CEIC
In, On and For Emerging Markets

A CEIC Insights Report

Euro Area Economy in a Snapshot Q4 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

Gross domestic product (GDP) increased on a seasonally adjusted, real terms basis by 12.7% q/q in Q3 2020, but contracted on a y/y basis for a third successive quarter, by 4.3%.

The **industrial production index** declined by 6.5% y/y in August following a 7.0% y/y fall in July. The seasonally adjusted **manufacturing PMI** stood at 53.7 in September.

The **wholesale and retail trade index** declined by just 1.2% in July2020, following a 24.8% y/y plunge in April.

The **unemployment rate** increased rapidly to 8.1% in August, according to seasonally adjusted, harmonised data.

The **inflation rate** of 0.4% in Julyturned into deflation of 0.2% in August and 0.3% in September, according to the harmonised index of consumer prices. It is the first occasion since 2016 there has been two consecutive months of deflation, despite the European Central Bank's (ECB's) negative interest rate policy and multi-trillion bond-buying programmes.

The ECB left untouched the **interest rate** on its main refinancing operations and the rates on the marginal lending facility and deposit facility at 0.00%, 0.25% and -0.5% respectively at the Governing Council's monetary policy meeting in September.

Unlike US equity prices, Eurozone equity indices are still negative year-to-date, and the recovery of equity prices stagnated in Q3 2020. In Q2 2020, the **Dow Jones Euro Stoxx** index gained 16.4% on the back of fiscal and monetary policy stimulus. However, the index gained only 0.3% from the end of Q2 to the end of Q3 and is still down by 12.4%year-to-date.

Germany recorded a **consolidated fiscal deficit** of 1.2% of GDP in Q2 2020, the first negative figure since Q3 2012. Italy's fiscal deficit widened to 4.7% of GDP in Q2 from 2.3% in the previous quarter, while the fiscal deficit in France expanded to 5.6% of GDP.

Despite a rapid improvement from its April low, international trade has not yet recovered to its pre-pandemic level. Eurozone **exports** were down by 9.6% y/y in August, while **imports** declined by 12.2% y/y. The trade surplus rose to EUR 19.3bn in Julyand to EUR 21.9bn in August, recovering to its pre-pandemic level.

Euro Area Economy: Statistics at a Glance

Name	12/2018	03/2019	06/2019	09/2019	12/2019	03/2020	06/2020	09/2020
Real GDP; y/y % change	1.22	1.52	1.27	1.43	1.00	-3.26	-14.77	-4.29
Industrial Production Index; y/y % change	-2.10	-0.25	-1.32	-1.60	-2.02	-6.07	-20.24	
Retail Trade Index; y/y % change	1.66	2.54	2.10	2.65	2.13	-1.35	-6.76	2.24
Headline Inflation; %	1.91	1.43	1.40	0.95	1.00	1.11	0.22	-0.03
Core Inflation; %	1.01	0.96	1.06	0.94	1.23	1.11	0.86	0.59
Policy Rate; % pa	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Unemployment Rate; %	7.90	7.77	7.60	7.50	7.40	7.30	7.63	8.23
Exports; y/y % change	3.98	3.74	2.18	3.25	2.26	-1.67	-23.65	
Imports; y/y % change	8.56	5.38	2.51	0.57	-1.97	-4.14	-21.53	
Trade Balance; EUR bn	46.63	40.97	55.32	55.84	70.69	53.55	31.00	
Net Operating Balance; EUR bn	7.12	-68.47	0.10	-18.52	26.11	-117.40		
10 Year Government Bond Yield; % pa	1.21	0.99	0.58	0.05	0.37	0.37	0.35	0.12
Money Supply M2; y/y % change	4.30	4.75	5.32	5.96	6.08	6.34	9.03	9.29

Economic Outlook

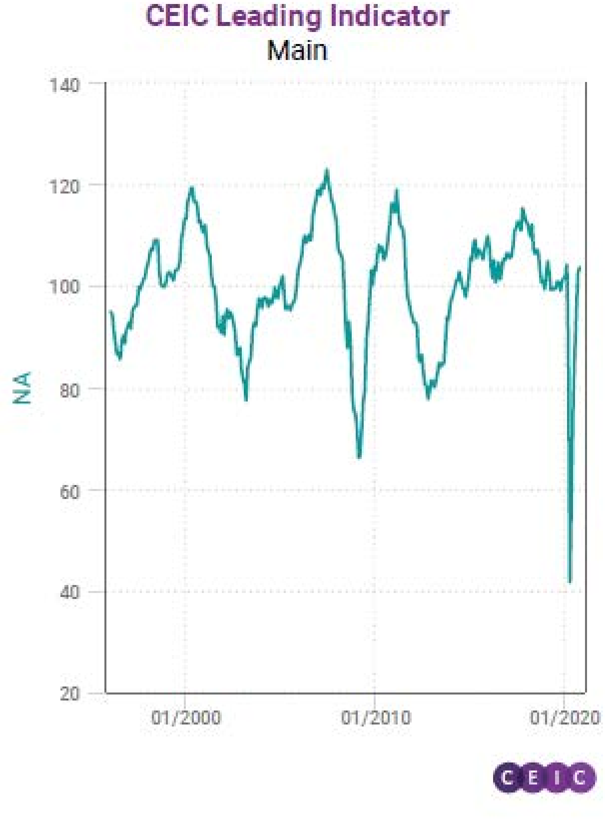
The economy of the Eurozone is set for recovery from September 2020 onwards according to the CEIC Leading Indicator. After a deep dive to 37.6, way below the threshold of 100 separating expansion from recession, the indicator has recovered and in September 2020, it rose to 101.0, indicating economic growth. However, according to the smoothed version of the CEIC Leading Indicator, which stood at 96.9 in September, the Eurozoneeconomy is yet to begin an expansionary cycle.

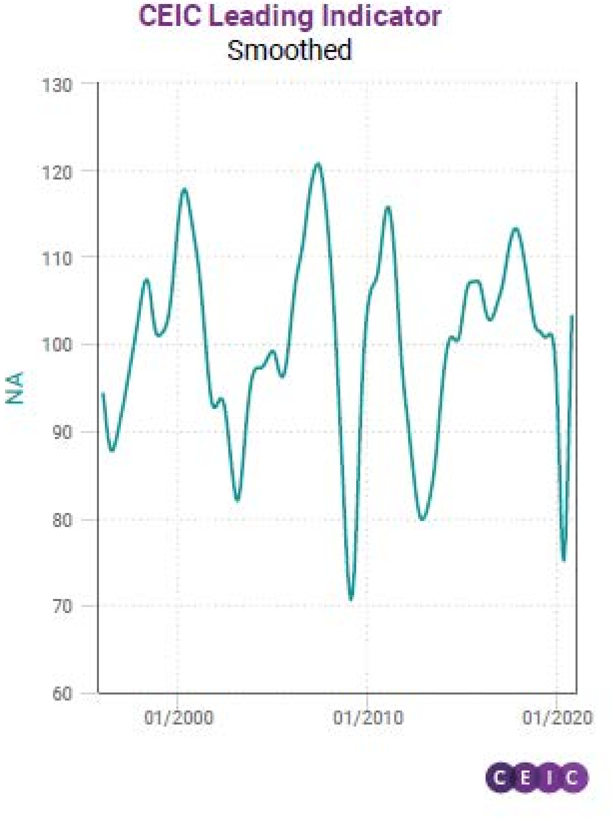
According to the IHS Markit Purchasing Managers' Index (PMI), the manufacturing sector of the Eurozone was improving throughout Q3 2020, with the seasonally-adjusted PMI rising further above 50 (dividing expansion from contraction) to 54.4 in October. The index rose on the back of increases to the output and new orders components, to 57.8 and 58.1 respectively in October.

A reading of 46.7 for the employment component, down from 47.1 in September suggests a sluggish recovery of employment in the manufacturing sector. The services sector business activity index fell to 46.2 in October, indicating the sector has yet to begin a meaningful recovery. The services sector employment index rose slightly to 48.5 but remained below 50 throughout Q3 2020, suggesting a predominantly pessimistic outlook.

The Governing Council of the European Central Bank (ECB) did not deliver any surprises at its monetary policy meeting on September 10, 2020, keeping its interest rates and quantitative easing (asset purchase) programme unchanged to support the economy with sufficient liquidity. The interest rate on the ECB's main refinancing operations and the interest rates on the marginal lending facility and the deposit facility were kept unchanged at 0%, 0.25% and -0.5% respectively. The ECB also confirmed that purchases under the pandemic emergency purchase programme (PEPP) would continue until at least the end of Q2 2021 and that it would also continue net purchases under the asset purchase programme (APP) at EUR 20bn per month, 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.

According to the IMF's latest WorldEconomic Outlook,released in October 2020, a real GDP contraction of 8.3% y/y is expected for the Eurozone in 2020, followed by a 5.2% y/y recovery in 2021. Among its main constituent member states, in Germany real GDP is forecast to shrink by 6% in 2020, while the economies of France, Italy and Spain are expected to contract by 9.8%, 10.6% and 12.8%, respectively.





Real Sector

Real Sector

According to the preliminary 'flash' estimate published by Eurostat, the Eurozone returned to growth in Q3 2020, with real GDP rebounding by a seasonally adjusted 12.7% q/q following two quarters of decline. On an annual basis the economy contracted by 4.3% after plunging 14.8% y/y in Q2 and 3.3% y/y in Q1. The biggest quarterly growth rates were observed in France (18.2%), Spain (16.7%) and Italy (16.1%), although not all member states have reported their figures to date.

The Eurozone's industrial sector remains in contractionary territory and the recovery from the April lows has been slowing down in Q3 2020. The sector has declined on an annual basis in each month since February 2019 – a clear manifestation of the structural problems of the Eurozone's industry even prior to the COVID-19 outbreak.

The Eurozone industrial production index declined by 6.5% y/y in August following a 7% y/y fall in July. The mining industry is still a significant drag on the recovery as it contracted by 10.3% y/y in August. The decline was underpinned by a 24.8% y/y drop in crude petroleum and natural gas extraction with global crude prices around 30% lower y/y, reflecting the slump and subsequent slow recovery in global demand. A significant improvement was recorded for coal extraction which declined at the more moderate pace of 3.2% y/y in August following a 21.3% y/y drop in July.

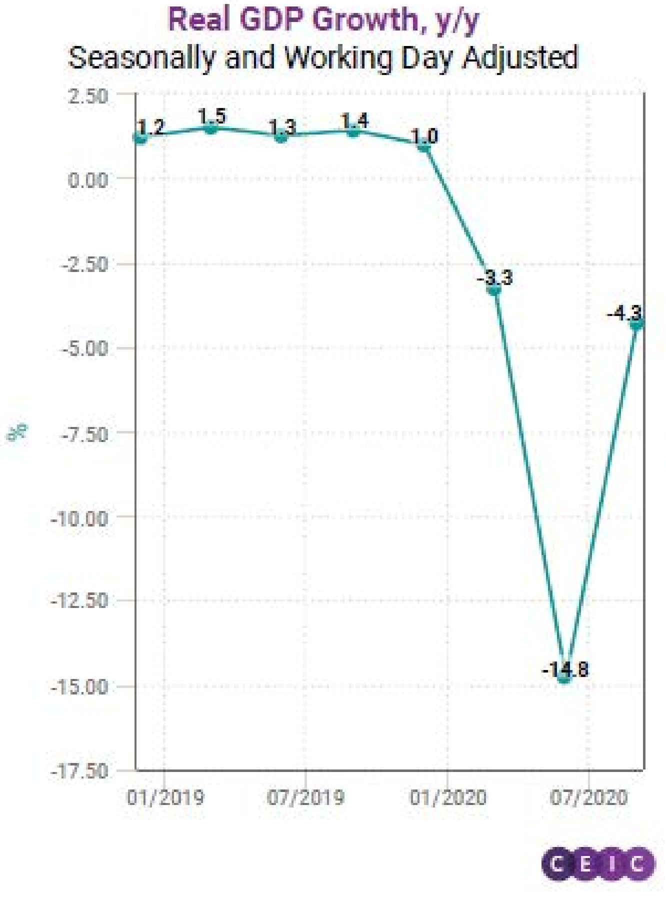
Manufacturing production declined by 7.1% y/y in August, hardly changing from a 7.2% y/y decline in July. The production of food and beverages contracted by 2.4% y/y in August, while that of basic and fabricated metals declined by 8.1% y/y. The production of durable consumer goods grew by 3.9% y/y in August, whereas that of non-durables declined by 3.6% y/y, intermediate goods fell by 4.9%, and for capital goods there was a 12% y/y drop in August, highlighting a lack of investment. Industrial production in Germany – the Eurozone's largest member state – contracted by 10% y/y in August after a 9.8% y/y drop in July. The only two Eurozone countries with growing industrial sectors in August 2020 were Portugal and Lithuania, at 3% y/y and 0.7% y/y, respectively.

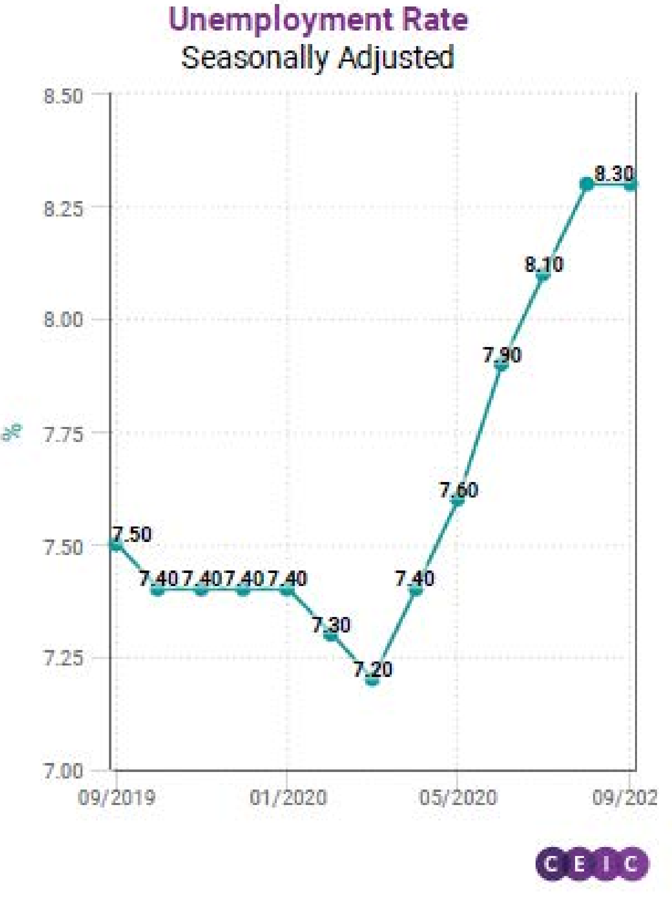
According to the IHS Manufacturing purchasing managers' index (PMI), the recovery of the industrial sector began in Q3 2020. The PMI posted positive figures from July to September, continuing into October, suggesting improvements in industrial activity from month-to-month. The seasonally adjusted manufacturing PMI increased to 54.4 in October from 53.7 in September with the recovery led by the two largest economies of the Eurozone, Germany and France, with the "Big-2 Economies" PMI reading of 56.2 in October comparing to only 52.1 for the Eurozone excluding France and Germany.

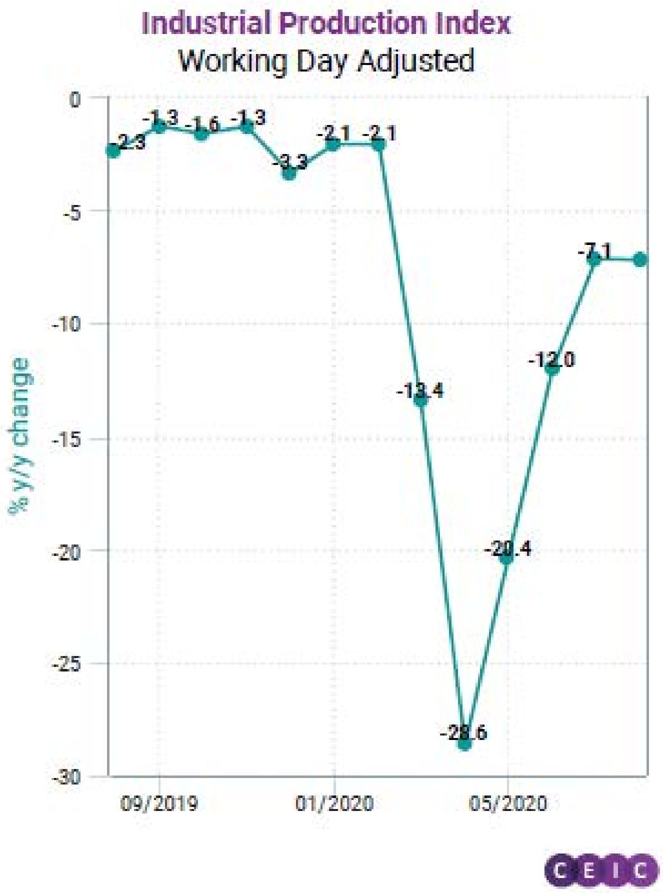
Wholesale and retail trade has recovered rapidly since a 24.8% y/y plunge in April. The wholesale and retail trade index declined by just 1.2% y/y in July 2020, driven by the recovery of retail trade. According to seasonally adjusted data, wholesale trade alone declined by 4.3% y/y in August.

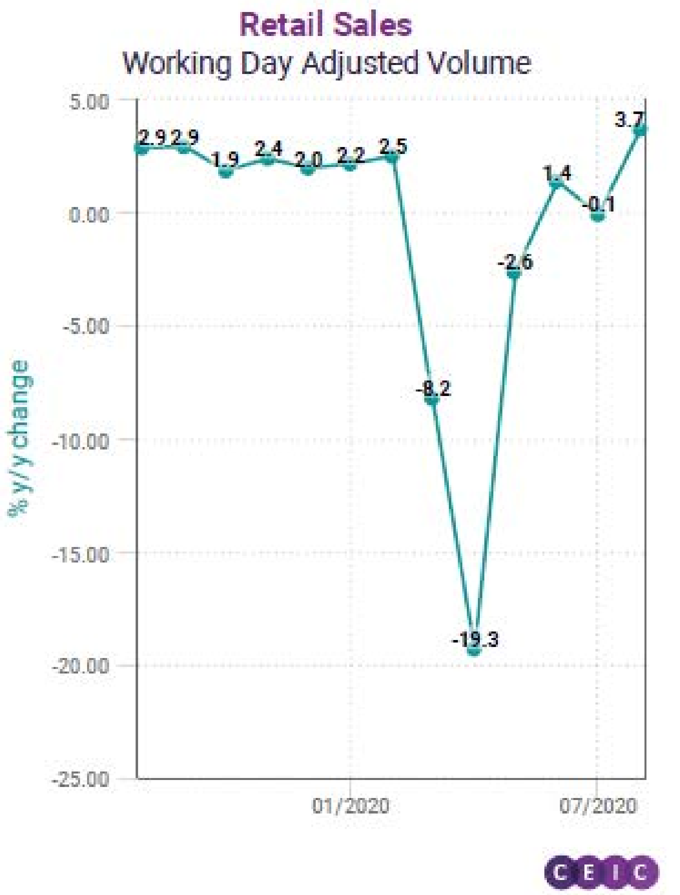
In comparison, retail trade grew by 3.7% y/y in September following 0.7% y/y rise in August. In volume terms, retail trade expanded by 0.2% y/y and 4% y/y in July and August, respectively. A major driver of the retail trade recovery has been food, beverages and tobacco which grew by 5.1% y/y in August 2020 as well as retail sales of non-food products, which rose by 5.3% y/y in August 2020. However, the fashion sector remained under pressure with sales of clothing and footwear dropping by 12.4% y/y in August and having contracted each month in 2020.

A seven-year downward trend brought the harmonized Eurozone unemployment rate down to a record-low of 7.2% in March 2020. However, due to the national lockdowns, the furloughing of staff, and subsequent job cuts caused by the COVID-19 outbreak, the unemployment rate increased rapidly to a seasonally adjusted 8.1% in August. In Germany it rose gradually from 3% in July 2019 to 4.4% in July 2020 and stabilised at that level in August. The lowest unemployment rate in the Eurozone can be found in Malta, whereas Greece has the highest.






Industrial Production Index
Working Day Adjusted
% y/y change
0
-5
-10
-15
-20
-25
-30
-2.3
-1.3
-1.6
-1.3
-3.3
-2.1
-2.1
-13.4
-28.6
-20.4
-12.0
-7.1
09/2019
01/2020
05/2020


Retail Sales
Working Day Adjusted Volume
% y/y change
5.00
0.00
-5.00
-10.00
-15.00
-20.00
-25.00
2.9
2.9
1.9
2.4
2.0
2.2
2.5
-8.2
-19.3
-2.6
1.4
-0.1
3.7
01/2020
07/2020

Monetary & Financial Sector

Monetary and Financial Sector

Eurozoneinflation of 0.4% in Julyturned into deflation (falling consumer prices on an annual basis) of 0.2% in August and 0.3% in September, according to the seasonally adjusted harmonised index of consumer prices (HICP). It is the first occasion since 2016 there has been two consecutive months of deflation, which has occurred despite the Europe Central Bank's (ECB's) negative interest rate policy and multi-trillion bond-buying programmes. According to the ECB, it is temporary factors that are weighing down on prices, including appreciation of the euro and low crude oil prices. Data on the core inflation measure (excluding energy, food, alcohol and tobacco) supports this argument as it stood higher than the HICP throughout Q3 2020 although it also trended downwards from 1.2% in July to 0.2% in September.

Despite a small rise to 1.4% in September from 1.2% in August, inflation of food and non-alcoholic beverages followed the overall trend and declined in Q3 2020 from 3% at the end of Q2 2020. Inflation of alcoholic beverages and tobacco remained steady at 3.4% in September, driven by 6% inflation of alcoholic drinks. Prices of clothing and footwear declined by 1.4% in September due to summer sales prolonging unusually into September. Inflation of rental prices remained mild at 1.2% in Q3 2020, while inflation of furniture and housing equipment moderated to 0.2% in September from 0.8% in July.

Inflation of services prices fell to 0.5% in September from 0.9% in July. The decline was driven by falls across the entire sector. Prices of communication services showed deflation of 0.8% in September, package holiday services also registered deflation of 4.4% and transport deflation was 0.5%.

Among the top four Eurozoneeconomies, only France did not fall into deflation in Q3 2020, but was close to it with 0.04% inflation in September. Germany posted deflation of 0.4% in September, while Italy and Spain recorded deflation of 0.9% and 0.6% respectively given their strong reliance on tourism services. Other countries where services

represent a large weight in the CPI, such as Greece, Cyprus and Portugal, posted deflation of 2.3%, 1.9% and 0.7%respectively in September. Inflation might possibly undershoot the European Commission's forecasts of 0.2% and 1.1% for 2020 and 2021, respectively.

Eurozone producer price inflation remained deep in negative territory despite a deceleration in August to -2.5% from -3% in July. -

Inflation of producer prices in the mining sector rose slightly from 14.6% in July to 12.7% in August on the back of a small increase in global crude oil prices. Inflation rose to 1% in August from -1.3% in July in the metal ores extraction segment driven by higher copper and gold prices and deflation in manufacturing eased to -1.9% in August from -2.1% in July. Among the Eurozone's largest economies, producer price deflation was the lowest in Germany at

-1.2% in August and the highest in Spain at -3.5%.

Growth of the monetary base accelerated significantly in response to the European Central Bank (ECB) introducing multi-trillion bond-buying (quantitative easing) programmes to support the Eurozone economy through the COVID-19 crisis. Growth of the M2 money supply measure, which includes cash, current and deposit accounts, and highly liquid assets, surged to 10.1% y/y in July followed by a small decline to 9.6% in August. In contrast, the growth of this indicator ranged between 4.1% and 6.2% throughout 2019.

The ECB left untouched the interest rate on its main refinancing operations and the rates on the marginal lending facility and deposit facility at 0.00%, 0.25% and -0.5% respectively during the Governing Council's September meeting. The monthly pace of the bond-buying programmes also remained unchanged at EUR 20bn coupled with the additional EUR 120bn under the temporary envelope until the end of 2020. The size of the total envelope under the Pandemic Emergency Purchase Programme (PEPP) remained intact at EUR 1.35bn. The ECB also reinstated its commitment to provide ample liquidity through its refinancing operations under its latest Targeted Long-Term Refinancing Operations (TLTRO III).

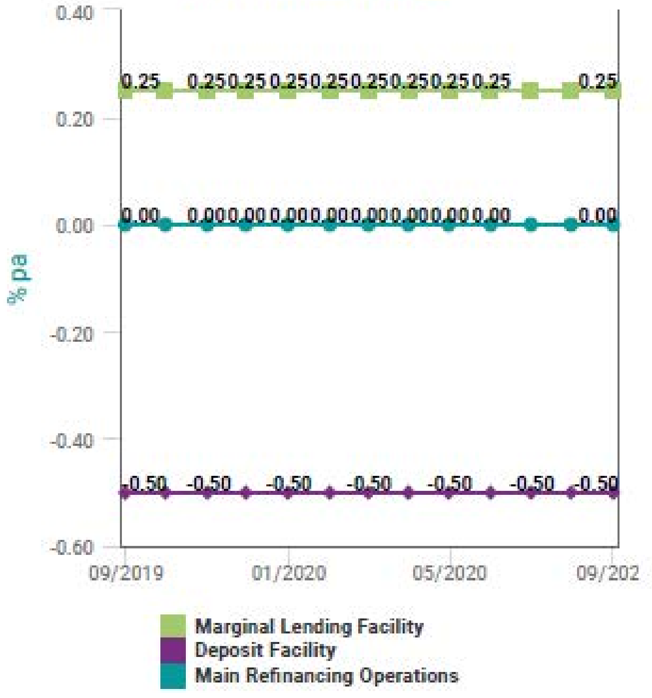
Despite the substantial monetary policy easing on behalf of the ECB, the euro appreciated significantly against the US dollar. The euro had been weakening since Q2 2018 and bottomed out at 0.92 per US dollar in April 2020 after which it appreciated rapidly to 0.85 per US dollar in August and traded at the same level in September.

Unlike US equities, the Eurozone equivalent are still showing negative trends on a year-to-date basis and the recovery of equity prices also stagnated in Q3 2020. In 2019, the Dow Jones Euro Stoxx index rose steadily to 403.9 but by March 2020 it had plummeted by 24.9% on a year-to-date basis. In Q2 2020, the index gained 16.4% in response to the substantial fiscal and monetary policy stimulus announced to address the crisis. However, the index gained only 0.3% from the end of Q2 2020 to the end of Q3 and is still down by 12.4% since the beginning of the year. The only stock market index close to recovery was the German DAX, although it was still down by 3.7% year-to-date at the end of Q3 2020. The equity markets in Italy and France were sluggish in Q3 2020, while the Spanish IBEX-35 recorded a new 2020 low of 6,716.6 at the end of September 2020, losing 29.7% over the nine months.

The plunge into deflation in Q3 translated into declining returns across the spectrum of the yield curve. The monthly average return on the benchmark 10-year government bond declined to 0.12% in September 2020 from its 2020 peak of 0.6% in April. Given the multi-trillion bond-buying programmes initiated by the ECB, the average monthly yield on the 2-year government bond declined gradually to -0.49% in September from -0.13% in April.

Headline & Core Inflation

Key Interest Rates



Euro Stoxx Index

Government Bond Yield

Fiscal Sector

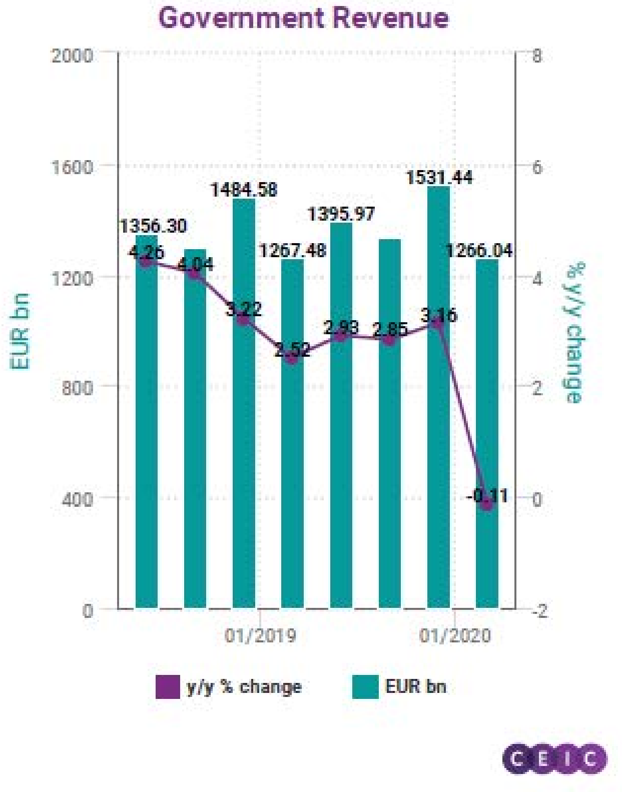
Fiscal Sector

All of the main Eurozone countries posted fiscal deficits in Q2 2020 on the back of lower tax receipts coupled with higher spending. Germany recorded a consolidated fiscal deficit of 1.2% of GDP in Q2 2020, the first negative figure since Q3 2012. Italy's fiscal deficit widened to 4.7% of GDP in Q2 from 2.3% in the previous quarter, while the fiscal deficit in France expanded to 5.6% in the same period. The largest deficit among the top four Eurozone economies was recorded by Spain – 6.9% of GDP in Q2.

The gross debt of the Eurozone member states rose by 1.8% y/y to EUR 10.2tn in Q2 2020 and as GDP declined across the region and debt values increased the debt-to-GDP ratios deteriorated. Italy remained the most indebted country among the top four Eurozone economies with a debt-to-GDP ratio of 149.4% in Q2 2020. Debt rose to 114.1%of GDP in France and 110.1% of GDP in Spain in Q2 2020, from 98.1% and 95.5% respectively at the end of 2019. Germany's debt-to GDP ratio rose for a second consecutive quarter to reach 67.4% in Q2 2020. In Estonia, the least indebted member state of the eurozone, its debt-to-GDP ratio increased to 18.5% in Q2 2020 from 8.4% in Q4 2019.

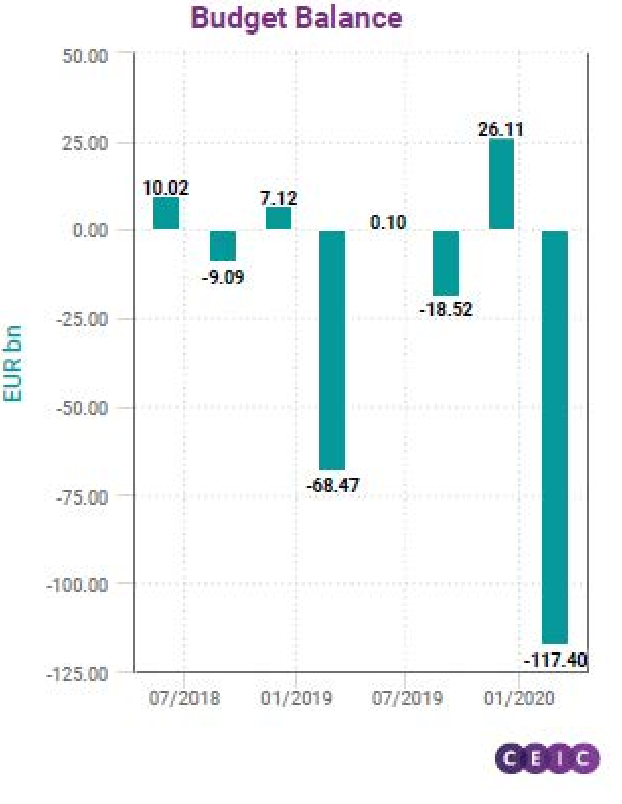
On October 7, 2020, the European Commission announced that it will begin the issuance of social bonds under the SURE programme totalling up to EUR 100bn to help protect jobs in member states affected severely by the COVID-19 pandemic and subsequent lockdowns. Under the programme, loans will be distributed to member states that applied for assistance to keep workers in employment.

The debates in the European Parliament regarding the approval of the Multiannual Financial Framework (MFF) 2021-2027 and the recovery fund are still ongoing. The proposal which the leaders of the EU member states agreed upon totalled EUR 1.8tn and comprised EUR 1.1tn towards the MFF, EUR 390bn of grants and EUR 360bn in cheap loans under the recovery fund programme. 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 be used for innovation and digital transformation, migration and humanitarian programmes, and security and defence.


Government Revenue
EUR bn
% y/y change
1356.30
1484.58
1395.97
1531.44
1267.48
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


Government Expenditure
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


Government Debt
EUR bn
10,005.78
10,077.78
10,169.12
10,265.96
10,951.66
01/2019
01/2020


Budget Balance
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

External Sector

External Sector

Despite a rapid improvement from the COVID-19 affected lows in April, international trade has not yet recovered to its pre-pandemic level. Euro zone Export earnings increased to EUR 176.5bn in August 2020 after bottoming out at EUR 135.8bn in April, although the value of exports was still down by 9.6% y/y. The Eurozone imports bill rose to EUR 154.6bn in August from EUR 135.3bn in April, but was down by 12.2% y/y. This led to a trade surplus of EUR 21.9bn in August, thus recovering to its pre-pandemic level.

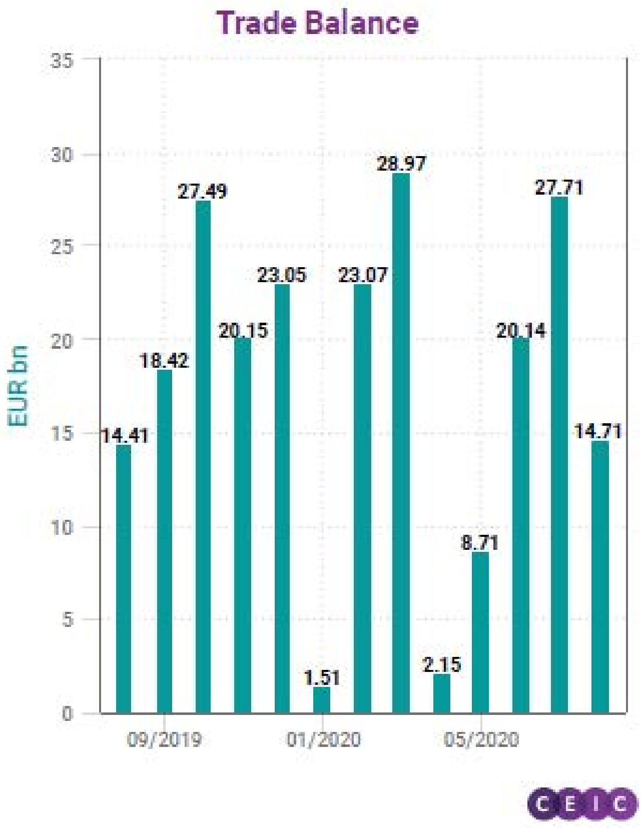
The Eurozone economies are benefitting from the rapid economic recovery in China. Exports there grew by 6.5% y/y and 5% y/y in July and August, respectively. Exports to the US – traditionally the Eurozone's largest trading partner –declined by 14.3% y/y in July and 15.8% y/y in August on the back of a strong euro relative to the US dollar. Exports to the UK decreased by 15.3% y/y and 10.2% y/y in July and August, respectively. In terms of product categories, exports of manufactured equipment declined by 10.1% y/y in August to EUR 147.7bn and exports of machinery and equipment declined by 10.4% y/y to EUR 71.7bn.

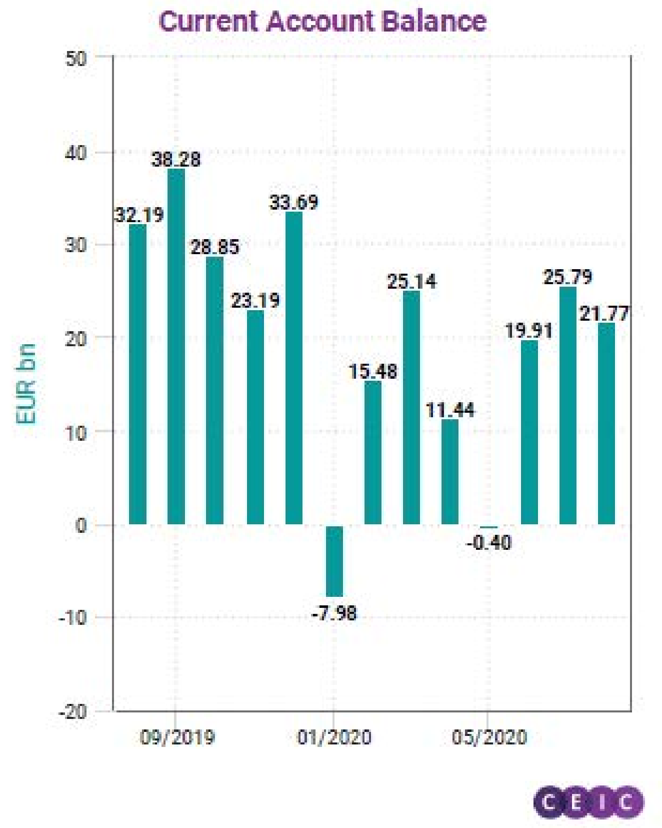
The stagnation in the recovery of imports in Q3 was driven by a slowdown of the growth rate of the value of imports to China. Following a strong Q2, imports from China grew by 3.3% y/y in July and 1.9% y/y in August. Imports from the US dropped by 13.2% y/y in August, while those from the UK fell by 14.6% y/y. In terms of product categories, imports of manufactured products, which represent the bulk of imports into the eurozone, declined by 8.2% y/y in August following a 10% y/y drop in July and imports of machinery and transport equipment dropped by 8.1% y/y in August to EUR 58.2bn.

The eurozone's current account surplus remained stable in Q2 at 1.2% of GDP, increasing slightly from 1.1% in Q1. Germany's current surplus declined from 7.4% of GDP to 4.9% of GDP but was offset by smaller deficits in France and Finland, and deficits moving into surplus in Ireland and Spain. The Eurozone attracted a net inflow of foreign direct investment (FDI) of 6% of GDP following two consecutive quarters of net FDI outflow.


Exports
250
200
150
100
50
0
8
0
-8
-16
-24
-32
EUR bn
% y/y change
5.38
5.11
218.93
196.52
198.38
0.25
194.09
186.52
178.09
184.89
169.55
-5.98
156.26
142.63
-10.54
-12.26
-30.00
01/2020
07/2020
y/y % change
EUR bn


Imports
250
200
150
100
50
0
8
0
-8
-16
-24
-32
EUR bn
% y/y change
2.21
1.19
191.44
182.62
178.11
178.22
163.68
163.47
165.57
157.17
141.55
-10.27
133.92
-14.42
-26.66
01/2020
07/2020
y/y % change
EUR bn


Trade Balance
35
30
25
20
15
10
5
0
EUR bn
28.97
27.49
27.71
23.05
23.07
20.15
20.14
18.42
14.41
14.71
8.71
2.15
1.51
09/2019
01/2020
05/2020


Current Account Balance
50
40
30
20
10
0
-10
-20
EUR bn
38.28
32.19
33.69
28.85
23.19
25.14
25.79
21.77
19.91
15.48
11.44
-0.40
-7.98
09/2019
01/2020
05/2020

CEIC

In, On and For Emerging Markets

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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.

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