

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.

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

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.

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 <http://www.ing.com>.