

Snap | 21 February 2020

## Eurozone PMI signals defiance in face of coronavirus

Despite early signs of the impact from the coronavirus, the eurozone PMI improved in February. Still, Covid-19 risks continue to be the big unknown for an already frail recovery in growth



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The composite PMI improved from 51.3 to 51.6 in February, which is a six-month high. Both services and manufacturing saw improvements, with the manufacturing PMI now at 48.4, indicating that the downturn is bottoming out.

Green shoots in manufacturing were especially apparent in Germany, the epicentre of the manufacturing downturn. In Germany, but also elsewhere in the eurozone, the decline in new orders and output has slowed, meaning that a bottoming out is still in the making. That said, there are early signs that the coronavirus is starting to have an effect, with businesses reporting longer supply delivery times. Supply chains are suffering from the prevention measures in China and this is likely to continue into March as these measures remain in place and eurozone businesses experience lags. That means that while green shoots are apparent, downside risks remain key to the outlook.

Service sector output continued to grow at a modest pace, but new business in tourism and some

service sectors with Chinese supply chain exposure were also impacted in part by the coronavirus. Still, as the activity index actually increased, there is not too much of an impact to be reported as yet and this means that resilience in the sector remains strong.

Inflation pressures, meanwhile, softened again in February with the discrepancy between goods and services prices likely continuing, as price pressures in the service sector continue. For the European Central Bank, this means that the outlook is quite challenging. If the impact from Covid-19 is ultimately quite mild, green shoots in manufacturing remain the most relevant story and a growth recovery can be expected over the course of the year with soft price pressures- a good outcome for an ECB on autopilot. Downside risks stemming from the virus will be closely watched though as March could see the economic impact of supply chain disruptions increase.

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