Eurozone: Historic decline in PMI

A grim PMI dropping from 51.6 to 31.4 confirms the sharp downturn in the eurozone economy, but still does not reveal the depth of the coronavirus economic fallout

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31.4 PMI in March

The PMI plummeted in March, of course it did. Only a foolish optimist would have expected otherwise during the current supply and demand shock that the economy is facing. The survey likely still understates March activity as more restrictive measures came into effect after the survey was conducted. It also doesn't tell us much about the depth of the decline, because the PMI is a diffusion index which measures the amount of companies facing a deterioration in activity, not the depth of it.

Nevertheless, the PMI paints a picture of an economy that has ground to a halt. New business inflows declined at a record rate in March for both goods and services and companies indicated the largest job cuts since 2009. The decline in the service sector from 52.6 to 28.4 wipes out the narrative of a service sector holding up the eurozone economy, which we have been telling over the past year or so. Demand has plummeted on the back of the Covid-19 outbreak, with notable hits to travel, tourism and restaurants, according to the survey.

The manufacturing PMI didn't fall as much as the services PMI, but still saw a marked deepening of the contraction. This was partly because manufacturing output was already contracting coming into March and partly because longer supplier delivery times contribute positively to the index. Normally this is a sign of economic improvement, now it signals large supply chain disruptions.

Yes, these numbers give a sense of the very sharp downturn we're undergoing, but it's still anyone's guess how deep this actually is. The question is how much policy makers can soften the blow. Perhaps most relevant is how much unemployment and bankruptcies can be avoided to determine the possible steepness of a recovery. A lot has been done quite quickly including historic action from the European Commission and ECB, but the key question now is how long restrictive measures remain in place to get a sense of how fast the economy can bounce back.

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