Eurozone: the second downturn has bottomed out (for now)

Google mobility data suggests that the bottom in economic activity has been reached given the current set of restrictive measures in place. But with extensions announced or in the making across the eurozone, the economic damage of the second wave could increase

Airport traffic down during coronavirus restrictions in Netherlands, Schiphol

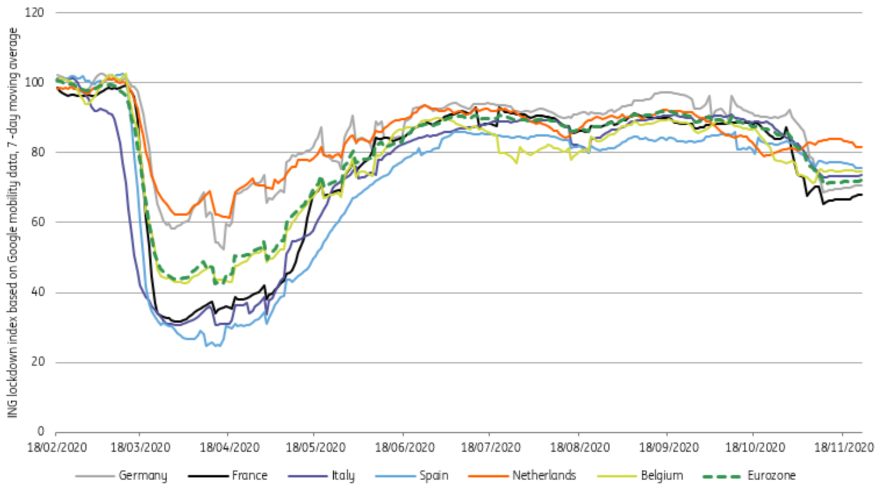
Source: Shutterstock

The second wave of the coronavirus is still bringing an elevated number of new cases on a daily basis in Europe, although they have come down from recent peaks. While it is encouraging to see that the less disruptive measures taken in the autumn have helped new cases come down, it has not yet been enough for governments to alleviate restrictions significantly for the month of December. In fact, some restrictions have already been lengthened well into January – like the closure of bars and restaurants in France – which will lengthen the period of economic fallout and increase the damage done to the economy. The decision of many countries to allow some restrictions to be relaxed for the holiday season is not only a delicate balancing act but also bears the risk of a third wave of infections and consequent lockdowns in January. The US experience with the Thanksgiving break will shed some light on what Europe can expect from the upcoming Christmas holiday.

The second wave has reached its bottom in terms of mobility impact

Stricter social distancing measures and second lockdowns towards late-October/early-November clearly show in the Google mobility data. Our mobility index dropped by some 20% compared with the September peak, with declines in most countries. The Netherlands only experienced a drop of around 10%, where lighter restrictions apparently also led to a lighter slowdown in activity. Still, since they were also introduced earlier than in most other countries, the total impact is still significant. The good news is that the decline in economic activity bottomed out by mid-November. Since then, most countries have seen slight improvements in their mobility figures. Only Spain continues to see a minor downward trend. For all countries, the decline in mobility is far smaller than that seen in the first wave of the coronavirus, which corresponds to the smaller expected decline in economic activity in the fourth quarter than that seen in 1Q and 2Q. Our forecast is for a drop of -2.5% quarter-on-quarter.

Mobility data has bottomed over recent weeks for most large eurozone economies

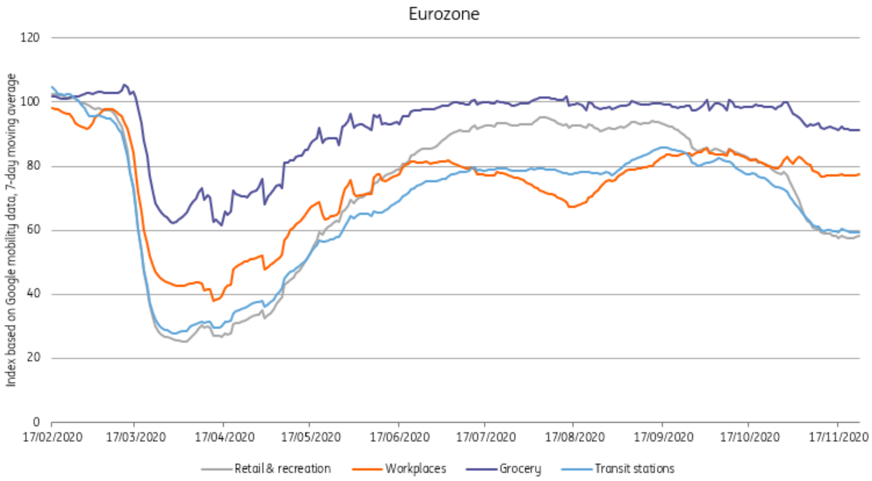


Source: ING Research, Google COVID-19 Community Mobility Reports

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

As the lockdown measures are targeted at very specific segments of the economies, it's no surprise that there are large differences in activity levels. Trips to retail and recreational settings bottomed out at below 60% of the activity seen prior to the crisis. Still, this was below 30% in the first wave, so even where the restrictive measures hit hardest, the decline in activity has been far smaller than in the first wave. Since mid-November, the bottoming out of mobility is widespread. Whether it is trips to retail and recreation locations, workplaces or grocery stores, all have been more or less stable for the past two weeks.

Unsurprisingly given the measures taken, retail and recreation activity is the furthest below pre-coronavirus levels



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The longer the measures are in place, the more damage will be done

While it does not look like many countries are considering stricter measures at the moment, a lengthening is clearly possible and would extend the damage done to economic activity. This means that a longer period of subdued activity will impact factors like unemployment, incomes and bankruptcies, ultimately causing the recovery to take longer. Vaccine rollout will be key to curb the second wave as the start of vaccination seems to be imminent now. Still, as the approval by the European Medicines Agency for the Pfizer vaccine is due only at the end of the year while the Moderna vaccine is set for mid-January, more extensions of restrictive measures into January are likely.

For policy makers this means that while vaccines are likely to be a game changer for the economy is 2021, it will be a tricky balancing act between much needed continued support and normalisation of policy. For the European Central Bank the message seems clear: the planned stimulus announcement for next week is comfortably backed up by an economy currently contracting, with more to come as lockdown measures are extended. For governments, the question is whether they will continue to support troubled sectors enough to prevent deeper second round effects and structural damage.

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