

## Corona hasn't infected Eurozone consumer confidence

Consumer confidence is strengthening in February despite the corona scare. This will prevent the recovery from stalling in the first quarter, though growth is likely to remain weak



Vasco da Gama shopping center in Lisbon, Portugal

### Consumers remain positive

The flash estimate for Eurozone consumer confidence showed an unexpected increase to -6.6 in February from -8.2 in January. This is quite important, since the consumer has been one of the factors that kept Eurozone growth in positive territory in the second half of 2019.

Remember that at the turn of the year the consensus was that the worst was now behind us: with the US-China trade deal, the orderly Brexit and the inventory correction largely over, all stars were aligned to see a growth acceleration. However, the Covid-19 outbreak, has muddled the picture. Anecdotal data suggest that exports to China are dropping rapidly, while a growing number of European companies report problems in the supply chain that might lead to lower output.

### Pleasant surprise

All hopes are therefore pinned on the consumer to keep the recovery on track. With cases of Covid-19 still fairly limited in Europe, at least for the time being, the negative impact on

consumption should remain muted, although the danger of seeing the number of cases increase significantly is still there.

Today's stronger consumer confidence is a pleasant surprise, giving reassurance that a recession can be avoided on the back of decent consumption growth. However, the weakness in exports and business investment means that first quarter growth is unlikely to be better than 0.1% quarter-on-quarter. In our base case the negative impact from the Covid-19 epidemic is likely to peter out in the course of the second quarter. That said, with the weak start to the year, we only expect 0.7% GDP growth for the whole of 2020.

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