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EUROZONE PMIS: STILL SOFT

Berenberg Macro Flash

Eurozone PMI, October

	Composite	Services	Manufacturing
Actual:	**50.2**	**51.8**	**45.7**
Previous:	50.1	51.6	45.7
Consensus:	50.3	51.9	46.0
Berenberg:	50.5	52.0	46.2

No parting gift: On the day of Mario Draghi's last press conference after a Governing Council meeting, Eurozone PMIs hardly provided a parting gift for the ECB President. While the weakness in global trade, business investment and manufacturing production may have hit a bottom, the industrial downturn will unlikely reverse soon, let alone strongly. Plus, as the industrial weakness has spread to services, employment and consumer confidence, the Eurozone's domestic economy only just about manages to keep growth above water without providing a significant boost.

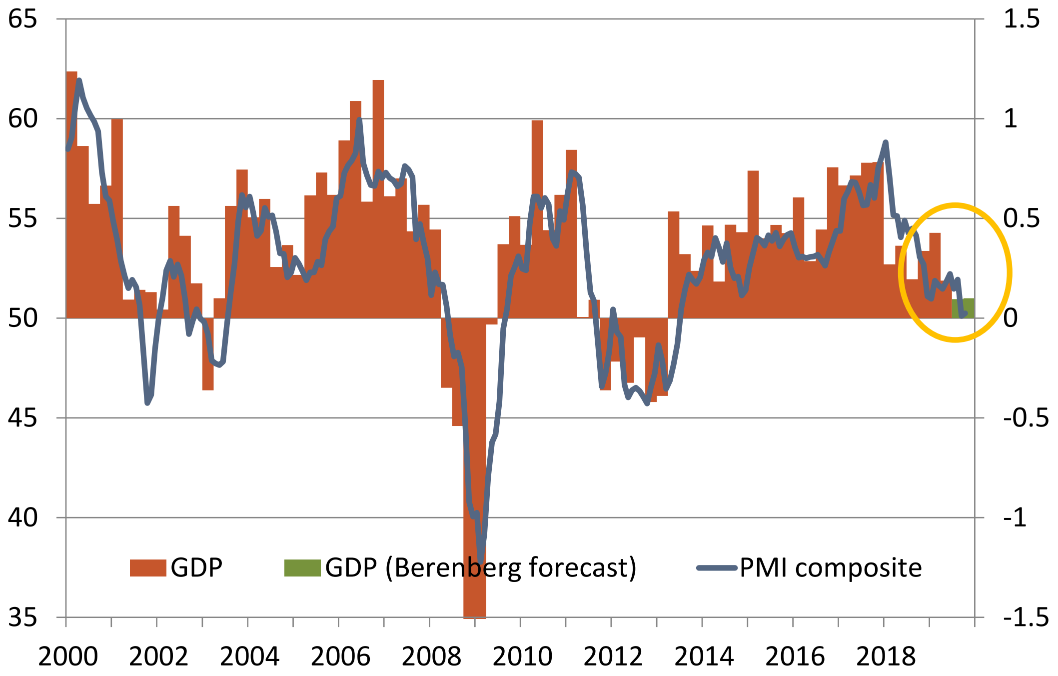
Still soft: Eurozone businesses avoided another setback, but the virtually unchanged October value of the PMI Composite index follows the close-to-seven-year low in September (50.2 after 50.1 in the previous month, see Chart 1). Manufacturing output was flat at 45.7 and activity among service providers up only slightly to 51.8 from 51.6 in September (see Chart 2). French PMIs had stirred up hopes for a Eurozone rebound as the French composite index rose from 50.8 to 52.6. Shortly after the release of the French data, these hopes were shattered: 1) The German PMI composite almost stagnated at 48.6 after 48.5 previously. 2) The Eurozone PMIs and Markit's accompanying press release revealed that the rest of the Eurozone recorded the weakest pace of growth since August 2013.

More substantial progress on trade and Brexit necessary: PMIs are supposed to track activity, but they are of course heavily linked to confidence. Confidence, or the lack thereof, is key for the Eurozone. Progress on trade and Brexit has laid the foundations for entrenched pessimism to give way to a less downbeat outlook in financial markets over the last couple of weeks. But the PMIs highlight that the progress is far from sufficient for a return to healthier levels of business confidence, industrial production and trade – all vital drivers of economic growth.

Eurozone economy close to stagnation in H2: We expect the Eurozone to flirt with stagnation in Q3 and Q4 with GDP qoq growth of 0.1% each after 0.2% in Q2 (see Chart 1). The heavily trade-dependent German economy is very likely going through a mild technical recession (-0.1% in Q3 and Q4 each after -0.1% in Q2), the more domestically-oriented French economy is probably expanding relatively healthily at around 0.2% qoq and the rest of the Eurozone should perform somewhere in between the two biggest economies.

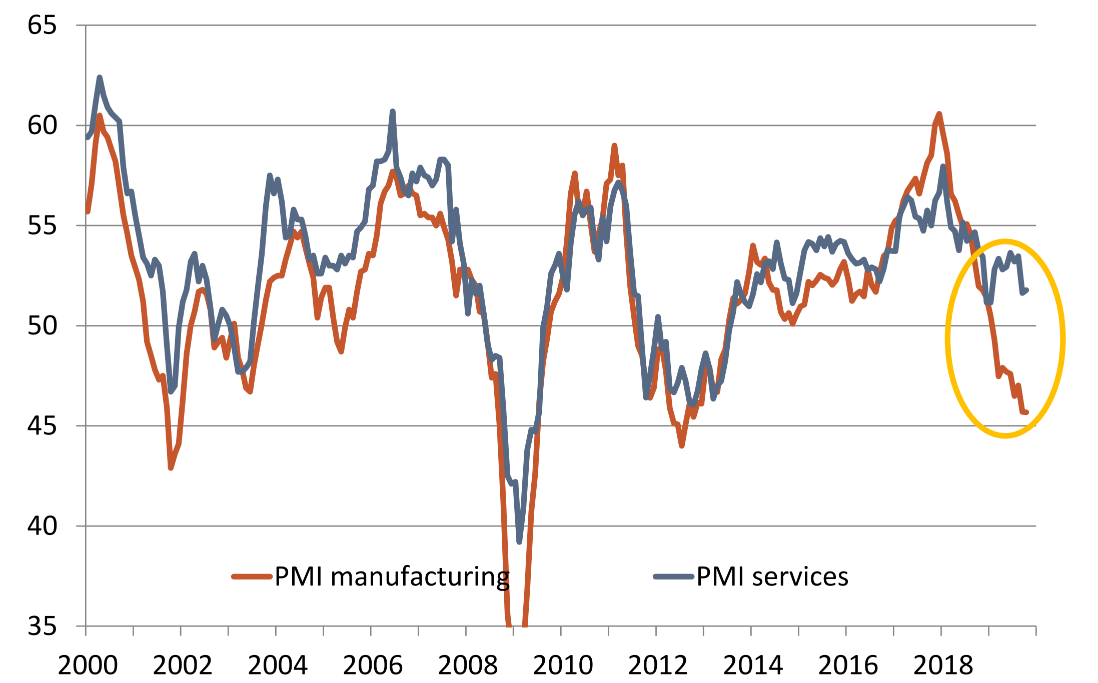
Things could turn slowly to the better in 2020: For our economic base case, we assume that the US-Chinese interim deal will be followed by a period of relative calm between the two sides,. Plus, in mid November Trump will likely allow more time for negotiations with the EU instead of levying car imports with tariffs. If so, the trade-based global economic downturn could peter out around the turn of the year. If trade war risks then recede further, for instance with an additional US-China deal on more issues or an end of the US threat of 25% car import tariffs against the EU, the upturn could gather momentum. Today's PMIs highlight the downside risk to our base case.

Chart 1: Eurozone PMI composite versus GDP (qoq, in %)



PMI composite (50=no change), left-hand-scale, GDP growth qoq in %, right-hand-scale. Source: Markit, Eurostat

Chart 2: Eurozone PMI manufacturing and services



50=no change. Source: Markit

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