

ECONOMIC NEWS

Record Drop in the Euro Zone's Real GDP in the First Quarter

HIGHLIGHTS

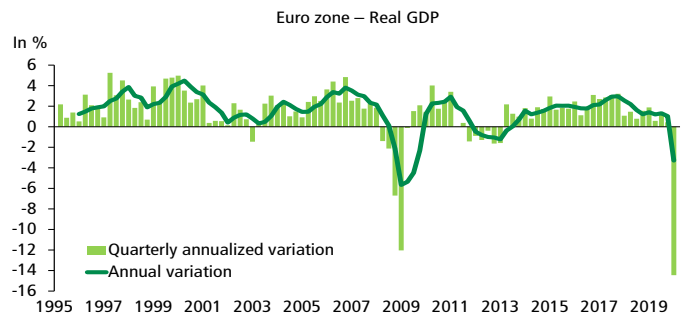
- ▶ Real GDP in the euro zone dropped 14.4% (annualized) in the first quarter of 2020, according to the flash estimate of national accounts. This is the worst retreat since these data began to be published in 1995. This estimate does not contain details by GDP component or the results for each euro zone country.
- ▶ French's real GDP contracted 21.4% (annualized) in the first quarter, with a 22.0% fall in consumption and a 39.5% plunge in investment.
- ▶ In Italy, real GDP decreased 17.7% (annualized).
- ▶ Spain's real GDP pulled back 19.4% (annualized), with a 26.7% tumble in real consumption and a 21.4% decline in investment.

COMMENTS

After China, which saw an annualized decrease of 33.8% in its real GDP in the first quarter, and the United States, which recorded a contraction of 4.8%, it is the euro zone's turn to show its first economic damage caused by the COVID-19 pandemic. The difference between the Chinese, Euroland and U.S. results is mainly a reflection of the start, extent and duration of the health and containment measures in place in the first quarter. The fall in real GDP observed in the eurozone is slightly steeper than consensus estimates. We are still missing a lot of details, but the sense is that the situation was worse than expected in France and Spain and a little less serious than feared in Italy. Drawing on the French and Spanish data, we note that the crisis and the measures implemented in response to it have affected both consumption and investment. International trade was also hit hard, with France posting a contraction of 23.6% in its exports and 21.5% in its imports. All these negative factors also likely greatly weakened real GDP across the euro zone as a whole and may be a further major drain in the second quarter.

GRAPH 1

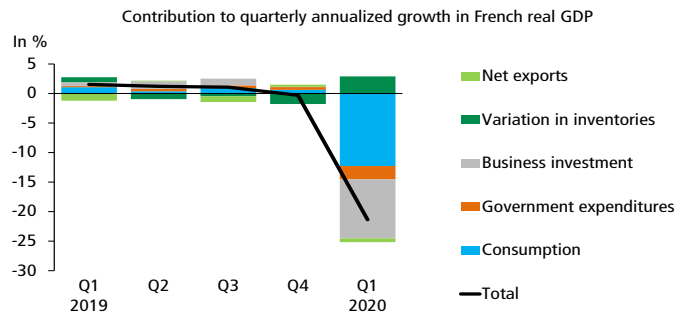
The worst drop in Euroland's real GDP



Sources: Eurostat and Desjardins, Economic Studies

GRAPH 2

Consumption and investment in France were dealt a particularly hard blow in the first quarter



Sources: National Institute of Statistics and Economic Studies and Desjardins, Economic Studies

IMPLICATIONS

The contraction of the euro zone's real GDP clearly shows the scale of the economic challenge currently faced by most countries around the globe. We can expect the drop of real GDP to be just as severe in the second quarter, but a recovery should gradually take hold thereafter.

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