



ECONOMY, STRATEGY AND FINANCE CENTRE

THE CONFERENCE BOARD ECONOMY WATCH

August 2020

EUROPEAN VIEW **A resurgence of the pandemic may weaken the expected rebound in Europe in Q3**

- GDP data for Q2 shows that most European economies entered recessions in the first half 2020. Detailed figures for production and expenditure available for France show that exports, investment and especially construction have been hit the hardest in Q2.
- Manufacturing and retail sales recovered in May and June. Yet, while production continues to improve as companies restock, fears of job losses may curb consumer spending in the coming months.
- Resurgence of COVID-19 cases fuels fears of an early “second wave” which could weaken the expected rebound of the economy in the third quarter.

Most European countries in recession in H1 2020

The depth of the decline varies widely. The deepest contraction is in the UK (-20.4 percent), due to a combination of a late but long and stringent lockdown. Spain has also been heavily hit (-18.5 percent in Q2) due to the importance of the tourism sector which was particularly affected by the pandemic. Italy and France did better than expected instead. The less strict approach in the lockdown in Sweden resulted in a below average rate of contraction.

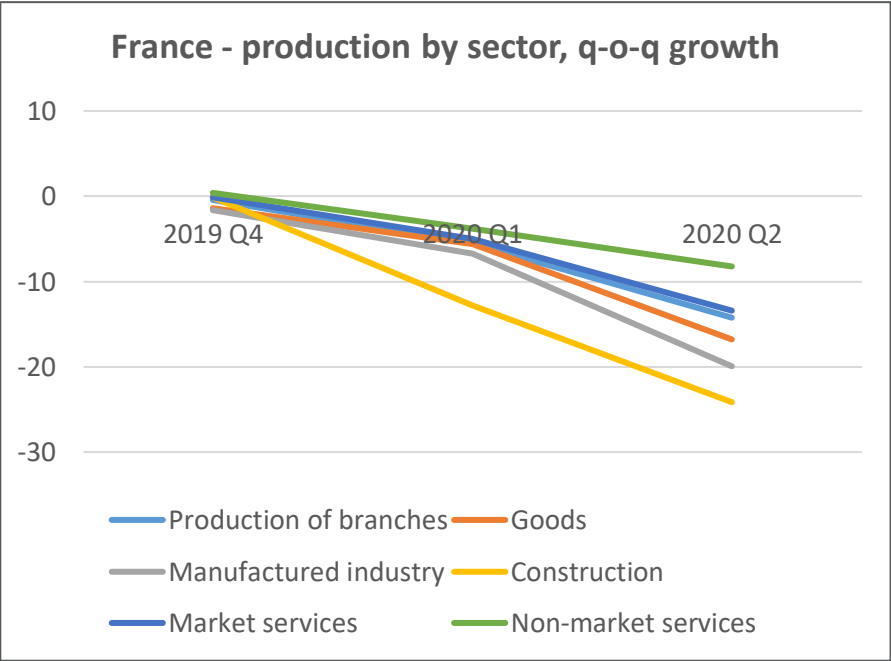
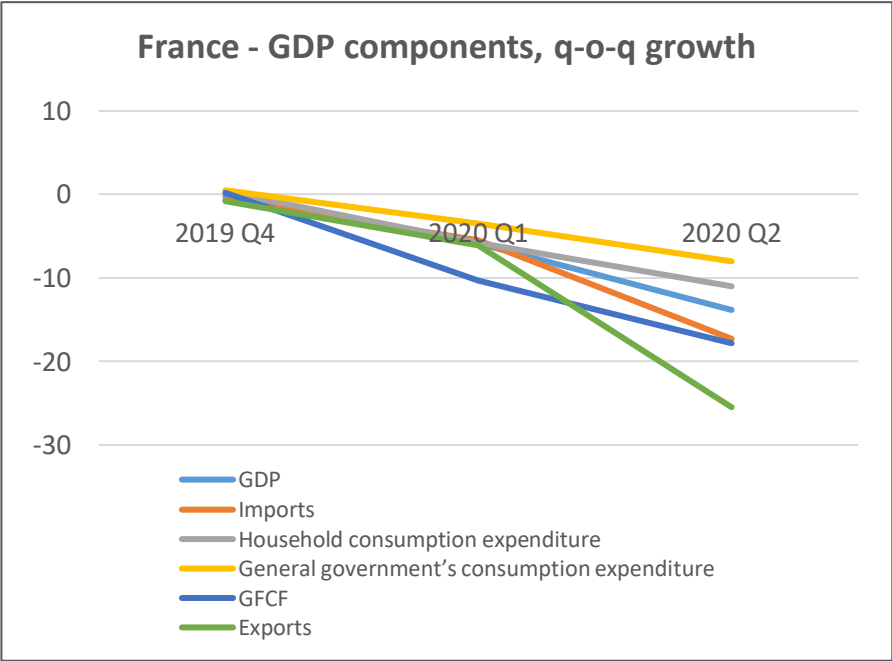


Source: Eurostat, ONS, Statistics Sweden



Construction and export sectors hardest hit in Q2

A decomposition of the GDP decline by the French national statistical office INSEE show that amongst expenditure components the export sector came out of Q2 most damaged. Investment (gross fixed capital formation) also strongly contracted quarter-on-quarter and high uncertainty amongst CEOs does not bode well for investment. Broken down by industry, the construction sector showed the largest decline in Q2, followed by the manufacturing sector.

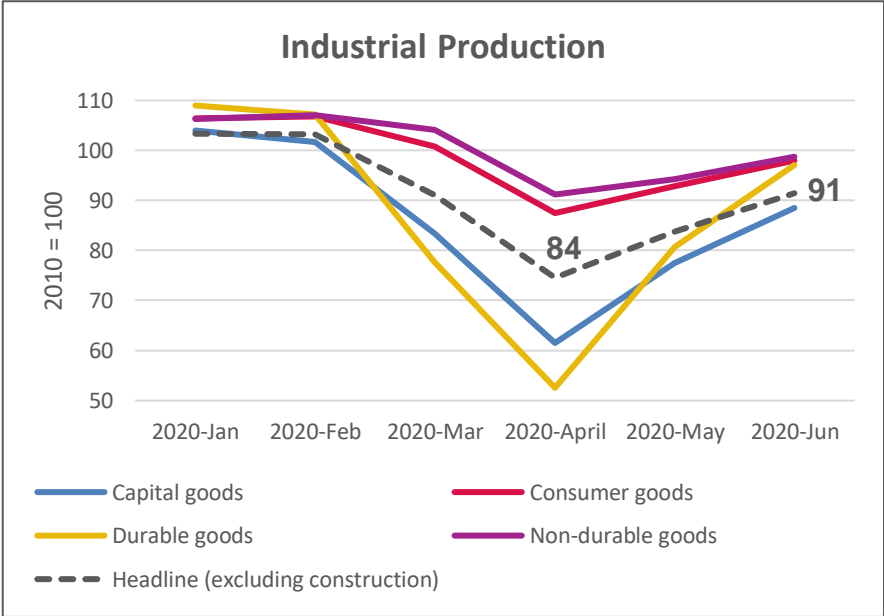
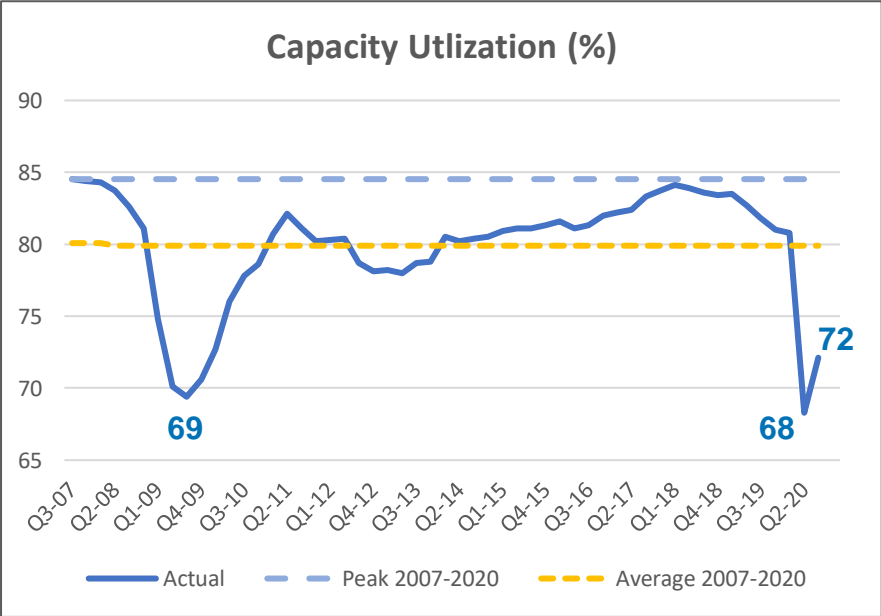


Source: IHS Markit, European Commission, The Conference Board



Manufacturing sector continues to recover after lockdown

June data for industrial production show that the manufacturing sector continued to recover in June after the first positive figures for May. The production of durable goods shows an interesting dynamic: it suffered the most in March and April as firms depleted inventories, and it grew the most in May and June as they began to restock. Capital goods also follow a similar dynamic, albeit less pronounced. However, currently at 91, the volume of production is far from the pre-pandemic level of 103. The Purchasing Managers' Index for the manufacturing sector continued to improve in July, passing the threshold of 50 which marks an expansion.

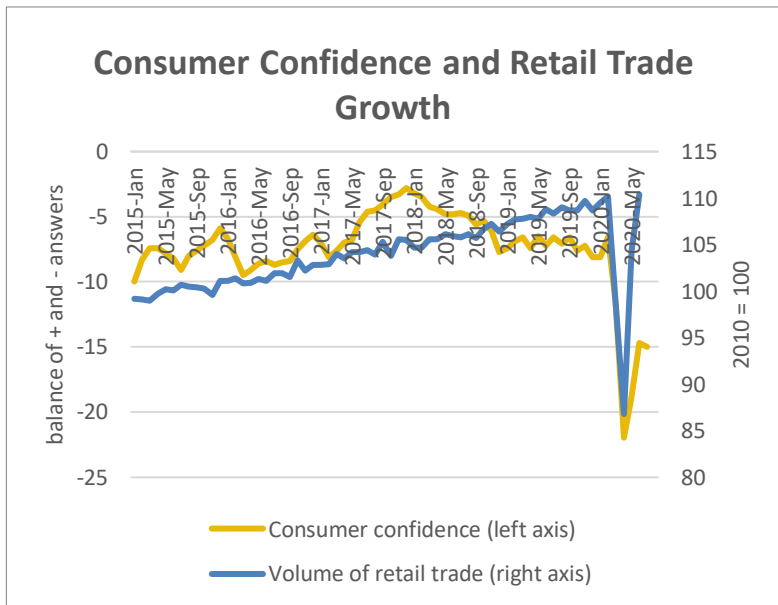


Source: European Commission, Eurostat, The Conference Board



Retail sales improve in June but consumers are cautious

The volume of retail trade sales also picked up again in June (5.7 percent), after the record month-on-month rebound of May (20.3 percent). Clothing and footwear drove the increase in both months. Unlike many other economic variables where levels are still below the pre-pandemic levels, retail sales mark an increase not only month-on-month but also compared to June of 2019 (1.3 percent). Looking ahead, however, one should not expect further jumps: consumers are making an effort to save more and consumer confidence in July did not further improve compared to June.



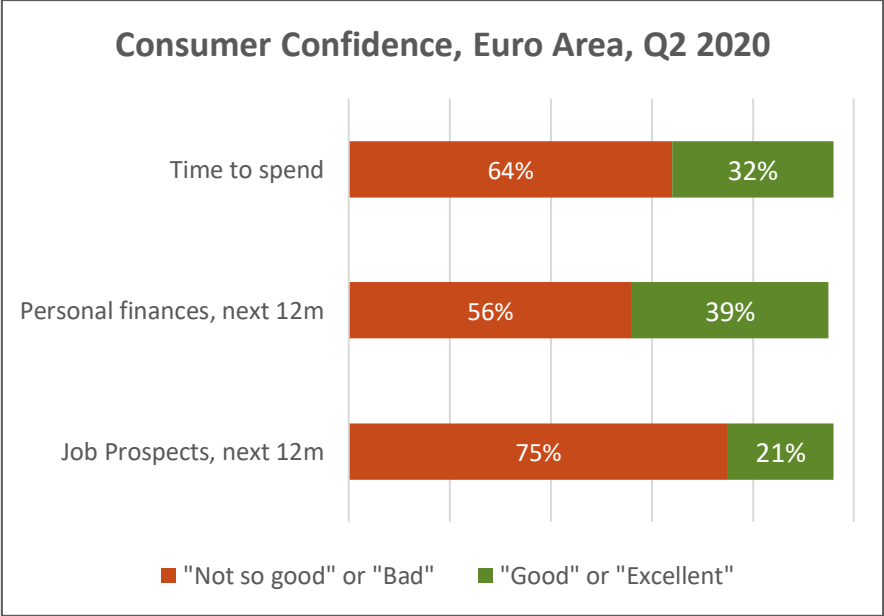
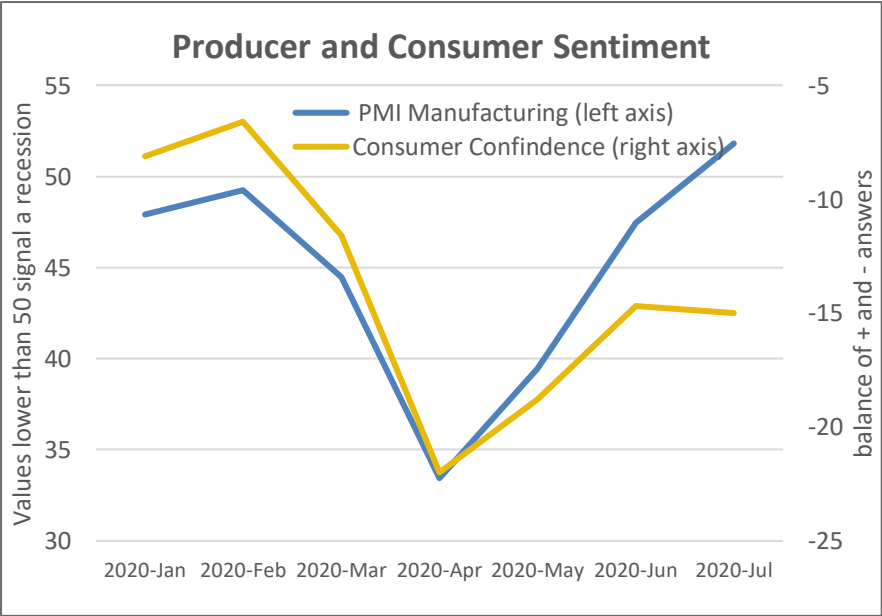
Top 10 actions taken to save in the Euro Area	Total	Short-term only	Longer-term	Change from Q1
Spend less on new clothes	53%	26%	28%	3%
Cut down on out-of-home entertainment	47%	25%	22%	5%
Cut down on take-away meals	42%	20%	22%	3%
Cut down on holidays/short breaks	41%	24%	16%	6%
Use my car less often	37%	17%	20%	5%
Switch to cheaper grocery brands	35%	14%	21%	-8%
Cut out annual vacation	32%	21%	12%	11%
Delay the replacement of major household items	30%	19%	11%	3%
Try to save on gas and electricity	29%	8%	21%	-14%
Delay upgrading technology, eg. PC, Mobile, etc.	26%	16%	10%	1%

Source: Eurostat, European Commission, The Conference Board® Global Consumer Confidence Survey, 2020 Q2



Fear of job losses drives consumer sentiment sideways

Economic sentiment indicators for July clearly suggest that the COVID-19 shock is changing in nature from supply concerns, as shutdowns were lifted, to the demand challenges as consumers are becoming more concerned about the recovery. Confidence among European consumers has not improved, instead, it moved sideways. A detailed analysis of Q2 data shows that Europeans are concerned about losing their jobs. The labor market impact of the crisis is not visible yet in terms of increased unemployment, but it will show as furlough schemes come to an end towards the end of 2020.



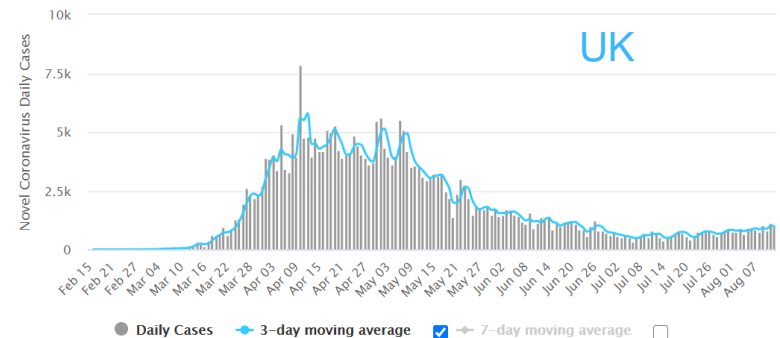
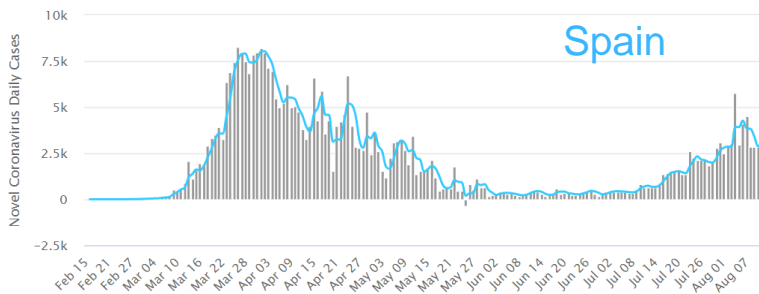
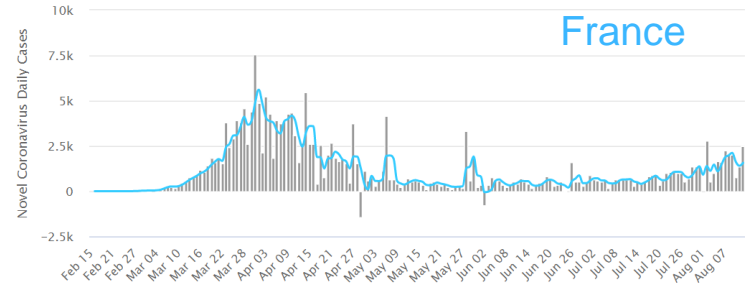
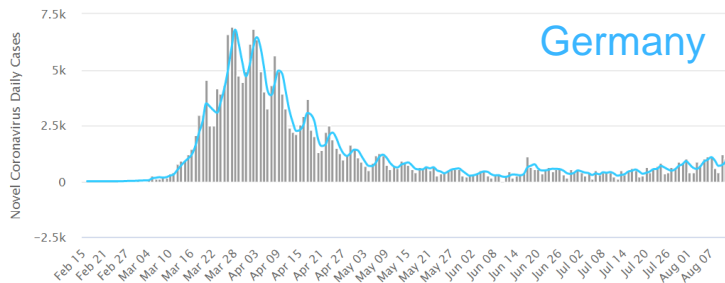
Source: IHS Markit, European Commission, The Conference Board in collaboration with Nielsen



Pandemic resurgence fuels fear of an early “second wave”

The daily number of new cases has been strongly on the rise in Spain since mid-July. The resurgence is not constrained to European countries: fears are growing nearly everywhere. New partial lockdowns and decisions over reopening of schools are currently under debate and could endanger the expected recovery in the third quarter.

Daily new cases, August 12



Source: worldofmeters.info



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