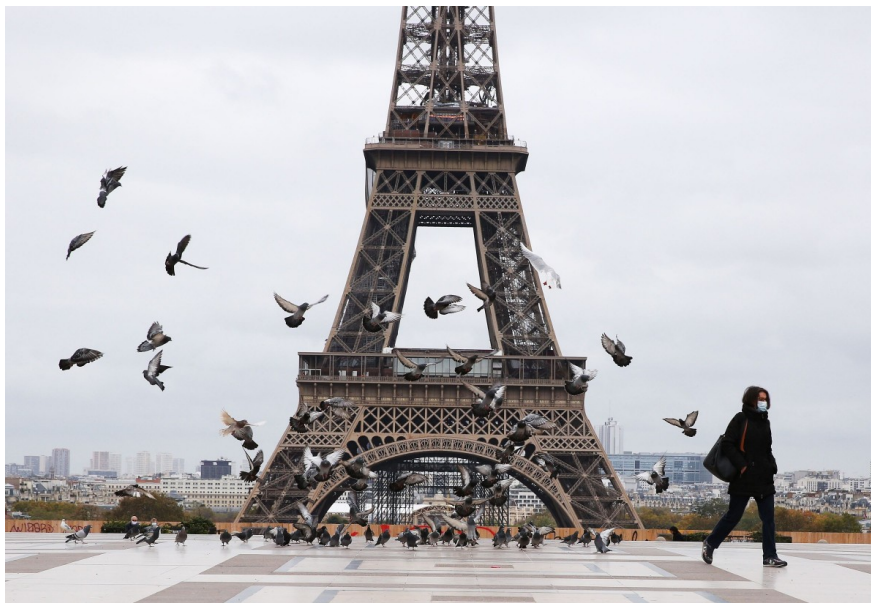


Eurozone: A false start to the new year

With Covid-19 cases swelling again in the last few months of 2020, several European countries had to tighten containment measures and extend them into this year. The risk now is that GDP contracts again in the first quarter. The slow start to the vaccine campaign is not helping either, but GDP growth should pick up from the second quarter onwards



A virtually deserted Eiffel Tower in Paris

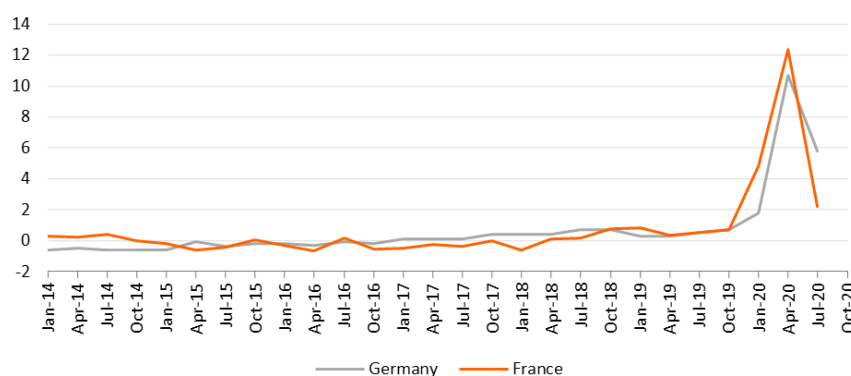
The short-term outlook

With rising numbers of Covid-19 cases in the last few months of 2020, several eurozone countries were forced to tighten lockdown measures and extend them into the first quarter of this year. Manufacturing remained relatively strong over the past few months (PMI at 55.2 in December), but judging by the mobility data, consumption was probably slightly weaker, resulting in a GDP contraction in the fourth quarter (though less dramatic than in the second).

Winter sports holidays will be partially cancelled and bars and restaurants might stay closed beyond January, which will also hurt consumption in the next few months. And while Brexit probably gave a boost to 4Q exports, with UK retailers building up inventories, the reverse will be seen in 1Q. Finally, with the more contagious strain of Covid-19 now reaching the continent, the risk of a third wave in the first quarter, unfortunately, cannot be excluded. We're looking at first-

Household savings rate

Divergence from the 2014-2019 average



Source: Refinitiv Datastream

The strength of the recovery

2021 is starting on the wrong foot, with the eurozone economy still struggling. But even though the vaccination process will be drawn-out, we believe that from the second quarter and beyond, some of the excess savings households built up in 2020 will be unleashed, boosting consumption. And that especially goes if the tourism and entertainment sectors are gradually reopened in the European spring.

The second half of the year will also get a boost from the European Recovery Fund with public investment shifting into higher gear. It's unclear to what extent businesses will be able to join the investment boom, as many will still try to rebuild their financial health. Exports will benefit from a synchronised worldwide recovery, though the strong euro is likely to temper this tailwind. That's why we have now downgraded our GDP growth forecast to 3.0% this year, followed by 3.5% in 2022, given the weak start to the year. That means that it will take until the summer of 2023 for the eurozone to regain its pre-crisis activity level.

Author

Peter Vanden Houte

Chief Economist, Belgium, Luxembourg, Eurozone

peter.vandenhoute@ing.com

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 <http://www.ing.com>.