

Eurozone: second wave pushes PMI into contraction territory

The eurozone PMI confirms that the second wave of the coronavirus is weighing more and more on the economy. A double dip in the fourth quarter is becoming more likely at this rate



Source: Shutterstock

The eurozone PMI dropped from 50.4 to 49.4 in October, a reading that corresponds with contraction in the private sector. The decline was fully driven by the service sector, as the services PMI declined from 48 to 46.2, while industrial output accelerated, according to the manufacturing PMI. Optimism about the outlook deteriorated, as did new inflows of business. Germany performed much better than France and the “rest of the eurozone” (no further breakouts are provided thus far), which shows that the countries with a faster spread of the virus are once again suffering more economically.

The difference between services and manufacturing performance at the moment makes sense. The most restrictive measures taken so far have hit the recreational sector more than other parts of the economy. That impacts the service sector disproportionately. The same holds true for the change in behaviour among the population, as services require more in person interaction and rely more on personal consumption.

From here on, the path for the economy is highly uncertain. With cases continuing to rise at a worrying pace, more restrictive measures in the eurozone definitely cannot be ruled out. Today's PMI confirms that after a stellar third quarter GDP figure, we could be in for the dreaded double dip.

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