

Snap | 15 May 2020

Eurozone: 1Q was all about the domestic lockdowns, 2Q will be too

The second estimate of eurozone GDP confirms the historic decline of 3.8% quarter-on-quarter. While GDP growth will be even bleaker for the second quarter, it's important to keep daily data in mind at the moment given that this is a recession on steroids



Source: Shutterstock

The differences between countries are very telling: it's mainly been about the domestic lockdown, which is an important lesson for the second quarter as well. The countries with the most restrictive lockdowns have seen the largest declines in GDP, of around 5% QoQ for France, Italy and Spain. The countries with softer lockdowns, like Germany and the Netherlands, saw GDP shrink by around 2% and Finland even managed to continue to grow at 0.1%.

The just-released employment data shows the usual slow response of eurozone employment to an economic shock. The decline of just -0.2% over the quarter makes for a dismal productivity decline, which is logical given the rigid eurozone labour market and the large emphasis on job retention in the fiscal stimulus put in place in most countries. A much larger impact is to be expected in the second quarter.

As we look ahead, the implications for 2Q GDP growth are evident. As the lockdowns had a far larger impact in terms of depth and time in 2Q than 1Q and the reopening of economies will happen just gradually, the decline in GDP will be far larger in the second quarter. For countries that took an earlier hit in 1Q, the decline could surprise to the upside somewhat, but don't expect any countries to come out with positive growth figures yet.

While the largest quarterly drop in output ever recorded will be followed by an even deeper drop in 2Q, the recovery seems to have already started as lockdowns are now gradually being lifted. This is very much a recession on steroids.

Activity data based on Google location tracking suggests that the worst is now behind us and that visits to workplaces, retail and grocery stores have increased again. The reopening will give a significant boost to growth towards the end of the quarter – bar any return of restrictive measures – but that will be dominated by the negative April impact. Do expect a sharp bounce back in 3Q though.

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