

# ECO FLASH

25 March 2020

## Eurozone: a shock of unprecedented size

Louis Boisset

- Purchasing Managers Index (PMI) for March showed a significant deterioration in the Eurozone.
- Having not really shown up in the data before, the shock from Covid-19 would be the biggest since the 2008-2009 crisis.
- Many countries will be affected and economic policy will need to continue to play its full role in ensuring that we come out of the crisis on a solid footing.

### A massive and widespread shock

Having been almost absent from the data so far, the Covid-19 shock was fully visible in the PMI (Purchasing Managers Index) for the Eurozone, released on 24 March 2020.

The composite PMI collapsed to 31.4 in March (from 51.6 in February), its lowest level since July 1998. The Eurozone is now deeply and widely affected by the massive shock caused by the coronavirus epidemic.

The services sector PMI showed a dramatic fall, to only 28.4 in March, from 52.6 a month earlier. Its previous low, during the financial crisis in February 2009, was 39.2. This illustrates the scale of the current shock and the impact on economic activity of the measures taken, such as the confinement of population, the closure of certain business sectors (such as restaurants) and restrictions on others (such as air travel). Although there was also a marked fall in the manufacturing sector PMI, it was rather smaller. It was supported somewhat by an increase in delivery times, due not so much to any overheating on the demand side, but probably more to the significant constraints on the whole supply and delivery chains.

Expectations of future business levels also fell sharply, as did the 'employment' component of the PMI. This trend will need to be closely followed; maintaining productive activity and employment in companies will be key in determining the condition in which we emerge from the crisis. Economic policy decisions (short-term working schemes for employees or

### ■ Eurozone PMI

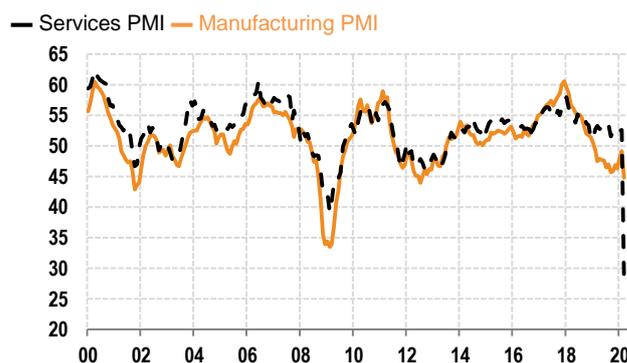


Chart 1

Source: Markit

support for company cash flow) should go some way to helping.

It would appear that the crisis is sparing no one. France and Germany have been hit particularly hard, with record lows for their services sector PMI.

These trends were to be expected given the triple-pronged nature of the shock: supply-side shock, demand-side shock and uncertainty shock. Moreover, some real-time indicators are already showing a very rapid deterioration in certain sectors, both in Europe and elsewhere<sup>1</sup>. However, the scale of the collapse has exceeded expectations. The Eurozone should thus see a significant fall in GDP in the 2nd as well as in the 1st quarter of 2020, with some health measures liable to be extended or perhaps even tightened further.

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<sup>1</sup> Real-time data show virus hit to global economic activity, Financial Times, 22 March 2020

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