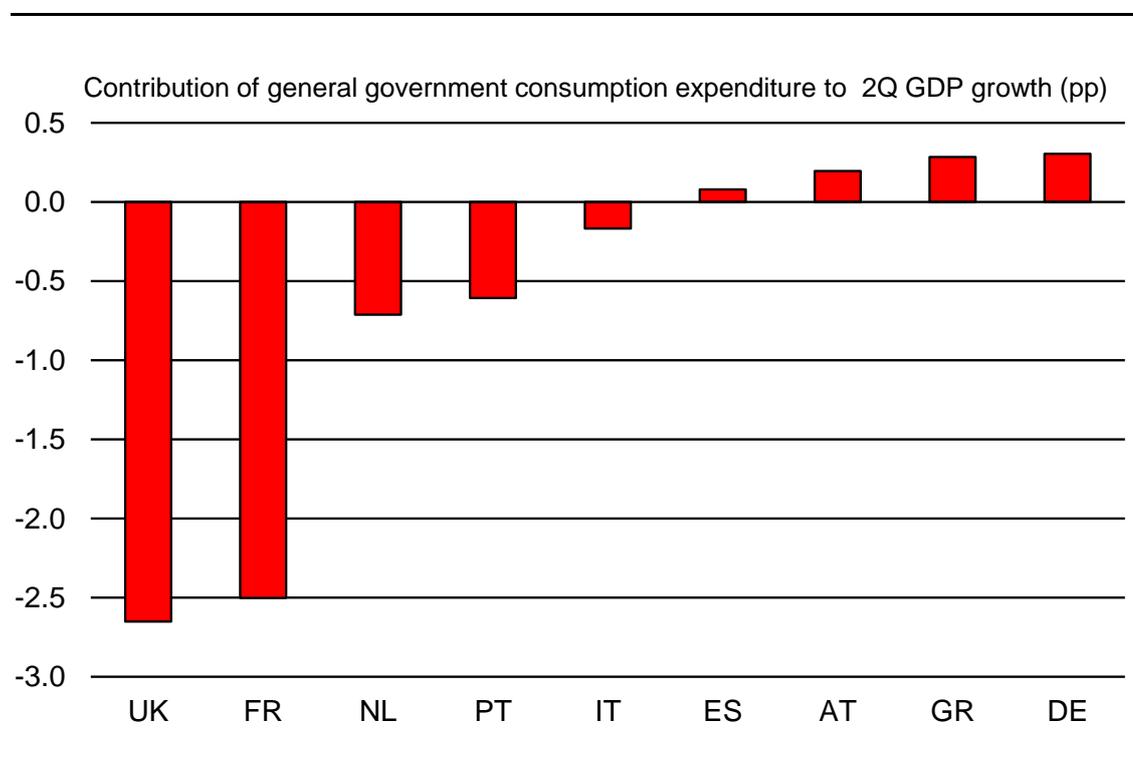


GDP data affected by measurement issues in public services during lockdown



Source: Eurostat, UniCredit Research

- Our *Chart of the Week* shows that public services, such as health and education, which are counted as government consumption expenditure in GDP statistics, had a heterogeneous effect on economic growth in Europe in the second quarter. They hit UK and France’s GDP growth particularly hard, weighed moderately on growth in the Netherlands and Portugal, while their contribution was broadly neutral in Italy and Spain and moderately positive in Germany, Austria and Greece. In our view, the stringency of the lockdown hardly explains these differences. For example, the contribution of public services to French and Spanish GDP was quite different although the restrictions on economic and social activity were broadly equally severe in the two countries and were also relaxed almost at the same time. Mixed capability of public administrations to work remotely is unlikely to have been a key factor either.
- Issues related to how the “output” of public services is measured should explain why the contribution of these services was so different across countries. This output is usually estimated by considering the cost of the inputs that are included in the production process, namely wages. This method offsets the lack of market prices for this type of services. However, in its guidelines, Eurostat acknowledged the risk that the provision of public services could be overestimated as wages would not be significantly affected by the pandemic while output likely would be. In order to comply with Eurostat’s guidelines, INSEE, the French national statistical office, explicitly assumed that 25% of non-hospital public workers did not work at all during the lockdown and reduced government consumption accordingly in its GDP statistics. In contrast, countries that showed relatively stable contributions of government consumption to 2Q GDP apparently assumed that the production of public services was little affected by the coronavirus outbreak.
- The most straightforward implication of these measurement issues is that they make it harder to compare 2Q GDP figures across countries, although this does not change the big picture much. Furthermore, countries that were hit hard by the contraction in government consumption expenditure in 2Q, such as the UK and France, should record a sizeable technical rebound in that component in 3Q, as life has been getting back to “normal”.

Tullia Bucco, Economist (UniCredit Bank, Milan)
+39 02 8862-0532
tullia.bucco@unicredit.eu

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UniCredit Research*

Macro Research



Erik F. Nielsen
Group Chief Economist
Global Head of CIB Research
+44 207 826-1765
erik.nielsen@unicredit.eu



Dr. Ingo Heimig
Head of Research Operations
& Regulatory Controls
+49 89 378-13952
ingo.heimig@unicredit.de

Head of Macro Research



Marco Valli
Head of Macro Research
Chief European Economist
+39 02 8862-0537
marco.valli@unicredit.eu

European Economics Research



Dr. Andreas Rees
Chief German Economist
+49 69 2717-2074
andreas.rees@unicredit.de



Dr. Loredana Federico
Chief Italian Economist
+39 02 8862-0534
loredanamaría.federico@unicredit.eu



Stefan Bruckbauer
Chief Austrian Economist
+43 50505-41951
stefan.bruckbauer@unicreditgroup.at



Tullia Bucco
Economist
+39 02 8862-0532
tullia.bucco@unicredit.eu



Edoardo Campanella
Economist
+39 02 8862-0522
edoardo.campanella@unicredit.eu



Walter Pudschedl
Economist
+43 50505-41957
walter.pudschedl@unicreditgroup.at



Chiara Silvestre
Economist
chiara.silvestre@unicredit.eu



Dr. Thomas Strobel
Economist
+49 89 378-13013
thomas.strobel@unicredit.de

International Economics Research



Daniel Vernazza, Ph.D.
Chief International Economist
+44 207 826-7805
daniel.vernazza@unicredit.eu

EEMEA Economics Research



Dan Bucsa
Chief CEE Economist
+44 207 826-7954
dan.bucsa@unicredit.eu



Gökçe Çelik
Senior CEE Economist
+44 207 826-6077
gokce.celik@unicredit.eu



Mauro Giorgio Marrano
Senior CEE Economist
+43 50505-82712
mauro.giorgiomarrano@unicredit.de



Artem Arkhipov
Head, Macroeconomic Analysis
and Research, Russia
+7 495 258-7258
artem.arkhipov@unicredit.ru



Hrvoje Dolenc
Chief Economist, Croatia
+385 1 6006-678
hrvoje.dolenc@unicreditgroup.zaba.hr



Dr. Ágnes Halász
Chief Economist, Head, Economics and
Strategic Analysis, Hungary
+36 1 301-1907
agnes.halasz@unicreditgroup.hu



Ľubomír Koršňák
Chief Economist, Slovakia
+421 2 4950 2427
lubomir.korsnak@unicreditgroup.sk



Anca Maria Negrescu
Senior Economist, Romania
+40 21 200-1377
anca.negrescu@unicredit.ro



Kristofor Pavlov
Chief Economist, Bulgaria
+359 2 923-2192
kristofor.pavlov@unicreditgroup.bg



Pavel Sobišek
Chief Economist, Czech Republic
+420 955 960-716
pavel.sobisek@unicreditgroup.cz

UniCredit Research, Corporate & Investment Banking, UniCredit Bank AG, Am Eisbach 4, D-80538 Munich, globalresearch@unicredit.de
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