

Potential Economic Impact of Omicron Variant

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Abstract

The Omicron variant has posed yet another risk to the already fragile global economic system. This new variant has had an adverse impact on the global economic recovery. Labor absenteeism and curtailed consumer spending has significantly affected businesses that are yet to recover from the disastrous effect of the second wave. This paper provides a brief introduction of the Omicron variant and then analyses the global economic impact of the variant. In conclusion, the paper puts forth steps and measures that can be taken to curb the spread of the virus and reduce its economic impact.

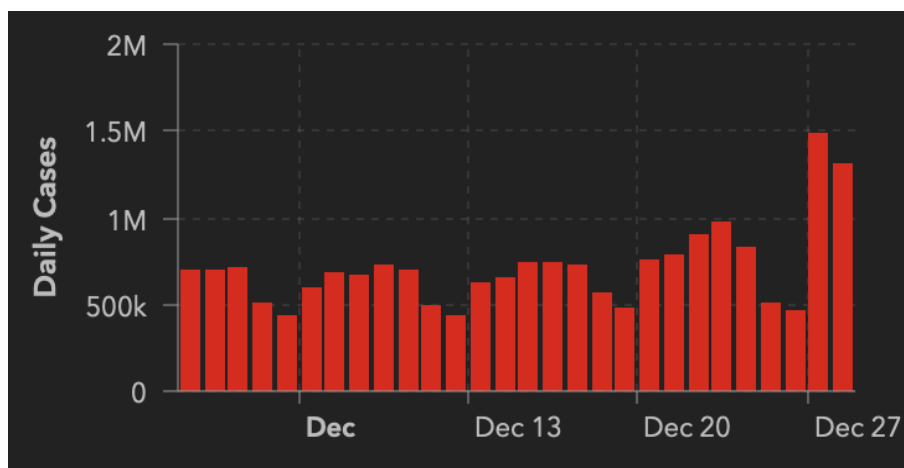
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I. INTRODUCTION

The B.1.1.529 variant, also known as Omicron, was categorized as a Variant of Concern by the World Health Organization (WHO) on 26 November 2021. Omicron was first reported to WHO from South Africa on 24th November 2021. However, there is no significant data yet to conclude if this new variant is more transmissible or more severe than the previous variants.¹ A variant of concern is a SARS-CoV-2 variant which has an increased transmissibility, or increased virulence or decreases the effectiveness of vaccines and other health measures.²

As of 30th December, 2021, the US has recorded the highest number of cases in the past 28 days. It reported a staggering 4,960,478 cases and the UK in second place with 2,296,770 cases in the past 28 days. Several countries including South Korea, Slovakia, Brazil, Egypt, Sri Lanka, and India have also seen a spike in daily cases. The graph below shows the number of daily cases reported in the past few weeks.



Source: Johns Hopkins University CSSE COVID-19 Dashboard

As can be seen by the graph, there has been a surge in the number of daily cases reported in December. In the past 28 days, 20,994,317 cases have been reported globally with 195,637 deaths. The total cases worldwide have reached a shocking number of 284,580,401 as of 30th December, 2021.³

¹ <https://www.who.int/news/item/28-11-2021-update-on-omicron>

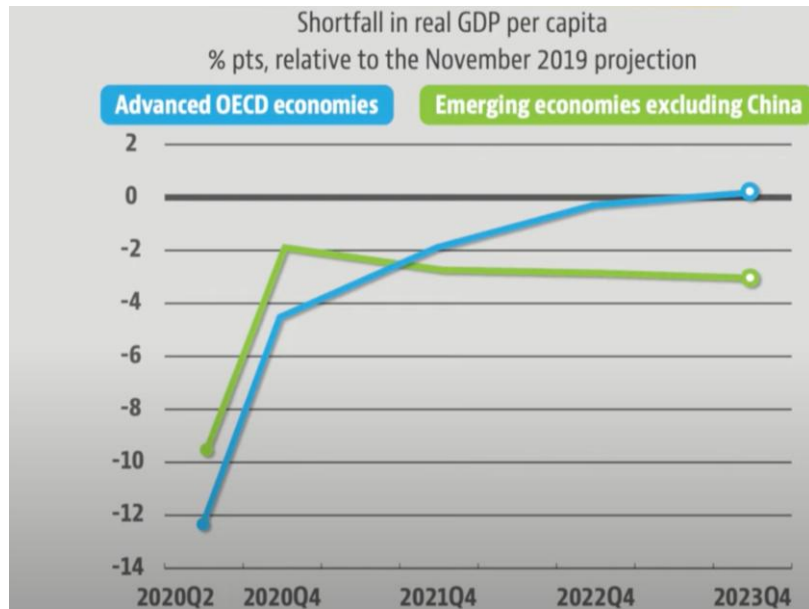
² [https://www.who.int/news/item/26-11-2021-classification-of-omicron-\(b.1.1.529\)-sars-cov-2-variant-of-concern](https://www.who.int/news/item/26-11-2021-classification-of-omicron-(b.1.1.529)-sars-cov-2-variant-of-concern)

³ <https://coronavirus.jhu.edu/map.html>

In such a scenario, the entry of the Omicron variant has raised uncertainty and concern in an already fragile global economic system.

Economic Impact of Omicron variant on global economy

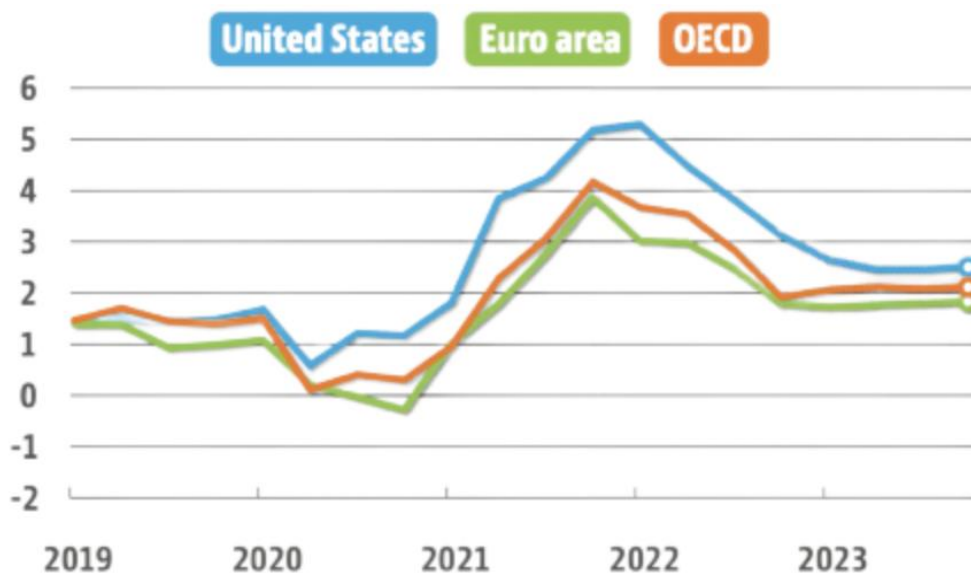
The emergence of Omicron has already raised concerns of its adverse impact on the recovering global economy. As per the OECD Economic Outlook published in December 2021, the global recovery after the second wave is strong but extremely unbalanced. This can be seen by the graph below.



Source: OECD Economic Outlook

*The black bar represents the pre-pandemic expectations.

The income levels in advanced countries are coming to their pre-pandemic path but lower income economies with low vaccination rates are being left behind.⁴ The imbalances in several sectors including food, energy, electronic chips, metals and labor market has spiked prices leading to high inflation. This can be seen by the graph below.



Source: OECD Economic Outlook

⁴ <https://www.oecd.org/economic-outlook/december-2021/>

The rising energy and food prices are adversely impacting low-income households in particular. The gap between supply and demand in several sectors including the manufacturing sector since the re-opening of economies after the second wave are also hurting the recovery.⁵ The personal-consumption expenditures price index, often considered as a barometer for inflation, increased by 5.7% in November from a year earlier which is the fastest rise since 1982. Prices excluding volatile food and energy items rose by 4.7% year-over-year in November, the highest since 1989.⁶

Investors are selling their shares in hotels and airlines as the possibility of travel bans and lockdowns loom in the near future. In addition, the oil prices have slumped by approximately ten dollars per barrel which indicate a recession in the near future.⁷

The chief economist at Moody's Analytics, Mark Zandi, lowered his predicted first-quarter U.S. Gross Domestic Product (GDP) from 5.2% growth to 2.2% as the Omicron cases have surged in the US. Pantheon Macroeconomics downgraded its U.S. growth forecast from 5% to 3% annualized in the 2022 Q1. In Europe, leaders are reviewing stricter measures to curb the spread of the new variant.⁸ Netherlands and Switzerland announced that the Omicron variant has become the dominant strain in both countries. Portugal, Greece, France, and Britain have been recording high daily cases.⁹

This surge in cases has increased labor absenteeism as people are staying at home to prevent getting sick. Data on spending indicates that the rise in Omicron cases has led to people reducing spending outside their homes. Restaurant visits in December dropped. The number of seated diners in restaurants in the US dropped by 27% from 2019. In-store spending at retailers has also decreased as suggested by data.¹⁰

Steps that can be taken to curb the adverse economic impact of Omicron

Several countries have already taken steps to curb the spread of the Omicron variant. For instance, China has imposed a lockdown and Germany has put a cap of 10 vaccinated people or two unvaccinated households for private gatherings. Finland has barred foreign travelers that haven't been vaccinated from entering excluding residents, diplomats and essential workers. Sweden and Denmark have instituted mandatory negative COVID tests for non-resident travelers.¹¹

However, the large numbers of unvaccinated people especially in countries with low vaccination rates and lack of sufficient easy and quick testing are the two biggest challenges in the path to curbing spread of Omicron. The last two waves have also highlighted the need for a stable health infrastructure. Countries such as India grappled to tackle the second wave. In an interview a few months back, Dr. Ashish Jha, a public healthcare expert, had highlighted how underinvestment in the Indian healthcare system and the resulting lack of proper healthcare infrastructure had exacerbated the Indian health crisis during the second wave. India had faced a serious shortage of hospital beds, doctors, oxygen and essential medicines.¹² Such countries need to focus on

⁵<https://www.oecd.org/newsroom/oecd-economic-outlook-sees-recovery-continuing-but-warns-of-growing-imbbalances-and-risks.htm>

⁶https://www.wsj.com/articles/consumer-spending-personal-income-inflation-november-2021-11640215420?mod=article_inline

⁷ <https://www.economist.com/leaders/2021/12/04/what-the-omicron-variant-means-for-the-world-economy>

⁸<https://www.wsj.com/articles/omicron-variant-is-expected-to-dent-global-economy-in-early-2022-11640631554>

⁹<https://economictimes.indiatimes.com/news/international/world-news/who-warns-of-very-high-omicron-risk-as-covid-surges-worldwide/articleshow/88559083.cms>

¹⁰<https://www.wsj.com/articles/omicron-variant-is-expected-to-dent-global-economy-in-early-2022-11640631554>

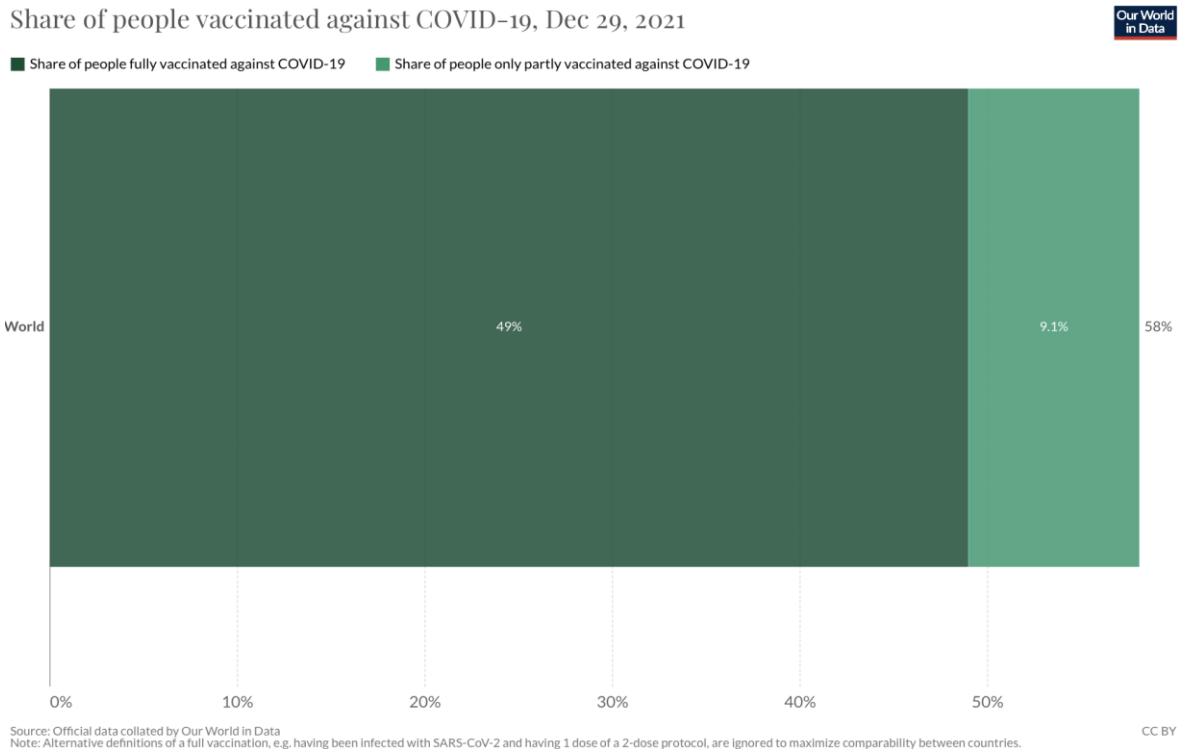
¹¹<https://economictimes.indiatimes.com/news/international/world-news/who-warns-of-very-high-omicron-risk-as-covid-surges-worldwide/articleshow/88559083.cms>

¹² <https://www.pbs.org/newshour/show/covid-crisis-why-indias-health-system-is-on-the-brink-of-collapsing>

building a robust healthcare system now by increasing investment so that they are best-equipped to fight the Omicron variant.

The other measure that countries, especially those with low-vaccination rates, should focus on is increasing immunization rates. As can be seen by the chart below, only about 49% of the world's population has been fully vaccinated as of 29th December, 2021.¹³

Share of people vaccinated against COVID-19, Dec 29, 2021



Governments of countries with low vaccination rates should put in place proper policies and structure to ensure quick and easy access of vaccinations to citizens. Furthermore, as recommended by WHO, countries should increase “public health and medical capacities” including increasing production and access of COVID tests.¹⁴

The global economy can only recover once there is certainty that there exists proper medical infrastructure to tackle the crisis. Governments can help assure this by taking such steps as mentioned above. Furthermore, for the time being, Governments can also help businesses that are struggling to stay afloat by providing relief packages directed at helping small scale business and low-income households. With proper planning and global coordination, we can tackle the Omicron variant.

¹³ https://ourworldindata.org/covid-vaccinations?country=OWID_WRL

¹⁴ <https://www.who.int/news/item/28-11-2021-update-on-omicron>