

THE INITIAL ECONOMIC IMPACT OF THE HEALTH CRISIS AND THE LOCKDOWN MEASURES ON THE EURO AREA COUNTRIES

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To contain the spread and incidence of the COVID-19 pandemic, the governments of the euro area countries launched strict measures in March restricting people's movement and the normal pursuit of productive activities. Both the "stringency index" devised by the

University of Oxford¹ and the indicators of people's movement, such as Google, show how strict containment measures were widespread from mid-March and extended throughout April and much of May (see Charts 1 and 2).

Chart 1
STRINGENCY INDEX OF PANDEMIC-CONTAINMENT MEASURES
UNIVERSITY OF OXFORD (a)

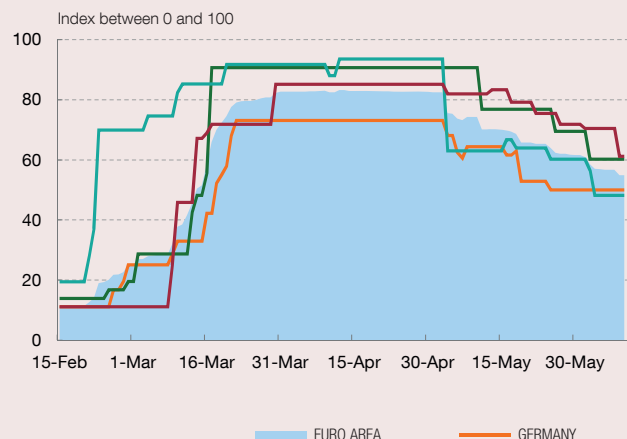


Chart 2
DECLINE IN MOBILITY TO WORKPLACES AND RETAIL SITES
GOOGLE INDEX (b)

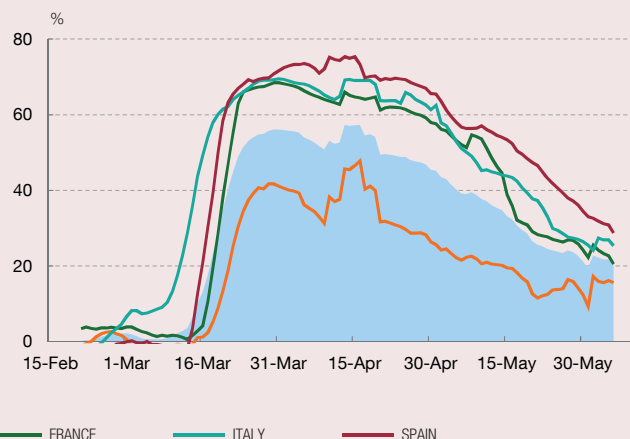


Chart 3
REAL GROSS VALUE ADDED. 2020 Q1

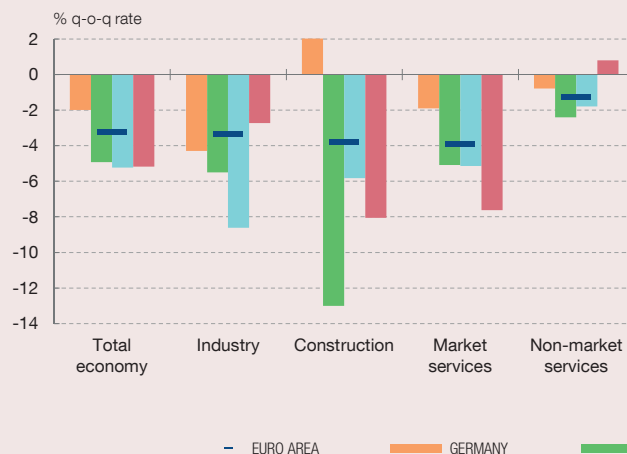
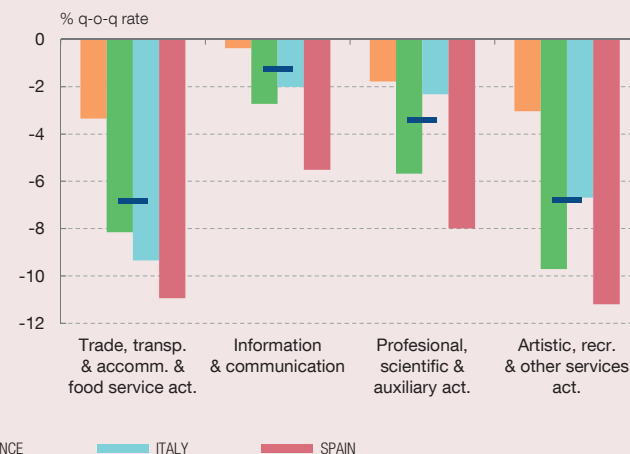


Chart 4
REAL GVA IN MARKET SERVICES BRANCHES. 2020 Q1



SOURCES: Google Community Mobility Reports, University of Oxford and Eurostat.

- a See footnote 1 below. For calculation purposes, the euro area is a GDP-weighted average.
- b Average of indices of mobility to "grocery and pharmacy", "retail and recreation" and workplaces. Daily data available from 15 February (omitting some public holidays). Percentage deviation from the base period (for each day of the week, the median between 3 January and 4 February). The euro area is a GDP-weighted average.

1 This indicator summarises the intensity of nine types of pandemic-containment measures and allows a systematic and consistent international comparison to be made. The index takes values between zero (absence of measures) and 100 (most extreme measures). See Hale, T., N. Angrist, B. Kira, A. Petherick, T. Phillips, S. Webster (2020), "Variation in Government Responses to COVID-19" Version 5.0. Blavatnik School of Government Working Paper.

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These measures have given rise to a very abrupt and sharp decline in economic activity. The collapse in demand caused by the lockdown, the loss of jobs and uncertainty all compounded the fall in supply and the interruption of certain supply chains as a consequence of the obligatory shutdown of numerous productive activities. Moreover, these effects were heightened by the global nature of the shock and the high degree of interrelatedness of the different economies.

On National Accounts figures, the contraction in euro area gross value added (GVA) in Q1 was 3.2% quarter-on-quarter. Considering that the strict lockdown period was in the last fortnight of the quarter², euro area economic activity is estimated to have fallen in that period by approximately 20%.³ Among the four biggest economies, France, Italy and Spain were most impacted, given the greater severity of the containment measures applied. In these countries, the observed reduction in GVA in Q1 is estimated to be consistent with a decline in the level of activity during the strict lockdown weeks of over 30%, compared with 13% in Germany. These figures are in line with those anticipated by some institutions on the basis of their direct interpretation of the lockdown rules, of surveys and of high-frequency economic indicators.⁴

The adverse impact on activity has been most asymmetrical across sectors. Charts 3 and 4 illustrate this, showing the quarter-on-quarter change in GVA in Q1. In addition, Table 1 offers sector-by-sector estimates of the decline in the level of activity during the strict lockdown in the second fortnight of March.

As can be seen, the market services sector, which accounts for close to 55% of the total of the euro area economy, declined by almost 4% in Q1, on National Accounts figures. That would be consistent with a fall in

activity over 25% during the strict lockdown period. Such a sharp contraction reflects the significance of personal interaction in numerous services activities, which will have been directly affected by the pandemic-containment measures. The impact on services activity was notably higher than the average in Spain and lower than it in Germany, where services have a smaller relative weight, of around 50% of GVA in the economy, compared with 57% in Spain's case.

In the services industry as a whole, the two sectors most affected were that of retail and wholesale trade, transportation, and accommodation and food service activities (which accounts for 19% of the euro area economy), and that of artistic activities, leisure and other personal services (whose economic weight is much lower, at somewhat over 3%).⁵ As Table 1 shows, these two sectors are expected to have undergone a loss of activity of more than 40% during the strict lockdown period in the euro area. The decline in the first of these two sectors was particularly severe in Italy and Spain (over 60% and 70%, respectively), where the weight of this activity in the economy is moreover greater. Specifically, hotels and restaurants, which were completely shut down, account for 3% of euro area GVA; but in countries where tourism is more important, such as Italy and Spain, their weight rises to 4% and 6% of GVA, respectively. The second of the two sectors is estimated to have shrunk more sharply in France (over 60%) and Spain (over 70%). The third services sector most affected is that of professional, scientific, technical and auxiliary services, with a decline in activity of around 20% in the euro area as a whole. The related fall was over 50% in Spain, and around 40% in France, where its weight in proportion to GVA is, moreover, relatively higher.

The initial impact of the crisis on euro area manufacturing production was very high, which also reflects the collapse

2 The start of the strict lockdown in March was on the 22nd in Germany, the 17th in France, the 10th in Italy and the 16th in Spain, although some lockdown measures were introduced in a staggered fashion prior to these dates, and did not always affect each country as a whole. See, for example, Flaxman, S. et al. (2020), Estimating the effects of non-pharmaceutical interventions on COVID-19 in Europe. *Nature*.

3 This calculation is made under the assumption that, during the first 11 weeks of the quarter, the level of economic activity was similar to that of late 2019 (i.e. a quarter-on-quarter change of 0%), meaning that the 20% decline in the two remaining weeks caused the fall of 3.2% observed in the quarter as a whole. The decline would rise to 22% under the alternative assumption that during the first 11 weeks of the quarter a similar growth rate had been maintained to that of the four quarters of 2019 as a whole (0.2%).

4 ECB (2020), "Alternative scenarios for the impact of the COVID-19 pandemic on economic activity in the euro area", *Economic Bulletin*, May, pointed to initial economic losses of 30% during the lockdown, depending on the country. INSEE (2020), "Point de conjoncture", 26 March, anticipated a 35% correction in economic activity in France at the height of the lockdown. The analysis by the Banco de España (2020), "Reference macroeconomic scenarios for the Spanish economy after Covid-19", *Analytical Articles*, 2/2020, suggested an approximate decline in production of 30% in Spain in each of the weeks the state of alert was in force.

5 The services comprising this sector are very heterogeneous and include sport activities, repair of computers, various personal services and activities of households as employers of domestic staff.

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in international trade. The decline in manufacturing GVA is estimated at close to 30% during the strict lockdown period in Q1.⁶ The adjustment was more severe in Italy and France (60% and 40%, respectively) and, on the industrial production data for March, the poor performance in these two countries was practically across the board in all manufacturing sectors. The sector most affected was that of motor vehicle manufacturing, where productive activity had ground to a halt at some junctures. This

industry is relatively significant in Germany, with a weight in GDP of over 5%, while the related figure does not exceed 2% in the other main countries. The data for March also indicate very sharp falls in the textile and furniture industries. Both are relatively labour-intensive, meaning that the pandemic-containment measures affected them to a greater extent. The weight of these industries in Italy is very high (around 3.5% of GVA in the economy, compared with 2% in the euro area).

Table 1
DECLINE IN ACTIVITY DURING THE STRICT LOCKDOWN PERIOD IN Q1
As a percentage of the pre-health crisis level. Weight of the sector as a percentage of nominal GVA

Sectors	Estimate of the decline in activity during the lockdown (a)					Weight of the sectors				
	Euro area	DE	FR	IT	ES	Euro area	DE	FR	IT	ES
Primary	-	-	-	-	-	1.7	0.9	1.8	2.2	2.9
Manufactures	-22	-29	-39	-59	-21	16.4	21.6	11.0	16.6	12.2
Motor vehicles						2.4	5.3	1.4	1.5	1.5
Energy	-	-	-	-	-	2.8	2.7	2.5	2.9	3.5
Construction	-25	-	-85	-38	-52	5.5	5.5	5.8	4.3	6.5
Market services	-26	-12	-33	-33	-50	54.7	50.5	57.0	57.5	56.8
Trade, transport, accommodation and food	-44	-22	-53	-61	-71	19.0	16.2	17.7	21.6	23.8
Trade						11.1	10.0	10.4	11.9	13.0
Retail trade						4.2	3.4	4.3	5.3	5.2
Transport						4.8	4.4	4.6	5.6	4.6
Accommodation and food service activities						3.0	1.6	2.8	3.9	6.3
Information and communications	-	-	-18	-13	-36	4.8	4.7	5.4	3.7	3.6
Financial and insurance act.	-	-	-	-	-	4.6	3.9	3.8	4.8	4.0
Real estate activities	-	-	-	-	-	11.3	10.5	12.9	13.7	11.6
Professional, scientific and auxiliary act.	-22	-12	-37	-15	-52	11.6	11.5	14.2	9.6	9.1
Artistic, entert. and other personal services act.	-44	-20	-63	-44	-73	3.4	3.8	2.8	4.1	4.7
Artistic and entertainment act.						1.4	1.4	1.4	1.2	2.1
Non-market services	-	-	-16	-12	-	18.9	18.8	21.9	16.4	18.0
TOTAL ECONOMY	-21	-13	-32	-34	-34	100	100	100	100	100
<i>Memorandum item</i>										
Trade, transport, accommodation and food service, and artistic and entertainment activities						20.4	17.6	19.1	22.8	25.9

SOURCES: Eurostat and Banco de España.

a This calculation is made under the assumption that, during the first 11 weeks of the quarter, the level of economic activity was similar to that of late 2019 (i.e. a quarter-on-quarter change of 0%), meaning that the decline in the two remaining weeks caused the fall observed in GVA in 2020 Q1. The calculation is only made for the sectors most affected by the health crisis containment measures.

⁶ Ireland, where GVA in industry rose 15% quarter-on-quarter in Q1, is excluded from the calculation.

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Lastly, the performance of construction during the lockdown was particularly uneven. The decline in activity in the sector compared with its pre-crisis level amounted to 85% in France and somewhat over 50% in Spain. In Germany, by contrast, activity increased during Q1, in a context of favourable weather. The strong fall in construction activity in France might be related to the incentives arising from the temporary employment adjustment programme in force there.⁷

To conclude, although the health crisis is a shock with a common source, its short-term effects have differed in each of the euro area members. These asymmetries reflect not only the differing intensity with which the pandemic has struck each territory, but also the particularities of the lockdown measures, the differences in productive structure, the export orientation of the different economies and their share in global value chains against the backdrop of a global crisis.

7 Between 1 March and 1 June, the “partial unemployment” programme covered 84% of the net wages and all the social security contributions of the employees included under it. The construction sector used this programme intensively, with 57% of its wage-earners availing themselves of it in March, behind only accommodation and food service activities (72%).