

LOOKING BEYOND THE SECOND QUARTER GDP NUMBERS

Unsurprisingly, this week's GDP numbers for the second quarter were exceptionally bad. The third quarter should see strong quarterly growth, if only because of a powerful base effect. It also leaves room for disappointment however, should the growth momentum start to slip over the summer. In the US, this already seems to be the case. In the euro area, business surveys continue to improve and the employment expectations indicator sees a marked increase. Households are not convinced however and their unemployment expectations have remained broadly stable.

Unsurprisingly, this week's GDP numbers for the second quarter were exceptionally bad. Compared to the first quarter, the US saw a contraction of 32.9% at an annual pace and a decline of 9.5% on a non-annualised basis, which is the way that growth numbers are reported in Europe. GDP declined 10.1% in Germany, 12.4% in Italy, 13.8% in France and a staggering 18.5% in Spain. In the euro area as a whole, GDP shrank 12.1% compared to the first quarter. All this is essentially old news and the focus has already largely shifted to the third quarter. This should see strong quarterly growth, if only because of a powerful base effect. Due to the gradual easing of lockdown measures, the second quarter ended better than it started, so this will influence the Q3 versus Q2 comparison handsomely. It also leaves room for disappointment however, should the growth momentum start to slip over the summer.

In the US, this already seems to be the case, as clearly emphasised by Fed Chair Jerome Powell in his latest press conference: *"we have seen some signs in recent weeks that the increase in virus cases and the renewed measures to control it are starting to weigh on economic activity. For example, some measures of consumer spending based on debit card and credit card use have moved down since late June, while recent labor market indicators point to a slowing in job growth, especially among smaller businesses."*¹

In the euro area, business surveys continue to improve. The European Commission's economic sentiment indicator (ESI) in July registered a strong increase, on the back of a further improvement in industry, services and retail trade. The construction sector saw a slight weakening whereas consumer confidence remained broadly stable. At 82.3 the ESI is still well below its long-term average of 100. In this respect, as shown in chart 1, the message is more subdued than the one from the purchasing managers' index. A welcome development is the marked increase of the employment expectations indicator in industry, services, and retail trade. However, given its still low level, this merely suggests a reduced tendency to shed labour rather than plans to hire new staff². Households reported a further deterioration in their financial situation and their unemployment expectations have remained broadly stable after a modest improvement in June. This divergence between the assessment by companies and households of the labour market outlook reflects how uncertain the situation is (chart 2).

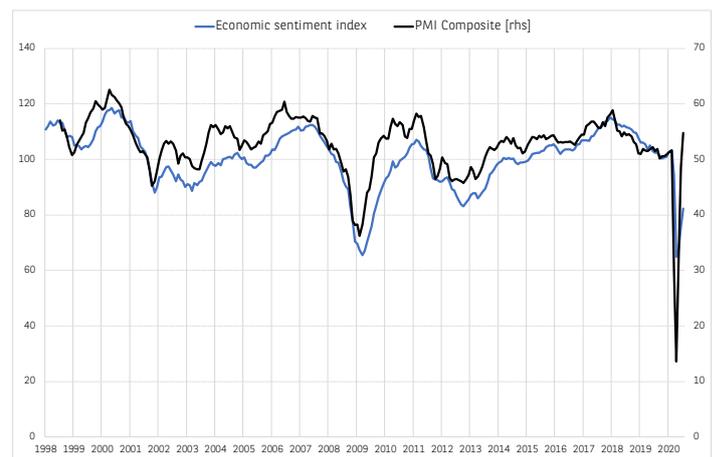
To conclude, the message of recent key economic news items has been very diverse. European companies are cautiously more positive. Households seem unconvinced and their confidence has stopped improving in the euro area and in the US. High frequency data in the US point towards a slowing pace of the economic recovery since the number of new cases started to rise again. Given the recent developments in this respect in several European countries, this raises a concern for the

cyclical momentum in Europe as well. Fed Chair Powell's statement applies to this side of the Atlantic as well: *"The path of the economy is going to depend to a very high extent on the course of the virus, and on the measures that we take to keep it in check."*³

William De Vijlder

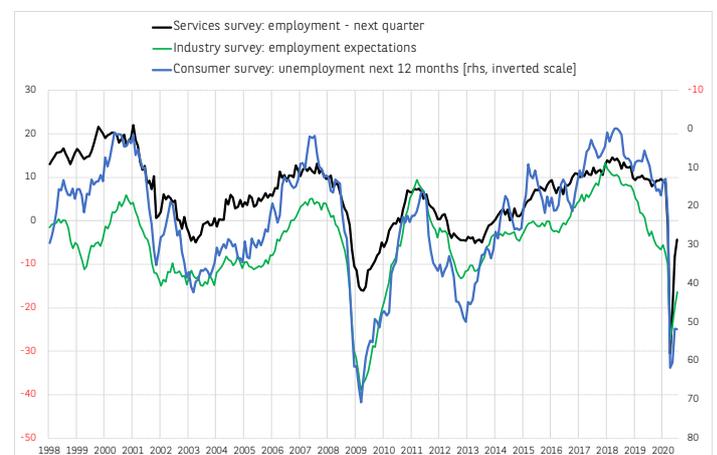
3. Source: Federal Reserve, Transcript of Chair Powell's Press Conference July 29, 2020

EUROZONE SURVEY DATA



SOURCE: EUROPEAN COMMISSION, IHS MARKIT, BNP PARIBAS

EMPLOYMENT OUTLOOK



SOURCE: EUROPEAN COMMISSION, BNP PARIBAS

1. Source: Federal Reserve, Transcript of Chair Powell's Press Conference July 29, 2020

2. To quote the Ifo on the occasion of the publication of its employment barometer for July: "German companies are planning to lay off less staff".

