

January economic update: Hardly a happy new year

2021 is set to be far better than 2020; how could it not be? But before recovery comes later in the year, we're still facing a bleak few months, not least in the northern hemisphere



The start of 2021 is likely to be bleak. Pictured: traffic police in Moscow

A disappointing start

New Year, new beginnings. Starting with a clean sheet, 2021 can only be better than 2020 and we're all glad that, as Queen Elizabeth once put it, that 'annus horribilis' is finally over. We have heard all these comments, wishes and New Year resolutions. Some of us probably even started to believe in them. That's why the start of this new year has been so disappointing. Instead of light at the end of the tunnel, the discussion is about a mutated virus, extended and stricter lockdowns and problems with the supply and distribution of the long-hoped-for vaccine. It's anything but a good start.

At first glance, it looks as if differences between countries and regions in terms of lockdowns and vaccinations have increased again. However, these differences could quickly turn out to be just short-term noise, with at least Europe and the US quickly converging (again) to very similar situations. Coming up with credible point forecasts in these circumstances is more difficult than ever. The number of infections is probably still distorted by delayed Christmas reporting, no one knows whether lockdowns will end at the end of January, the end of February or even later still. No

one knows how and when the vaccination strategies will really gain momentum.

I explain more in my short video below, do click on it!



Things can only get better

ING's Carsten Brzeski on why we need to take step back and look for the good times which are surely coming later in the year.

[Watch video](#)

We remain positive for the year

With all these uncertainties, it is best to take a step back and look at the bigger picture. That has hardly changed and it does remain positive. However, we'll only see evidence of that later this year. In our view, it doesn't really matter who's first in starting the vaccination programmes. It is more important that good infrastructure and organisation is put in place. Governments and producers will do everything they can to increase the supply of vaccines in the coming weeks and months.

Therefore, it is still fair to assume in our base case scenario that together with warmer weather, governments will ease the lockdown restrictions in early spring and that the rollout of the vaccine will gain momentum. In this scenario, we should see a significant pick-up in most economies by the second quarter. Supported by ongoing fiscal and monetary stimulus, our view that the global economy stages a strong recovery in the second half of the year remains intact. Winter might be darker than would wish, but light will return.

Three main risks

Still, as they say, this base case scenario is subject to high uncertainties and right now the risks are rather tilted to the downside. Here are just a few of those risks:

New virus: Just think of the UK and South African Covid variants which spread significantly faster and are becoming a dominant strain. This moves the goalposts as the R-rate, an indicator of how well the virus can spread, is now higher for any given level of restrictions. In theory, tighter rules are needed to keep R where it would have been before. It is unclear whether or not these virus

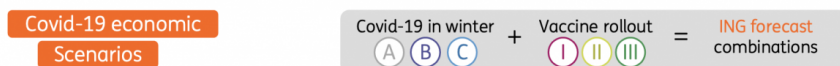
variants are already everywhere, being one reason behind the increased number of infections. ·

Vaccine risk: There is no evidence yet but what if the new variants affect the current formulation of vaccines? This could effectively press 'reset' on the vaccination programmes. While manufacturers quickly tweak the formulation of their vaccines, and regulators work hard to speed it through, the process may need to start again. The question here is whether the existing vaccine provides immunity to new strains? Right now, scientists remain largely confident they will. But the risk of mutations is higher if community transmission remains elevated.

Medium-term upside risk: Despite all short-term downside risks, a potential upside risk to our forecast is that in the second half of the year, the consumer-led recovery turns much stronger than expected and we get a virtuous cycle of employment and investment growth. Who would sign up for this one? In our first Monthly Economic Update of the year, we try to answer the three most pressing questions per region: what is the short-term outlook in light of new restrictions? When can we expect a vaccine effect and how strong could the recovery be?

Happy New Year.

Full forecast tables are available in the PDF version of this report



Phase 1: Covid-19 spread over winter

| | Scenario A | Scenario B | Scenario C |
|---------------|--|---|--|
| | ING Base – Moving towards B from A | | |
| United States | Modest restrictions in some hotspots as hospitalisations rise, but differ between states. Focus on limiting spread rather than closing businesses | US follows Europe into tighter restrictions in a majority of states. Construction and manufacturing open, but hospitality heavily impacted | Further waves of Covid-19 push US into stricter lockdowns. Stay at home orders return. Non-essential retail shuts along with other close-contact services |
| Europe | Lockdowns succeed. Case growth falls, economies reopen quickly in early February. Rapid testing capability and more controllable virus growth allows contact tracing to work more effectively. | Tight restrictions extended until late February. Hospitality services stay broadly closed and household mixing rules remain strict until early summer. Vaccine will be rolled out in H1 21, with some temporary setbacks, allowing economies to gradually reopen in Q2. | Lockdowns persist well into H1 2021 or get stricter in the case of light lockdowns. Risk of complete circuit breaker lockdowns remains high. Situation continues at least until Easter and economies will only reopen from May onwards. Summer tourism still heavily affected. |
| Asia | China: Case numbers remain low or very low by international standards, and typically falling. Social distancing restrictions remain tight, but slowly easing, including international travel bubbles | Asia ex. China: Case numbers remain relatively low but rising in many countries. Lower tolerance for Covid brings targeted social distancing measures back into play and closure of travel bubbles | Asia follows the rest of the world into a second or in some cases third wave and national measures re-imposed to squeeze out the virus. |

Phase 2: Vaccine development and roll-out

| | Vaccine Scenario I | Vaccine Scenario II | Vaccine Scenario III |
|------------------|--|--|--|
| Vaccine timeline | Roll-out rapidly accelerates and most of the vulnerable population is vaccinated within weeks. Governments decide this justifies unwinding restrictions materially before Easter | Gradual improvement although differential rates of inoculation across economies. Countries higher-up the orders list of successful vaccines see earlier roll-out and quicker emergence from social distancing rules. | Vaccine roll-out takes longer. New variants mean vaccines need to be re-worked, or programmes unexpectedly paused due to safety or efficacy concerns. Herd immunity not reached in 2021. |

ING forecasts under each different scenario combinations

| | Combination A I | Combination B II | Combination C III |
|-----------|-------------------------------------|-------------------------------------|-------------------------------------|
| Forecasts | 2021 GDP US: 6.0% Eurozone: 4.1% | 2021 GDP US: 5.1% Eurozone: 3.0% | 2021 GDP US: 2.4% Eurozone: 0.9% |

Source: ING

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