Eurozone PMIs: Here we go again

Falling Eurozone PMIs confirm the second downturn for the eurozone economy. However, the silver lining is that business confidence is improving on vaccine developments which should bode well for 2021 recovery

Source: Shutterstock

No need to be shocked with the eurozone purchasing managers index falling from 50 to 45.1.

When the main eurozone economies closed restaurants and bars and France, Belgium and Ireland closed non-essential retail, it was clear the economy would start to shrink again in 4Q. The October data surveys were already weakening, but the November data is likely to fully capture the current partial lockdown the eurozone is going through.

As the current measures mainly affect the service sector, it isn't surprising that services PMI fell from 46.9 to 41.3

While the second lockdown has brought new daily Covid-19 cases down in most eurozone economies, there is a significant chance of continuing these measures as the second wave isn't under control yet. That means that some form of lockdown in December will continue to depress economic output before things actually start getting better.

As the current measures mainly affect the service sector, it isn't surprising that services PMI fell from 46.9 to 41.3. Concerns about second-round effects in services are increasing as businesses indicate that employment fell at an accelerated rate, increasing the risk of a dampened recovery for household consumption over the course of 2021.

The good news is that the fall was cushioned by a strong manufacturing sector. Buoyed by Germany, the manufacturing PMI merely indicated a slowing of output growth, but not contraction. Export sales continued to boost manufacturing growth in November in Germany, indicating that the milder second wave outside of the eurozone is helping exporters to recover ground.

Also positive is that the business outlook has been improving on the back of encouraging vaccine developments, and this could prove to be the first key step towards recovery in investment.

Still, as the second part of the w-shape has just started, a long and uncertain road to recovery remains ahead.

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