

Service sector recovery after the coronavirus shock - euro area outshines US for once

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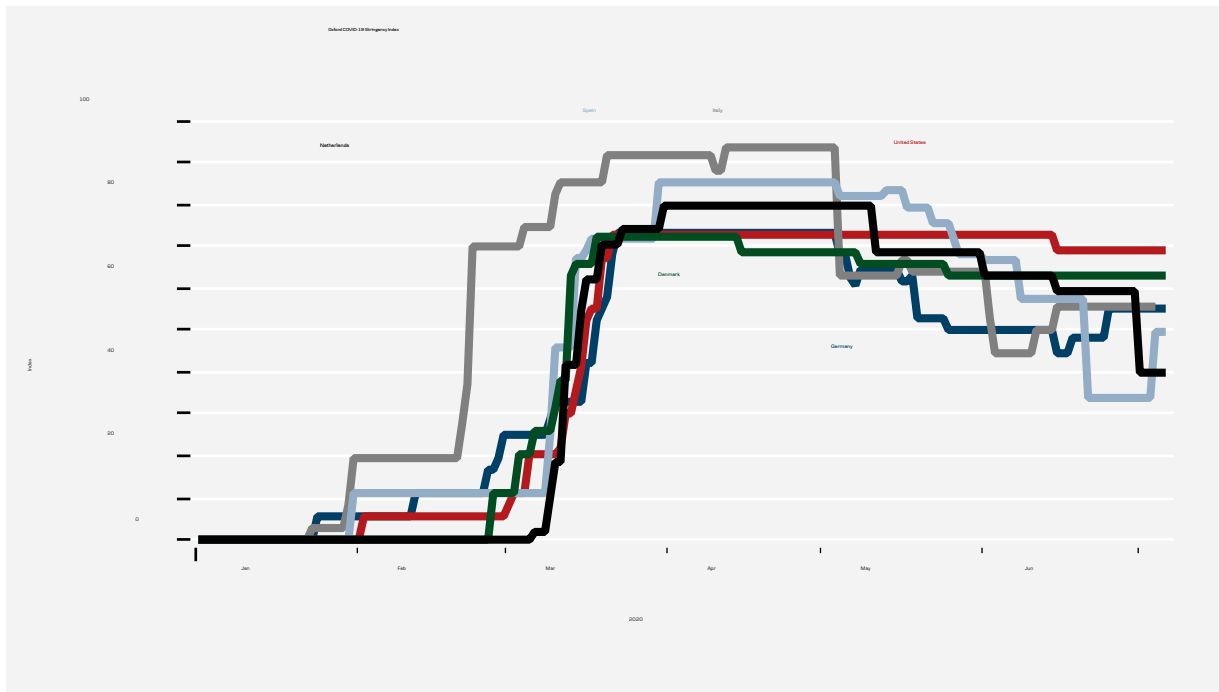
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Key points

- **The service sector is the backbone of the US and euro area economies** accounting for 80% and 74% of their GDP (see [here](#)) and hence its recovery is critical for the economic outlook.
- **The recovery in the US service sector has stalled lately amid resurgent virus cases in the populous southern and western states** (which account for two-thirds of the US economy). Many of these states are now implementing or contemplating new lockdown measures.
- Despite a much bigger initial hit amid earlier and more forceful lockdown measures, **European service sectors are now catching up to or even overtaking the US recovery**, as the virus situation is better under control and the fear factor less prevalent, allowing for more widespread economic re-opening.
- **The resurgent virus problems in the US present a material risk to the US recovery in the coming months (risk of a double dip)**. In contrast we think the euro area service sector recovery will continue barring any second virus waves during the European holiday season.

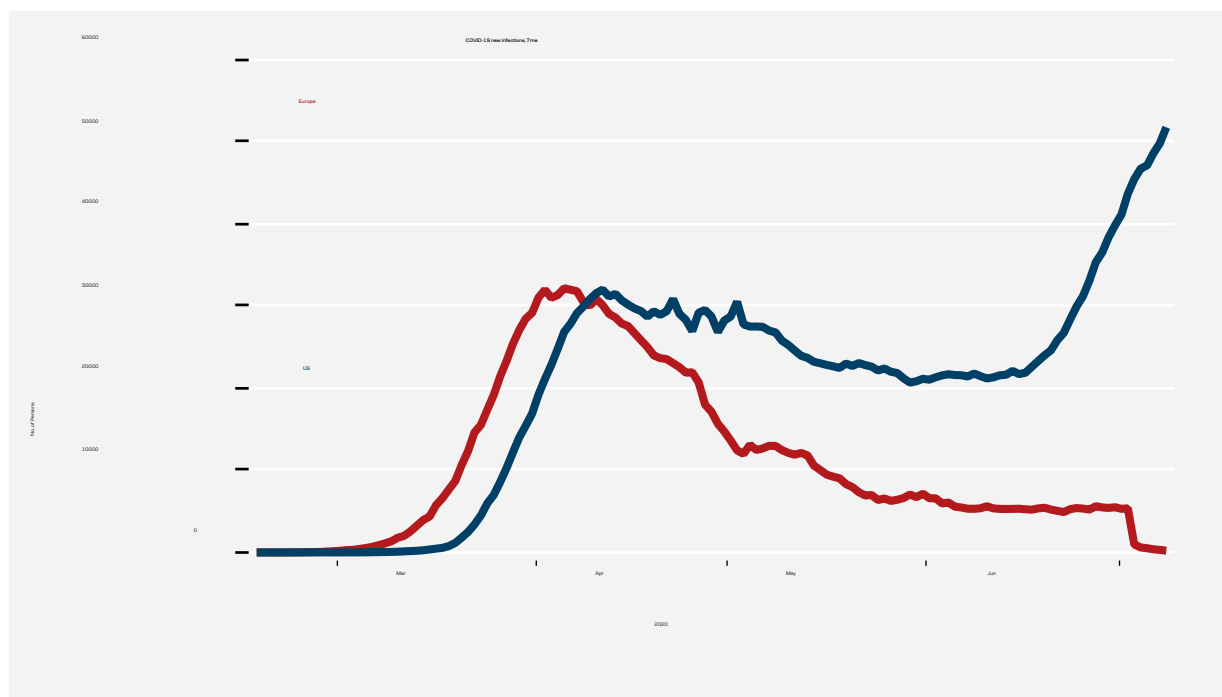
Europe took faster or more forceful action against COVID-19, allowing better control and faster re-opening

- According to the Oxford Stringency Index, **European countries took faster and more action than the US in addressing the corona virus through lockdowns.**
- **This has allowed European countries to open up their economies faster than the US,** although Spain and Germany have had to impose new targeted lockdowns in face of local virus outbreaks.
- **The worst hit US states Florida, Texas, Arizona and California are now in the process of imposing new lockdown measures to stem the spread of the virus.**



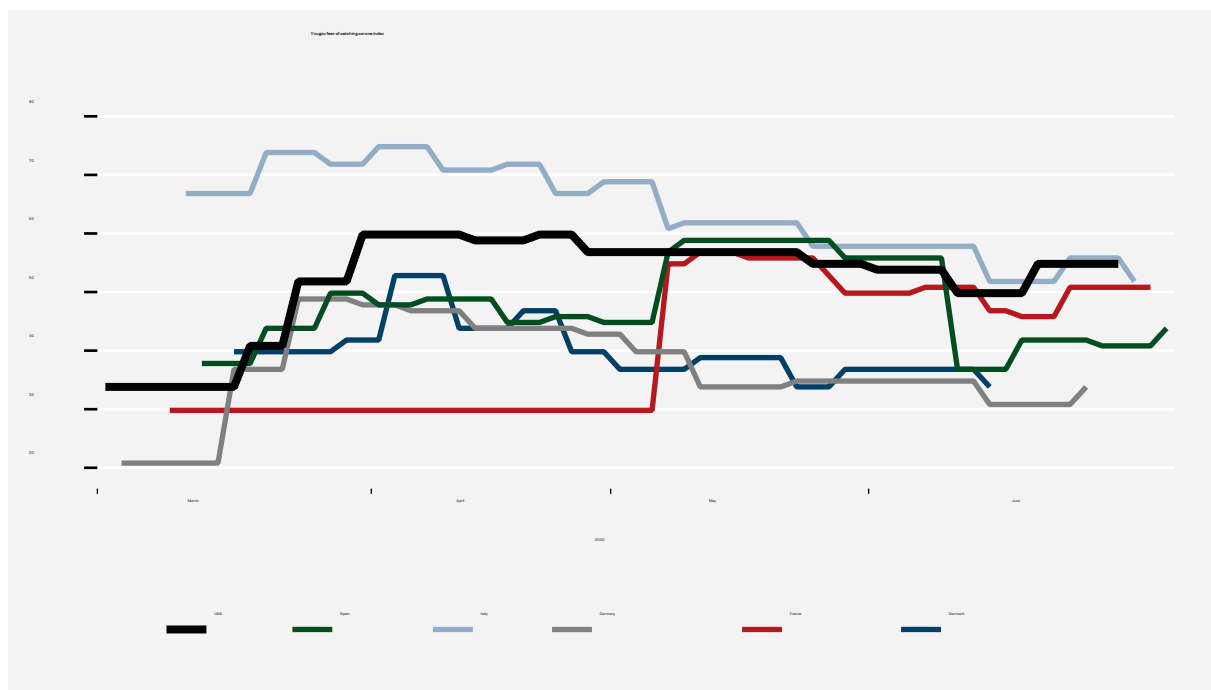
US opened up before really getting the virus under control and is now seeing a resurgence in virus cases

- **US is now struggling to contain the virus in southern and western states**, some of which are also the most populous (Florida, Texas and California).
- **Meanwhile, Europe has managed to contain the virus by a more cautious opening of its economies.** However, there is a risk of new virus problems on the continent as the countries have gone quite far in opening up and the travelling season starts (Spain had to tighten restrictions in one region this week) but so far the European virus situation appears to be under control, which bodes well for further recovery.



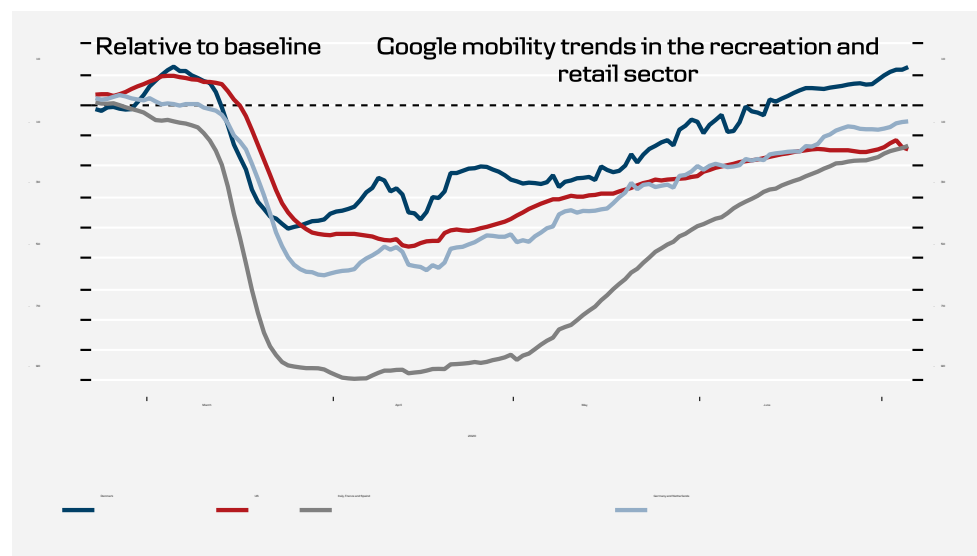
The coronavirus fear factor is still very present in the US

- The US has seen very little reduction in the fear of catching the virus, probably as renewed fear in the newly hit southern and western states outweighs waning fear in New York and other states where the virus is now contained.
- On the other hand, most European countries have seen a significant reduction in the coronavirus fear factor since the peak mid-March.



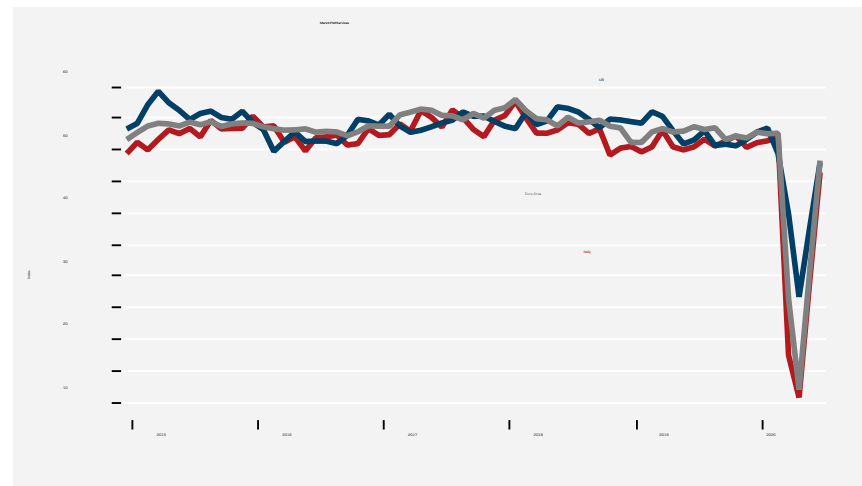
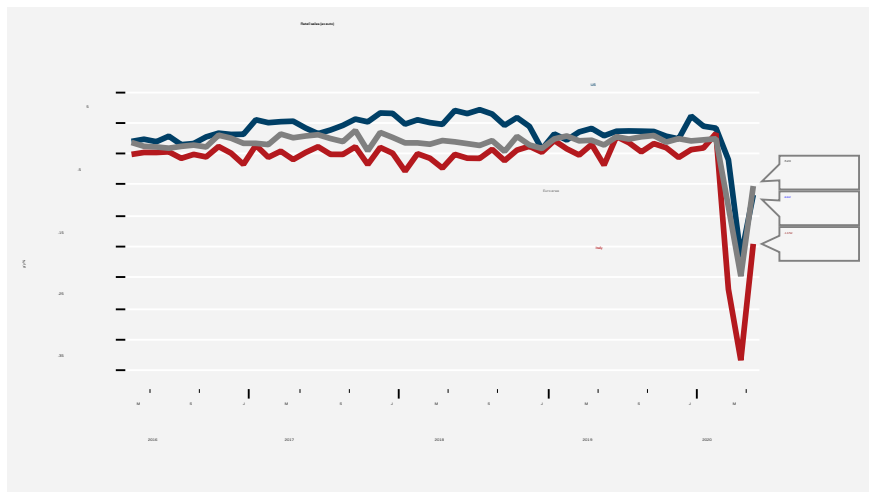
Euro area service sector recovery overtaking the US

- Initially, **service sector activity in the US was less hurt than in Europe as the US did not impose as widespread and comprehensive lockdowns**. However, the advantage is lost now as German and Dutch service sector activity has overtaken the US. Even in the worst hit euro area countries (France, Italy and Spain), activity relative to pre-crisis levels is now at par with the US after a much deeper retrenchment.
- What are the reasons for the relatively fast rebound in Europe? **The success in containing the virus in the society plays a crucial role, i.e. people are less afraid to go out and shop**. The grip on the virus has also allowed Europe to proceed with a broader opening of their economies than the US.
- Given the resurgence in some of the economically most important US states and possibility of renewed lockdowns, the improvement in the US has stalled since mid-June**. These factors may continue to weigh on or even drag down overall US activity over the coming weeks, while European countries could see continued gradual improvement barring the absence of a significant second coronavirus wave.



Harder data confirm the pick-up in service sector activity in Europe versus the US

- Less frequent data like service sector PMI and retail sales (ex auto) throughout June and May, respectively, confirm the picture of a deeper slump in hard hit European countries like Italy but a robust rebound, catching up with the US.



Source: Markit, US census bureau, Eurostat and Danske Bank

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