Eurozone: It's a 'v'...at least for now

The latest Eurozone PMIs add more colour to how two months of re-opening economies look like: a strong rebound but still in contractionary territory

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Reopenings have been the main theme across the Eurozone. Even though currently some new local outbreaks underline that the virus has not disappeared and that risk of a second wave is still real, nevertheless, easing lockdowns has also revived the economy.

Eurozone PMI increased once again in June and came in at 47.5, from 31.9 in May. Services PMI surged to 47.3 from 30.5 in May, while the manufacturing PMI increase was somewhat more muted, reflecting ongoing weakness in global demand (46.9, from 39.4).

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To some extent, this is obviously a technical rebound. The fact that PMIs are still in contractionary territory illustrates the two messages: a sense of relief that a sharp rebound is possible but at the same time caution against too much optimism.

Looking at the French and German numbers, it came as a surprise that the French PMI returned into growth territory in June, with both the PMI manufacturing and services back above the 50 thresholds. German PMIs have not yet made it back into the expansionary territory yet but also staged a sharp rebound, both in the manufacturing and services sector.

The sharp rebound in activity in June is also reflected in the Bundesbank's new weekly GDP indicator, which yesterday pointed to a contraction of the German economy by some 6.7% QoQ for the 13 weeks up to 21 June compared with the preceding 13 weeks.

> Today's PMI numbers provide further evidence of what initially looks like a textbook v-shaped recovery. As much as more than a month of (full) lockdowns had sent economies into a standstill, the gradual reopenings of the last two months have led to a sharp rebound in activity. However, it is anything but certain that the eurozone economy can maintain this momentum.
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> Higher unemployment, companies going bust, as well as plans to further cut back on staff and falling orders, suggest that the current 'v' -shaped recovery could quickly run out of steam.

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