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Eurozone PMI shows underlying strength and a booming manufacturing sector

The eurozone economy is set to be fast out of the gates once economies finally ease restrictive measures. Today's PMI shows a booming manufacturing sector only held back by supply constraints and a service sector optimistic about reopenings drawing closer. All this despite the widespread coronavirus lockdowns

A worker at the Airbus Helicopters factory in France

The eurozone economy looks like it's on the brink of a startling recovery. Only months ago it seemed to be rapidly turning into the weak link among advanced markets, being slow out the gates with vaccinations, seeing lockdowns extended and having weaker fiscal support. True, first-quarter GDP growth figures are set to still show declines, but the April PMI adds to a lot of encouraging underlying numbers.

The composite PMI jumped from 53.2 to 53.7, indicating that month-on-month improvements in output are happening. While lockdowns still weigh massively on service sector performance, small easings of restrictions did cause the service sector PMI to increase from 49.6 to 50.3 this month, the first reading indicating improving output since August.

The only thing holding back manufacturing for the moment is the ability to produce

While industrial production has shown some weakness in recent months due to input shortages, the PMI confirms that the only thing holding back manufacturing for the moment is the ability to produce. Demand continues to soar, partly driven by buoyant export orders. So while some weak production readings only thinly veil the manufacturing boom that's currently occurring setting up for more strength in the second quarter.

Consumer confidence already showed a surprising improvement this month, which indicates that domestic demand is set to rebound once the economy reopens. Thanks to the large inflow of vaccinations this quarter, that prospect is closer than some may think. This is reflected in service sector optimism seen in the PMI today, which includes some of the hardest-hit sectors from lockdowns.

All in all, the picture is improving for the eurozone economy. While GDP figures for Q1 are likely to seal the deal on the second technical recession during this pandemic for the eurozone, it does look more and more like a strong rebound is in the making.

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