

The second corona wave: Endure the lockdown – prevent a third wave!



CORONA NEWSLETTER

The pandemic situation remains very tense. Against this backdrop, Federal Chancellor Merkel and the heads of government of Germany's federal states have decided to extend and deepen the lockdown until the end of January 2021. The economists from the Sparkassen-Finanzgruppe support this decision from an economic-policy perspective. Also given the new mutations of the virus, the trajectory of infections can only be significantly flattened through changes in people's behaviour. At the same time, it deserves to be emphasised that the new lockdown decision will not put a further appreciable drag on economic activity.

- It has not yet been possible to reduce the incidence of infection nationwide in Germany to a level at which contact tracing by the health authorities would be assured. Yet this is the basic prerequisite for a responsible expansion of contacts. The economists from the Sparkassen-Finanzgruppe therefore view the current resolution in the light of an economic policy that is steady and bound by rules: reliability remains the top priority in this situation. This applies in particular to the continuation of economic-policy support measures. Regarding the next decision on 25 January 2021, it is conceivable that the measures will be either maintained, further tightened or relaxed - all depending on how the trajectory of the pandemic develops, which, in turn, depends crucially on people's behaviour.
- However, a more comprehensive lockdown, like the one imposed in spring 2020, ought to be avoided. Not only from an economic but also from an epidemiological perspective, a tightening of measures in the industrial sector does not appear to be necessary. Industry is an important backbone of economic activity in Germany. Even under the current circumstances, German manufacturing is continuing to recover and is helping to stabilize the real economy. A dramatic slump in economic activity comparable to last spring's is not to be expected in the first quarter of 2021. This is certainly also being helped by parallel recovery processes in the international environment - which are playing out surprisingly successfully, particularly in the case of China. This upside scenario is likewise being reflected by stock markets and current sentiment indicators. At the same time, it is important to keep global merchandise trade up and running in

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Authors:

Dr. Stefan Mütze
Stefan.Muetze@helaba.de

Dr. Reinhold Rickes
Reinhold.Rickes@dsgv.de

Dr. Sonja Scheffler
Sonja.Scheffler@dsgv.de

Dr. Gertrud Rosa Traud
Gertrud.Traud@helaba.de

order to capitalise on the opportunity for economic recovery processes with the aid of international stimuli.

- In addition to strict adherence to hygiene rules and contact reduction, the vaccine rollout that is now beginning provides another effective and, above all, sustainable instrument for overcoming the pandemic. From an economic point of view, then, every effort should be made to create incentives to increase the willingness of the population to be vaccinated. By being vaccinated, a citizen demonstrates solidarity with his fellow human beings, taking pressure off the health-care system to begin with, and can benefit from economic freedoms again without endangering others.
- It is also a welcome development that vaccine production has now been made a top priority. Every day counts on which more people can be vaccinated, thereby creating the basis for greater economic self-responsibility. Government support is justified in such a crisis, although it should not become the “new normal.”
- It is also important to further enhance the effectiveness of the corona-warning app in order to be able to track and contain the incidence of infection more reliably. Flanked by the vaccination drive and by strict compliance with hygiene rules, there is then a tangible chance of a lasting and significant recovery in the economic situation from the second quarter of 2021 onwards, as well as of a normalization of public life.

Germany: The lockdown grows tighter

When we last adjusted our forecast in December, we considered an extension of the lockdown until the end of January to be very likely. Helaba Research continues to expect German economic growth to come in at 4.2 percent in 2021.

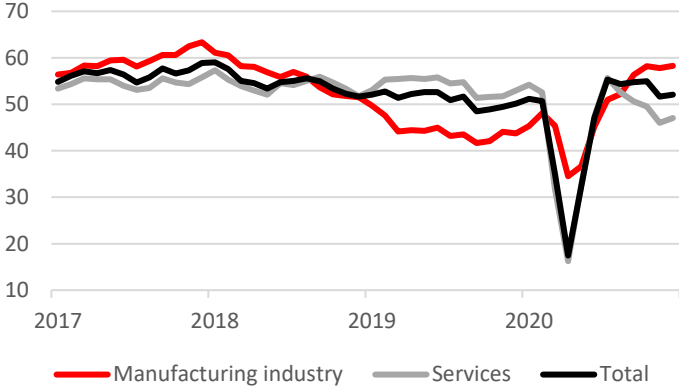
And it has now been set in stone that the hard lockdown that has been in place since 16 December 2020 will be extended, in the first instance, until 31 January 2021. We already thought this highly probable on 18 December 2020, accordingly lowering our 2021 growth projection for Germany from 5 percent to 4.2 percent. The tightening of contact restrictions and the decision to restrict the radius of movement in administrative districts with a very high incidence of coronavirus cases do not necessitate any further adjustments. That forecast, though, is predicated on the assumption that the retail trade and parts of the services sector do not remain shuttered throughout the first quarter of 2021.

The ongoing vaccine rollout should enable gradual openings and thus an incipient catch-up process even prior to April. The third quarter of 2020,

Vaccinations are creating the basis for gradual openings

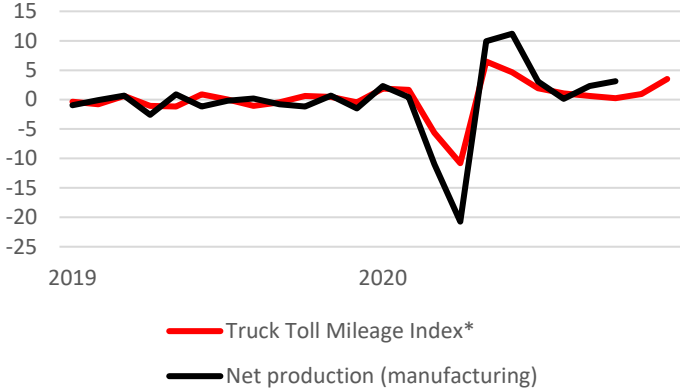
marked by a vigorous increase in consumption of 10.8 percent compared with the previous three months (Q2: -11.1 percent), already demonstrated how strong the catch-up process can prove once restrictions have been lifted. Such catch-up effects can be anticipated again this year.

**Less Covid braking effect than in spring 2020
German purchasing managers' indices**



Sources: Macrobond, Helaba Research

**Truck traffic has gained momentum
Percentage change vis-à-vis previous month**



* This index tracks the mileage trend for large trucks on German federal highways. The December reading has been estimated from weekly data

To date, the monthly indicators for the fourth quarter of 2020 have been flashing positive signals. Industry is currently spearheading this upbeat trend. The German Purchasing Managers' Index returned a top reading of 58.3 points in December 2020, and production data for both manufacturing and construction have signaled significantly positive growth in the fourth quarter of 2020 compared with the previous three months. True, value added by service providers is likely to shrink overall; nevertheless, the situation in this sector is heterogeneous. At 47.7 points, the respective Purchasing Managers' Index is significantly higher than in spring 2020, and retail sales were very strong in both October and November, so that - despite declining turnover during the Christmas season - real sales expected to be higher in Q4 than in the third quarter. Overall, GDP is likely to have contracted only marginally in the last three months of the old year: the autumn lockdown was too short to have negative effects.

Positive Q4 indicators

This means that the baseline for German aggregate economic output at the beginning of the new year is pretty high. Even a stagnation scenario throughout 2021 would result in GDP growth of around 1 percent. The announcement of the first GDP estimate for 2020 by the Federal Statistical Office (Destatis) on 14 January 2021 will permit inferences to be drawn about the course of the last three months of the old year and about the statistical overhang ("growth dowry") for 2021.

Disclaimer

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German Savings Banks Finance Group
Department of Economics, Financial Markets
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Charlottenstraße 47
D-10117 Berlin
Tel: +49/30/20225-5303
DSGV-Volkswirtschaft@DSGV.de
www.DSGV.de

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Responsible

Pia Jankowski – DSGV
Director
Head of Economics, Financial Markets and
Economic Policy
Pia.Jankowski@DSGV.DE

Dr. Reinhold Rickes – DSGV
Head of Department
Head of Economics
Reinhold.Rickes@DSGV.DE

Note

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