

ECONOMIC PULSE

EUROZONE: THE ECONOMY IS HIGHLY DEPENDENT ON THE VACCINATION PROCESS

In Europe, the Covid-19 crisis is far from over. Since the beginning of 2021, many EU member states have had to introduce new restrictions to try to curb the pandemic. Germany, Ireland and Portugal, for example, are still in lockdown, while several other countries, like France, Italy and Spain, have implemented curfews. Restrictions have been reintroduced just as vaccination campaigns are beginning to be rolled out in Europe and around the globe. Although vaccinations are our biggest source of hope, it will probably take considerable time to reach herd immunity.

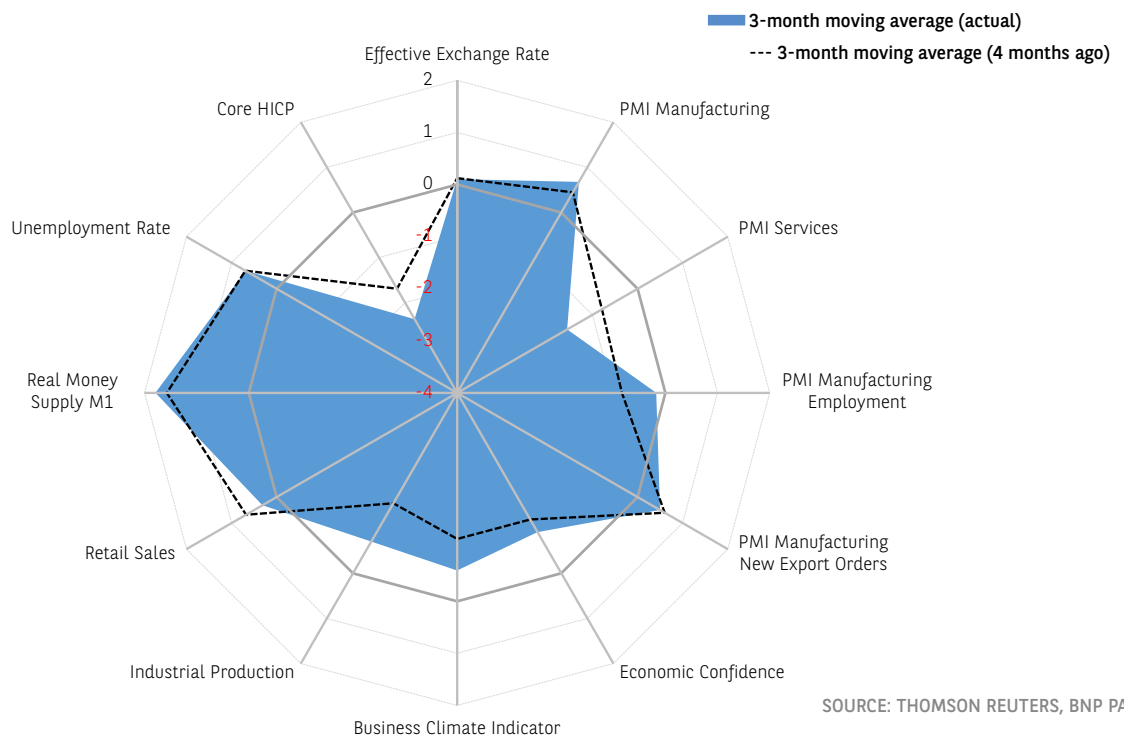
On the economic front, the size of the rebound and the speed at which we return to pre-crisis levels will depend on bringing the pandemic under control, and hence, to a large extent, on the effectiveness of the vaccination process. Since the outbreak of the Covid-19 pandemic, the eurozone's cyclical indicators have moved in line with health restrictions. This continues to be the case. The purchasing managers index (PMI) for the services sector, which was especially hard hit by lockdown measures, declined again in January reaching low levels (45 in January after 46.4 in December). Manufacturing PMI declined slightly in January (54.7 after 55.2 in December), but is still relatively high

compared to the long-term average. Benefiting from China's strong economic rebound, the "new export orders" sub-component reported robust performances.

The European Commission's economic sentiment index, which had rebounded after the initial lockdown was lifted, has levelled off since September. It is relatively low compared to pre-crisis levels and the long-term average. This partly reflects subdued consumer confidence in the eurozone, which remains well below the long-term average. This is an issue considering that consumer spending will be key for the recovery. A speedy vaccination campaign should boost consumer confidence, which would stimulate private consumption, with households tapping into their accumulated savings. This would trigger favourable spillover effects to the rest of the economy. Prices in the eurozone fell again in December 2020 (-0.3% year-on-year), which confirms the necessity of maintaining the current level of monetary accommodation. Some fear a resurgence of inflationary pressures but, should this be the case, it will depend on their nature and origin whether this will change the ECB's communication.

Louis Boisset

QUARTERLY CHANGES



The indicators in the radar are all transformed into 'z-scores' (deviations from the long-term average, as standard deviations). These z-scores have mean zero and their values are between -4 and +2. In the radar chart, the blue area shows the actual conditions of economic activity. It is compared with the situation four months earlier (dotted-line). An expansion of the blue area compared to the dotted area signals an increase in the variable.

