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## Surveys to show some signs of life

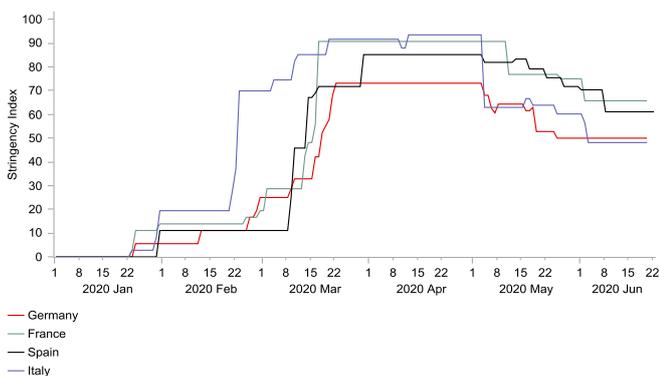
22 June 2020

### PMIs likely to remain in contraction territory despite easing restrictions

A flurry of survey data is likely to reflect the ongoing easing of virus containment restrictions in June, but also serve as a reminder that it will be a long road back to economic normality. The PMIs, flash consumer confidence and various national sentiment indicators are likely to improve, but remain well below the pre-virus figures.

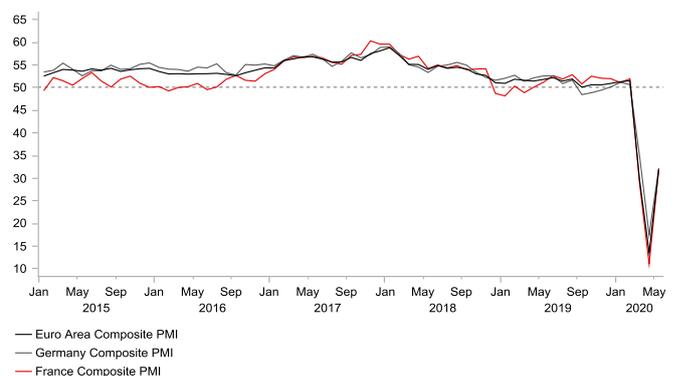
The PMIs will be the focus. These remained firmly in contraction territory in May, despite the fact that some lockdown measures were already being lifted. The survey asks businesses whether output has increased or decreased compared to the previous month. Economies were mostly shuttered through the month of April so any improvement in May should have pushed the index into expansion territory. However, after such an extreme fall in activity respondents probably answer the survey with 'normal' output in mind rather than that of the previous month. The euro area composite PMI duly improved in May, but only to 32 – well below the 'breakeven' mark of 50. We expect further improvement this month. However, the Sentix survey, the earliest sentiment indicator for the month, only showed a limited improvement in June. In China, the Markit manufacturing PMI recovered in March but hasn't budged much since. So, any sharp rebound in the euro area PMIs seems unlikely. We expect the headline composite figure will remain below 50 and only gradually improve over coming months.

### CONTAINMENT MEASURES ARE BEING SLOWLY LIFTED



Source: Oxford COVID-19 Government Response Tracker, Blavatnik School of Government, MUFG Economic Research

### PMIS LIKELY TO REMAIN BELOW 50



Source: IHS Markit, MUFG Economic Research

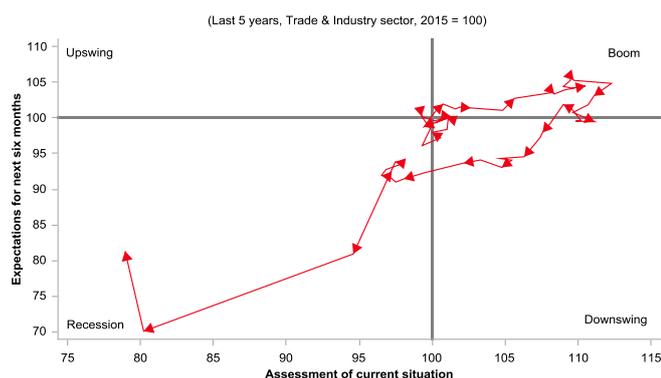
### A fragmented economic recovery across the euro area

We will also be looking at the various national survey indicators released this week. This includes the German Ifo and sentiment indicators from the French and Italian statistical agencies. We note that while the Ifo numbers improved markedly in May, the Italian ISTAT business confidence indicator plunged further to reach new historical lows. As high frequency data such as restaurant booking continue to show the German economy coming back to life fairly quickly, it seems increasingly likely

that the euro area recovery will be fragmented across national borders. The countries most affected by the virus such as Spain and Italy are also set to be hit hard by the persistent drag on their large tourism sectors.

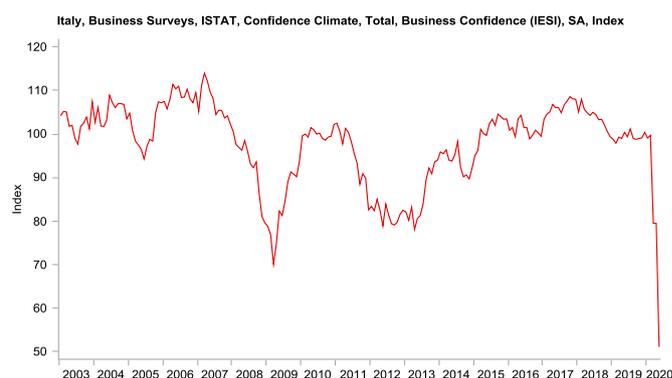
We are currently pencilling in GDP growth of 5% for both Italy and Germany next year, but in level terms the Italian economy will remain relatively lower to the pre-virus peak after falling further this year. Italy has less room to implement the large and well-targeted fiscal stimulus measures this month in Germany which points to a widening gap further down the line. The proposed EU recovery fund will help, eventually, with economic divergence caused by the virus, but progress on that front seems set to be slow. It may be the autumn before an agreement is reached.

## THE 'IFO CLOCK' HAS STARTED TO TICK UPWARDS



Source: Ifo, MUFG Economic Research

## ITALIAN CONFIDENCE HAS CONTINUED TO FALL



Source: ISTAT, MUFG Economic Research

## Looking for PEPP talk in the minutes

On the monetary policy front, there will be a batch of ECB speakers this week and the minutes of the June meeting will be released on Thursday. Lagarde made it clear that the ECB is both keen to front load purchases and stands ready to use the additional flexibility it has with its PEPP purchases versus its standard asset purchase programme if there are signs of financial fragmentation. This minutes and speeches may add more colour on this. We will also look for any clues about how the central bank might react if the economic recovery and inflation outlook falls short of its current projections.

## KEY RELEASES AND MUFG FORECASTS – WEEK BEGINNING 22 JUNE

Day	BST	Region	Indicator/Event	Period	Prev.	Cons.	MUFG
Mon 22 Jun	15:00	EC	Consumer Confidence	Jun A	-18.8	-15.0	-13.2
Tue 23 Jun	08:15	FR	Markit France Composite PMI	Jun P	32.1	47.0	44.0
Tue 23 Jun	08:30	GE	Markit/BME Germany Composite PMI	Jun P	32.3	44.3	46.0
Tue 23 Jun	09:00	EC	Markit Eurozone Composite PMI	Jun P	31.9	42.0	43.2
Wed 24 Jun	07:45	FR	Manufacturing Confidence	Jun	70	79	83
Wed 24 Jun	09:00	GE	IFO Business Climate	Jun	79.5	85.0	86.0
Wed 24 Jun	09:00	GE	IFO Expectations	Jun	80.1	86.6	89.0
Thu 25 Jun	12:30	EC	ECB June Monetary Policy Meeting Account	-	-	-	-
Fri 26 Jun	09:00	EC	M3 Money Supply YoY	May	8.3%	8.6%	8.9

Source: Bloomberg

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