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EUROPEAN UPDATE: CONSUMER CONFIDENCE, PMIS

Berenberg Macro Flash

Pandemic update: The virus continues to spread rapidly on both sides of the Atlantic. In Europe, the total number of confirmed infections has risen by 29% within two days to 193k as of the morning of 24 March, according to the Johns Hopkins University. From a lower level, the US is following Europe with a 74% surge to more than 46k during this period.

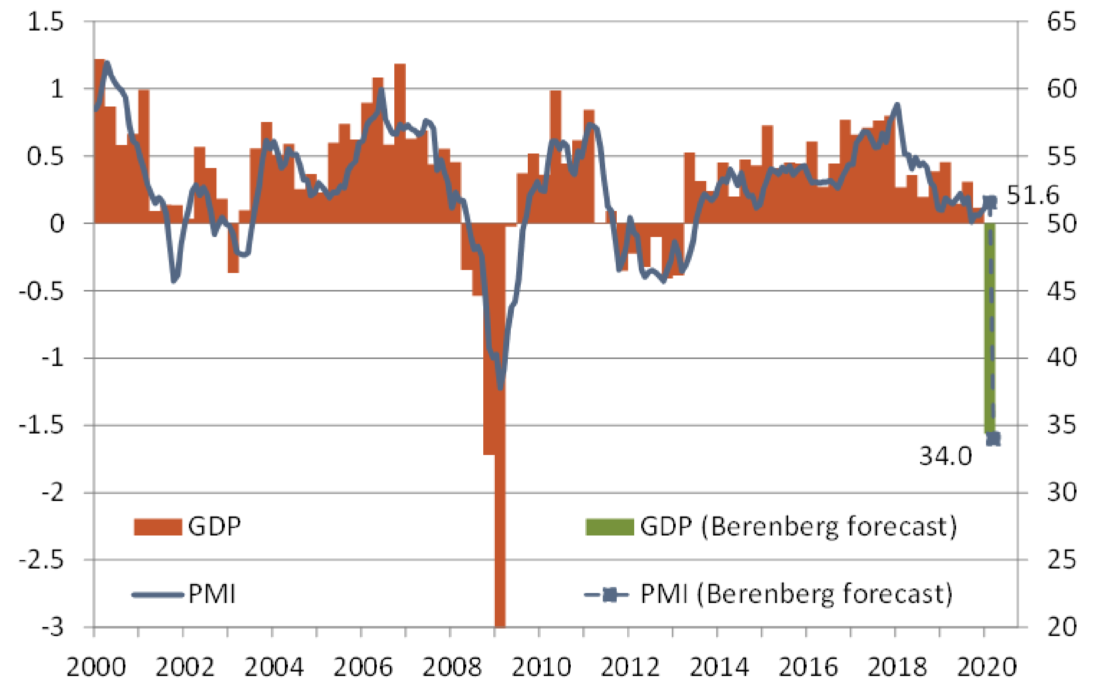
Unprecedented response: Policy makers are scaling up their „whatever it takes" responses. That EU finance ministers agreed yesterday evening to activate the "general escape clause" of the EU fiscal framework for the first time ever paves the way for further significant spending by national governments. The recent Fed initiatives are more aggressive than the actions in the 2008/2009 financial crisis. The same holds for the German fiscal programme, roughly along the lines in our Sunday report on the EU/German policy response. The next major announcement in Europe may come **on Thursday when EU leaders will hold a summit** by video conference to discuss ideas to step up the EU/Eurozone fiscal response by creating a new facility for the European Stability Mechanism or by issuing joint corona bonds (see our case for corona bonds).

Biggest short-term contraction in peacetime: For the months March to May, economic data will probably show a record contraction. The unprecedented economic policy response can contain the risk of a financial crisis and support a rebound lateron. But it cannot prevent the plunge in activity while lockdowns last.

Significant hit to consumer confidence: Consumer confidence in the EU fell more sharply in March than ever before according to preliminary release of the European Commission's index yesterday, down from -5.9 in February to -10.4. If the index would not include backward-looking components such as households' own financial situation over the previous 12 months, the plunge would probably have been even bigger. Going forward, we expect further declines until lock-downs are eased.

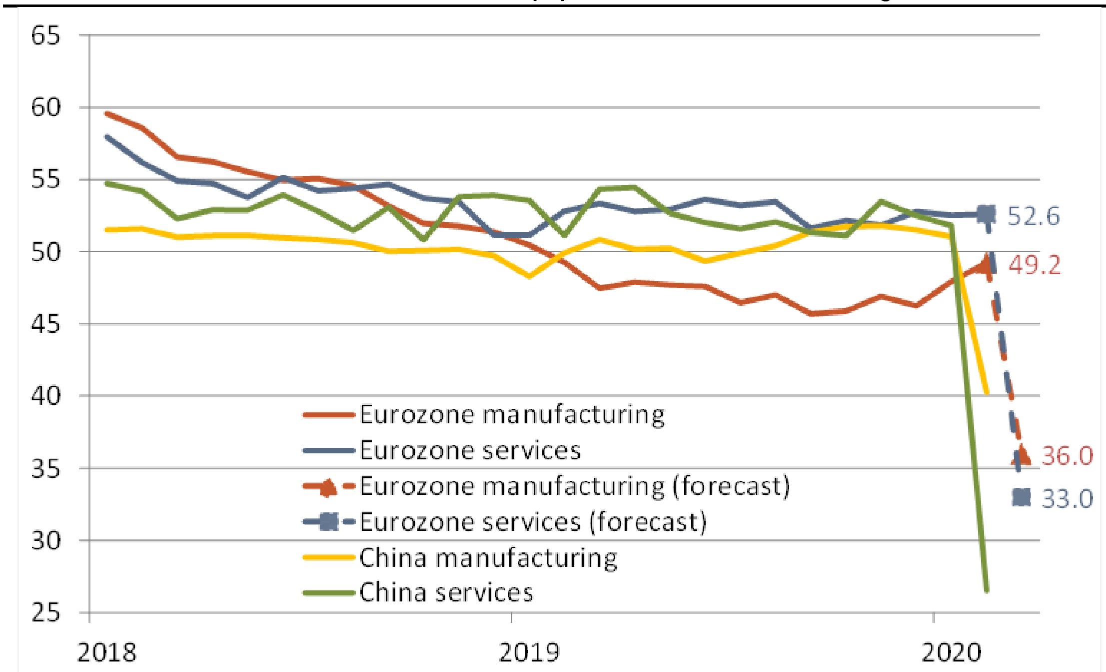
Expect record slump in European PMIs (see charts 1 and 2): We look for the composite PMI to collapse from 51.6 in February to 34 in March in the Eurozone and from 53.0 to 27 in the UK in the preliminary releases this morning. Our calls are below consensus. The headline PMI manufacturing subindices could plummet a little less than the services and composite indices. Unlike the other two indices, the headline manufacturing index incorporates components beyond output which may have plunged by less than output. In addition, many factories have stayed open so far whereas parts of the service sector such as non-food have been more heavily affected by lock-downs. The quarterly average of the Eurozone PMI composite index has a good contemporary match with qoq growth in real Eurozone GDP. But as during the great financial crisis, PMIs at around 35 or even 30 may still underestimate the short-term hit to GDP.

Chart 1: Eurozone PMI composite versus GDP (qoq, in %) – actual and Berenberg forecasts



PMI composite (50=no change), right-hand-scale, GDP growth qoq in %, left-hand-scale. Source: Markit, Eurostat

Chart 2: Eurozone PMIs versus Chinese PMIs (qoq, in %) – actual and Berenberg forecasts



PMI composite (50=no change), right-hand-scale, GDP growth qoq in %, left-hand-scale. Source: Caixin, Markit

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