The COVID-19 recession

Background

At the start of 2020, the COVID-19 pandemic smothered economic activity to levels not seen in modern economic history. In addition to the cratering in GDP growth, two features set this recession apart: (i) the fall in economic activity is taking place worldwide, both in developed and emerging economies; and (ii) the economic slowdown happened at the same time everywhere, dated generally in the first quarter of 2020 (2020Q1) as governments implemented physical distancing measures that included closing up domestic and international markets.

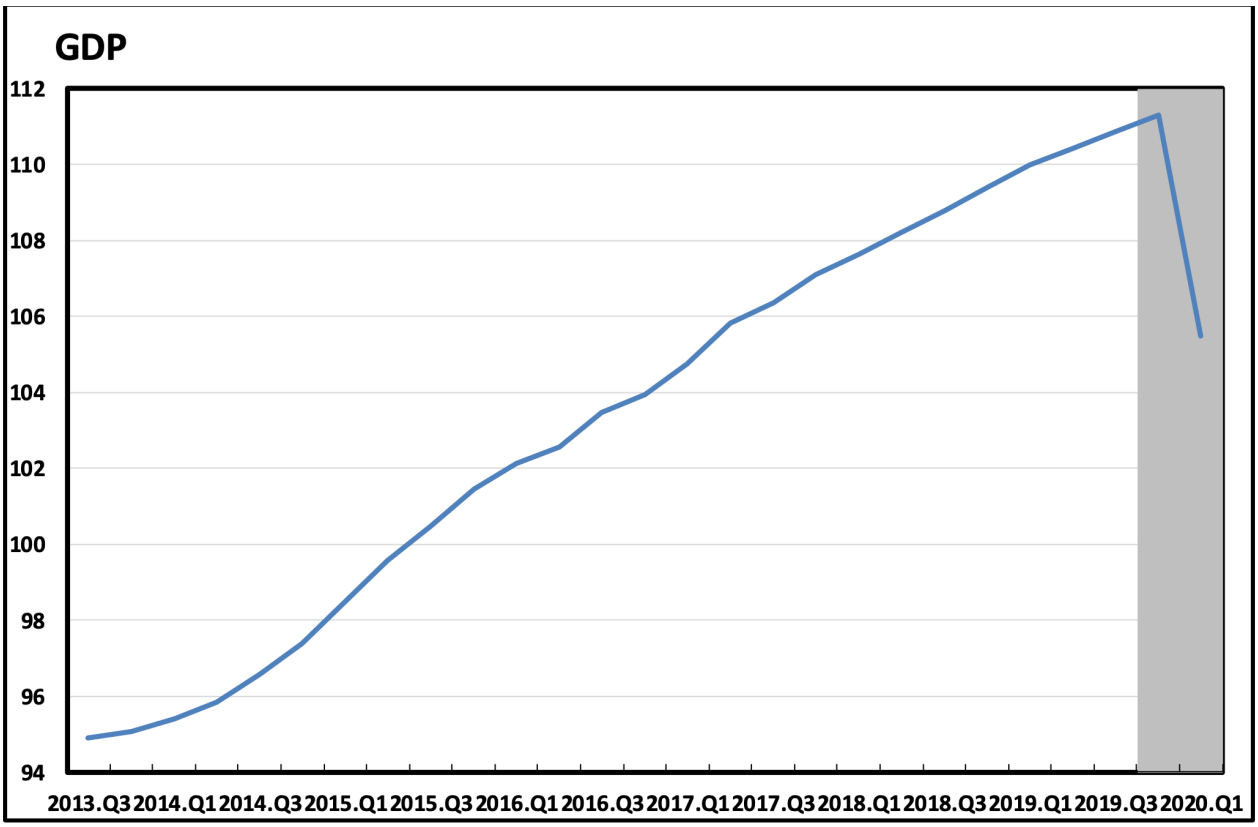
Several factors explain why the Spanish economy has performed relatively worse than neighboring economies as the COVID-19 pandemic took hold. These factors include idiosyncratic institutional features of the Spanish labor market, and the Spanish economy's heavier dependency on hospitality related sectors. However, the massive decline in domestic consumption has generally affected all economic sectors. In addition, supply chain disruption and weak demand from traditional export markets have resulted in the destruction of employment across nearly all sectors.

Dating the recent peak in economic activity has been made easier by a number of factors. These include the colossal and continuing loss of economic activity, seen across nearly every economic sector, and felt at exactly the same time, with an easily identifiable cause. **Accordingly, the Spanish Economic Association's Business Cycle Dating Committee dates the peak month of economic activity in February, 2020 although it dates the peak quarter of economic activity in 2019Q4.** The reason for dating the peak month in a different quarter than the peak quarter is that economic activity in the first two months of 2020 showed evidence of moderate growth. However, the decline in March was so sharp as to cause a dramatic decline in economic activity for the whole first quarter of 2020. Thus, 2019Q4 is the quarter where economic activity before it was positive, but became negative thereafter.

Summary

The expansion that ended in 2019Q4 began in 2013Q4, thus lasting 25 quarters. The advance release of 2020Q1 GDP growth came in at -5.3% (quarterly rate), the largest decline since the Spanish Statistical Office (Instituto Nacional de Estadística in Spanish, or INE) has been keeping records. The depth of the economic loss experienced in 2020Q1 can be seen in Figure 1.

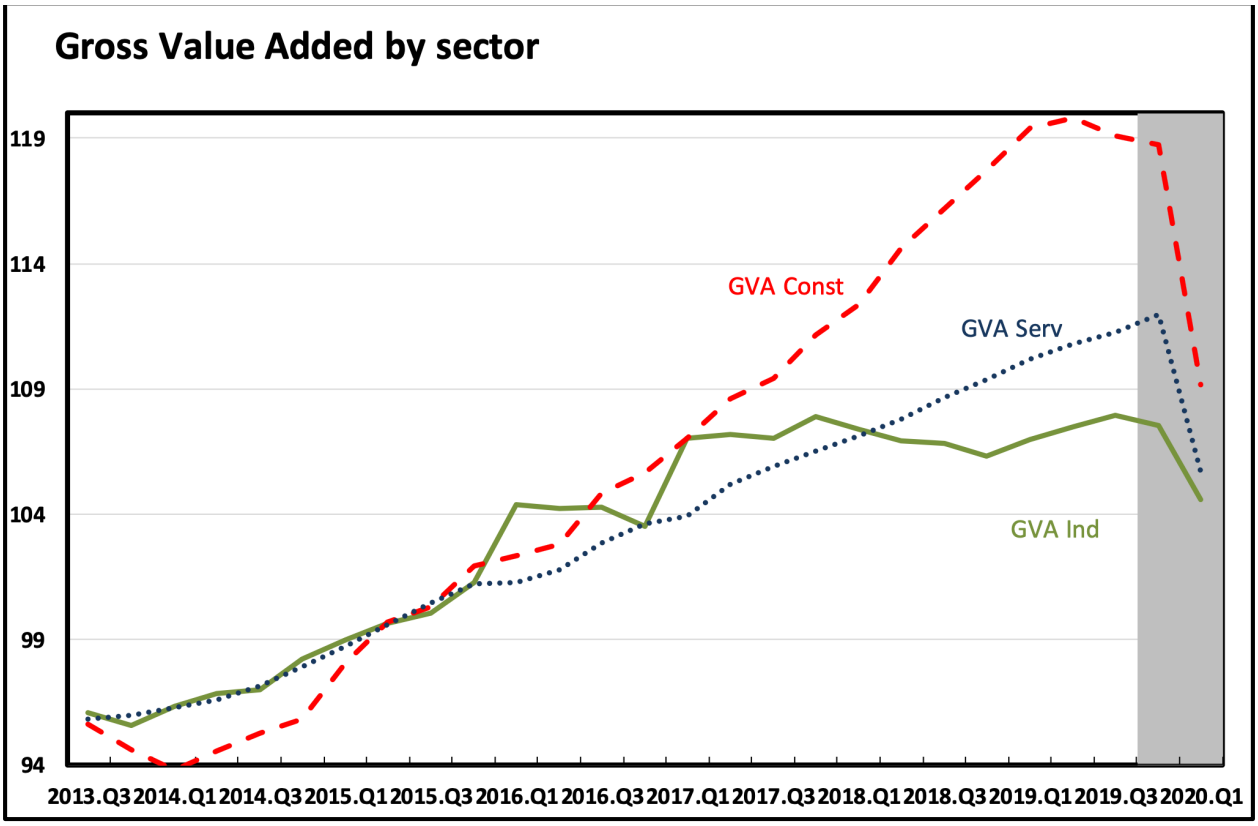
Figure 1. Real GDP since the previous trough



Note: adjusted for inflation and expressed as an index. 2015Q1 = 100

Figure 2 shows the gross value added (valor añadido bruto in Spanish or VAB) time series for the industrial, services, and construction sectors. These series clearly display the dramatic effect that shelter-in-place orders had on their growth rates, with declines of -5.2%, -5.6%, and -8.1% respectively. Compared with the declines observed during the Great Recession, these have been considerably steeper.

Figure 2. Gross value added by sector

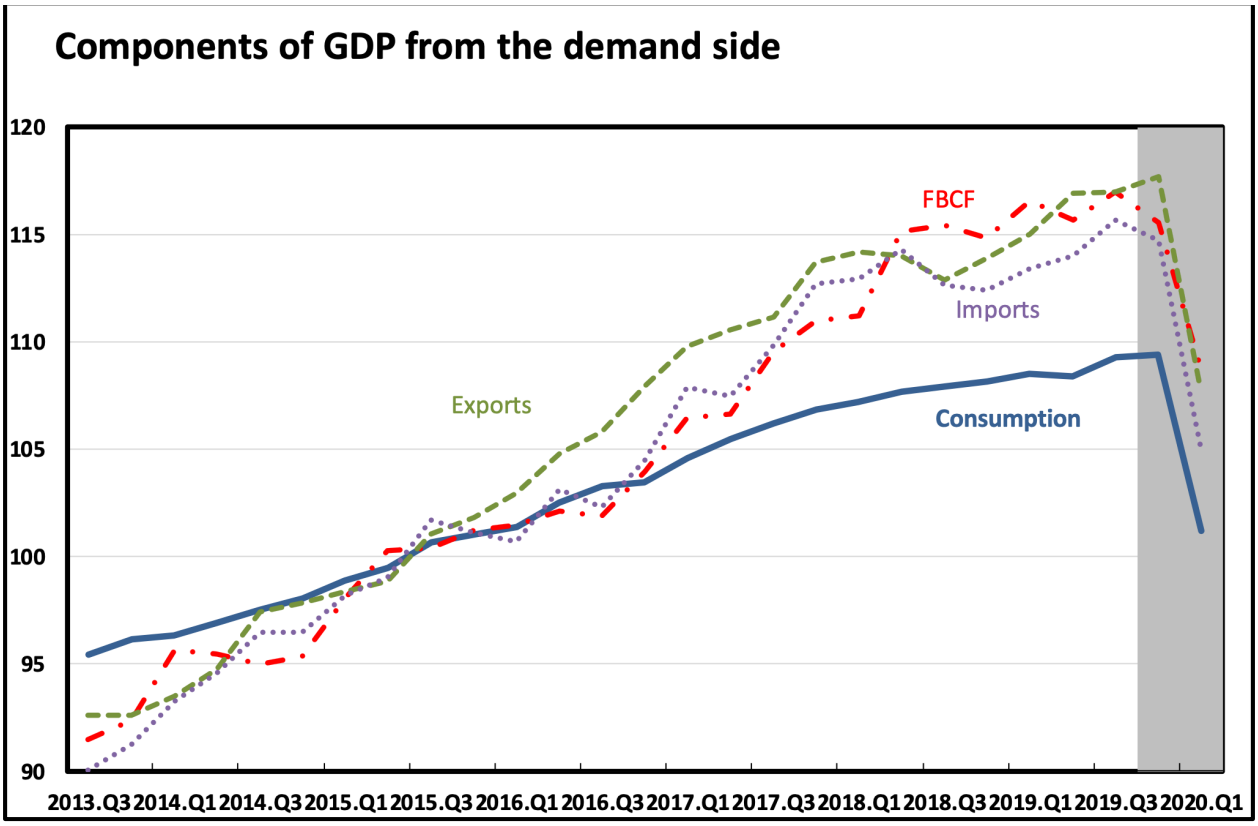


Note: adjusted for inflation and expressed as an index. 2015Q1 = 100.

Figure 3 explores the components of GDP from the demand side. Consumption, the largest component by far (representing about two thirds of GDP) fell by -7.5% (quarterly rate). Meanwhile, investment—usually one of the more volatile components of GDP—fell by -5.8%. Foreign demand, measured by imports and exports both experienced declines of -8.4%. All these declines far exceed any previously measured.

Given the decline in GDP, it is no surprise that employment also took a hit. Figure 4 shows that total employment as well as full-time equivalent jobs (puestos de trabajo equivalentes in Spanish or PTE) declined by -1.9% and -1.43 respectively. Meanwhile hours worked fell by -5%. This is the first time we observe negative figures for these series since the expansion began in 2013Q3.

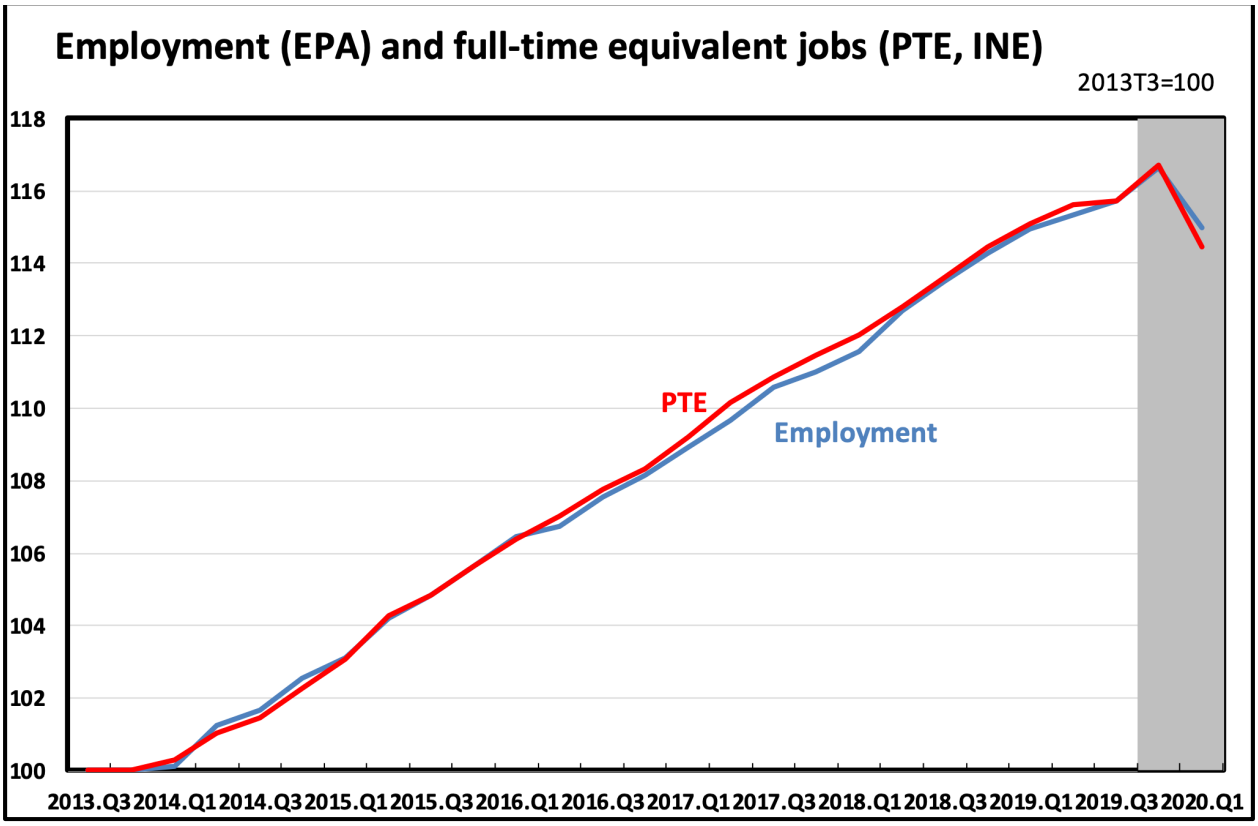
Figure 3. The components of GDP from the demand side



Note: adjusted for inflation and expressed as an index. 2015Q1 = 100.

The employment figures somewhat underestimate the true incidence of the pandemic on the labor market. The ERTE (Expediente the Regulación Temporal de Empleo in Spanish) program allows firms in financial stress to suspend labor contracts temporarily. Workers affected by the program are not counted as unemployed until there is a more final resolution (where the labor contract is finally terminated).

Figure 4. The employment situation



Note: expressed as an index. 2013Q1 = 100.

Dating the peak month

Up to this point and due to data availability, the Committee has retroactively dated peaks and troughs using quarterly data. However, the dating of the current peak marks the first time the Committee dates a turning point in real time. For this reason, the Committee is dating for the first time, the peak month. As explained earlier, ideally the peak month falls within the peak quarter to which it refers. This is not the case here. The reason this time has to do with the sharp decline in economic activity in March 2020, which caused the first quarter of 2020 as a whole to experience negative growth even though the first two months of the year were consistent with moderate positive growth.

The Committee dated the peak month of economic activity as February 2020. Figure 5 displays the industrial production index (IPI) and the services activities index (IASS), which fell -13.7% and -18.7% (annual rate) in March, respectively. Meanwhile, Figure 6 shows the evolution of workers registered with the Social Security administration (afiliados a la seguridad social in Spanish). This is a monthly measure of employment, which as the figure shows, declined by 3.31% in March (annual rate). Figure 7 shows the Purchasing Managers ʼIndex (PMI), a measure of business confidence that is often used in international comparisons. The index plummeted from 51.8 in February to 26.7 in March (a reading below 50 is usually interpreted as consistent with economic contraction).

Figure 5. Industrial Production and Services Activity Indexes

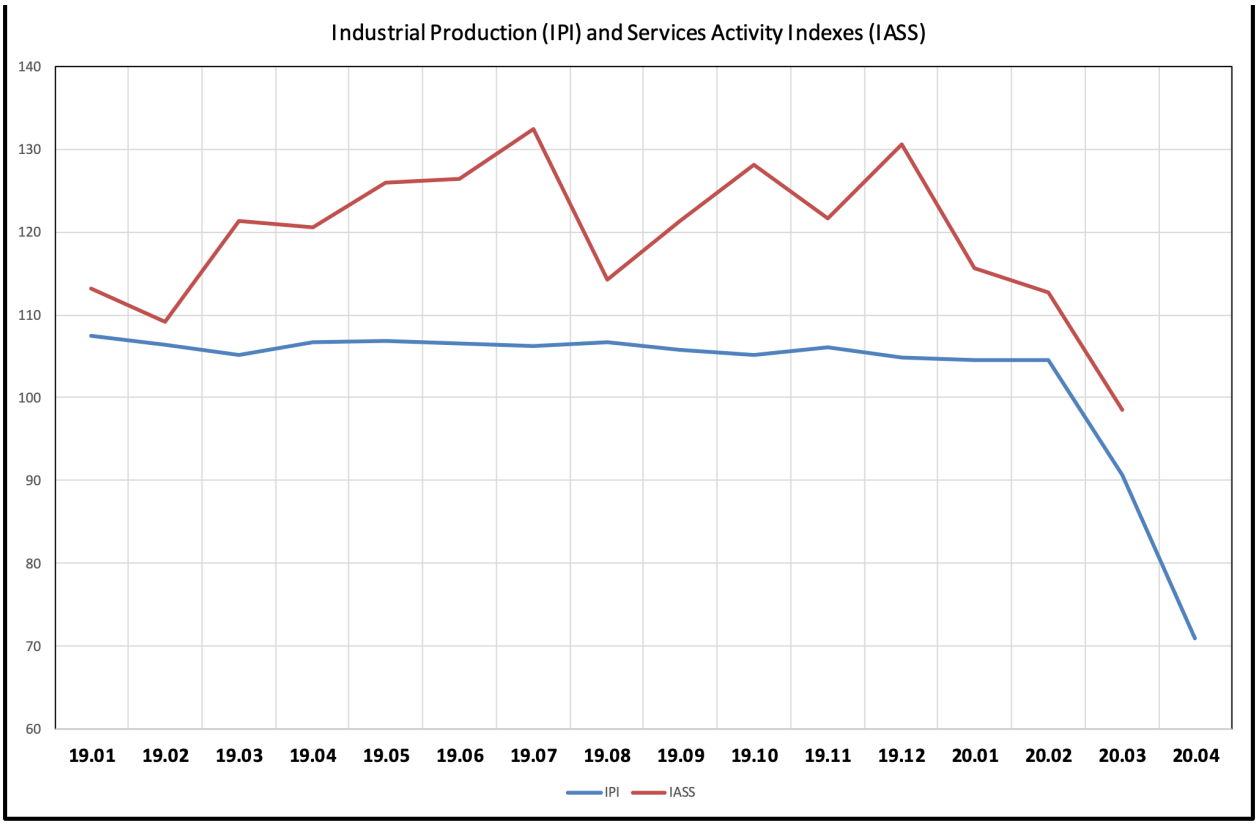
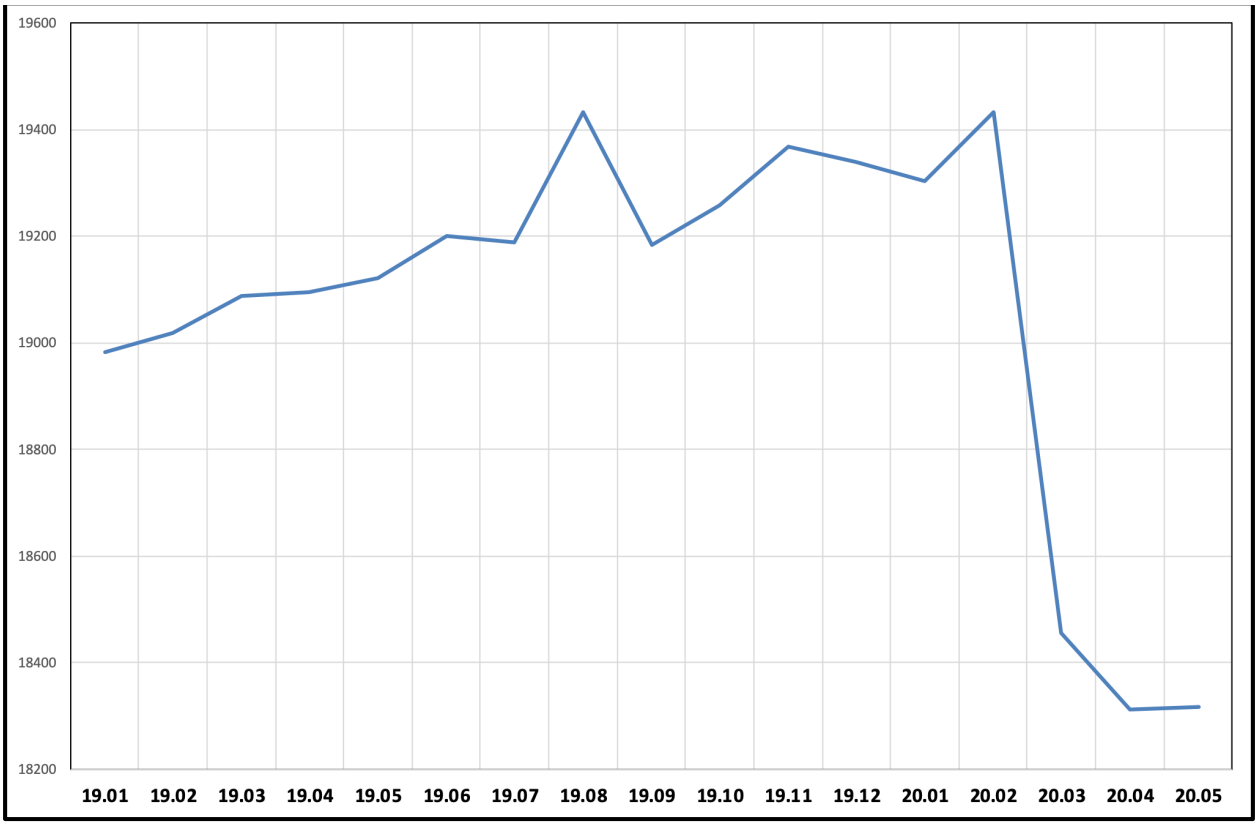
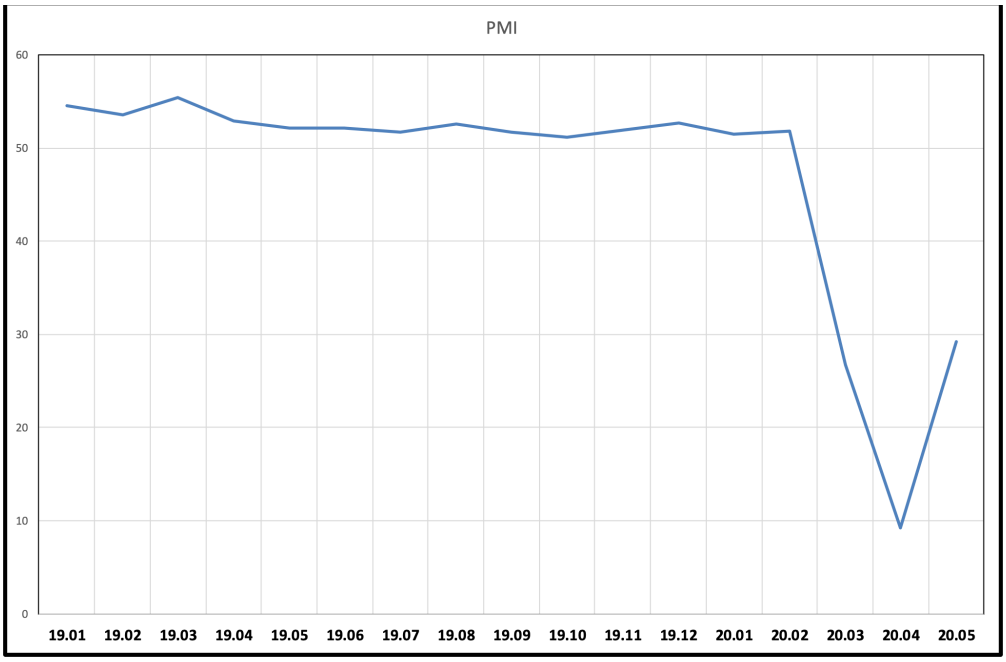


Figure 6. Workers registered in the Social Security Administration



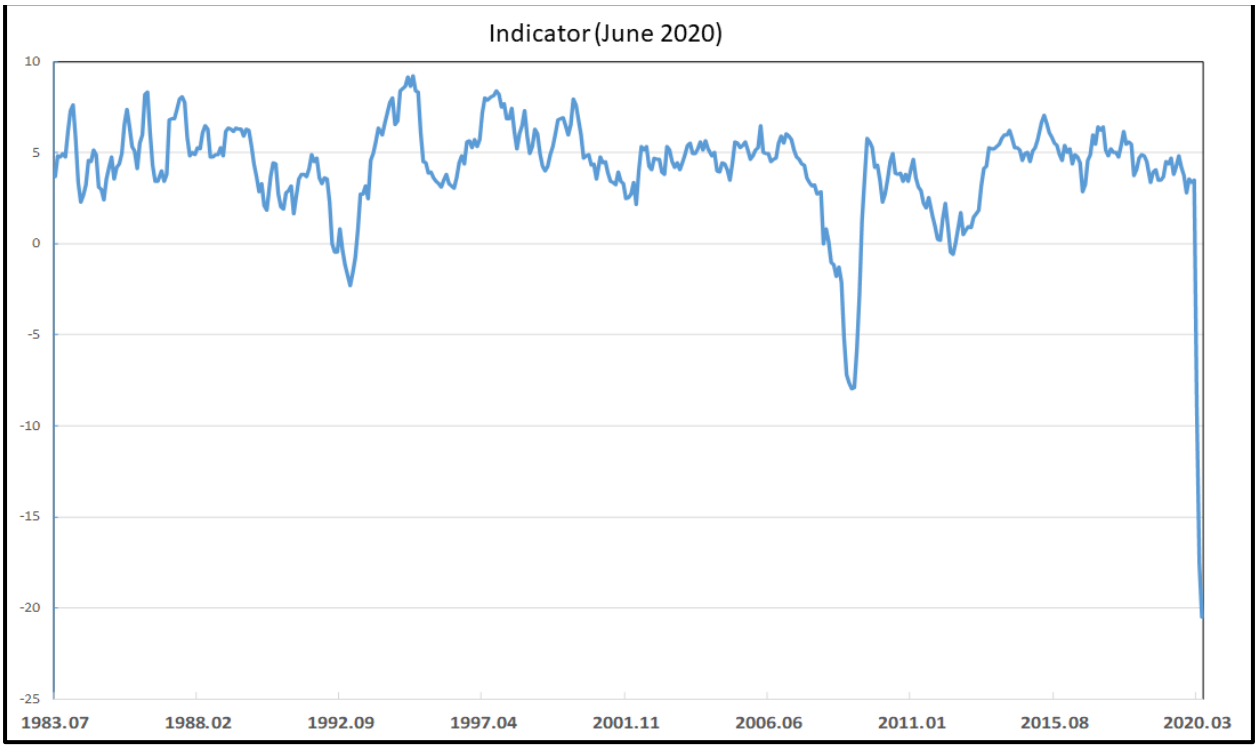
Note: expressed in thousands of workers.

Figure 7. Purchasing Managers' Index (PMI)



Finally, Figure 8 displays an index of economic activity that summarizes information from a large number of economic series. This index is constructed by the Committee and updated monthly on the website maintained by the Committee (http://www.asesec.org/CFCweb/index.php/cf-index-of-economic-activity/). The index can be roughly compared against the zero threshold to gauge whether the economy is in expansion or in recession (though the dating of peaks and troughs is done independently). As is evident from the figure, the decline in March 2020 stands out very clearly.

Figure 8. Economic activity indicator



Note: index summarizing information from a large set of economic indicators using a dynamic factor model. For more information see http://www.asesec.org/CFCweb/index.php/cf-index-of-economic-activity/

Conclusion

Economic uncertainty from the COVID-19 pandemic alongside with shelter in place orders and the closing of borders to slowdown the spread of the virus are a clear explanation for the slowdown in economic activity in Spain and abroad. We date 2019Q4 as the last quarter of economic growth before the dramatic decline in economic activity seen in 2020Q1, which is expected to last for several quarters as successful therapies to treat the disease and contain its spread are still in their infancy. The effects of the pandemic have been felt across nearly every

sector of the economy and in employment to an extent never before seen in modern economic history.

The pandemic took hold in Spain in February 2020, though shelter in place orders did not come into effect until the first half of March 2020. Thus, the committee chose as the peak month February 2020. Economic activity in January 2020 had been generally positive and March 2020 saw a dramatic and unprecedented decline visible across the board.

Committee members participating in the decision were: Juan Rubio-Ramírez, Emory University (chair); Máximo Camacho, Universidad de Murcia; Juan J. Dolado, Universidad Carlos III de Madrid; Jesús Gonzalo, Universidad Carlos III de Madrid; Òscar Jordà, Federal Reserve Bank of San Francisco & University of California, Davis; and Eva Ortega, Banco de España.