Snap | 21 May 2020

Eurozone PMI jumps in May but remains deep in contraction territory

The increase from 13.6 to 30.5 is in line with the cautious easing of lockdowns but also buries any final hopes of a v-shaped recovery

Source: Shutterstock

The Eurozone PMI increased improved significantly in May but remained below 50 which signals contraction in activity.

This means that fewer companies indicated declining output, but that the contraction continued nevertheless. The increase in PMI was even somewhat better than expected, but at the same time it is a smaller bounce back than what the Chinese economy experienced in March yet it confirms that a quick recovery of output is not what we're seeing. People hoping for a v-shaped recovery should go back to the alphabet and pick another letter.

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What we can take from this survey is that the reopening of businesses has indeed caused more companies to record output growth again, but that the majority of businesses are still experiencing contraction or no change from a very low base. The restrictions that have been lifted so far across Europe have been modest still, but have caused daily activity at retail and grocery shops and workplaces to recover a fair bit already according to Google's mobility data, in line with other improving high-frequency data.

That paints a somewhat more positive picture than the PMI, leading us to believe that the bottom has probably already been reached but that growth from April lows has been very modest so far. Of the underlying data to the PMI survey, the pace of job cuts remains the most concerning.

There was hardly any easing in the pace of cutting employment from April, which was a historical low already. According to the survey, businesses indicated that short-time work schemes had helped to keep people at work, but the data does suggest that unemployment is rising significantly across the Eurozone at the moment. This doesn't bode well for a fast recovery either as demand will be hit by the lower disposable household income.

It's just more evidence that the recovery of the eurozone economy to pre-corona crisis levels will take a lot of time.

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