COVID-19 quashes global economic activity

The worldwide spread of the coronavirus represents an unprecedented shock to the global economy. The containment measures intended to curb the COVID-19 epidemic have reached almost every corner of the world and have led to severe but necessary restrictions on global economic activity. The impact on activity is of such magnitude that the IMF has coined the term «The Great Lockdown» to describe the synchronised recession into which the world will be plunged in 2020. But without a doubt the key word of the moment, and of the times that are to come, is uncertainty. In recent weeks it has become apparent that the current degree of uncertainty is nothing like what we see in normal times. There is uncertainty at too many levels simultaneously: regarding medical and epidemiological aspects, the effectiveness of public policies in terms of health and economic measures, and behavioural changes among households, businesses and investors.

The containment measures spread and are prolonged. The restrictions imposed to combat COVID-19 have been reflected in a slowdown in the number of new infections in key economies such as those in the euro area, after which governments have begun to prepare plans for a gradual return to normality. However, we must not forget that this is not the situation in many other parts of the world. Furthermore, the strategies for easing the lockdowns generally still involve an extension of restrictions in countries that were already implementing them and a tightening of restrictions in other economies which so far had opted not to apply them, or to do so less strictly. The main global consequence of the lockdowns' extension in various fields (geographical, sectoral and in time) is that the economic shock will be significantly greater than expected just a month ago.

Can economic policy alleviate the shock? Faced with the scale of the shock, the economic policy response that has been put forward is undoubtedly a step in the right direction, although it may be inadequate depending on the region. A wide range of measures are being deployed in practically all countries, albeit on a somewhat differing scale. The US has announced one of the biggest fiscal and monetary stimulus packages, while in Europe there is a mix of countries that have committed to providing direct aid on a vast scale, such as Germany, and others which, due to their more constrained fiscal conditions, are proposing a more limited economic stimulus. Also in Europe, the measures announced by the Eurogroup are a step in the right direction, but they are still too timid, both because of their amount and because they still fail to propose mechanisms for sharing the cost and the debt, without which there will be significant pressure on national debt. That said, at the euro area level the ECB has acted both ambitiously and quickly in the monetary support measures it has introduced.

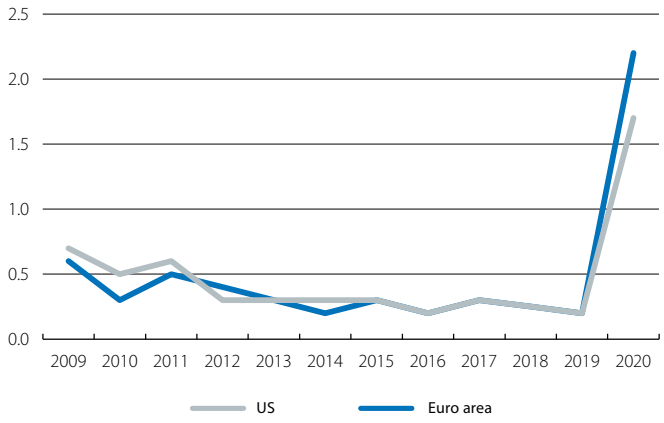
CaixaBank Research macroeconomic table

Growth forecasts (%)	2019	2020		2021	
		Current	*Before the shock*	Current	*Before the shock*
Global economy	2.9	–2.8	*3.2*	6.1	*3.4*
Advanced economies	1.7	–5.6	*1.5*	5.5	*1.6*
US	2.3	–5.1	*1.8*	5.5	*1.8*
Euro area	1.2	–6.7	*1.1*	6.6	*1.3*
Germany	0.6	–6.2	*0.7*	6.6	*1.5*
France	1.2	–6.2	*1.4*	6.9	*1.5*
Italy	0.2	–9.0	*0.5*	5.9	*0.7*
Spain	2.0	–7.2	*1.5*	6.9	*1.5*
Portugal	2.2	–8.1	*1.7*	6.1	*1.6*
Emerging and developing economies	3.8	–0.8	*4.4*	7.1	*4.5*
China	6.1	1.0	*5.5*	9.3	*5.7*

Source: *CaixaBank Research.*

Uncertainty in forecasts of change in GDP

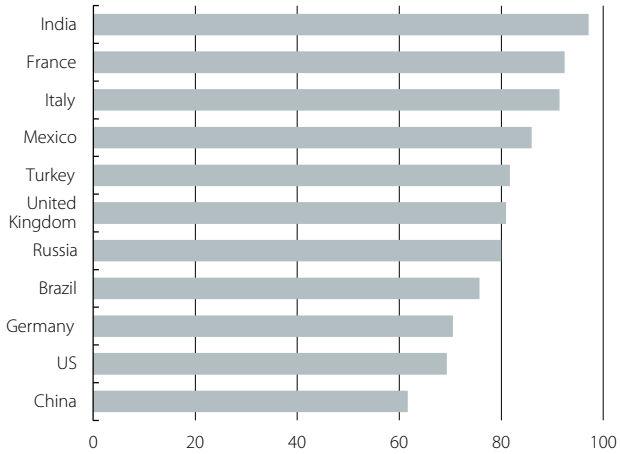
Standard deviation of forecasts according to the consensus of analysts one year in the future (pps)



Source: *CaixaBank Research, based on data from the Consensus Forecast.*

Lockdown stringency

Level (100 = maximum)



Source: *CaixaBank Research, based on data from the Oxford COVID-19 Government Response Tracker, Blavatnik School of Government.*

EMERGING MARKETS

Lessons from the epicentre of the pandemic. China was the first country to suffer the economic consequences of the COVID-19 outbreak and it is also the first to ease the lockdown measures and return to relative normality. What does the evolution of its economy tell us? Not only did the coronavirus have a heavy toll on economic activity, but the recovery in production and consumption is proving to be slower than initially expected. This illustrates the difficulty of achieving a quick rebound in domestic activity in a context of weak external demand. It also highlights the uncertainty that exists over whether the epidemic will have a lasting impact on business and consumer confidence. In Q1 2020, GDP fell by 6.8% year-on-year (–9.8% quarter-on-quarter), the first contraction of the economy since China began publishing quarterly national accounting data in 1992. The GDP of the industrial sector fell by 9.5%, and that of the services sector, by 5.2%. On the backdrop of significant impact affecting all sectors, the available indicators, including both the conventional ones, such as the manufacturing PMI (which only rebounded to 50.8 points in April), and the alternative ones (such as data on movements), suggest that the recovery is proving to be gradual.

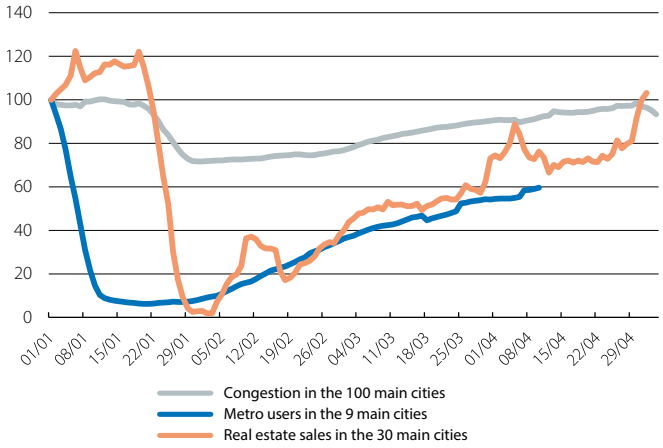
Mexico slips further into recession, but the worst is yet to come. The preliminary national accounting data indicate that GDP fell by 1.6% quarter-on-quarter (–2.4% year-on-year) in Q1 2020 (–0.1% quarter-on-quarter in Q4 2019). This figure confirms that the poor pace of growth prior to the COVID-19 outbreak was a fragile position from which to deal with the shock. In the absence of the breakdown by component, the available information suggests that the Mexican economy is suffering primarily due to the deterioration in the external environment, particularly the decline in US GDP. To what extent is this behaviour representative of other emerging markets? It is, at least, in two major aspects. Firstly, it suggests that the macroeconomic effects of the shock are are only just beginning to be felt and that, as in other parts of the world, the bulk of the decline in economic activity is yet to come. In the case of Mexico, this decline could resemble the great recessions of past decades (see chart). A second element that Mexico shares with many other emerging economies is that, for the time being, the main channel of impact is external, since the local lockdown began later (for a more in-depth view of the macroeconomic and financial consequences, see the Focus «Emerging countries and COVID-19: on the brink of a financial crisis?») in this same *Monthly Report*.

ADVANCED ECONOMIES

A sudden end to the long US expansion. In Q1 2020, US GDP suffered its biggest quarter-on-quarter drop since the 2008 financial crisis, amounting to –1.2%, which represents the seventh biggest quarter-on-quarter fall of the past 70 years (see chart). In year-on-year terms, GDP still showed positive growth (+0.3%), but well below the previous quarter (+2.3%). While this figure is by no means a good one, the expectations for Q2 are notably gloomier, as it is the period that

China: high-frequency economic activity indicators

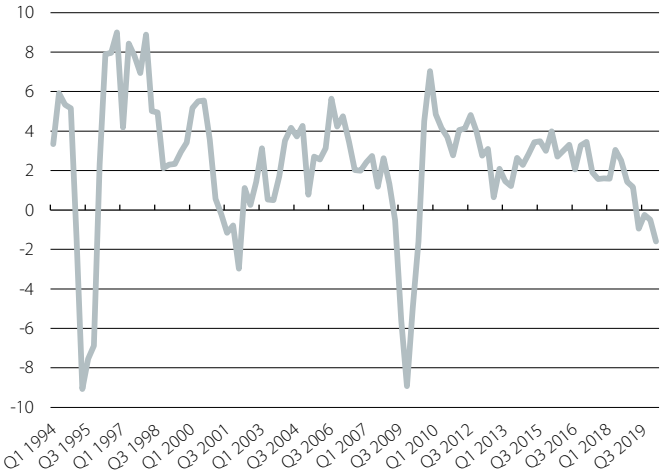
Index (100 = January 2020)



Note: *The data for «Congestion» and «Metro users» represent a 7-day moving average. «Real estate sales» represent a percentage compared to one year earlier.*
Source: *CaixaBank Research, based on data from Capital Economics.*

Mexico: GDP

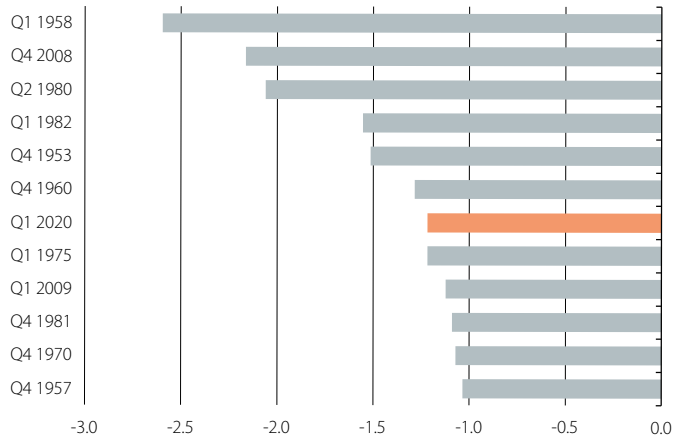
Year-on-year change (%)



Source: *CaixaBank Research, based on data from the National Institute of Statistics and Geography (INEGI).*

US: the 12 biggest quarter-on-quarter falls in GDP since 1950

Quarter-on-quarter change (%)



Source: *CaixaBank Research, based on data from the Bureau of Economic Analysis.*

encompasses the lockdown and, therefore, the shutdown of activities in the country. In this context, the fiscal and monetary measures introduced to support the economy have been necessarily far-reaching. Specifically, following the new economic support package approved by Congress in late April, the fiscal measures could exceed 1.7 trillion dollars (8.6% of GDP), while the guarantees and other liquidity measures could approach the trillion-dollar mark (~4%-5% of GDP).

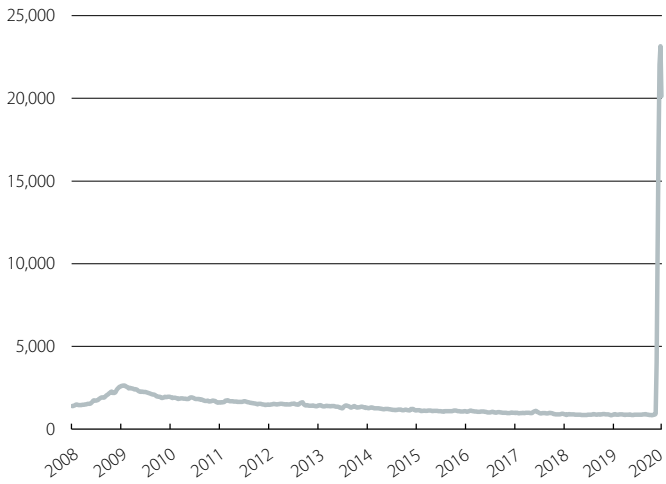
Skyrocketing unemployment and an easing of the lockdown in the US. One of the areas in which the erosion of economic activity is most evident is the labour market. In the four weeks to 25 April, cumulative US unemployment claims reached more than 20 million (to understand the scale of the crisis, in the same period in 2019 the figure was 860,000 claims). These figures suggest that the unemployment rate in April could be somewhere around 15%, a level not seen since the Great Depression. In this context of economic stagnation, the first steps steps have been taken to ease the state of lockdown. According to the COVID-19 Government Response Stringency Index developed by the University of Oxford, the measures introduced in mid-March began to be notably eased from 25 April. That said, the lifting of the lockdown is uneven, since the restrictions remain in place in some major states, such as California, Massachusetts and New York.

Economic activity collapses in the euro area. The Q1 2020 GDP figure for the euro area demonstrates the colossal impact of the coronavirus. GDP slumped 3.8% compared to the previous quarter and by 3.3% year on year. This quarter-on-quarter drop is unprecedented since the beginning of the economic and monetary union, exceeding even the worst declines of the double-dip recession of 2008-2012. Among the major countries, data is only currently available for Spain (–5.2% quarter-on-quarter), France (–5.8%) and Italy (–4.7%). As devastating as these figures are, the worst is yet to come. All the indicators suggest that the figure for Q2 will reflect a much more severe decline, since in Q1 the lockdown measures aimed at containing the virus were not implemented until the last two weeks of March. In this regard, the Economic Sentiment Indicator (ESI) fell from 94.2 points in March to 67.0 points in April, with declines in both the services sector and in industry.

Fiscal policy makes a move in Europe. Most EU countries have been relatively quick to implement various economic stimulus plans in order to contain the recession provoked by the shock (see table). In most countries, the shape the intervention is taking is similar, but not its intensity, since, as stated earlier, this depends on the fiscal position at the onset of the crisis, among other factors. At the European level, meanwhile, the Eurogroup announced a 540 billion-euro package of measures to assist member states in tackling the COVID-19 crisis (up to a maximum of 240 billion to fund health spending using loans from the ESM, 200 billion through the EIB and 100 billion in loans to help member states fund temporary unemployment plans). Furthermore, the European Council instructed the European Commission to draft a proposal for a Recovery Fund, the details of which still remain

US: unemployment claims

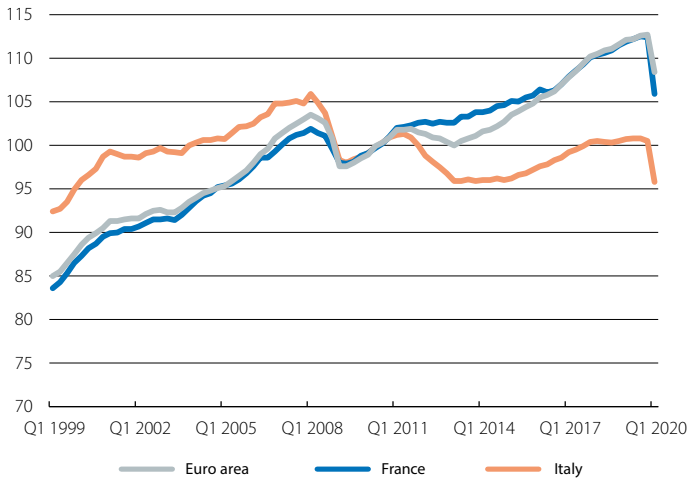
4-week cumulative figure (thousands)



Source: *CaixaBank Research, based on data from the US Employment and Training Administration.*

Euro area: Real GDP

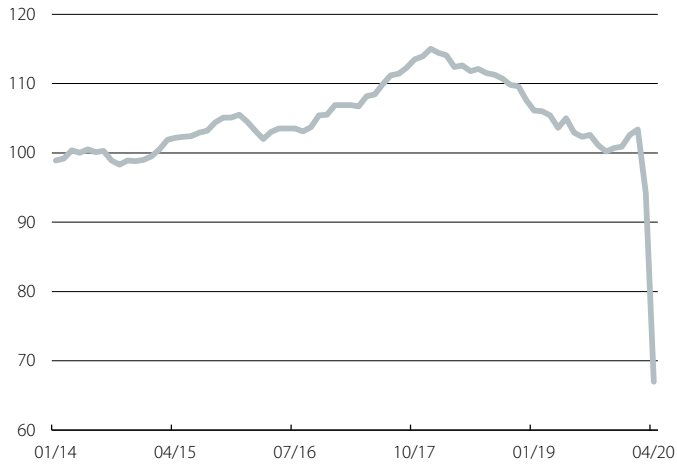
Index (100 = 2010)



Source: *CaixaBank Research, based on data from Eurostat.*

Euro area: economic sentiment index

Level



Source: *CaixaBank Research, based on data from the European Commission.*

practically unkown. All in all, it has been suggested that the Fund should be of a substantial size (the amounts being mentioned equate to between 7.2% and 10.8% of GDP).

The lockdowns begin to be lifted in the EU. Evidence that the spread of the pandemic is receding, coupled with the fact that the economic damage is proving particularly harsh, has led some European countries to begin to lift some of the lockdown measures. In France and Italy during the month of May, retail establishments will gradually be allowed to reopen (bars and restaurants will remain closed except for providing food to take away), the restrictions on movement between municipalities will begin to be lifted (travel will be permitted up to 100 kilometres in France and within the same region in Italy for reasons related to work, necessity or health) and social and sporting activities will be tolerated with certain limitations. In France, infant and primary schools will also reopen, followed by secondary schools, with limited capacity in the classes. Starting in June, the restrictions will be eased further in both countries, on the conditions that there is no resurgence in infections, face masks remain widely used and social distancing is maintained. Other countries, such as Germany and Austria, have followed different stages but with similar criteria: in the latter case the restrictions have been virtually non-existent since the beginning of May, while in Germany each federal state is determining the pace at which the measures are being lifted.

SPAIN

Unprecedented slump in economic activity. The GDP figure for Q1 2020 confirmed the expectation that the lockdown measures implemented to curb the spread of COVID-19 would have a historic impact on economic activity. In the first quarter of the year, GDP fell by 5.2% quarter-on-quarter (–4.1% year-on-year), the biggest decline in quarter-on-quarter terms since the beginning of the National Statistics Institute's historical series in 1995 (the second biggest drop was 2.6% quarter-on-quarter, in Q1 2009). From this figure, it can be inferred that during the last two weeks of March, while the state of alarm was in force, GDP fell by around 30%. This profound impact was to be expected, given the strictness of the lockdown and the importance to the Spanish economy of the tourism sector, which has been severely affected by the crisis. In fact, the decline in economic activity in Q2 will be clearly greater than in Q1, given that a greater number of weeks will be affected by the restrictions associated with the state of alarm. In this context, uncertainty surrounding the future outlook is unusually high, since minor changes in the process of lifting the lockdown could end up having a significant impact on economic activity. If the withdrawal of social distancing measures is gradual, then the decline in economic activity could reach double digits this year.

The economic activity indicators show few signs of improvement. Given the speed with which the impact of the crisis induced by COVID-19 has been felt, few of the usual indicators providing insights on the impact on the economy are available. However, the available data show that economic

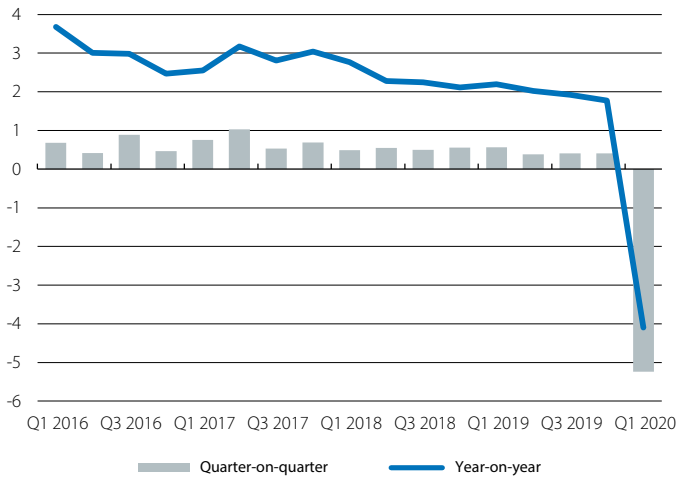
Economic measures in force in Germany, France and Italy

	Germany	France	Italy
Fiscal measures	• Expansion of the plan of subsidies for reduced working hours. • 3.5 billion (0.1% of GDP) for Health. • 100 billion (2.9% of GDP) for the recapitalisation of companies. • 50 billion (1.5% of GDP) in direct grants to small businesses (fewer than 10 employees). **Total ≈ 4.8% of GDP**	• Cancellation of corporate taxes: on a case by case basis. • Increase in temporary unemployment benefits. • Solidarity fund for small businesses. • 8 billion (0.4% of GDP) for the health system. **Total ≈ 2.4% of GDP**	• 3.5 billion (0.2% of GDP) for the health system. • 10.2 billion (0.6% of GDP) for households and businesses. • Tax credits for small businesses. • Aid for the transport and aviation sectors (incl. Alitalia). **Total ≈ 0.9% of GDP**
Deferrals	• Deferral of corporate taxes (500 billion, 14.5% of GDP). **Total ≈ 14.5% of GDP**	• Deferral of taxes and of utility and rent bills for businesses. **Total ≈ 9.4% of GDP**	• Deferral of up to 220 billion (13.2% of GDP) of loans to SMEs and independent workers. • Deferral of up to 10.7 billion (0.6% of GDP) in taxes and benefits for businesses. **Total ≈ 13.8% of GDP**
Guarantees	• 822 billion (24% of GDP) in guarantees for loans to businesses through KfW. • 500 billion (14.5% of GDP) in guarantees through the Economic Stabilisation Fund. • Unlimited quantity of guarantees for loans to SMEs. The government assumes 100% of the risk. **Total ≈ unlimited**	• 338 billion (14.0% of GDP) in guarantees for businesses (guaranteeing between 70% and 90%). **Total ≈ 14.0% of GDP**	• Up to 300 billion (16.8% of GDP) in guarantees for businesses. **Total ≈ 16.8% of GDP**

Source: *CaixaBank Research, based on data from national authorities.*

Spain: GDP

Change (%)



Source: *CaixaBank Research, based on data from the National Statistics Institute.*

activity remains very subdued. According to internal CaixaBank data, in April, expenditure (measured with card payments) decreased by 47.4% year-on-year. While a slight improvement on the 54.1% drop registered in the last two weeks of March, this figure still reflects a stark contraction in economic activity. By component, greater expenditure was observed in the category of food and pharmacies, while there was a collapse in the category of leisure and tourism (see chart). Similarly, data on electricity demand from REE show a decline of 17.6% year-on-year in April (excluding weekends), an even more pronounced drop than in the last two weeks of March (–10.4%). In March, meanwhile, the PMI index of the services sector experienced an unprecedented drop (–29.1 points), falling to 23.0 points. In addition, retail sales plummeted 14.1%, the biggest fall since the start of the series in the year 2000. In this context, headline inflation stood at –0.7% in April (0.0% in March). This was driven by the sharp fall in the price of oil and the deflationary effects of the COVID-19 crisis on the services affected (for instance, inflation of –4.3% was registered in water, electricity and gas distribution), which outweighed the inflationary effects on food (+4.0%).

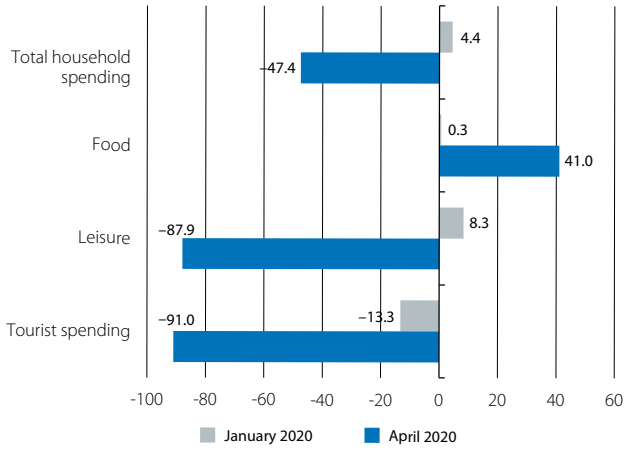
The labour market, in the eye of the storm. The labour market is one of the areas in which the impact of the crisis is being felt more acutely. Between the end of February and the end of March, the number of workers registered with Social Security (SS) fell by 834,000. This figure does not include employees affected by temporary furlough measures (ERTEs), estimated at 3.9 million people in mid-April, a figure equivalent to 16.8% of the total labour force. These employees receive unemployment benefits, but continue to be registered with SS, so they are not counted in the registered unemployment data. In addition, 1.01 million self-employed workers have currently stopped working (4.4% of the labour force). The speed with which the labour market can absorb this contingent of workers as the economy returns to normal will be key in determining the long-term impact of the COVID-19 crisis.

PORTUGAL

Unprecedented paralysis of Portugal's economic activity due to COVID-19. The lockdown has also severely shaken Portugal's economic activity since late March. This is demonstrated by sentiment indicators such as the European Commission's ESI, which in April plummeted to levels not seen in the last 20 years, or a survey conducted by the National Statistics Institute and the Bank of Portugal, in which 39% of companies stated that they had registered a fall in turnover of more than 50% in the last week of April. Furthermore, in March, retail sales and industrial production fell by 5.6% and 7.2% year-on-year, while auto sales fell by 87% year-on-year in April. Finally, ATM transactions fell by 46% year-on-year between mid-March and mid-April. With all these indicators, a contraction in GDP may already be expected in Q1, although the impact of the lockdown will clearly be more pronounced in Q2 (the restrictions under the state of emergency affected the entire month of April, and it has been extended into May).

Spain: evolution of spending registered on CaixaBank POS terminals

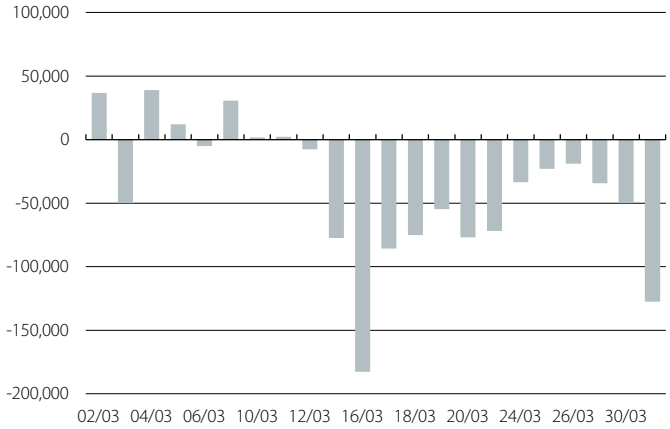
Year-on-year change (%)



Note: *«Food» includes household spending in supermarkets, food superstores and pharmacies. «Leisure» includes household spending on bars and restaurants, transport, entertainment and accommodation.*
Source: *CaixaBank Research.*

Registration with Social Security

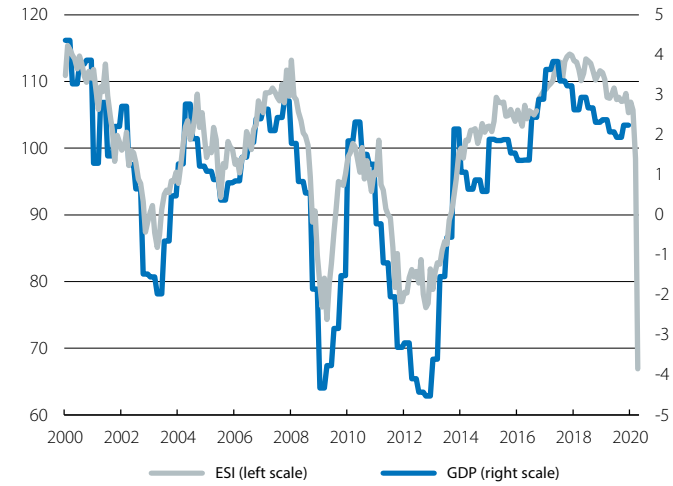
Daily net change (thousands)



Note: *Series not seasonally adjusted.*
Source: *CaixaBank Research, based on data from the Ministry of Labour, Migration and Social Security.*

Portugal: economic sentiment index and GDP

(Points) *Year-on-year change (%)*

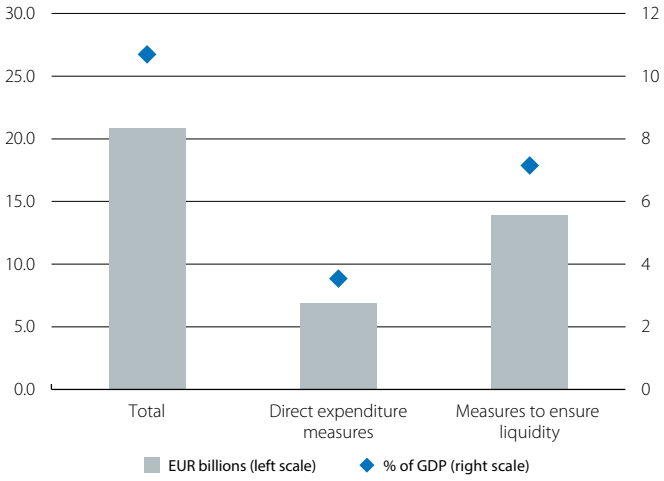


Source: *CaixaBank Research, based on data from the European Commission and the National Statistics Institute of Portugal.*

The government introduces new measures to continue to support businesses and households. On the one hand, the government has increased the scale and scope of the lines of credit for businesses (up to 7,360 million euros, or 3.8% of GDP), making them available to self-employed workers and new sectors which were not initially covered, such as trade and transport. On the other hand, it is estimated that the direct public expenditure measures already announced (such as employment aid and household subsidies) amount to 3.5% of GDP. However, the impact of the lockdown on the labour market will be significant. As of the end of April, the number of people registered unemployed in job centres had increased by 14.8%, while the number of workers who have lost their jobs already represents 26% of the labour force in employment at the beginning of the year. The slump in employment has particularly affected the trade, accommodation and catering sectors. In fact, the environment is particularly demanding for sectors related to tourism, with initial estimates indicating a drop of around 50% in the number of guests staying in tourist accommodation in March.

Portugal: government package of measures

(EUR billions) *(% of GDP)*



Source: *CaixaBank Research, based on internal estimates and data from the Government of Portugal.*