

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.

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