The Outlook for Eurozone Economies

Coronavirus is set to deal a serious blow to Eurozone growth

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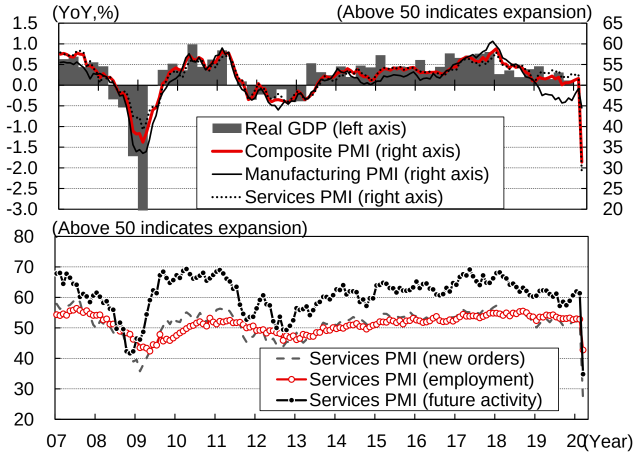
The World Health Organisation (WHO) has declared that Europe is now the centre of the coronavirus pandemic following a sudden surge in cases, particularly in Italy and Spain. Since March, various different countries have imposed unprecedented harsh measures to control the spread of coronavirus, such as lockdowns and temporary closure of non-essential shops.

In February, there were signs of improvement in the Eurozone economy, including the manufacturing sector which showed signs of exiting a protracted slump. The region is now facing large scale restrictions in reaction to the spread of coronavirus. Eurozone composite PMI fell to 31.4 (flash estimate) in March as demand fell sharply, dropping below the Global Financial Crisis (GFC) low (Chart 1), and there are signs that worse is to come. The considerable drop off in Italian electricity consumption since the beginning of March (Chart 2) suggests that the economic cost of coronavirus measures is growing on a daily basis, meaning that is likely that situation is now worse than when the PMI survey was taken.

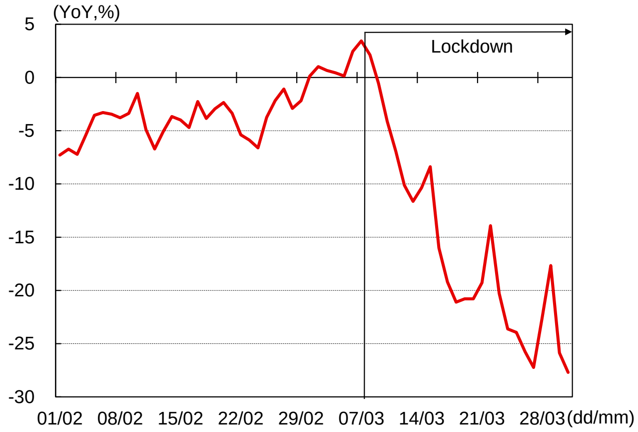
Monetary and fiscal policy makers are currently doing their utmost to introduce targeted measures to address the situation. The European Central Bank has swiftly introduced ambitious monetary easing measures to calm the financial markets and support corporate financing, including measures to support the banking sector and additional asset purchases. National governments have also introduced large scale fiscal measures such as loan guarantee schemes and wage subsidies. The main aim of these measures is to support employment and corporate funding as governments place restrictions on economic activity in order to contain the spread of coronavirus. It is inevitable that the demand side of the economy will take a hit, the severity of which will increase as restrictions on economic activity persist. Based on currently available national statistics, we expect Q1 GDP growth of -2.3% QoQ. Looking forward, based on the assumptions that 1) the spread of the virus will peak in April/May, 2) that virus containment measures will be eased gradually once the peak has passed, restrictions on economic activity and low sentiment are expected to persist, meaning that will take time for the economy to normalise. We forecast Q2 growth at -8.8% QoQ, and annual GDP growth is also unlikely to avoid a large scale drop, at around -6% YoY in 2020.

Chart 1: Eurozone PMIs and Real GDP Growth



Source: Eurozone, IHS Markit, MUFG Bank Economic Research Office

Chart 2: Italian Daily Energy Consumption



Note: 2019 dates adjusted to match 2020 week days
Source: ENTSO-E, MUFG Bank Economic Research Office

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