

Snap | 29 April 2020

Eurozone economic sentiment records fastest drop ever

The most important takeaways are that hiring expectations are plummeting, which does not bode well for the permanent fallout we can expect. Prospects for the coming months are dismal despite announcements of cautious lockdown loosening



Berlin's main shopping streets are virtually deserted

The fastest decline ever is something we will hear a lot about April data, I'm sure. As the eurozone economy was in lockdown for the entire month of April as opposed to roughly two weeks of March, a deterioration in sentiment and activity was a sure bet. The result is an enormous drop in the Economic Sentiment Indicator from 94.2 to 67, the one but lowest reading ever after March 2009. The index plummeted for all large economies, while no data for Italy was published because data couldn't be collected due to the strict lockdown measures. All countries had lower response rates.

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The question now is how quickly we can expect sentiment to recover as economies are gradually reopened. As the reopening of the economy will be phased over time, May is likely to only bring small improvements to the current situation although some could already bring quite some relief to the economy. It could be a while before sentiment among consumers and businesses recovers though as uncertainty about the virus could be with us for some time. This is reflected by the marked drop in expectations for the months ahead in both industry and services.

The biggest concern indicated by the survey is the rapid decline in employment expectations for both industry and services. The overall indicator dropped to a record low and shows that unemployment is likely to increase materially despite short-time work schemes being in place across the monetary zone. Tomorrow's unemployment rate is set to increase somewhat, but will not yet fully capture the extent of the labour market shock as numbers were partially collected before the lockdown and also because European labour markets are more rigid than their American counterparts. Still, the increase will follow and will have a negative effect on the pace of economic recovery.

Author

Bert Colijn

Senior Economist, Eurozone

bert.colijn@ing.com

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