

## June Economic Monthly: Hope returns despite the huge challenge ahead

The worst may be over for the global economy, but the recovery looks set to be slow and turbulent



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'I know that I know nothing' is a saying attributed to the Greek philosopher Socrates by his most famous student, Plato.

Some 2500 years later, this paradox continues to resonate deeply, especially in economic forecasting during the Covid-19 crisis. There is a lot that we have learned in recent weeks but also a lot that we still don't know.

Let's start with what we know and have learned about the global economy over the last four weeks. GDP data for the first quarter showed that even just two weeks of lockdown was enough to bring most Western economies to their knees, recording contractions last seen during the financial crisis. More recently, with the first hard data for April coming in, the risk of further downward revisions to growth for the second quarter has increased. The fact that German industry was down by some 30% in April compared to the first quarter made us shudder. We try not to imagine

what the GDP figures for the second quarter would look like without any rebound in May and June but they would surely exceed even the most negative expectations.

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Luckily, there is increasing evidence that all economies have been gaining momentum as lockdown measures have eased. In early June, some European economies have already returned to far more than 80% of their activity levels seen in February, while some Asian economies, like South Korea, are already back to 100%. At the same time, the US is lagging behind somewhat. The European countries with the strictest lockdown measures have returned to some 70% of their January activity levels. Adding to these hopes are available confidence indicators, which all rebounded in May. But let's not be carried away. Judge for yourself but my very subjective observations of everyday life show that many aspects of social distancing remain in place. Shopping streets, restaurants and transportation are all still running significantly below full capacity.

What we also know is that Europe has seen remarkable breakthroughs in recent weeks, including a proposal for a European recovery fund, supported by France and Germany, another impressive fiscal stimulus package in Germany and additional stimulus from the European Central Bank. It looks as if Europe has finally got its act together. To me, the most remarkable breakthrough is the change of heart on fiscal policy within the German government. Who, at the start of the year, would have imagined that the austerity champion of Europe would morph into such a big spender? This new German approach to fiscal policy, both at the national and European level, should not be underestimated.

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Admittedly, there is also a lot that we still don't know. We don't know how strong the rebound in economic activity will actually be in May and June. And, even more important, we don't know how long this rebound will last or how severe the permanent damage caused by the crisis will be. We also don't know whether our winter lockdown scenario, which sees the virus return later in the year, will materialise. The latest super-spreader events illustrate how difficult it will be to sustain a longer period of social distancing.

Most of the things that we still don't know could easily shatter our current tentative optimism but the things that we do know give us hope that, at least, the worse may be behind us.

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