ECONOMIC PULSE

EUROZONE: THE COLLAPSE OF ECONOMIC ACTIVITY HAS BEEN CONFIRMED

Looking at the economic data for the euro area that has emerged recently, the conclusion is clear: we are seeing an unprecedented economic contraction in the service sector. As the chart below shows, the average eurozone service sector PMI plummeted in Q1 2020, well below its long-term average. At 28.4, the March index was the lowest on record. The contraction in manufacturing seems to be less severe (44.5), but is nevertheless at an historically low level; the average manufacturing PMI in Q1 was slightly above that in the previous quarter. It is worth noting that the manufacturing sector in the Netherlands – where the lockdown is less drastic – remained slightly in expansionary territory in March with a PMI of 50.5.

PMI data also pointed towards low levels of inflation over the next few months. The sub-indices for production costs and selling prices have both dropped sharply. Most notably, manufacturing companies highlighted the impact of falling oil, steel and paper prices on production costs. This will eventually feed through into the HCPI harmonised consumer price index. The underlying price index was, in Q1, already below its historical average, represented by the 0 point on the chart.

It is important to note that most of the data on the chart relate to the month of February and thus predate the lockdowns in eurozone member states. Tangible figures for the euro area as a whole in March (retail sales, unemployment, exports) will only be published in late April or early May. These indicators will also show significant falls, perhaps at new record levels.

The trend in the labour market prior to the health crisis was positive: the eurozone unemployment rate was 7.3% in February, its lowest level since March 2008. However, the record rise in Spanish unemployment claimants in March (up 302,300 according to national statistics) shows the scale of the economic and social challenges that eurozone governments will face in the coming months.

Guillaume Derrien

QUARTERLY CHANGES

■ 3-month moving average (actual)
--- 3-month moving average (4 months ago)
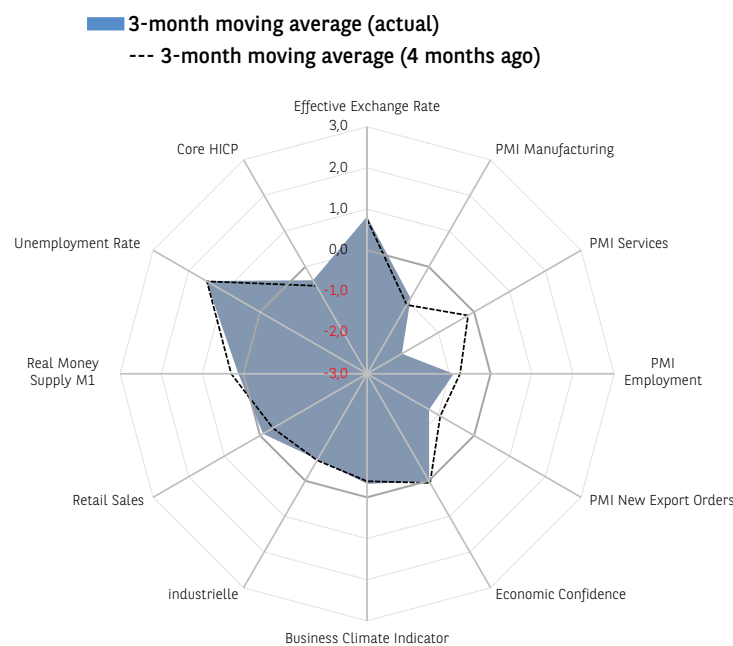
SOURCE: THOMSON REUTERS, BNP PARIBAS

The indicators in the radar are all transformed into z-scores. By construction, the z-scores have mean zero and their values, which indicate how far the indicator is removed from its long-term average, are in the interval between -3 and 3 in almost all cases. In the radar chart, the blue area shows the actual conditions of economic activity. It is compared with the situation four months earlier (dotted-line). An expansion of the blue area signals an improvement.

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