo & Co. and an investment adviser registered with the SEC. If you are paying directly for this research, it is being provided by SAI. For all other recipients in the U.S. this report is being provided by Wells Fargo Securities.

Important Information for Non-U.S. Clients

EEA
The securities and related financial instruments described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. For recipients in the EEA, this report is distributed by Wells Fargo Securities International Limited (“WFSIL”). WFSIL is a U.K. incorporated investment firm authorized and regulated by the Financial Conduct Authority. For the purposes of Section 21 of the UK Financial Services and Markets Act 2000 (“the Act”), the content of this report has been approved by WFSIL, an authorized person under the Act. WFSIL does not deal with retail clients as defined in the Directive 2014/65/EU (“MiFID2”). The FCA rules made under the Financial Services and Markets Act 2000 for the protection of retail clients will therefore not apply, nor will the Financial Services Compensation Scheme be available. This report is not intended for, and should not be relied upon by, retail clients.

Australia
Each of Wells Fargo Securities, Wells Fargo Securities Asia Limited and Wells Fargo Securities International Limited is exempt from the requirements to hold an Australian financial services license in respect of the financial services it provides to wholesale clients in Australia. Wells Fargo Securities is regulated under U.S. laws, Wells Fargo Securities Asia Limited is regulated under Hong Kong law, and Wells Fargo Securities International Limited is regulated under U.K. law, all of which differ from Australian laws. Any offer or documentation provided to Australian recipients by Wells Fargo Securities in the course of providing the financial services will be prepared in accordance with the laws of the United States, Hong Kong or U.K. and not Australian laws.

Canada
This report is distributed in Canada by Wells Fargo Securities Canada, Ltd., a registered investment dealer in Canada and member of the Investment Industry Regulatory Organization of Canada (IIROC) and Canadian Investor Protection Fund (CIPF). Wells Fargo Securities, LLC’s research analysts may participate in company events such as site visits but are generally prohibited from accepting payment or reimbursement by the subject companies for associated expenses unless pre-authorized by members of Research Management.

Hong Kong
This report is issued and distributed in Hong Kong by Wells Fargo Securities Asia Limited (“WFSAL”), a Hong Kong incorporated investment firm licensed and regulated by the Securities and Futures Commission to carry on types 1, 4, 6 and 9 regulated activities (as defined in the Securities and Futures Ordinance (Cap. 571 of The Laws of Hong Kong), “the SFO”). This report is not intended for, and should not be relied on by, any person other than professional investors (as defined in the SFO). Any securities and related financial instruments described herein are not intended for sale, nor will be sold, to any person other than professional investors (as defined in the SFO). The author or authors of this report is or are not licensed by the SFC. Professional investors who receive this report should direct any queries regarding its contents to Mark Jones at WFSAL (email: wfsalresearch@wellsfargo.com).
This report is distributed in Japan by Wells Fargo Securities (Japan) Co., Ltd, registered with the Kanto Local Finance Bureau to conduct broking and dealing of type 1 and type 2 financial instruments and agency or intermediary service for entry into investment advisory or discretionary investment contracts. This report is intended for distribution only to professional investors (Tokutei Toushika) and is not intended for, and should not be relied upon by, ordinary customers (Ippan Toushika).

The ratings stated on the document are not provided by rating agencies registered with the Financial Services Agency of Japan (JFSA) but by group companies of JFSA-registered rating agencies. These group companies may include Moody’s Investors Services Inc, Standard & Poor’s Rating Services and/or Fitch Ratings. Any decisions to invest in securities or transactions should be made after reviewing policies and methodologies used for assigning credit ratings and assumptions, significance and limitations of the credit ratings stated on the respective rating agencies’ websites.

Published reports and additional disclosure information are available at www.wellsfargoresearch.com.