

## Eurozone PMI slows markedly in August

The composite PMI declined from 54.9 to 51.6 in August, indicating that the fast start to the recovery is slowing over the summer months. Positive effects from reopening economies are fading out in the service sector, confirming that the recovery will not be V-shaped.



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The mechanical recovery from the lockdown period is getting closer to an end as the PMI reports a slowdown in the growth pace. As most lockdowns were significantly eased at the end of April and broadening in May, it was to be expected that this would happen at some time over the summer. While still corresponding to significant growth, the PMIs point to a weakening in the recovery driven by the service sector, as manufacturing output growth accelerated further in August.

The drop in the services PMI from 54.7 to 50.1 was much larger than expected. This reading corresponds to a stalled recovery in services output, showing that the economic recovery is still clouded by uncertainty. That was also reflected in the employment component of the PMI as businesses across sectors indicate that they are still laying off workers. This indicates that the so far muted increase in unemployment can be expected to continue for quite some time. The bright spot in today's numbers comes from the manufacturing sector. Initially lagging services in the post-lockdown recovery, it is currently picking up steam. The output index increased from 55.3 to

55.7 and new orders saw strong increases.

Of course 3Q GDP growth numbers will be very positive as it measures against an artificially low base of a locked down economy. Far more relevant will be the level of activity that will be reported. As reopening effects are becoming smaller over the course of the quarter, we will already get a decent idea of the gap between economic activity now and pre-virus. This will likely show that a V-shaped recovery is not in the making despite very strong quarter-on-quarter growth figures.

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