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## EUROZONE ECONOMY: GETTING AWAY WITH A BLACK EYE IN LATE 2020

### Berenberg Macro View

**Second wave impact:** The Eurozone contracted by 0.7% qoq or -5.1% yoy in Q4 2020 and thus -6.8% in 2020, according to a first estimate by Eurostat. Eurostat releases the first estimate without providing details on the GDP components. Judging by the monthly Eurozone and quarterly national GDP data released already, stronger exports and some recovery in investment mitigated the decline in private consumption. By sector, buoyant manufacturing production limited the fall in output in (consumer) services. Furlough schemes supported disposable incomes while corporate profits may have declined.

**Less bad than first wave:** The second wave of the pandemic has hit the Eurozone economy much harder than the US, which registered growth of 1% qoq in the last quarter of 2020, and the UK, which likely stagnated in Q4 (official data due on 12 February). Still, relative to the first wave of the pandemic, when a collapse in economic activity in March and April caused GDP to tank by -3.8% qoq in Q1 and by -12.1% in Q2, and relative to our expectations at the start of this year (-2.5% qoq for Q4), the Eurozone economy got away with a black eye late last year.

**Less bad than feared earlier this year:** Because prospects had turned less downbeat during January as monthly data had held up better-than-expected and as the national GDP data for Germany (+0.1%), France (-1.3%), and Spain (+0.3%) surprised to the upside on Friday, today's first estimate by Eurostat came in only slightly above expectations (Bloomberg consensus and Berenberg projection of -0.9% qoq). Q4 GDP data released for Italy (-2% qoq vs. our projection of -1.9% and Bloomberg consensus of -2.2%) roughly met expectations whereas Portugal (+0.4% qoq) sprang a surprise relative to a -2.0% qoq consensus and our -1.6% qoq call.

**Q1 – dark winter, lost quarter:** Amid the risks stemming from more contagious virus mutations, restrictions will likely be maintained through February in most countries followed by a modest relaxation in a few countries in late March and a more general if stepwise easing from April onwards, as better weather slows the spread of the virus and as mass vaccination progresses. We expect the Eurozone economy to contract by 2.0% qoq in Q1.

**2021 rebound – delayed, but strong:** It remains difficult to predict when exactly restrictions can be eased and the economic rebound can start. However, once the rebound begins, it will be robust. See here for [reasons of optimism](#).

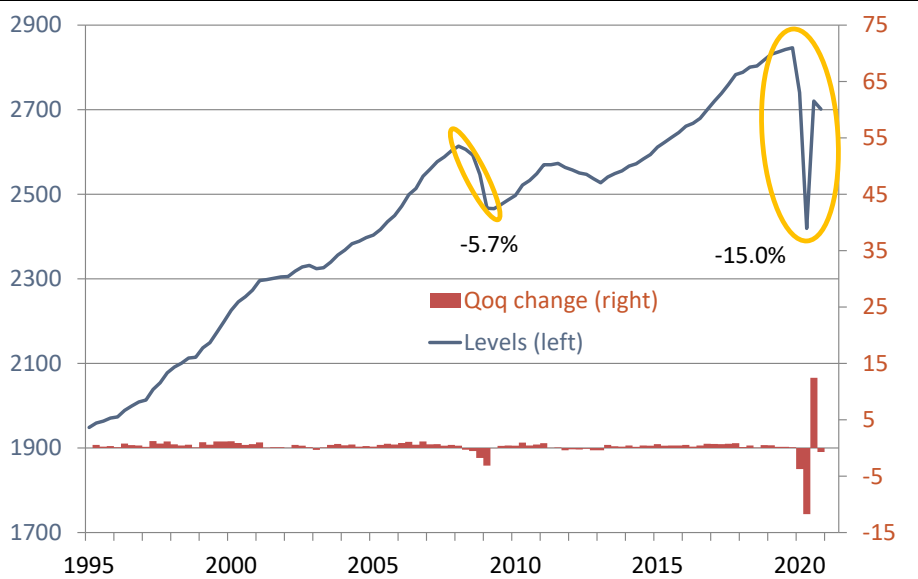
**Policy response matters:** The economic performance of the Eurozone during the pandemic relative to the US both resembles and differs from that during the Great Recession. In the aftermath of the 2008/2009 financial crisis, the Eurozone took seven years to recover the losses while the US managed to do it in 3.5 years – largely because the Eurozone entered into a double-dip recession amid the sovereign debt crisis in 2011/2012. The Eurozone is lagging the US again this time around. However, both economies are recovering much faster than they did after the financial



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crisis and the Eurozone is lagging the US by less (roughly nine quarters to return to pre-pandemic level vs. six quarters in the case of the US). The Eurozone is trailing the US mostly because of tighter restrictions during the second wave – the Eurozone economy had recovered almost all of the losses from Q2 2020 in Q3 2020 before the second wave started. Differences in the economic policy response also play a role, but less so than after the financial crisis. While the fiscal response in the US dwarfs that of the Eurozone, monetary and fiscal support has been much more aggressive in the Eurozone this time than 10 years ago. Monetary and policy in the Eurozone should remain supportive for years to come in stark contrast to the early fiscal tightening after the financial crisis.

**Chart 1: Eurozone GDP quarterly levels (in bn) and changes (qoq, in %)**



Sources: Eurostat, Berenberg.



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