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EUROZONE PMIS: MORE SIGNS OF BOTTOMING OUT

Berenberg Macro Flash

Eurozone PMI, November

	Composite	Services	Manufacturing
Actual:	50.3	51.5	46.6
Previous:	50.6	52.2	45.9
Consensus:	50.9	52.4	46.4
Berenberg:	50.9	52.4	46.4

Despite a little slippage of the composite index, the Eurozone PMIs add to the growing number of indicators that suggest the downturn in global trade and manufacturing is approaching the bottom. The PMI manufacturing index edged higher for the second consecutive month from 45.9 in October to 46.6 in November (see Chart 1) led by German manufacturers reporting a smaller drop in activity than in the previous month (up to 43.8 from 42.1). Both domestic and export orders are sending green shoots with the decline in Germany easing and the gains in France picking up.

Of course, it could all still go wrong. If the trade war between the US and China escalates again, if the US starts a new trade war by imposing costly import tariffs on cars from Europe and other regions or if China's generic downturn worsens, global trade and manufacturing output could weaken further. That risk remains serious. Fortunately, the recent news flow has been mostly encouraging. A potential turnaround in early 2020 could be in the cards.

The PMIs highlight that the trade-led downturn in industrial production and investment is spreading gradually to the domestically-oriented parts of the economy. Businesses providing services close to manufacturing such as logistics are not the only ones suffering. In November, the Eurozone PMI subindex for services fell to 51.5 from 52.2 in October (see Chart 1). The service sector's weaker showing – besides a bigger decline in activity among manufacturers in the rest of the Eurozone – ultimately pulled the PMI composite lower (see Chart 2). Both trends are risks to watch.

Consumption-oriented services continue to prove resilient. Driven by still positive employment growth, solid real wage growth (negotiated wages were up by 2.6% yoy in Q3 from 2.1% in H1) and low interest rates households remain confident about their own financial situation. They have scaled back their intention for major purchases over the next 12 months only by a little this year so far. Consumer confidence edged higher in November to -7.2 from -7.6 in October. All bodes well for continued gains in private consumption and domestic demand more generally.

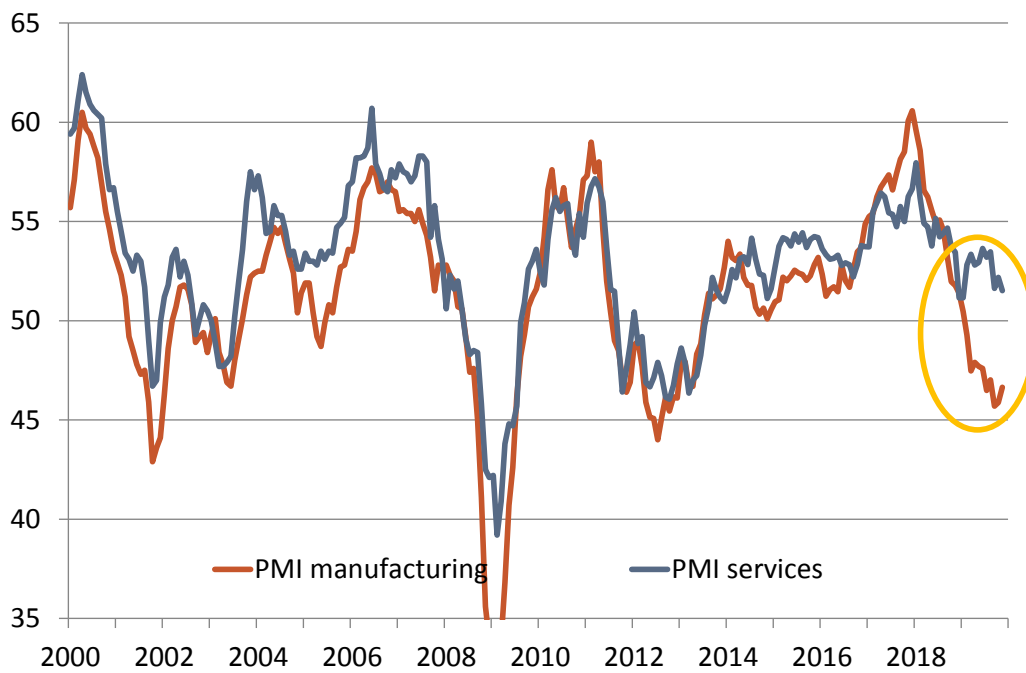
We expect things to turn slowly to the better in 2020. The average of the October and November points to soft growth in Q4 at around 0.1% qoq (see Chart 2). If, indeed, the downturn in industry is bottoming out over the next couple of months and the service sector manages to get off relatively lightly and the rest of the Eurozone, growth could return to a more healthier pace of growth



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throughout 2020 reaching its trend rate of around 0.4% qoq by Q2 (Eurozone and France) and Q3 (Germany).

Chart 1: Eurozone PMI manufacturing and services

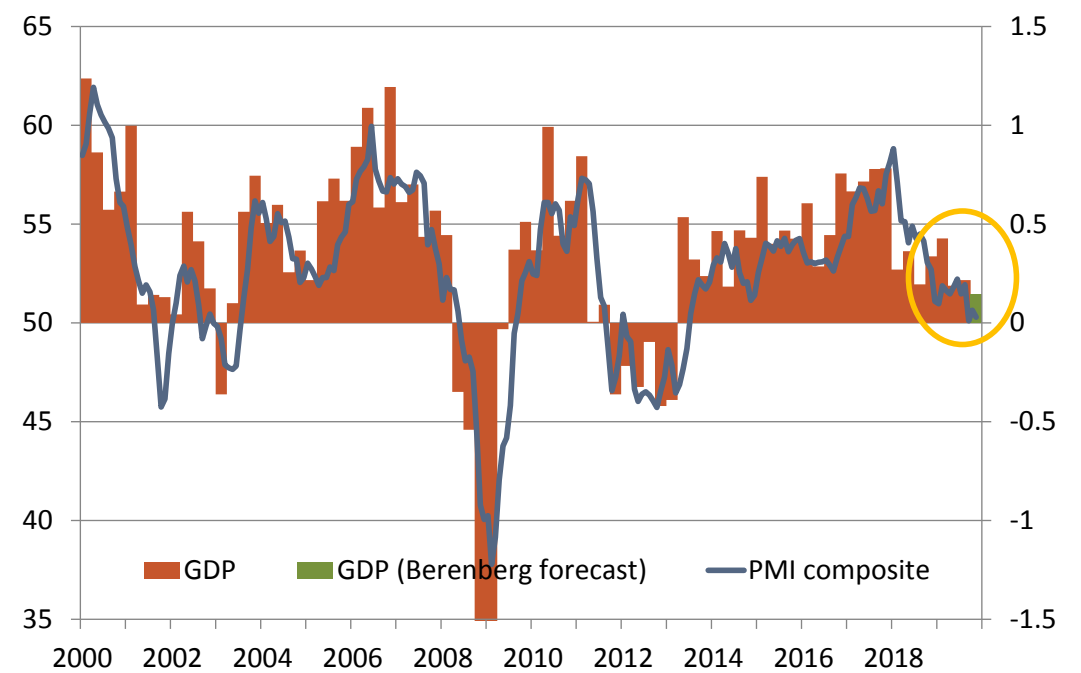


50=no change. Source: Markit



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Chart 2: 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

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