# International developments

*After falling sharply in Q2, activity is gradually picking up in the advanced countries, although at varying rates. Household support measures have enabled domestic demand to make a more vigorous recovery than supply in most of the advanced economies, according to retail sales indices and manufacturing output. However, high-frequency indicators could suggest a slowdown in certain sectors of activity in September, linked with new precautionary health measures, especially in the United Kingdom, France and Spain. China is unlike the United States and Europe: because the country was affected by the pandemic earlier, activity rebounded more quickly, helped by the buoyancy of supply, and China is expected to avoid recession in 2020.*

## In China, production rebounded more quickly than consumption, while in the United States the reverse was true

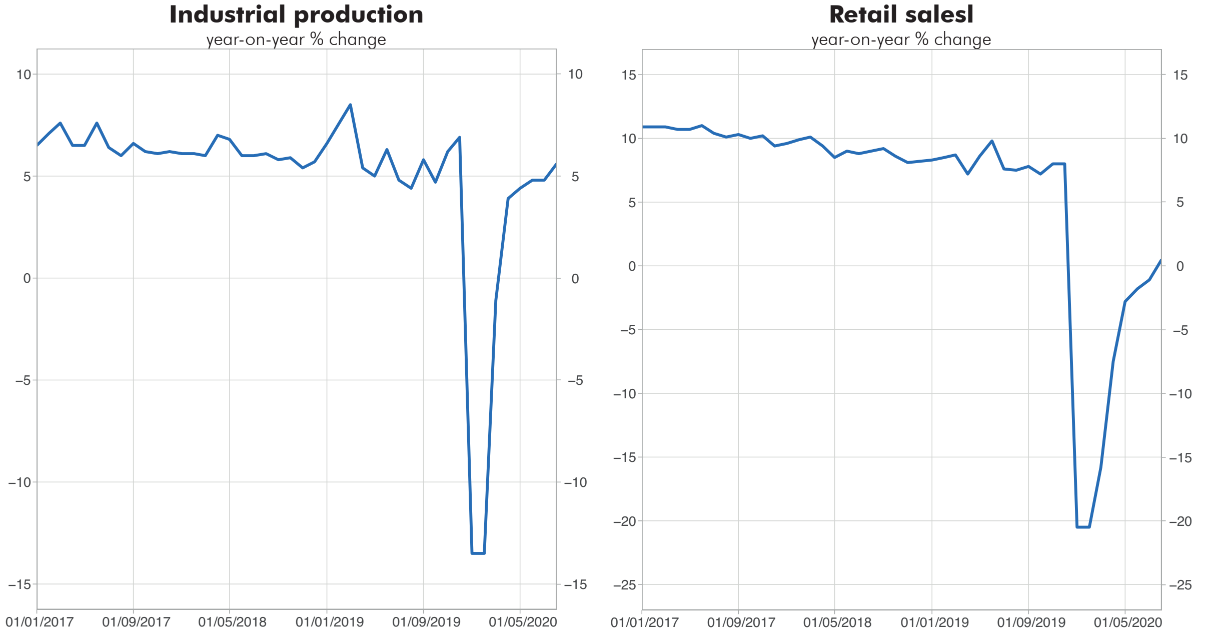
### China

China was the first country to be affected by coronavirus, and was also the first to bounce back economically, and should be one the few countries to avoid recession in 2020, according to IMF and OECD forecasts. The decline in GDP was a significant episode but likely to be limited to Q1 (–10.4% quarterly variation). In Q2, economic activity rebounded by +11.8% and growth should continue until the end of the year, unless there is a resurgence of the epidemic resulting in new restrictions being put in place.

The rebound in the Chinese economy concerned production rather than domestic consumption. After falling dramatically in January-February (–13.5% year-on-year), industrial production was back to its pre-crisis level by April, up by 5.6% over one year in August, which was a similar pace of growth to its pre-crisis level (*Graph 1, left*). PMIs for the manufacturing industry and for services have been above the expansion threshold for several months, suggesting an increase in activity. Investment has also picked up, both in the manufacturing sector and in infrastructure, especially after the increase in the quota for local government borrowing to finance infrastructure projects.

However, recovery in domestic demand is lagging behind the rebound in production to some extent. Since the government's stimulus package focused on boosting investment and construction, the

**1 - In China, production bounced back more quickly and more strongly than consumption**




Note: since the NBSC published an index of industrial production and growth in retail sales for January and February combined at –13.5% and –20.5% respectively year-on-year, it was assumed that there was a fall in these values in both January and February when compared against 2019.
How to read it: in March 2020, industrial production (or the level of retail sales) was down 1.1% (or 15.8%) on its March 2019 level.
*Source: NBSC*

lack of support for households and the structural weakness of social protection mean that there has been no compensation in income for layoffs and for the decline in wages that resulted from the health crisis. Uncertainties linked with a potential second wave of the epidemic and international tensions have also affected household confidence. As a result, after falling dramatically in January-February (–20.5% in value year-on-year), retail sales were slower to pick up than production, with their year-on-year change remaining negative for six consecutive months, before becoming positive once again in August (+0.5% year-on-year), although levels are still a long way from the pace of growth seen before the crisis (*Graph 1, right*).

The dynamic recovery in production is therefore based more on exports than on domestic demand, despite the government's desire to redirect the Chinese market, given the context of ongoing trade tensions and a weak economic recovery abroad. Export data, reprocessed in accordance with the national accounts and adjusted for the seasonal effects of the Chinese New Year, showed a rebound of +8.3% in Q2 (after a drop of –6.4% at the beginning of the year), driven mainly by global demand for electronic products and medical equipment. Reflecting the weaker dynamism of domestic demand, imports seem to be affected in the longer term, with a decline in two consecutive quarters (–2.3% then –1.7%).

## United States

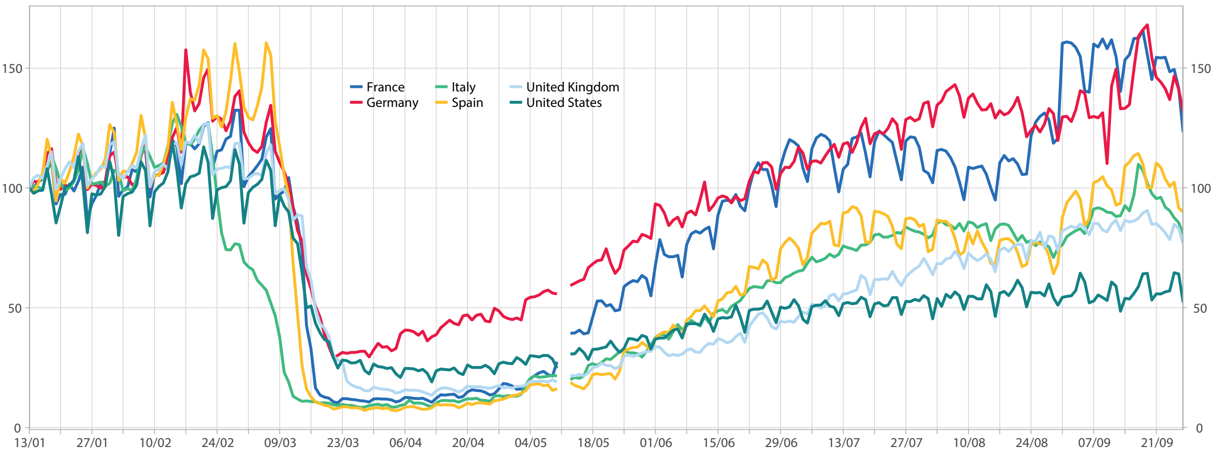
The United States has been severely affected by the coronavirus epidemic, and although there was no general lockdown at national level, GDP declined in both Q1 and then Q2 (–1.3% then –9.0% respectively). Activity was hampered by household consumption (–9.6% in Q2, a –6.5 point contribution to growth), exports (–22.8%) and corporate investment (–7.6%). The American elections, and possible concerns surrounding their organisation, have fostered a climate of uncertainty for the end of the year, in addition to the threat of an intensification of the epidemic. During the summer, the virus did not decline in the US as much as in the countries of Europe and it continues to have a serious effect on daily life for Americans, as can be seen from public transport use: according to Apple Maps Mobility data and in contrast to the Eurozone countries, it has not returned to its pre-crisis levels, and is still only half of what it was in January (*Graph 2*).

However, the rebound in PMIs, which have been higher than the expansion threshold of 50 since July (54.6 in September for services, 53.2 in the manufacturing industry), suggests an upturn in the US economy in Q3. Consumption is likely to be the main driving force behind this recovery: retail sales bounced back strongly in May (+18.3%) (*Graph 3, right*), and have been back at their pre-crisis level since June. The various support plans to boost the economy have certainly protected domestic demand to a large extent with measures specifically directed towards household consumption (unemployment insurance, tax reduction). Thus in Q2, despite a sharp rise in unemployment (11.1% in June after 3.5% in March and a peak at 14.7% in April), Americans' disposable income increased by 9.7%, encouraging both savings behaviour and consumption during the summer. There are uncertainties, however, surrounding this upturn in consumption for the end of year: political disagreements in the House of Representatives are currently preventing a possible extension of household support measures, while further layoffs are planned for October, especially in airline companies, in a context where unemployment is already high (7.9% in September).

Unlike China, the economic recovery appears to be more moderate in terms of production: after plummeting by 16.7% between March and May, industrial production bounced back but still

**2 - Public transport use returned to its pre-crisis levels but slowed at the end of September in the Eurozone**

base 100 on 13 January 2020




Note: search indicators for travel on public transport. Data for 11 and 12 May are not available.
*Source: Apple Maps Mobility*

remains significantly below its levels at the start of the year (*Graph 3, left*). Uncertainties surrounding the epidemic and the conduct of the elections may hamper corporate investment decisions, thus limiting the upturn in production.

## In Europe, household consumption bounced back quickly, but the outlook is becoming more uncertain with the resurgence of the epidemic

### Germany

In Germany, manufacturing output fell in the spring and recovered more slowly than that of its European neighbours in the summer (*Graph 4*). Thus in July, German production output remained below its 2019 level (–11.8%), a sharper decline than in France, Spain or Italy. The German automotive sector is contributing to this slower recovery of the manufacturing industry, as it did before the crisis at the beginning of 2020: in July, automobile production was still well below its 2019 level (–18.1%). The Manufacturing PMI returned to its expansion threshold in the summer, reaching 56.4 in September.

German consumption, however, seems to have recovered its pre-crisis level as soon as lockdown was lifted. In May, retail outlet sales grew by 13%, and were above their 2019 level (*Graph 5*). Despite a slight decline in June, they stabilised in July at a level well above that of 2019 (+4.1%). In addition, the reduction of German VAT, adopted in July and effective until December, should encourage German households to consume more during the rest of the year.

As a sign of the recovery that began in May, German mobility has rebounded very strongly since lockdown, as demonstrated by the use of public transport measured by Apple Maps Mobility. In September, the number of travel requests via public transport reached a level 40% higher than in January (*Graph 2*). This greater German mobility was also accompanied by an increase in road traffic in the main cities in September. The TomTom Traffic Index of road congestion reached 37.0% in the week of 21 September, double the average for the index in April.

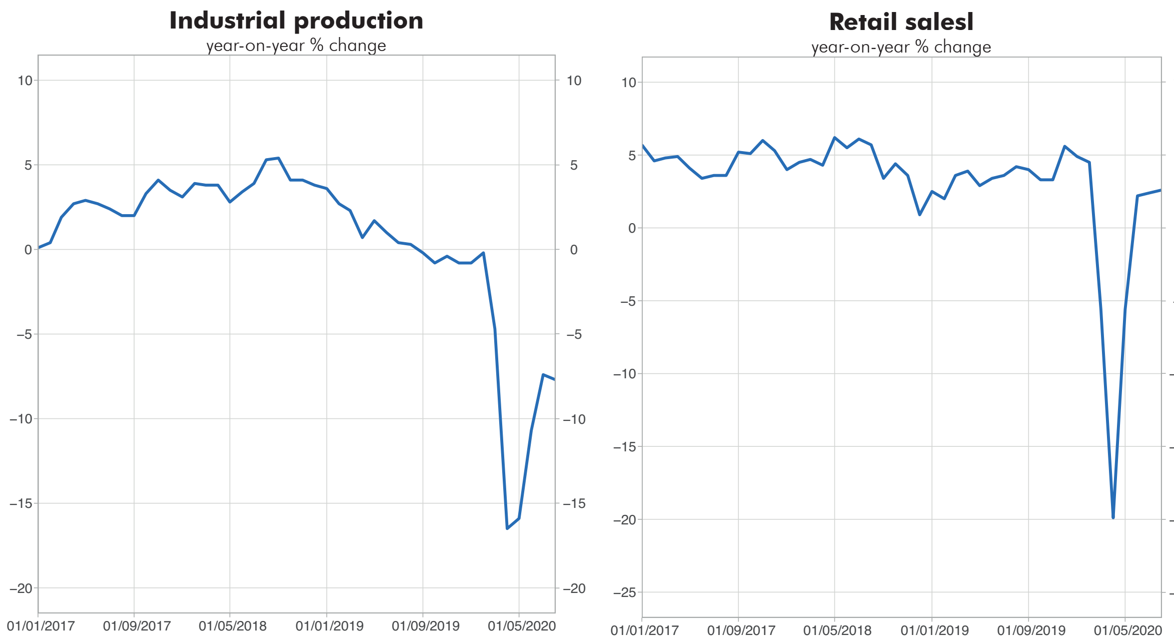
Although lower than elsewhere, relatively speaking, the number of Covid-19 cases continues to increase in Germany, which could lead to new restrictive measures at local level and could affect the resumption of activity.

### Italy

Between May and July, Italian manufacturing output made up for much of the decline due to lockdown. In July, output levels were around 7.4% below the 2019 level against 46.4% in April (*Graph 4*). Nonetheless, the manufacturing output index has slowed since June, suggesting that the country will take time to fully regain its pre-crisis level of production.

The upswing in domestic demand is expected to slow down slightly after the significant rebound observed as the country came out of lockdown. In June, sales in retail outlets were less than 5% from their June 2019 level but then they declined in July to 12.3% below the July 2019 level (*Graph 5*). Italy is the only European country where retail sales fell in July. Non-food retail

**3 - In the United States, industrial production is seeing a more sluggish recovery than retail sales**




*Source: Federal Reserve Board, Census Bureau* outlets, excluding fuel sales, have suffered most from this economic situation, dropping from –2.3% in June to –18.5% in July compared to their 2019 level. Of all the businesses in this category, clothing outlets accounted for most of this decline (–27.5% in July). This sectoral phenomenon is partly explained by a quirk in the calendar. The summer sales usually start in the first week of July, but this year they started on 1st August.

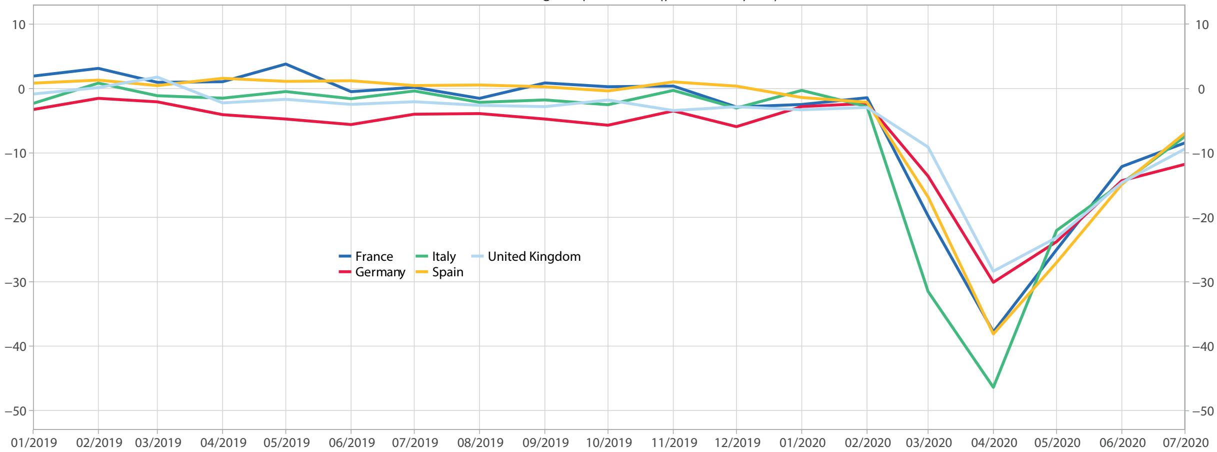
In addition, high-frequency indicators seem to suggest a slow recovery in activity, especially compared to Germany and France. Of these indicators, only public transport use had returned to its pre-crisis level by mid-September (*Graph 2*), before slowing down as it did in the other European countries. After a drop in August, probably linked with the specific nature of the summer months, attendance at the workplace during September returned to its post-lockdown level, which was still significantly lower than the pre-crisis level (*Graph 7*). Concerning air traffic, Italy followed the European trend, with a level well below that of 2019 and, in addition, a drop in the number of flights in September (*Graph 6*). Furthermore, although currently less worrying than in Spain or France, the health situation requires preventive measures to be taken, the aim being either to control people arriving from abroad or to limit numbers in certain places (public transport, restaurants, etc.). At this stage there are no total restrictions in place as in Madrid, but the possibility of a more serious resurgence of the epidemic cannot be ruled out.

## Spain

In Spain, the recovery in production was buoyed up after the lockdown period, but did not rebound to the same extent as in Italy. The manufacturing output index followed a similar pace to that observed in France (*Graph 4*): after the collapse in April (–38% compared to the level in April 2019), Spanish manufacturing output bounced back substantially, although in July it still remained 10% lower than its 2019 level.

**4 - Manufacturing output is recovering gradually in Europe**

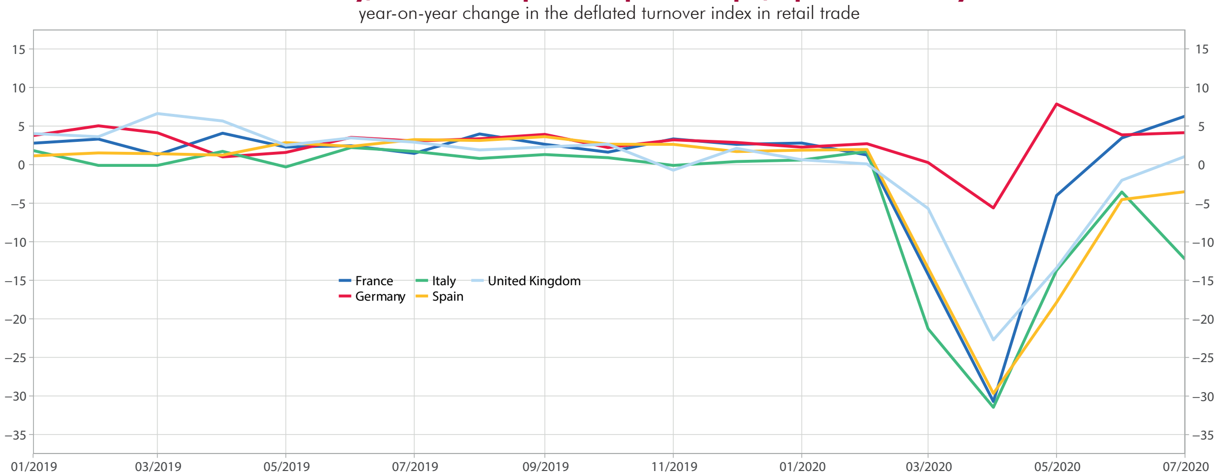
manufacturing output index (year-over-year)




Note: each point corresponds to year-on-year change in the manufacturing output index for each country
How to read it: in April 2020, manufacturing output in Spain was 7% below its April 2019 level.
*Source: Eurostat for Germany, Spain, France and Italy, ONS for United Kingdom*

**5 - In July, retail sales picked up in Europe, apart from Italy**

year-on-year change in the deflated turnover index in retail trade




Note: each point corresponds to year-on-year change in the retail trade turnover index (with the exception of automobiles and motorcycles) deflated and seasonally adjusted.
*Source: Eurostat*

On the demand side, the recovery that began in May and June seems to have slowed down in July, although less strongly than in Italy. After improving steadily in May and June, retail outlet sales slowed significantly in July, although their level was only slightly below that of 2019 (–3.5%) (*Graph 5*). Compared to France, where retail sales, on the contrary, continued to grow strongly in July, Spain's reduced dynamism could be due to the country's greater dependence on foreign tourism, which was sharply reduced because of the health situation.

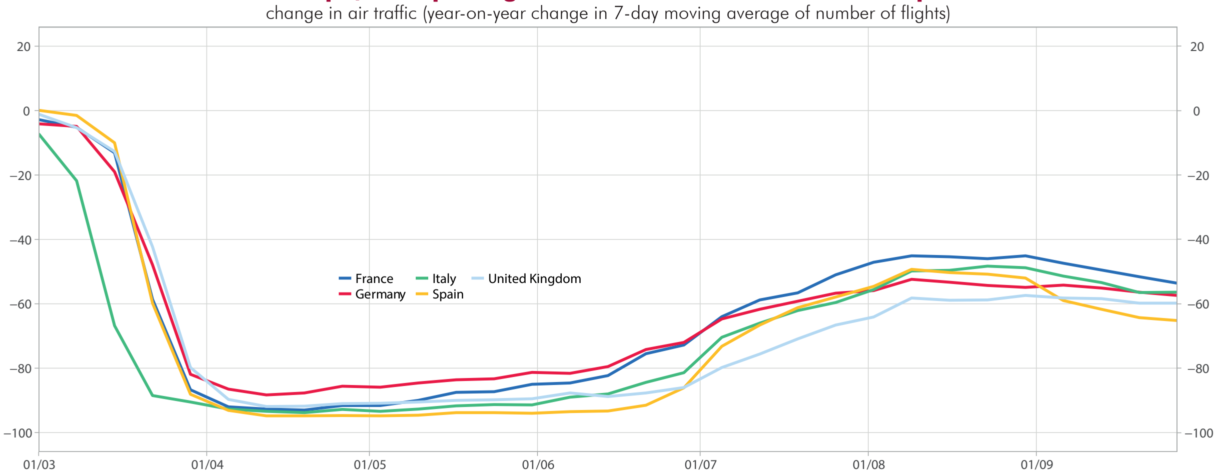
High-frequency indicators may confirm the idea of a slow-paced recovery. Only the use of public transport (*Graph 2*) has returned to a level similar to that before the crisis: as measured by Apple Maps Mobility, it returned to its January 2020 level at the beginning of September, slightly ahead of Italy but a long way behind France and Germany. Nevertheless, since mid-September, public transport use has been declining. The deterioration of the health situation and the introduction of restrictive measures, especially in the Madrid region, may account for this recent shift. From a more global perspective, a resurgence of the epidemic will most probably have repercussions for the country's activity, which could deteriorate in Q4. Lastly, as in the other European countries, air traffic in Spain is still very far below its 2019 level, with a further decline since the end of August which was more pronounced than in the other European countries (*Graph 6*).

### United Kingdom

Finally, in the United Kingdom, the contraction in manufacturing output in April was of a similar magnitude to that in Germany, but the rebound in the months that followed appeared to be a little more sustained (–9.4% year-on-year in

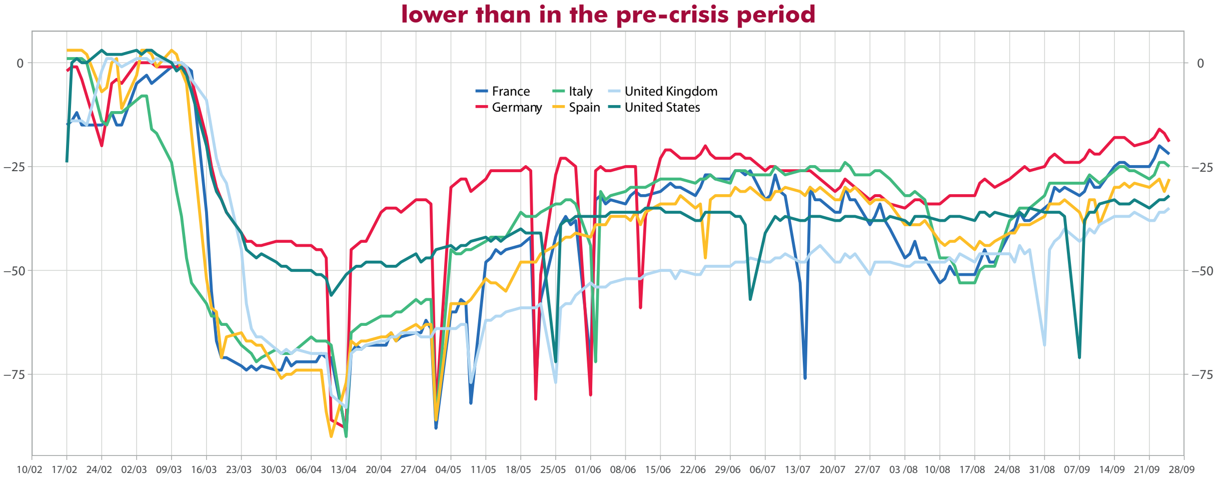
**6 - In Europe, the upswing in air traffic came to a halt in September**

change in air traffic (year-on-year change in 7-day moving average of number of flights)




Note: data trace the 7-day moving average of the daily difference in the total number of flights departing from and arriving at airports in the country concerned in 2020 compared to 2019. During the week of 14 to 20 September, air traffic in the United Kingdom was on average 60% lower than its level in the same week in 2019.
*Source: Eurocontrol*

**7 - Numbers going to the workplace have stabilised in the main advanced countries but remain lower than in the pre-crisis period**




Note: these data measure the difference between numbers going to the workplace on the day shown on the x-axis and average attendance across all the days of the corresponding week, during the period from 3 January to 6 February. For example, if the day on the x-axis is a Monday, then the reference is the average attendance across all the Mondays in the five weeks between January and February.
*Source: Google Maps Mobility*

July, against –11.8% in Germany, *Graph 4*). The Manufacturing PMIs exceeded the contraction threshold in June, reaching 55.2 in August, but they fell back slightly in September (54.3). In addition, the implementation of new restrictions in response to the recent increase in new cases of coronavirus could hamper activity, especially in certain sectors already seriously affected: as in the Eurozone, the recovery of air traffic in the United Kingdom has been struggling since August (–60% compared to one year earlier, *Graph 6*).

On the domestic demand side, retail sales returned to their pre-crisis level in June and July (*Graph 5*), testifying to a more vigorous recovery here than in production (+1.1% year-on-year in July). Despite job losses caused by the crisis (the number of people in employment would appear to have declined by 695,000 between March and September according to the ONS), British households benefit from the short-time working scheme, which has been extended by six months. Other measures have helped to boost consumption, like the "Eat out to help out" scheme which aimed to increase the numbers eating in restaurants in August. Despite these support measures, demand may also be penalised by the new social distancing measures, which plan to limit numbers at social gatherings and to impose a curfew for pubs and restaurants. In September, travel to the workplace and the use of public transport remained well below their pre-crisis levels, and mobility in the United Kingdom is lower than elsewhere in Europe (*Graphs 2 and 7*). ■