

European economy 'through the worst' but activity still depressed

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Valentina Romei, *The Financial Times*, June 7, 2020

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Customers at a restaurant by the Grand Canal in Venice, Italy, as European economies begin to reopen © REUTERS

Europeans have begun to return to work, shopping and dining out, suggesting the worst of the economic damage inflicted by coronavirus pandemic lockdowns has passed, but overall activity remains well below normal standards, pointing to the long haul back to recovery the region faces.

High-frequency data indicators such as mobility and consumer spending suggest that the sharp economic contraction that has gripped major European economies since March began to ease in May and early June.

The figures are more up to date than official economic indicators, which have only been published up until April, although they are also experimental and the extent to which they reflect the subsequent trends documented in official data is variable.

“There is some evidence that European economies are through the worst of this really sharp fall in output,” said Neil Shearing, group chief economist at Capital Economics. “Things are starting to bottom out . . . but I think the recovery is going to be extremely weak.”

For many economists the data support the view that the pandemic has deepened the divide in economic performance between northern and southern European countries.

Shopping and leisure

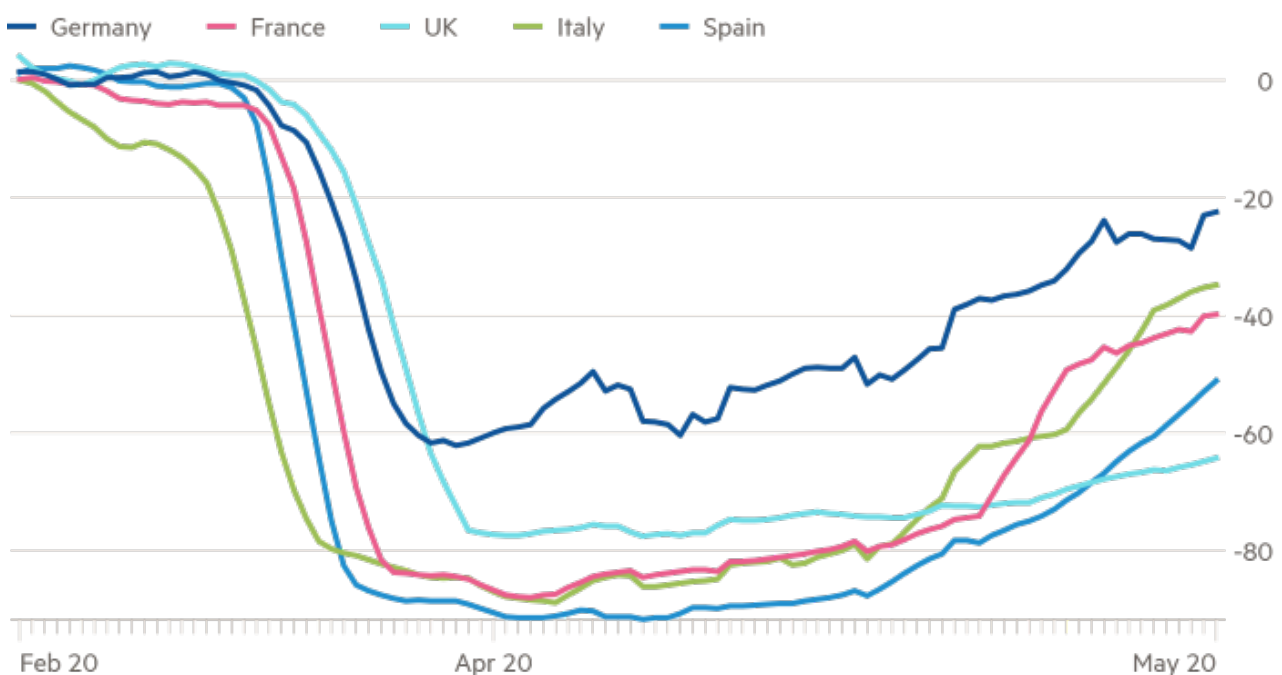
Eurozone shoppers bought fewer goods in April than in any other month since record began in 1995, according to official figures. Yet, since lockdowns began to relax in May, trips to shops, bars and restaurants have started to increase again, particularly in France and Italy, according to Google Mobility data.

Spain and the UK lag behind, while Germany and other northern European countries experienced a milder contraction and smaller differences with pre-crisis levels, largely reflecting less stringent restrictions.

EU car sales dropped by an annual rate of 76 per cent in April, according to sector data. But internet browsing, a forward-looking indicator of spending, points to some normalisation in consumer demand. Visits to car sales websites increased by early June as showrooms began to reopen, according to web tracking company SimilarWeb. Europeans also showed renewed interest in buying furniture and houses.

Europeans are returning to entertainment and shopping centres

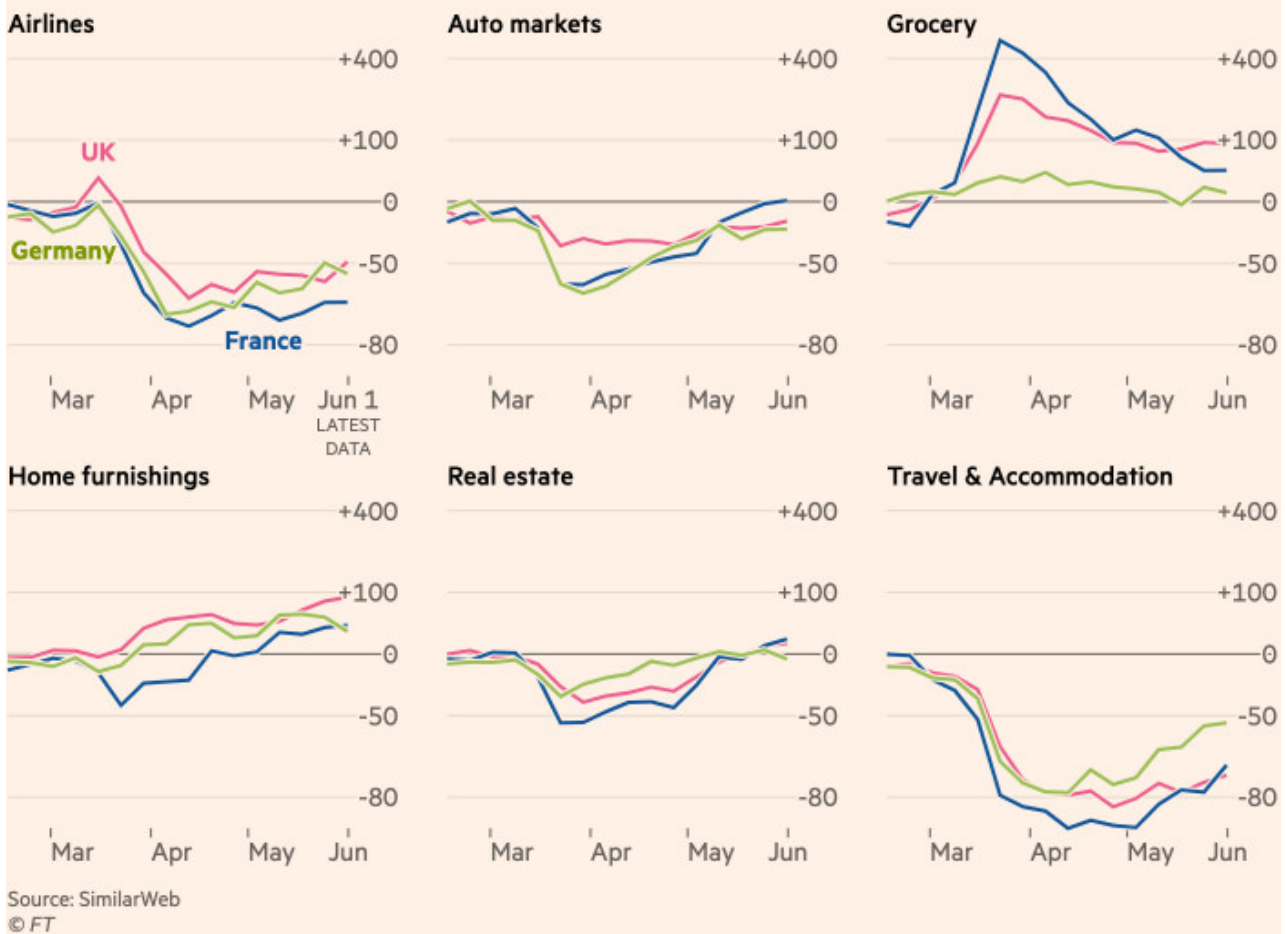
% change from pre-virus levels (seven-day rolling average)



Source: Google Mobility
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Web traffic suggests some sectors are recovering faster than others

% change in weekly unique visitors from previous year, average for websites in each sector (log scale)



High-frequency data indicate “that the recovery took off midway through May, with Germany leading the pack”, said Claus Vistlesen, chief eurozone economist at Pantheon Macroeconomics.

But economists warn the recovery will be gradual across the region, particularly in countries and sectors where lockdowns were more stringent or hampered by some continuing restrictions, as well as low consumer and business confidence.

Bert Colijn, senior economist, at ING, warned that “a lot of the restrictions are going to stay with us for quite some time which means [activity] will take longer to recover to the level where it was before the crisis”.

Work

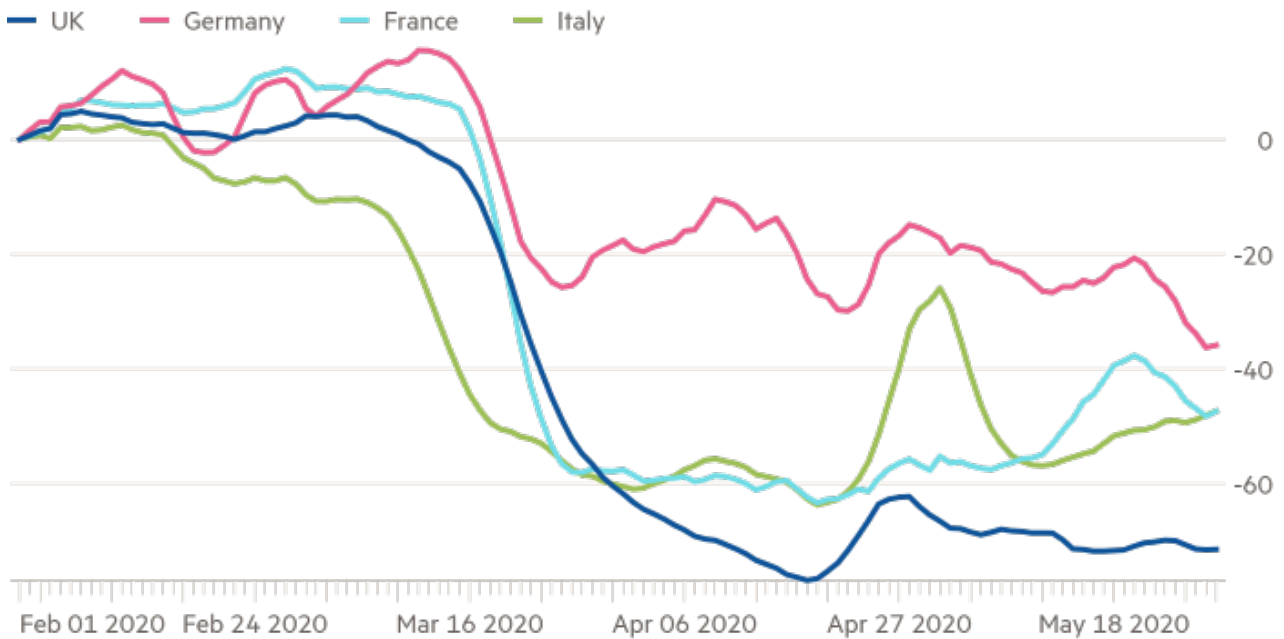
Figures to be published this week are expected to show that in April, industrial production in the eurozone experienced the largest contraction since records began in 1992. But Google Mobility data suggest that the decline in trips by Europeans to factories and offices eased in May. The same pattern is replicated in road and public transport data.

Nikola Dacic, a Goldman Sachs economist, said that mobility indicators should be “highly informative about the pace at which activity is rising in the initial phases of recovery” as the crisis was primarily caused by restrictions on movement.

New job openings remain subdued, however, even in less-affected economies such as Germany.

Employment opportunities remain subdued

New job postings on job search website Indeed (annual % change rebased, 7-day rolling average)



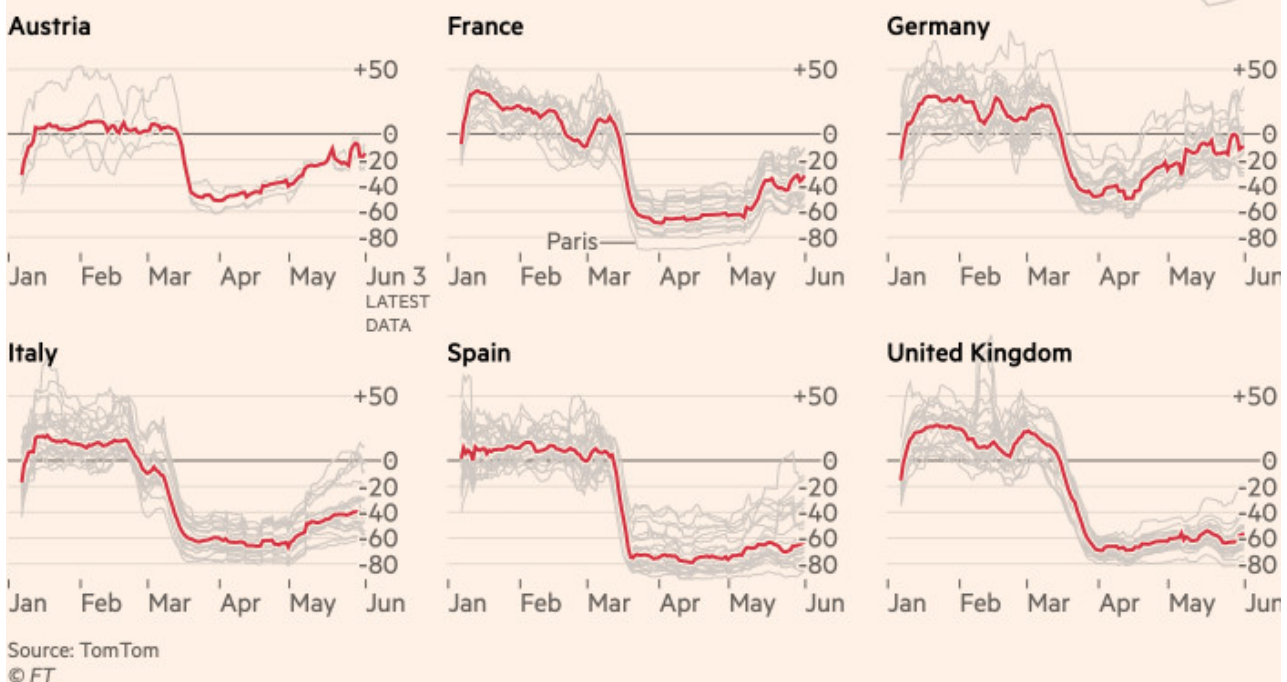
Source: Indeed
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Road traffic has returned to normal much more quickly in some places than others

% change in road traffic levels vs average of 2018 and 2019

Country average

individual cities



High unemployment and falls in household income are also likely to contribute to the continued economic drag. Rosie Colthorpe, an economist at Oxford Economics, said that across Europe “high uncertainty and a weak outlook for employment means that consumers may choose to save rather than spend”.

European governments and central banks have supported the economy with large stimulus packages but some economists fear the support might run out before activity is strong enough to support more hiring. “We suspect that a fragile recovery will require steady interventions for some time,” said Nadia Gharbi, Europe economist at Pictet Wealth Management.

Travel

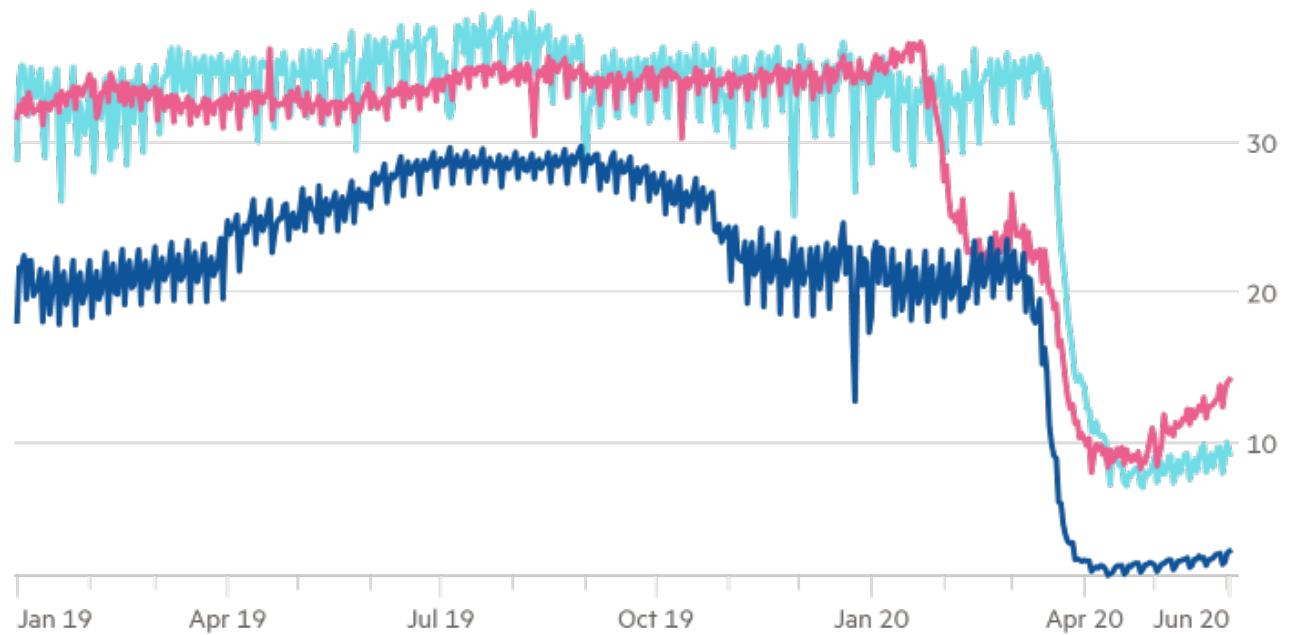
Travel and tourism is one of the hardest-hit sectors of the economy and continues to show little improvement. By June 2, the number of flights landing and departing in Europe was down 90 per cent compared with the same day last year and was largely unchanged over the past month, according to FlightAware, an aviation software and data company.

Europe’s hotel occupancy rates were stuck at one-tenth of capacity by late May, according to STR, a hotel data company — worse than 30 per cent for the US and 40 per cent in China.

No sign of recovery for Europe's air industry

Flights landing and departing, '000

Europe Asia North America



Source: FlightAware

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