

Dining in the rain: The new symbol of freedom and optimism

In the near term, there are good reasons to be more optimistic, both for our own well-being and the economy



Come dine with me

Carsten sums up our thinking on the global recovery from Covid-19 in our latest global Monthly Economic Update.

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The band Blue Pearl wanted to be taken dancing, naked in the rain, possibly in the same spot Fred Astaire was singing.

To my knowledge, no one has yet sung about dining in the rain, but surely it's only a matter of time. Eating out is the new stuck-at-home eating in. It's a symbol of freedom and optimism. In so many parts of the world, we can smell normality and just like our damp main course, it tastes good.

With pubs serving on terraces in the UK and the Netherlands, hopes for more reopenings in Europe very soon are now realistic. The vaccination rollout in the eurozone has also finally gained

momentum and reaches the point where 50% of the population could have had at least one job come June. This optimism is also reflected in strong confidence indicators, not only in industry but also in the services sector. Add to this, the German Constitutional Court has cleared the last hurdle for the European Recovery Fund, and the downside risks to the eurozone outlook have disappeared. At least in the near term. Needless to say that not everything in the eurozone is hunky-dory as the fiscal stimulus still falls short compared with the US fiscal packages, even with the money from the Recovery Fund. But let's focus on the positives.

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Optimism is nothing new to the US economy. It would take a very unpleasant negative surprise for the economy not to reach its pre-crisis level in the second quarter, which is basically now. A faster and more efficient vaccination rollout than in the eurozone, a fiscal stimulus package with an imminent and direct strong impact on the economy and a fast-recovering labour market will probably allow the economy to grow twice as much as the eurozone's this year. To quote our James Knightley: "Wowzers, the US economy is hot".

With more economic momentum on both sides of the Atlantic, both the Federal Reserve and the ECB will soon have a harder time fending off speculation about tapering or normalising monetary policy than in the first few months of the year. To be clear, we don't expect any policy rate hikes before the end of 2022 in the US and late 2023 by the ECB, but discussion on how to enter the exit lane from asset purchases are likely to start soon. Admittedly, it will be a very gradual and cautious exit, but it will be an exit nonetheless.

Before anyone gets carried away with too much optimism, be assured that there are still enough downside risks that should dent any overwhelming enthusiasm. Rob Carnell has a fascinating piece on the new virus variant in India and what this could mean not only for India but also for the rest of the world. Also, once governments start to withdraw their support measures, a wave of insolvencies with all kinds of knock-on effects could still pour over the eurozone economy and other regions.

In any case, there are good reasons to become more optimistic in the near term, both for our own well-being and the economy. Personally, I am not fond of dining under an umbrella, but like many, after endless lockdowns, I'm not so picky. Dining in the rain, it is. But unlike Blue Pearl, I'll keep my clothes on.

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