Eurozone GDP: what a difference a wave makes

GDP fell by just -0.7% in 4Q 2020 despite significant lockdown measures in place. But with lockdowns extended well into 1Q, another technical recession is in the making

An empty Champs Elysees avenue in Paris, France

Source: Shutterstock

First of all, restrictive measures have been adapted and have become milder compared to the first wave. Think of countries like France and Spain, for example, where industry and construction have remained largely open over the course of the quarter. This has had a very positive effect on GDP, especially because demand for goods and construction has remained strong despite lockdowns in place. Mobility, the movement of people which was largely correlated to GDP growth in the first wave, was also stronger in the fourth quarter than during the first wave, which also supported economic activity.

What also helps is that the rest of the world is still open. Compared to the first wave, when supply chain problems and lockdowns globally caused a huge drop in external demand, the second wave is quite different. Outside of the eurozone, most economies have remained largely open and 4Q benefited from strong demand from countries like China, and from a stockpiling effect in the UK ahead of the end of the transition period. That has resulted in rather favourable monthly export figures and boosted industrial production.

This leads to the conclusion that while quite a few service sectors have seen output plummet over the course of the quarter, a strong manufacturing contribution has limited the overall GDP decline. As lockdowns have been extended into 1Q, it is likely that another quarter of falling GDP will follow.

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