

Snap | 23 September 2020

## Eurozone: PMI weakness is a wake-up call

The recovery of activity stalled in September according to the PMI as services dropped below 50 while manufacturing growth accelerates



Source: Shutterstock

The PMI has not done what it says on the ticket in the post lockdown period and therefore it is hard to interpret this reading of 50.1. Still, alarm bells should be going off about the pace of the recovery at the moment as the number of new Covid-19 cases has been flaring up again. While new measures against the virus have remained local and mild compared to March, it looks as though the economy is already feeling the effects of the increase in cases. This confirms that human behaviour related to the fear of the virus is an important factor determining economic activity, which is relevant for activity in the months ahead.

The stalling recovery was mainly due to the drop in services activity. The services PMI fell from 50.5 to 47.6 and businesses indicated that the resurgence of new coronavirus cases were an important driver of the weakness in activity.

The manufacturing sector showed encouraging signs of recovery in this otherwise worrying PMI release. The increase from 55.6 to 56.8 in the Manufacturing Output PMI indicates that the rebound effects remain ongoing in industry, which means that industrial production can be expected to close more of the gap in output with the pre-corona period at the end of 3Q as well.

All in all, today's PMI indicates a slowing in the pace of economic recovery at best and a stalled recovery at worst. We already knew that the pace of recovery would fall as the reopening effects fade out of the numbers, so the first conclusion wouldn't be shocking. The impact of second wave related weakness does lead us to think that the recovery is under more pressure than previously thought. For governments and European Central Bank, this will be a wake-up call, if they needed one.

## Author

### Bert Colijn

Chief Economist, Netherlands

[bert.colijn@ing.com](mailto: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>.