A CEIC Insights Report

Euro Area Economy in a Snapshot Q2 2020

CONTACT US | www.ceicdata.com | FOLLOW US

Executive Summary

Euro Area Economy in a Snapshot is a quarterly publication produced by the CEIC Macroeconomic Research Team. The report is designed to provide a comprehensive, albeit concise overview of the current economic and financial developments. The Euro Area Economy in a Snapshot report is produced using data from CEIC's Global Database.

Summary

According to Eurostat's preliminary flash estimate, the **real GDP** of the Euro Area declined by 3.3% y/y in Q1 2020 and by 3.8% compared to Q4 2019. This decline is the sharpest on record since the European Statistical Office started to publish data in 1995. Among the eurozone's biggest economies, France's GDP contracted by 5.4% y/y and data for Spain revealed an annual drop of 3.8%.

Industrial production declined by 1.62% y/y in February 2020, reflecting the ongoing weakness of the sector, underpinned by a 3.79% y/y decline in mining and a 1.51% y/y drop in manufacturing output. **Retail sales** expanded by 3.45% y/y in February on the back of a 4.97% y/y growth of food, beverages and tobacco sales. Since governments imposed stay-at-home measures across the Euro Area, retail sales will deteriorate in Q2 as shown by the **retail trade confidence indicator** which dropped to -28.3% in April. In February 2020, the **unemployment rate** returned to its pre-crisis level of 7.3% but business shutdowns will likely lead to a rise in claims for unemployment benefits.

Harmonized inflation dropped to 0.4% in April, underpinned by disinflation in the transportation, the recreation and culture, and the restaurants and hotels sectors, which were impacted severely by the lockdown measures. The **key rates** remained unchanged by the ECB in Q1 2020: at 0.25% on the marginal lending facility, 0% on the main refinancing operations and -0.5% on the deposit facility. The March 2020 crash of the global equity markets brought the **Dow Jones Euro Stoxx** to 303.2, erasing the gains since June 2016. The **euro** depreciated slightly against the US dollar - from 0.9 USD/EUR in December 2019 to 0.91 USD/EUR in March 2020.

Germany posted a consolidated fiscal surplus of 1.45% of GDP in Q4 2019, while Italy ran a fiscal deficit of 1.64% of GDP. Spain's fiscal deficit stood at 2.82% of GDP in the same period, while France reported a fiscal deficit of 3.01% of GDP. Italy recorded a government debt of 134.8% of GDP in Q4 2019, while those of Spain and France stood at 95.5%and 98.1%, respectively, in the same period. The more conservative management of the government finances in Germany led to a debt-to-GDP ratio of 59.7% in Q4.

The Euro Area recorded a **trade surplus** of EUR 25.79bn in February. **Exports** boosted the economy of the eurozone as they expanded by 3.12% y/y to EUR 200.34bn in February. **Imports** declined by 0.78% y/y in February to EUR 174.55 and led to a bigger trade surplus. The surplus on the Euro Area's **current account** widened by 42.16% y/y to EUR 40.16bn in February 2020.

CEIC
In, On and For Emerging Markets

Euro Area Economy: Statistics at a Glance

Name	03/2018	06/2018	09/2018	12/2018	03/2019	06/2019	09/2019	12/2019
Real GDP; y/y % change	2.55	2.20	1.63	1.22	1.42	1.20	1.31	1.03
Industrial Production Index; y/y % change	2.72	2.05	0.36	-2.10	-0.47	-1.45	-1.76	-2.11
Retail Trade Index; y/y % change	1.65	1.95	1.25	1.60	2.43	2.10	2.65	1.98
Headline Inflation; %	1.27	1.71	2.12	1.91	1.43	1.40	0.95	1.00
Core Inflation; %	1.03	0.98	1.04	1.01	0.96	1.06	0.94	1.23
Policy Rate; % pa	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Unemployment Rate; %	8.53	8.30	8.03	7.90	7.77	7.57	7.53	7.37
Exports; y/y % change	2.50	4.64	5.11	3.97	3.69	2.12	3.16	2.14
Imports; y/y % change	2.49	6.63	10.40	8.46	5.37	2.46	0.64	-1.87
Trade Balance; EUR bn	48.54	56.87	41.57	47.69	41.83	56.34	56.02	70.48
Net Operating Balance; EUR bn	-57.38	9.91	-9.86	6.31	-67.60	-0.59	-19.03	25.00
10 Year Government Bond Yield; % pa	1.17	1.29	1.32	1.21	0.99	0.58	0.05	0.37
Money Supply M2; y/y % change	4.19	4.23	4.22	4.30	4.75	5.32	5.96	6.08

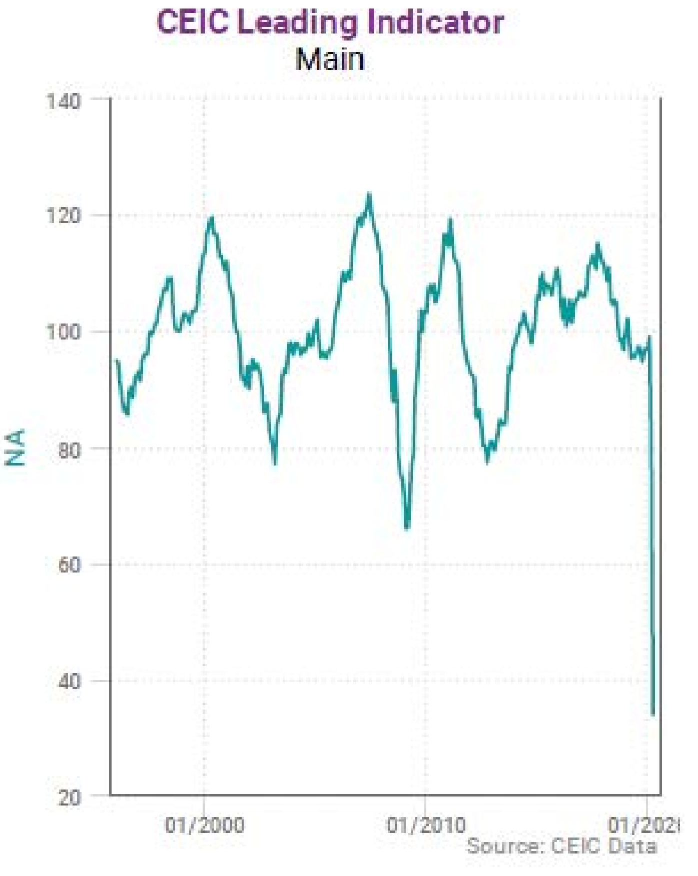
Source: CEIC Data, Eurostat, ECB, IMF

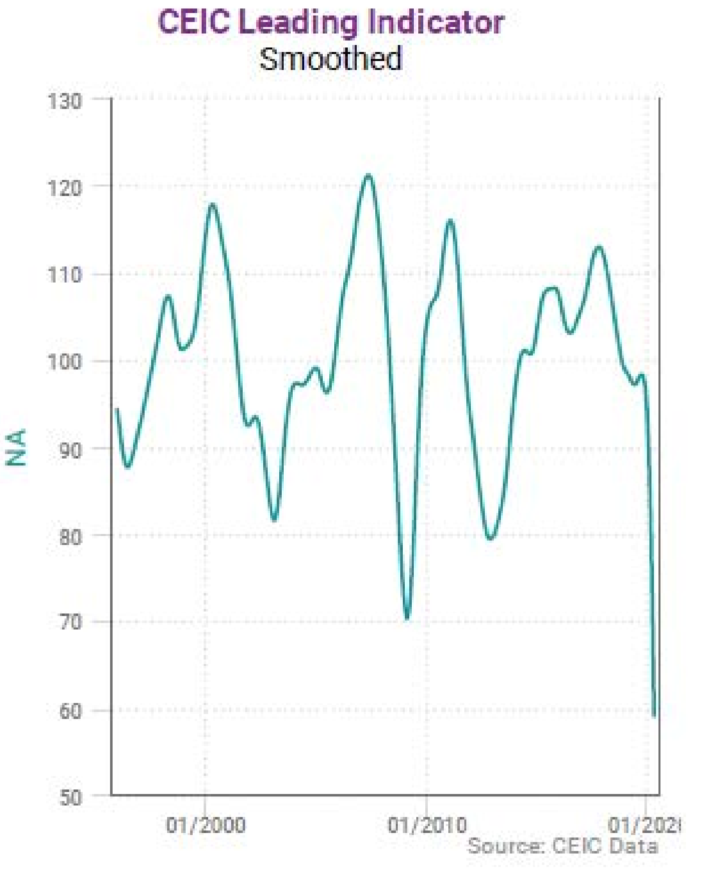
Economic Outlook

The gloomy short-term outlook became a reality as the main economies of the Euro Area plummeted into their worse recession on record in Q1 2020. Since lockdown measures became widespread from mid-March onwards and are expected to remain throughout Q2, economies across the eurozone will contract at an even faster rate in Q2 2020. According to the CEIC Leading Indicator, the economy of the Euro Area will shrink severely in Q2. The index, which has remained below the threshold of 100 since September 2018, collapsed to 33.88 in April from 80.89 in March on a steep downward trend. Other high-frequency indicators confirm our pessimistic outlook. The flash version of the composite PMI for the eurozone plummeted to a record low of 13.5 in April from 51.6 and 31.4 in February and March 2020, respectively. The drop was underpinned by a decline of the services component of the PMI to 11.7, given the suspension of many services as part of the measures to stamp the spread of COVID-19 across the eurozone. The flash indicator for manufacturing PMI declined to 33.6 in April as the sector was already contracting before the pandemic crisis. Since the services sector was the one that saved the Euro Area from entering a recession in 2019, a question remains on how quickly the sector will recover after lockdowns are lifted.

On the monetary policy front, ECB chief Christine Lagarde pledged maximum flexibility of the bank's policy in order to counter the adverse impact of lockdowns on the eurozone economy. The ECB announced a new pandemic emergency purchase programme (PEPP), committing to asset purchases worth a total EUR 750bn until the end of 2020, while it also sticks with the implementation of its QE programme at the rate of EU 20bn of assets per month. In addition, the ECB engaged in a new series of pandemic emergency long-term refinancing operations (PELTROs) aimed at preserving the smooth functioning of the money markets.

According to an April report by the IMF, the economy of the Euro Area will contract by 7.5% y/y in 2020 but will recover in 2021 and expand by 4.7% y/y. IMF analysts forecast a 7% y/y decline of GDP in Germany in 2020, 7.2% y/y in France, and 9.1% y/y and 8% y/y in Italy and Spain, respectively.


CEIC Leading Indicator
Main
140
120
100
80
60
40
20
NA
01/2000
01/2010
01/202
Source: CEIC Data


CEIC Leading Indicator
Smoothed
130
120
110
100
90
80
70
60
50
NA
01/2000
01/2010
01/202
Source: CEIC Data

Real Sector

Real Sector

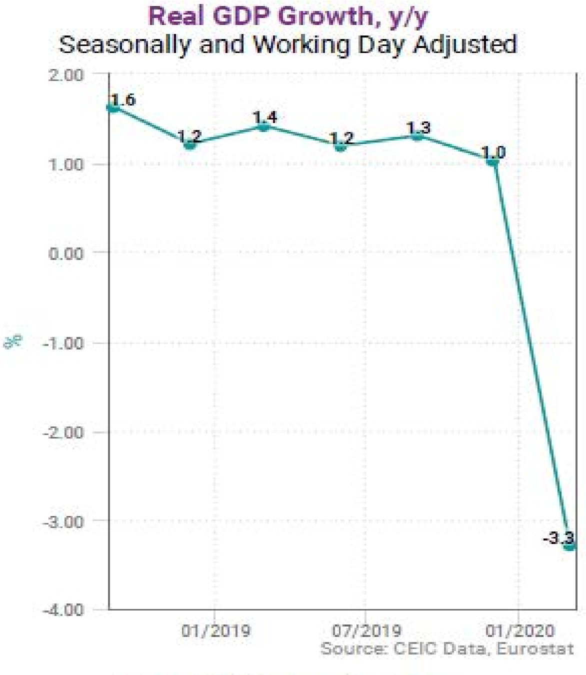
Preliminary flash estimates revealed that the economy of the Euro Area entered a recession in Q1 2020. Seasonally adjusted real GDP growth dropped sharply by 3.3% y/y and 3.8% q/q, which was the steepest decline since Eurostat started publishing the data in 1995. While the eurozone economy had been struggling since Q4 2017, the COVID-19 outbreak was certainly a tremendous blow on the bloc, as it managed to contain the positive effects of private consumption and strong labour market which kept the economy from recession throughout 2019. Two of Euro Area's powerhouses – France and Spain – were among the most affected by the pandemic and their GDP plummeted by 5.4% y/y and 3.8% y/y, respectively, in Q1 2020.

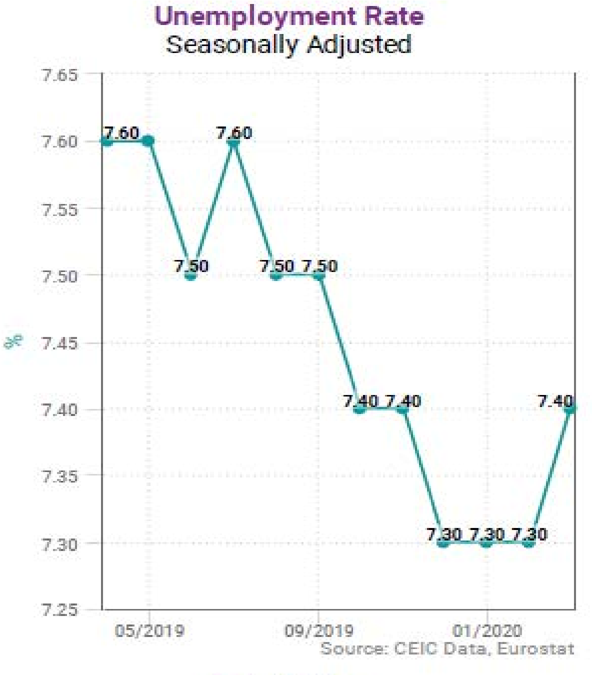
The industrial production of the Euro Area contracted on an annual basis throughout the entire 2019 and the trend continued in 2020. The IPI declined by 1.62% y/y in both January and February 2020, reflecting the ongoing weakness of the sector. The production from mining and quarrying activities declined by 3.79% y/y in February underpinned by a 34.77% plunge in coal extraction and a 17.08% y/y drop in crude petroleum and natural gas production. Manufacturing contracted by 1.51% y/y in February, while the production from the electricity and gas supply sector shrunk by 1.58% y/y in the same period. The production of consumer goods rose by 0.09% y/y, whereas the one of intermediate and capital goods declined by 0.95% y/y and 3.86% y/y, respectively, in February. In addition to this, industrial production shrunk in all major countries in the Euro Area. February data revealed an IPI drop of 1.25% y/y in Germany, 1.44% y/y in France, 1.27% y/y in Spain and 2.53% y/y in Italy. Current data reflects the state of the sector prior to the closure of entire industries in March and onwards amid disrupted supply chains and stay-at-home orders across the Euro Area. Data from March and the subsequent months will paint a more adequate picture of the COVID-19 outbreak's devastating impact on industry.

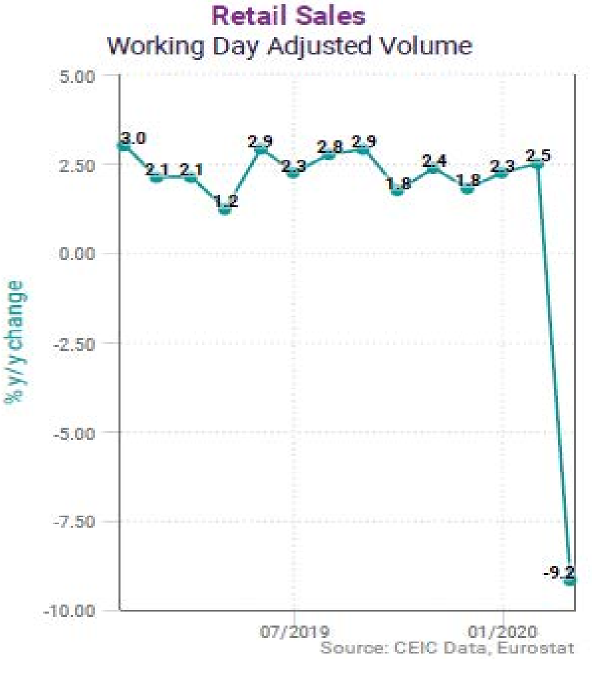
Growth of retail sales rose in Q4 2019 and accelerated further in Q1 2020. The seasonally adjusted retail trade index grew by 3.1% y/y and 3.45% y/y in January and February, respectively. The value of the retail trade of food products, beverages and tobacco increased by 4.97% y/y in February, while that of non-food products (excl. fuel) grew by 2.34%y/y in the same period. In terms of volume, retail sales expanded by 2.15% y/y and 2.7% y/y in January and February, respectively. Data on retail sales up until February, however, does not reflect the lockdowns' adverse effects on retail trade. Leading indicators provide a better estimation of the current state of the sector. The retail trade confidence indicator dropped from -0.2% in February to -8.6% in March and plummeted further to -28.3% in April. As a point of reference, the lowest value that the indicator reached during the economic crisis of 2008-2009 was -24.2% in December 2008. Since most non-essential businesses were ordered to shut down across the Euro Area, the short-term outlook for the industry is overwhelmingly negative. The indicator, which reflects the expectations regarding business activity over the next three months, plunged to -47% in April, while the one that shows the expectations for new orders in the same period dropped to -40.6%.

The construction production index expanded by 6.95% y/y in January but declined by 0.87% y/y in the following month. The outlook for this sector is pessimistic, as shown by the construction PMIs across the Eurozone, which dropped by 42 pp in Germany, 35.2 pp in France and 15.9 pp in Italy. The growth of housing prices exceeded 4% in each quarter in the period Q3 2016 to Q4 2019. In the current deflationary environment, housing prices' growth is expected to moderate in the short term.

The unemployment rate in the Euro Area trended downwards since its peak at 12.1% in July 2013. In February 2020, the rate returned to its pre-crisis level of 7.3%, following a decade of job creation. Due to it being a lagging indicator, currently available data does not account for the layoffs triggered by the restrictions on human movement imposed in March in most of the countries in the Euro Area.







Monetary & Financial Sector

Monetary and Financial Sector

In Q4 2019 inflation was boosted by the renewed quantitative easing programme initiated by former ECB chairman Mario Draghi in September 2019, which envisages purchasing EUR 20bn worth of assets each month. The inflation rate reached 1.4% in January 2020 but rapidly declined in the following three months.

Amid a disinflationary environment of rising unemployment and shutdown of businesses, harmonized inflation dropped to 0.7% in March and 0.4% in April. Inflation among food and non-alcoholic beverages stands out as it rose from 1.8% in February to 2.26% in March as the closure of borders across the eurozone put supply chains under extreme strain. The mandatory shutdown of non-essential businesses across the eurozone hit the hardest the transportation, the recreation and culture, and the restaurants and hotels sectors, which represent 15.59%, 8.79% and 10.1% of the composition of the harmonized index of consumer prices, respectively, making it difficult to estimate the overall change in prices. The inflation rate declined in all major Euro Area economies in March - to 1.34% in Germany, 0.69% in France, 0.09% in Italy and 0% in Spain. Core inflation – an indicator which excludes the changes in prices of the food and energy sectors due to their volatility – declined marginally from 1% in March to 0.9% in April 2020.

The key ECB rates remained unchanged in Q1 2020 - at 0.25% on the marginal lending facility, 0% on the main refinancing operations and -0.5% on the deposit facility. The ECB remained committed to its QE programme at the rate of EUR 20bn per month. To ease the monetary policy stance further and counter the severe risks to the outlook of the eurozone, the ECB initiated a new pandemic emergency purchase program (PEPP) committing to asset purchases worth a total EUR 750bn until the end of 2020. In addition, the ECB engaged in a new series of pandemic emergency long-term refinancing operations (PELTROs) aimed at preserving the smooth functioning of the money markets. The bank pledged to remain flexible and provide additional liquidity whenever needed.

The March 2020 crash of the global equity markets brought the Dow Jones Euro Stoxx to 303.2, erasing all gains since June 2016. The stock market index picked up in April to 322.19 though a full recovery is still far from sight. The main Spanish stock market index IBEX35 plummeted to 6,785.4. By comparison, during the 2008-2009 crisis, the IBEX35 hit a trough at 7,620.9 in February 2009. The average yield on 10-year euro denominated government bonds declined to 0.14% in February but rebounded to 0.38% in March. The increase in yields from February to March was most notable in highly indebted member states of the Euro Area: from 0.95% to 1.55% in Italy, from 1.07% to 1.97% in Greece and from 0.27% to 0.52% in Spain. The euro depreciated slightly against the dollar: from 0.9 USD/EUR in December 2019 to 0.91 USD/EUR in March 2020.

Headline & Core Inflation

Source: CEIC Data, Eurostat

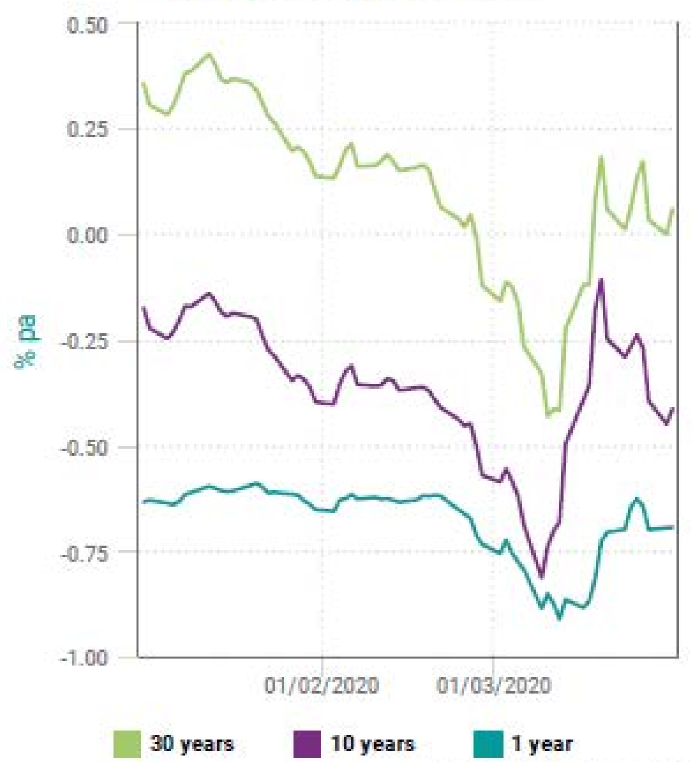
Key Interest Rates

Source: CEIC Data, ECB

Euro Stoxx Index

Source: CEIC Data, STOXX

Government Bond Yield



Source: CEIC Data, ECB

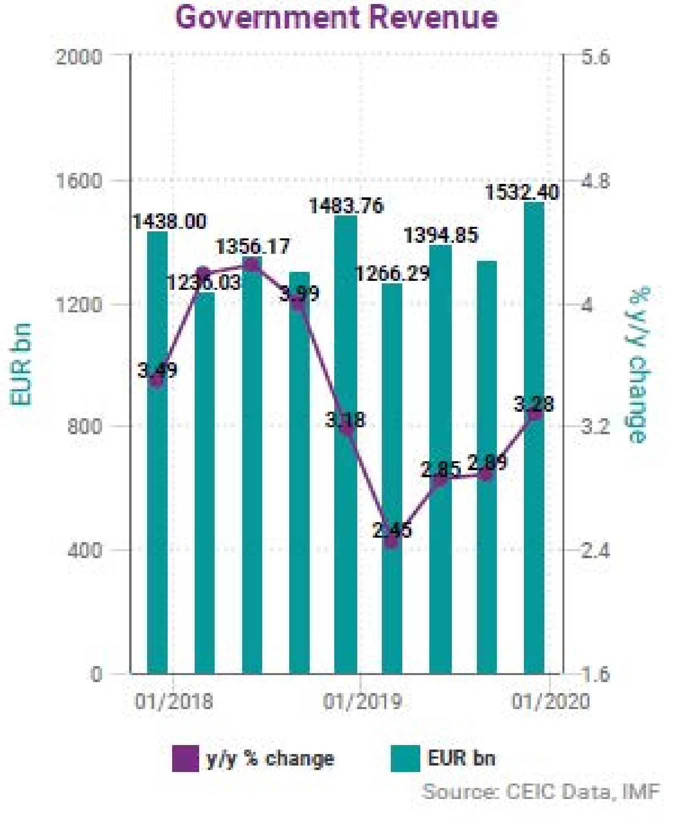
Fiscal Sector

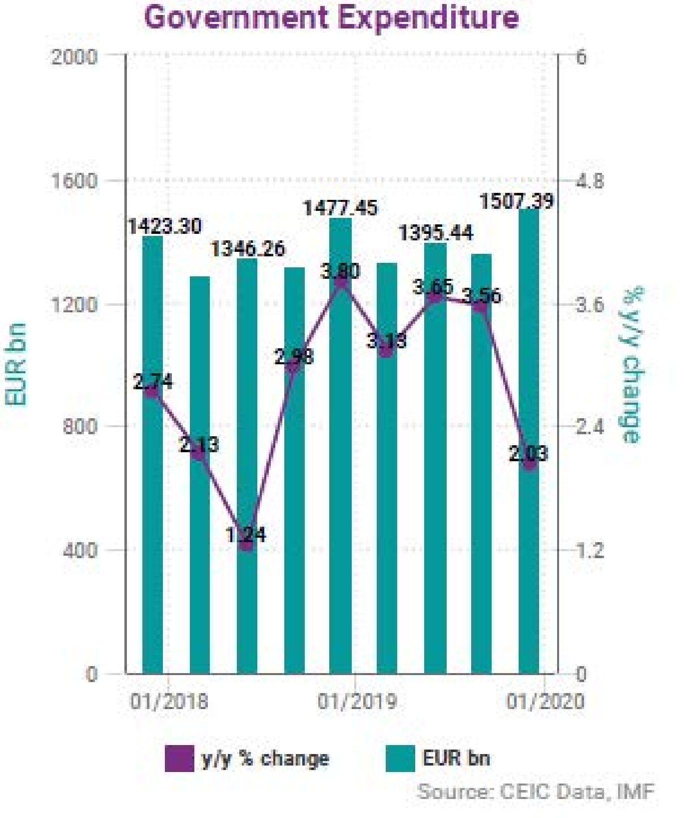
Fiscal Sector

Germany posted a consolidated fiscal surplus of 1.45% of GDP in Q4 2019, 1 bp lower than in the previous quarter. The Italian government narrowed down significantly its fiscal deficit from 2.02% in Q3 2019 to 1.64% of GDP in Q4 2019. Spain's fiscal deficit widened from 2.67% to 2.82% of GDP in the same period, while France reported a fiscal deficit of 3.01% of GDP, 30 bp larger than in the previous quarter. These figures, however, will be far off the values for Q1 2020, following the large packages of fiscal support that governments prepared to counter the adverse economic effects of the pandemic.

Unlike Germany, the other three major Euro Area economies faced the pandemic with high levels of public debt. Italy recorded a government debt of 134.8% of GDP in Q4 2019, while those of Spain and France stood at 95.5% and 98.1%, respectively, in the same period. The more conservative management of the government finances in Germany led to a debt-to-GDP ratio of 59.7% in Q4. Debt levels will surge as member states in Southern Europe turned to debt in order to meet the rising demand for unemployment benefits and fund the packages for governmental support for SMEs.

In late March 2020, the European Commission suspended its strict rules under the Stability and Growth pact, a measure which will allow member states to upend their spending and debt accumulation to support their economies. As part of another measure, beginning April 1, 2020, the European Commission allowed the use of EUR 37bn under the cohesion policy to counter the consequences of the COVID-19 crisis. Additionally, the hardest hit member states will have access to EUR 800mn as part of the Solidarity Fund.


Government Revenue
EUR bn
% y/y change
1438.00
1236.03
1356.17
3.99
1483.76
1266.29
1394.85
1532.40
3.49
3.18
2.45
2.85
2.89
3.28
01/2018
01/2019
01/2020
y/y % change
EUR bn
Source: CEIC Data, IMF


Government Expenditure
EUR bn
% y/y change
1423.30
1346.26
1477.45
1395.44
1507.39
2.74
2.13
1.24
2.98
3.80
3.13
3.65
3.56
2.03
01/2018
01/2019
01/2020
y/y % change
EUR bn
Source: CEIC Data, IMF


Budget Balance
EUR bn
14.70
-57.38
9.91
-9.86
6.31
-67.60
-0.59
-19.03
25.00
01/2018
01/2019
Source: CEIC Data, IMF


Government Debt
EUR bn
9,913.46
9,999.81
10,123.66
01/2018
01/2019
Source: CEIC Data, Eurostat

External Sector

External Sector

The Euro Area recorded a trade surplus of EUR 18.2bn in January 2020, followed by another surplus of EUR 25.79bn in February. Exports boosted the economy of the eurozone as they expanded by 3.12% y/y to EUR 200.34bn in February. Imports declined by 0.78% y/y in the same month to EUR 174.55 and led to a wider trade surplus. Among the Euro Area's top economies, Germany recorded the largest trade surplus of EUR 21.4bn in February 2020, followed by Italy with EUR 6.3bn. Spain and France posted deficits on their trade account – at EUR 2.34bn and EUR 5.24bn in February, respectively.

Exports within the Euro Area stood at EUR 164.5bn in February, or 82.1% of the value of all exports of eurozone member states. These were followed by exports to the US worth EUR 29.46bn, which is a 5.6% y/y increase. Exports to the UK declined by 12% y/y to EUR 22.2bn as growth has remained in negative territory since November 2019. The value of goods exported to China declined by 6.9% y/y and 3.3% y/y in January and February 2020 respectively, reflecting a weaker demand for European goods which can be attributed to the lockdowns across China in Q1.

Exports of manufactured products – the Euro Area's main export category – expanded by 1.2% y/y to EUR 166.08bn, however, the growth rate has been decelerating since Q3 2019. Exports of machinery and transport equipment grew by a mere 0.02% y/y to EUR 81.51bn as growth has been slowing down since the end of Q3 2019. A growing export sector is that of chemicals and related products, which expanded by 6.62% y/y to EUR 28.16bn in February.

Imports within the borders of the eurozone declined by 0.57% y/y to EUR 161.65bn in February. Imports from China plunged by 7.5% in February to EUR 22.82bn amid a severe supply shock in the Asian state which disrupted supply chains. Imports from the US grew by 0.06% y/y to EUR 18.34bn in February 2020 following a quarter of declining growth rate. The value of imports from the UK contracted by 0.56% y/y in February to EUR 14.6bn, reflecting the ongoing decoupling of the two economies on the back of the Brexit process.

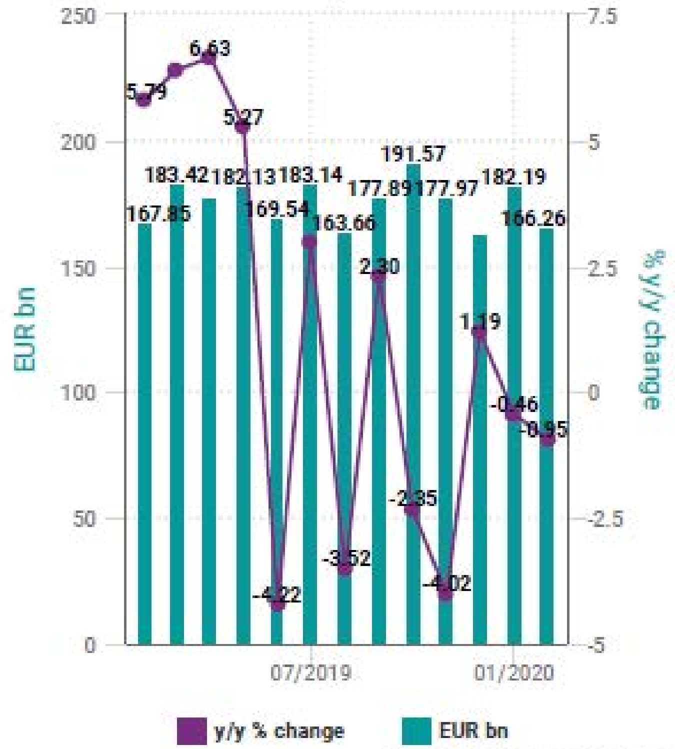
The value of imports of manufactured products declined by 0.76% y/y to EUR 126.08bn in February as the downward trend in growth continued. Imports of machinery and transport equipment dropped by 1.62% y/y to EUR 60.77bn in the same period, with growth gradually weakening since the beginning of H2 2019. The growth of mineral fuels imports has remained in negative territory since June 2019 and they declined by 11.01% in February 2020.

The Euro Area's current account surplus widened in by 42.16% y/y to EUR 40.16bn in February 2020, underpinned by the expansion of the trade surplus. As a percentage of GDP, Germany ran a current account surplus of 7.4% in Q4 2019, while Italy expanded its surplus to 4.16%. The surplus on Spain's current account declined slightly to 2.49% of GDP in Q4, whereas France turned a deficit of 0.56% of GDP in Q3 to a surplus of 1.36% of GDP in Q4 2019. In Q4 2019, Germany recorded an outflow of direct investment equivalent to 2.36% of GDP. On the contrary, France attracted FDI worth 3.55% of GDP in the same period.

Exports

Source: CEIC Data, Eurostat

Imports



Source: CEIC Data, Eurostat

Trade Balance

Source: CEIC Data, Eurostat

Current Account Balance

Source: CEIC Data, ECB

CEIC

In, On and For Emerging Markets

About CEIC Data

CEIC is an ISI Emerging Markets Group Company specialized in high quality macroeconomic databases. CEIC's databases have earned a world-class reputation among financial institutions, government agencies, universities, and corporations due to accuracy and comprehensiveness. Today, we are the service of choice for economic research on emerging and developed markets by economists around the globe.

CEIC Insights

CEIC Insights is a unit of CEIC Data that produces proprietary research and analysis. The service features data templates with dynamic visuals for Emerging and Developed markets, providing instant insight from macro overviews to individual sector analysis.

Disclaimer

ASIA OFFICE

5/F, V-Point, 18 Tang Lung Street,
Causeway Bay
Hong Kong, SAR
of P.R. China
Voice: +852 5801 4141
nainfo@isimarkets.com

EUROPE OFFICE

CityPoint
1 Ropemaker Street
London, EC2Y 9HT
United Kingdom
Voice: +44 207 153 1205
euinfo@isimarkets.com

NORTH AMERICA OFFICE

12 E 49th St
New York, New York
10017
US
Voice: +1 212 610 2900
usinfo@isimarkets.com

LATIN AMERICA OFFICE

Rua Bandeira Paulista,
702 - 12° andar Itaim Bibi
São Paulo, Brazil

Voice: +55 11 4410 4250
lataminfo@isimarkets.com