

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

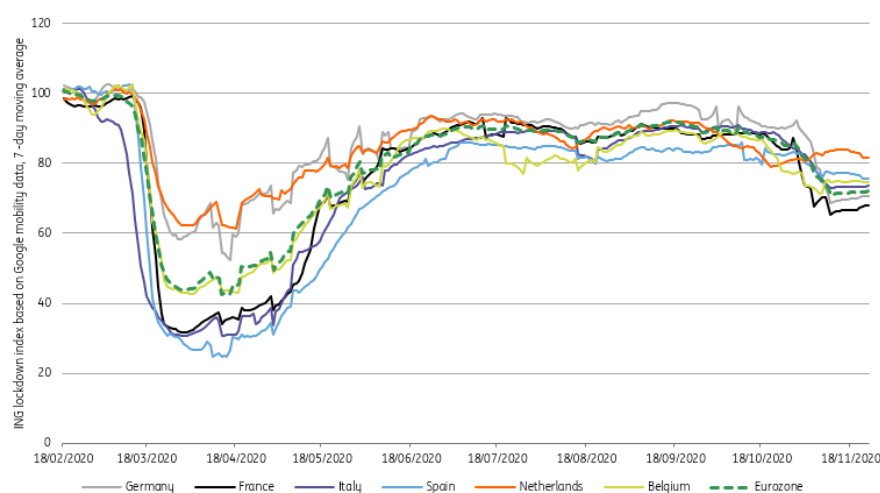
Source: Shutterstock

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

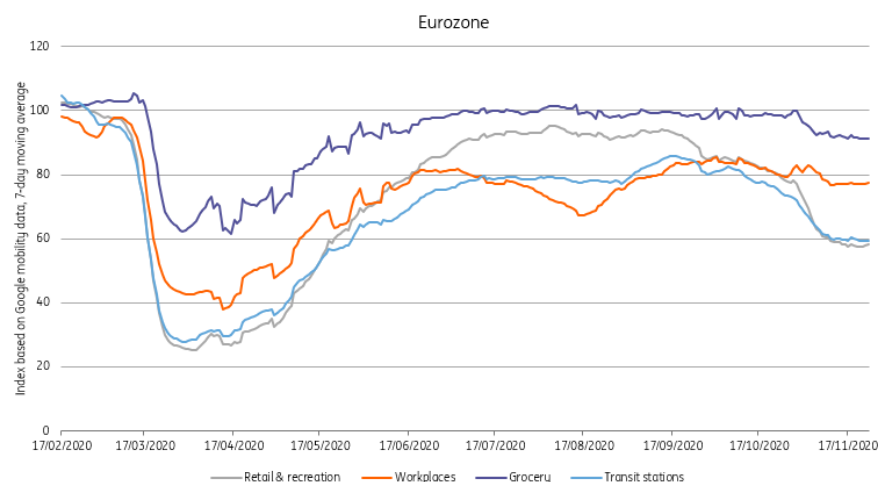


Source: ING Research, Google COVID-19 Community Mobility Reports

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



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

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

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 in 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.

Author

Bert Colijn

Chief Economist, Netherlands

bert.colijn@ing.com

Carsten Brzeski

Global Head of Macro

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.