

A recession typical of a war

We now have the first estimates of the economic impact that the containment measures are having and the message they offer is not encouraging. In fact, the war-based vocabulary we often use when referring to the consequences of the fight against COVID-19 seems justified in economic terms. The fact is, the scale of the recession we are now immersed in is unprecedented in recent decades. We have to go back to the Second World War to find declines in economic activity of a similar magnitude.

In China, where the coronavirus first appeared, the fall in GDP in the first quarter of the year reached 9.8% quarter-on-quarter. A contraction on this scale had never been recorded in China since national accounting figures began to be published. In fact, we had never seen a negative growth rate in China. Now all eyes are focused on the speed of its recovery. The Asian giant has been gradually lifting the containment measures since early March and, while economic activity appeared slow to react at first, in the last few weeks of April we received somewhat more encouraging data which we expect will be consolidated over the coming months.

In the major developed countries, the containment measures were not implemented until mid or late-March, and to differing degrees. In the US, which was among the last countries to impose restrictions on movement, the drop in GDP stood at 1.2% quarter-on-quarter in Q1. In contrast, the euro area, which on the whole reacted a little earlier and imposed stricter restrictions on movement and economic activity, experienced a more severe drop in GDP of 3.8%.

It is worth highlighting the high degree of uncertainty that surrounds the first GDP estimate on this occasion, since the national statistics institutes have had to adjust the methodology used in order to capture the sudden and pronounced slowdown in activity that occurred at the end of the first quarter. After the likely revisions that will be carried out, the differences between countries could change (for instance, it is surprising to note that the contraction estimated for the Italian economy, at 4.7% quarter-on-quarter, is lower than that estimated for France or Spain, at 5.8% and 5.2%, respectively). That said, there is no doubt that the scale of the decline in economic activity is profound. This is reflected in the indicators related to the labour market, the unprecedented reduction in movement and energy consumption, the

collapse in the economic sentiment indices and a long list of other indicators. For the euro area's GDP to shrink by 3.8% in the first quarter as a whole, the slump in economic activity in the last two weeks of March had to have been around 25%, given that in January and February the economy remained stable. If we apply the same logic to the case of Spain, we find that the drop in activity probably reached around 30% starting from the declaration of the state of alarm.

This simple exercise helps to illustrate the magnitude of the decline in economic activity that we are probably currently experiencing. However, it also serves to illustrate how difficult it is to make forecasts in the current context. Indeed, small variations in the speed at which the containment measures are lifted could have significant economic consequences.

In these circumstances, the most sensible thing to do is to work with scenarios that show the possible evolution of economic activity on the basis of different hypotheses of how the social distancing restrictions will develop. The scenarios recently published by the Bank of Spain are a good example of this approach. According to its estimates, if the lockdown lasts 8 weeks, and the economic policy measures prove highly effective, then the fall in GDP this year could come to 6.8%. However, if the lockdown lasts as long as 12 weeks, and the economic policy measures are not so effective, then the fall in GDP is projected to reach around 12.4%. The war against the coronavirus is having a very high economic cost. We hope that, unlike other wars, the human cost is much lower and the return to normality, much faster.

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