In, On and For Emerging Markets

A CEIC Insights Report

Euro Area Economy in a Snapshot Q3 2020

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 eurozone plummeted by 15% y/y in Q2 2020 and by 12.1% compared to Q1 2020 beating its record-low performance for a second quarter in a row. The Euro Area four largest economies, Germany, France, Italy and Spain, also registered historical dips at 11.7% y/y, 19% y/y, 17.3%y/y and 22.1% y/y respectively.

The **industrialproductionindex**dropped by 20.6% y/y in May after contracting by 28.8% y/y in April 2020 – its steepest decline on record.

Retail tradedeclined by just 5.4% y/y in May following a 19.4% y/y drop in April on a seasonally adjusted basis.

Following a six-year long period of job creation, the seasonally adjusted **unemployment rate** in the Euro Area hit a record-low of 7.1% in March 2020. After an all-time low, the unemployment rate rose in two consecutive months to 7.4% in May.

Harmonized Inflation plummeted to 0.1% in May and inched up to 0.3% in June. While general inflation declined sharply in 2020, food and beverage prices rose by 3.4% y/y in May.

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.

During Q2 2020, the **Dow Jones Euro Stoxx** index gained 16.35% on the back of potent fiscal and monetary policy support. Germany's DAX index was down just 5.16% year-to-date in June. In contrast, the Spanish IBEX 35 was down 22.8% and the Italian FTSE MIB was down 16.6% in the same period.

Germany's **fiscal surplus** narrowed to 1.28% of GDP in Q1 2020 from 1.47% in the previous quarter, while a sharper decline is expected in Q2. Italy's fiscal deficit widened to 2.45% of GDP in Q1 2020. Spain's fiscal deficit expanded to 3.27% of GDP in Q1 2020. France's fiscal deficit expanded to 3.49% of GDP in Q1 – its highest value since Q1 2017.

Exports dropped by 29.4% y/y in April to EUR 137.3bn. Imports were slightly less affected as they declined by 23.9%y/y in April to EUR 136.1bn. These led to a reduction of the **trade surplus** to EUR 1.23bn in April from EUR 25.5bn in March.

Euro Area Economy: Statistics at a Glance

Name	06/2018	09/2018	12/2018	03/2019	06/2019	09/2019	12/2019	03/2020
Real GDP; y/y % change	2.22	1.64	1.22	1.44	1.29	1.38	1.00	-3.09
Industrial Production Index; y/y % change	2.05	0.36	-2.07	-0.25	-1.32	-1.56	-2.05	-6.19
Retail Trade Index; y/y % change	1.95	1.25	1.60	2.47	2.10	2.65	2.04	-1.35
Headline Inflation; %	1.71	2.12	1.91	1.43	1.40	0.95	1.00	1.11
Core Inflation; %	0.98	1.04	1.01	0.96	1.06	0.94	1.23	1.11
Policy Rate; % pa	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Unemployment Rate; %	8.27	8.03	7.90	7.77	7.57	7.50	7.40	7.27
Exports; y/y % change	4.65	5.12	3.97	3.73	2.16	3.25	2.17	-1.65
Imports; y/y % change	6.86	10.62	8.57	5.44	2.52	0.55	-2.08	-4.29
Trade Balance; EUR bn	55.81	40.57	46.61	40.61	55.20	55.99	70.74	54.10
Net Operating Balance; EUR bn	10.02	-9.09	7.12	-68.47	0.10	-18.52	26.11	-117.40
10 Year Government Bond Yield; % pa	1.29	1.32	1.21	0.99	0.58	0.05	0.37	0.37
Money Supply M2; y/y % change	4.23	4.22	4.30	4.75	5.32	5.96	6.08	6.34

Source: CEIC Data, Eurostat, ECB, IMF

Economic Outlook

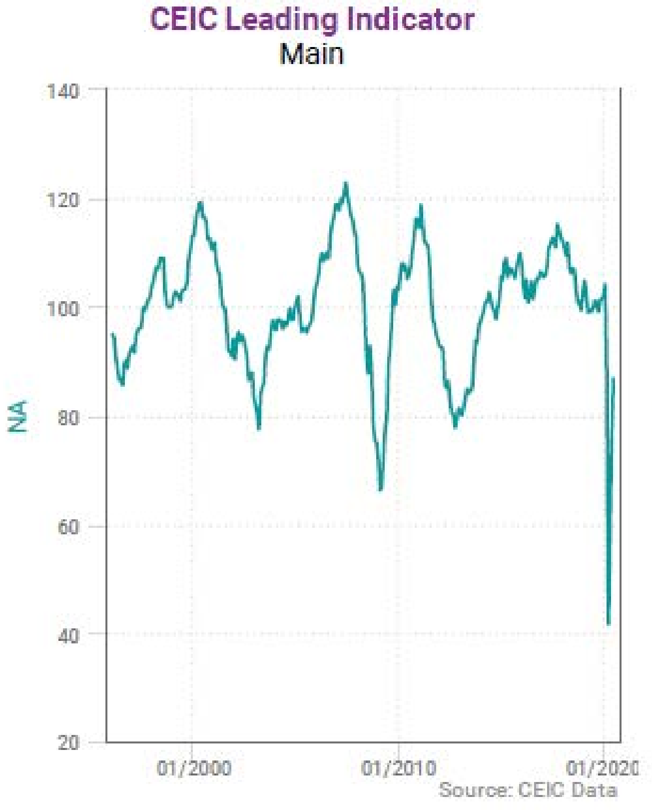
The economy of the Euro Area is forecast to enter its deepest recession on record according to our proprietary CEIC Leading Indicator. The smoothed indicator fell below 100, the threshold between expansion and contraction of economic activity, in November 2019 and has plummeted since then. The CEIC Leading Indicator plunged to a historic low of 61.68 in June 2020. In comparison, during the 2008 financial crisis the indicator hit a trough of 70.77 in February 2009, while during the 2012 European debt crisis it fell to 79.99. The non-smoothed leading indicator fell to 40.6 in the peak of the economic shutdown in April and rebounded to 76.5 in June, suggesting that the economy is still way below its pre-pandemic level.

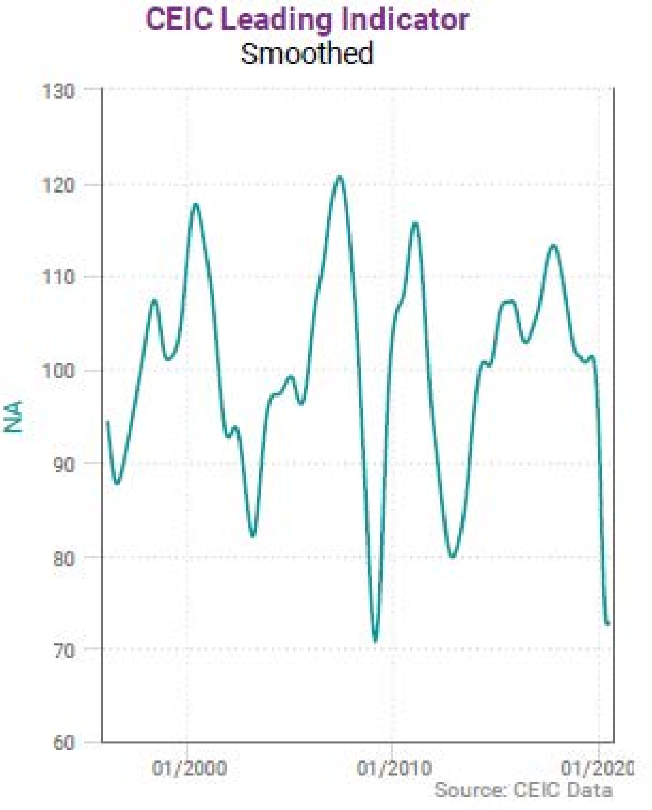
According to data from Markit's Purchasing Managers' Index, the eurozone economy has merely stabilized and is yet to show signs of recovery. In April, the seasonally adjusted manufacturing PMI plunged to 33.4 – a value reached during the peak of the 2008 financial crisis. Although the PMI rebounded to 47.4 in June, the reading does not suggest a recovery to pre-pandemic levels but rather a slowing rate of decline of economic activity.

The Governing Council of the ECB did not deliver any surprises during its July 16, 2020 meeting. The interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 0%, 0.25% and -0.5% respectively. The purchases under the pandemic emergency purchase programme (PEPP) will continue to be performed to ease the overall monetary policy stance at least until the end of Q2 2021. The Governing Council will continue the purchases under the asset purchase programme (APP) at a monthly pace of EUR 20bn coupled with the additional EUR 120bn temporary envelope until the end of 2020. The targeted longer-term refinancing operations will also continue to support bank lending to companies and households.[1]

The leaders of the EU member states agreed upon a EU budget and recovery package amounting to EUR 1.8tn that combines a EUR 1.1tn Multiannual Financial Framework 2021-2027 and a recovery fund. The latter will consist of EUR 390bn in grants and EUR 360bn in cheap loans that will be raised on financial markets by the EU, which is rated as an AAA creditor. The plan, however, is yet to be agreed upon by the members of the European Parliament and ratified by each member state.

According to the IMF's June World Economic Outlook, a GDP contraction of 10.2% y/y is expected in the eurozone in 2020, followed by a 6% y/y recovery in 2021. Across the Euro Area's powerhouses, German GDP is forecast to shrink by 7.8% y/y in 2020, while the economies of France, Italy and Spain are expected to contract by 12.5% y/y, 12.8% y/y and 12.8% y/y, respectively.


CEIC Leading Indicator
Main
140
120
100
80
60
40
20
NA
01/2000
01/2010
01/2020
Source: CEIC Data


CEIC Leading Indicator
Smoothed
130
120
110
100
90
80
70
60
NA
01/2000
01/2010
01/2020
Source: CEIC Data

Real Sector

Real Sector

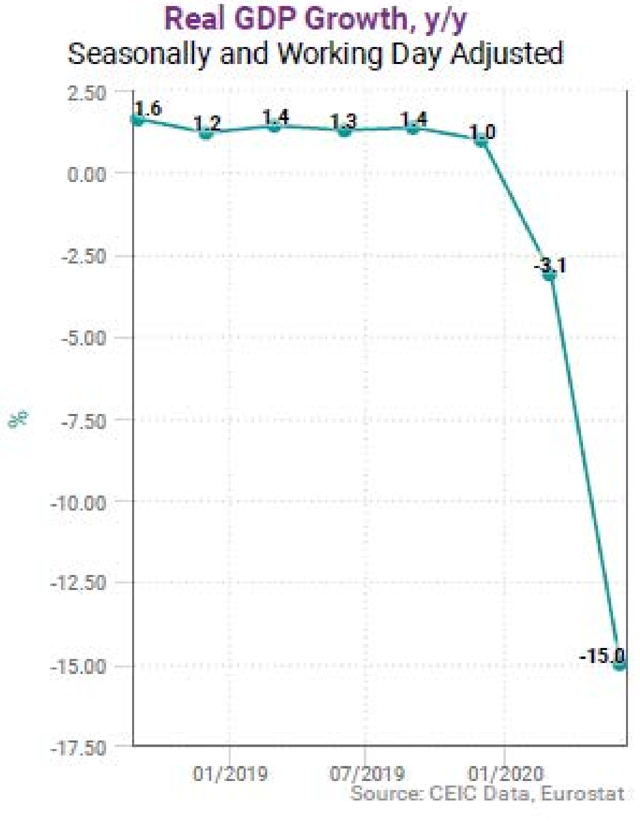
Eurostat's preliminary flash estimates for Q2 2020 revealed that the Euro Area is sinking deeper into a recession of unprecedented scale. Seasonally adjusted real GDP growth dropped by 15% y/y and 12.1% q/q which was the sharpest decline on record by a large margin. However, this outcome does not really come as a surprise since the most severe phase of the COVID-19 lockdown came during the second quarter of 2020 and more specifically in April. The monetary bloc's four largest economies, Germany, France, Italy and Spain all recorded historical declines at 11.7%y/y, 19% y/y, 17.1% y/y and 22.1% y/y respectively. The poorest performance came from Spain, where the lockdown measures were among the most severe, resulting into lower economic activity.

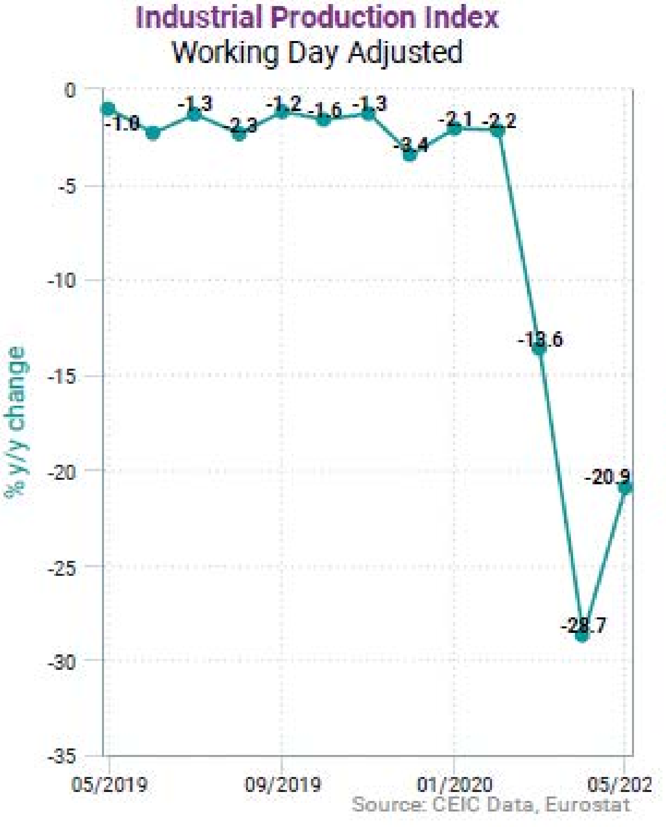
The Euro Area's industrial production declined on a yearly basis throughout the entire 2019 and the COVID-19 pandemic exacerbated the ongoing weakness of the sector. The IPI posted its steepest decline on record in April 2020 when it shrank by 28.8% y/y due to lockdowns imposed by governments across the eurozone. Recent data suggests a slow and painful recovery of industrial production with a 20.61% y/y decline in the IPI in May. The production from mining activities plummeted by 21% y/y in April and declined less notably by 9.2% y/y in May. Lockdowns had a massive impact on manufacturing production, which dropped by 30.4% y/y in April and by an additional 21.8% in May. The electricity, gas and air conditioning supply declined by 11.86% y/y and 9.46% y/y in April and May, respectively. The production of capital goods was hit the hardest by lockdowns as it declined by 41.2% y/y in April, whereas that of consumer goods dropped by 18.5% y/y in the same period. Since measures to contain the spread of the viral outbreak differed across the eurozone, the extent to which countries' production was affected differed significantly. Three of the eurozone's powerhouses – Spain, Italy and France – suffered massive economic damage as their production almost halved during the peak in April. Italy's IPI declined by 43.4% y/y in April and by 20.3% y/y in May, whereas that of Spain dropped by 34.1% y/y and 24.4% y/y, respectively.

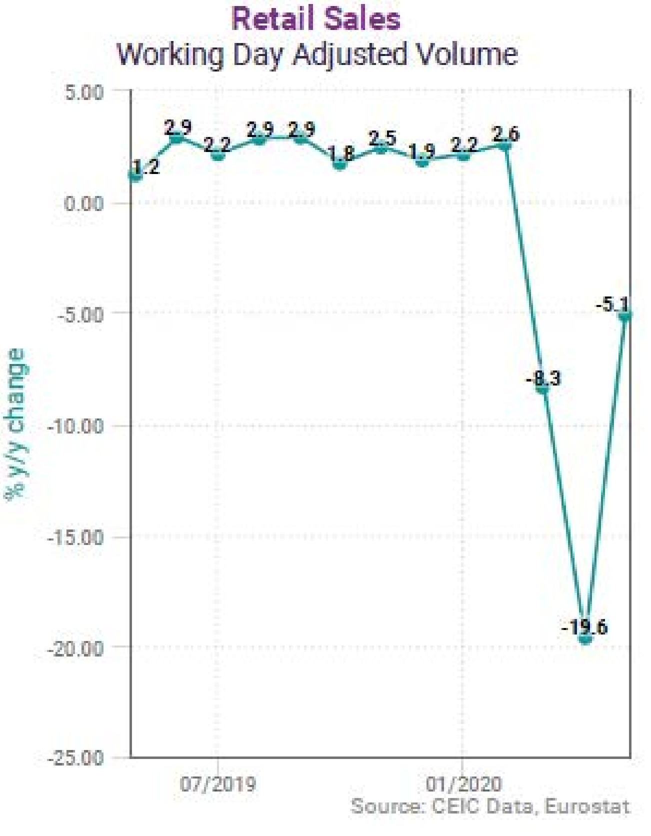
As stay-at-home orders were imposed in late Q1 and continued into Q2 2020, retail sales plunged by 19.4% y/y in April on a seasonally adjusted basis. Retail trade declined by just 5.4% y/y in May, suggesting the possibility of a deep but short contraction of consumer spending. Due to the shutdown of fashion retail stores, the sector was affected the most adversely as sales of clothing and footwear dropped by 80% y/y in April and by an additional 51.1% y/y in May. People remain reluctant to purchase big-ticket items and the sales of computers and telecommunication equipment declined by 44% y/y and 29% y/y in April and May, respectively. Although consumers remain predominantly pessimistic, sentiment began improving in Q2 2020. The seasonally adjusted retail trade confidence indicator declined by 30.1pp in April but accelerated in June to a decline of only 19.1pp.

The real estate sector was heavily affected by the stay-at-home measures. The construction production index plummeted by 30.6% y/y in April and dropped by 10.1% y/y in May. Construction PMIs for the eurozone's top economies rebounded in Juneto 53.8 and 51.6 in France and Italy, respectively, suggesting a quick recovery of the sector. Recovery in Germany is expected to be more prolonged since the same indicator stood at 41.3 in June.

Following a six-year long period of job creation, the seasonally adjusted unemployment rate in the Euro Area hit a record-low of 7.1% in March 2020. However, March might mark the end of this long period of improvement of the labour market as the unemployment rate rose in two consecutive months to 7.4% in May. Since many governmental job protection programmes are still in place, the true unemployment rate might be underreported and furloughs of workers to begin as soon as these programmes expire.




Industrial Production Index
Working Day Adjusted
% y/y change
0
-5
-10
-15
-20
-25
-30
-35
-1.0
-1.3
-2.3
-1.2
-1.6
-1.3
-3.4
-2.1
-2.2
-13.6
-20.9
-28.7
05/2019
09/2019
01/2020
05/202
Source: CEIC Data, Eurostat


Retail Sales
Working Day Adjusted Volume
% y/y change
5.00
0.00
-5.00
-10.00
-15.00
-20.00
-25.00
1.2
2.9
2.2
2.9
2.9
1.8
2.5
1.9
2.2
2.6
-5.1
-8.3
-19.6
07/2019
01/2020
Source: CEIC Data, Eurostat

Monetary & Financial Sector

Monetary andFinancialSector

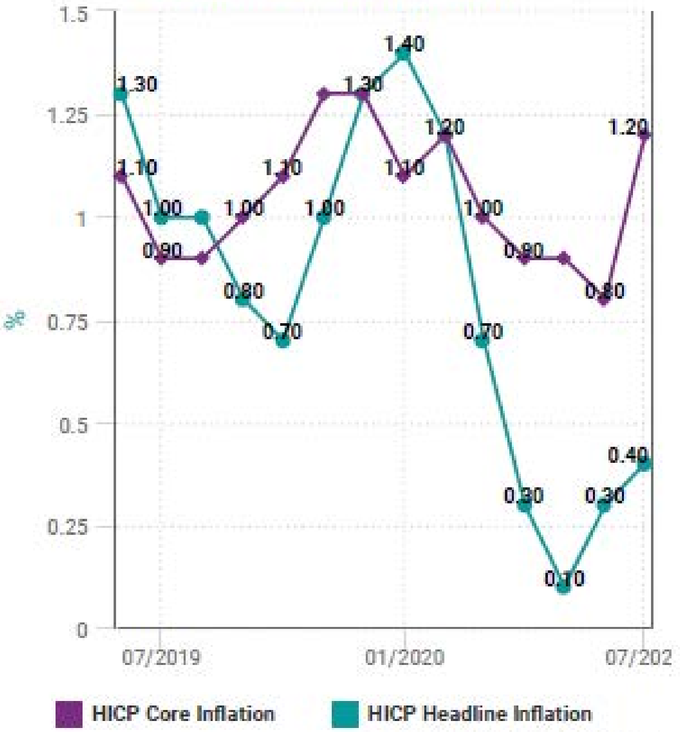
In a disinflationary environment of rising unemployment and mandatory shutdown of businesses, inflation softened in Q2 2020. Following an upward rally to 1.4% in January, harmonized inflation plummeted to 0.1% in May and inched up to 0.3% in June. An important trend to note is the decoupling of inflation among food and non-alcoholic beverages from the general HICP index. Whilegeneral inflation declined sharply in 2020, food and beverage prices rose by 3.6%y/y and 3.4% y/y in April and May, respectively. Amid shutdowns of fashion retail businesses, prices of clothing and footwear deflated by 0.4% y/y and 0.7% y/y in the same period. Given the collapse of crude oil prices, prices in the transportation sector deflated by 3.6% y/y in April and 4.6% in May. Inflation in the services' sector stood in the range 1.1%-1.3% in Q2 2020. Among the eurozone's largest economies Germany and France posted inflation of 0.6% and 0.4%, respectively, in May. In Italy and Spain – some of the hardest hit states by the pandemic outbreak in the eurozone – the CPI stood at -0.2% and -0.9%, respectively, in the same period.

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 Governing Council of the ECB announced further support for the eurozone economy during its June meeting. The council decided on expanding the envelope for the pandemic emergency purchase programme (PEPP) by EUR 600bn to EUR 1,350bn to support funding conditions. The ECB remained committed to the asset purchase programme (APP), which will continue at the monthly pace of EUR 20bn coupled with the additional EUR 120bn worth of asset purchases until the end of 2020. The council of the ECB also reassured the public that rates will remain at their levels until inflation rises close enough to the 2% goal.

Following the equity markets meltdown in mid-March 2020, stock market indices across the eurozone remain negative year-to-date. In 2019, the Dow Jones Euro Stoxx rose steadily to 403.9 but plummeted by 24.9% year-to-date in March 2020. During Q2 2020, the index gained 16.35% on the back of potent fiscal and monetary policy support. The recovery of financial markets has been disproportionate across the Euro Area, dependent on the scope of governmental support and the containment of the virus. Germany's DAX index was down just 5.16% year-to-date in June. In contrast, the Spanish IBEX 35 was down 22.8% and the Italian FTSE MIB was down 16.6% in the same period.

The euro gained significantly on the US dollar in Q2 2020 amid a massive intervention of the Fed in government securities and corporate credit markets. The European currency appreciated from USD 0.92 per EUR in April to USD 0.89 per EUR in June.

Headline & Core Inflation



Source: CEIC Data, Eurostat

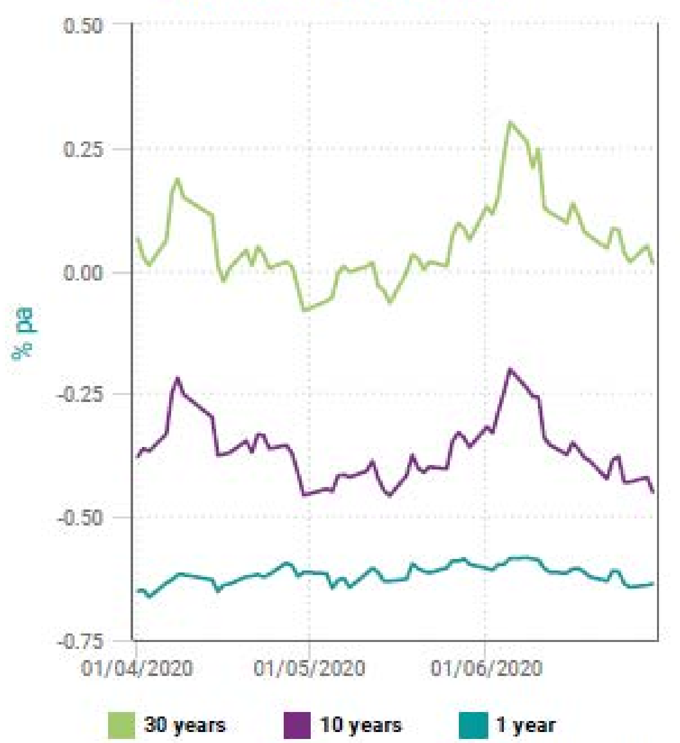
Key Interest Rates

Source: CEIC Data, ECB

Euro Stoxx Index

Source: CEIC Data, STOXX

Government Bond Yield



Source: CEIC Data, ECB

Fiscal Sector

Fiscal Sector

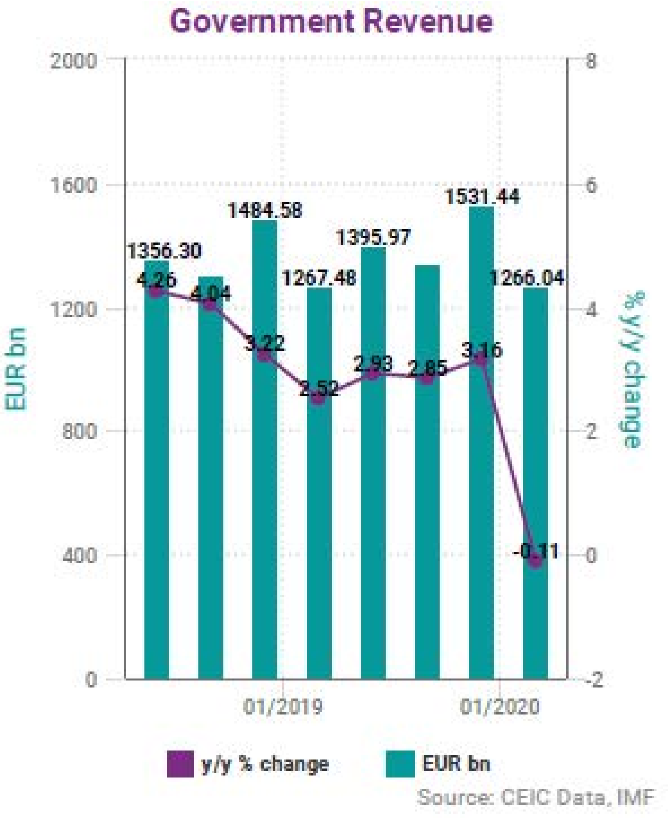
Germany's fiscal surplus declined to 1.28% of GDP in Q1 2020 from 1.47% in the previous quarter, while a sharper decline is expected in Q2.

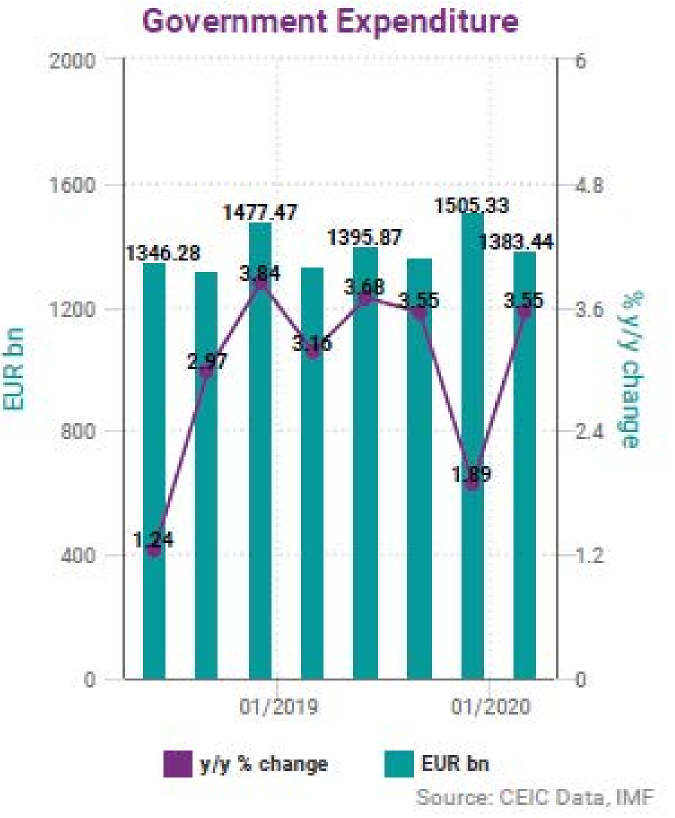
For Germany, as well as other countries in the eurozone that imposed strict lockdowns to limit the spread of COVID-19, tax income will shrink in Q2 due to the collapse of economic activity. At the same time, the expenditure side will expand as governments need to meet the rising demand for unemployment benefits and fund the packages for governmental support for SMEs. Prior to the COVID-19 crisis, Italy was on track with reducing its fiscal deficit, which declined to 1.64% in Q4 2019. Due to the massive damage induced by stay-at-home orders and shutdowns of non-essential businesses, Italy's fiscal deficit expanded to 2.45% of GDP in Q1 2020. Spain's fiscal deficit had not exceeded 3% of GDP in 2018 and 2019, though it expanded to 3.27% of GDP in Q1 2020 as the economy was almost brought to a halt. France's fiscal deficit expanded to 3.49% of GDP in Q1 – its highest value since Q1 2017.

Rising deficits will inflate the already large debt piles of some Euro Area economies. France's debt-to-GDP ratio reached a record-high at 101.2% in Q1 2020. In Spain, debt expanded from 95.5% of GDP in Q4 2019 to 98.9% in Q1 2020, while Italy's debt rose to 137.6% of GDP in Q1. Germany's debt with respect to GDP rose to 61.28% in Q1 2020 –its first increase since Q2 2012.

The leaders of the EU member states agreed upon an EU budget and recovery package amounting to EUR 1.8tn that combines a EUR 1.1tn Multiannual Financial Framework (MFF) 2021-2027 and a recovery fund. The latter will consist of EUR 390bn in grants and EUR 360bn in cheap loans that will be raised on financial markets by the EU, which is rated as an AAA creditor. The plan has faced significant backlash from a large fraction of the European Parliament, which must approve it in order to make it enforceable. On July 23, 2020 the European Parliament agreed on a resolution, according to which the currently proposed plan did not gain approval and must be improved. Although the Parliament welcomed the historic common debt issuance to fund the recovery package, it deplored the reduction of the grant component. Furthermore, the parliament is critical about the proposed cuts to health and research programmes amid a global pandemic outbreak. The European Parliament opposed the proposed cuts to strategic areas such as education, digital transformation, innovation, which they believe "will jeopardize the future of the next generation of Europeans".[1] According to the current proposal, EUR 377.8bn (in 2018 prices) from the MFF will be used to fund the cohesion, resilience and values programme. Another EUR 356.4bn from the MFF will be directed towards the Common Agricultural Policy and the Just Transition fund. The rest of the money will capitalize the spending for innovation and digital transformation, migration and humanitarian programs and security and defence. If it eventually gets approved by the European Parliament, the EU budget and recovery plan needs to be ratified by all member states.

The yield on the benchmark 10-year German government bond reached an all-time low at -0.83% on March 9, 2020 as fear spread across global equity markets in mid-March and investors shifted their funds from equities to fixed-income securities. Following a massive liquidity support on behalf of the ECB which fuelled an increasingly risk-on sentiment among investors, the yield fluctuated within a range of -0.58% and -0.29% in Q2 2020.


Government Revenue
2000
1600
1200
800
400
0
8
6
4
2
0
-2
EUR bn
% y/y change
1356.30
1484.58
1267.48
1395.97
1531.44
1266.04
4.26
4.04
3.22
2.52
2.93
2.85
3.16
-0.11
01/2019
01/2020
y/y % change
EUR bn
Source: CEIC Data, IMF


Government Expenditure
2000
1600
1200
800
400
0
6
4.8
3.6
2.4
1.2
0
EUR bn
% y/y change
1346.28
1477.47
1395.87
1505.33
1383.44
1.24
2.97
3.84
3.16
3.68
3.55
1.89
3.55
01/2019
01/2020
y/y % change
EUR bn
Source: CEIC Data, IMF


Government Debt
12,000.00
10,000.00
8,000.00
6,000.00
4,000.00
2,000.00
0.00
EUR bn
10,000.18
10,071.54
10,164.18
10,260.54
07/2018
01/2019
07/2019
01/2020
Source: CEIC Data, Eurostat


Budget Balance
50.00
25.00
0.00
-25.00
-50.00
-75.00
-100.00
-125.00
EUR bn
10.02
-9.09
7.12
-68.47
0.10
-18.52
26.11
-117.40
07/2018
01/2019
07/2019
01/2020
Source: CEIC Data, IMF

External Sector

External Sector

External trade collapsed from March onwards amid restrictions on the free movement of people within the Eurozone, coupled with a disruption of global supply chains. Exports dropped by 29.4% y/y in April to EUR 137.3bn. Imports were slightly less affected as they declined by 23.9% y/y in April to EUR 136.1bn. These led to a reduction of the trade surplus to EUR 1.23bn in April from EUR 25.5bn in March. The fraction of imports from within the eurozone declined to 82.4% of total imports in April from 91.5% in the previous month. The fraction of exports within the Euro Area remained relatively stable at 82% of total exports by the eurozone countries.

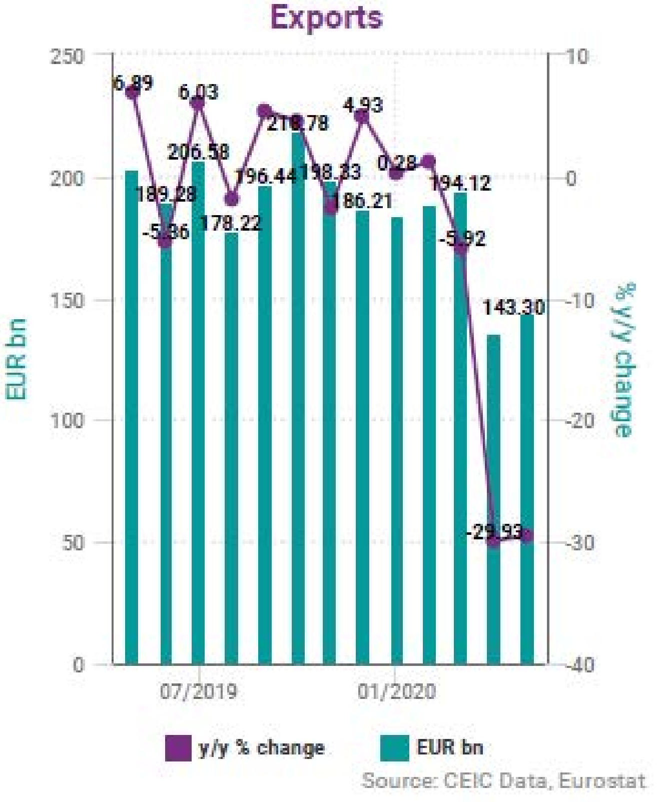
Germany's traditionally large trade surplus narrowed to EUR 3.3bn in April from EUR 21bn in February. In the same period, Italy's traditional trade surplus turned into a deficit of EUR 1.14bn, while France's deficit widened to EUR 5.1bn.

Exports to the US grew at a robust rate before slumping in April by 30.56% y/y to EUR 20.3bn. Given the still rising number of infections in the US, the value of exports is expected to remain subdued in Q2 and Q3. The value of exports to China has been declining on an annual basis throughout the entire 2020 since the impact from the COVID-19 outbreak was felt as early as in January. Exports to China contracted by 9.9% y/y in April with no signs of recovery so far. Exports to the UK were already in a decline before the pandemic outbreak on the back of the ongoing Brexit process. The COVID-19 crisis exacerbated the trend and exports slumped by 36.6% in April to EUR 13bn.

Exports of manufactured products – the Euro Area's main export item – underwent a 9.5% y/y decline in March followed by a 31.5% y/y contraction in April, which will significantly weigh on Q2 GDP. Exports of machinery and transport equipment dropped by 15.5% y/y in March and 43.7% in April. The third most valuable export segment as of May was chemicals and related products. Despite a sharp m/m decrease, the value of exported chemicals remained almost unchanged on an annual basis at EUR 35.7bn in May.

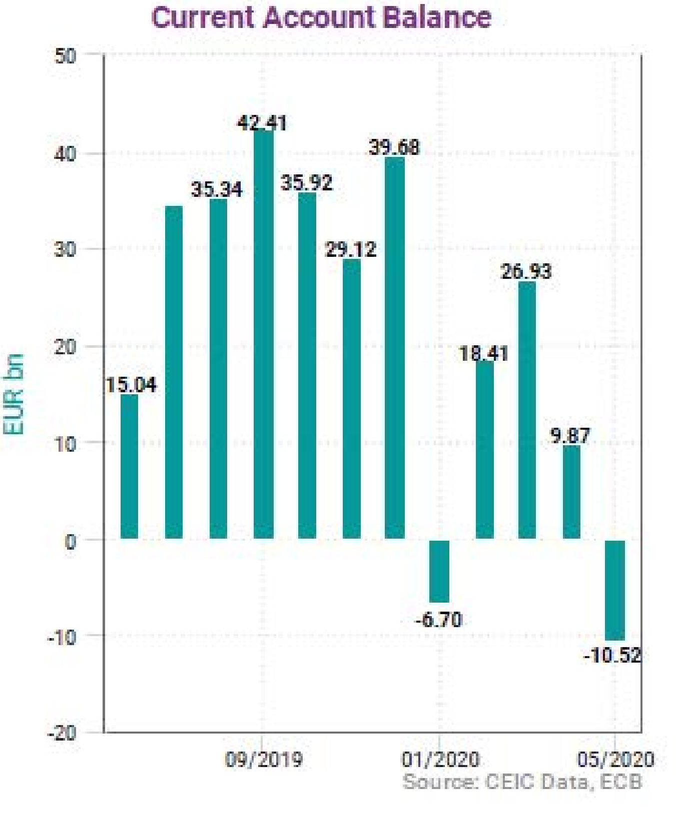
The strong rebound of economic activity in China is clearly reflected in the value of imports to the Euro Area. The value of imports contracted sharply in February and March but expanded by 7.9% y/y in April. This is not the case for the other key trade partners, namely the US and the UK. Imports from the US declined by 13.4% y/y to EUR 14.6bn in April as many states have not yet reopened from lockdowns. When it comes to the UK, imports have been declining on an annual basis during the entire 2020. The value of imports from the UK declined by 26.3% y/y and 21.5% y/y in March and April, respectively, since the UK is still one of the hardest hit by the COVID-19 pandemic European countries.

Manufactured products remain by far the largest import segment of the eurozone as of May 2020, followed by machinery and transport equipment, other manufactured products and chemicals. Manufactured products imports declined by 11.9% in March and 22.1% in April given the halt of economic activity in most of the Euro Area's member states and trade partners. The value of imported machinery and transport equipment followed a similar pattern and declined by 30.6% y/y to EUR 43.1bn in April.


Exports
EUR bn
% y/y change
07/2019
01/2020
y/y % change
EUR bn
Source: CEIC Data, Eurostat


Imports
EUR bn
% y/y change
07/2019
01/2020
y/y % change
EUR bn
Source: CEIC Data, Eurostat


Trade Balance
EUR bn
05/2019
09/2019
01/2020
05/2020
Source: CEIC Data, Eurostat


Current Account Balance
EUR bn
09/2019
01/2020
05/2020
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

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