



BERENBERG

PARTNERSHIP SINCE 1590

Florian Hense, Economist | Florian.hense@berenberg.com | +44 20 3207 7859

EUROZONE PMI AT 20-MONTH LOW POINTS TO DENT IN GROWTH

Berenberg Macro Flash

PMI Eurozone, September

	Composite	Services	Manufacturing
Actual:	52.6	52.1	52.6
Previous:	52.9	52.8	51.7
Consensus:	52.8	52.8	51.5
Berenberg:	52.8	52.8	51.5

Mediocre growth ahead: The Eurozone PMI composite dipped to a 20-month low of 52.6 in today's preliminary reading, after 52.9 in July and versus expectations of 52.8. The three month average for the third quarter, fell to 52.9, a little below the second quarter average of 53.1.

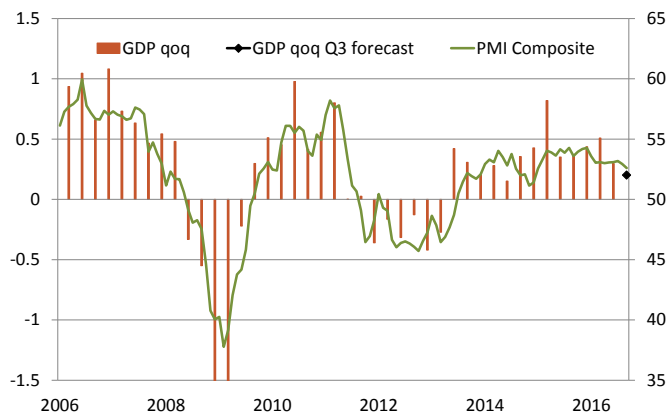
Services dragged down by weak German performance, manufacturing upbeat: Services weakened to a 21-month low in September to 52.1, after 52.9 in August and versus expectations of 52.8. The slowdown was largely driven by **Germany** where the service sector barely held positive (50.6). But German domestic economic fundamentals are healthy with significant gains in income and employment. The weak reading for services is probably an outlier which may partly reverse in the next months to come. **France** on the other hand reported a robust increase in the service sector, offsetting the ongoing stagnation in manufacturing. Manufacturing for the Eurozone as a whole was upbeat. The reading improved to better-than-expected 52.6 (versus expectations of 51.5) and after 51.7 in the previous month. While the foreign environment has become more challenging after Brexit, given the weaker Sterling, the recent rebound in sentiment in the UK may now support confidence among Eurozone exporters so that the overall Brexit effect will remain modest.

Small upside risk for our Q3 call? The PMI is a timely gauge of activity in the Eurozone economy (among the first to be released for September), and one with fairly good now-casting power (the correlation between the PMI composite quarterly readings and GDP qoq growth since 2000 is almost 70%). GDP growth in the Eurozone slowed in Q2 to 0.3% from 0.5% in Q1. The Q3 average of the PMI composite suggests that the Eurozone economy will, if we take it at face value, expand at a pace of just 0.3% in Q3 versus the previous quarter (trend: 0.4%). This still implies a small upside risk to our call for GDP growth of 0.24% (see chart). But uncertainty arising from political risks such as the US elections and the Italian referendum in November/December will likely weigh on investment and the outlook. Also early hard data at the start of the third quarter has shown some weakness. While the Eurozone economy will not be affected very much by the Brexit vote, the near-term outlook remains subject to downside risks. We stick to our call for just 0.24% qoq growth for Q3 and Q4. As the ECB is more upbeat about the near-term outlook, the likely dent to growth will be an argument in December to prolong asset purchases beyond March 2017.



MACRO NEWS

PMI composite vs. GDP qoq growth, in %



Source: Markit.

Eurozone PMI

	SEP	AUG	JUL	JUN	MAY	APR
Composite	52.6	52.9	53.2	53.1	53.1	53.0
Manufacturing	52.6	51.7	52.0	52.8	51.5	51.7
Services	52.1	52.8	52.9	52.8	53.3	53.1

This message has been produced for information purposes for institutional investors or market professionals, it is not a financial analysis within the meaning of § 34b or § 31 of the German Securities Trading Act (Wertpapierhandelsgesetz), no investment advice or recommendation to buy financial instruments. The message does not claim completeness regarding the information on the developments referred to in it. On no account should it be regarded as a substitute for the recipient's procuring information for himself or exercising his own judgements. The message may include certain descriptions, statements, estimates, and conclusions underlining potential development based on assumptions, which may turn out to be incorrect. Berenberg and/or its employees accept no liability whatsoever for any direct or consequential loss or damages of any kind arising out of the use of this message or any part of its content. -- For full economics reports please visit our website or contact capitalmarkets@berenberg.de.

Joh. Berenberg, Gossler & Co. KG
60 Threadneedle Street
London EC2R 8HP
Phone +44 20 3207 7859
www.berenberg.com
florian.hense@berenberg.com