

## Eurozone GDP receives double-digit boost ahead of another downturn

A whopping 12.7% rebound in GDP in the third quarter is a bittersweet result with new lockdowns just being announced. That makes a double-dip unavoidable. Meanwhile, the latest inflation data vindicates the ECB's dovishness



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The eurozone recorded a very strong rebound after the deep lockdown in the third quarter, much better than expected.

Third-quarter growth in the bloc was even stronger than what we saw in the US – 12.7 vs 7.4% non-annualised – but American GDP didn't plummet as much either during the lockdowns. The strong rebound was led by France, Spain and Italy – the countries that experienced the harshest lockdowns. Clearly, this 3Q growth figure largely reflects a mechanical rebound.

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The current level of economic output is far more interesting than the growth rate. At -4.3%, below the peak in GDP of 4Q19, the rebound has still left a very significant gap to close. At levels of output, much below pre-Covid-19 levels and with new restrictive measures on the economy, concerns about second-round effects are growing. This means that the focus will now turn to how adequate fiscal responses will be to counter the long-term effects of new partial lockdowns.

The latest inflation data provides reasons to be concerned. Inflation was stable at -0.3%, but the slide in services inflation continues is worrying. While one-offs continue to influence the headline and core inflation rate, the October data for inflation still shows deflationary pressures at work. With new lockdowns, the outlook for inflation for the start of the new year will be weakening too, largely justifying the ECB's very dovish tone at yesterday's press conference.

The strong 3Q GDP figure will not make much of an impression as a new downturn is almost certainly upon us. With inflation remaining very weak and GDP set to fall again in 4Q, the ECB has started to work on a new package of monetary stimulus.

Not what you'd usually expect when an economy just grew by 12.7%, but this is the reality of a Covid economy.

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