Lockdowns lifted, what does this mean for the eurozone economy?

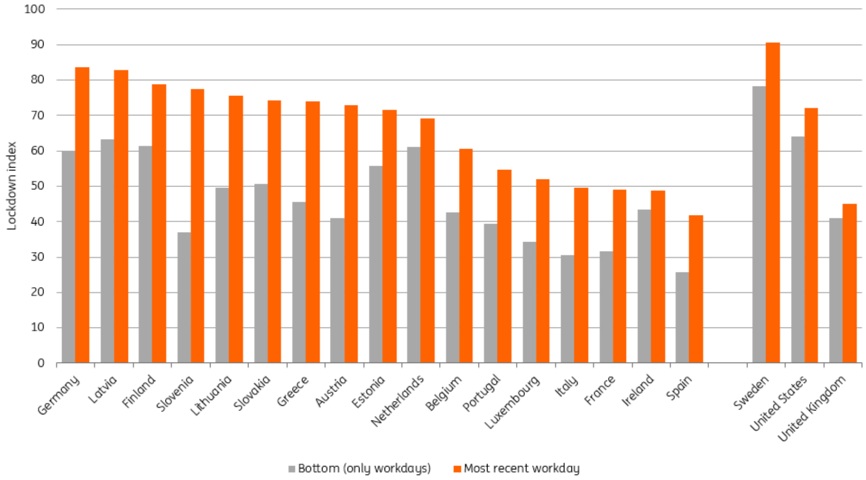
While economic data will continue to look very bleak for some time, make no mistake the bottom of economic activity is already behind us, bar any new lockdown measures

Lockdowns are gradually lifted and activity is increasing

Across the eurozone, lockdowns are now being gradually lifted as new coronavirus cases have been retreating in recent weeks. The easing of measures started in Austria and briefly afterwards in Germany, and has been quickly following by other countries. Even in the European countries most severely affected by Covid-19, like Italy and Spain, measures have now been eased, marking the start to a slow return to normalcy in daily life. We use our mobility index based on the Google COVID-19 Community Mobility Reports to track activity at retail stores, grocery shops and pharmacies and workplaces, to get an indication of the impact of the restrictive measures on the economy. These indexes indeed show that the lifting of measures has resulted in more activity over recent weeks, suggesting that the bottom in economic activity is already behind us, if lockdowns do not return.

The eurozone countries now closest to "normal" mobility levels are Germany at 84% of January levels, Latvia at 82% and Finland at 78%. Austria, Greece, Slovenia, Slovakia and the other Baltic countries have seen their activity levels return to more than 70% of their respective January levels. The Netherlands was among the countries with the highest mobility levels during lockdown, but has only recovered mildly in recent weeks to 70% of normal activity. Spain, France and Italy are still below 50%.

The worst of the lockdown is already behind us



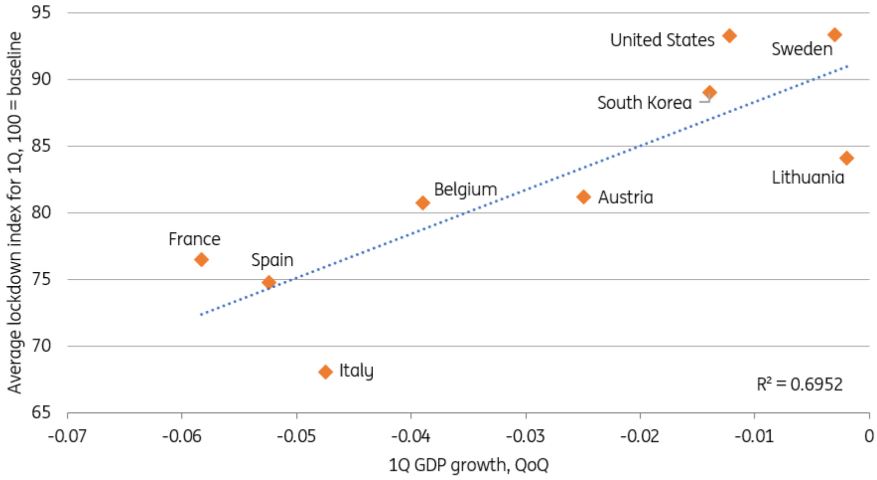
Source: ING Research, Google COVID-19 Community Mobility Reports

Note: index of activity since 15 Feb for retail & recreation, groceries & pharmacies and workplaces using Google COVID-19 Community Mobility Reports with data through 2 May. 100=baseline of activity between 3 Jan and 9 Feb.

So what can we expect for 1Q and 2Q GDP growth in different countries?

While there are usually many different variables that drive GDP growth, there is only one factor that dominates all for 1Q growth: the depth of the lockdown. As chart 2 shows, there has been a wide range of GDP estimates already released for many OECD countries, with France contracting by as much as 5.7% quarter-on-quarter and just -0.2% QoQ in Lithuania. The chart shows our index based on the Google mobility data on the vertical axis, which serves as a strong predictor for 1Q growth with an r2 of 0.7 for the nine countries with data released so far.

So far, GDP declines for 1Q are strongly correlated to the severity of lockdowns



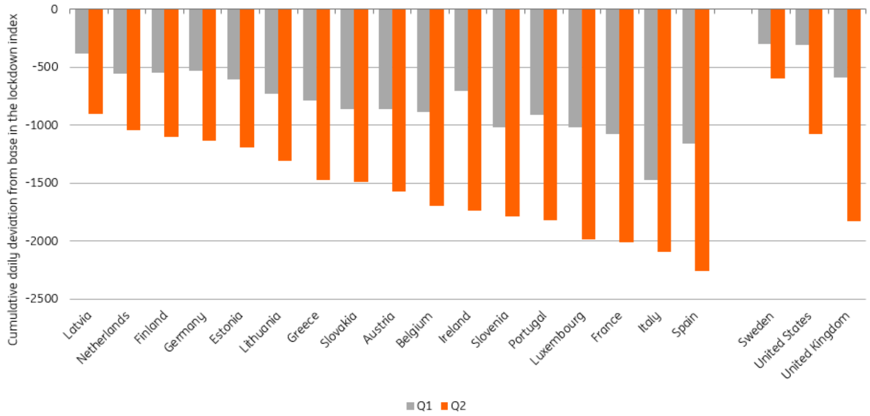
Source: ING Research, Google COVID-19 Community Mobility Reports, OECD

Note: vertical axis represents the average for the lockdown index of activity between 15 Feb and 31 Mar for retail & recreation, groceries & pharmacies and workplaces using Google COVID-19 Community Mobility Reports. 100=baseline of activity between 3 Jan and 9 Feb.

The index can therefore serve as a good predictor of the range of 1Q GDP growth for the countries that have yet to release their GDP figures. The Netherlands, Finland, UK and Germany for example saw an average lockdown index of around 88 for the 1Q period, which means that they are expected to have experienced a milder than average GDP contraction. Greece, Portugal and Ireland have seen values of between 80 and 85, which means that the traditional core vs. periphery distinction in 1Q GDP data will prevail as lockdowns in the South of Europe will have had a more severe impact on the economy than in the North.

While the 1Q GDP figures have so far been historically bad, with a contraction in eurozone GDP that has never been as deep in one quarter, 2Q will be worse still. Looking at the lockdown data that is already available for 2Q, we find that the length and depth has been significantly worse than in 1Q. To get a sense of how much deeper GDP growth could be in 2Q using already available data, we take the cumulative daily deviation from the base period in January and February. The resulting number is not meaningful as an absolute figure, but provides meaningful insights relative to other quarters and other countries.

The impact for 2Q is already much more severe than for 1Q, indicating a larger decline in GDP



Source: ING Research, Google COVID-19 Community Mobility Reports

Chart 3 shows that even though we only have data for roughly one third of the quarter and economic activity will not immediately return to normal, the impact is already about twice as strong in most countries for 2Q than in 1Q. In some advanced economies outside the eurozone it's even worse than that, look at the US, UK and Australia, for example. That means that the decline in the second quarter will definitely be more severe as the return to normalcy will remain very gradual over the coming months, meaning that the impact will only increase as the weeks go by. Just to give an example, Germany would have to see its mobility surge to more than 10% above the pre-lockdown levels for May and June to see 2Q activity return to its 1Q level. That is out of the question for the moment. All of this means that the unprecedented crisis is currently showing another unprecedented face: the inflow of dreadful traditional macro data will continue, while more experimental and real-time data suggests that the worst is already behind.

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