

Eurozone

Unprecedented contraction of Eurozone economy during Q1

Key findings

- **Single currency area GDP declined by 2.5% q/q, a record fall.**
- **PMI data point to slower contraction in second quarter.**

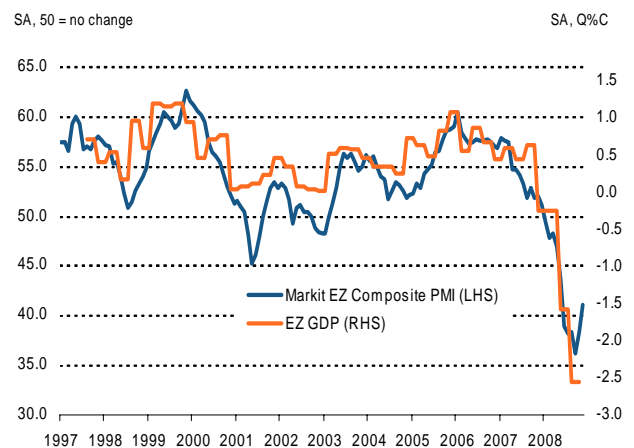
Eurostat data released today showed the single currency area contracting at an unprecedented rate in the first quarter, confirming that economic conditions worsened during the early part of 2009. GDP contracted by 2.5% in the first three months of the year following a 1.6% contraction in Q4 2008. Compared to a year ago, GDP contracted 4.6% in Q1, also the biggest drop on record.

Of the big-four euro economies, the severity of the worst post-war downturn remained centred on Germany, whose dominant export sector continued to be substantially buffeted by the retrenchment of global trade and demand for capital goods. German GDP contracted by 3.8% in Q1, the biggest drop on record. There was also a record fall in Italy (-2.4%), while Spanish GDP was down 1.8%. France performed relatively well, though it still contracted by a historically steep 1.2%.

Markit's Eurozone PMI data also showed a record contraction of activity in Q1, averaging over the quarter its lowest level in nearly twelve years of data collection, although it must be noted that the index suggested a much slower decline than today's official data (see chart 1). The survey-based data indicated that the rate of contraction reached its fastest in February, before easing in March and April.

Given natural lags, some incompleteness in national accounts data for Q1 – initial estimates are prone to significant revision – and the synchronised upturns in PMIs, not just in the Euro area, but around the world, it seems likely that Eurozone GDP will show a slower rate of contraction in Q2.

Chart 1: Eurozone Composite PMI & GDP data



Sources: Markit Economics, Eurostat

However, while there is increasing optimism that the worst of the recession may now have passed, recovery will remain slow. The Eurozone Composite PMI remains well below 50.0, and has not registered the large improvements seen in other PMIs such as the UK and Japan. Demand remains extremely fragile, while jobs continue to be cut at unprecedented rates, a factor that will undermine household spending in the coming months.

The next indication of the direction of the Eurozone recession will be the release of the flash PMI on Thursday 21st May.

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