

Snap | 23 April 2020

Eurozone PMI falls to another historic low in April

As expected, eurozone April PMI fell even further to the dramatic reading of 13.5, confirming the deep contraction. The survey really doesn't tell us anything more than what we know already from looking out of our windows these days



Source: Shutterstock

It's no surprise that April PMI readings are worse than March as the latest survey was done before the most restrictive lockdowns came into place. What does the survey really tell us that we don't already know from looking out the window and seeing empty streets and closed shops? Not that much actually.

It tells us that virtually no business is doing any better than it was doing a month ago as the PMI is a diffusion index, which means that negative answers indicate that things are worse than last month. It does not indicate how much worse actually, which just means that we still don't really have a good grasp of the depth of this crisis.

Some interesting flavour

Businesses indicate that layoffs are happening at a record pace in April, indicating that short-time work schemes cannot absorb all of the labour market shock and that unemployment is likely to rise substantially in the short run.

What's interesting is that services continue to be harder hit than manufacturing, but the latter has also seen its output index decline to a reading below 20.

And for the ECB, what's worth mentioning is that prices are dropping at the fastest pace in more than a decade as businesses offer discounts to limit sales declines. There is no doubt that this crisis is deflationary in the short-run, also shown by the oil price developments this week.

As lockdown measures across the eurozone are gradually lifted with many countries taking first small steps late April and early May, the question is how activity will pick up in the coming weeks. No one expects a quick bounce-back of activity, but some recovery from April lows would make sense as some businesses are allowed to cautiously reopen.

Expect May PMI to jump as some businesses experience improvements from the April low – as it happened in China in March after the February lockdown – but expecting a jump in economic output in May would be too soon given the gradual easing of lockdown measures that have now been pencilled in by European governments.

Author

Bert Colijn

Chief Economist, Netherlands

bert.colijn@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10

Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.