

[Europe's Fading Rebound Turns V-Shape Recovery Into Bird Wing](#)

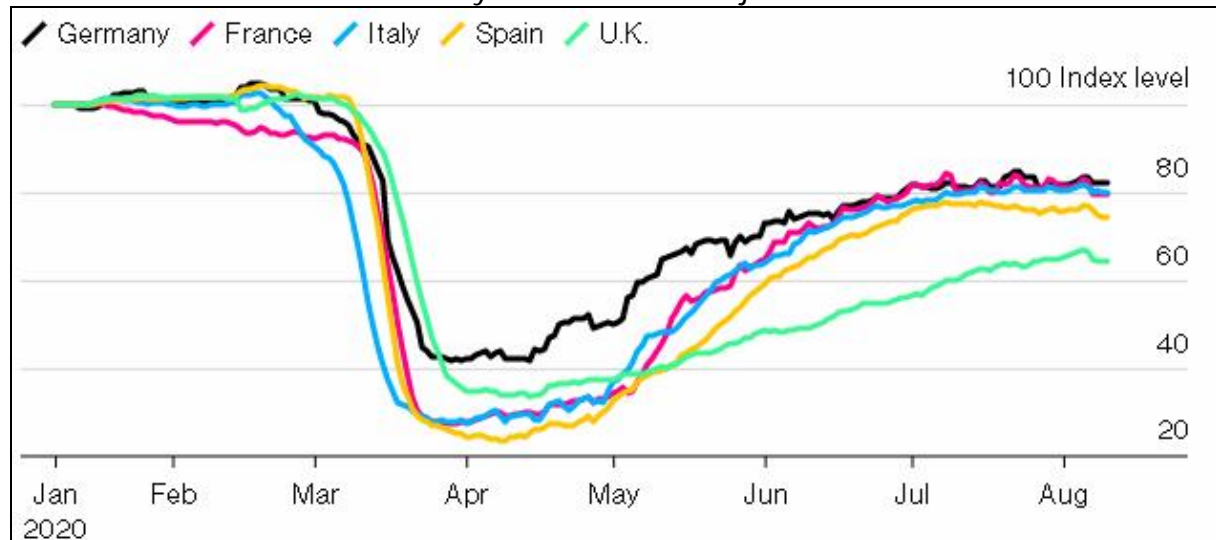
William Horobin and Zoe Schneeweiss, Bloomberg, August 17, 2020

The relief as economic activity surged in Europe when coronavirus lockdowns ended is giving way to renewed gloom that suggests a full recovery is a long way off.

Hopes for a so-called V-shaped rebound have been dashed by indicators and high frequency data that show activity slowing markedly -- or even plateauing -- below pre-crisis levels.

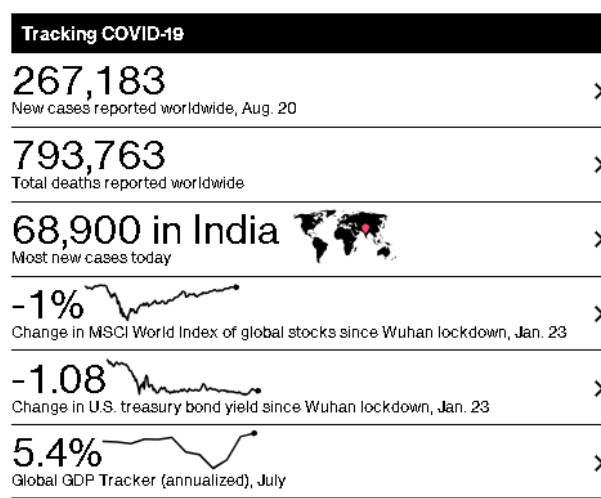
Recovery Plateauing

Alternative data indicate recovery has stalled in major advanced economies



Source: Bloomberg Economics, Google, Moovitapp.com, German Statistical Office, Bloomberg NEF, Indeed.com, Shoppertrak.com, Opportunity Insights. Note: Jan. 8 = 100

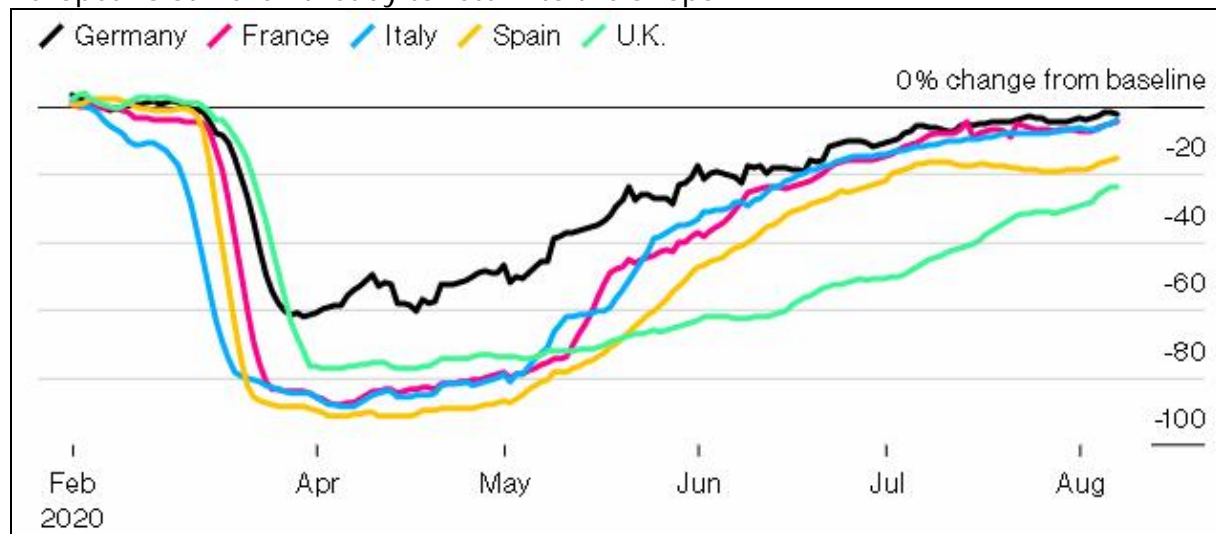
A chief concern is that some countries may have to reinstate lockdown measures that crippled their economies in the first place. Virus counts are rising around the continent as people take advantage of the peak vacation season to travel and meet with friends and family.



Even if people are moving about more, they aren't shopping or eating out in the same numbers as before the crisis. And the hit to the tourism industry is expected to worsen as countries reimpose restrictions such as quarantines.

Limited Footfall

Europeans still aren't ready to return to the shops



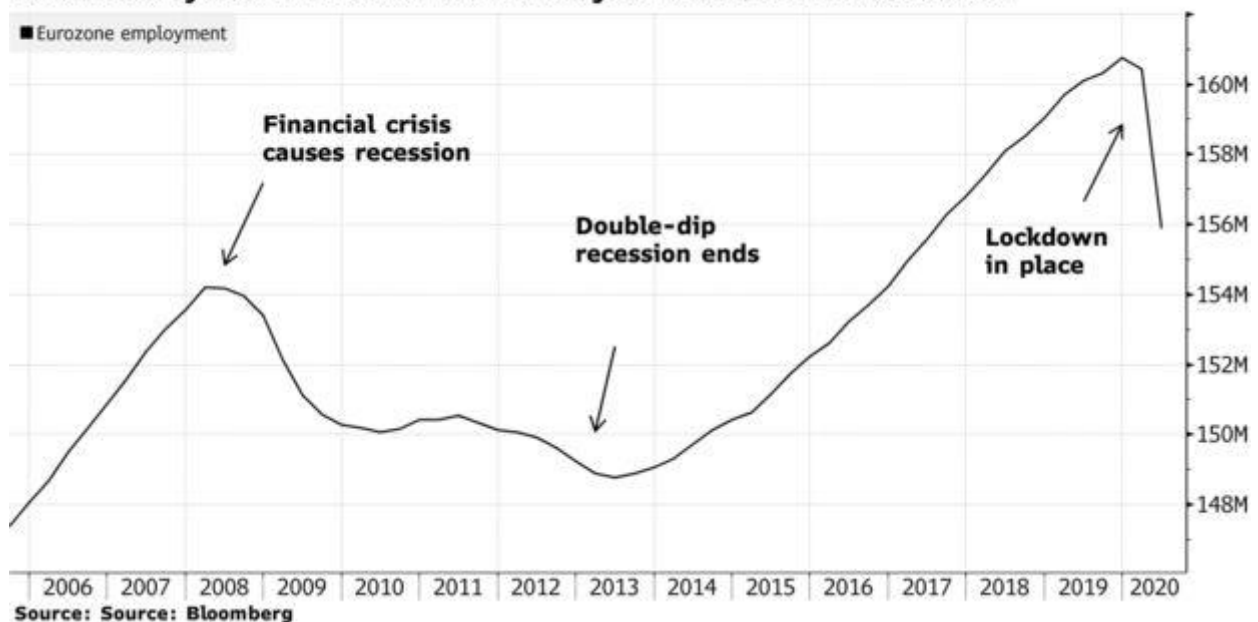
Source: Google, Bloomberg calculations. Note: Mobility trends for places like restaurants, cafes, shopping centers, theme parks, museums, libraries, and movie theaters

For many people, the worst of the economic crash is yet to come. Labor markets have so far been largely protected by massive government furlough programs and loans. As that support is phased out, unemployment is expected to rise significantly, delivering another shock to demand.

There are already warning signs -- the euro area lost 4.9 million jobs in the first half of the year, wiping out almost half the positions created since the last recession. The prospect of more job cuts hurts confidence, prompting consumers to save rather than spend.

Lockdown Hit

Virus destroys almost half of euro-area jobs created since debt crisis



The currency bloc's economies will probably post impressive growth in the third quarter, but fall far short of making up the shortfall.

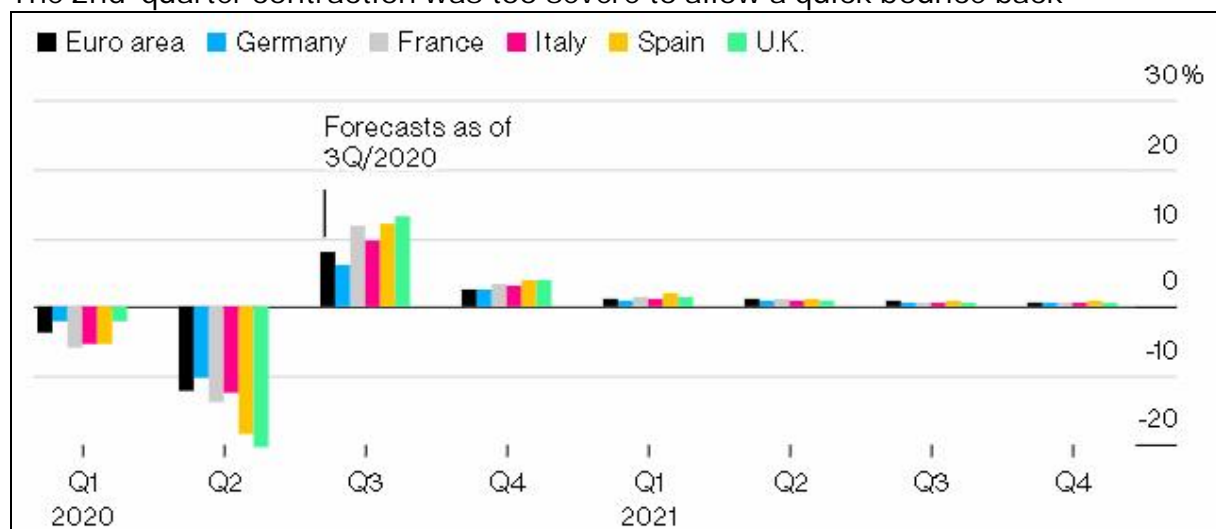
Even in Germany, where the virus death-toll was lower and the economic slump shallower, economists don't expect a return to pre-crisis levels of output next year.

"The economy will probably recover considerably slower than it shrank," the Bundesbank said in its monthly report on Monday, arguing that uncertainty around new infections is weighing on exports and company investment. "That's likely to stand in the way of a broader recovery in demand for German industrial goods."

Until an "effective medical solution" is available, "economic activity will remain limited also in some parts of the domestic services sector," the central bank said.

Virus Shock

The 2nd-quarter contraction was too severe to allow a quick bounce back



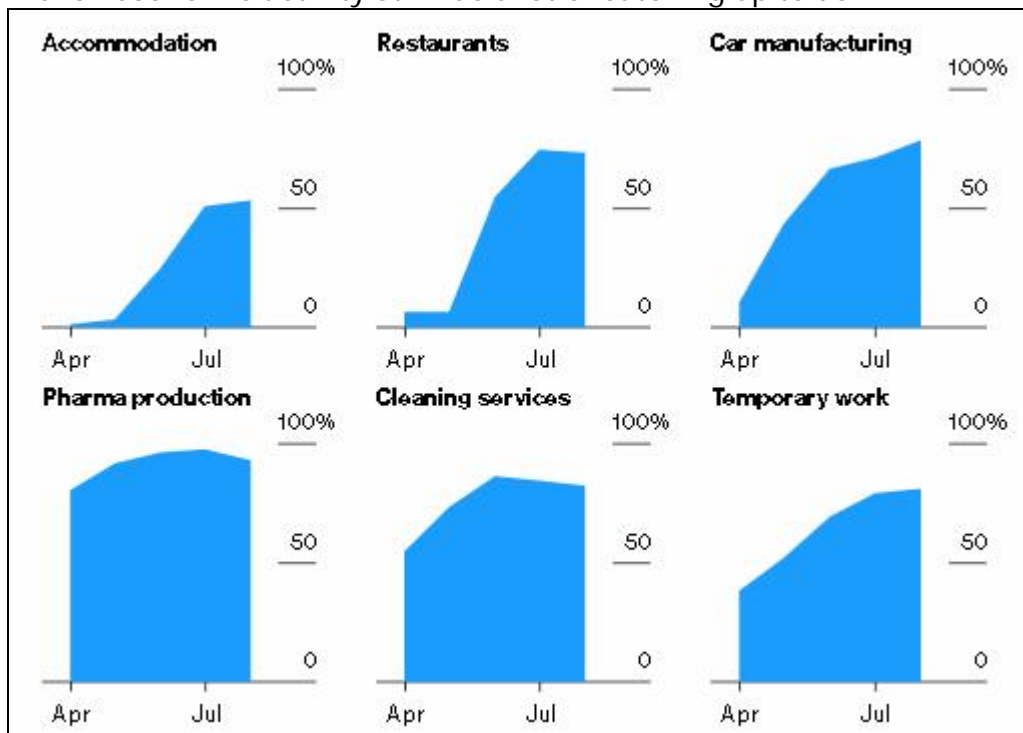
Source: Bloomberg surveys of economists

That means that instead of a V-shaped recovery, the shape of Europe's economic outlook is more like a bird-wing, a term the Bank of France used in its forecasts.

It applies across all sectors, though some are faring more poorly than others. French hotels and restaurants, for example, are still reporting demand far below normal, while sectors such as car manufacturing and pharmaceuticals that quickly picked up are now plateauing and may even decline in August, according to the central bank's survey.

Halting Comeback

French economic activity still has a lot of catching up to do

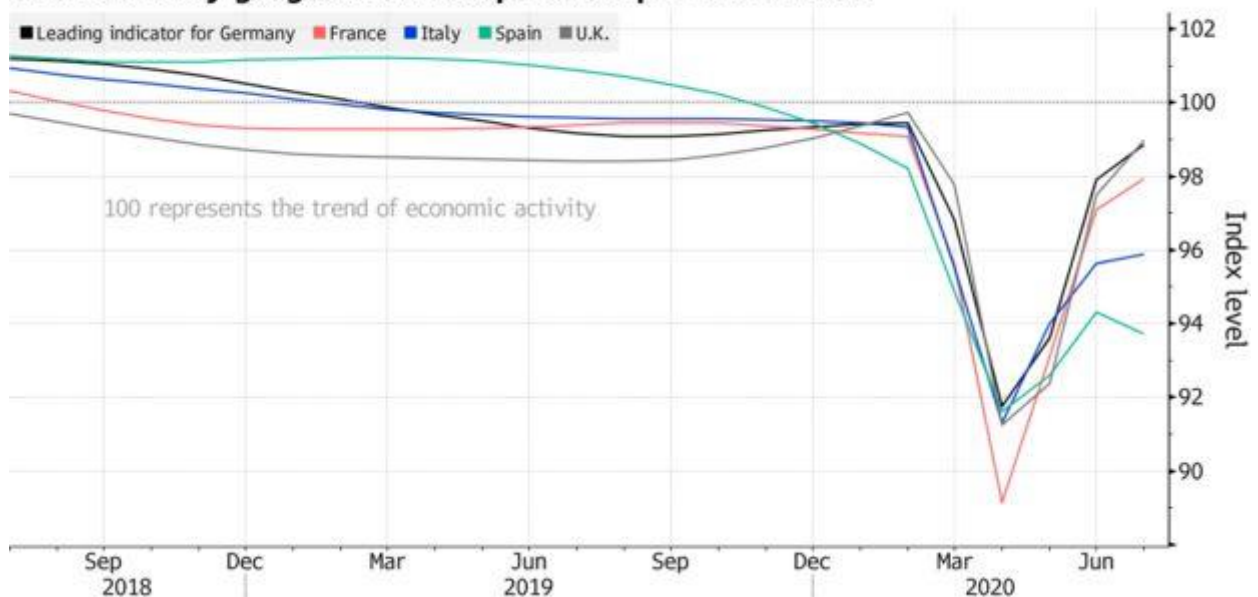


Source: Bank of France. Note: August figures are forecasts

Longer term expectations remain below pre-virus levels. The OECD's Composite Leading Indicators for Europe, which tend to precede economic turning points by about six months, rebounded sharply in June but the pace slowed in July. The indicator for Spain reversed some of its gains.

Virus Fallout

OECD economy gauges show Europe below pre-crisis levels



Source: Organization for Economic Cooperation and Development

The French government has set the objective of getting economic output back to 2019 levels in 2022. But speaking at an event near the Spanish border on Thursday, the nation's finance minister warned that could be derailed if the pandemic is allowed to gain ground because rules on social distancing and masks are ignored.

"The economic recovery is within reach -- it is gradual but real," Bruno Le Maire said. "We have everything in place to recover in the coming two years, but we must all be responsible."