A mixed bag of GDP figures

Eurozone

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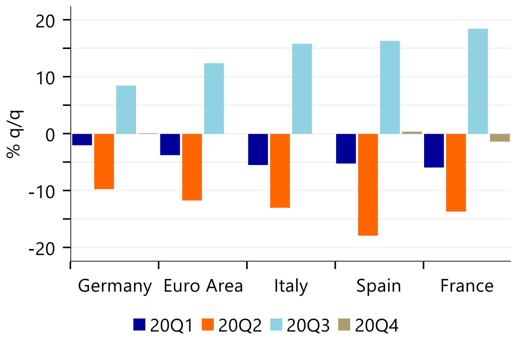
Summary

- Fourth quarter GDP releases this morning point to a contraction in Eurozone GDP in the fourth quarter, but data were better than expected
- Spain and Germany saw minor growth, whilst France's economy experience a relatively mild contraction (which at least was smaller than expected). Meanwhile, the Austrian economy shrank quite substantially
- Despite the upward surprises, the outlook for the first half of this year remains lacklustre in the face of a continuous battle to rein in a mutating virus
- In any case, it seems we should expect quite substantial monthly fluctuations in activity data going forward, in line with containment measures being tightened and loosened

Fourth quarter GDP figures surprise on the upside

Eurozone member states' fourth quarter GDP releases this morning are somewhat of a mixed bag, although the overall message from these data is that 2020Q4 was not as weak as feared/expected (figure 1). Something which already had been indicated by preliminary 2020 data for Germany two weeks ago. Germany's and Spain's economy even managed to grow with respectively 0.1% q/q and 0.4% q/q, which was better than expected by the Bloomberg consensus – and ourselves – only a few weeks ago. Meanwhile, the Austrian economy contracted 4.3% q/q, proving to be one of the weaker links in the Eurozone. But this is not a surprise, given that ski holidays for foreign tourists were made all but impossible and the country returned to a near-full lowdown early in the quarter.

Figure 1: So far, Q4 GDP figures surprised on the upside



Source: Macrobond, RaboResearch

Figure 2: Different countries, different stories

%q/q	*Germany*	*France*	*Spain*
Gross domestic product	0.1	-1.3	0.4
Private consumption	-5.0	-5.4	2.4
Government consumption	-1.2	-0.4	4.0
Gross fixed capital formation	2.0	2.4	-3.1
Export	5.5	4.8	-1.4
Import	4.8	1.3	0.4

Source: National statistics offices, RaboResearch

France, the Eurozone second-biggest economy, 'only' contracted by 1.3% q/q, leaving output down 5% on a y/y basis. The big surprise was investment, which grew 2.4% following the 24% q/q rebound in Q3. Exports also improved on the back of better external conditions. Consumption, as expected, was weak, falling 5.4% q/q (table 1). But if it wasn't for a sharp rebound in spending on goods in December (monthly data showed a 23% m/m rise after dropping 18.9% m/m in

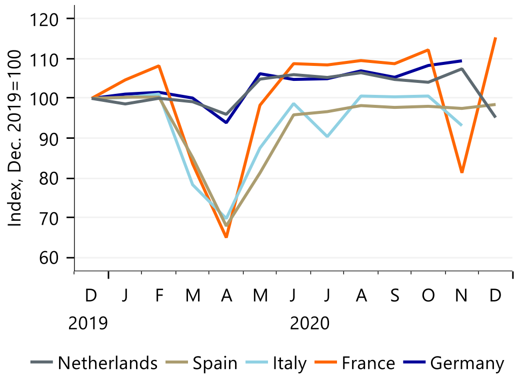
November), this number would have been significantly worse. This underlines both the sensitivity of the economy to the lockdown measures but also the ability to recover once these measures are eased (as was the case in December). Another surprise was the fact that government consumption (which took a big hit during the first lockdown), was left relatively unscathed. The overall picture resembles that of Germany to the extent that also in Germany consumption shrank, while exports and investments in construction supported economic growth.

No rain (but snow!) in Spain

In Spain the picture was quite the opposite, when looking at the components. More specifically, consumption contributed positively to the headline growth figure – private consumption grew with 2.4% q/q - while investments and exports shrank. Regarding consumption, this could result from the fact that unlike in France, Germany and many others, neither stores nor restaurants have ever been shut all over the country in Q4 - although they were in several regions. At the same time, Spain also started Q4 on a lower level of activity, implying the fall could de facto be less steep. Still, high frequency data available leave us a bit puzzled, with monthly data showing fairly constant retail sales, a decline in turnover among accommodations and restaurants and a contraction in the arts and entertainment sector. The contraction in investment is likely to be related to the tougher containment measures and uncertainty having started earlier, as Spain was the first country to enter the second wave – it started already in Summer. Meanwhile, as goods exports just contracted, services exports (tourism in particular) were down substantially, and they make up a relatively large share in overall Spanish exports.

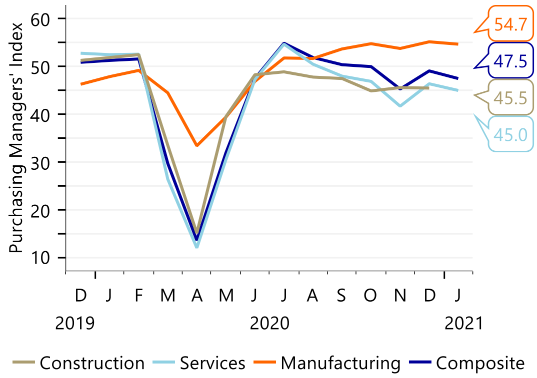
Overall, combining the data released today with our own projections for the countries that have not published their numbers, this is pointing to an overall Eurozone GDP contraction of around -1% q/q in Q4. But given that we are still forecasting a sizeable drop in Italian GDP for that quarter (-2% q/q), this is somewhat of a conservative estimate now. Eurostat will publish the Eurozone figure next Tuesday, 2 February.

Figure 3: Volatile retail sales (SA) driven by tightening and loosening containment measures



Source: Macrobond, RaboResearch

Figure 4: EZ PMIs show slightly weaker activity in January, with manufacturing still going strong



Source: Macrobond, RaboResearch

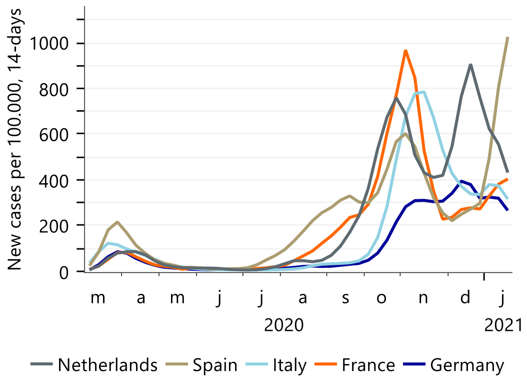
Uncertainty continues to cloud the outlook

Going forward, despite the better than expected fourth quarter, unfortunately, the outlook for the first half of this year remains lacklustre in the face of a continuous battle to rein in a mutating virus. With multiple countries facing a third wave and overwhelmed hospitals, lockdown measures have recently been extended and even intensified in multiple European countries. The latest spat between the EU and pharma giant AstraZeneca is further evidence that the EU remains behind the curve for now. On top of that, current experience in Israel, the country with the world's highest vaccination rate, suggests it might take longer to be able to lift containment measures upon vaccinations than previously thought or hoped. Despite having vaccinated more than 30% of its population with the first shot, as compared to roughly 1% in the EU, the incidence rate has rapidly increased, overloading the health sector, requiring tough containment measures.

In any case, while recent experience might make governments hesitant to loosen the reins too fast, it seems we should expect quite substantial monthly fluctuations in activity data going forward, in line with containment measures being tightened and loosened.

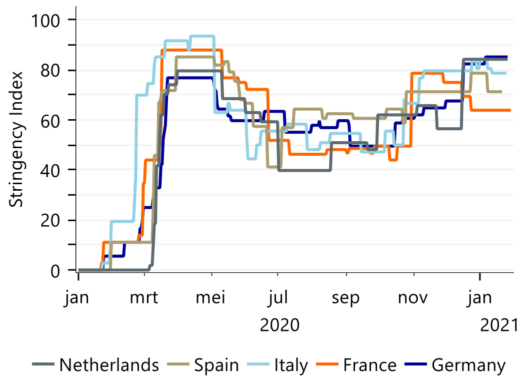
With the lockdown measures known at this point, carry-over effects and German VAT hike impact, we stand by our forecast for a further drop in Eurozone GDP in the first quarter of 2021. This could be in the order of -0.5 to -1.5% q/q, but uncertainty surrounding this forecast is higher-than-usual. Well, after a year like 2020, that sounds as an understatement!

Figure 5: Spain is facing the highest increase in new cases among the largest EZ member states



Source: Macrobond, RaboResearch

Figure 6: Germany and the Netherlands currently top the stringency index of containment measures



Source: Macrobond, RaboResearch

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