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EUROPEAN PMIS: THE EXPECTED JANUARY SETBACK

Berenberg Macro View

A dark winter: The second wave of lockdowns weighed on social and economic life in Europe in the first three weeks of the new year heavier than in December, according to the January PMIs. The Eurozone PMI composite index fell to 47.5 in January from 49.1 in December. The composite index declined in Germany to 50.8 from 52.0 and in France to 47.0 from 49.5. The UK suffered even more: the composite index dropped to 40.6 after 50.4 in December. However, the big hit to the UK came partly from the abrupt end of pre-Brexit stockpiling which had contributed to economic activity in late 2020. A level below 50 signals an economic contraction. The declines in the Eurozone and the UK were roughly in line with expectations.

Tighter restrictions in most countries in response to a faster spread of the pandemic and as a precaution to even more infectious virus variants hit especially the service sector in January. The PMI services subindex dropped in the Eurozone to 45.0 from 46.4, in Germany to 46.8 from 47.0, in France to 46.5 from 49.1 and in the UK to 38.8 from 49.4. As during previous waves and lockdowns, businesses that rely on face-to-face interactions are worst hit by stay-at-home orders and forced closures.

Importantly, the European economy still weathers the second lockdowns much better than the first lockdowns in spring 2020. Albeit from a lower level of activity, the hit so far is much shallower than in April 2020, where PMI composite indices plummeted to 11.0 in France, 13.6 in the Eurozone, 13.8 in the UK and 17.4 in Germany. It helps that the second wave has been less of a nasty surprise and the new restrictions are still, on average, a little less stringent than in spring (except for Germany). Factories remain open and businesses and households have adapted their behaviour to restrictions – think online shopping, takeaway food and working-from-home.

Buoyant manufacturing partly offsets hit to services. Thanks to strong global demand for goods, especially from US and China, export-oriented manufacturing continues to hold up better than services. Despite a slip in PMI manufacturing subindices (Eurozone: 54.7 after 55.2; Germany: 57.0 after 58.3; UK: 52.9 after 57.5), manufacturing production continued to expand solidly across Europe – most notably in Germany. Taking the January index number at face value, output in manufacturing expanded in France even a little faster than in December (51.5 after 51.1).

As before, transport bottlenecks raise the manufacturing indices artificially. With the exception of April 2020, January's supplier delivery times were the longest since survey data were first available in 1997. The disruption to global trade from the pandemic and a strong recovery in consumer demand has driven a [shortage of empty containers](#). Back in December, Markit said that roughly 1-in-5 panellists of the global PMI manufacturing survey reported shipping delays – by far the highest proportion since 2004. Customers fighting over limited resource has caused freight rates to soar. The cost of shipping goods from China to Europe – which seems to be the global bottleneck route – has more than quadrupled in the past eight weeks, hitting record highs.

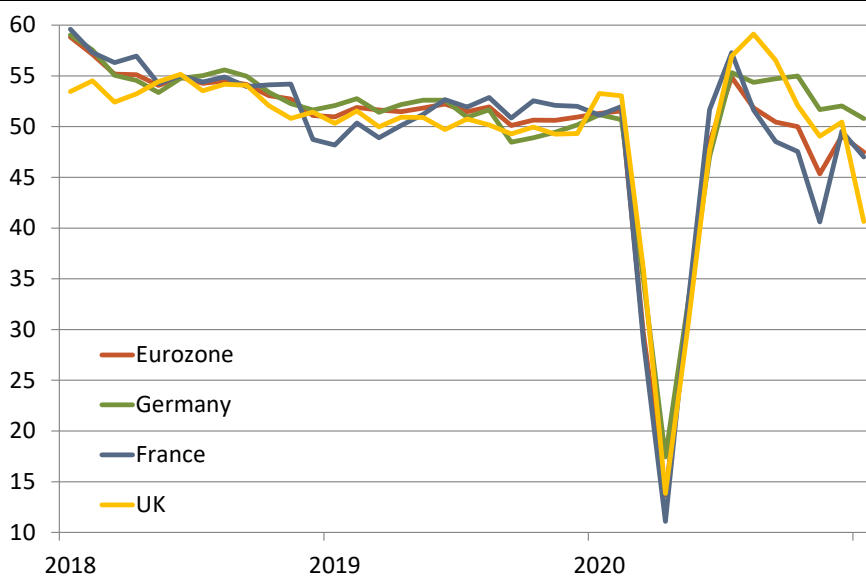


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This can contribute to temporarily higher inflation in early 2021. We expect pressure on maritime supply chains and freight rates to ease gradually in coming months.

Positive outlook: Despite the hit to economic activity in Q1 and lingering uncertainty about the impact of virus mutations resistant to the currently administered vaccinations, businesses are optimistic about the rest of the year. According to Markit, 12-month ahead confidence slipped only slightly below December's 11-month high. That the vaccine roll-out has gathered pace – especially in the UK – bolsters hopes for a strong rebound from spring onwards. Encouragingly, France and Germany reported job gains. Despite continued job losses in the rest of the Eurozone and the Eurozone as a whole, the employment subindex rose to the least-depressed since the pandemic started.

Chart 1: European composite purchasing managers' indices (PMIs)

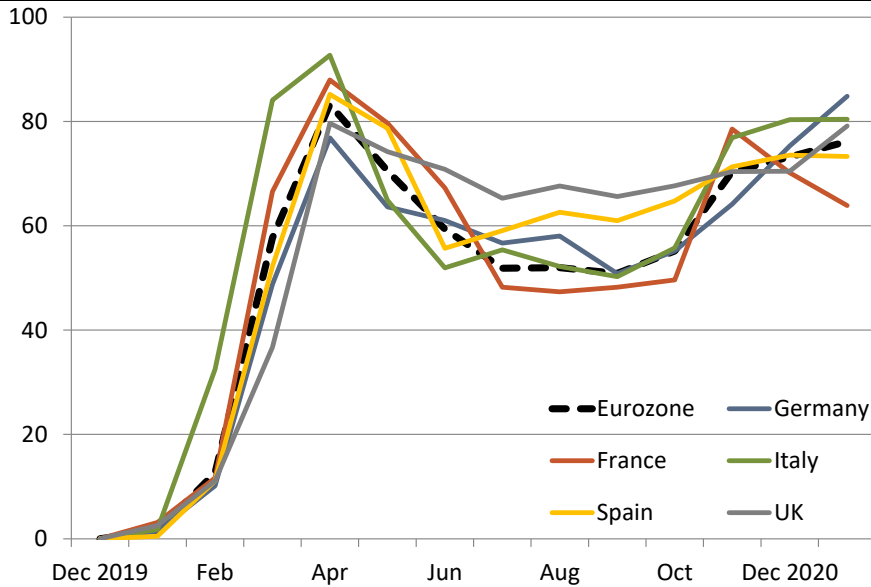


50=no change. Source: Markit, Berenberg



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Chart 2: Lockdown 2.0 stringency across major European countries



Oxford University lockdown stringency indices, 0 to 100 (most stringent). Oxford University collects information on policy responses (containment and closure, economic and health system policies), scores their stringency and aggregates scores into a stringency index. Source: Oxford University, Berenberg



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