

Eurozone September flash PMIs

Key Messages

1. Very slow recovery in manufacturing sector, and further depression of economic activity in services sector. (*V-shaped recovery in PMI doesn't mean V-shaped of the economy.*).
2. Germany leads the recovery caused by a big surge in manufacturing output (62.24). The rest of EA activity stagnates.
3. As long as there is uncertainty about lockdowns, the recovery seems to be impossible as services sector activity declines again.

Hi, my name is Hubert Mrugala and in the next 6 minutes I will show you the latest developments of the main PMI indicators.

Series

- **PMI** – Purchasing Managers Index published by IHS Markit; **Flash** – advanced estimates of the final PMI number based on ~85% of total responses; eu - 8 countries (89% of manuf output) Germany, France, Italy, Spain, Austria, Greece, the Netherlands and Ireland
- **Data:** final published at the beginning of each month, flash published about a week earlier; latest numbers used are Flash from 23 September; Data collected 11-22 Sep
- Composite: GDP-weighted average of the manufacturing and service sector data
- Diffusion Index: $INDEX = \% 'higher' * 1.0 + \% 'the same' .0.5 + \% 'lower' 0.0$
- The surveys ask respondents to report the change in each variable compared to the prior month, noting whether each has risen/improved, fallen/deteriorated or remained unchanged.
- Info collected from about 4 500 companies each month
- Seasonal adjustment: Combination of X12 and an inhouse method (respondents observed seasonality).
- Important because it can be used to forecast the GDP. Published monthly, GDP is published quarterly with a lag. High correlation between the two (83%). Regressing (OLS) GDP growth on PMI gives beta coefficient about 0.12. Can use only 2 months for quarter forecast. Also gives information about employment etc.

Analysis

- Top left graph
 - Composite PMI for EU sits at 50 after a big dip and then quick surge → no recovery
 - Real recovery would be signaled by levels of Composite PMI that was after the 08 crisis – 2010-2012

- Composite was already very low, and slowing in 2019 (before corona), that may partially explain why recovery is now so slow.
- Bottom left graph
 - Manufacturing PMI: weighted average of diffusion indices from five survey questions – new orders 30%, output 25%, employment 20%, delivery times 15%, inventories 10%
 - Business Activity – equivalent to manufacturing output index
 - Employment: still worse than the last month for most of the employers that participated in the survey
- Right-hand side table
 - According to the surveys Composite Output practically didn't change this month
 - Manufacturing PMI rose significantly primarily because of surge in manf output and new orders (~57)
 - New orders – the difference
 - Germany leads the European recovery. In comparison France man output about 53 and new orders slightly below 50 (49.5)
Business Activity for Germany 49.1, France 47.5

Signal

1. Very slow recovery in manufacturing sector, and further depression of economic activity in services sector. (*V-shaped recovery in PMI doesn't mean V-shaped of the economy.*).
2. Germany leads the recovery caused by a big surge in manufacturing output (62.24). The rest of EA activity stagnates.
3. As long as there is uncertainty about lockdowns, the recovery seems to be impossible as services sector activity declines again after July and August.

That's all from me, thank you.