

## The second corona wave... The second hard lockdown requires planning security



CORONA - NEWSLETTER

**A new, tightened lockdown is going to be in force in Germany from 16 December 2020 onwards. The trajectory of the pandemic has now called for decisive action. On the economic-policy front, the pandemic is to be mitigated by the improved Bridging Aid III programme. The economists from the Sparkassen-Finanzgruppe confirm this logic: The path into and out of further contact restrictions - now more than ever - requires planning security and economic-policy consistency through to summer 2021:**

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- Germany's strength is its federalism. The point is that regional developments are not the same everywhere - this applies to economic developments, but likewise, at the present juncture, to the tally of new Covid-19 infections. The government's latest decision demonstrates, however, that uniformly decisive action can be taken nationwide in Germany. This is now putting in place a reliable, predictable framework. The government's decision should lead to fewer contacts and thus create the basis for reducing the incidence of infection in important areas of society. Just as important as the current decisions, however, is a strategy for the period after the current lockdown. Business and households need to be able to map out a way ahead regarding economic framework conditions for the spring.
- Germany's existing economic support measures have been extended and adapted. Following on from the November/December aid scheme, Bridging Aid III will take effect from 16 December 2020 and, unless it ceases to be necessary at an earlier date, will continue to be available until summer 2021, entailing monthly burdens for the Federal Government of 11 billion euros. The idea here is to avoid an overcompensation scenario. This is important to give companies not only support but also a signal that they need to adapt to changing framework conditions with entrepreneurial innovations, thereby helping to shape the framework for the future. It should be possible for companies to determine the key parameters (sales and fixed costs) for receiving support and accelerated depreciation conditions without expending additional bureaucratic effort.
- Further restrictions do not come free of charge. The newly designed Deka Weekly Indicator (Deka-Wochenindikator) provides an indication of the extent to which corona-related restrictions affect economic performance.

# The Deka Weekly Indicator: A finger on the pulse of GDP

Core data on the economic development in Germany is currently only available up to October 2020. Prior to this cut-off point, the figures were very encouraging. Most of the economic indicators for October are also available, and the preliminary outturns have proved excellent. Indicator readings were higher to a significant or even extraordinary extent, easily outstripping consensus estimates in most cases:

- Retail sales showed a strong increase (+2.6 percent on a month-to-month basis), further accompanied by a slight upward revision to the figures for the previous months. Admittedly, as September generated only very weak sales despite the revision, the October rise was probably, in the final analysis, for the most part a positive rebound effect.
- Output in the producing sector rose by a strong 3.2 percent compared to the previous month, driven by a similarly robust increase in industrial production, an even more vigorous increase in energy production and a more moderate increase in construction. Thanks to this seventh-largest increase since German Reunification, the positive water level - i.e. the proportion of the corona-related collapse that could be made up for - rose to 80 percent.
- Buoyed by a tailwind of major contracts, the volume of incoming orders rose by 2.9 per cent compared to the previous month. However, even stripping out this boost from large-scale orders, the growth rate was a solid 1.7 per cent month-on-month. The impetus came from within Germany, but especially from outside the euro area. Incoming orders from the euro area rose by only 0.5 percent by comparison with the month-earlier level. The increase in October meant that the corona-related springtime was fully offset for the first time.
- In October, German exports rose by 0.8 per cent in month-on-month terms, thus falling short of expectations. Up to then, only 79 per cent of the corona-related collapse had been retraced. Since the volume of goods imported in October was only 0.3 per cent up on the previous month, the net-exports component is likely to have supported the economy as a whole.

*Traditional data  
availability leaves  
something to be desired*

But what has happened since then? In this pandemic-overshadowed phase, in which new events are coming at us thick and fast, monthly indicators, which are only available after a considerable time-lag, are not satisfactory. At DekaBank, economy watchers are keeping track of the ever-increasing range of high-frequency indicators and in this way are endeavoring to gain a better impression of the current macroeconomic situation. These indicators,

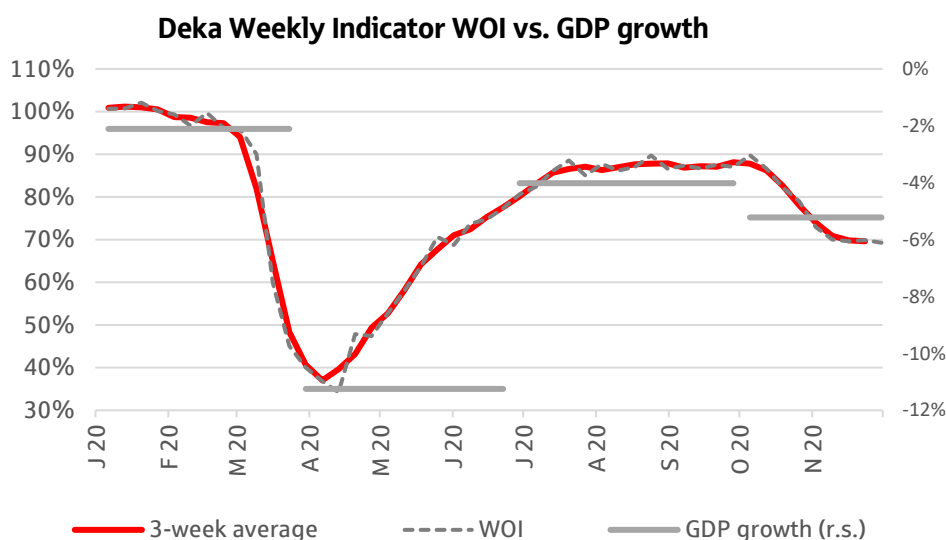
which are available on a weekly or even daily basis, feed into the Deka Weekly Indicator (WOI). The WOI composite indicator currently captures eleven indicators relating to industry, retailing, catering and transport.

The WOI particularly well replicates developments in the low-data services sector. It thus, to some extent, closes the pronounced statistical gap in this domain. The gauge has also correlated very closely with gross domestic product growth over the course of this year. We will see from further use of this indicator whether or not the services sector is overrepresented.

*The new Deka Weekly Indicator is helping to close a statistical gap*

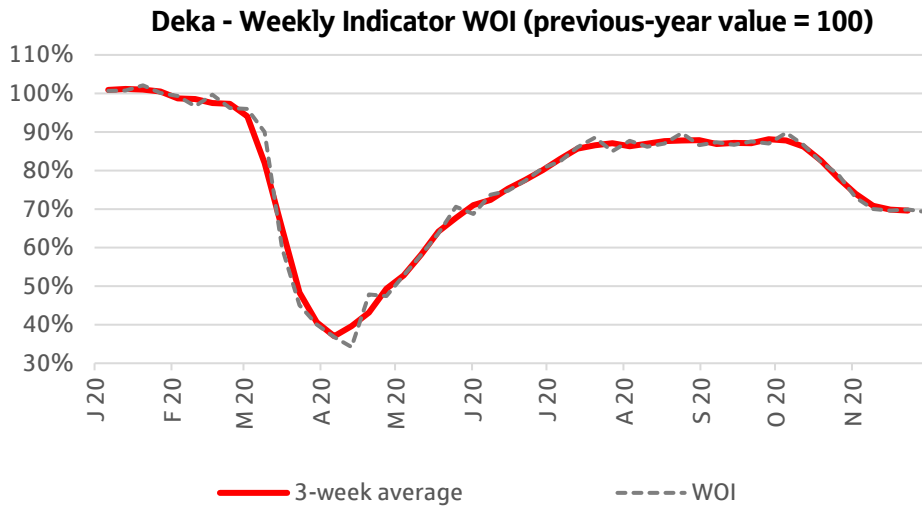
The Deka Weekly Indicator (WOI) has been signaling cooling cyclical activity since the 43rd calendar week (i.e. from 19 October onwards), which is in line with the exceptional rise in the toll of infections at that time. In response to the partial lockdown, the WOI settled with indicator readings at around 70 percent of their previous-year levels. The autumn decline triggered by the new lockdown has thus proved much milder than in the spring. In view of the new “full” lockdown, a further decline in the composite indicator is to be expected. However, we do not expect the dramatic dimensions of the spring slump to be repeated.

All the same, despite the strong October indicators, the gross domestic product looks poised to contract in the fourth quarter. Following the tightening of the lockdown from 16 December 2020 onwards and with the prospect that it will be extended again on 5 January 2021 until February 2021, the first quarter of 2021 also looks destined to be “under water.” The weekly availability of the Deka WOI gauge makes it possible for early-warning signals to be flashed about the current state of the economy.



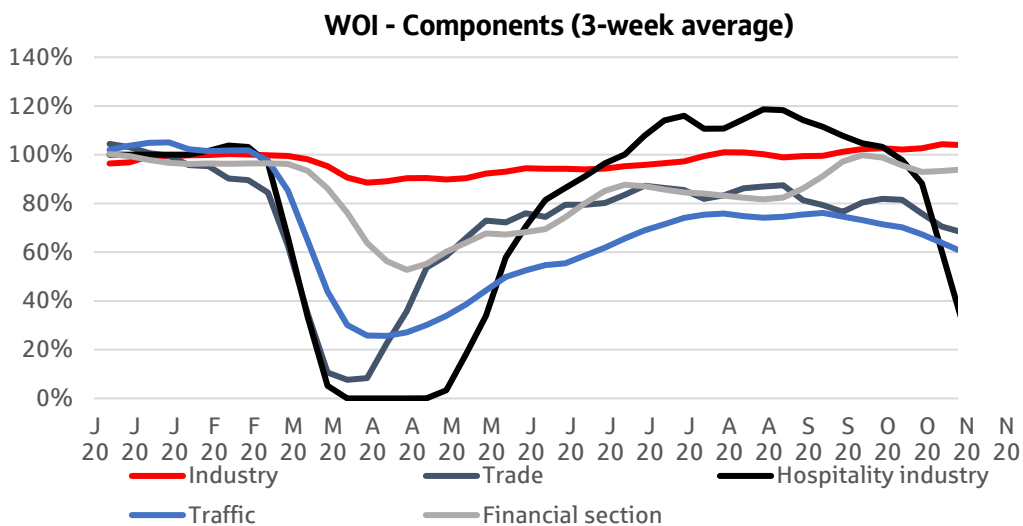
Source: Deka

In week 50 the WOI has sagged slightly, from 70 percent to 69 percent. The components responsible here were the retail trade (rebound after Black Friday) and the financial sector.



Source: Deka

The slowdown in recent weeks has been mainly due to segments of the services sectors (retail, hotels and restaurants, transport). Industrial indicators started to decline only at the beginning of November, and then only to a marginal extent.



Source: Deka

At present, industry is the mainstay shoring up the economy. Global demand-side conditions also play a key role in this respect. Outside Europe, demand for German export goods, especially from China, has remained strong. With the new coronavirus wave likewise taking its toll in the USA, the situation on the other side of the Atlantic is also likely to deteriorate moderately during the coming weeks.

# Disclaimer

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