Snap | 30 April 2020

Eurozone enters historically steep recession as GDP plunges -3.8% in 1Q

This time it really is different, as the eurozone enters an unprecedented recession. GDP will be even weaker in 2Q due to the lockdown impact, but as lockdowns are lifted a cautious recovery in activity will begin

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The lockdown recession has started

Historic. The first quarter decline in the eurozone economy is the worst for the economic bloc since at least the start of the 1970s. Almost all of the damage happened in the final two weeks of the quarter, showing how remarkably deep a contraction can become under mandated lockdowns. This time it really is different, a recession like the one we're currently in is unprecedented. That this is a recession seems evident given the longer duration of the lockdown in April than March and the very gradual reopening of economies in May. The second quarter will therefore be weaker still than the first.

Not much more than the headline figure is known for now, but several countries reported growth figures today, giving us some flavour of how the region performed. France saw GDP decline by -5.8%, Spain by -5.2%, Belgium by 3.9% and Austria by -2.5%. The depth of the decline is roughly in line with the severity of lockdowns by country, as described by nowcast indicators like Google mobility data. France and Spain have been among the most strict in terms of lockdowns and hence their economies have suffered more. This would suggest that a country like Germany has experienced a smaller than average contraction.

That said, this is a flash estimate of GDP, released only 30 days after the quarter ends. We're wary of larger revisions than in normal times, given that the downturn happened at the end of the quarter. That could make data collection for this flash estimate more problematic.

Unemployment ticked up to 7.4%, a key factor to monitor during the lockdown recession

Today's release of the March unemployment rate shows an increase from 7.3 to 7.4%. This is somewhat milder than expected, but most of the impact is surely still to come as the eurozone labour market is usually quite rigid, most countries have short-time work schemes in place and data collection happened over the entire month, which suppresses the impact of the lockdown on the numbers.

Unemployment is a key factor to monitor during the lockdown as this is an important driver of permanent damage to the economy. The higher unemployment becomes, the weaker and longer the recovery process will be. While these March numbers may not look like a big deal compared to the dramatic jobless claims from the US, the small increase is not reflective of what's still to come.

Let there be no mistake: the lockdown is deflationary

April inflation fell to 0.4%. As was the case for the GDP release, data collection was somewhat problematic here. Measuring prices when shops are closed becomes more of an art than science. Still, it cannot come as a surprise that energy inflation turned negative in April given what has happened to oil prices over recent weeks. Core inflation dropped just slightly from 1% to 0.9%, which is much harder to measure now than energy prices. Surveys suggested that businesses have slashed prices to retain some volumes amid collapsing demand, but this was hardly reflected in these numbers yet.

For the months ahead, consumers seem to expect higher prices coming out of the lockdown, but businesses have seen selling price expectations decrease markedly. It is possible that supply chain disruptions could cause some prices to temporarily increase but given that unemployment will almost certainly be higher coming out of the lockdown, price pressures are expected to remain weak for some time to come.

So where from here?

This historic drop in GDP will surely be followed by an even poorer quarter given that most of the lockdown has taken place in April. That said, a cautious start to the recovery will happen in the same quarter as lockdowns across the eurozone gradually get lifted, truly making this a whirlwind of a recession.

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