

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.

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