



**RECOVERY MONITOR: Covid infections in the Eurozone rise back up, prompting governments to introduce new restrictions. What is the potential impact on growth?**

*30<sup>h</sup> November 2021*

High frequency indicators tell us that growth in the Eurozone will slow down in 4Q but should not stall. This is because other than in Austria, the restrictive measures are blander than those previously imposed and are mostly addressed to the unvaccinated.

Furthermore, faced with the discovery of a new, more transmissible strain of Coronavirus, the so-called “Omicron variant”, the European countries have decided to impose restrictions on travel from and to the regions of Southern Africa where the new variant was isolated and has now become dominant over the others.

# INCREASE IN CASES AND NEW RESTRICTIONS IN THE EUROZONE

In November, with the advent of the cold season, the number of Covid-19 infections has risen back up swiftly. This has forced the governments of several Eurozone countries (such as Germany, Holland, Ireland, Austria, and Italy as well) to introduce new restrictions on social and recreational activities. In most cases, the restrictive measures are much blander than those adopted during the previous waves, are addressed in particular to the unvaccinated, and impose early closing hours on bars, clubs and places of entertainment and recreation. The exception is Austria, that has opted for an actual three-week lockdown.

# INCREASE IN CASES AND NEW RESTRICTIONS IN THE EUROZONE: ITALY

Although the increase in the number of cases is modest for now, the Italian government has decided to act preemptively and will impose a compulsory “Super Green Pass” (or strengthened Covid pass) as of 6 December to access public events and hospitality venues of recreation (indoor restaurants, cinemas, theatres, stadiums, and sports arenas). Also, starting on 15 December, compulsory vaccinations will be extended to include new categories of workers, such as the administrative staff in the healthcare sector, schoolteachers and staff, members of the armed forces and of the police forces, whereas the categories already subjected to compulsory vaccinations, such as healthcare workers and retirement home staff, will be required from 15 December to receive a third dose of vaccine.

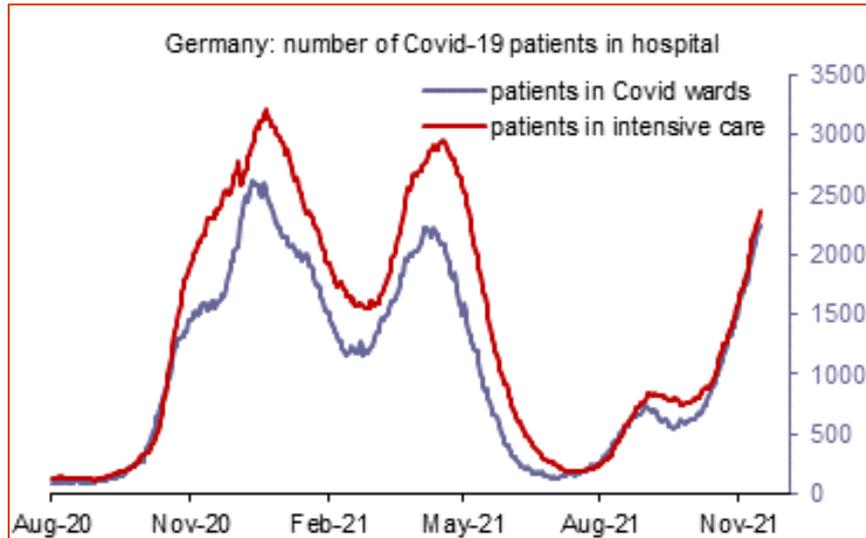
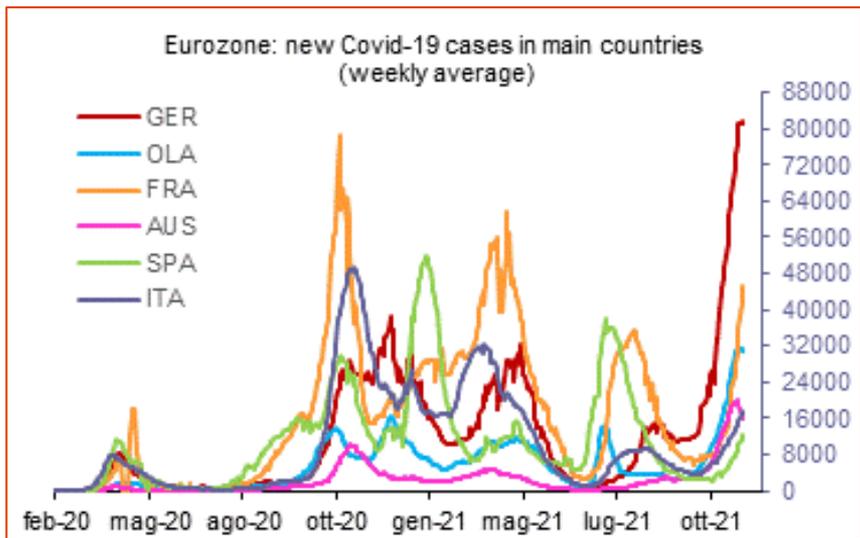
# INCREASE IN CASES AND NEW RESTRICTIONS IN THE EUROZONE: GERMANY

The Merkel government has introduced a new system of rules to access workplaces and public transport, called “3G”, i.e.: Geimpft, Genesen, Getestet (vaccinated, recovered, or tested), that nonetheless excludes the closing of schools and commercial activities. The new rules provide for the introduction of further restrictions depending on the evolution of the hospitalisation rate: the “3G” rule can be changed to “2G” (vaccinated or recovered), and on to “2G-plus”, which requires not only being vaccinated or recovered, but also a negative test to access places at high risk of virus transmission, such as clubs. When the hospitalisation rate reaches 9, the Federal States can impose stricter restrictions.

# INCREASE IN CASES AND NEW RESTRICTIONS IN THE EUROZONE: OTHER COUNTRIES

- **THE NETHERLANDS:** the government has imposed the early closing of bars and restaurants at 8:00pm, and of non-essential commercial activities at 6:00pm. Also, sports events in stadiums will be held behind closed doors, while the list of places to access which a Covid Pass is required has increased (bars, restaurants, cinemas, museums, and theatres);
- **BELGIUM:** under the new anti-Covid measures, discos will be closed, and restaurants will have to close by 11:00pm. Private parties are prohibited, with the exception of wedding receptions and funerals. Indoor sports competitions will continue to be held, but behind closed doors;
- **IRELAND:** early closing hours for pubs, restaurants and night clubs at 11:30pm;
- **AUSTRIA:** after an initial phase in which it had decided to impose restrictions only on the unvaccinated, on 22 November the government changed approach and imposed a three-week lockdown (until 13 December) for all citizens. Furthermore, vaccinations will become compulsory as of 1st February.

# INCREASE IN CASES AND NEW RESTRICTIONS IN THE EUROZONE



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# WHAT WILL THE IMPACT BE ON GROWTH?

To answer this question, data on business confidence in November, released over the past few days (that proved to be improving on average in the Eurozone, and point to still very robust GDP growth in the euro area in 4Q 2021) offer scarcely reliable information. This is because the surveys were conducted around mid-November and could not capture, if not only marginally, the impact of the new restrictions, mostly put in place at the end of last week.

High-frequency data are more useful, available on a daily basis and therefore already able to capture the initial impacts of the restrictions.

The fact is that they signal a relatively modest impact of the restrictions on economic activity, much smaller than observed during the previous waves of the pandemic (see charts below).

This is due to two factors:

- Other than in Austria, the restrictions are blander than those imposed previously, and are mostly addressed to the unvaccinated;
- Households and businesses have developed a better ability to adjust to the pandemic.

As could be expected, the strongest impact will be observed in Austria, where mobility to retail points and places of recreation has dropped to its lowest since April. In the Netherlands and Germany as well, mobility has decreased, but to a much more limited extent. The restaurant industry in Germany is showing signs of suffering, as reservations have dropped sharply, reflecting fears of the virus and the restrictions imposed on the unvaccinated. By contrast, the truck toll mileage index in Germany is firmly at “normal” levels, in line with pre-pandemic crisis averages, but this is a relevant indicator for industrial activity, much less so for services. In the other major countries of the Eurozone, where no restrictions have been imposed, or have not yet come into force (as is the case in Italy, where the “super” Green Pass will come into force as of next week), mobility indices remain at high levels.

Taken together, the indicators tell us that Eurozone growth will slow significantly in 4Q, but should not stall.

Only Austria will probably incur a contraction of GDP, while Germany and Holland will probably experience much more modest growth, at almost stagnant levels, but this should be balanced by ongoing robust growth in the other major countries of the euro area, such as France, Italy, and Spain, where the evolution of the pandemic is less concerning and where governments are determined to speed up the vaccination booster campaign and extend the list of public places that require compulsory Covid passes to be accessed.

It remains to be seen whether the new Omicron variant, as well as being more transmissible, is also able to overcome the barrier represented by vaccines.

The WHO has indicated that this will take a few more weeks to ascertain.

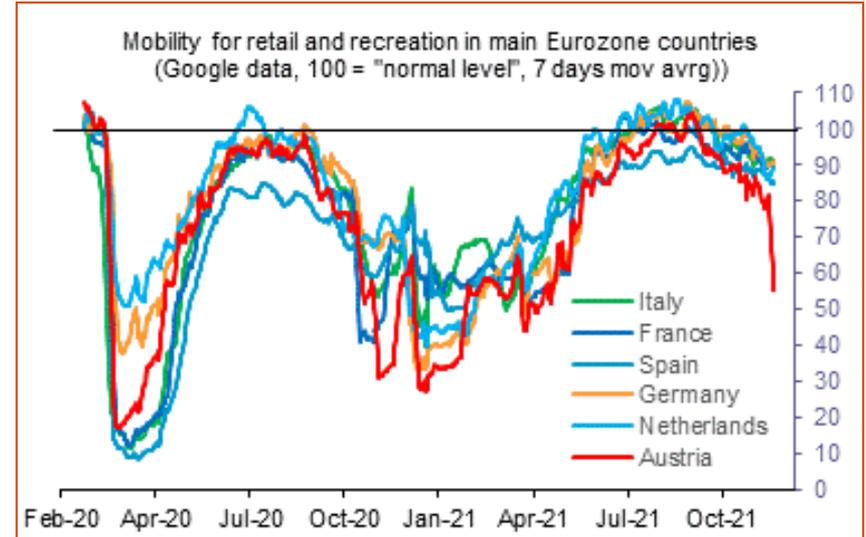
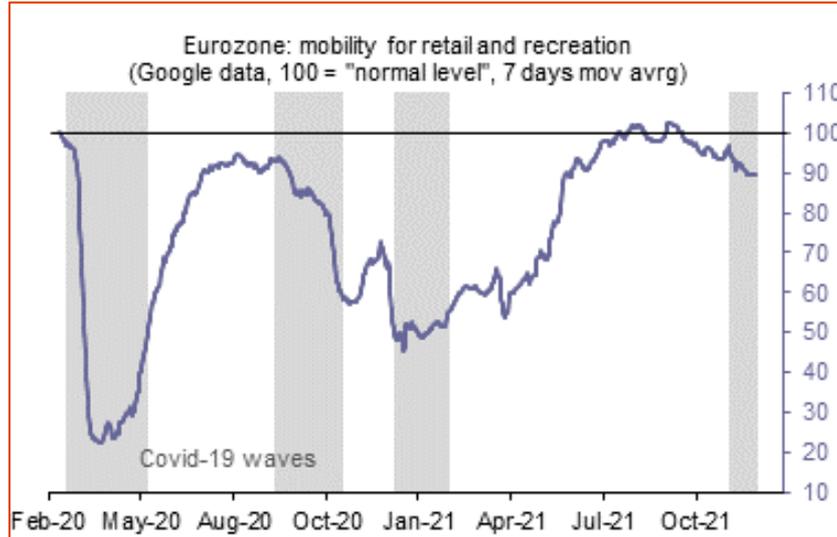
Clearly, the imposition of more stringent restrictions would imply a more significant impact on growth, that nonetheless will in any case prove temporary. The underlying recovery trend remains positive, supported by a still accommodative fiscal and monetary policies, and driven by NGEU investments and by the savings accumulated by households during the lockdown months.

## WHAT IS THE SITUATION IN THE OTHER MAJOR ECONOMIES? AND WHAT DO NECE NOWCASTING MODELS TELL US ABOUT THE MAJOR COUNTRIES?

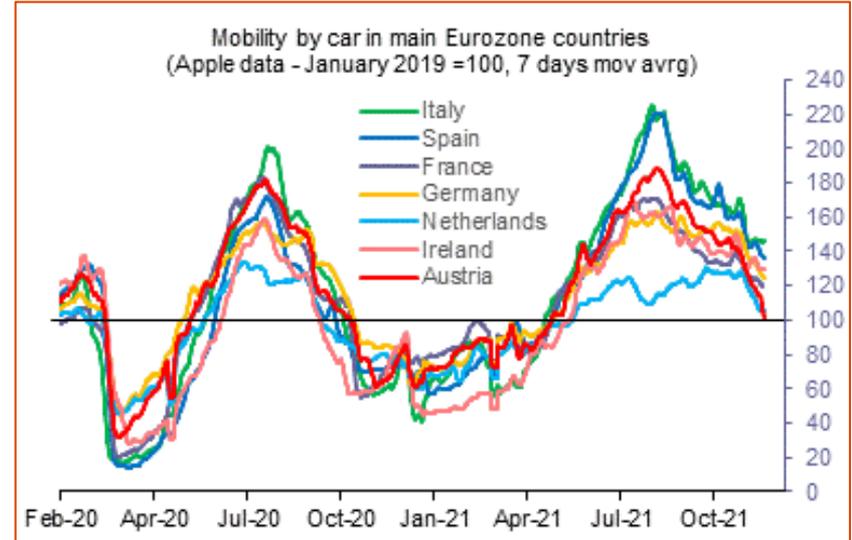
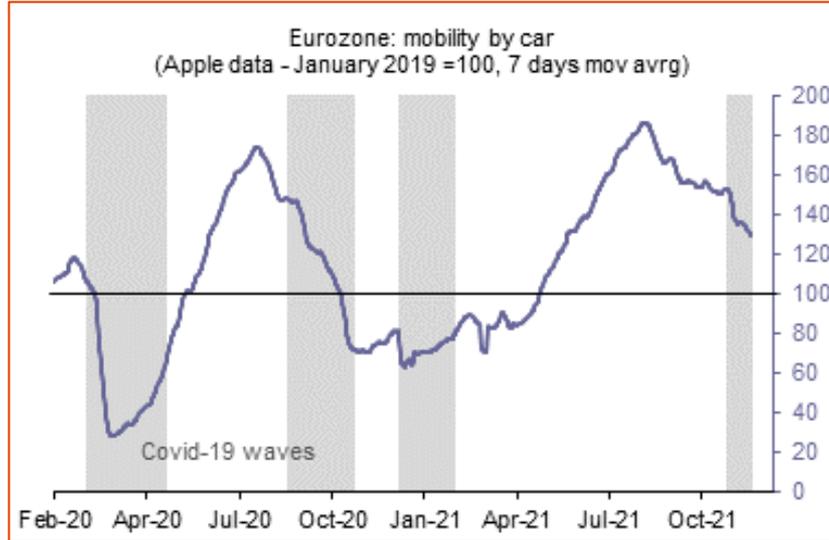
In the other major economies, the picture is brighter: both in China and in the United States, cases are rising back only modestly, and recent macro data, on both confidence and real activity, outline a reacceleration of growth in 4Q 2021, more modest in China (and in any case still within the context of an underlying slowdown of the recovery trend after the peak hit around mid-2020), and sharper in the United States, that are benefiting from the strengthening of consumption after the slowdown recorded over the summer. Forecasts based on NECE nowcasting models point to growth of around 5.5% q/q annualised in the US, well above the 2.1% mark achieved in the summer quarter, and higher than China's 5.2% y/y growth rate, from 4.9% in the previous quarter. In this case as well, the evolution of the pandemic should be monitored: a new increase in cases would imply slower growth.

Due to the lack of information on real activity, the forecasts drawn from nowcasting NECE models for the Eurozone are based only on confidence data that, as mentioned above, should be read with great caution. For the time being, forecasts point to 1.4% q/q growth from 2.2% in the summer quarter. However, this seems to be an optimistic estimate in light of the impact of the new restrictions. Growth is more likely to prove slower, at less than 1%, but not negative, as mobility indicators are well above the levels observed during the previous waves of the pandemic in the autumn and winter of 2020 (see charts below). If restrictions are not tightened further, the Eurozone should therefore stay on a recovery trajectory, albeit at much more moderate rates than observed in the central quarters of the year.

# MOBILITY INDICES: Mobility for retail and recreation

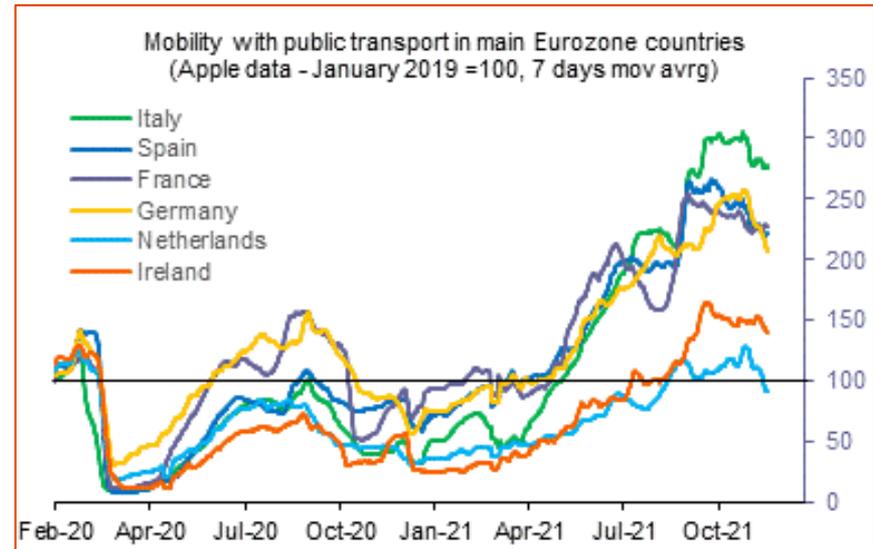
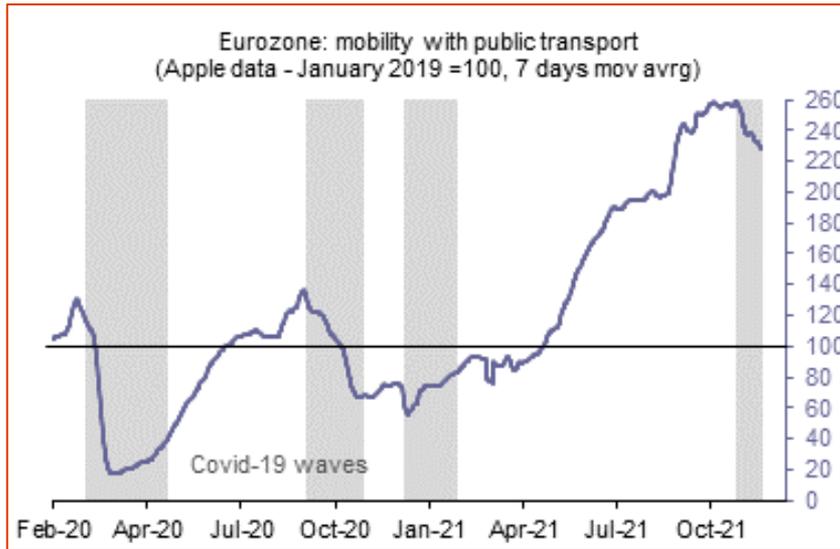


# MOBILITY INDICES: Mobility by car

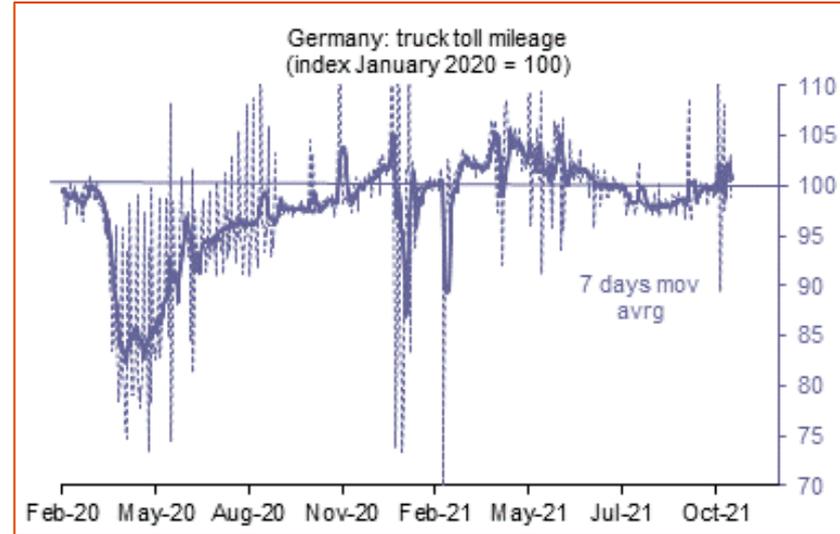
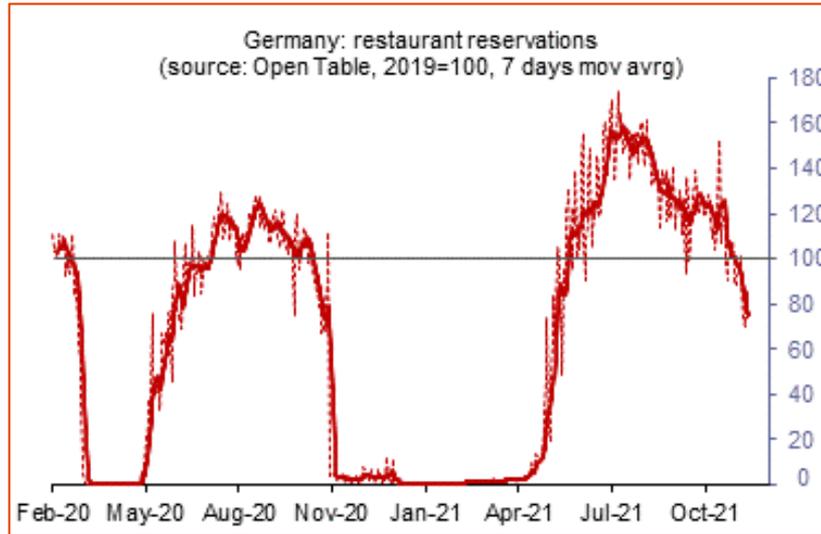


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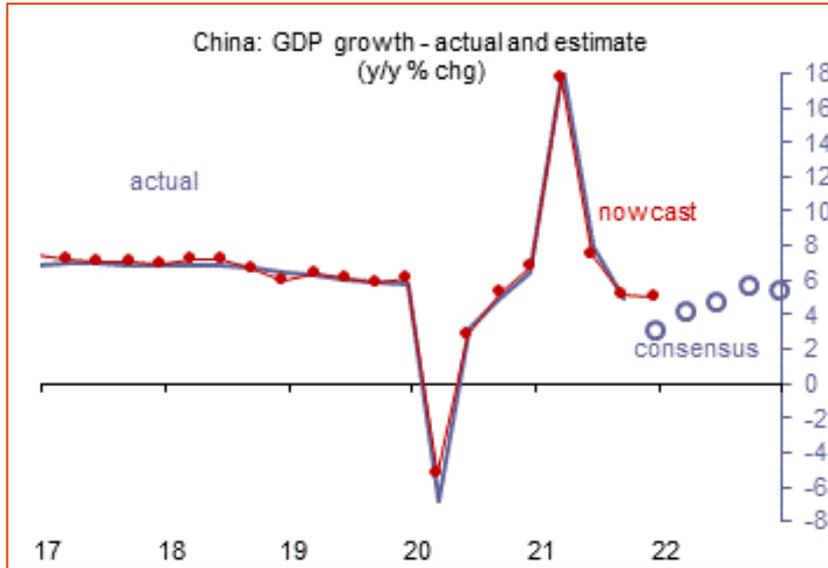
# MOBILITY INDICES: Mobility with public transport



# Restaurant table reservations and truck toll mileage in Germany

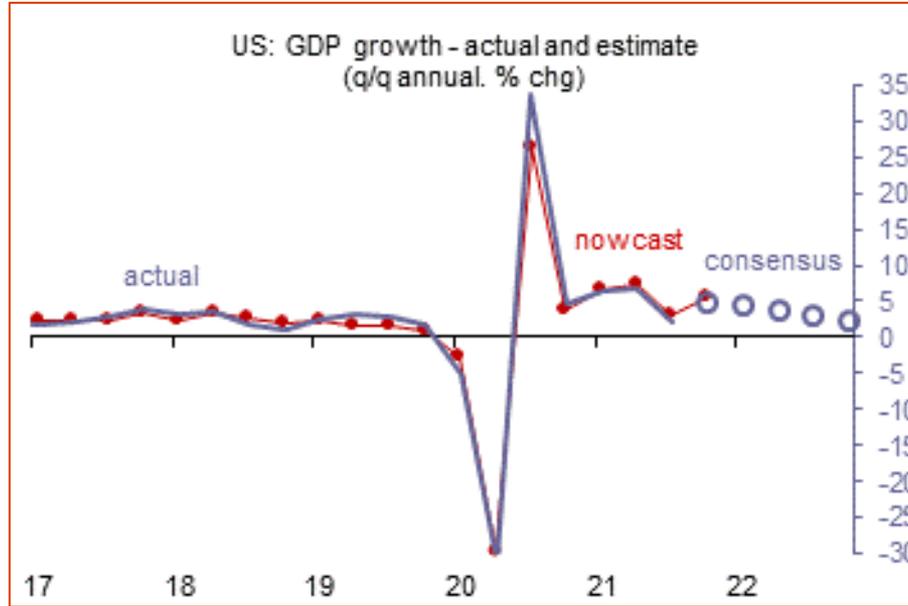


# NECE NOWCASTING MODELS



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# APPENDIX ON METHODOLOGY

To measure the trend of the economy in the present phase, impacted by the effects of the pandemic, the monthly data we usually consider (and on which NECE forecasts are based) risk providing 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 one triggered by the pandemic (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. Such data may also serve as cross-checks for the estimates yielded by NECE Nowcasting models.

The high-frequency 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. At present, these indices are still at high levels on average, although they overestimate the impact of the pandemic, because they now mostly reflect the compulsory use of face masks indoors and other minor restrictions;
- 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 were of particular interest last year, on occasion of the March-April lockdown, but became less relevant subsequently, following the decision taken by the national governments to avoid the pre-emptive shutdown of production plants (in fact, power consumption had returned to pre-Covid levels already last autumn);
- Restaurant reservations as provided by Open Table and available for some of the major countries, that track 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.

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