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Economics Group

Special Commentary

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Encouraging Eurozone Economic Data

Executive Summary

The prospects for the Eurozone economy have become more encouraging as COVID-19 case growth continues to stabilize and activity and confidence indicators point to a less severe decline in Q2-2020 than we previously anticipated. High frequency mobility data also suggest that the economy has now recovered about 75-80% of the output from the COVID-19-related decline, which could also be consistent with a faster bounce back in Q3-2020.

The prospects for the Eurozone have become more encouraging.

Eurozone Data Improving, New COVID-19 Cases Relatively Flat

The first half of the year has been tough for the Eurozone economy as COVID-19 intensified and governments enforced strict lockdown and social distancing measures. However, in recent weeks we have become more constructive on the prospects for the Eurozone as some economic indicators have been more encouraging, signaling that the worst may be over for the economy. Confidence surveys rebounded more than expected in June, with the manufacturing and services PMIs rising to 47.4 and 48.3, respectively. Although the June reading was still below the breakeven 50 level, the improvement marked a four-month high for both manufacturing and services as gradual re-openings boosted activity. Meanwhile, hard activity data also improved more than expected, as May retail sales jumped 17.8% month-over-month, the largest increase since the series began in 1999. Notably, clothing and footwear rose a whopping 147%. By country, retail sales surged in almost all regions, but countries with milder lockdown procedures saw the largest gains. Even though retail sales are not a dominant portion of the service sector, trends in retail sales are a reasonable indicator of trends in overall services output (Figure 1), with the latter roughly 75% of the total economy. Given the large bounce back in May retail sales, the Q2 decline in services output, and thus GDP, could be milder than previously anticipated. Given a stronger starting point, a faster rebound in Q3 GDP is also possible.

Figure 1

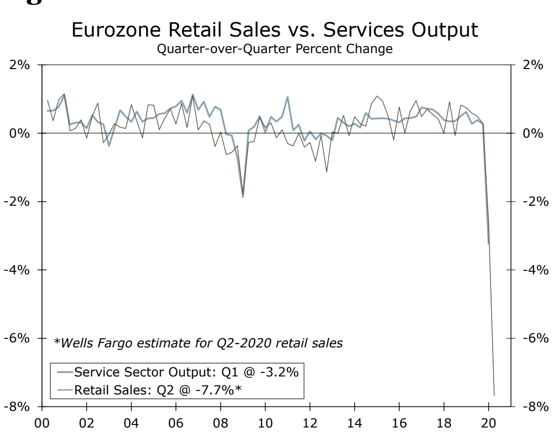
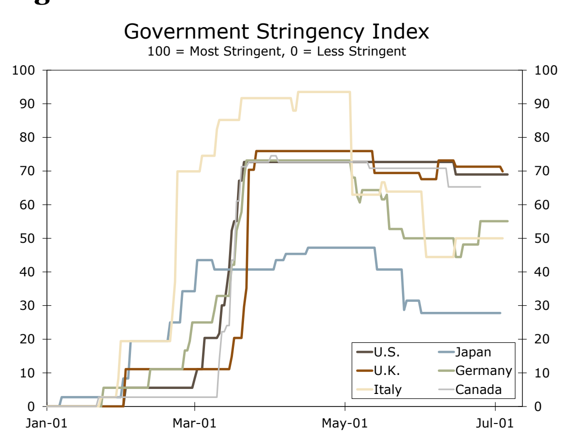


Figure 2



Source: Bloomberg LP, Datastream and Wells Fargo Securities

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The Eurozone began easing strict lockdown measures over a month ago and has even began re-opening its borders, as the region made progress in containing the spread of COVID-19. The number of daily new cases has substantially declined from its peak in March, and are now relatively flat. The reduced restrictions are reflected in the high frequency Google and Apple mobility data, which indicate the Eurozone economy has recovered roughly 75-80% of output from the COVID-19 decline. Furthermore, Oxford University's Blavatnik School of Government's government response tracker indicates Germany and Italy have eased lockdown measures more than the majority of their peers such as the U.S., U.K. and Canada, reinforcing prospects for Eurozone recovery (Figure 2).

We now look for a smaller Q2 GDP fall and faster Q3 GDP rebound.

Given these developments we have become more constructive on the Eurozone economy, under the assumption that the COVID-19 pandemic remains under control and data continue to improve. We now look for a smaller Q2 GDP fall and faster Q3 GDP rebound. We have also become less pessimistic on 2020 overall, and have revised our forecast to a smaller 7.7% GDP decline for full-year 2020 GDP, compared to the 8.9% contraction we forecasted a month ago.

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