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PM Datanote: Final PMIs, Eurozone, March

In one line: Horrid, hideous, harrowing…you get the picture.

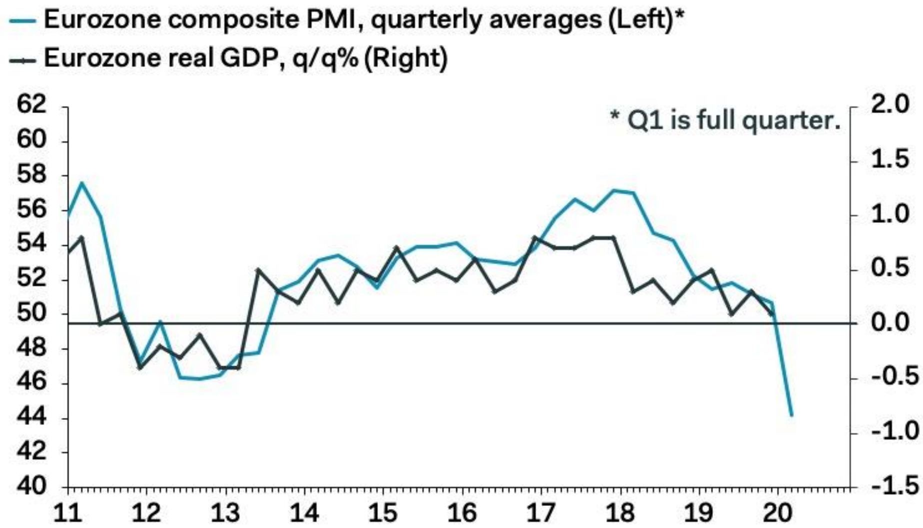
The composite PMI in the Eurozone crashed to 29.7 in March, from 51.6 in February, undershooting the consensus and initial estimate, 31.4.

We are struggling to come up with words to describe these numbers, which are now so far out of any reasonable range that they are difficult to interpret. It makes sense that the final headline is a good deal worse than the already grim advance estimate. The final responses will have been collected towards the end of the month, reflecting more fully the widespread lockdowns that were in place across the board by that time.

In Germany, the composite PMI was revised down to 35.0, from a previous estimate of 37.2, thanks to a weaker-than-expected services index, at 31.7. The story is the same in France, where the composite PMI was adjusted to 28.9, from 30.2. These are grim numbers, but the data further to the south are almost nonsensical. In Spain, the composite PMI slumped to 23.0, from 52.0, pulled down primarily by a sharp fall in the services PMI, to 26.7, from 51.8 in the previous month. It's even worse in Italy. The composite PMI here tumbled to 20.2, pegged back by a brutal decline in the services PMI, to an unbelievable 17.4, from 52.1 in February. This is the worst headline ever recorded in Markit's data across all economies. In total, the EZ services PMI plunged to 26.4, from 52.6 in February.

Markit's detailed analysis reveals that output and new orders crashed across all sectors and all economies at the end of Q1, due to the measures taken to limit the spread of Covid-19. The slump was worst in services, though business conditions in manufacturing also deteriorated markedly. The collapse in activity compressed work backlogs further, and forced firms to shed workers. In aggregate, job-losses accelerated at a rate not seen since June 2009 with Spain registering the biggest drop. This is consistent with the dreadful unemployment claims data released here yesterday. In addition EZ firms' outlook for the next 12 month deteriorated significantly, indicating that business owners are very uncertain about how long the lockdowns will last. Finally in terms of prices, firms slashed output prices at the fastest rate in a decade, though we are not sure that this will be reflected in the CPI data anytime soon. It will be difficult for statistical offices to collect the data. Indeed, we also have to wonder what happens with the PMIs in the next few months, when many respondents, presumably, will be temporarily shut. Remember also that the PMIs are diffusion indices. The numbers above literally imply that conditions can't get much worse on a month-to-month basis. As such the PMis ought to rebound next month, but that doesn't mean conditions are improving. We won't get a clear reading from the surveys, until we have a clearer picture when economies will re-open.

The chart shows that the PMI suggests EZ GDP fell by around 1% quarter-on-quarter in Q1, but the truth almost certainly was a good deal worse. Diffusion indices are not at capturing sudden stops in activity. Our base case is that GDP fell by around 4% in the first quarter, and we are looking for a gruelling 10% decline in Q2, based on the notion that activity will be at a hold in April and most of May. The PMI won't capture that decline either.



Eurozone composite PMI, quarterly averages (Left)*
Eurozone real GDP, q/q% (Right)
* Q1 is full quarter.
62
60
58
56
54
52
50
48
46
44
42
40
2.0
1.5
1.0
0.5
0.0
-0.5
-1.0
-1.5
11
12
13
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