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## MACRO NEWS

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### EUROZONE PMIS POINT TO HEALTHY Q4 START

#### Berenberg Macro Flash

Eurozone PMI, October

	Composite	Manufacturing	Services
<b>Actual:</b>	<b>55.9</b>	<b>58.6</b>	<b>54.9</b>
Previous:	56.7	58.1	55.8
Consensus:	56.5	57.8	55.6
Berenberg:	56.4	57.7	55.5

**Eurozone economy maintains strong momentum and continues to create jobs:** Eurozone business activity did not expand as fast in October as in the previous month, according to the PMI composite which slipped from 56.7 to 55.9. Weaker readings in Germany and among service providers offset stronger activity in France and among manufacturers. However, growth remains healthy, and will probably hit a similar rate like in Q3 (0.5% qoq), after 0.6% in Q1 and 0.7% in Q2. Risks remain skewed to the upside (see chart). Even at this slightly more moderate pace of expansion compared to H1, the rate at which companies expand their workforces rose to the highest in more than a decade. This is very encouraging. Over the last 4 years, the Eurozone economy created already roughly 0.4 million each quarter and 7 million jobs in total. That employment gains among manufacturers rose by the highest since data was collected in 1997, is early evidence that this year's appreciation in the euro did not affect Eurozone exporters too much – thanks to stronger foreign demand and a stabilisation of the exchange rate since early August.

**ECB, go ahead:** As businesses are struggling to keep up with rising demand, capacity pressures are building and allowing an increasing amount of firms to charge higher prices. In Germany this is most obvious. Selling prices rose by the fastest rate in more than six years. The German expansion is well ahead that of its other big Eurozone neighbours. Remember, the ECB is trying to achieve inflation of 'close to, but below 2%' on average across the Eurozone. Germany is the country whose demand and supply fundamentals would point to higher inflation first. That price pressures are building in Germany as its output gap closes will signal to the ECB that other countries whose expansions are younger than Germany's will eventually see price pressures building, too. For the ECB this Thursday the PMI surveys mean it is time to scale back some of its monetary accommodation in 2018. For our view of this week's Governing Council meeting, see [ECB preview: chance for a dovish surprise?](#).

**German business activity slightly softer, but unfazed by elections and euro strength:** In the month after the general election, according to the PMI data German output in October expanded by a strong, but slightly slower pace than in the previous month (56.9 after 57.7). Both service providers and manufacturers reported weaker growth. This supports our call of a mild moderation in momentum of German GDP growth in the fourth quarter to 0.5%, after 0.7% in Q1, 0.6% in Q2 and (likely) in Q3. The risks to this call are, however, on the upside, also as job creation efforts reached one of the highest rates in the history of the survey and new orders rose to the highest reading since April 2011.

**GDP and jobs growth likely to hold up in France:** French business activity unexpectedly accelerated in October yet again according to the French PMI surveys. Rising from 57.1 in September to 57.5 this month, the French PMI composite hit the highest reading since May 2011, and only for a third time in 5 years topped the German PMI composite. The reading provides a preview of the fourth quarter during which



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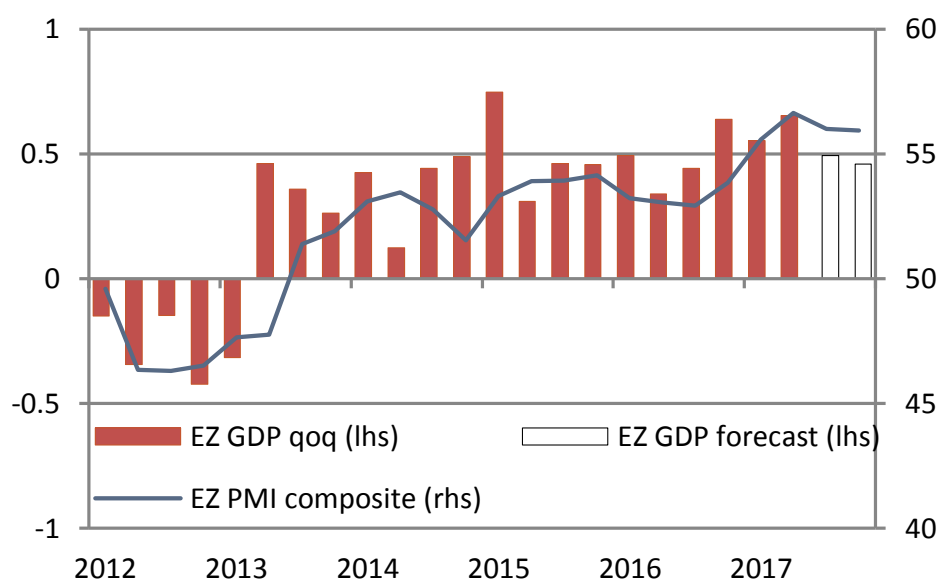
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strong growth will likely hold up, after 0.5% qoq on average in H1 and likely 0.5% again in Q3. We expect the same rate of expansion for the last quarter of 2017. Strong domestic and foreign demand drove business particularly among manufacturers higher. The data indicated that growth for services firms reached the highest level since March. To accommodate for stronger demand, firms stepped up their hiring efforts, with the rate of job creation recording its fastest pace in more than a decade. As new orders remain high, further employment gains are likely. The survey also suggested that President Marcon's relatively swift enactment of labour market reforms played their part. In any case, a buoyant business activity is definitely helpful for making them a success. This will also benefit his intention to continue with his reform agenda (unemployment insurance and pension system).

Outside Germany and France, business activity expanded by a solid pace, but softened to the lowest this year.

**Chart: Eurozone – PMI composite, GDP (qoq, in %) and Berenberg GDP forecast (qoq, in %)**



Quarterly average for PMI, October PMI as proxy for Q4. Sources: Markit, Eurostat, Berenberg forecasts.

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