



# RECOVERY MONITOR, Q1 2021

*23<sup>rd</sup> April 2021*

**The updated estimates of the GDP trend obtained using NECE nowcasting models point to an acceleration of US growth in 1Q 2021, as opposed to an ongoing contraction in the Eurozone, expected to reverse into positive territory in the course of the spring, thanks to the acceleration of the vaccination campaign.**

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**The updated 1Q 2021 growth estimates obtained using NECE nowcasting models confirm the diverging economic performances of the United States (and China), on a steady recovery path, and the Eurozone (and Italy within it), still in recessive territory.**

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The estimates illustrated in the charts below essentially confirm the indications yielded by the models last month: the US economy continued to grow at a solid pace in 1Q, and may even have accelerated, to 6.8% q/q annualised from 4.3% in the previous quarter and vs. a consensus forecast of 5.4%. By contrast, the nowcasting models indicate a further contraction of euro area GDP, by around -1% q/q, slightly more negative than the -0.7% reading in the closing quarter of last year and the consensus forecast of -0.8%.

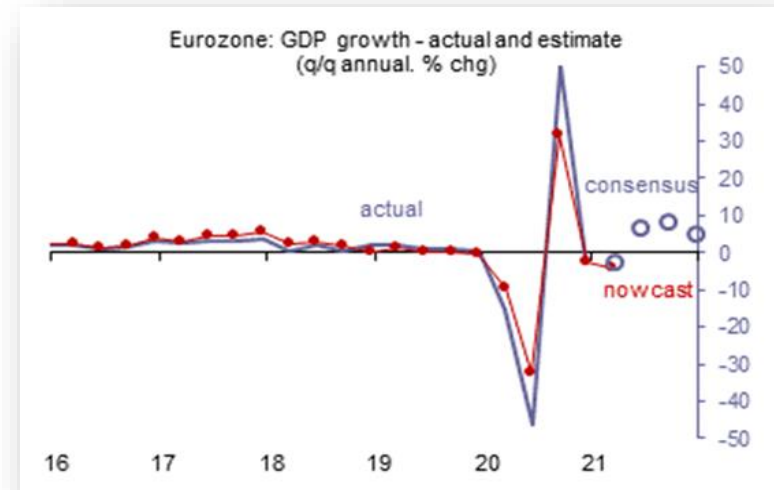
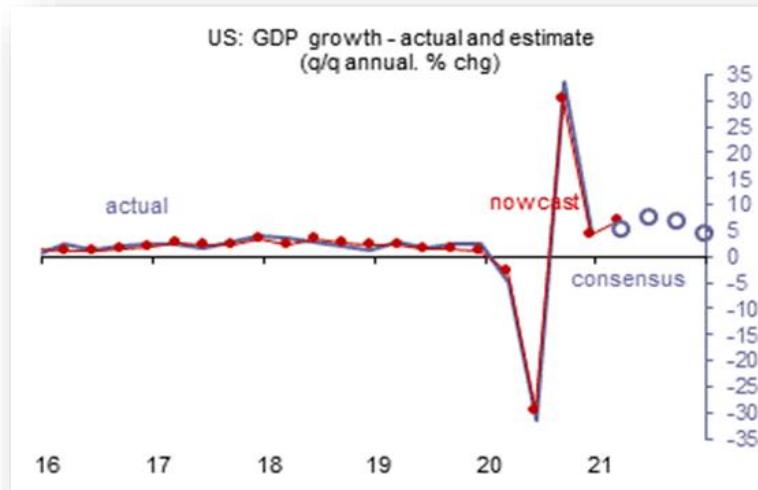
On closer inspection, the more negative indications on Eurozone GDP were yielded by models based on real activity data, and in particular on consumption, whereas those based on sentiment data outlined a blander contraction. Indications are more positive for Italy, with the models signalling a smaller contraction, by -0.4% q/q (in the charts below, European data are expressed as annualised q/q changes, for comparative ends with US data).

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For what concerns China, the GDP reading has already been published and confirmed expectations for a major surge of growth in year-on-year terms (+18.3%), as a result of the comparison with the sharp contraction of GDP marked in the opening quarter of last year, following the outbreak of the pandemic.

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*The forecasts are based on a mix of mix of economic data (on both real activity and sentiment) and, as such, change as important fresh information becomes available, becoming gradually more accurate in the run-up to the GDP release date, around one month following the end of the quarter in question (therefore around the end of April for 1Q data). At the moment, around 90% of US data are available, as opposed to only 80% of Eurozone data.*



**Indications provided by nowcasting models also confirmed by high frequency data.**

**High-frequency data are still outlining weak economic activity in the Eurozone, consistent with a contraction of GDP, whereas indicators for the United States remain at strong levels.**

Furthermore, the data outline that weakness in the Eurozone is concentrated in the recreational services sector, the hardest hit by the measures put in place to contain the pandemic (with the restaurant and hospitality sectors in the frontline), whereas manufacturing proved resilient, as confirmed by high frequency data on truck motorway tolls in Germany.

The United Kingdom's case is of particular interest, as the success of the vaccination campaign allowed a loosening of restrictive measures starting at the end of March, after almost three months of lockdown. This translated into a marked recovery of mobility indicators and table reservations in restaurants, that have resumed serving meals in outdoor areas at the beginning of April.

**However, starting this spring the Eurozone should also resume growing.**

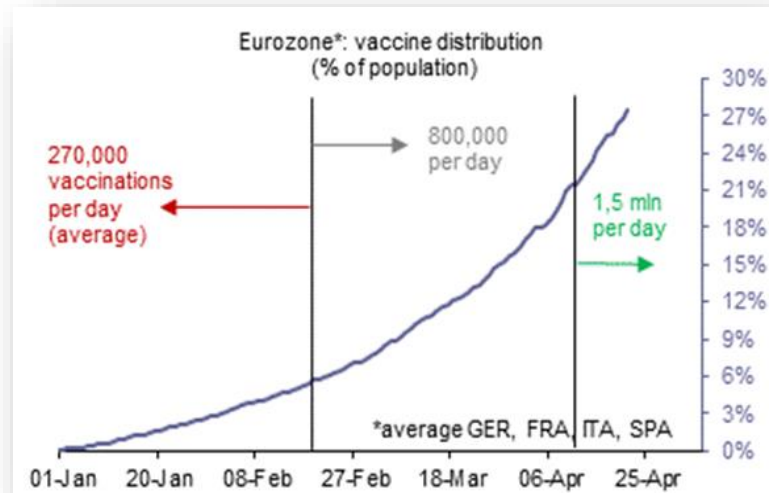
**The prospect for 1Q this year, therefore, is still a divergence between a solid expansion of economic activity in the United States, and a contraction of activity in the Eurozone and in Italy, tied to the extension of the containment measures put in place against the pandemic.** The gap reflects the different pace of vaccination administrations, much faster in the United States, that got a head start in loosening restrictions on mobility and social activities. An additional factor in support of growth was the new, massive fiscal stimulus package introduced by the Biden administration.

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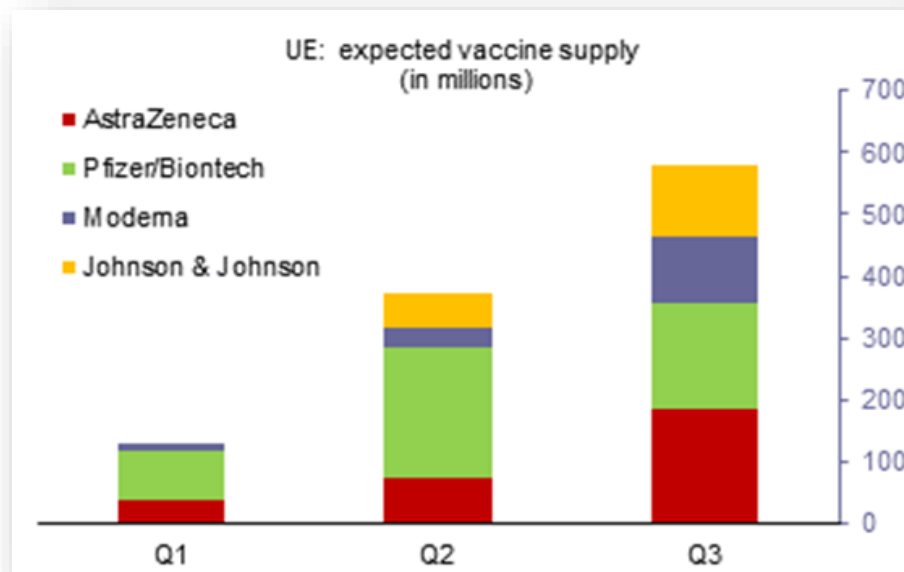
**However, the outlook for the Eurozone is also improving:**

**Data on business sentiment outlined a recovery in April,** not only in the manufacturing sector, but also in services (back into expansive territory for the first time since August)

**Furthermore, after a hesitant start, the vaccination campaign has sped up significantly over the past few weeks,** as also the supply of vaccines, the available doses of which should triple in the second quarter of the year compared to the first, and increase further in the summer quarter (in addition to the rollout of the Johnson & Johnson vaccine, Pfizer-BioNTech has decided to bring forward to the spring the supply of 50 million doses of the vaccine initially scheduled for the autumn). **This should allow a gradual easing of restrictions and enable the economy to resume growing in the course of the spring.**



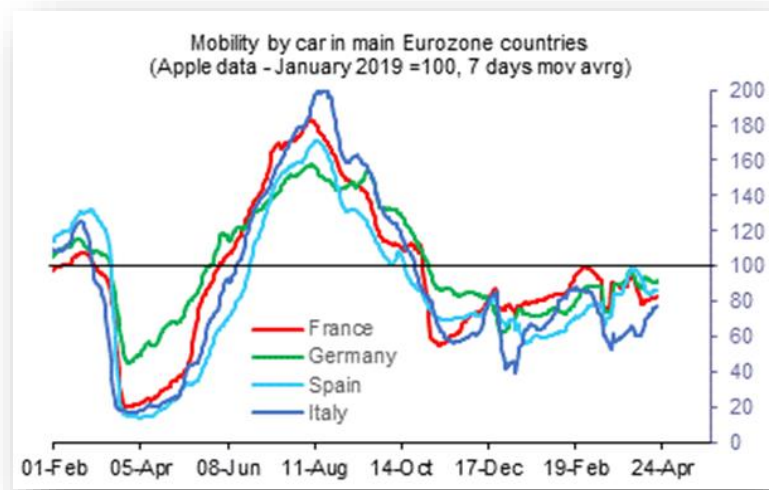
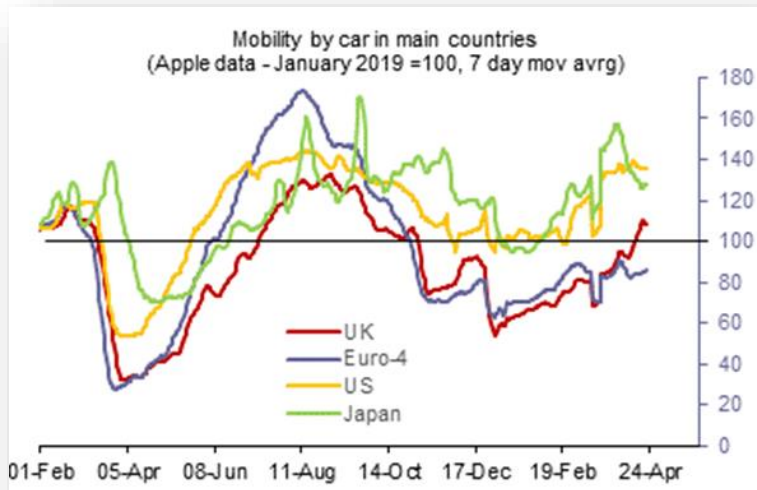




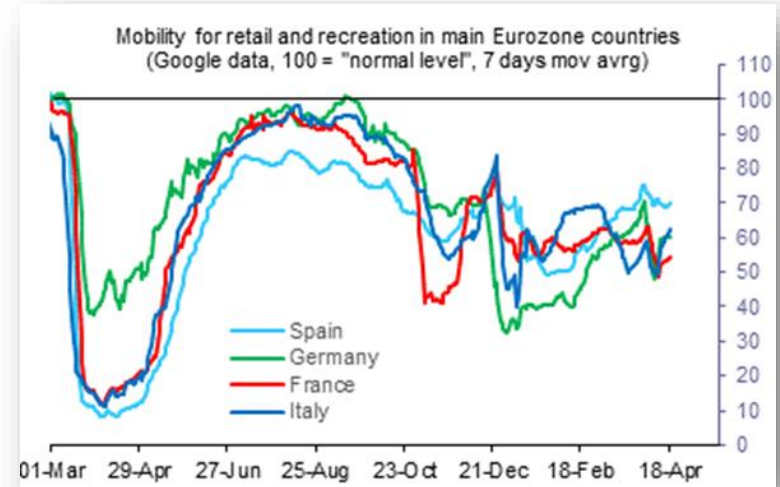
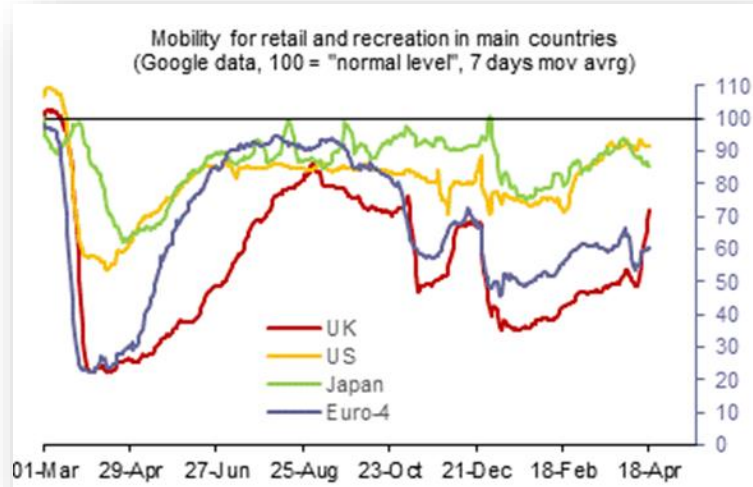
The charts below illustrate the various high-frequency indicators, followed by an appendix on methodology.

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

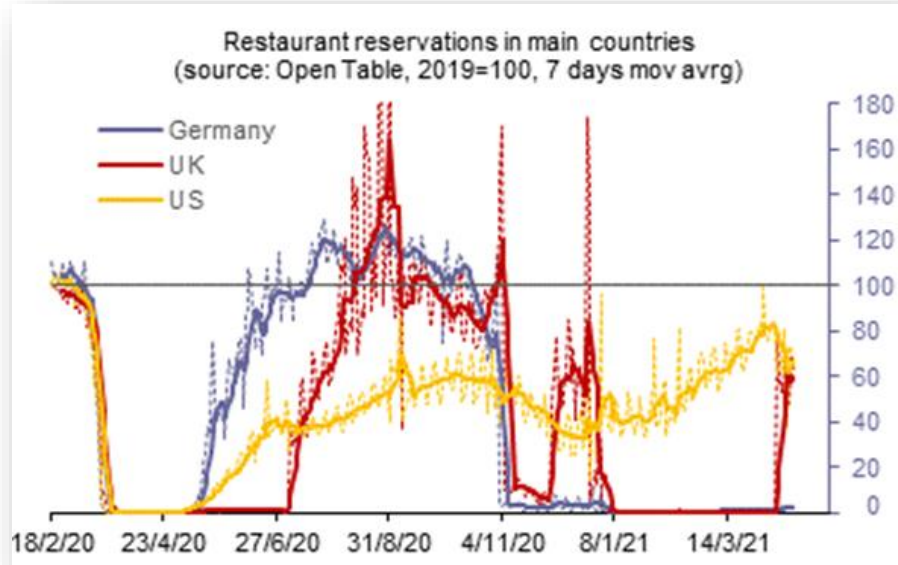
## HIGH-FREQUENCY INDICATORS: Mobility by car:



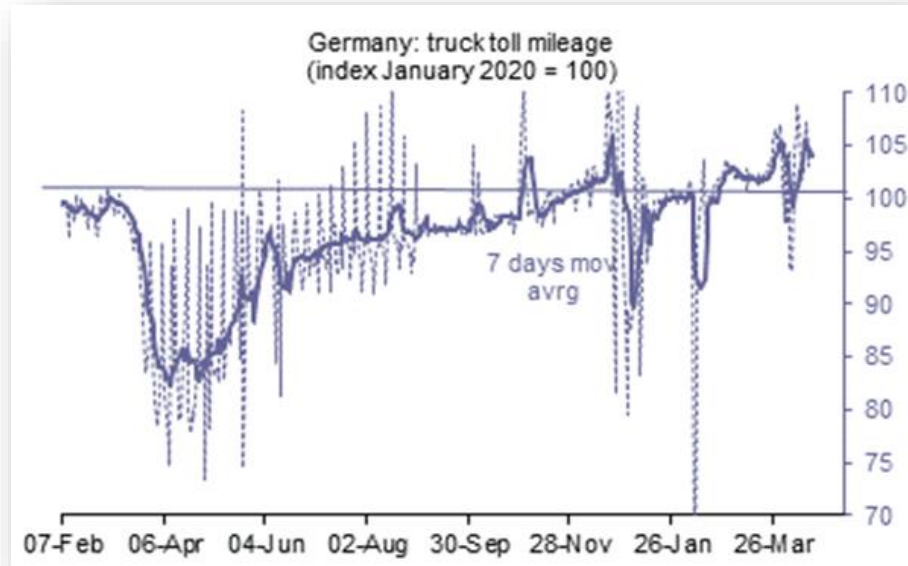
## Mobility for retail and recreation:



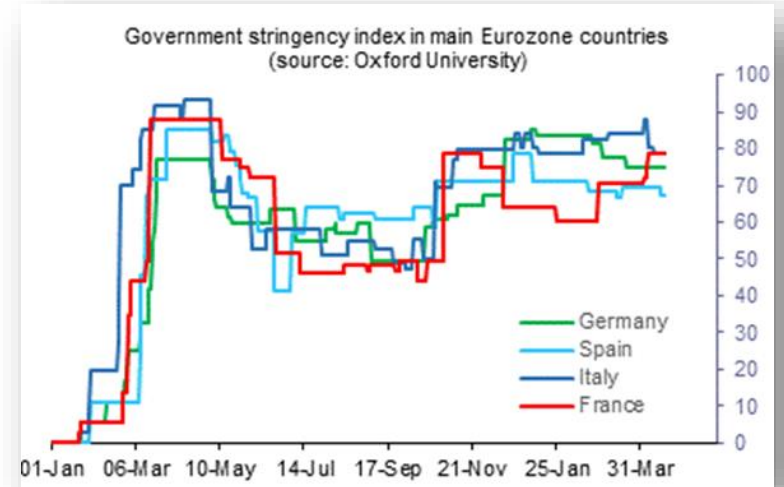
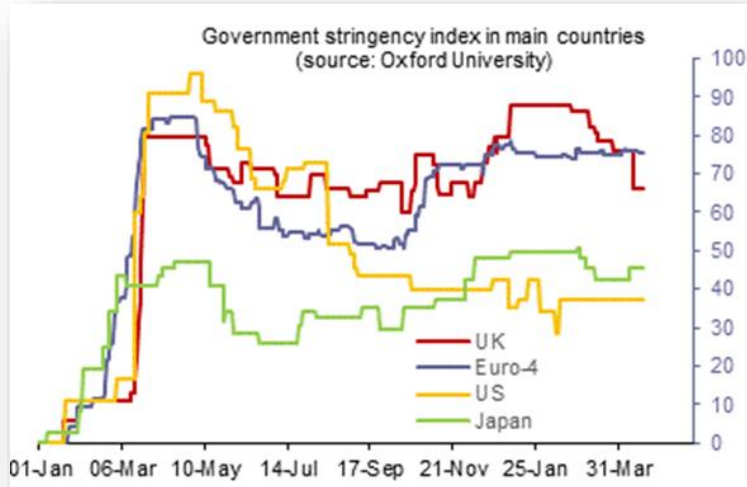
## Restaurant table reservations:



## Other data (truck toll mileage):



## Lockdown stringency indices:



## APPENDIX ON METHODOLOGY

Spring 2020 data outlined the full dramatic impact of the shock caused by the Covid-19 pandemic to the major world economies, that incurred a record-breaking contraction of GDP (this was true for all the major countries except China, that suffered the sharpest contraction in 1Q and has since been recovering).

However, the markets are now looking further ahead, and are interested in the speed and scope of the recovery, strongly dependent on the evolution of covid infections and on the availability of vaccines.

From this point of view, the monthly frequency data we typically consider (and on which NECE estimates are also based) risk providing information that is inadequate for our present needs.



This is because the data become available at a delay (for instance, in Eurozone countries, real activity data on the last month of the quarter are made available at a long delay, 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 indicators. As the latter are qualitative data, in phases of severe shock such as the present, they are unable to provide indications on the effective trend of the economy (in fact, both PMI and ISM indices significantly underestimated the size of GDP contraction 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:

- LOCKDOWN 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 for retail and recreation, two sectors hit particularly hard by the lockdown. On the other hand, over the past few months two further mobility indices have become less useful (and have therefore been removed from today's issue of our Recovery Monitor): mobility using public transport (that often reflect psychological factors), and mobility to the workplace, that has decreased due to the increasing use of home working.

- Data on ELECTRICITY CONSUMPTION are of particular interest for manufacturing companies, that need electricity to operate. These data were particularly useful last year, to identify reversal phase in the sector, but have been omitted this time as the sector is now clearly on a recovery path, as signalled by the historical highs reached by sector business confidence indices, and by the return to “normal” levels of data on truck motorway tolls.
- 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.