



RECOVERY MONITOR

nowcasting models are showing a constant performance distancing between the US and China (expanding) and the Eurozone (contracting, due to slowness in vaccinations)

23rd March 2021

GDP data from 2020's 4Q showed a continuation of the economic recovery of the US and China (now back to pre-Covid level), while the **Eurozone and Italy** with it have seen a **GDP contraction**, caused by mobility restrictions and social distancing measures being reintroduced last fall to contain the second contagion wave from Covid-19.

The first quarter of 2021 will continue to see this GDP divergence: in China and the US it is bound to increase, while the Eurozone foresees a further GDP contraction.

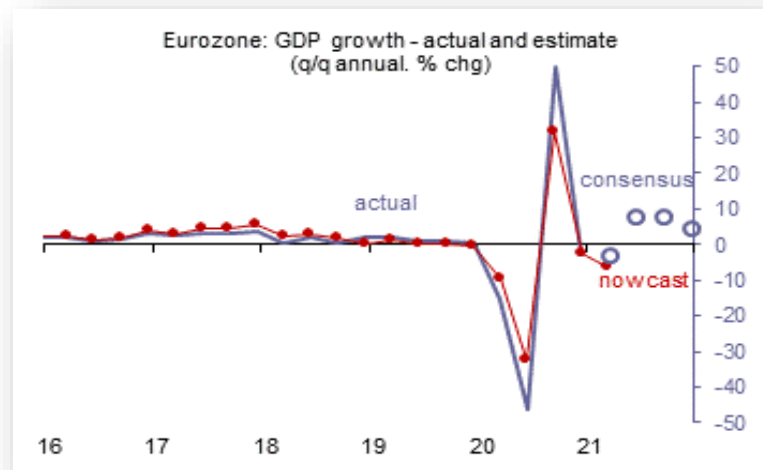
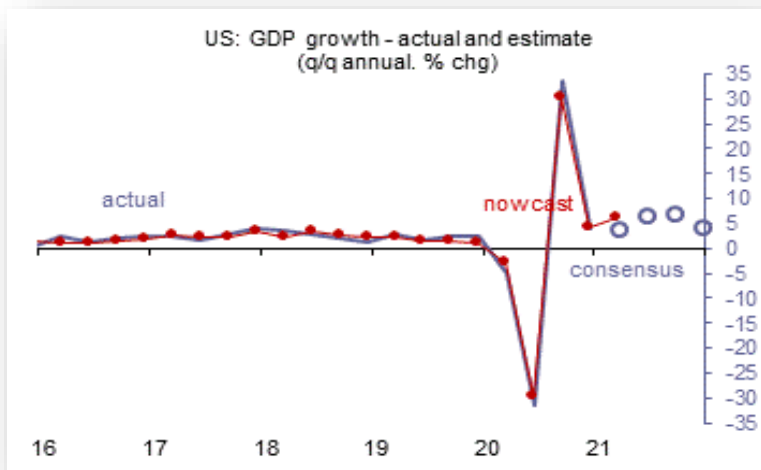
This is the message coming from the update of **NECE nowcasting models**, confirming the preliminary views given out in January. These predictions were obtained through a mixture of economic data (real and nominal) and as such they change as new, relevant information comes in, becoming more and more precise as the publication date of the GDP closes, which is approximately a month after the relative quarter (hence around the end of April for 1Q).

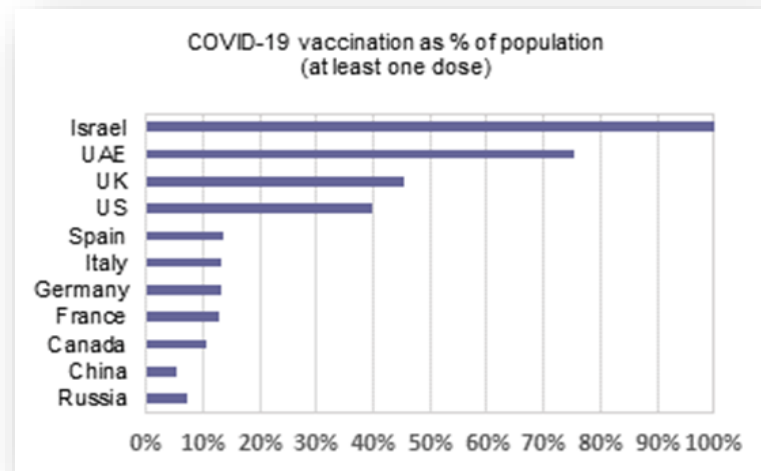
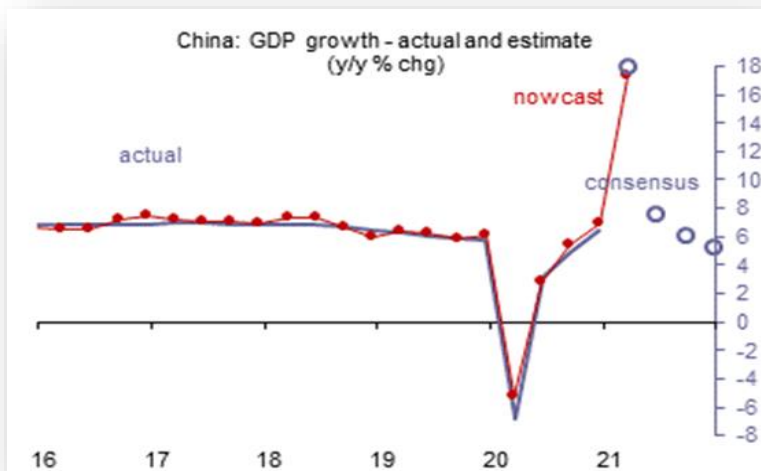
Estimates are reported in the following graphs and it is easy to notice the prevision for the stronger-than-expected GDP expansion by the US (i.e., in the order of 6% yearly t/t vs. the expected 4%), against a remarked contraction in the Eurozone instead (-1.4% t/t vs. expected -0.9% - notice that the data displayed in the following graph are expressed in yearly terms for the sake of homogeneity with US data).

Substantially along the line of China's GDP estimates, of which the yearly growth comes from favorable starting conditions, such as the clear drop in GDP in 1Q of last year, during which the pandemic started exploding in the country. Notice how the estimates shown here rely on an incomplete data set, and equal on average to 55% of relevant data from that quarter.

The performance distance between countries is owed to contagion rates and different vaccinating speeds, which keep a fast pace in the US as the Eurozone lags behind in its campaigns, especially because of delays in vaccine orders. This forced European governments into prolonging safety measures. In China, despite the slowness of its vaccination campaign, contagion rates appear to be low and as such new containment measures will not be required (expect specific lockdowns in areas which outbreaks happen).

Add to this a fiscal expanding policy in the US, especially after the stimulus package of 1900 billion dollars approved by the Congress in March, while in the Eurozone, despite the significant resources dedicated to its Recovery Fund (750 billion euros), those will be distributed starting from summer, and will be diluted throughout the next years.





Nowcasting model indications find confirmation even in high-frequency data (daily and weekly).

Those signal a consistent weakness in the economic activities of Eurozone and the UK, in line with the 1Q's contraction, while US-related indicators remain high. Furthermore, data shows that the Eurozone's weakness lies in entertainment services, the sector most affected by security and containment measures (see the catering and hotel industry), while the manufacturing shows a solid stance.

Listing the various high frequency indicators, we can see that:

■ **the most negative flags from Europe come from data on restaurant reservations**, which plummeted both in the UK and Germany, reflecting the closing of catering services enforced by governments to contain the rise of contagions; against this there's the US, where the diminishing rate of contagion allowed for a gradual reopening of restaurants;

■ **mobility data highlights as well a clear difference between the US and Europe**: this especially relates to mobility for consumption and leisure, after the registered improvement from last summer fell down again starting from November (at the same time as contagion's rise) both in the Eurozone and UK, showing the reintroduction of restrictive measures with respect to mobility and social gatherings. It must be mentioned however that indicators are well above the lows reached between March and April last year, showing a weaker contraction than the one experienced last spring. This weakening left the US and Japan untouched, where mobility, especially consumption-related, remained high. At lower level is instead the public transport mobility and commuting mobility, mirroring not as much containment measures, as the fear of infection and the wide usage of smart working.

■ **indicators on electric usage are good**, as it reached again pre-covid levels. Data is especially relevant for the manufacturing industry, of which an expansion is forecasted. This is mainly caused by the fact that unlike last March's and April's total lockdowns, this time European governments preferred to adopt softer and more limited measures, especially regarding social gatherings and leisure activities at a higher infection risk (see the closing of bars, restaurants, cinemas and theatres), while productive activities remained open. This implies that Europe's GDP contraction won't be as strong as the one from last spring.

■ **comforting signals come from truck traffic in Germany**, usually a good way to anticipate industrial productivity. Beyond its high weekly volatility, traffic went back to pre-Covid levels, showing a constant resistance by the sector (of which we have demonstration by the last trusting data – see manufacturing's PMI, which reached in February its highest in three years).

To sum up, 2021 's 1Q appears it will be full of this strong divergence in different countries' performance, with the **US and China in stable growth and the Eurozone still in contraction**.

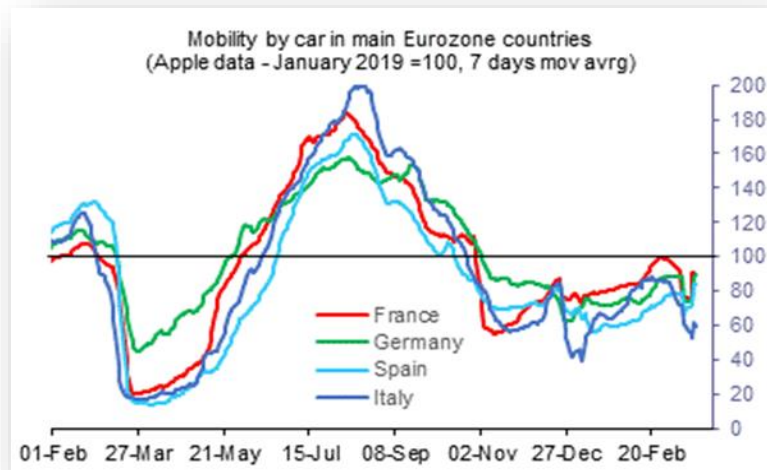
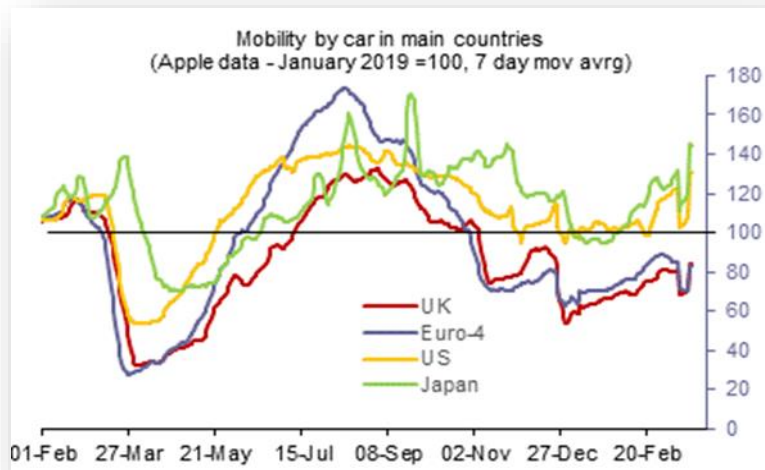
This divergence should, however, diminish with the spring, when the Eurozone will register growth as well, the speed and depth of which will essentially depend on the **governments' ability to accelerate vaccination campaigns and to fight new Covid variants**.

Below are the graphs showing high-frequency indicators, the methodologic appendix at the bottom.

Please note: the Euro-4 aggregate refers to the measured average of indices relative to the 4 biggest economies in the Eurozone (Germany, France, Italy and Spain).

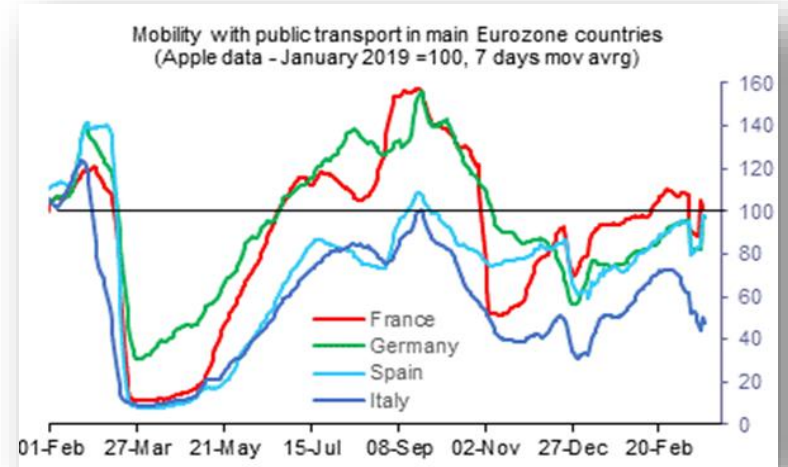
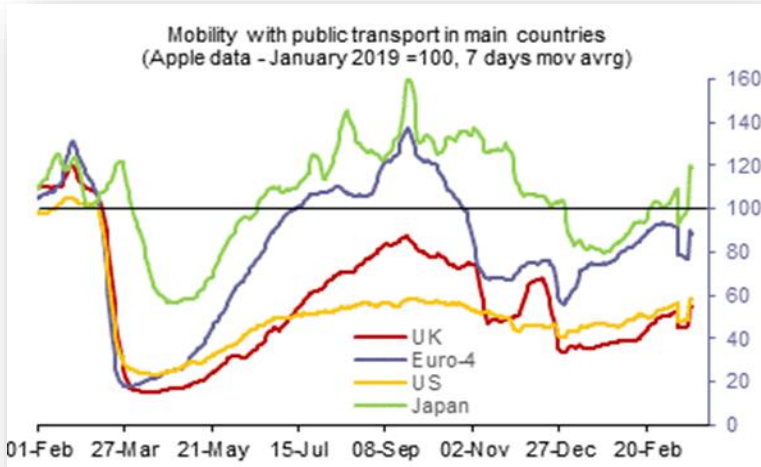
MOBILITY INDICES:

Car mobility:



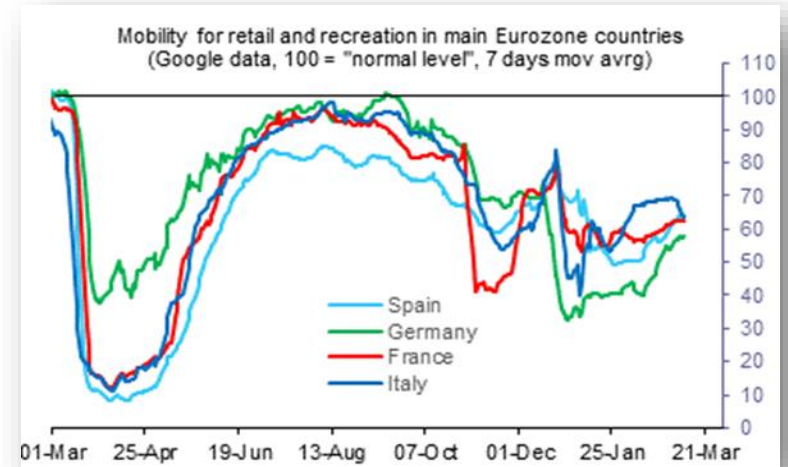
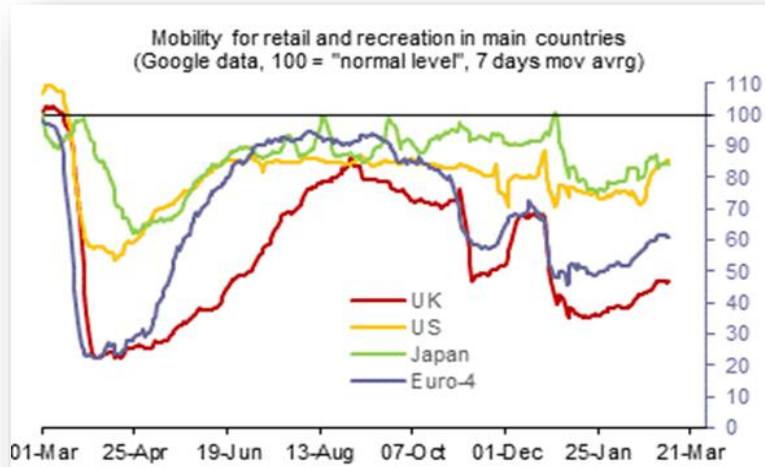
MOBILITY INDICES:

Public transportation mobility:



MOBILITY INDICES:

Consumption and recreation mobility:



MOBILITY INDICES:

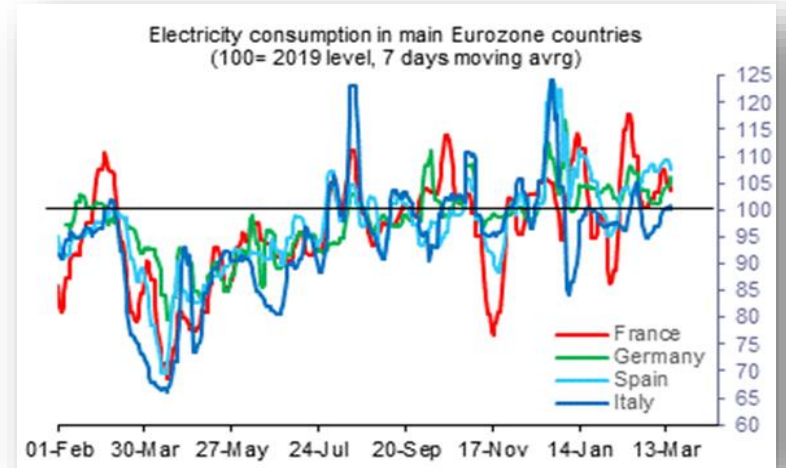
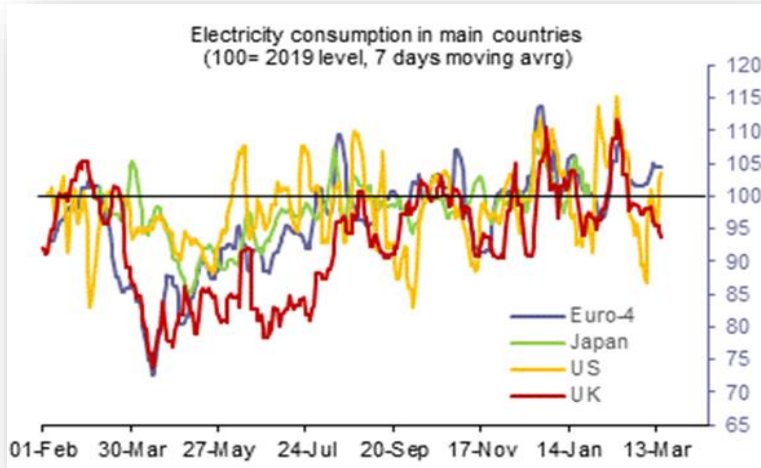
Summary Table:

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

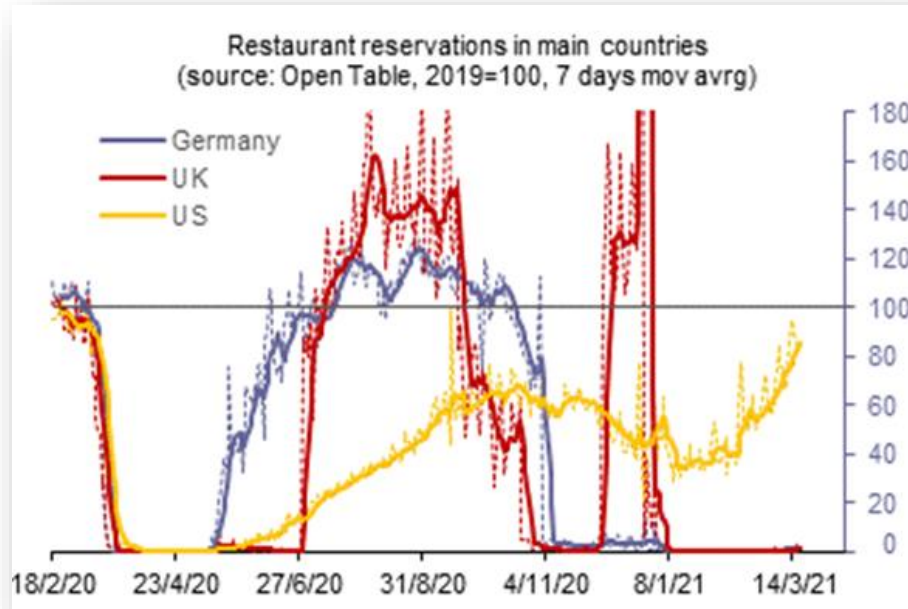
	March*	February	January	December	November	October	September	August	July	June	May	April	March	February
Euro-4	→ 76	76	65	69	69	95	110	109	107	88	62	37	59	106
- Germany	↑ 88	72	64	68	82	105	117	114	110	96	77	56	74	108
- France	↓ 55	81	75	74	58	98	114	111	112	92	59	28	57	102
- Italy	↑ 80	75	57	60	58	85	103	108	102	79	54	26	38	103
- Spain	↑ 88	72	66	74	72	83	95	97	98	72	44	21	56	113
US	↑ 86	76	73	74	77	86	87	88	85	82	73	52	77	106
Japan	↓ 64	95	84	100	110	113	112	110	101	94	77	72	104	108
UK	↑ 81	54	48	62	63	81	88	86	73	55	42	29	72	105

* Data refer to the first 2 weeks of the month

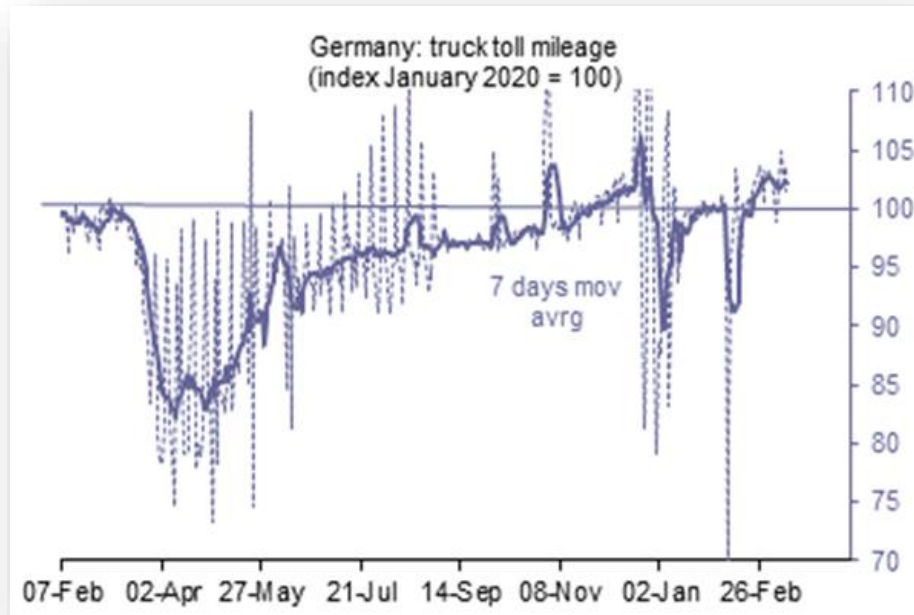
ELECTRICITY CONSUMPTION



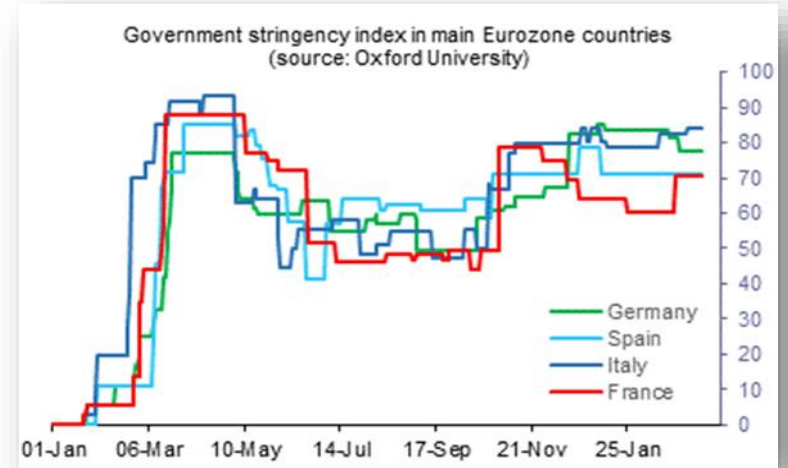
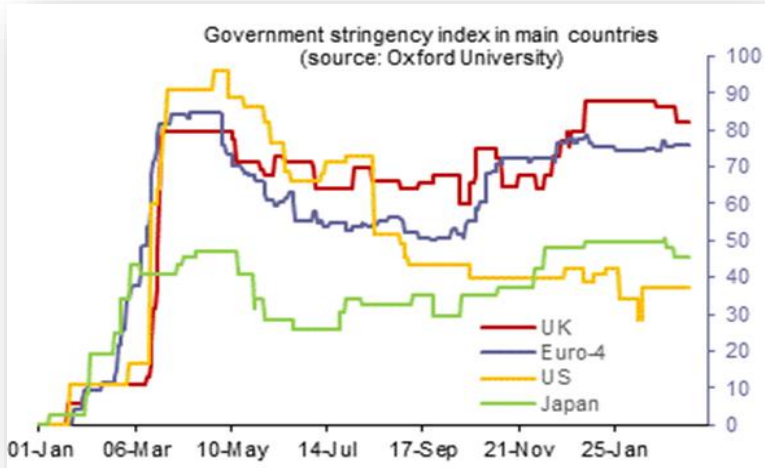
RESTAURANT RESERVATIONS



OTHER DATA (Truck traffic)



LOCKDOWN INTENSITY INDICES:



METHODOLOGICAL APPENDIX

Last spring's data showed the gravity of the shock caused by the Covid-19 pandemic on the main global economies, which registered a record contraction of their GDP (this applies to all countries except China, which registered its highest contraction in the 1Q and has been recovering since then). But markets are looking beyond all this, and look at the speed and depth of recoveries, heavily dependent on contagion rates and vaccinations.

From this perspective, the data we usually observe and at monthly frequency (as the ones on which NECE estimates are based) could possibly give inaccurate information for this goal. Those are in fact delayed information (for instance, Eurozone countries reveal the data regarding the activity of the last quarter very lately, up to one month and a half after the last quarter) and are often not reliable, such as the case of business trust, which being “qualitative” cannot give adequate information in uncertain times such as this one about economic performance (please note that both PMI and ISM indices significantly underestimated the entity of GDP contraction in the 2Q in 2020, as they underestimated its subsequent acceleration in 3Q.)

High frequency data to monitor the recovery are:

- **INDICES OF LOCKDOWN INTENSITY** from the University of Oxford, measuring the intensity of containment measures applied by governments in their countries;
- **MOBILITY INDICES** provided by Apple and Google. Particularly useful to measure the entity of recovery are the ones related to workplace, commercial places and leisure activities, two sectors heavily hit by lockdowns;
- **ELECTRICITY CONSUMPTION DATA** are equally relevant, as any business needs electricity to run its activity, especially for manufacturing businesses. The data presented here are elaborated based on revelations from EPSOE, IEA and Octonet, adjusted for temperatures and proposed as movable weekly average to dampen its volatility;
- **RESTAURANT RESERVATIONS**, given by Open Table and available to some big countries, which allows to follow the ongoing progress of one of the sectors that felt the lockdowns more than others.
- **OTHER HIGH FREQUENCY DATA**, such as **TRUCK TRAFFIC IN GERMANY** based on toll data, which clearly indicates the status of industrial production. Please note that Redbook data on weekly US retail sales have been recently eliminated by the indicators to follow, given it could not forecast the consumption decrease in last year's final months.