Florian Hense, Economist | florian.hense@berenberg.com | +44 20 3207 7859

APRIL EUROPEAN PMIS: THIS IS PROBABLY THE WORST OF IT

Berenberg Macro Flash

The bottom of the downturn? The April PMI data published today for Europe are unprecedentedly bad. The plunge follows the record drops in March for many countries already. The harsh lockdown measures to slow the spread of Covid-19 have crippled economic activity across the continent.

As PMI data provide only a very rough estimate of economic trends, we make four general observations:

1) Consistent with our and the consensus view, the immediate economic shock is much deeper than the initial hit from the financial crisis. The total drop in economic activity in March and April compared to February is probably in the range of 20-30%.
2) While the impact is broad-based across countries and sectors, the evidence so far suggests the ongoing collapse in services is deeper than in manufacturing. The lockdown measures disrupt consumption even more than production. Still, the collapse in demand and supply constraints have caught up with manufacturers.
3) Owing to the harsher lockdowns, bigger services sector and smaller fiscal responses the hit to Italy, Spain, France and the UK appears to be even deeper than in Germany.
4) With luck, April will be the worst month of the coronavirus recession for Europe. Major European countries are either already beginning to ease their lockdowns or are planning to lift lockdowns throughout May. This provides some hope that May will be less bad than April.

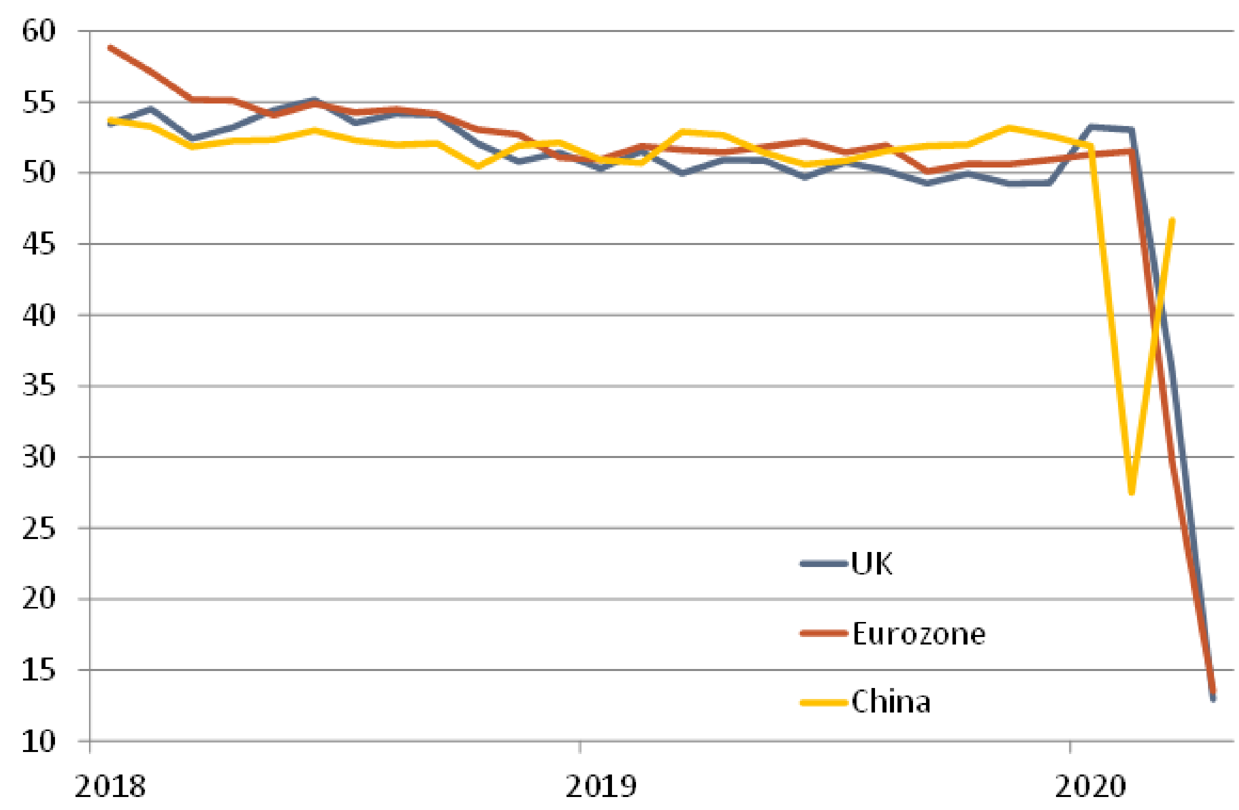
PMI detail: In the Eurozone, the composite index collapsed from 29.7 in March to 13.5 in April. In the UK, the index plummeted from 36.0 to 12.9, in Germany from 35.0 to 17.1, in France from 28.9 to 11.2, and in the rest of the Eurozone from 25.0 to 11.5. These were all-time lows. In the manufacturing sector, to gauge current activity levels, the output – and new orders – indices are more reliable than the headline composite indices. In the Eurozone, for instance, the manufacturing output index plummeted from 38.5 to 18.4 while the manufacturing composite index fell “only” from 44.5 to 33.6. The composite headline index includes components which have either plunged by less (employment) or have actually risen (suppliers’ delivery times and stocks of materials purchased) for the wrong reasons (supply chain disruptions, factories closed and lack of demand etc.).

Economic policy at work: Across Europe, the PMI employment sub-indices fell by less than current activity indices. Automatic stabilizers, including the many job retention schemes which European governments have introduced or expanded since the recession hit, are softening the blow to the labour market. But no matter how generous labour support schemes are, they cannot do magic. Unemployment will still surge significantly as businesses try to reduce their outgoings in response to the massive hit to revenues.

Rebound begins in May: We expect a modest snap-back in economic activity as soon as some lockdown measures are lifted. Shops that are currently closed should enjoy at least some level of business as soon as they re-open, for instance. Assuming countries continue to contain the virus, a second round of easing restrictions can lead to a further building of momentum in June. This suggests that GDP for Q2 overall, which will still come in on the horrific side (perhaps down 10-12% qoq for many countries), will be less bad than the April data.

On track for tick-shaped recovery: The progress in gradually lifting some of the most economic significant restrictions, such as allowing non-essential businesses like general retail to open, remains tentative and subject to potential reversals. However, the current progress remains in line with our underlying assumptions for a tick-shaped rebound in Europe – that is, the current sharp downturn will be followed by a somewhat flatter upturn that ultimately goes beyond the pre-corona level of GDP.

Not yet following China's bounce: Eurozone and UK composite purchasing managers' indices (PMIs)



50=no change. Source: Caixin, Markit

Joh. Berenberg, Gossler & Co. KG
60 Threadneedle Street
London EC2R 8HP
Phone +44 20 3207 7859
www.berenberg.com
florian.hense@berenberg.com