

## Is another technical recession on the cards for the Eurozone?

Easing and tightening restrictions ahead of the holiday season has become a bit of a whack-a-mole game for European policymakers. But given that restrictive measures will bleed into 1Q21, we think the risk of another technical recession is rising. A textbook case for how things will first get worse before they finally get better



Source: Shutterstock

### A game of whack-a-mole









The second wave of Covid-19 has turned into a game of whack-a-mole for European policymakers as slower infection rates thanks to lockdowns in one country are followed by faster infection rates in others.

The strict November measures in France, Belgium and Ireland have ended with eased restrictions in December, while Germany, the Netherlands and other countries have substantially tightened measures which will last until January.

Recent news of the highly contagious virus mutations has not only increased risks of more lockdowns but also tighter restrictions, which means the second wave will dampen economic

activity well into the first quarter of 2021.

## Current restrictions in the Eurozone

	Germany	France	Italy	Spain	Netherlands	Belgium	Portugal	Ireland
								
Restaurants & bars closed	Yes	Yes	Yellow regions open until 6pm, orange regions only takeaway and home delivery	No, with regional exceptions	Yes	Yes	No	No
Schools closed	Yes	No	Only secondary schools are closed (to partially re-open 7 Jan)	No	Yes	Holiday period now, schools reopen in January	No	No
Curfew	Regional level, 9pm to 5am	Yes	Yes	Yes	No	Yes	Yes	No, but limited non-essential travel (temporarily lifted for Christmas)
Non-essential retail closed	Yes	No	No, except for weekends and (pre-) holidays	Differs by region	Yes	No (put some services like hairdressers are closed)	No, with regional exceptions for certain days	No
End of measures	Jan 10	Jan 20	Jan 15	May 9, with regional flexibility in between	Jan 18	Jan 15, until further notice	Jan 7	Data dependent

Source: ING Research and national government announcements

The economy has proven to be fairly resilient, given that the measures are softer than during the first wave.

For example, the new restrictions have so far excluded the industry, which has experienced a strong start to the fourth quarter in terms of economic performance. October data on production and exports shows the industry continued to recover as the service sector struggled with the closure of the hospitality sector. Survey data for November and December suggest production continued to grow even as restrictions tightened, softening the blow for the eurozone economy.

However, the latest restrictions, as well as short-term supply chain effects from the temporary closure of EU borders to the UK and involuntary long Christmas breaks for employees still hint towards a further weakening of the manufacturing sector.

## Mobility data shows modest decrease in activity

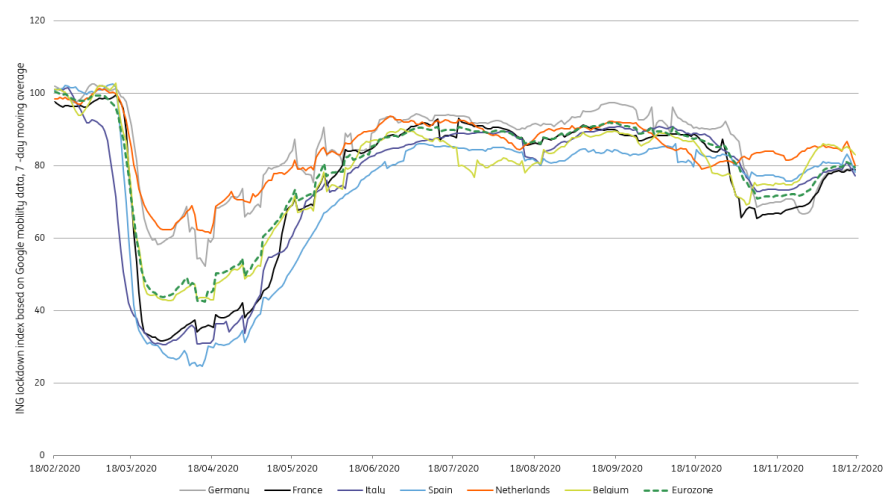
Mobility data shows that the decline in population movement has been much smaller in the fourth quarter than during the first wave of the pandemic.

For the eurozone average, the low point in the fourth quarter of our mobility index based on Google mobility data was on 12 November at 71, which is 29% below pre-Covid-19 levels measured in January and February. In mid-April, this was 42.5.

This should translate into a milder impact on the economy, although a dip in GDP for the fourth quarter is unavoidable given the severe impact of partial closures.

## Start of December shows a surge in mobility in most eurozone economies

Note: Index of activity since 15 February for retail & recreation, groceries & pharmacies and workplaces using Google Covid-19 Community Mobility Report with data through 24 November. 100=baseline of activity between 3 Jan and 9 Feb



Source: ING Research, Google Covid-19 Community Mobility Reports

## The downside to milder restrictions

The downside to milder measures is that the number of infections is just not coming down by as much as hoped.

In fact, December – usually the busiest time of year for shopping – has seen a sharp increase in activity that relates in part to holiday shopping, but also commuting to workplaces has risen quite quickly and stood at the highest level since the first lockdown on 15 December, until the German lockdown took effect.

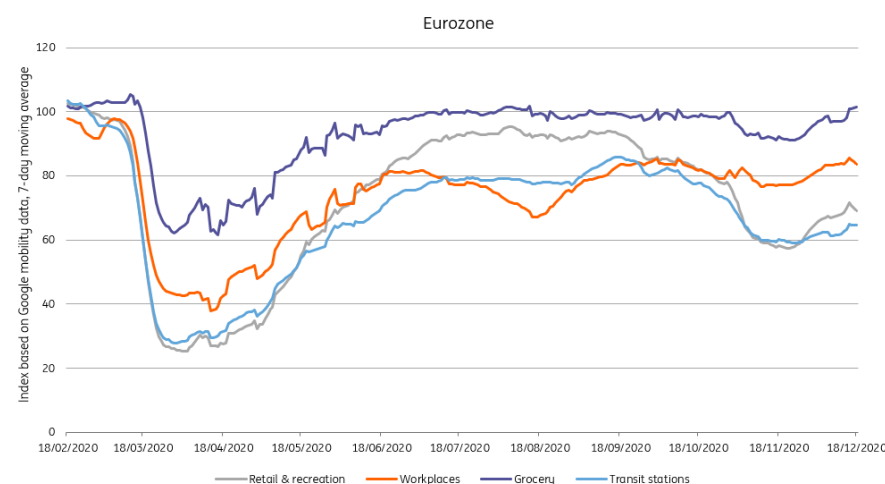
The strict German and Dutch measures are directly related to the increase in new cases.

Within a few days of data on both countries, we see the Dutch index falls to just over 70 – the chart above shows the seven-day averages and is therefore still around 80 – while the German index has hardly moved. Overall, eurozone activity has therefore not been impacted much, but it is very early days in terms of data.

## Early December rise in activity was broad with workplace mobility rising to highest level since March

Note: Index of activity since 15 Feb using Google Covid19 Community Mobility Reports with data through 24 November.

100=baseline of activity between 3 Jan and 9 Feb



Source: ING Research, Google Covid-19 Community Mobility Reports

### Risks of a technical recession rise

The increase in mobility in December ahead of the stricter lockdowns won't necessarily translate into stronger economic activity as seasonal effects haven't been taken into account. In other words: people always shop more in December, so it's hard to tell whether the mobility data for December suggest a good or bad Christmas from a retail perspective as there is no comparable data.

But don't expect the harsh lockdowns in Germany and Netherlands to have a similar effect as they did during the first wave. Nonetheless, the impact will be significant and drag the 4Q GDP figure much deeper into the red. With the virus mutating, and no let-up in the curve, the risk of extended and tighter restrictions beyond mid-January has clearly increased.

*We remain optimistic about the medium-term prospects for the eurozone economy. The latest developments suggest a high risk of another small dip of the economy in 1Q and hence a technical recession*

We remain optimistic about the medium-term prospects for the eurozone economy on the back of the vaccine, ongoing monetary and fiscal stimulus, the latest and possibly additional stimulus packages in the US and the continuing v-shaped recovery in Asia.

But there are plenty of caveats. However, all of this suggests a high risk of another small dip

of the economy in 1Q and hence a technical recession. A textbook model for how things will first get worse before they finally get better.

## Author

### Bert Colijn

Chief Economist, Netherlands

[bert.colijn@ing.com](mailto:bert.colijn@ing.com)

### Carsten Brzeski

Global Head of Macro

[carsten.brzeski@ing.de](mailto:carsten.brzeski@ing.de)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit [www.ing.com](http://www.ing.com).