

European Economic Comment

European PMIs: Recovery running out of steam?

Economics

Global

September PMIs suggest that recovery stalled towards the end of Q3

Today's flash PMIs suggest that Eurozone growth essentially ground to a halt in September, with diverging trends between manufacturing, which is clearly strengthening, and services, which contracted again amid rising Covid infections and renewed social distancing. The PMIs also showed divergence by country, with Germany holding up better than France and the rest of the Eurozone in aggregate. Specifically, the Eurozone composite PMI dropped by 1.8 points to 50.1 – with that, the impressive rebound in Eurozone PMIs in July (54.9), which had already lost a lot of momentum in [August](#) (51.9), has proved disappointingly short-lived. Good news came from the manufacturing sector, with the PMI rising by 2 points to a two-year high of 53.7, helped by strong new orders (57.1). Services PMIs, however, fell by 2.9 points, back into contraction territory (47.6). Employment continued to fall as well (47.5), both in manufacturing and services, and we think this trend will [continue](#) over the coming months, weighing on consumption and the overall strength of the recovery. Output prices continued to fall while input prices rose (often due to increased costs for virus protection), which, according to Markit, indicates “the greatest squeeze on companies’ margins since December 2018”. Nevertheless, companies remained optimistic on the 1-year outlook, albeit more so in manufacturing (63.8) than in services (59.0).

Weak September PMIs raise concerns over the strength of the recovery

Composite PMIs in July-September averaged 52.3, up from 31.3 in Q2 – thus still signalling a strong bounce back in Q3 GDP. We project a Q3 increase of 8.7% q/q after -11.8% in Q2 and [forecast](#) overall GDP growth of -7.7% this year, followed by +6.1% in 2021. However, today's PMIs suggest a risk that the momentum of the GDP bounce in Q3 and Q4 will be less than anticipated amid a new rise in infections and related restrictions to economic activity.

Country detail: Manufacturing strength vs services weakness

Services PMIs were markedly down in both Germany and France, but manufacturing strength, notably in Germany, provided some offset (Composite PMIs stood at 53.7 in Germany and 48.5 in France). The French Services PMI fell 3.9 points to 47.5 and Markit reported widespread reports of disruptions related to the tightening in mobility restrictions in some key regions. The German Services PMI also declined, but at 49.1 suggests only slight deceleration, in line with the less severe increase in infection rates compared to France. Standing out was a 4.4 point increase in the German manufacturing PMI to 56.6, a 26-month high. Firms reported both much stronger activity in September and new orders rose to 64.8, a level last seen in 2010. The French manufacturing PMI also rose, but at 50.9 signals less buoyancy than in Germany, in part because of fewer domestic orders. Despite the headwinds from services sector weakness, future business expectations rose in both countries.

UK: Deceleration of the post-lockdown bounce in services

The UK Composite PMI fell 3.4 points to 55.7, more than reversing its August increase, but still signalling improving activity as the post-lockdown bounce in the UK started later than in the Eurozone. Confidence fell more in services (-3.7pts to 55.1) than in manufacturing (-1pt to 54.3). Services firms reported both reduced activity in September, likely reflecting the end of the Eat Out to Help Out scheme at the end of August, and a deceleration in new business. Staff levels continued to fall, albeit at a slightly less rapid pace than before. Employment thus remains a worry, especially given the expected closure of the furlough scheme. On a brighter note, export orders in manufacturing rose to 54.7, the highest in 2½ years, with firms reporting rising demand from Asia.

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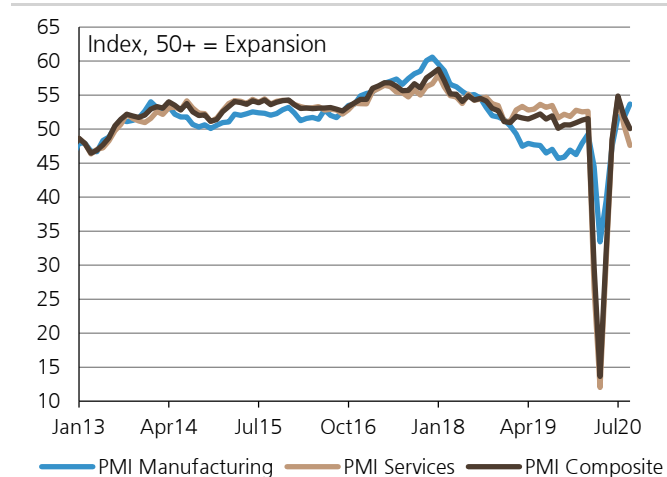
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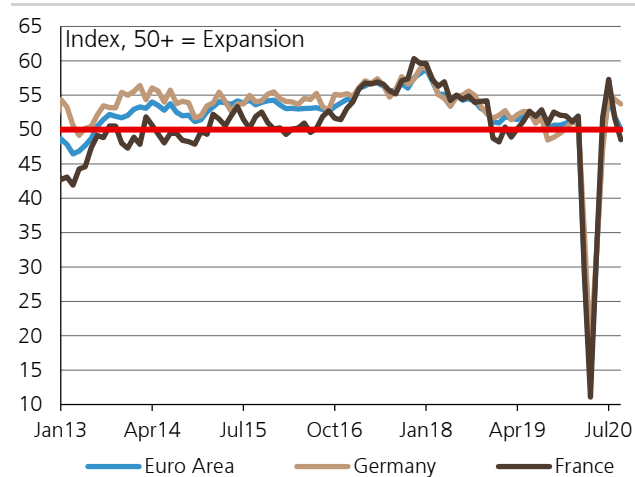
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Figure 1: Eurozone PMIs



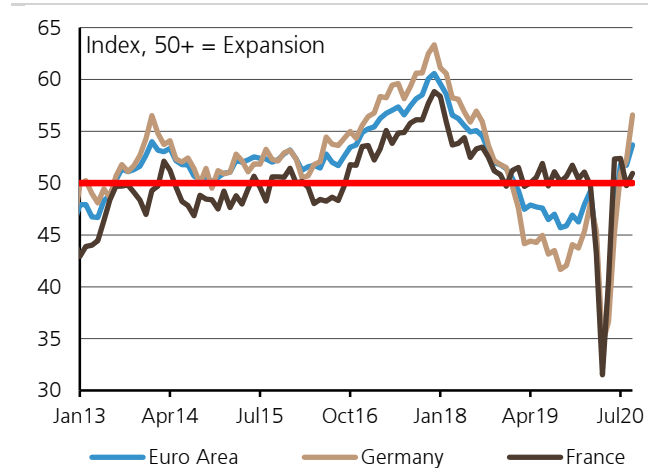
Source: Markit, Haver, UBS

Figure 2: Composite PMIs



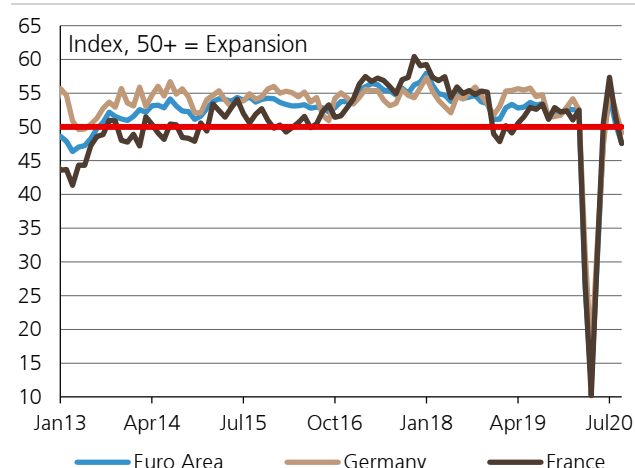
Source: Markit, Haver, UBS

Figure 3: Manufacturing PMIs



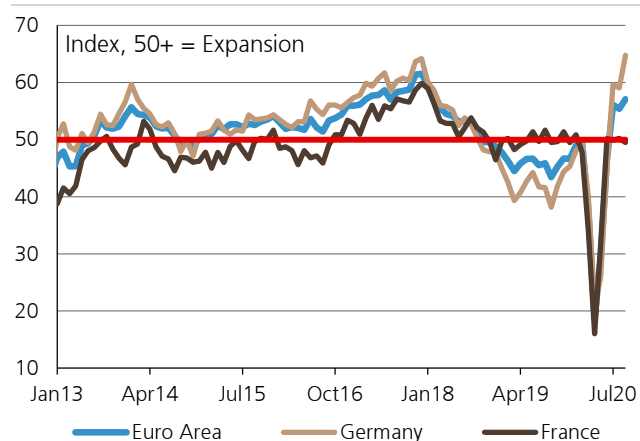
Source: Markit, Haver, UBS

Figure 4: Services PMIs



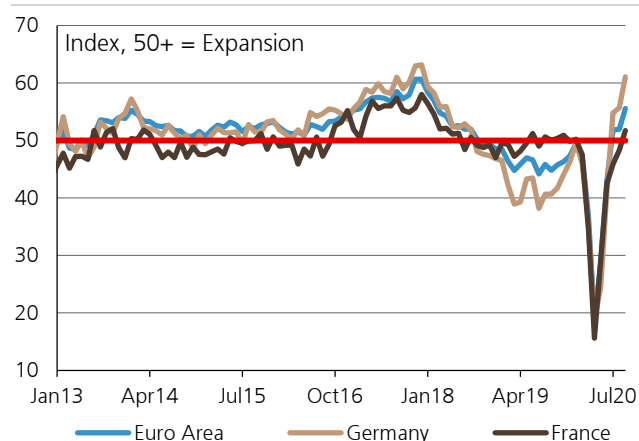
Source: Markit, Haver, UBS

Figure 5: Manufacturing PMI: New orders



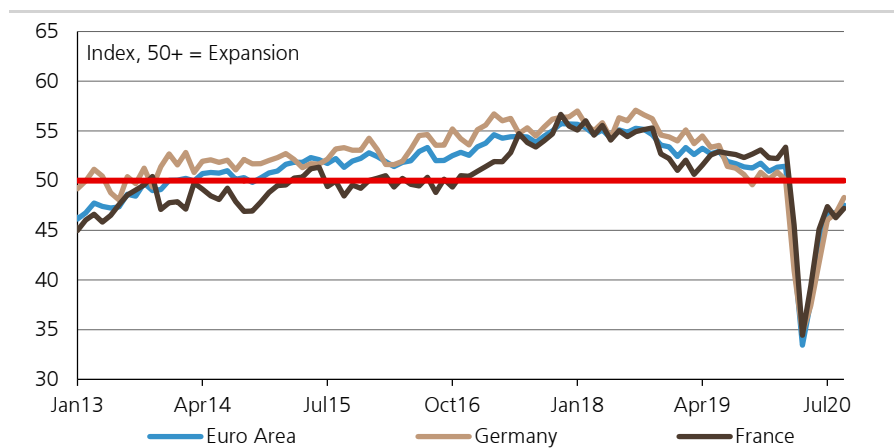
Source: Markit, Haver, UBS

Figure 6: Manufacturing PMI: New export orders



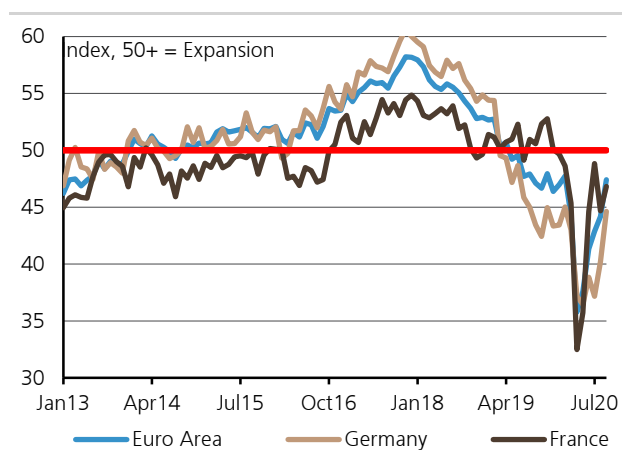
Source: Markit, Haver, UBS

Figure 7: Composite PMI: Employment



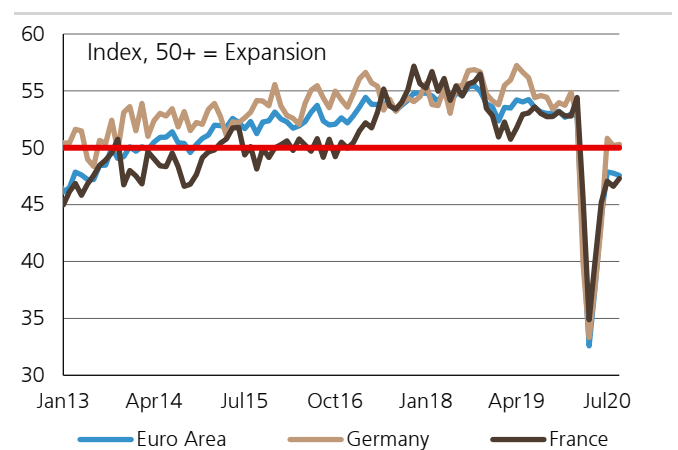
Source: Markit, Haver, UBS

Figure 8: Manufacturing PMI: Employment



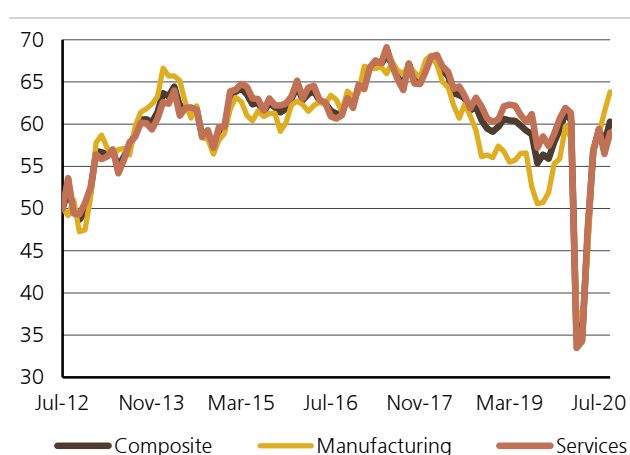
Source: Markit, Haver, UBS

Figure 9: Services PMI: Employment



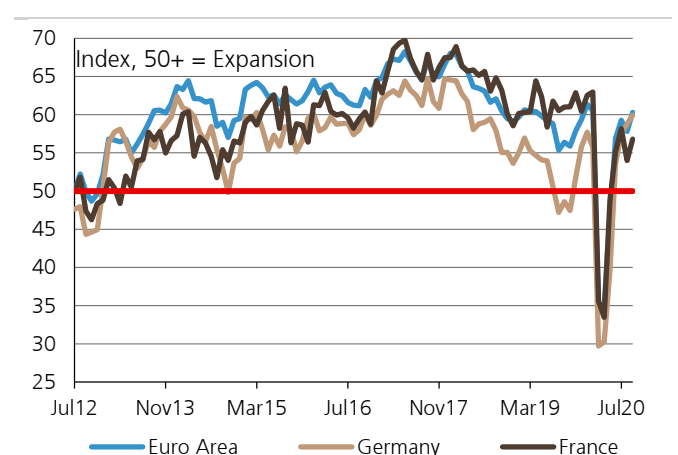
Source: Markit, Haver, UBS

Figure 10: PMI Future output



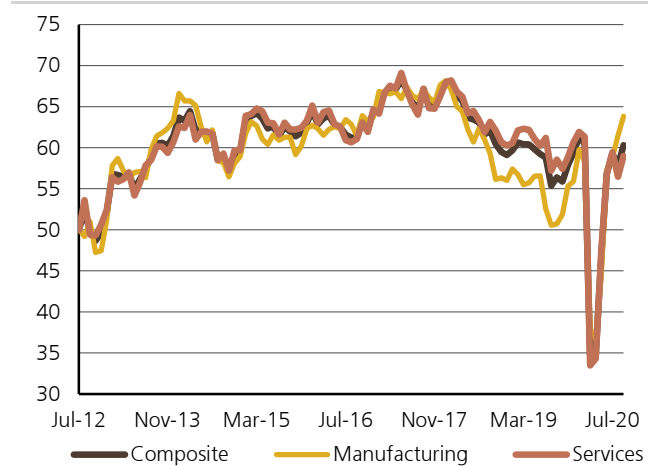
Source: Markit, Haver, UBS

Figure 11: Composite PMI: Future output



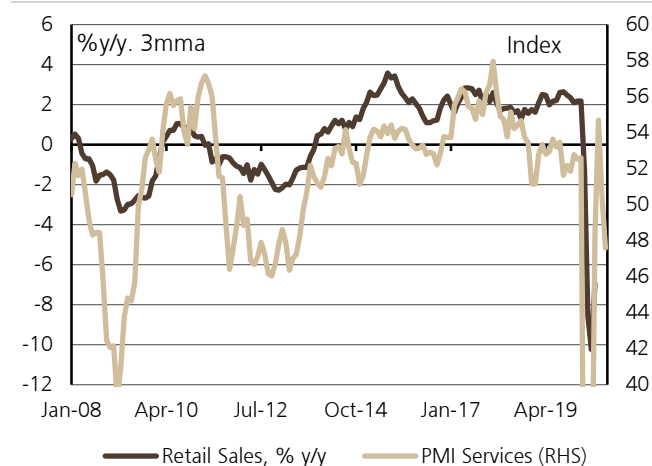
Source: Markit, Haver, UBS

Figure 12: Eurozone exports and manufacturing PMI



Source: Eurostat, Markit, Haver, UBS

Figure 13: Eurozone Retail sales and PMI services



Source: Eurostat, Markit, Haver, UBS

See also our ECB Heatmap on the following page.

Figure 14: ECB Heatmap

		Latest Release	Long-term average	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20
Hard data															
Industrial production, y/y	% y/y	-7.8 (Jul-20)	0.5	-2.0	-1.2	-3.0	-2.0	-2.1	-13.2	-28.4	-20.3	-11.6	-7.8		
Capacity utilisation	%	72.1 (Sep-20)	80.7	81.0	81.0	81.0	80.8	80.8	80.8	68.3	68.3	68.3	72.1	72.1	72.1
Retail sales, y/y	% y/y	0.6 (Jul-20)	0.9	1.9	2.3	2.1	2.1	2.3	-8.4	-19.6	-2.7	1.5	0.6		
GDP & short-term GDP forecast, q/q	% q/q	-11.77 (Jun-20)	0.17	0.05	0.05	0.05	-3.72	-3.72	-3.72	-11.77	-11.77	-11.77			
EuroCOIN	% q/q	-0.6 (Aug-20)	0.3	0.1	0.2	0.2	0.3	0.3	0.1	-0.1	-0.3	-0.4	-0.5	-0.6	
ECB industrial new orders, y/y	% y/y	-8.5 (Jul-20)	2.0	-4.7	-8.1	-4.6	-1.5	-1.4	-16.6	-37.0	-28.3	-13.5	-8.5		
Exports y/y	% y/y	-8.9 (Jul-20)	5.7	2.9	2.0	2.7	1.2	1.3	-10.1	-26.7	-20.9	-13.7	-8.9		
Survey Indicators															
Composite PMI, Index	Index	50.1 (Sep-20)	52.6	50.6	50.6	50.9	51.3	51.6	29.7	13.6	31.9	48.5	54.9	51.9	50.1
Services PMI, Index	Index	47.6 (Sep-20)	52.7	52.2	51.9	52.8	52.5	52.6	26.4	12.0	30.5	48.3	54.7	50.5	47.6
Manufacturing PMI, Index	Index	53.7 (Sep-20)	51.3	45.9	46.9	46.3	47.9	49.2	44.5	33.4	39.4	47.4	51.8	51.7	53.7
- New orders, Index	Index	57.1 (Sep-20)	51.4	45.3	46.7	46.6	49.0	49.4	37.5	18.8	29.4	46.5	56.1	55.4	57.1
- New export orders, Index	Index	55.6 (Sep-20)	51.2	45.8	46.3	47.3	49.5	47.6	37.0	18.9	28.7	43.1	51.8	51.9	55.6
- Orders-inventory Ratio	Index	1.3 (Sep-20)	1.07	1.01	1.04	1.03	1.09	1.06	0.77	0.38	0.61	0.97	1.21	1.23	1.27
Economic Sentiment Indicator	Index	87.7 (Aug-20)	99.8	100.2	100.7	100.9	102.6	103.4	94.1	64.9	67.5	75.8	82.4	87.7	
Consumer confidence	Index	-13.9 (Sep-20)	-10.8	-7.6	-7.2	-8.1	-8.1	-6.6	-11.6	-22.0	-18.8	-14.7	-15.0	-14.7	-13.9
Household financial situation expectations	Index	-4.0 (Aug-20)	-2.0	1.3	1.9	0.8	1.0	1.4	-0.9	-11.8	-7.9	-4.3	-3.9	-4.0	
Household unemployment expectations	Index	51.5 (Aug-20)	23.5	16.0	15.5	17.1	13.4	12.9	22.8	61.7	60.4	51.6	51.8	51.5	
Labour market and Wages															
Unemployment rate	%	7.9 (Jul-20)	9.3	7.4	7.4	7.4	7.4	7.3	7.2	7.4	7.5	7.7	7.9		
U6 unemployment rate	%	0.0 (Jan-20)	17.9	14.5	14.5	14.5									
Employment	% y/y	-2.9 (Jun-20)	0.8	1.1	1.1	1.1	0.4	0.4	0.4	-2.9	-2.9	-2.9			
Nominal Wages	% y/y	3.5 (Jun-20)	2.5	2.8	2.8	2.8	3.1	3.1	3.1	3.5	3.5	3.5			
Real Wages	% y/y	3.2 (Jun-20)	0.8	2.0	1.8	1.4	1.8	1.9	2.4	3.2	3.4	3.2			
Inflation															
Headline HICP	% y/y	-0.2 (Aug-20)	1.7	0.7	1.0	1.3	1.4	1.2	0.7	0.3	0.1	0.3	0.4	-0.2	
Core HICP	% y/y	0.4 (Aug-20)	1.3	1.1	1.3	1.3	1.1	1.2	1.0	0.9	0.9	0.8	1.2	0.4	
Market based inflation expectations (5y5y forwards)	%	1.2 (Aug-20)	2.0	1.2	1.2	1.3	1.3	1.2	0.9	1.0	0.9	1.1	1.1	1.2	
Monetary Dynamics															
M1, y/y	% y/y	13.5 (Jul-20)	7.8	8.4	8.3	8.0	7.9	8.1	10.4	11.9	12.5	12.6	13.5		
M2, y/y	% y/y	10.1 (Jul-20)	5.6	6.1	5.9	5.7	5.5	5.6	7.4	8.3	9.1	9.2	10.1		
M3, y/y	% y/y	10.2 (Jul-20)	5.3	5.7	5.6	4.9	5.2	5.5	7.5	8.2	9.0	9.2	10.2		
FX															
EURUSD	FX rate	1.18 (Aug-20)	1.20	1.11	1.11	1.11	1.11	1.09	1.11	1.09	1.09	1.13	1.15	1.18	
EURUSD, m/m	% m/m	3.2 (Aug-20)	0.0	0.4	0.0	0.6	-0.1	-1.8	1.5	-1.8	0.4	3.2	1.9	3.2	
EURUSD, y/y	% y/y	6.3 (Aug-20)	0.5	-3.8	-2.8	-2.4	-2.8	-3.9	-2.1	-3.3	-2.5	-0.3	2.2	6.3	
NEER	Index	101.6 (Aug-20)	99.8	98.1	97.5	97.4	97.0	96.3	99.0	98.2	98.4	99.8	100.5	101.6	
NEER, m/m	% m/m	1.1 (Aug-20)	0.0	-0.1	-0.6	-0.1	-0.4	-0.7	2.7	-0.8	0.2	1.4	0.7	1.1	
NEER, y/y	% y/y	2.7 (Aug-20)	0.1	-1.7	-1.7	-1.9	-1.8	-2.1	1.1	0.5	0.2	1.0	2.2	2.7	
Commodity Prices															
Brent Oil Prices, USD	\$/bbl	44.7 (Aug-20)	61.7	59.7	63.2	67.3	63.7	55.7	32.0	18.4	29.4	40.3	43.2	44.7	
Brent Oil Prices, USD	% y/y	-24.2 (Aug-20)	13.0	-26.3	-2.4	17.3	7.1	-13.0	-51.6	-74.2	-58.8	-37.3	-32.4	-24.2	
Non-oil Commodity prices	% y/y	6.5 (Aug-20)	3.9	0.7	1.7	2.6	4.1	-0.1	-6.5	-11.1	-5.9	-6.6	-2.2	6.5	
Food Prices	% y/y	2.2 (Aug-20)	3.1	2.1	7.0	9.5	9.9	5.8	2.1	-1.2	-3.4	-2.3	-0.9	2.2	
Credit conditions															
Credit to households, m/m	% m/m	0.2 (Jul-20)	0.3	0.3	0.4	0.2	0.1	0.2	-0.1	-0.1	0.3	0.5	0.2		
Credit to households, y/y	% y/y	3.0 (Jul-20)	3.6	3.4	3.5	3.6	3.7	3.7	3.4	3.0	3.0	3.0	3.0		
Credit to non-financial corporations, m/m	% m/m	0.3 (Jul-20)	0.2	0.3	0.2	-0.6	0.2	0.1	2.7	1.6	1.1	0.1	0.3		
Credit to non-financial corporations, y/y	% y/y	7.1 (Jul-20)	3.7	3.8	3.4	3.2	3.2	3.0	5.5	6.6	7.4	7.1	7.1		
Debt securities issued by NFCs, m/m	% m/m	0.8 (Jul-20)	0.7	-0.2	0.7	-1.8	1.3	1.3	-0.2	3.6	3.0	1.2	0.8		
Debt securities issued by NFCs, y/y	% y/y	14.5 (Jul-20)	8.2	6.6	7.9	7.3	7.2	7.3	5.7	9.1	12.5	14.3	14.5		
Debt securities issued by MFI, m/m	% m/m	-1.3 (Jul-20)	0.3	-0.5	0.5	-0.8	1.9	0.3	-1.7	1.8	-0.1	0.8	-1.3		
Debt securities issued by MFI, y/y	% y/y	5.4 (Jul-20)	2.6	4.4	3.8	3.5	4.1	3.9	2.7	5.1	5.1	6.3	5.4		
Composite cost of borrowing indicator - NFCs	%	1.5 (Jul-20)	3.17	1.6	1.6	1.6	1.6	1.5	1.5	1.5	1.5	1.5	1.5		
Composite cost of borrowing indicator - Households	%	1.4 (Jul-20)	3.27	1.4	1.5	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4		
Interest rate on loan up to €0.25 million	%	1.9 (Jul-20)	3.21	2.1	2.1	2.1	2.1	2.1	2.0	1.7	1.6	1.8	1.9		
IG credit spread	Index	0.6 (Aug-20)	3.3	0.5	0.5	0.5	0.4	0.4	1.3	1.5	1.3	0.9	0.8	0.6	
HY credit spread	Index	4.8 (Aug-20)	8.8	3.6	3.5	3.3	3.1	3.1	7.2	8.2	7.1	5.6	4.9	4.8	
Financial Markets															
Bloomberg Financial conditions index	Index	0.2 (Aug-20)	-0.5	0.2	0.3	0.2	0.4	0.3	-2.0	-1.8	-1.2	-0.6	0.0	0.2	
Eurostoxx, Index	Index	3298 (Aug-20)	3277	3551	3693	3715	3758	3735	2824	2840	2909	3237	3316	3298	
Eurostoxx, m/m	% m/m	-0.6 (Aug-20)	0.1	1.0	4.0	0.6	1.2	-0.6	-24.4	0.5	2.5	11.3	2.4	-0.6	
Eurostoxx, y/y	% y/y	-1.7 (Aug-20)	2.6	9.5	15.9	21.5	21.7	15.9	-15.3	-17.9	-14.1	-4.9	-5.5	-1.7	
Vix Index	Index	23.8 (Aug-20)	23.9	15.8	12.7	13.7	13.4	17.9	57.8	42.1	31.5	33.0	26.8	23.8	
10 year Bund Yield	%	-0.47 (Aug-20)	2.63	-0.45	-0.33	-0.27	-0.27	-0.43	-0.52	-0.43	-0.50	-0.40	-0.46	-0.47	
Average peripheral spreads	bps	102 (Aug-20)	134	89	97	100	96	94	146	162	158	122	110	102	
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Source: Haver, Bloomberg, UBS. To see the shading in the colour code clearly, please adjust printer settings to high-quality printing.

Valuation Method and Risk Statement

Risks include macroeconomic variables (such as GDP growth rates and inflation), economic slowdown, a weakening currency, global economic events, and government policy changes.

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