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LOWER EUROZONE PMIS ADD TO ECB HEADACHE

Berenberg Macro Flash

Eurozone PMI, January

	Composite	Manufacturing	Services
Actual:	50.7	50.5	50.8
Previous:	51.1	51.4	51.2
Consensus:	51.4	51.4	51.5
Berenberg:	50.8	50.8	50.8

Following this week's relatively stable German ZEW expectations and Eurozone consumer confidence, the PMIs highlight the underlying negative trend: the external headwinds have taken hold of the Eurozone and the late 2018 weakness has continued into 2019. The PMI composite fell from 51.1 to 50.7 – the lowest level since July 2013 – with manufacturers leading the way (down from 51.4 to 50.5, see chart). The downside risks to the economic outlook have increased further. The current weakness may last longer and become more entrenched. ECB President Draghi will acknowledge this in his press conference after the Governing Council meeting today, without announcing a policy shift though.

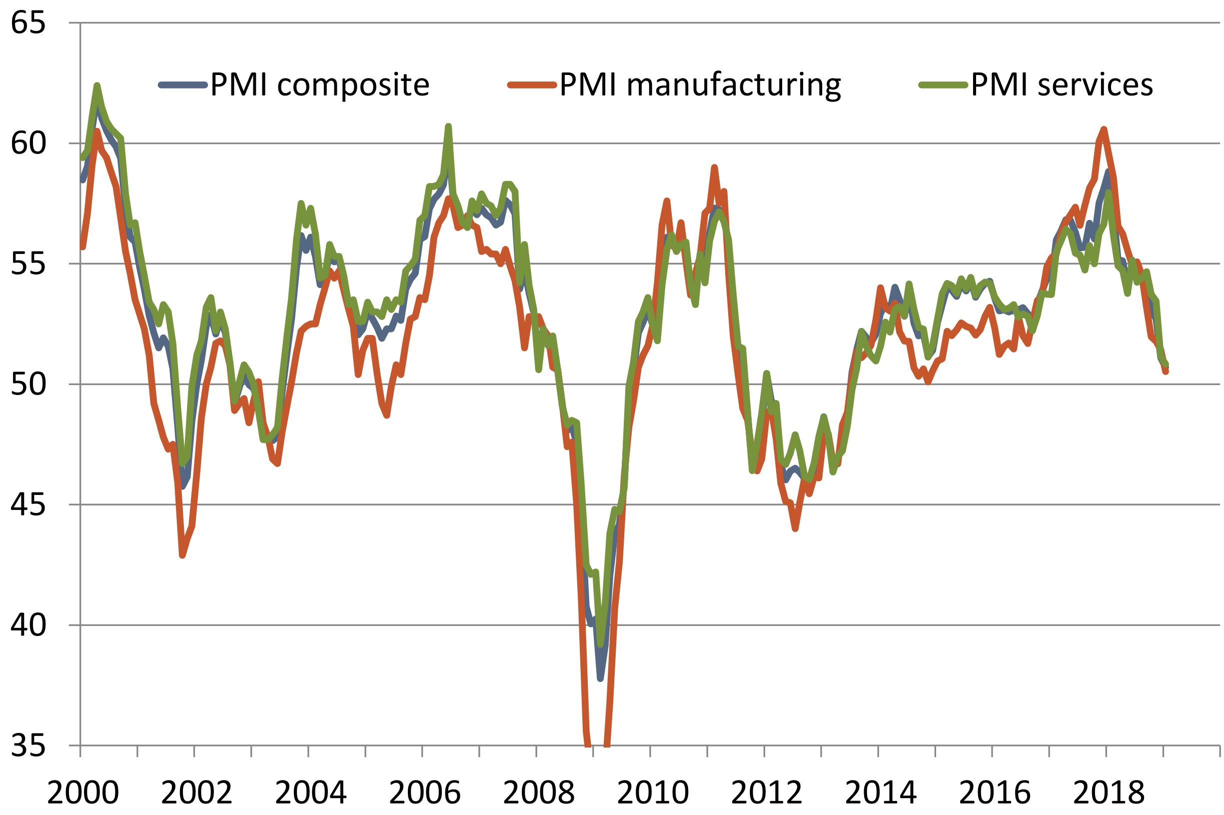
What a grey winter: As we expect more bad news for the next few months the Eurozone PMI composite could dip below 50 before political risks ease. Our GDP call for 2019 is far below consensus (1.1% vs 1.5%) with growth expanding by a mere 0.1% qoq in Q1 and the risk that the pronounced weakness could carry into the second quarter.

It gets worse before it gets better: A brighter spring could follow a grey winter. Throughout 2019 the economy could slowly recover. Some key drivers of domestic demand are still holding up and one-off country specific headwinds (German car sector and low water levels on the Rhine river, French yellow vest protests, Italian budget woes) that depressed sentiment in late 2018 may start to blow less strongly. But we have to watch how the risks clouding the outlook (trade tensions, Chinese slowdown, Brexit, renewed financial market volatility) will play out. Trade data in particular seems a major source of concern as of late.

German domestic economy holding ground against suffering exporters: In Germany, a strong showing of service providers covered up the worst slump among manufacturers in years. The PMI composite edged higher to 52.1 from 51.6 in December. The survey cited the struggling car sector, weaker demand elsewhere ("particularly China") and elevated uncertainty as negative factors.

France is still under the spell of the yellow vests: The real drag to the falling Eurozone PMIs was not Germany, though, but France (and the rest of the Eurozone). Activity in France failed to rebound and instead headed further south from 48.7 in December to 47.9 this month – well in the contraction territory. Falling new orders point to tough months to come. The still ongoing yellow vest protests have particularly disrupted domestically-oriented services (down to 47.5 from 49.0). Activity among French manufacturers picked-up from 49.7 to 51.2. In France, the domestic environment seems to be currently even more challenging than the external one.

Eurozone PMI composite, manufacturing and services



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