

Global Economic Research

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Omicron Is Burning Brightly, But May Burn Briefly

The Omicron wave hasn't yet been disruptive to economic activity.

By Vaibhav Tandon

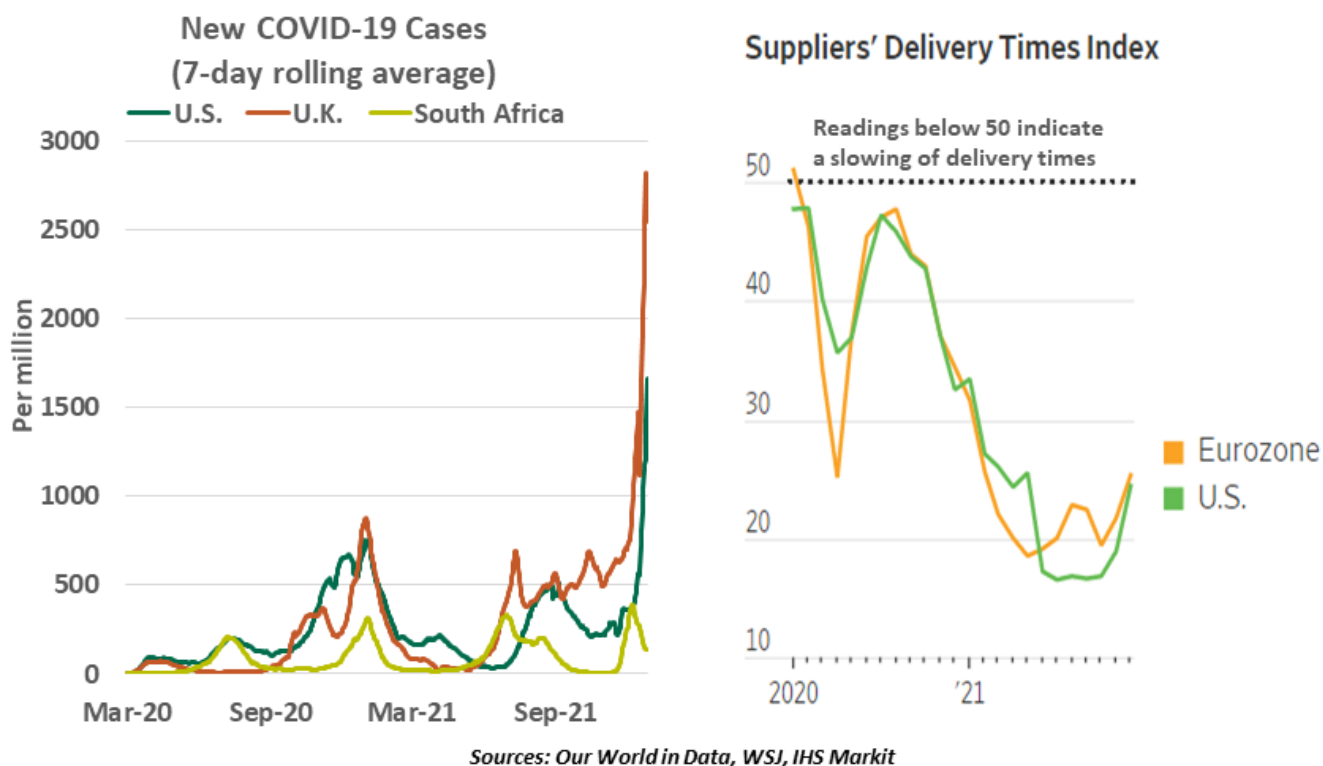


Those who tuned out pandemic-related news over the holidays have come back to reports of COVID-19 cases rising exponentially. Just like past waves, this one will eventually crest, but when? And what scarring will it leave on the global economy?

Encouragingly, Omicron cases in South Africa, where the variant was first detected, appear to have peaked and receded without a major spike in deaths. According to a [study](#) by a South African health insurer, most hospitalizations reported were among unvaccinated people. The development offers cautious hope to other nations grappling with a tidal wave of infections, but each country will have a different experience. South Africa has a younger population than countries like the U.S. and Britain. That said, the U.K. is also showing early signs that the Omicron surge is easing.

Just as in previous waves, the tourism and hospitality sectors are the most impacted. Early evidence suggests that the hit to economic activity in the western hemisphere has been modest, a sign of increased adaptability to novel variants. Factories in Europe and United States saw a further easing of supply chain disruptions and associated cost pressures towards the end of the year as Asian economies reopened after lockdowns. Costs for container transport have been falling steadily since September 2021, though they are still well above pre-pandemic levels.

The Omicron wave hasn't been as disruptive to economic activity.



While most Asian economies are trying to live with the virus by pivoting away from a zero-tolerance approach, the world's factory — China — continues to rely on strict lockdowns to contain the outbreak. Renewed stringency there will hinder global value chains, adding to inflation pressure. An outbreak of cases in the Chinese city of Ningbo, home to the world's largest port, has triggered concerns about supplies for major clothing brands. Optimistically, mass exposure to the Omicron variant could leave the broad population with residual immunity to COVID-19, setting the stage for a year with fewer ongoing worries about

the virus. However, the experience during the pandemic thus far has taught us to remain vigilant.

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