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EUROZONE PMIS: BOTTOMING OUT TAKES TIME

Berenberg Macro Flash

Eurozone PMI, December

	Composite	Services	Manufacturing
Actual:	50.6	52.4	45.9
Previous:	50.6	51.9	46.9
Consensus:	50.7	52.0	47.3
Berenberg:	51.0	52.2	47.3

Bottoming out takes time. Eurozone PMIs, one of the most closely watched gauges for economic activity, disappointed a little in December amid expectations for a small pick-up after stabilisation over the past two months. Nevertheless, we still forecast conditions to gradually improve in 2020.

Industry remains the key source of concern. After flashing slightly less red in October and November, manufacturers suffered a new setback in December. Activity fell by more than in the previous month (45.9 after 46.9 in November). Even in France, manufacturing production stagnated (down to 50.3 from 51.7) and orders contracted. That activity among manufactures in Germany (43.4 after 44.1) and the rest of the Eurozone declined by more than in November also added to that. The sustained decline in manufacturing activity suggests that the industrial sector will likely continue to shave off a few points from GDP growth in Q4 – as it did in Q2 and Q3.

Yet again service providers saved the day for the economy. Showing significant resilience to the woes of manufacturing, activity picked up by more than we and consensus had expected from 51.9 in November to 52.4 in December.

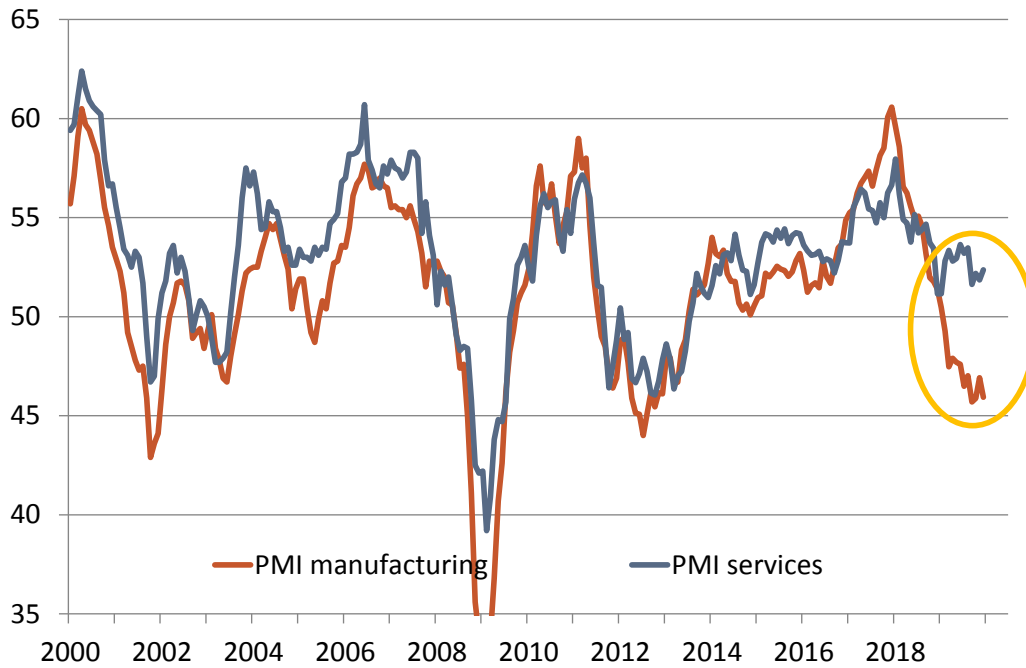
The Q4 average of the PMI composite of 50.6 remains the lowest since Q2 2013 and suits our below-consensus qoq GDP call of 0.1% for Q4.

Going forward, we expect Eurozone PMIs to edge higher as economic activity rebounds. Since September, we have argued global trade and manufacturing output should bottom in early 2020 before recovering gradually thereafter. The outlines of a surprisingly ambitious US-Chinese trade deal announced last Friday and the reduced uncertainty about the outcome of the Brexit saga in the wake of Thursday's UK election brighten the outlook for global trade and manufacturing next year. According to Markit, companies in December worried mostly about Brexit-related uncertainties, US trade wars in addition to “more general concerns about slowing global growth in 2020”. In our view, the easing of such concerns should pave the way for a gradual upturn in 2020 – see [Global trade: two steps forward, one step back](#). Qoq GDP growth should improve over the course of next year with a increase to 0.2% in Q1, 0.3% in Q2 and 0.4% from Q3 onwards.



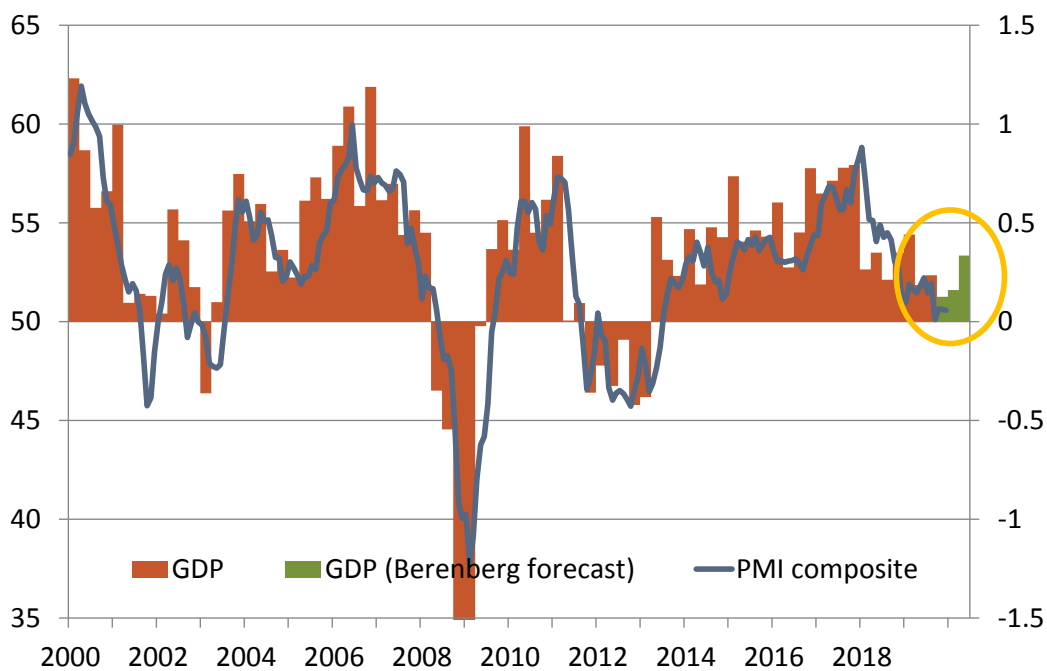
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Chart 1: Eurozone PMI manufacturing and services



50=no change. Source: Markit

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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