

Worldwide Economic Downturn as a Result of the COVID-19 Pandemic

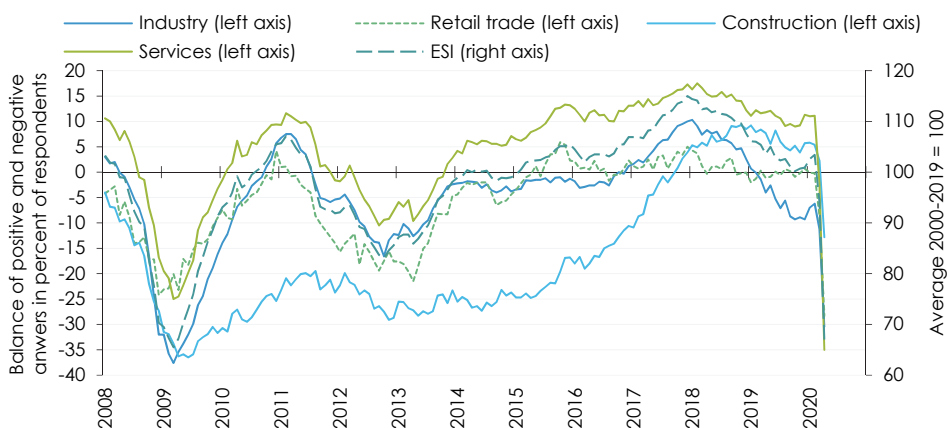
Business Cycle Report of May 2020

Sandra Bilek-Steindl

- The current dynamics of the global economy are shaped by the effects of the COVID-19 pandemic and the health policy measures to contain it.
- With the drop in demand, commodity prices also continued to fall in April.
- The decline in consumption and the restriction of supply are depressing economic output in the USA. The unemployment rate rose significantly in March.
- In the euro area, GDP also fell sharply in the first quarter. Confidence indicators collapsed on a broad basis in April.
- In Austria, economic output in the first quarter of 2020 was also severely restricted by health policy restrictions. Accommodation and food service activities, transportation, wholesale and retail trade as well as other service activities were particularly affected.
- Unemployment continued to rise in April, but not as strongly as in March.
- The fall in fuel prices dampened inflation in March.

Confidence indicators for the euro area

Seasonally adjusted



"The economic impact of the COVID-19 pandemic was widely spread across countries and sectors. First results for the first quarter already show a sharp decline in economic output, both nationally and internationally."

In April, confidence indicators for the euro area signalled a decline of historical dimensions, covering all sub-sectors. ESI . . . Economic Sentiment Indicator, average 2000-2019 = 100 (Source: Business and Consumer Surveys of European Commission, Macrobond).

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The global economy was hit strongly by the effects of the COVID-19 related restrictions imposed worldwide to contain the pandemic. Initial data already show a decline in GDP in all major economic regions in the first quarter. Confidence indicators deteriorated to a level similar to that during the financial market crisis in 2008-09. In Austria, too, economic output already declined in the first quarter. Consumption as well as accommodation and food service activities, transportation, wholesale and retail trade, repair of motor vehicles and motorcycles and other service activities were particularly affected. After rising strongly within two weeks at the end of March, unemployment continued to rise in April, albeit at a slower pace. Inflation fell in March.

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The effects of the COVID-19 pandemic and the measures taken to contain it had dramatic consequences worldwide. Widely scattered across countries and sectors, economic indicators deteriorated within a few weeks.

With the lack of demand as a result of the lockdown, commodity prices also fell. In April, the HWWI Commodity Price Index, which includes food and beverages as well as energy and industrial raw materials, was about 50 percent below the level at the beginning of the year (in both euro and dollar terms). The effects of the restrictive measures implemented in the USA and Europe from mid-March onwards were so strong that economic output fell significantly in many places already in the first quarter. First results show a decline in GDP in the USA (-1.2 percent), in the euro area as a whole (-3.8 percent), in France (-5.8 percent), Italy (-4.7 percent) and Spain (-5.2 percent, compared with the previous period in each case).

In April, confidence indicators fell rapidly, in some cases to levels not seen since the

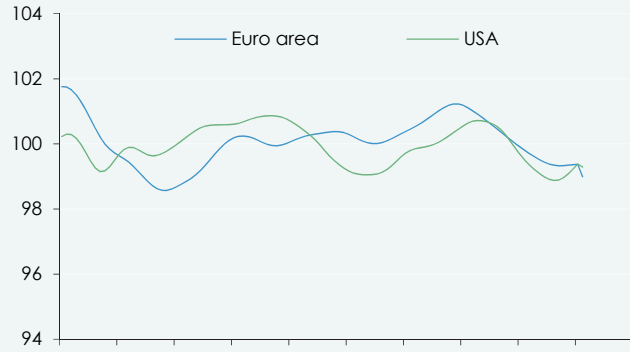
trough of the 2008-09 crisis. In the USA, the Conference Board's Consumer Confidence Index recorded the sharpest decline since 2009. In the euro area, the Economic Sentiment Indicator (ESI) published by the European Commission fell to levels similar to that of the financial market and economic crisis 2008-09.

In Austria, the COVID-19 pandemic and the measures taken to contain it also caused GDP to fall sharply in the first quarter of 2020. According to first results, economic output remained 2.5 percent below the result of the previous quarter (key figure according to Eurostat specifications). Accommodation and food service activities, transportation, wholesale and retail trade, repair of motor vehicles and motorcycles as well as other service activities were particularly affected. Manufacturing, which had already fallen into recession in the course of 2019, also suffered losses in value added in the first quarter of 2020. Concerning construction, the previously good economic situation was interrupted by construction site closures from mid-March on.

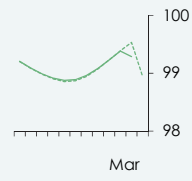
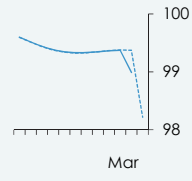
Figure 1: **International Business Climate**

Seasonally adjusted, 2015 = 100, 3-month moving average

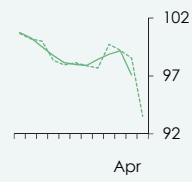
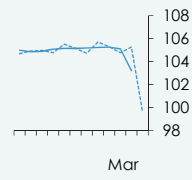
Leading indicators – amplitude



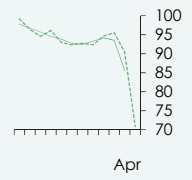
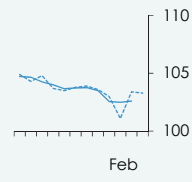
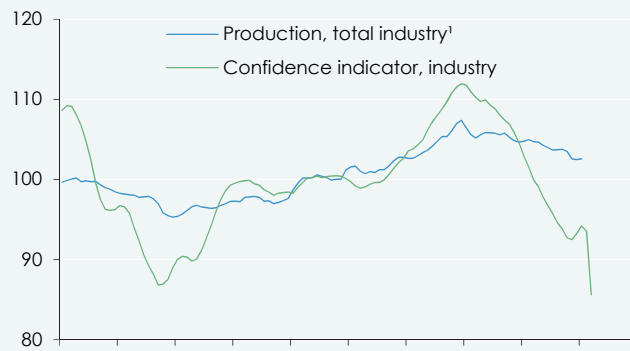
12-month performance



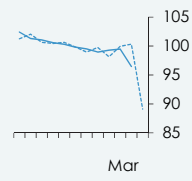
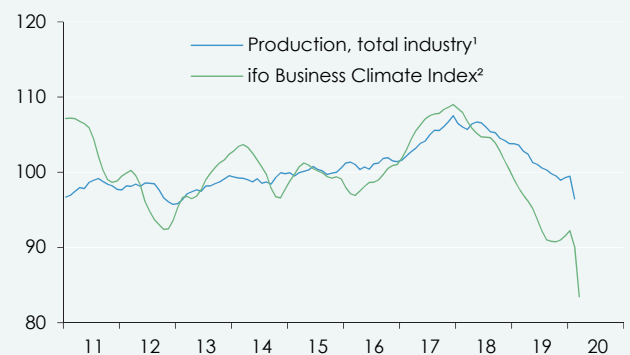
USA



Euro area



Germany



Source: European Commission, Deutsche Bundesbank, ISM (Institute for Supply Management™), ifo (Institute for Economic Research, Munich), OECD. – ¹ Excluding construction. – ² Manufacturing.

The latest results of the April WIFO-Konjunkturtest (business cycle survey) show a deterioration in the economic assessment by Austrian companies, which is widely spread across the sectors (manufacturing, construction and services). The index of the assessment of the current situation for the overall economy turned negative by 37.1 points in April (to -28.2 points).

Concerning the labour market, the COVID-19 pandemic and the lockdown in mid-March led to a massive increase in unemployment. This slowed down in April, but the number of unemployed registered with the Public Employment Service Austria (AMS) was far above the previous year's level. Thus,

the unemployment rate according to the national definition rose to an expected 12.8 percent (unadjusted). According to preliminary estimates, the number of employed persons in active dependent employment fell by 197,000 (-5.3 percent) year-on-year.

Due to the fall in fuel prices, inflation in Austria flattened out in March. According to both the consumer price index (CPI) and the harmonised consumer price index (HICP), the inflation rate was 1.6 percent (February 2.2 percent). Thus, inflation in Austria was again higher than in the euro area average (+0.7 percent).

With the global drop in demand, commodity prices also fell sharply in April again.

1. COVID-19 pandemic weakens the global economy

The global economy is dominated by the COVID-19 pandemic. In China, where the first cases of the viral disease appeared at the end of 2019, economic output already slumped in the middle of the first quarter. The measures taken to contain the SARS-CoV-2 infection led to a decline in production and further negative consequences for the Chinese economy. The PMI plummeted in February, but returned to a level close to 50 in March and April, indicating an improvement in the overall economic situation. In the first quarter, GDP fell by 6.8 percent year-on-year.

The global economy has already lost momentum since the end of 2019. With the downturn and further restrictions on demand as a result of the COVID-19 pandemic, commodity prices also fell. The HWWI Commodity Price Index, which includes food and beverages as well as energy and industrial

raw materials, was around 50 percent below the level at the beginning of the year (in both euro and dollar terms) in April. The sub-index for energy raw materials fell particularly sharply. Against the backdrop of production losses and mobility restrictions, global demand for crude oil fell and depressed crude oil prices. A barrel of Brent crude oil averaged 18 \$ in April, compared with 32 \$ in March (-43 percent). The prices of industrial raw materials also fell against the background of the lack of demand, but not that strong (since the beginning of 2020, about -15 percent in euro and dollar terms).

The financial markets, too, reacted quickly to the COVID-19 pandemic. The high level of uncertainty triggered marked price fluctuations on the stock markets at the end of February. Volatility indices rose sharply until mid-March, but have stabilised again since then.

In the USA, economic output fell in the first quarter. The unemployment rate soared upward in March.

2. Consumption restraint burden US economy in the first quarter

Economic activity in the USA was also severely affected by the COVID-19 pandemic. Consumption, the main driver of the economy, came under massive pressure due to health policy restrictions and consumer restraint of private households. Both industrial production (-5.4 percent) and retail sales (-6 percent) slumped in March compared with the previous month. Influenced by these effects, economic output in the first quarter fell by 1.2 percent compared with the previous quarter. This was the first decline after a phase of economic expansion lasting over 10 years.

Even the recently extremely favourable situation on the labour market deteriorated abruptly in March. The rise in the unemployment rate by 0.9 percentage points to 4.4 percent was the highest since January 1975. At the same time, employment was significantly reduced.

In April, the Conference Board's Consumer Confidence Index recorded the sharpest decline since 2009. The ISM Purchasing Managers' Index fell to 41.5 in April, well below the 50 threshold that still signals growth (March 49.1).

3. Economic output in the euro area down between January and March

The recovery that had been announced in the euro area at the beginning of 2020 was abruptly halted by the appearance of the COVID-19 pandemic. In the course of March, international measures were taken

to contain the risk of infection. The production index for the euro area is likely to have fallen in March after the increase in January (+2.3 percent) and the stagnation in February (-0.1 percent). According to first results,

GDP in the first quarter shrank by 3.8 percent compared to the previous period. First calculations for France, Italy and Spain consistently show a massive decline in economic output in the first quarter (France -5.8 percent, Italy -4.7 percent, Spain -5.2 percent).

The Purchasing Managers' Index for the overall economy halved for the euro area in March and at 13.5 points (-16.2 points) was below the level during the financial market crisis in 2008-09. Services in particular suffered from the lockdown, while the decline in industry was less severe. Retail sales in March were 11.2 percent lower than in the previous month.

The labour market in the euro area reacted little to the restrictions in March. The seasonally adjusted unemployment rate rose only slightly to 7.4 percent (February 7.3 percent).

According to the forecast for April, the inflation rate fell further to 0.4 percent (March

0.7 percent). The reduction in energy prices again had a dampening effect here.

Confidence indicators also fell massively in April. The Economic Sentiment Indicator (ESI) published by the European Commission fell far below the long-term average to a level similar to that of the financial market crisis in 2008-09. The downturn affected a wide range of countries and sectors. It was particularly deep in the services sector.

In Germany, industrial production recorded a sharp drop in March 2020 (-9.2 percent compared with the previous month). At the same time, new orders in the manufacturing sector fell massively in March (-15.6 percent compared with the previous month). The DIW Economic Barometer for the German economy fell by 47 points in April to a historic low of 37 points. The decline covered all sub-sectors (labour market, industry, services and financial market).

First data for the first quarter of 2020 show a GDP decline in the euro area. Leading indicators plummeted on a broad basis in April.

4. Austria: GDP already clearly negative in the first quarter

In Austria, too, the first effects of the COVID-19 pandemic and the measures taken from mid-March onwards to contain it were already evident in March. According to initial calculations, economic output in the first quarter of 2020 was 2.7 percent below the level of the previous year. Compared with the previous period, GDP fell by 2.5 percent (key figure according to Eurostat specifications). A decline of this dimension had last been recorded during the financial market crisis in 2008-09, but not at the beginning of the crisis, but only in the course of it.

The losses mainly affected wholesale and retail trade and other service sectors. The prescribed early end of the winter season and the closure of business caused sales in tourism to plummet. Wholesale and retail trade, repair of motor vehicles and motorcycles, transportation, accommodation and food service activities accounted for more than half of the GDP decline in the first quarter. Arts, entertainment and recreation as well as personal services (e.g. hairdressers) were also hit hard. On the other hand, the development of value added was supported by services that do not require direct personal contact and by activities that can also be carried out via online communication.

Mirroring the loss of sales in wholesale and retail trade and other service sectors, private consumption was significantly reduced in the first quarter. The supply restrictions directly led to a drop in demand.

4.1 Losses also in industry and construction

Value added in industry (mining, manufacturing, energy and water supply, waste management) also contracted in the first quarter. After manufacturing had already fallen into recession in the course of 2019, production losses in March further intensified this development. By contrast, construction performed very well until the outbreak of the crisis, with the production index rising sharply in January and February (an average of +10 percent year-on-year), with the mild winter weather probably also playing a role. Construction site closures curbed production from mid-March onwards, too, so that value added in the first quarter was slightly down overall.

After the results of the WIFO Konjunkturtest (business cycle survey) in March had not yet fully reflected the reaction to the COVID-19 pandemic, in April there was a massive impact on companies' assessments. Widely scattered across manufacturing, construction and services, both the index of the assessment of the current situation and the expectations index collapsed¹. Concerning manufacturing, the overall index fell roughly to the level of the financial market crisis of 2008-09, while in the services sector it was even lower.

Restrictions on the supply of wholesale and retail trade and services also led to an enforced restraint of consumption by private households in Austria.

Industry and construction also suffered production losses. In April, business sentiment fell almost to the level at the time of the financial market crisis in 2008-09.

¹ See Hölzl, W., Klien, M., Kügler, A., "Konjunktüreinschätzung stürzt infolge der COVID-19-Pandemie ab. Ergebnisse der Quartalsbefragung des WIFO-Konjunkturtests vom April 2020", WIFO-Monatsberichte, 2020, 93(5), pp. 337-345.

Figure 2: **Results from the WIFO-Konjunkturtest (business cycle survey)**

Indices of the assessment of the current economic situation and of business expectations, seasonally adjusted



Source: WIFO-Konjunkturtest. Data refer to index points (percentage points) between +100 and -100. Values above 0 imply positive expectations, values below 0 indicate negative expectations.

4.2 Labour market severely affected by the consequences of the COVID-19 pandemic

The measures to contain the COVID-19 pandemic have had a massive impact on the labour market. After rising massively within two weeks at the end of March, unemployment continued to rise in April, albeit at a slower pace. At the end of April, 522,300 people were registered as unemployed with the Public Employment Service Austria (AMS), 226,000 more than a year ago. Accommodation and food service activities, other services activities and construction were particularly affected. Thus, the unemployment rate (according to the national

definition) at the end of April was probably 12.8 percent (unadjusted). About 1,200,000 persons were registered with the Public Employment Service Austria (AMS) for COVID-19 short-time work.

Parallel to this, employment continued to fall. After -5.0 percent year-on-year in March, the preliminary estimate of the decline in the number of employees in April was 5.3 percent². At the end of March, job losses were higher than at the peak of the international financial market crisis in 2008-09 (April 2009 -76,100 or -2.3 percent), and the highest since the winter of 1952-53 (December 1952 -115,500 or -5.9 percent)³.

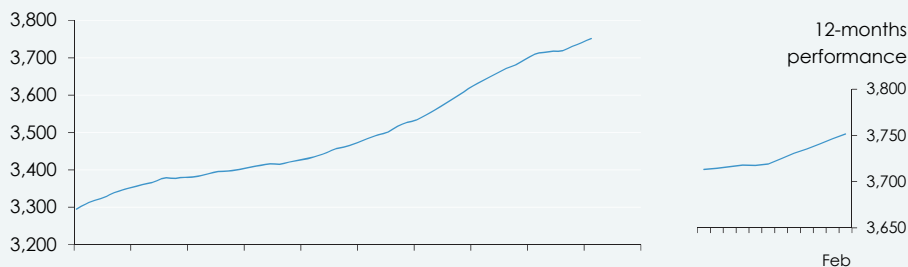
Unemployment continued to rise in April, but at a slower pace than in the second half of March.

² Due to the current marginal values in the course of the COVID-19 crisis, the seasonal adjustment does not provide interpretable results and is therefore suspended until further notice.

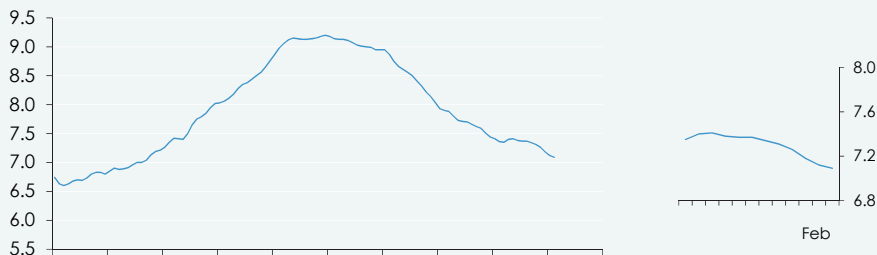
³ Bock-Schappelwein, J., Huemer, U., Hyll, W., "COVID-19-Pandemie: Höchste Beschäftigungseinbußen in Österreich seit fast 70 Jahren", WIFO Research Briefs, 2020, (2), <https://www.wifo.ac.at/wifo/pubid/65886>.

Figure 3: **Key economic indicators**

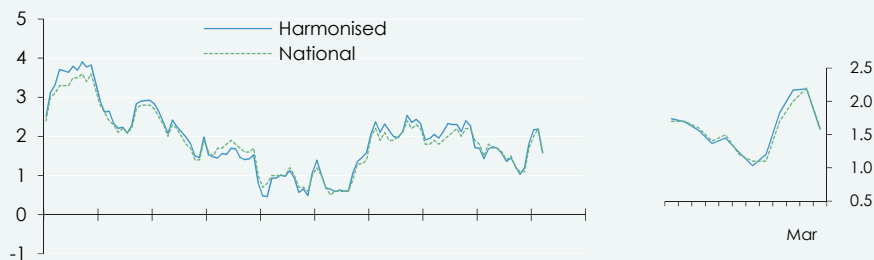
Persons in active dependent employment¹, 1,000s, seasonally adjusted²



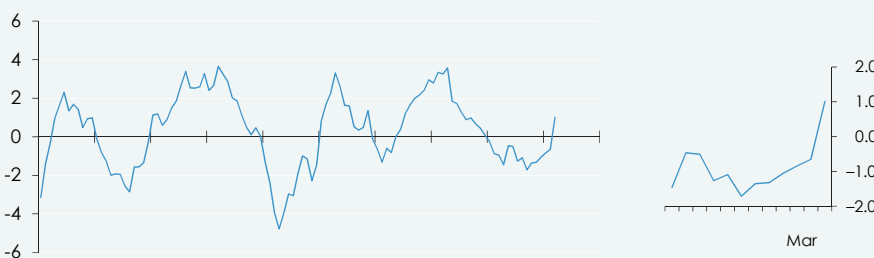
Unemployment rate, traditional Austrian method³, seasonally adjusted²



Consumer prices, year-to-year percentage changes



Real effective exchange rate, year-to-year percentage changes



10-year central government bonds (benchmark), percent



Source: Public Employment Service Austria, Federation of Social Security Institutions, Oesterreichische Nationalbank, Statistics Austria, WIFO calculations. – ¹ Excluding persons in valid employment contract receiving child care benefit or being in military service. – ² Due to the current marginal values in the course of the Corona crisis, the seasonal adjustment does not provide interpretable results and is therefore suspended until further notice. – ³ As a percentage of total labour force excluding self-employed, according to Public Employment Service.

The fall in fuel prices had a dampening effect on inflation in March.

4.3 Inflation subdued in March

After inflation (measured by the CPI) had risen to 2 percent (January) and 2.2 percent (February) in early 2020, the rate dropped to 1.6 percent in March. The decisive factor here was the dynamics of fuel prices: similar to the world market commodity prices, they fell in March. In addition to the "transport" sector, the upward trend in prices was also dampened by developments in the "communications" sector. The strongest price driving effects were again seen in the "housing, water and energy" and "restaurants and hotels" sectors.

The EU-wide harmonised inflation rate (HICP) also stood at 1.6 percent in March, once again above the euro area average of 0.7 percent. The inflation differential between Austria and the euro area average widened in the first quarter and was determined by the higher prices of services as well as industrial goods.