

Let us hope we are wrong!

Prudence. We economists tend to be wrong at times like the present. At the beginning of a recession, we find it difficult to anticipate the change in trend and we are often too optimistic. In contrast, when the recovery begins to take shape, we tend to be overly pessimistic. The speed of events in recent months has been unprecedented and we already find ourselves at a new turning point. Although we are aware that we tend to project the future assigning too much importance to the latest developments, will we succumb to the same pitfall this time? Will it be spoilsports yet again?

The information we are receiving on the pace of economic activity perfectly illustrates the dilemma we find ourselves in. On the one hand, the traditional economic activity indicators, which are generally only available up to April, continue to indicate that the recession will be one of historic proportions in Q2. For instance, the economic activity indicators available for the US suggest that the decline in GDP in Q2 will be around 10%. In the case of the euro area, the drop in GDP is expected to be somewhat greater and the differences between countries are expected to be significant. The pandemic is not having the same impact across all European countries. Moreover, differences in economic structure are playing a very important role, since the lockdown measures are having a more profound effect on sectors that rely more heavily on mobility and social contact, such as tourism. Given these conditions, the Spanish economy is likely to end up registering one of the biggest setbacks, which could exceed 20% in quarter-on-quarter terms in Q2.

Yet the news is not all bad. Economic activity is rebounding as the lockdowns are lifted, even more than we expected a few weeks ago. This is reflected in the less conventional indicators, such as mobility data or card payments, which give us clues as to how economic activity is evolving almost in real time. For instance, according to records from CaixaBank POS terminals, Spanish card spending fell by around 50% year-on-year during the second half of March following the declaration of the state of alarm, and it maintained a similar rate of decline during April. However, there has been a marked change in trend since the lockdown measures began to be lifted. During the last week of May, the decline amounted to «only» 10% and, more encouraging still, the provinces in phase 2 of the lifting of the lockdown were already registering a positive growth rate of 4% (a figure that also reflects a greater propensity to pay by card rather than in

cash). Equally encouraging is the data on the number of inactive POS terminals, which increased by 60% after the state of alarm was declared. In contrast, in the last week of May «only» 15% remained inactive. Much of the productive fabric of the economy was hibernating, but it is waking up quickly.

Another positive development is the economic policy response we are seeing in the major developed countries, both in the fiscal sphere and in the monetary sphere. The magnitude of the economic recession required a rapid, decisive and effective response, and so far, this is what we are seeing. During May, one of the most encouraging developments was the economic recovery plan proposed by the European Commission, both because of the amount of resources it plans to mobilise and, above all, because of the strengthening of the European institutional architecture that it could lead to. Also noteworthy was the ECB's response to the ruling of the German Constitutional Court, which dispels doubts over its ability to act, at least in the short term.

Nevertheless, I do not think we can declare victory just yet. Until we have an effective vaccine against COVID-19, we will have to live with the virus and this will mean maintaining social distancing restrictions, which may have to be occasionally tightened if there are further outbreaks. Thus, the surge in economic activity that we will witness over the coming months will be significant, and also very encouraging, but we are unlikely to see a return to pre-pandemic levels in the short term. We will have to wait until an effective treatment is available, and the longer it takes, the greater the erosion of productive capacity will be.

There is much uncertainty as to when we will achieve this milestone, although it seems unlikely to happen before the second quarter of next year. We also do not know how we will react as a society to the new environment. In this context, many economies, including Spain, will struggle to avoid double-digit declines in GDP this year and to recover all of the lost ground next year. In the coming weeks we will publish a review of our macroeconomic scenario in which we will detail these forecasts.

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