

Consumption growth has declined sharply following a brief recovery after the lockdown

hpo economic commentary, 4th quarter 2020

High retail sales in summer thanks to catch-up effects.

There was a great relief when **retail sales** rapidly recovered after the corona-related downturn across all major markets in Europe, North America, and Asia. The epidemic downturn in China took place sooner, but their recovery was initially more hesitant after the lockdown. Then, as of May, a relatively synchronous recovery in consumption was observed in all major regions. The following recovery was impressive. However, Europe, the USA, and China were nowhere near making up for the losses of the first half of the year.

We estimate that the consumption boom over the summer, particularly in **Europe and the USA**, is mainly due to the lockdown's compensatory effects. The hpo model calculation indicates a continuing slowdown in dynamics for both regions in the coming quarters – regardless of how the COVID-19 situation will develop.

Local lockdowns may again lead to exceptional volatility. But even the mere fear of further economic problems leads to hesitant consumption. Additionally, hpo's

long-term hypotheses have been indicating a subdued development for quite some time.

From October, retail sales in **China** are always very dynamic for seasonal reasons, which is expected to be maintained this year. We expect China to move sideways over the next few quarters with a slightly positive trend far below the long-term trend growth.

If we compare retail sales of the last 12 months up to August 2020 with the figures reported in the same period of the previous year, we obtain the following, historically very low figures with China's downturn being the most severe due to the very long and strict lockdown and the hesitant recovery afterward:

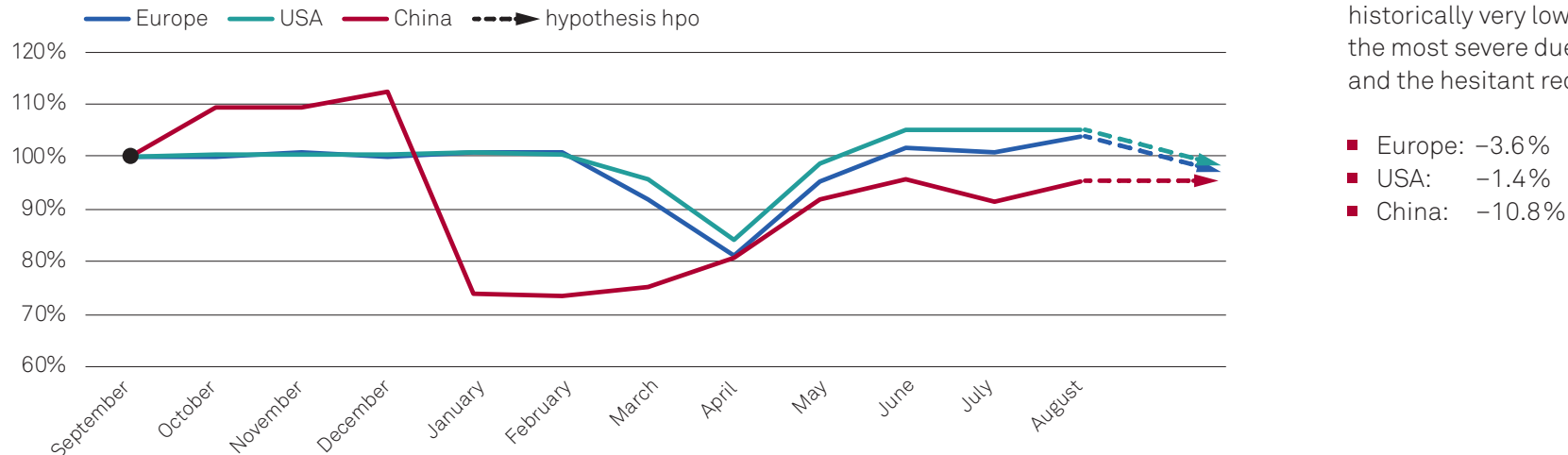


Figure 1: Comparison of retail sales development from September 2019 to August 2020 in Europe, USA, and China. More recent data is not yet available

Sources: OECD, National Bureau of Statistics China; Illustration by hpo

The recovery of industrial production compared to consumption has advanced much less in all regions

Further development with high volatility.

In Europe, the downturn in **industrial production**, measured from its absolute low point during the lock-down, was much lower than in consumption. Industrial production in the USA fell at about the same rate as retail sales, while the decline in consumption was more severe in China.

While the recovery of industrial production was very rapid in China, it is much slower and less pronounced in Europe and the USA than in retail sales. Comparing the

industrial production of the last 12 months until August 2020 with the values of the same period of the previous year, we obtain the following results:

- Europe: -6.2%
- USA: -5.2%
- China: -3.0%

These figures illustrate how much the industry has suffered this year after many branches of the capital goods industry had already experienced significant declines.

The hpo model calculation indicates a low level of dynamism for the coming year, although developments in individual sectors can be extremely volatile. As usual, developments in the individual industries may vary considerably, and it is worth considering the specific hpo industry forecasts.

One of the very few industrial sectors for which we expect strong growth in the coming year is the semiconductor industry, which is already well advanced in the economic cycle. Industries affected most by the crisis, such as the machine tool industry, can expect a partial recovery and individual months with strong incoming orders in the new year. However, the overall level is likely to remain far below the pre-crisis level of 2018.

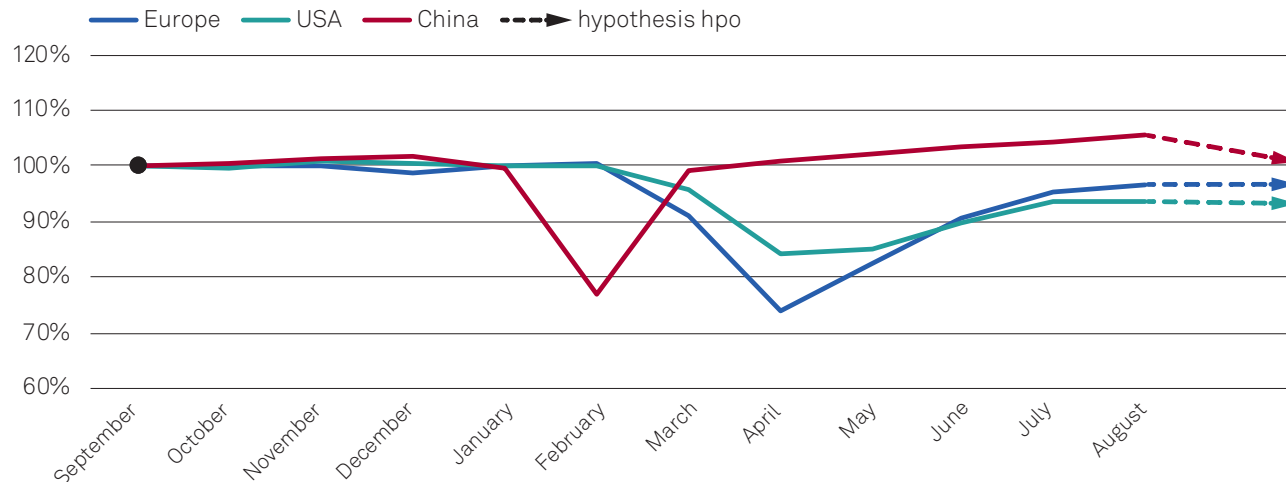


Figure 2: Development of industrial production from September 2019 to August 2020 in Europe, USA and China in comparison. More recent data is not yet available

Sources: OECD, Trading Economics; Illustration by hpo

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