The vaccine illuminates a difficult end to the year

The new COVID-19 outbreaks weigh down the global recovery in the closing months of the year. Following a strong rebound in economic activity in Q3 in the major economies, the latest available data confirm a loss of buoyancy in the last quarter, particularly in Europe. Several governments had to increase and prolong their restrictions in November in the face of a resurgence of COVID-19 cases, and while they are already preparing for a de-escalation, December will still be affected. Nevertheless, there are differences compared to the first wave. While in several European countries the number of daily cases has exceeded the peak of the first wave, the mortality rate is more moderate. Consequently, more targeted and localised measures are being taken during this second wave: for instance, in Italy and the United Kingdom restrictions are determined by region according to the incidence of the virus. The fall in economic activity is therefore much less pronounced than in March and April: for example, the composite PMI for the euro area fell to 45.3 points in November. While below the threshold separating contractionary and expansionary territory, this is comfortably above the historically low levels of the first wave. On the other hand, the US economy is resisting despite a surge in COVID-19 cases, while in China the pandemic is under control and the economy is already consolidating its recovery.

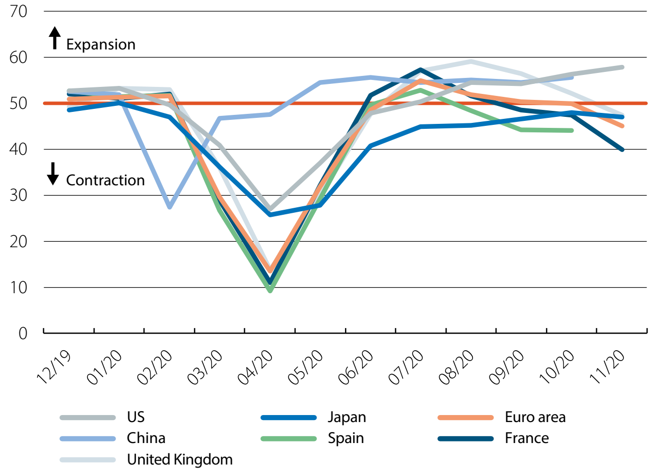
The vaccine will drive economic recovery in 2021. In November, several COVID-19 vaccines completed their trials with a high degree of effectiveness and the procedures for the authorities to validate them have already begun. Although the approval dates and distribution capacity remain to be resolved, according to the available information, the US and the UK could start distributing the first vaccines in December, while in Europe the approval process could take a few weeks longer.

ADVANCED ECONOMIES

So far, the US economy has resisted the impact of the COVID-19 pandemic somewhat better. An increase in the infection rate and a later wave than in Europe, as was the case in spring, cannot be ruled out. However, so far the data for the US are much more robust than in most advanced economies. The industrial production index, for instance, increased by 1.1% month-on-month in October, placing production 5.3% below last year's levels (–6.7% in September), while confidence indicators have remained high in both industry and services. However, some indicators do show a certain slowdown, especially those related to consumption. We saw this a few days ago with less dynamic retail sales and, more recently, with a reduction in the Conference Board's consumer

Composite PMI by country

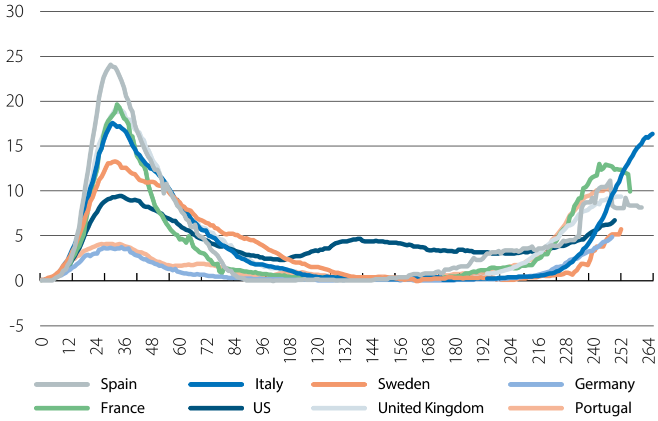
Level



Note: *The index for November is a flash estimate.*
Source: *CaixaBank Research, based on data from Markit.*

Mortality from COVID-19

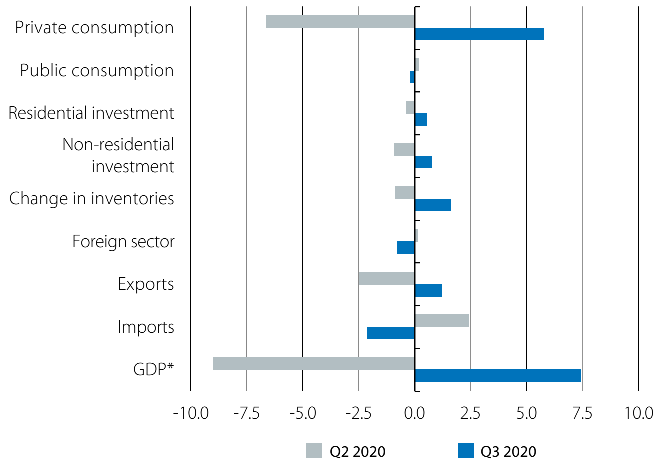
Deaths per 100,000 inhabitants (14-day cumulative figure)
(from the day on which >1 death per million inhabitants was recorded)



Note: *Data available up until 26 November 2020.*
Source: *CaixaBank Research, based on Johns Hopkins CSSE, UN World Population Prospects.*

US: components of GDP in Q2 2020 and Q3 2020

Contribution to non-annualised quarter-on-quarter growth (pps)



Note: ** Non-annualised quarter-on-quarter change (%).*
Source: *CaixaBank Research, based on data from the Bureau of Economic Analysis.*

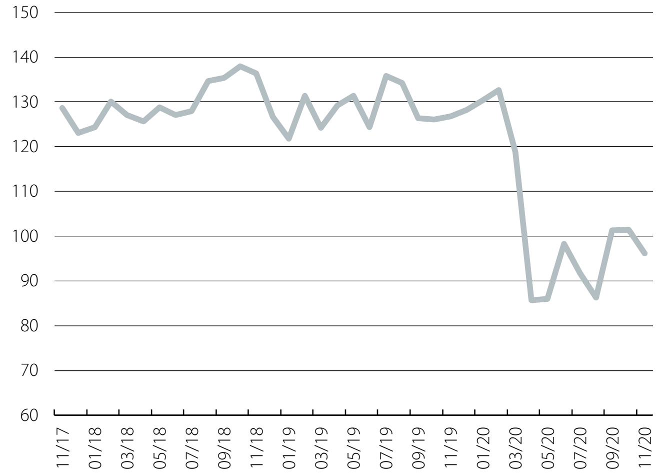
confidence index. Thus, the forecast models developed by the Atlanta and New York Federal Reserves suggest that US GDP could continue to grow in Q4, albeit at more moderate rates (+2.7% and +0.7% quarter-on-quarter, respectively).

In this context, negotiations continue on a new fiscal stimulus in the US. Following Joe Biden's victory in the presidential election, the US Congress has resumed negotiations to launch a new fiscal package. Although the Senate remains divided between Democrats and Republicans, new proposals began to be drawn up in November. An agreement is likely to be reached on a fiscal support package amounting to some 1.2 trillion dollars (~6% of GDP), which would be added to the 3 trillion already approved.

In Europe, the second wave will lead to a contraction in economic activity in Q4. Although the retail sales data were positive in October in most countries (up 2.6% month-on-month in Germany and 2.8% in France), the impact of the restrictions on citizens' mobility is already apparent, with a considerable drop in mobility registered in November, especially in France and Italy. Nevertheless, as we have said, the containment measures taken during this second wave are more targeted and localised, and are therefore not having as strong an impact as they did in March and April. The impact of this second wave of restrictions will also be different across sectors, since in many cases the restrictions focus on reducing socialising and closing non-essential shops, while industrial plants are generally allowed to operate. Indeed, this is reflected in the indicators: while the euro area services PMI is in recessionary territory and fell to 41.7 points in November, the manufacturing PMI (53.8 in November) continues to suggest growth in industrial production. However, the restrictions will continue to determine the state of play towards the end of the year and over the coming months, leading us to project a contraction in the euro area's GDP in Q4 (of 3% quarter-on-quarter, a much smaller decline than that of Q2, when GDP fell 11.8%). That said, the impact will be greater in France and Italy, where the restrictions have been stricter.

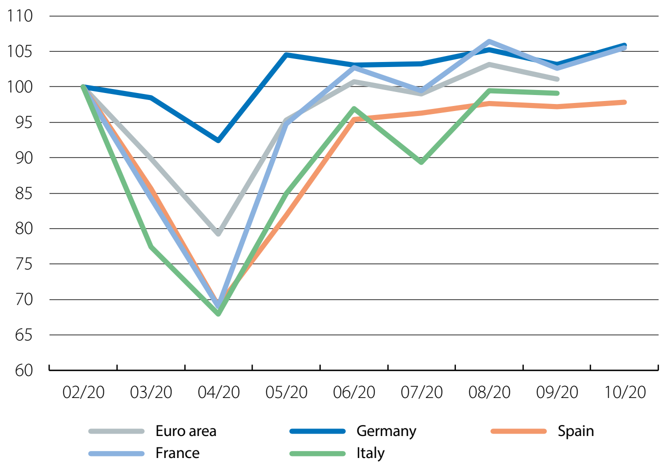
Poland and Hungary cast doubt over the agreement on the European budget and NGEU. The two countries' governments refused to ratify the new EU budget and NGEU, the European recovery plan, in protest against the mechanism for the protection of the rule of law, which was agreed in mid-November and could result in the suspension of payments from the European budget to Member States that violate principles on the quality of the rule of law. This could jeopardise NGEU, the recovery plan through which the EU will disburse some 750 billion euros in loans and grants to its Member States to help support their economies. This is a delicate situation, as we expect the NGEU plan to have a considerable impact on the growth of European countries over the coming years. The negotiations between Member States

US: consumer confidence index
Level (100 = 1985)



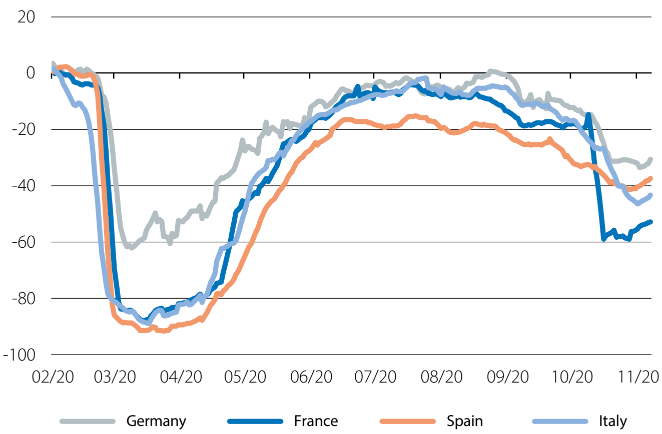
Source: *CaixaBank Research, based on data from the Conference Board.*

Euro area: retail sales
Index (100 = February 2020)



Note: *Seasonally adjusted series.*
Source: *CaixaBank Research, based on data from Eurostat.*

Mobility in retail and recreation
*Change relative to the baseline level * (%)*



Notes: *7-day average figures. (*) The baseline level corresponds to the average mobility recorded on the same day of the week between 3 January and 6 February 2020.*
Source: *CaixaBank Research, based on data from Google Mobility Report.*

continue, but they are complex and will have to be carried out quickly to avoid delays in the implementation of the common budget and NGEU.

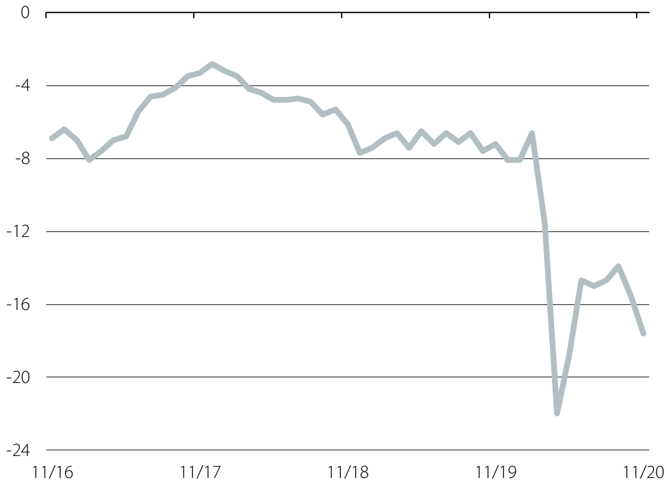
The Brexit negotiations are entering the final stretch, as there is little time left to reach an agreement on the UK-EU trade relationship before the transition period ends on 1 January 2021. There was very little news about the negotiations in recent weeks, and at the close of this report the main disagreements over the level playing field (referring to state aid rules and the environmental, social and labour standards that could affect the country's competitiveness) and over fishing rights remained unresolved. Although the deadline is drawing very close and accidents cannot be ruled out, an agreement can be expected to be reached to prevent trade between the EU and the United Kingdom from becoming regulated according to World Trade Organization rules from January (which would lead to tariff rises and regulatory barriers).

The Japanese economy also experienced a strong recovery in Q3 and faces a Q4 with outbreaks that are currently still under control. GDP rose by 5.0% quarter-on-quarter, a considerable rise but still insufficient to offset the three consecutive quarters of contractions that the Japanese economy had suffered. As for Q4, the latest data suggest that the recovery continues in the Asian economy, and the second wave of coronavirus is not affecting the country as severely as it is in Europe. However, the considerable increase in infections in recent weeks invites prudence.

EMERGING ECONOMIES

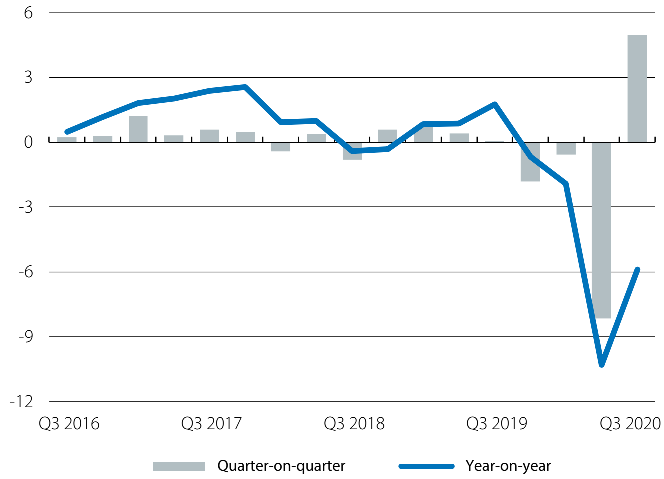
The recovery of emerging economies has proven stronger than expected in Q3. Although in different stages of the cycle (China, for instance, has already regained its pre-crisis levels), the major emerging economies registered significant GDP growth in Q3. In Turkey, GDP grew by 6.7% year-on-year, while India and Russia also bounced back, albeit still with negative year-on-year growth (–7.5% and –3.6%, respectively). Without doubt, China's economy (which grew by 4.9% year-on-year in Q3) is recovering the most vigorously among the world's large economies. In Q4, the high exposure to the European economy in Turkey and Russia could weigh down their economic activity, while in China and India, which have closer ties to the US and global economy, the recovery could be more dynamic. This is supported by the November composite PMI indicator, which rose in China to 55.7 points, while it fell in Turkey, although it is still above the 50-point threshold.

Euro area: consumer confidence
Level



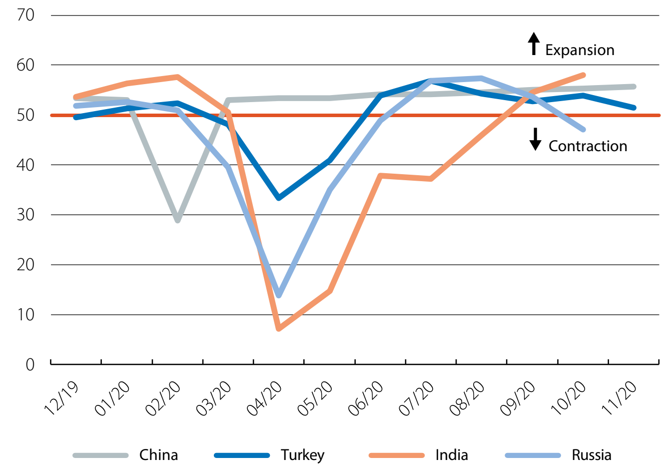
Source: *CaixaBank Research, based on data from the European Commission.*

Japan: Real GDP
Change (%)



Source: *CaixaBank Research, based on data from the Japanese Cabinet Office.*

Composite PMI by country
Level



Note: *Turkey: manufacturing PMI.*
Source: *CaixaBank Research, based on data from Markit.*