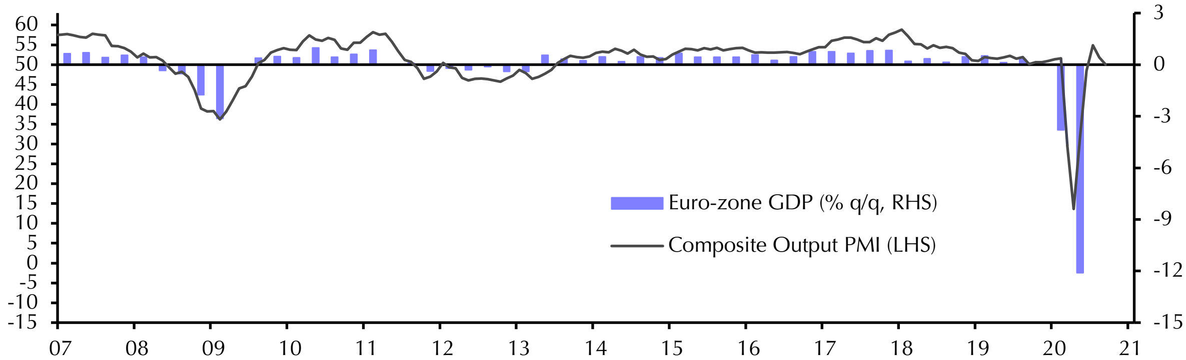
EUROPEAN DATA RESPONSE

Euro-zone Flash PMIs (September)

Virus fears and restrictions weigh on activity

- **The further decline in the euro-zone Composite PMI in September adds to the evidence that the initial rebound in activity has already run out of steam. And with new restrictions being imposed throughout the region to curb a resurgence in virus cases, the risk is that the economic recovery goes into reverse.**
- The drop in the headline Composite PMI from 51.9 in August to 50.1 in September was much weaker than the consensus expectation for a smaller fall to 51.7 and suggests at face value that activity is now flat-lining. (See Chart 1.) Although the manufacturing output PMI rose, helped by the German index rising to a 32-month high, the services PMI fell back to below 50, with many firms linking the renewed downturn in that sector to the resurgence in coronavirus cases.
- **The limited available country data show that the French Composite PMI fell much more sharply than the German headline index,** dropping back below the 50 level for the first time since May. This presumably reflects the greater spread of the virus there and the tighter restrictions imposed in large parts of France. But even in Germany, where virus cases have remained low, the services PMI fell below 50, suggesting consumer caution is holding back activity more generally. And the press release noted that activity outside of France and Germany fell for the second month running and at a faster rate.
- **Meanwhile, although the employment PMI edged up, it remained well below 50, suggesting that the rebound in activity has not encouraged firms to hold on to their workers.** What's more, in France, firms reported that fears of a second, prolonged lockdown meant that they were hesitant to hire additional staff. This suggests that the recovery in the labour market is a long way off and raises the risk of a cliff edge in unemployment as furlough schemes are wound back.
- Today's PMI data also revealed that the input prices PMI above 50 in September for the fourth month running, suggesting that firms are facing rising price pressures, with services sector firms citing higher virus protection costs. Yet consumer price inflation is likely to remain very weak, as depressed demand has discouraged firms from passing on higher costs to customers.
- **Overall, today's data suggest that the recovery is grinding to a halt, with activity in the services sector probably contracting. And with some governments now imposing additional, stricter restrictions, there is a clear and growing risk that it goes into reverse, at least in the countries worst affected by the virus.**

Chart 1: Euro-zone Composite PMI & GDP



Sources: Markit, Refinitiv

Jessica Hinds, Europe Economist, jessica.hinds@capitaleconomics.com

TORONTO NEW YORK LONDON SINGAPORE SYDNEY

Email **sales@capitaleconomics.com** Visit **www.capitaleconomics.com**