

January 29th 2020



Recovery monitor

Twenty-twenty-one will be the year of the global economic recovery. However, the recovery risks being delayed by a few months in the Eurozone by the increase of new Covid infections, that have obliged national governments to extend restrictive measures. Nonetheless, in all likelihood this will be the tail end effect of the pandemic on the economy. Starting in the spring, thanks to the vaccines and to the support offered by markedly accommodative fiscal and monetary policies, the recovery will pick up again in Europe as well.

Recovery monitor

The NECE Nowcasting models, that estimate the trend of GDP based on a mix of economic data on both real activity and confidence levels, point to a 4Q 2020 characterised by a divergence between the US and the Eurozone.

While the US economy is forecast to keep growing, the Eurozone and Italy will incur a contraction of GDP, albeit probably smaller than indicated by consensus estimates, and certainly not as big as last spring's, thanks to the positive contributions of the manufacturing and construction sectors, not directly affected by the recent pandemic containment measures.

However, all eyes are now on 2021, that is set to be the year of the recovery of the global economy.

However, the recovery risks being delayed by a few months in the Eurozone by the increase of new Covid infections, and by the extension (and in some cases the tightening) of the restrictive measures put in place by the governments of the major countries in the region.

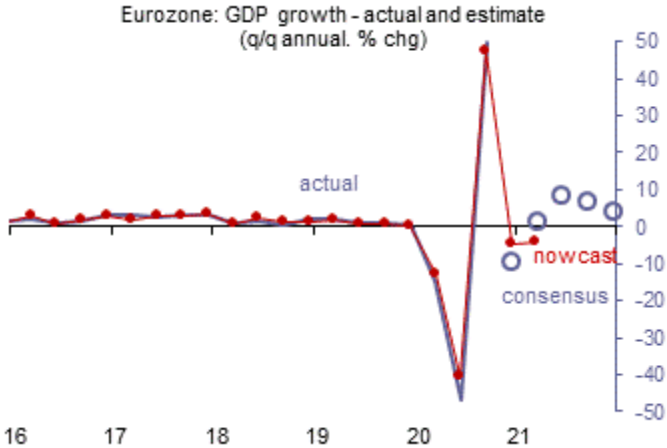
The NECE models point to a further contraction of GDP in the Eurozone in 1Q 2021, at odds with consensus forecasts, that expect the recovery to being already at the beginning of the year.

Therefore, in 1Q 2021, as was also the case in 4Q 2020, a divergence is expected between the ongoing expansion of economic activity in the United States (helped by the new fiscal stimulus package approved in December), and a contraction of activity in the Eurozone, due to the extension of the restrictive measures put in place to contain the pandemic.

However, in all likelihood this will be the tail end effect of the pandemic on the economy.

Starting in the spring, thanks to the progress made in the vaccination campaign, and to fiscal and monetary stimulus, the recovery should at last resume in the Eurozone as well. The pace and intensity of this recovery will mostly depend on the rapidity with which the vaccines are administered, and on their effectiveness also against the new strains of the Coronavirus.

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It should be said that the GDP forecasts drawn from the NECE Nowcasting models are marred by significant uncertainty in the present phase, given the lack of euro area real activity data on the services sector, the hardest hit by the pandemic containment measures. Furthermore, NECE forecasts for 1Q 2021 are based on confidence data alone (the only available, for now).

Therefore, it is important to also consider higher frequency data (daily and weekly), such as mobility indices and electricity consumption.

These indicators also outline a contraction of economic activity in the Eurozone and in the United Kingdom, albeit considerably smaller than incurred in March-April, as opposed to resilient growth in the United States and in Japan.

An overview of high frequency indicators shows that:

The most negative signals from Europe concern data on restaurant reservations, that plummeted both in the United Kingdom and in Germany, as a result of the shutdowns ordered by the governments, whereas in the US reservations remained essentially stable at very low levels;

Mobility indices have worsened: after improving briefly at the beginning of December, thanks to the easing of restrictive measures, over the past few weeks mobility indices have dipped back down in the Eurozone and in the UK, reflecting the introduction of new and more stringent restrictive measures. This mostly applies to mobility to reach retail outlets and for recreational ends (the hardest hit segments by the pandemic), which dropped significantly, while staying well above the levels hit in March and April. In Europe, mobility by car is also on the decline, whereas in the US and in Japan it has stayed at pre-Covid levels. Mobility by public transport remains low across the board (due to fears of contracting the disease), as also mobility to the workplace (given the higher number of individuals working from home);

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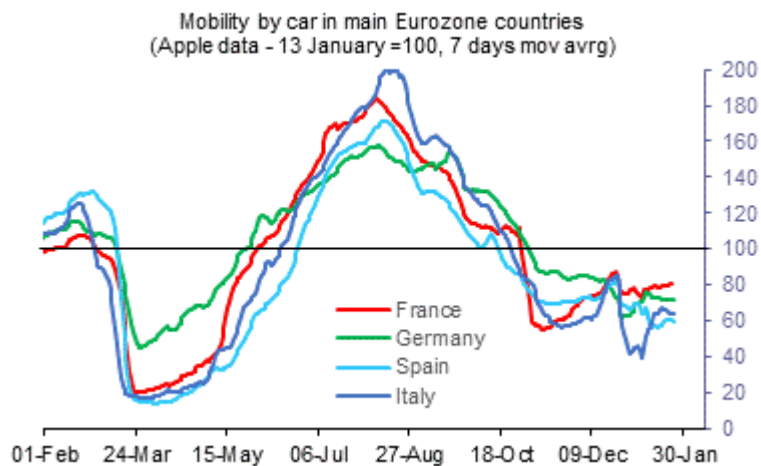
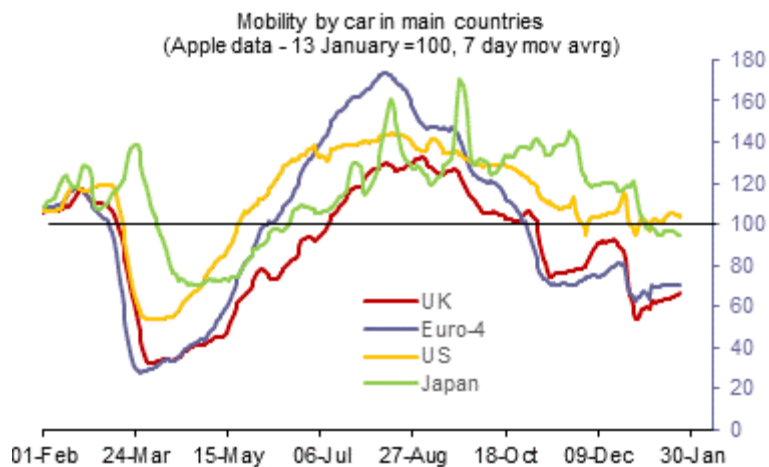
On the other hand, power consumption indicators are proving resilient, and are now back to pre-Covid levels. Manufacturing data in particular are important, as they are signal ongoing growth in the sector. This is due to the fact that, unlike the full lockdown imposed in March and April, this time around the European governments have opted for softer and more circumscribed restrictive measures, mostly to the detriment of social and leisure activities that are most at risk of spreading the contagion (closing of cafes, bars, restaurants, cinemas, theatres), while keeping production activities open. This implies that the contraction of GDP in Europe will be significantly smaller than last spring.

Reassuring signals are also coming from data on truck toll mileage in Germany, typically a good forward indicators of industrial activity. Regardless of the physiological decline recorded during the Christmas holidays, the traffic index is in line with pre-Covid levels, signalling the sector's ongoing resilience (as also testified to by the latest confidence data – including manufacturing PMIs, that remained at very solid levels in January as well).

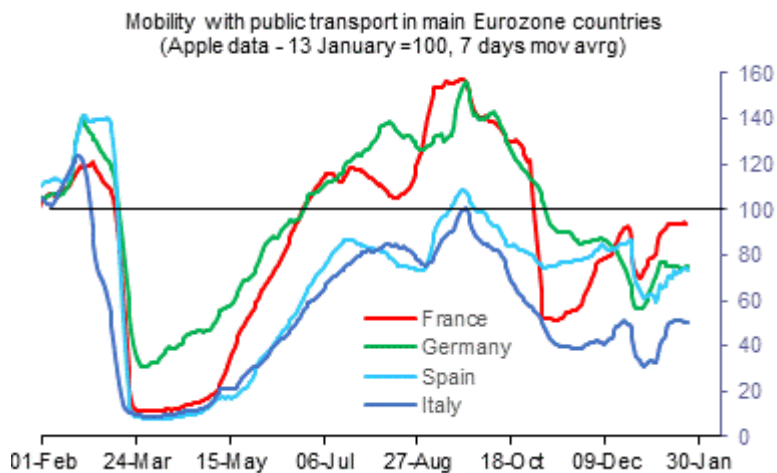
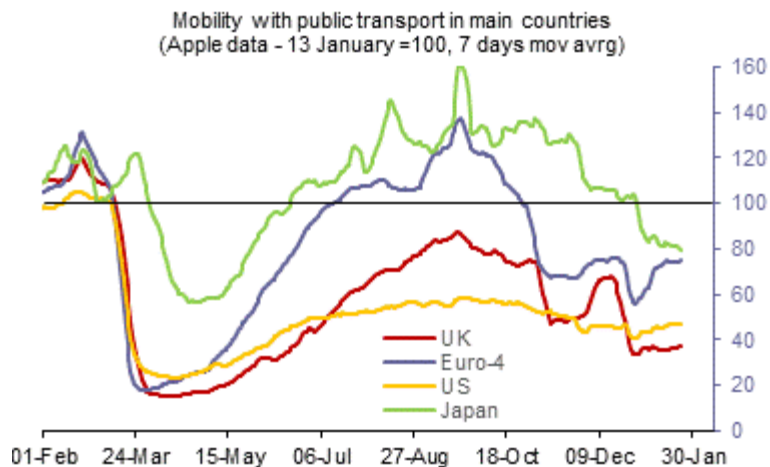
The charts below illustrate the trend of high frequency indices. Appendix on Methodology at the bottom of the page.

N.B. The Euro-4 aggregate refers to the weighted average of the indices for the four largest Eurozone economies (Germany, France, Italy and Spain).

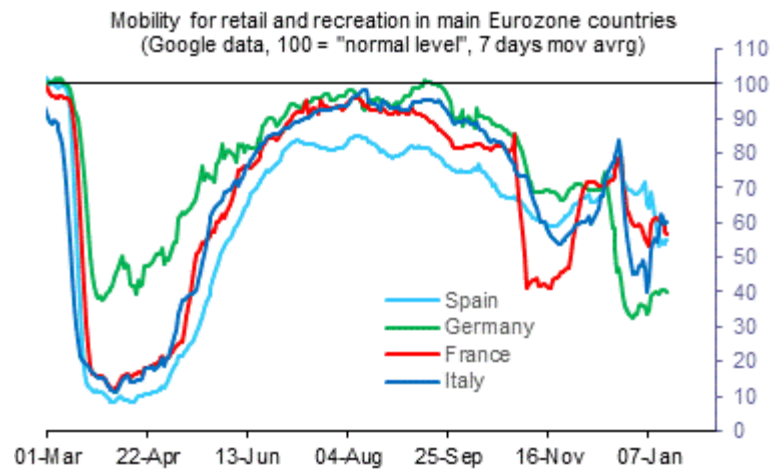
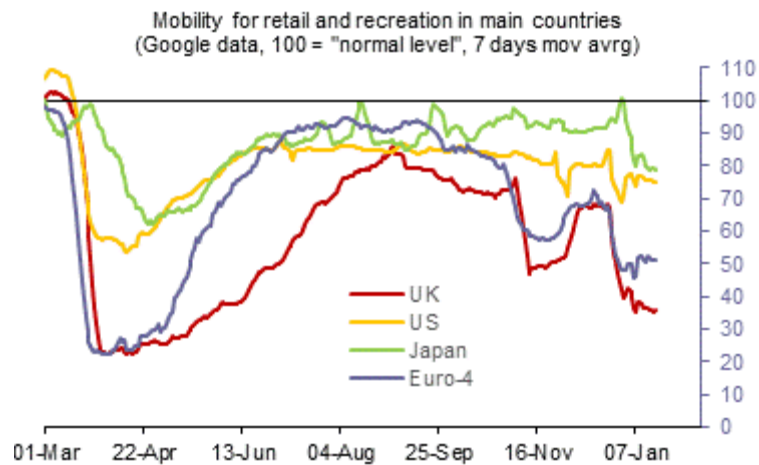
Mobility Indices: MOBILITY BY CAR



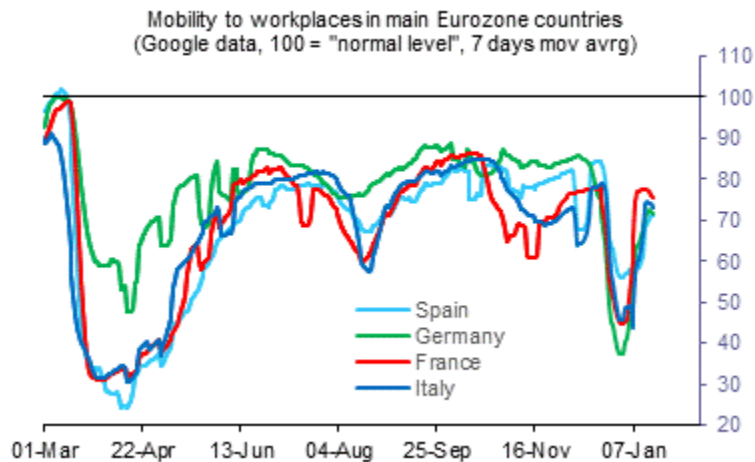
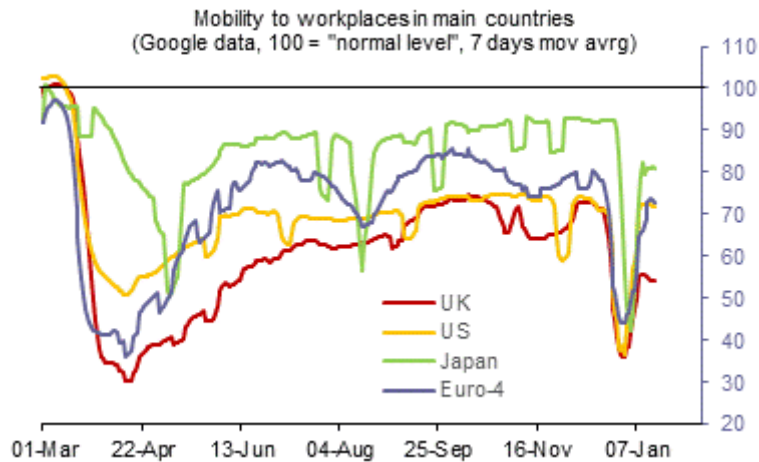
Mobility Indices: MOBILITY BY PUBLIC TRANSPORT



Mobility Indices: Mobility for retail and recreation:



Mobility Indices: Mobility to the workplace



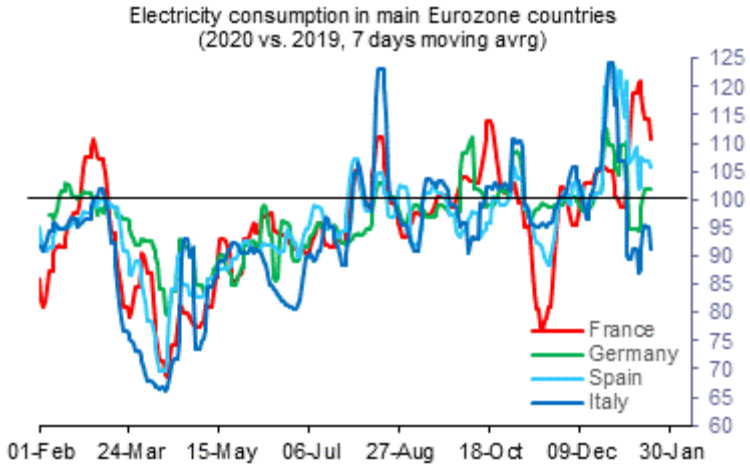
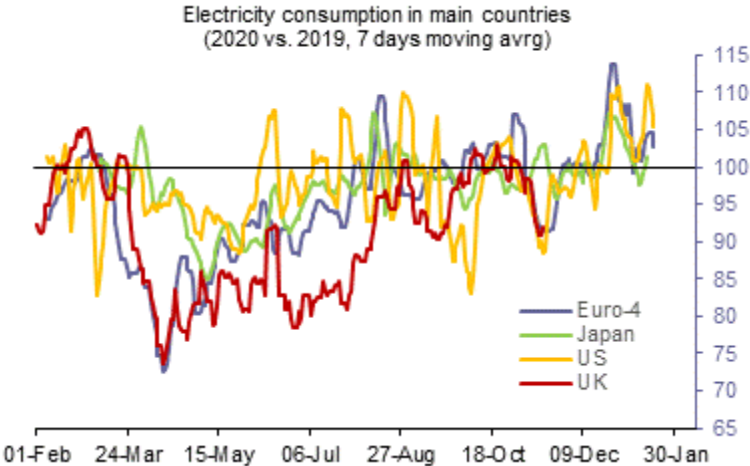
Mobility Indices: SUMMARY TABLE

Average of main mobility indicators (100 = "normal")

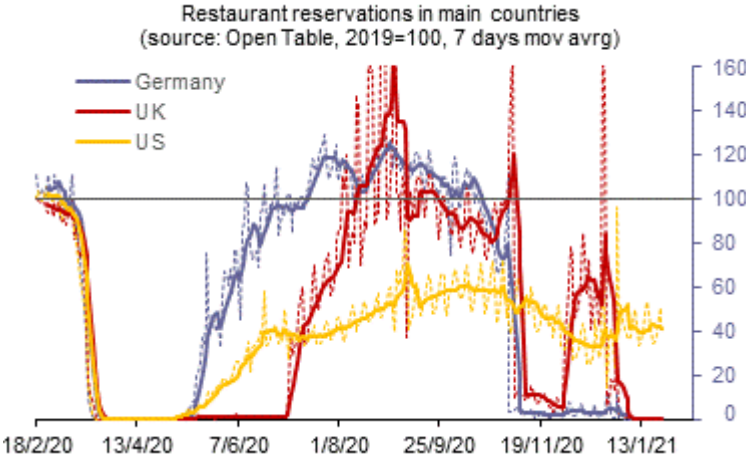
	January*	December	November	October	September	August	July	June	May	April	March	February
Euro-4	↓ 64	69	69	95	110	109	107	88	62	37	59	106
- Germany	↓ 62	68	82	105	117	114	110	96	77	56	74	108
- France	⇒ 74	74	58	98	114	111	112	92	59	28	57	102
- Italy	↓ 55	60	58	85	103	108	102	79	54	26	38	103
- Spain	↓ 63	74	72	83	95	97	98	72	44	21	56	113
US	⇒ 73	73	77	86	87	88	85	82	73	52	77	106
Japan	↓ 83	100	110	113	112	110	101	94	77	72	104	108
UK	↓ 47	62	63	81	88	86	73	55	42	29	72	105

* Data refer to the first 3 weeks of the month

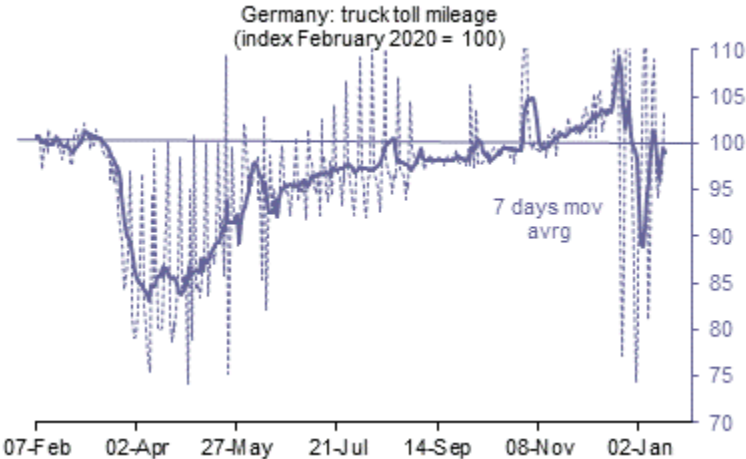
Mobility Indices: ELECTRICITY CONSUMPTION



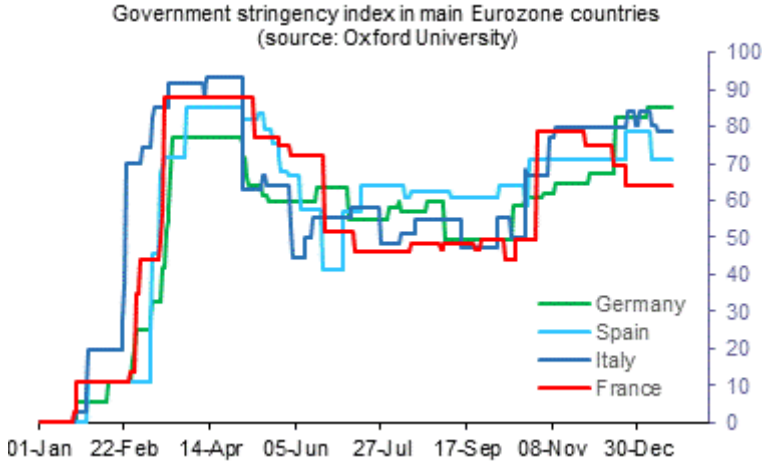
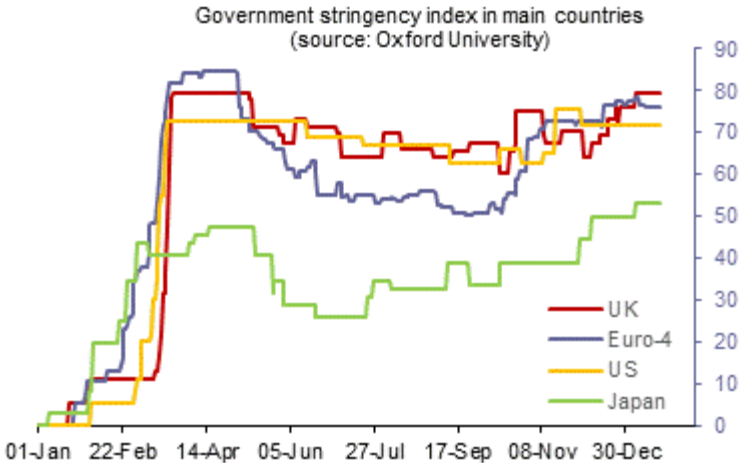
Mobility Indices: RESTAURANT RESERVATIONS



Other Data (truck toll mileage)



Government stringency indices:



METHODOLOGICAL APPENDIX

Data referred to the spring of 2020 showed the full extent of the shock caused by the Covid-19 pandemic to the main world economies, that suffered a record-breaking contraction of GDP (this applies to all the main countries, except China, that incurred the sharpest contraction in 1Q and has since been recovering).

However, the markets are now looking beyond, and are interested in the pace and intensity of the recovery, that will be strongly dependent on the evolution of the pandemic and on the administration of vaccines.

From this point of view, the monthly data we usually consider (and on which NECE forecasts are based) offer information that is inadequate for our needs. This is because the information is dated (for instance, in Eurozone countries, real activity data for the closing month of the quarter are made available at a significant lag, of up to a month and a half after the end of the quarter in question), and are often scarcely reliable, as is the case for business confidence data, that are of a "qualitative" nature, therefore inadequate in providing indications on the actual trend of the economy in severe shock phases, such as the present economy (for instance, both PMI and ISM indices significantly underestimated the size of the contraction of GDP in 2Q 2020, as also the subsequent reacceleration in 3Q).

Therefore, **we should broaden the horizon and also consider higher-frequency data (daily or weekly), that are able to track the trend of the economy more rapidly**, in waiting for monthly real activity data to become available.

The data used to track the trend of the recovery are:

Government response stringency indices provided by Oxford University, that measure the stringency of the restrictive measures put in place by the governments of the main countries;

Mobility indices provided by Apple and Google. Of particular interest to measures the intensity of the recovery are mobility indices to workplaces, and for retail and recreation, two sectors hit particularly hard by the lockdown;

Data on electricity consumption are also of particular interest, as all businesses need electricity to operate, especially in the manufacturing sector. The data presented here are the result of elaborations based on EPSOE, IEA, and Octonet survey data, adjusted by temperatures and offered as moving weekly averages to attenuate daily volatility;

Restaurant reservations as provided by Open Table and available for some of the major countries, that allow the tracking of the trend of activity in the restaurant business, one of the most affected by the lockdowns;

Other high-frequency data, such as **truck toll mileage in Germany**, that tends to work well as a forward indicator of the trend of industrial output. It should be noted that Redbook data on weekly retail sales in the USA have recently been struck off from the indicators to monitor, as they were unable to detect the weakening of consumption that has materialised over the past few months.