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EUROZONE SENTIMENT ALSO REGISTERS HISTORICAL PLUNGE

Berenberg Macro Flash

Eurozone economic sentiment took its biggest monthly plunge in March since the series started in 1985. The European Commission's index collapsed by 8.9 points to 94.5 in March, roughly in line with our expectations of 94.100 equals the long-term average of the index since 1985. The biggest drop so far was 7.5 in December 2008.

In line with PMIs, services (30% of the total economic sentiment index) suffered more from the lockdowns/-ins than manufacturing (40%). Consumer confidence (20%) also took a hit with backward-looking components limiting the hit a little.

According to European Commission, survey responses have been collected between 26 February and 23 March with considerable differences across countries. **Importantly, the vast majority of survey responses were collected before strict containment measures were enacted. This points to serious downside risks for all economic data and indicators in the near term. Only the April data can show the full impact of the pandemic and lockdowns.**

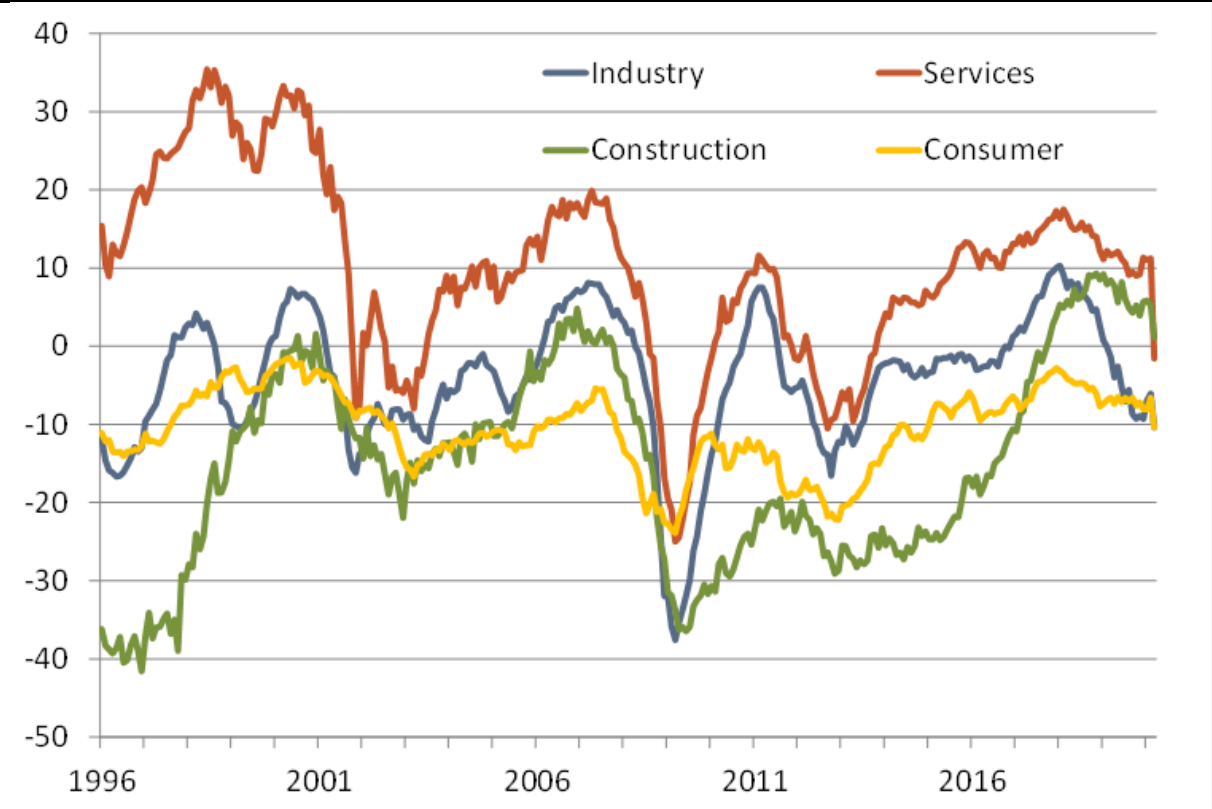
That containment measures were enacted in Italy earlier than in other countries probably largely explains some of the difference between Italy, where sentiment plummeted by 17.6, and the rest of the Eurozone. Confidence dropped by 9.8 in Germany, by 4.9 in France and by "only" 3.4 in the Eurozone's new epicentre Spain.

We expect the sharpest contraction in economic activity in peacetime from March to May. Eurozone GDP could drop by more than 10% in Q2 2020 relative to Q4 2019. The base case for the time thereafter is a tickmark rebound, that is a slightly flatter upturn starting in H2 after the sharp downturn now. Eurozone GDP could still decline by 5.5% or more in 2020.



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Chart 1: Eurozone economic sentiment by sector



In %. The percent balance equals percent of respondents reporting an increase minus the percent of respondents reporting a decrease. Source: European Commission

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