

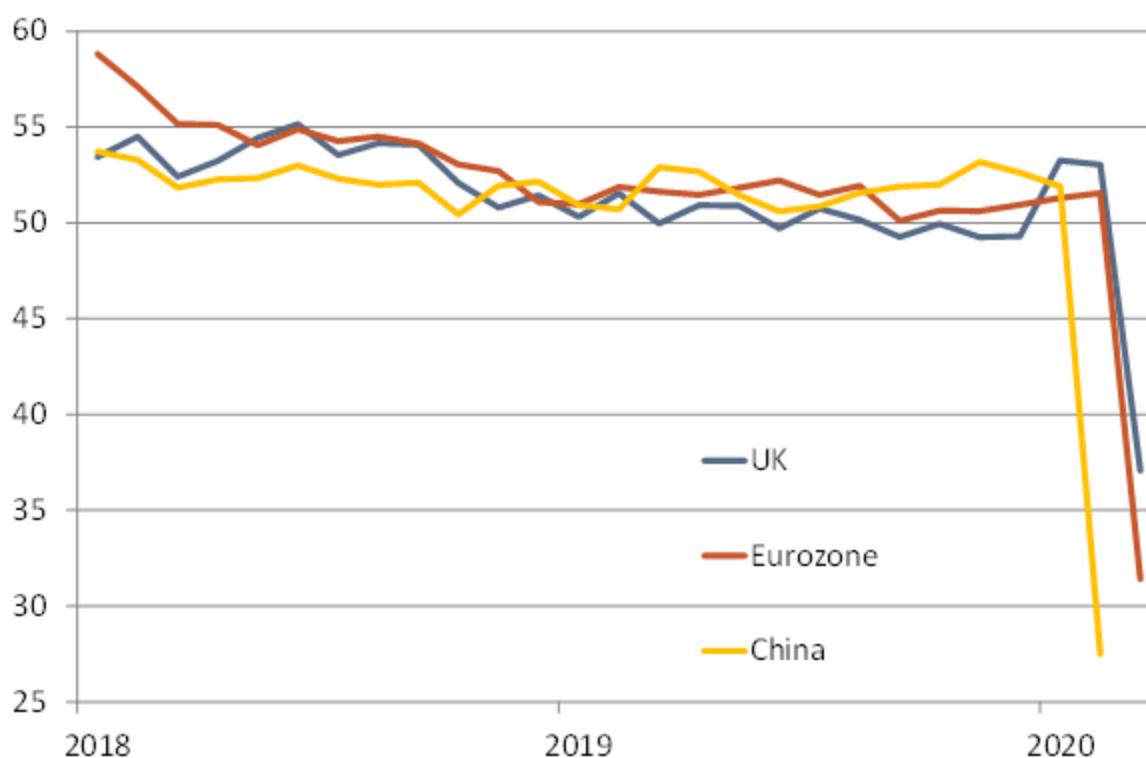


Holger Schmieding, Chief Economist | Holger.schmieding@berenberg.com | +44 20 3207 7889

## ECHOES FROM CHINA - EUROPEAN PMIS

### Berenberg Macro Flash

Chart 1: Like China: Eurozone and UK composite purchasing managers' indices (PMIs)



50=no change. Source: Caixin, Markit

**First, a note of caution:** Financial markets are often moved by monthly economic data that come in better or worse than anticipated. However, such data are at best a clumsy gauge of underlying activity. In exceptional times such as now when the depth and length of a recession depend more on the course of a medical emergency rather than usual economic dynamics, this holds even more than usual. As a result, high-frequency data releases and how they compare to a consensus 'best guess' provides fewer insights than usual.

**We can draw three key conclusions** from the March PMI data for Europe:

- 1) the short-term hit to GDP from the coronavirus recession will most likely be more severe than the initial phase of the financial crisis;
- 2) the impact is broad-based across industries and countries; and
- 3) services are likely to be more affected than industry by the lockdowns.

As the medical emergency evolves, the data do not provide any reliable insight into the precise scale of the recession. As ever more countries are imposing containment measures, the data in



the coming weeks – and hence the monthly results for April – will likely get worse first before they may get better again once lockdowns are eased.

**What matters most:** For financial markets and the long run outlook for equity valuations, what matters is whether policymakers can avoid a financial crisis on top of the inevitable coronavirus recession. We see ever more evidence from across the world that policymakers’ “whatever it takes/whatever works” approach will see to it that we avoid a repeat of the financial crisis. Fundamentally, this is a much more important message than whether, say, a March PMI is above/below consensus in such unusual times.

**Biggest ever PMI drops to the lowest ever values:** In the Eurozone, the PMI composite index collapsed from 51.6 in February to 31.4. In the UK, the index plummeted from 53.0 to 37.1. The drops in the PMI composite indices were led by the indices for domestically-oriented services which hit all-time lows. The closures are hurting retailers, except for supermarkets, more than factories. The headline PMI manufacturing subindices plummeted by significantly less than the output-only (composite, services and manufacturing) indices as it incorporates components beyond output of which most have probably plunged by less than output. Also, as in February, supply-side disruptions artificially boosted the headline manufacturing index as delivery times and stocks of purchases moved in opposite direction to what we would usually expect during a downturn. By country, the early evidence suggests that Germany and the UK could be doing a bit less bad than France. We see two potential reasons for that: 1) for most of March, the lockdown has been less severe; and 2) the fiscal response so far has been bigger.

**Echoes from China:** The drops in the March PMIs across Europe almost match those for China in February when the Caixin PMI composite index plummeted from 51.9 to 27.5. In terms of the economic impact, Europe is probably some 6 weeks behind China. While the trends will not be exactly the same, partly because the measures taken in Europe to contain the virus are somewhat less draconian, developments in China provide a glimpse into the possible future. Measures of daily activity in China – barring the worst hit Wuhan region – continue to show a gradual improvement as containment measures are lifted. For now Europe, remains in the acceleration phase of the pandemic. However, the Chinese example supports the hope that the containment measures can slow down the spread of the virus in April and May in Europe. If so, this could pave the way for a gradual easing of many restrictions starting at some time in May or in June. With luck, the inflection point in the coronavirus recession for Europe could be in late Q2. But it is far too early to assess this with any confidence.



## MACRO NEWS

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Joh. Berenberg, Gossler & Co. KG  
60 Threadneedle Street  
London EC2R 8HP  
Phone +44 20 3207 7889  
[www.berenberg.com](http://www.berenberg.com)  
[holger.schmieding@berenberg.com](mailto:holger.schmieding@berenberg.com)