The rising risk of an asymmetric eurozone recovery

Judging from mobility data, the lockdown measures in the eurozone seem to have different impacts across countries. With some countries easing the lockdown measures, while others remain locked down for longer, the risk of an asymmetric recovery increases

Woman with a protective mask, walking with her dog according to the rules, Chartres, France

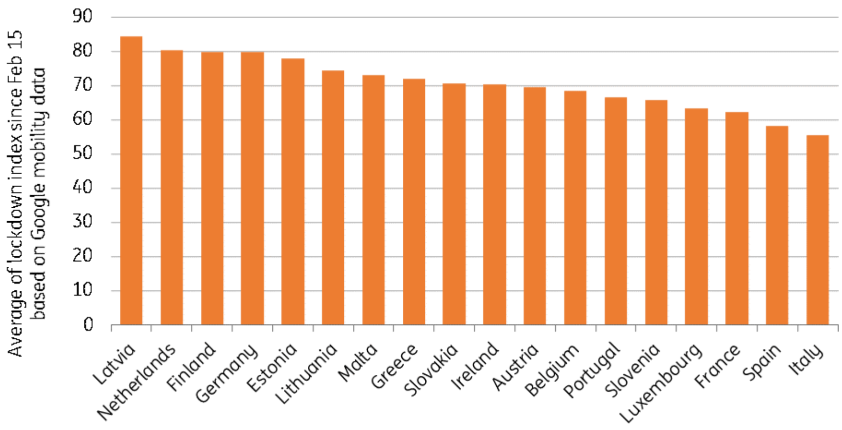
Source: Shutterstock

Eurozone lockdowns are not all alike

While the French need to do paperwork to walk their dog, the Dutch have been able to do some shopping throughout the lockdown. The lockdown measures in the eurozone are similar but definitely not the same. Countries did not only react differently in terms of the timing of the lockdown measures, but also in terms of their strictness.

Chart 1: differences of lockdown impact between eurozone economies has been large

Note: index of average activity since Feb 15 for retail & recreation, groceries & pharmacies and workplaces using Google COVID-19 Community Mobility Reports dated May 1. 100=baseline of activity between Jan 3 and Feb 9



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

As Italy was the first severely affected country in Europe, it also started the lockdown measures earlier than the rest. Most other countries followed in the second half of March. However, the announced measures differed significantly in terms of the strictness and scope. Some started off with prohibiting public gatherings, others immediately decided on a shutdown. The countries which started off relatively mildly often stepped up the measures quickly afterwards so that by end-March almost all eurozone countries were in a de facto full lockdown.

The cumulative deviation from the baseline for an average of the Google categories 'grocery stores', 'workplace' and 'retail shops' shows that Italy saw a much quicker deviation from base than other countries and has the largest cumulative impact at the moment. Spain has been closing in though and France ranks third in terms of restricted activity. The Netherlands, Finland and Germany are near the bottom of the list in terms of the severity of the lockdown in practice. Greece, Belgium, Austria and Ireland are in the middle of the pack. This suggests that the direct economic impact is likely larger in the Southern eurozone economies and France than in the Northern countries where the lockdown has been lighter.

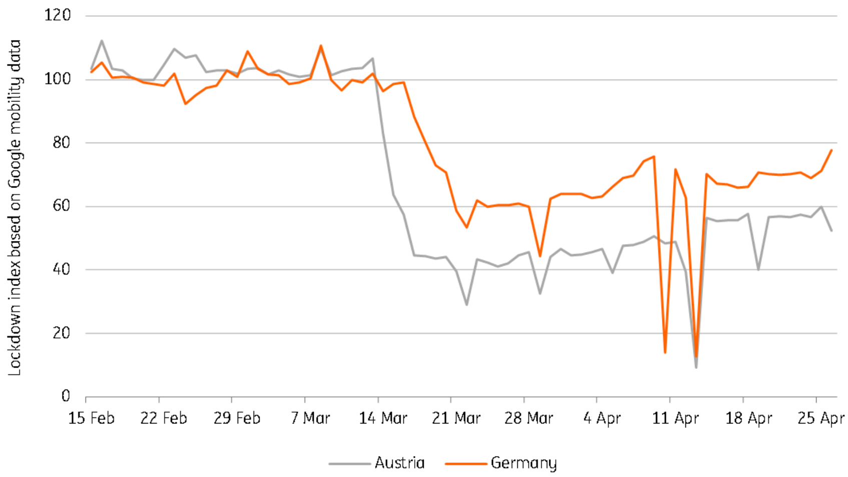
Is the gradual lifting of measures having an impact on activity?

Now that the new number of Covid-19 cases is dropping across the eurozone, the first plans for exits from the lockdown have been put into place. One overarching theme is clear: there is no sudden return to pre-Covid 19 daily life. A gradual return to normalcy is par for the course as concerns about a quick return of the virus and another spike in hospital admissions leads governments to be very cautious about the endgame.

Austria leads the way here as small businesses, DIY stores and garden centres have been allowed to reopen after Easter. Austria had one of the stricter lockdowns in place from a retail perspective and is now trying to alleviate the impact a little as progress has been made in containing the virus.

In Germany, something similar has been announced, with smaller retail businesses open as of 20 April and schools opening gradually. What we see is a cautious return to normalcy, which is backed up by the mobility data. The data shows an ever so slight improvement in activity over the first days for which the measures have been lifted. This suggests that it's not just regulation playing a role, but that behaviour is also affected by confidence, and it's further early evidence that a V-shaped recovery is not in the making.

Chart 2: Austria and Germany have taken the first cautious steps to reopen



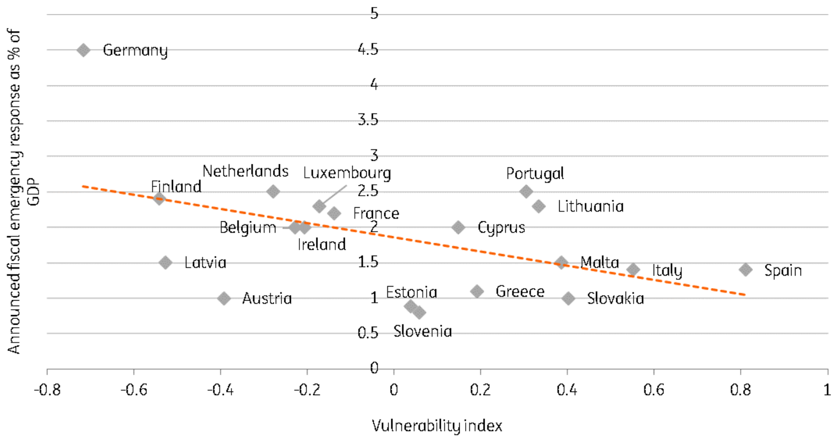
Source: ING Research, Google COVID-19 Community Mobility Reports

Lockdown and exit measures likely to increase divergence

Covid-19 is often labelled as a symmetric shock hitting the eurozone economy. While this is correct regarding the nature of the shock, differences in the length and depth of the lockdown measures seem to have had a rather asymmetric impact on the eurozone economy. Currently, a pattern seems to be emerging that the eurozone countries which experienced the sharpest impact on public (and economic) life will be the countries exiting the lockdown measures last. Germany and Austria have been among the first to lift measures while most Southern European countries have only just started to lift some of the strictest measures.

On top of that, most southern European economies have structural characteristics that make them more vulnerable to this specific shock. The chart below shows the relationship between a quick and dirty vulnerability index of the different eurozone economies and the announced emergency fiscal spending. The factors taken into account are, sectoral vulnerability based on the ECB Economic Bulletin of 1 May, fiscal automatic stabilisers, the average of the lockdown index, the share of solo self-employed and temp workers and the dependency on foreign inputs for production. This gives an indication of which countries are set to have the quickest bounce back in economic activity after the crisis. While the relationship is weak, the countries that are set for a stronger recovery are also the ones with the largest fiscal response. Divergence is therefore set to continue in the aftermath of the crisis, putting even more pressure on European leaders to come to a swift agreement on a recovery fund.

Chart 3: Eurozone fiscal response is stronger from countries with a higher likelihood of a better recovery



Source: ING Research

Author

Bert Colijn
Chief Economist, Netherlands
bert.colijn@ing.com

Disclaimer