What Can Investors Expect From GDP Reports

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Key Points

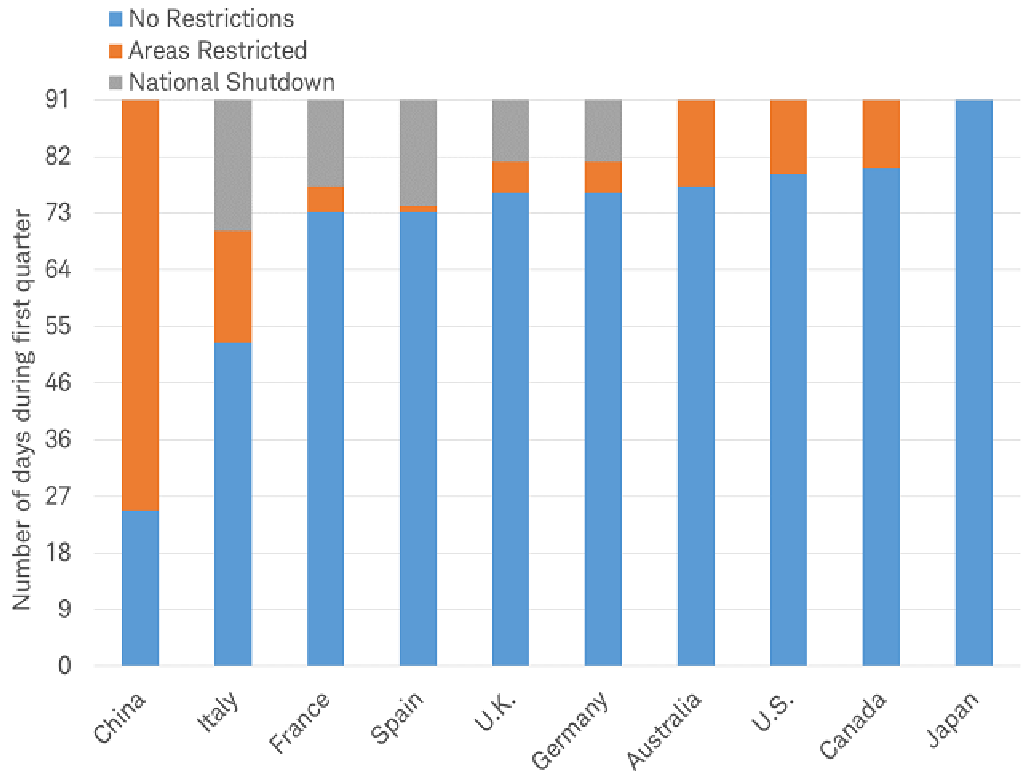
- The most widely used measure of economic activity, gross domestic product (GDP), will soon be released for the first quarter by different countries.
- First quarter GDP in most major countries may decline about 6%, due to business closures for about 15% of the quarter, assuming GDP fell 40% during the shutdown.
- Second quarter GDP reports may benefit from any return of economic activity as well as monetary and fiscal stimulus.

The most widely used measure of economic activity, gross domestic product (GDP), will soon be released for the first quarter by different countries. China reports at the end of this week with other major countries posting their numbers by months' end. What will these reports tell us about the world economy for the first quarter, when the economic freefall began? What do they foreshadow for the second quarter?

What to expect: first quarter GDP

The largest declines in GDP will likely be in those countries that faced business restrictions and shut down for a longer duration during the quarter. China's shutdowns were centered in the first quarter, beginning with the lunar new year on January 25 and not restarting until about two weeks after the peak in new COVID-19 cases (early February), though with some areas remaining restricted through the end of the quarter. As a result, we expect this week's first quarter GDP report for China to show a double-digit percentage decline from the fourth quarter of 2019. European countries may see a milder slowdown in the first quarter, since their shutdowns to contain the spread of the virus were enacted later in the first quarter, as you can see in the chart below.

Number of days economic activity was restricted during the first quarter



Source: Charles Schwab, various news sources as of 4/11/20.

To get a sense of how markets may react to the GDP data, we have made a very rough estimate of what the first quarter GDP impact may be, using it as a baseline for what to expect. All major components of GDP were likely affected negatively: consumer spending, business spending, trade, with some positive offsets from greater government expenditures. Although the GDP in these 10 major countries vary, the relative size of the components of GDP in these countries is somewhat consistent.

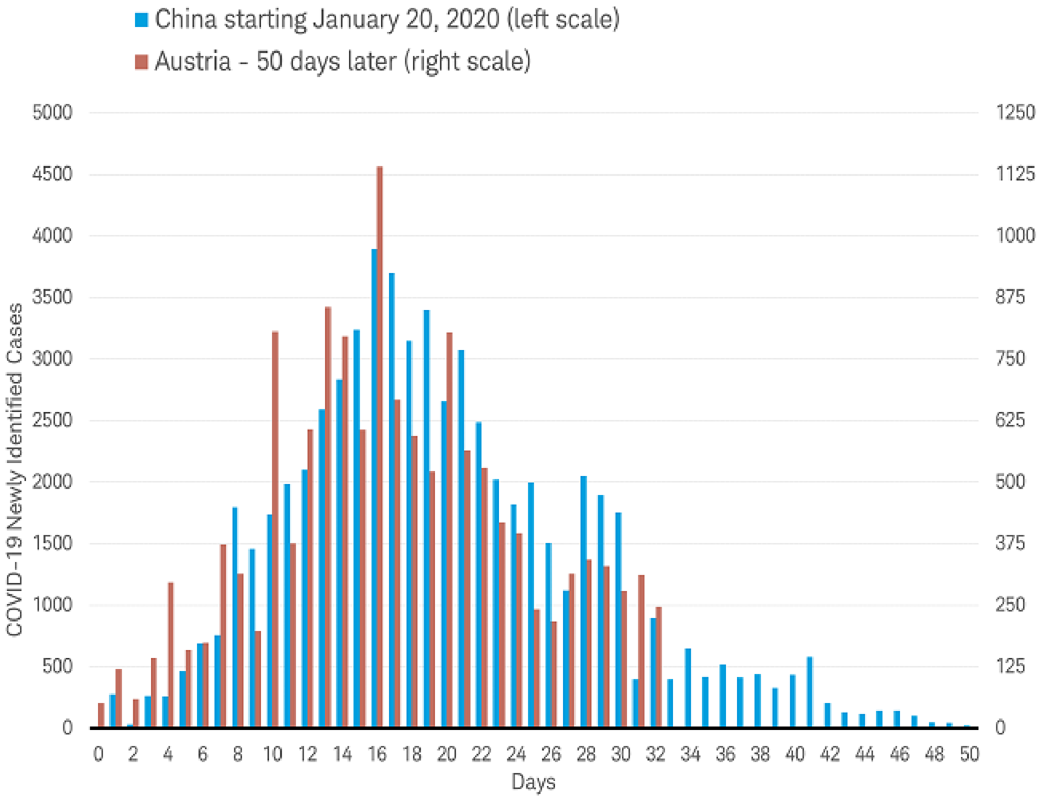
Looking at the duration of the restrictions and shutdown, we can assume that China's decline in GDP is likely to be several times that of many European countries in the first quarter. Most major countries in the chart above saw economic restrictions for 11 to 18 days of the 91 day quarter (or about 15% of the quarter). This may mean that if GDP falls a rough estimate of 40% during the shutdown, then the change in first quarter GDP might be an approximate decline of 6% (15% of 40 percentage points).

Although economic indicators continued to show growth through February for most of these economies, supply chain disruptions and other factors may have impacted economic growth prior to any restrictions and shutdowns—especially in countries that didn't enact restrictions like Japan or South Korea. Additionally, some countries report quarterly changes in GDP on an annualized basis (like the United States), which would make a 6% fall for the quarter be reported as a 24% crash.

Second quarter GDP

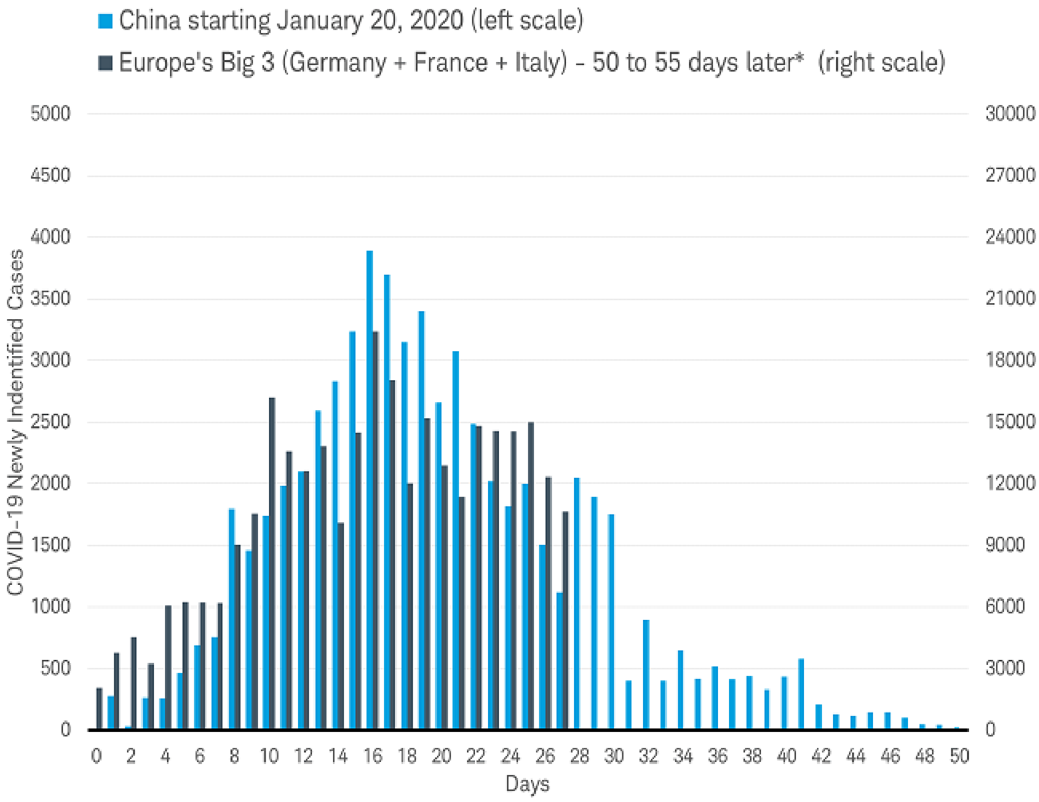
The shutdowns enacted late in first quarter may end early in the second quarter for some European countries restarting their economies this week. Staged re-openings begin on April 13 in Austria, April 15 in Denmark and April 20 in Norway. Others are set to fully open by the end of the month. Is this realistic? Maybe. Many European countries are now weeks past the peak in new COVID19 cases, following the path seen earlier in China and South Korea, as you can see in the charts below.

New COVID-19 cases in Austria following same path as those in China with 50 day lag



Source: Charles Schwab, World Health Organization as of 4/13/20.

New COVID-19 cases in major European countries appear to be past the peak



*France 55 days later due to slightly later national lockdown, others 50 days.
Source: Charles Schwab, World Health Organization as of 4/13/20.

Even if more of the 10 countries reopen over the course of the second quarter, the duration of their shutdown would be longer than during the first quarter, likely making the GDP declines larger for the second quarter. But, if many countries have reopened by quarter-end, investors' focus may be less on the depth of the downturn and more on the velocity of the economic rebound. For a number of these countries in the coming weeks, a potential return to work may lessen job losses and business bankruptcies. When combined with the massive amount of economic stimulus directed around the world, this has the potential to fuel a significant rebound in the second half of the year.

Measuring economic impact

GDP is the most commonly used measure of growth and recession. Reports for the first quarter may not fully reflect the economic free fall that began late in the first quarter for countries other than China. Second quarter GDP reports may benefit from any return of economic activity and the boost from fiscal and monetary stimulus. Because the economic freefall resulting from the shutdowns to contain the spread of COVID-19 straddled the first and second quarters, its possible neither first nor second quarter GDP reports will fully capture the sudden shock to the economy that the markets reacted to in February and March.