

## Global and European setting

### Global economic developments

*Strong growth in global economic output in Q3*

In the third quarter, the global economy continued to recover from the slump in March and April 2020 caused by the coronavirus pandemic, albeit at a somewhat slower pace. Global gross domestic product (GDP) rose sharply on the quarter, largely owing to the strong countermovement already seen in May and June, yet fell short of its pre-crisis level. This was the case for all major advanced economies as well. In the United States and the euro area, economic output rebounded significantly in the third quarter, returning to, respectively, nearly 97% and just under 96% of its pre-crisis level. In the United Kingdom, real GDP increased even more strongly after a particularly sharp decline in the first half of the year, but remained 10% below its level in the final quarter of 2019. The recovery in Japan and some emerging market economies is likely to have been somewhat more subdued. China's economy, on the other hand, had already practically returned to its pre-crisis path, partly thanks to the country's success in containing the pandemic so far.

*IMF raises global GDP forecast for the current year*

With the easing of restrictions and extensive packages of support measures, economic activity in many places has so far returned to normal more swiftly than the staff of the International Monetary Fund (IMF) had been expecting in June. Against this backdrop, the IMF revised its economic outlook significantly in October and now expects global GDP to decline by 4½% this year.<sup>1</sup> In turn, its growth forecast for next year has been adjusted downwards somewhat. Global economic output in 2021 is therefore likely to only slightly exceed its 2019 level, and would thus remain clearly below its pre-crisis

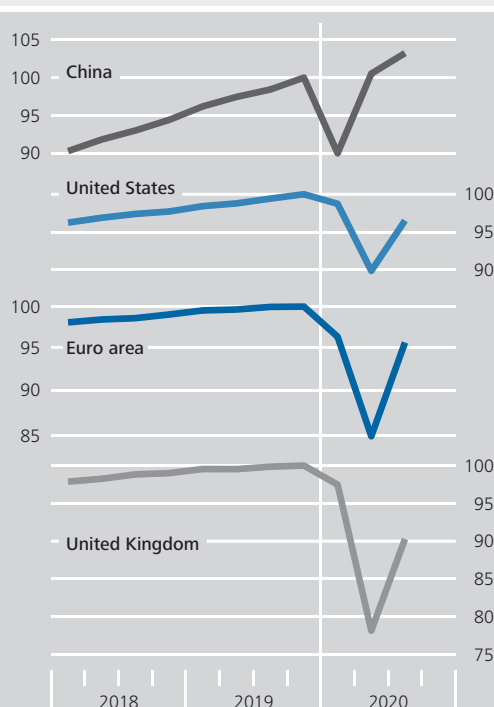
trend. In addition, the IMF expects the pandemic to reduce global potential output in the long term. It puts this down to increased insolvencies, discouraged workers leaving the labour market, and resource reallocation across sectors triggered by the changed conditions.

The recovery process has certainly been uneven across sectors to date. The retail trade was very quick to return to its pre-crisis level, and despite an initially hesitant recovery, industry has also rebounded significantly. In September, global industrial production was only a little less than 3% shy of its pre-crisis level. By contrast, contact-intensive services sectors, such as the hotel and restaurant sector, still had a lot of ground to make up, with ongoing restrictions and behavioural changes hindering further improvements.

*Progress varies across sectors*

#### Real GDP in selected major economies

Q4 2019 = 100, seasonally adjusted, log scale



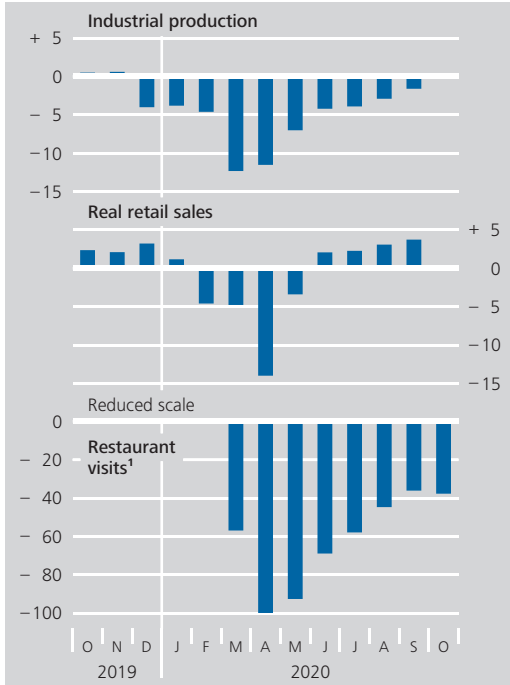
Sources: Bureau of Economic Analysis, National Bureau of Statistics of China, Eurostat, Office for National Statistics and Bundesbank calculations.

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<sup>1</sup> See International Monetary Fund (2020a). Compared with the previous forecast in June, this corresponds to an upward revision of just over ¾ percentage point.

### Global economic indicators\*

Year-on-year percentage change

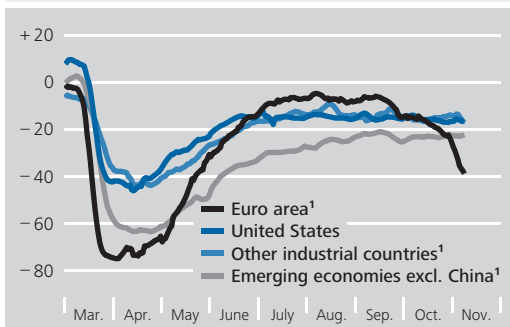


Sources: CPB, OpenTable, national data and Bundesbank calculations. \* Groups of countries vary due to differences in data availability. <sup>1</sup> Mean daily values, data available as of mid-February 2020.

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### Time spent in retail outlets and recreational facilities in 2020

Percentage change compared to the same day of the week in January/February, 7-day moving averages



Sources: Google Covid-19 Community Mobility Report, IMF, Haver Analytics and Bundesbank calculations. <sup>1</sup> Weighted according to GDP shares at purchasing power parity exchange rates.

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*New restrictions have potential to set back global recovery*

As the number of infections has started to rise again, new restriction measures have been introduced in recent months, especially in Europe. At first, these mainly applied only to individual contact-intensive services, and were regionally targeted. Recently, however, the worsening pandemic has prompted many gov-

ernments to once again take more far-reaching measures. It remains to be seen how quickly these steps will halt the current wave of infections. The economic recovery in the affected countries will probably suffer a setback in the final quarter as a result of greater cautiousness among the general public and the new measures taken by governments. As this report went to press, mobility data for the euro area were showing a clear turning point, at any rate.

Expectations that demand for energy could be more subdued for longer have already been weighing on the international crude oil markets in recent weeks. After recovering into August, and making up a significant amount of the ground lost in the second quarter, prices have since declined again somewhat. For example, a barrel of Brent crude oil cost just US\$41 in November, but had been trading at US\$44 in August. Doubts about whether the production cuts agreed by OPEC members and their partners would continue to be rigorously implemented and the resumption of oil production in Libya probably also played a role in this setback. According to the HWWI index, non-energy commodity prices also levelled off recently. Before that, however, they had already more than made up for their declines in the second quarter and – partly as a result of record demand from China (see the box on p. 14) and pandemic-related production losses – clearly exceeded their pre-crisis levels at the current end. This applies, in particular, to industrial commodities such as iron ore, but also to various food products and agricultural raw materials.

*Recovery in commodity prices levels off*

Given the recent levelling-off of commodity prices, price inflation in industrial countries remained subdued. The rate of annual consumer price changes rose to 0.8% in July and stayed at this level for the remainder of the third quarter. The core rate excluding energy and food stood at 1.2% in September, which was only slightly higher than in June.

*Consumer price inflation in industrial countries remains subdued*

## Selected emerging market economies

*China's economy already back to pre-crisis trend*

In the second quarter of 2020, China's economy had already fully bounced back from its severe slump at the beginning of the year, and in recent months it has continued to grow. According to the official estimate, real GDP in the third quarter was up 4.9% on the year. Economic output thus more or less returned to its pre-crisis path. Industry continued to be the main driver of the recovery. On the one hand, this was due to the persistent strong expansion of goods exports, which have grown on a broader footing of late after being boosted in the second quarter above all by the strong demand for medical protective equipment.<sup>2</sup> On the other hand, the expansion of government infrastructure investment has provided major impetus for industrial production (see the box on p. 14).

*Recovery in the Chinese services sector also now at an advanced stage*

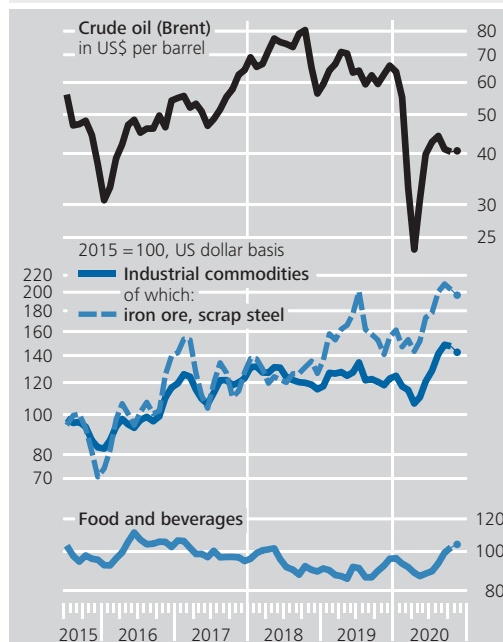
While the recovery has lagged somewhat behind in China's services sector, it is nevertheless also at a very advanced stage compared with other countries. For example, in September passenger numbers on domestic flights were nearly back to pre-crisis levels. China's apparent success at keeping the pandemic permanently in check is likely to have been a key factor in this achievement. Despite the near complete normalisation of macroeconomic activity, consumer price inflation declined to 2.3% on average in the third quarter. Excluding energy and food, it was even lower at just 0.5%.

*Economic activity in India still significantly impaired*

In the second quarter of 2020, the Indian economy had to cope with a particularly severe slump, with economic output down almost one-quarter as a result of the strict lockdown. In recent months it appears to have recovered again somewhat. However, the persistently high number of new COVID-19 infections, which have declined only slowly since their peak in mid-September, is likely to have prevented a further normalisation. On balance, economic output in the third quarter may once again have suffered a double-digit decline

### World market prices for crude oil, industrial commodities and food and beverages

Monthly averages, log scale



Sources: Bloomberg Finance L.P. and HWWI. • Latest figures: average of 1 to 6 November 2020, or 1 to 12 November 2020 for crude oil.

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compared with the same period last year. Consumer price inflation rose again slightly in the third quarter, to 6.9% on the year, while the rate excluding energy and food increased significantly to 5.3%. The Indian central bank nevertheless left its policy rate at 4%.

Following the downturn in the second quarter of 2020, which was somewhat less severe than many observers had feared, the Brazilian economy is likely to have recovered markedly in the third quarter. One indication of this is the sharp expansion in private consumption expenditure, which was boosted by one-off payments to households. In price-adjusted terms, retail sales in July had already exceeded their pre-crisis level. By contrast, the unemployment rate rose to 14.4% by the end of the period under review. However, according to the Ministry of Labour, the number of jobs has been rising again since July. While consumer price inflation in-

*Signs of recovery in Brazil*

<sup>2</sup> See Deutsche Bundesbank (2020a).

## Swift recovery of Chinese economy supporting commodity markets and world trade

The coronavirus pandemic has continued to weigh on the global economy. Even so, the prices of some industrial commodities, including iron ore, rose to multi-year highs following the slump in the second quarter of 2020. One of the main reasons for this was high demand from China.<sup>1</sup>

In order to overcome the crisis into which the Chinese economy had been plunged by the pandemic and the containment measures, the government relied on a series of fiscal policy measures, which the International Monetary Fund estimates as amounting to around 4.5% of gross domestic product.<sup>2</sup> As was the case during the global financial and economic crisis, government investment formed an important part of these programmes. The outcome was a considerable increase in spending on transport infrastructure. Real estate investment also rose steeply again, driven by the loose monetary policy stance.

This investment was accompanied by a strong increase in demand for steel. Despite a new all-time high in domestic production, it appears this was no longer sufficient to satisfy domestic demand for some types of steel, such as structural steel. Exports were therefore reduced, and the volume of imports

increased to more than two-and-a-half times the previous year's level.<sup>3</sup>

This marked a notable change in China's role in the international steel markets. Not so long ago, China had been criticised for its enormous overcapacity. EU and US investigations into the matter culminated in the imposition of anti-dumping duties on Chinese steel exports. China's current high level of steel consumption also stimulated upstream demand for iron ore, the international prices of which have risen by around one-quarter since the beginning of the year.

Whether or not these tendencies are here to stay, however, is rather doubtful. Generally speaking, the rebalancing process in the Chinese economy is seeing a shift away from steel-intensive consumption. In the short term, the surge in demand from China is, at any rate, a welcome boost to foreign trade for a number of countries, especially for commodity exporters. In the third quarter, for instance, more than one-third of Brazilian goods exports were destined for China. But China became more important for the euro area, too, given weakening sales markets in the rest of the world. In the quarter ended, exports to China made up 8.6% of total exports to non-euro area countries in terms of value. This was around one percentage point more than before the crisis.

But even in the face of strong domestic demand, China's trade surplus almost reached a new high in the third quarter, at around US\$160 billion. This was mainly because Chinese exporters, thanks to their range of products, benefited considerably from the pandemic-related shifts in demand all over the world.<sup>4</sup>

### China's foreign trade in steel products

Million tonnes, quarterly data



Sources: General Administration of Customs of the People's Republic of China and Bundesbank calculations.  
Deutsche Bundesbank

<sup>1</sup> In addition, temporary, pandemic-related production losses in a number of countries (such as South Africa and Brazil) are likely to have played a role.

<sup>2</sup> See International Monetary Fund (2020b).

<sup>3</sup> Part of this could be attributable to steelworks set up by Chinese firms in other Asian countries.

<sup>4</sup> See Deutsche Bundesbank (2020a).

creased slightly to 2.6% on the year in the third quarter, it still remained well below its long-term average, and the core rate actually fell to its lowest level since 1999. The policy rate remained unchanged at 2%.

*Russian economy also on upward path in Q3*

The Russian economy also set out on a recovery path in the third quarter after containment measures were relaxed. According to the national statistical office's initial estimate, annual growth in real GDP climbed from -8% in the second quarter to -3.6% in the third quarter. While manufacturing output has already more or less returned to its level of one year ago, oil production has been further restricted and has fallen to its lowest level since the global financial and economic crisis. The main reason for this fall in output was the additional production cuts agreed with the OPEC countries in June. Private consumption also increased markedly, but could be dampened again in the coming months owing to the sharp rise in the number of infections since mid-September. Consumer price inflation remained relatively low in the third quarter, at 3.5% on the year. Nevertheless, the central bank recently left the policy rate unchanged at 4.25%, having cut it by 175 basis points between March and July.

## United States

*Brisk recovery in the third quarter*

The US economy has recovered rapidly in recent months from the severe setback in the first half of the year. In the third quarter of 2020, seasonally adjusted real GDP rose by almost 7½% on the previous quarter, in which it had fallen by 9%. This rapid turnaround was made possible by interim successes in curbing the pandemic and by opening up the economy. Households, in particular, took advantage of the regained opportunities, having actually seen their incomes rise since the start of the pandemic as a result of the extensive government support measures. There was a corresponding sharp rise in expenditure on private consumption and housing construction in the third quarter. Business investment also picked

up, and the sharp decline in inventories seen in the previous two quarters came to an end as production was ramped up.<sup>3</sup> The upturn in domestic private demand was reflected in the strong increase in imports, while sales of US products in global markets saw somewhat more hesitant growth.

The recovery is likely to slow down significantly in the fourth quarter, not least on account of the progress that has already been made. Although there is still significant catch-up potential in the contact-intensive services sectors,<sup>4</sup> the recovery in areas where measures to prevent infection are difficult to implement is likely to be slow at best, given the resurgent infection rates.

Economic policy measures to support the US economy are likely to continue, with both parties having pledged extensive economic stimulus packages prior to the November election. Monetary policy is also likely to remain expansionary for the foreseeable future. The Federal Reserve is now aiming for a consumer price inflation rate of 2% per year on average.<sup>5</sup> After periods of weak inflation, moderately higher rates of inflation will therefore now also be tolerated. In September, the private consumption deflator amounted to 1.4% on the year, with the core rate excluding energy and food only slightly higher, at 1.5%.

## Japan

In Japan, economic output is likely to have increased markedly in the third quarter of 2020, following declines in the previous three quarters in the wake of a VAT hike and the pandemic. The Japanese economy benefited considerably from the recovery in the global econ-

*Emerging signs of a marked slowdown*

*Support from economic policy measures likely to continue*

*Marked recovery in economic output*

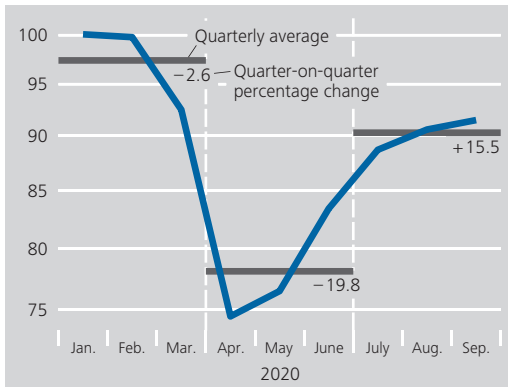
<sup>3</sup> The inventory component therefore significantly underpinned economic growth.

<sup>4</sup> In October, employment in most sectors was only around 5% lower than the respective pre-crisis level, but was down more than 20% in the leisure and hospitality sectors.

<sup>5</sup> See Board of Governors of the Federal Reserve System (2020).

### Gross value added in the United Kingdom

Q4 2019 = 100, price and seasonally adjusted, log scale



Sources: Office for National Statistics and Bundesbank calculations.

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omy. For example, exports of goods rose sharply, partly thanks to the high demand for motor vehicles in the United States. At the same time, however, imports once again fell markedly, not least because of weak investment activity. Private consumption, by contrast, picked up considerably, buoyed by extensive fiscal transfers. A sharp rise in June accounted for most of this increase. The wave of infection in July and August and the intensified calls for social distancing that this caused dampened consumer activity and are also likely to have undermined the effectiveness of the new programme to strengthen domestic tourism. Subsidised hotel accommodation was also the main reason for the decline in the core inflation rate as measured by the CPI (excluding energy and food) to -0.3% in September.<sup>6</sup> The Bank of Japan maintained its accommodative stance.

## United Kingdom

Following the extensive relaxation of containment measures and massive fiscal support, the UK economy recovered strongly in the third quarter of 2020. Real GDP grew by 15½% on the quarter in seasonally adjusted terms. Nevertheless, even in September, economic output was still around 8½% down on its level at the end of 2019. The labour market situation eased

*High infection rates putting continued economic recovery at risk*

somewhat. Although the third quarter saw the number of unemployed persons rise by around 240,000 on the quarter in seasonally adjusted terms, the number of recipients of furlough benefits declined from 9 million in May to around 3 million at the end of August. In terms of their share of affected workers, the arts and entertainment sector and the hotel and restaurant sector made the greatest use of the furlough scheme. These two sectors are also particularly affected by the renewed tightening of containment measures in response to the once again very high rate of infection. In light of these developments, sentiment deteriorated markedly. The Purchasing Managers' Index for the economy as a whole has already signalled a clear slowdown in the pace of growth for October. This is compounded by the continued uncertainty about the shape of future economic relations with the European Union.<sup>7</sup> Year-on-year consumer price inflation, as measured by the CPI, remained very subdued in September at 0.5%.<sup>8</sup> The Bank of England maintained its expansionary monetary policy stance and recently expanded its bond purchase programme.

## Poland

In the second quarter of 2020, Poland managed to contain the pandemic better than many other countries through a comprehensive set of measures. The economy also quickly recovered from its decline in the second quarter once most of the restrictions were lifted. Real GDP rose by a seasonally adjusted 7.7% in the

*Following a strong recovery in Q3, measures to contain the pandemic tightened as of mid-October*

<sup>6</sup> Prices for hotel accommodation in August and September were down a good 30% on the same months of last year.

<sup>7</sup> The transitional period, which ensures reciprocal market access under EU Single Market rules, ends on 31 December 2020. An agreement on a follow-up deal has not yet been reached.

<sup>8</sup> Consumer prices were affected by some one-off effects. For example, many shops started their summer sales early and did not cut prices in July as sharply as in previous years. In August, there was a marked reduction in the price of hotel and restaurant services as a result of subsidised restaurant visits under the Eat Out to Help Out Scheme and the reduction in VAT on hotel stays.



third quarter, following a decline of 9.0% in the previous three-month period. Industrial output grew by almost one-fifth in the third quarter and was more or less back at its pre-crisis levels in September. Retail sales also recovered to a very large extent. However, the sharp rise in the number of infections from September onwards prompted the authorities to re-introduce nationwide restrictions in mid-October, which impacted the wholesale and retail trade and a number of services sectors, in particular. Owing to various measures to support employment, the crisis has had scarcely any impact on the labour market to date. At 3.2%, the rate of unemployment in the third quarter was on a par with its level one year earlier. Consumer price inflation (CPI) declined only slightly, and still amounted to 3.2% on the year in September. The core inflation rate excluding energy and food actually rose further, to 4.3%. Given the exceptionally high level of uncertainty about the future outlook, the Polish central bank kept its policy rate unchanged at its historic low of 0.1%.

## Macroeconomic trends in the euro area

*Strong recovery in economic activity in Q3*

The euro area's economic recovery continued in the third quarter of 2020. There had already been a strong countermovement in May and June following the downturn caused by the pandemic. This is one of the reasons why, according to Eurostat's flash estimate, euro area real GDP rose by a seasonally adjusted 12.6% in the third quarter compared with the second quarter, in which it had fallen by 11.8%. Economic output had already dropped by 3.7% in the first quarter. Although this did not completely reverse the downturn in the first half of the year, economic activity largely caught up to the pre-pandemic level in a number of sectors. In other areas, however, it remained far behind. Overall, the level of activity in September is likely to have fallen short of the pre-crisis level by just under 4%,<sup>9</sup> meaning that the economic recovery was much stronger than many

experts had expected.<sup>10</sup> In addition to the extensive economic policy support measures that stabilised households' and enterprises' financial situation, other key factors were probably the successful containment of the pandemic at times and the widespread easing of measures.

The pace of the economic recovery slowed over the course of the third quarter. Some sectors had already recouped a considerable share of the pandemic-related production shortfalls by the beginning of the quarter. Restrictions remained in place in other sectors, however, especially in contact-intensive services such as leisure activities, tourism and large-scale events. The pandemic ultimately picked up speed again in mid-July. Starting in August, several Member States gradually tightened their containment measures at the regional or local level and consumers began to exercise greater caution again. In October, the number of infections in Member States increased quite considerably and led to extensive nationwide restrictions.

*Slowdown in upward movement over course of Q3*

On the expenditure side, the recovery in the third quarter was broad-based. Private consumption rose again at robust rates. It had suffered significantly from the constraints in the second quarter, leading to a sharp rise in the saving ratio. However, not all segments of private consumption shared equally in the recovery. Retail sales actually exceeded pre-crisis levels on average between July and September. Not only was demand for food very brisk, demand for electronic devices and furniture was also particularly strong. The same was true for new cars, demand for which is likely to have been boosted by programmes to promote car purchases in several Member States. Mail order sales benefited in particular in terms of distribu-

*Private consumption, especially of goods, up sharply*

<sup>9</sup> In order to gain an overview of the monthly pattern of macroeconomic activity, the Chow-Lin method was used to break down the quarterly GDP series into monthly data using key economic indicators. For details on the methodology, see Deutsche Bundesbank (2020b).

<sup>10</sup> In the September projection, ECB staff still expected real GDP to rise by no more than just over 8% in the third quarter. See European Central Bank (2020).

### Estimated monthly path for aggregate output in the euro area

Q4 2019 = 100, price and seasonally adjusted, log scale



Source: Bundesbank calculations based on data from Eurostat.  
 Deutsche Bundesbank

tion channels. The recovery in services used by households was less pronounced; the continuing restrictions on recreation activities, large-scale events and tourism as well as increased caution slowed down demand for accommodation and hospitality services as well as for certain transport services, such as air transport and bus tourism. Art and cultural activities also suffered under the change in circumstances.

*Investment expanded significantly*

Investment activity picked up again in the third quarter, and this was true of both construction investment and investment in machinery and equipment. In any event, construction output rose considerably in July and August, and was only around 2% down on the pre-pandemic level at the end of the period under review. Investment in machinery and equipment did not recover quite as strongly, although investment in transport equipment in particular rose sharply, and new registrations of commercial vehicles in September exceeded the pre-pandemic level. Domestic industrial sales of capital goods also continued to increase on average in July and August. However, at the end of the period under review, they remained significantly below their pre-crisis levels.

Exports to non-euro area countries continued to rise in the third quarter. This recovery remained incomplete, however, as restrictions on

international passenger transport with third countries remained in place, which also hampered goods trade. Moreover, the appreciation of the euro is likely to have depressed exports. On the whole, exports of consumer goods ended up being less affected than those of intermediate and capital goods. From a regional perspective, exports to closer markets such as those of other EU Member States recovered faster than those to more distant markets in the United States, Japan or Brazil.<sup>11</sup> One exception is exports to China, which had already picked up again in the second quarter. The losses in services trade brought about by the pandemic were even greater than the losses in goods trade. This was particularly true of the entire tourism sector and of business travel. Euro area exports of services to non-euro area countries saw hardly any growth in the third quarter, still falling short of the pre-pandemic level by one-quarter at the end of the period under review.

*Foreign trade with non-euro area countries on upward trajectory again*

The situation in the manufacturing sector continued to brighten in the third quarter. This recovery was buoyed up by the fact that supply-side constraints such as interrupted supply chains were increasingly eliminated and stricter hygiene requirements had already been integrated into operational procedures in the second quarter. In line with the rapid rise in households' consumption of goods, consumer goods output experienced a very large rebound. For example, the manufacture of durable and non-durable goods in September was only slightly below the level recorded in February. Developments in capital goods were not quite as favourable due to the particularly difficult situation in aircraft construction. In the automotive industry, challenges associated with the structural shift towards greater e-mobility also had a negative impact on top of the large drop in sales seen this year so far. By contrast, the construction sector benefited from a healthy reserve of orders. According to

*Significant improvement in manufacturing and construction*

<sup>11</sup> This is consistent with the fact that goods trade within the euro area recovered much faster than external trade.



European Commission surveys, orders in the construction sector remained at a fairly high level.

*Large differences within services sector*

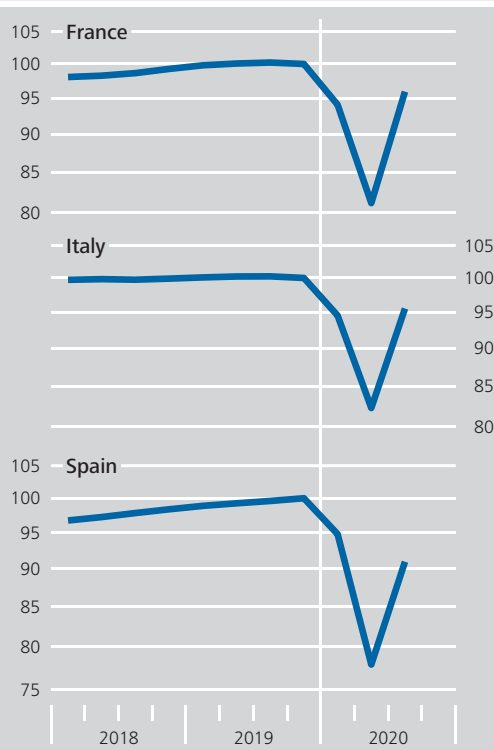
In the services sector, the recovery appears to have stalled over the course of the third quarter. Although the index for euro area service output saw another marked rise in July 2020, it then flattened somewhat in August. The Purchasing Managers' Index for services also suggests that activity in this area may have receded again towards the end of the quarter. That said, the situation was not uniform across the sector – mail order services as well as information and communication services, for example, continued to benefit from the increased use of digital distribution channels and communications. By contrast, the situation in other areas, especially in hotels and restaurants, travel agencies, cultural events and passenger transport, remained extremely precarious. Although activity in these sectors also increased for the most part, it still fell well short of the pre-pandemic level. Furthermore, it was primarily these sectors that were especially affected by the gradual tightening of containment measures towards the end of the quarter and the renewed rise in cautious consumer behaviour.

*Strong growth spread broadly across France's economy*

Economic output rebounded significantly in all Member States in the third quarter, with particularly high growth rates in those countries that had experienced stronger economic losses in the first half of the year. According to an initial estimate, economic output in France rose by 18.2% in the third quarter and was only 4.1% down on the pre-crisis level. The strong, broad-based countermovement is likely to have been helped by the fact that many workers who had been unavailable during the spring lockdown due to a lack of childcare returned to work. Private consumption, in particular, recovered and was only slightly lower than the level prior to the pandemic. Investment and exports also picked up considerable momentum but were still distinctly down on their level in the final quarter of 2019. With regard to exports, one reason for this decline was the fact

### Real GDP in France, Italy and Spain

Q4 2019 = 100, seasonally adjusted, log scale



Sources: Eurostat and Bundesbank calculations.  
 Deutsche Bundesbank

that key sectors for French exports, such as aviation and international tourism, were hit hard by the crisis.

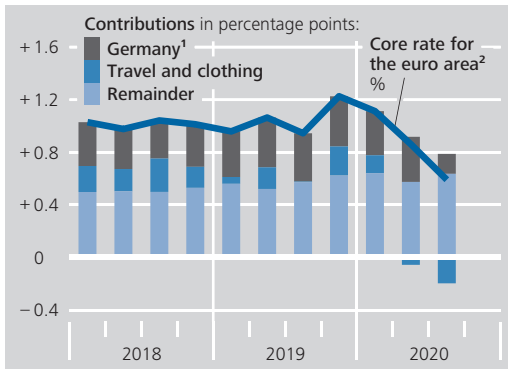
The Italian economy also recouped most of the losses caused by the pandemic up to September. Real GDP grew by 16.1% in the third quarter after seasonal adjustment, meaning that aggregate output fell short of the pre-pandemic level by only 4.5%. The key factor behind this was the rapid recovery in the construction and industrial sectors, largely owing to the robust demand for consumer goods. Tourism-related services benefited from the low level of infection in Italy in the third quarter and the extensive lifting of travel restrictions within the EU. However, according to data provided by the Italian central bank, spending by foreign tourists was still 25% lower than last year, even in August.

*Brisk catch-up in Italy, especially in industry*

Spain also recorded strong GDP growth in the third quarter, with an increase of 16.7% on the

### Determinants of the core HICP rate for the euro area

Year-on-year change



<sup>1</sup> Excluding travel and clothing. The temporary reduction in value added tax as of 1 July 2020 dampens the inflation rate.  
<sup>2</sup> HICP excluding energy and food.

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*In Spain, level of activity well below pre-pandemic level despite strong GDP growth*

quarter. However, activity levels still remained 9.1% below the pre-crisis level in the third quarter, and were thus further behind than the other large Member States. This was due, first of all, to the previous especially sharp downturn in economic output. On top of this, the renewed rise in the number of new cases of infection, which already began in August, and the subsequent tightening of travel restrictions put a massive strain on the international tourism sector, which is central to the Spanish economy. The number of foreign visitors in the third quarter was 80% lower than last year. By contrast, industry and construction largely recovered, with catch-up effects likely to have been significant as well.

*Strong GDP growth in other Member States, too*

In most smaller Member States, aggregate economic activity was also up very significantly. Real GDP in Belgium and Austria, for example, rose by 10.7% and 11.1% respectively on the quarter after seasonal adjustment, and in Portugal by as much as 13.3%. Growth was lower in other countries such as Finland and the Baltic states.

*Labour market situation stabilised somewhat*

The labour market situation stabilised somewhat in the third quarter of 2020. The number of employed persons in the euro area rose by 0.9% in seasonally adjusted terms, after having fallen by 2.9% in the second quarter. Short-

time work, which had bolstered employment considerably in the second quarter, was also scaled back, and the number of hours worked is likely to have increased again significantly. Nevertheless, the standardised unemployment rate went up from 7.9% in June to 8.3% in September. Recruitment prospects for job seekers seemed to have improved again somewhat prior to the renewed tightening of containment measures. According to European Commission surveys, labour shortages in manufacturing and services became slightly more pronounced between July and October.

In the third quarter, consumer prices compared with the previous quarter remained unchanged on average after seasonal adjustment, with price drops for services and food and price rises for industrial goods (including energy) balancing each other out. Unprocessed food, in particular, became significantly cheaper, whereas prices for non-energy industrial goods rose sharply. Overall, the inflation rate as measured by the annual increase in the Harmonised Index of Consumer Prices (HICP) continued to fall, dropping from 0.2% to 0.0% in the third quarter. The rate excluding food and energy decreased markedly from 0.9% to 0.6%.

*Consumer prices unchanged in Q3*

The decline in core inflation was driven by exceptional price movements in selected components and individual countries. The first of these worth noting is the temporary reduction in VAT rates in Germany between July and December 2020.<sup>12</sup> This was reflected, amongst other things, in a marked decrease in the prices of goods. By contrast, prices of goods rose significantly in other countries. The prices of clothing and footwear showed atypical seasonal developments during the quarter owing to later summer sales in some countries, including Italy and France. Among services, price indices for recreation, personal and transport services showed declines in a number of countries. It should be noted, however, that prices for travel services were not yet available in some cases

*One-off factors affecting the core rate*

<sup>12</sup> See the box on pp. 56 ff.

and were therefore imputed.<sup>13</sup> As these declines mainly concerned travel, the narrower core rate, which excludes this volatile component as well as energy, food and clothing, fell by only 0.2 percentage point to 0.9%. This decrease is probably largely attributable to the temporary reduction in VAT in Germany.

*Slight price increase in October*

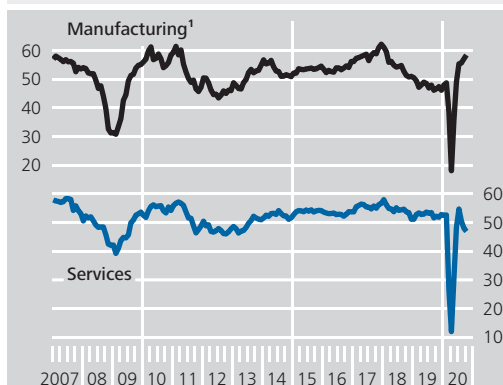
According to Eurostat's flash estimate, seasonally adjusted consumer prices in October rose slightly on the month. Prices of goods (including energy) went up somewhat, while prices for services remained unchanged. Nevertheless, the annual increase in the HICP held steady at -0.3% and the rate excluding energy and food remained at 0.2%. The resurgence of the pandemic and the ensuing new restrictions in many countries are likely to cause the share of imputed prices in the euro area's HICP to rise once more, again making it more difficult to identify the inflation trend.

*Setback expected in the current quarter*

The considerable rise in new cases of infection and the return to nationwide containment measures in most Member States will weigh on the euro area economy in the final quarter. That said, the authorities are trying to limit restrictions on economic life and to keep child daycare centres and schools open as well. Nevertheless, certain contact-intensive services and, in some cases, non-essential businesses have been closed again. The hope is that the new restrictions will remain largely confined to November and will not need to be extended. This would particularly affect those sectors of the economy in which progress has been

### Sectoral Purchasing Managers' Indices for the euro area\*

Index values, seasonally adjusted, monthly data



Source: IHS Markit. \* Values over 50 indicate period-on-period growth in business activity. <sup>1</sup> Output component.  
 Deutsche Bundesbank

limited in terms of recovery. This should contain new macroeconomic losses, although it will concentrate them within a small number of sectors. Extensive fiscal assistance should counter any longer-term damage. These recent developments have not yet been fully reflected in surveys of enterprises and households. Even so, they have already shown a significant deterioration for services, whilst industry appeared to have been less affected. Household sentiment, however, worsened markedly. Ensuring that measures effectively contain the pandemic whilst also minimising constraints on public life – and thus also the economy – remains a challenge. Recent progress in the development of an effective vaccine gives hope that this will soon become easier.

<sup>13</sup> See Eurostat (2020).

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