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The economic cost begins to emerge

30 March 2020

Business surveys reach record lows

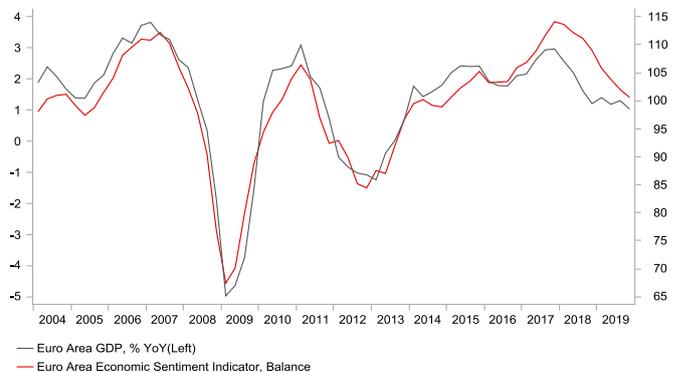
The euro area economic data flow is going to be pretty grim over the next few weeks and months as confidence plummets, sales fall and unemployment is set to higher. Last week's flash PMIs set the tone as the services component fell to its lowest ever mark. The preliminary March numbers for Spain and Italy, the two worst-affected euro area countries, will probably be even worse – and the survey collection period means further deterioration in April is very likely.

EURO SERVICES PMI REACHES A HISTORICAL LOW



Source: European Commission, MUFG Economic Research

ECONOMIC SENTIMENT INDICATOR AND GDP GROWTH



Source: European Commission, MUFG Economic Research

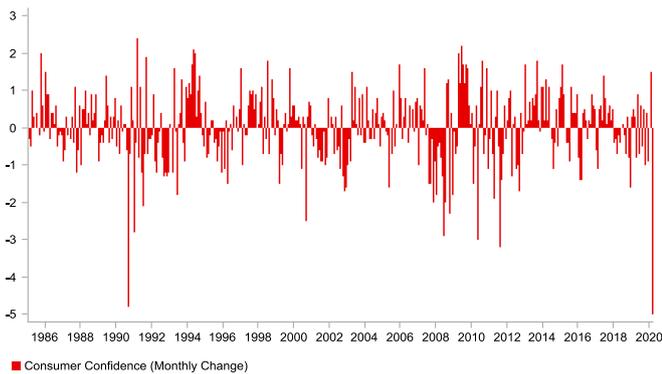
Meanwhile, the long-running euro area consumer confidence series recorded the largest ever monthly fall. The index feeds into the overall economic sentiment indicator which may well follow suit this week. The retail component is likely to be especially affected, while services confidence will also fall sharply. The industrial sector may show *relative* resilience with many factories still open as normal in several euro area countries. But there will still be a sharp fall reflecting supply chain blockages, virus containment restrictions and the general decrease in demand.

Q2 GDP growth will be ugly

Altogether, we think the headline economic sentiment figure will fall to 89 in March. Our usual model suggests this would be consistent with growth of -0.5% QoQ in Q1. But normal modelling approaches are going to struggle to reflect the extent of the economic damage that virus containment restrictions will cause. This isn't an ordinary, cyclical crisis. Despite a reasonable start to the quarter, Q1 GDP growth is likely to be considerably poorer than -0.5% – and then Q2 growth will be much, much worse. We're currently estimating growth in 2020 as a whole at -6% (see [here](#)).

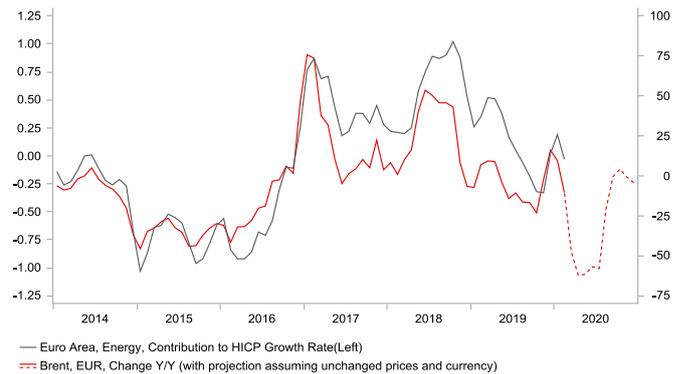
This week also sees the release of various labour market data. As with numbers from the US and the UK last week, euro area figures could get quite ugly over the next few months. There is likely to be a sharp rise in German unemployment in March for starters. The speed in which jobs can be re-added once restrictions are eased will have a significant bearing on the duration of the economic downturn.

LARGEST MONTHLY FALL IN CONSUMER CONFIDENCE



Source: European Commission, MUFG Economic Research

DEFLATION IS COMING



Source: Eurostat, Macrobond, MUFG Economic Research

A spell of deflation lies ahead

Lastly, euro area inflation is likely to start a swift fall towards negative territory in March. The plunge in oil prices makes a spell of deflation all but inevitable in coming months. The enormous demand shock should outweigh any price pressure from supply difficulties so we expect the core component will also slip lower through the rest of the year.

KEY RELEASES AND MUFG FORECASTS – WEEK BEGINNING 30 MARCH

| Day | GMT | Region | Indicator/Event | Period | Prev. | Cons. | MUFG |
|-------------|-------|--------|-----------------------------------|--------|--------|-------|-------|
| Mon 30 Mar | 10:00 | EC | Economic Confidence | Mar | 103.5 | 91.3 | 89.0 |
| Tue 31 Mar | 08:55 | GE | Unemployment Change (000's) | Mar | -10.0k | 25.0k | 45.0k |
| Tue 31 Mar | 08:55 | GE | Unemployment Claims Rate SA | Mar | 5.1 | 5.1 | 5.2 |
| Tue 31 Mar | 10:00 | EC | CPI Estimate YoY | Mar | 1.2 | 0.8 | 0.7 |
| Tue 31 Mar | 10:00 | EC | CPI Core YoY | Mar P | 1.2 | 1.2 | 1.2 |
| Wed 1 April | 08:15 | SP | Markit Spain Manufacturing PMI | Mar | 50.4 | 44.0 | 44.8 |
| Wed 1 April | 08:45 | IT | Markit Italy Manufacturing PMI | Mar | 48.7 | 41.0 | 40.0 |
| Wed 1 April | 09:00 | EC | Markit Eurozone Manufacturing PMI | Mar F | 44.8 | 44.6 | 44.3 |
| Fri 3 April | 08:15 | SP | Markit Spain Services PMI | Mar | 52.1 | 26.0 | 28.1 |
| Fri 3 April | 08:45 | IT | Markit Italy Services PMI | Mar | 52.1 | 23.4 | 22.1 |
| Fri 3 April | 09:00 | EC | Markit Eurozone Services PMI | Mar F | 28.4 | 28.2 | 28.0 |
| Fri 3 April | 09:00 | EC | Markit Eurozone Composite PMI | Mar F | 31.4 | 31.3 | 31.0 |

Source: Bloomberg

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