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## **EUROZONE PMIS POINT TO STRONGEST GROWTH SO FAR IN 2016**

### Berenberg Macro Flash

PMI Eurozone, October

	<b>Composite</b>	<b>Services</b>	<b>Manufacturing</b>
<b>Actual:</b>	53.7	53.5	53.3
Previous:	52.6	52.2	52.6
Consensus:	52.8	52.4	52.6
Berenberg:	52.8	52.4	52.6

Economic growth in the Eurozone accelerated at the start of Q4 according PMI data. The October flash reading of the PMI composite – a good measure of the current state of the economy – reached its highest level so far this year, led by an uptick in Germany. Additional survey data pointed to rising order books and an acceleration in the pace of hiring. This supports our call that the Eurozone economic growth will accelerate in coming months.

The composite gauge for the Eurozone economy rose to a 10-month high of 53.7 in October – after 52.6 in September and versus consensus expectations of 52.8. Net balances increased for both manufacturing (53.3 vs. 52.6 in September) and services (53.5 vs. 52.2) – the strongest gains since the beginning of the year. In the manufacturing sector payroll growth climbed to the highest since May 2011. Hiring in the service sector also ticked (slightly) higher. With today's number exceeding the data recorded for Q3 and Q2 (52.9 and 53.1, respectively), we expect growth in the fourth quarter to accelerate to 0.33% qoq, after 0.24% in Q3 (see chart). Inflationary pressures, at the likely pleasure of the ECB, showed signs of life, with prices charged rising the largest for over five years. Survey data revealed that firms not only passed on rising costs, but could afford to increase prices also as they struggled to keep pace with demand.

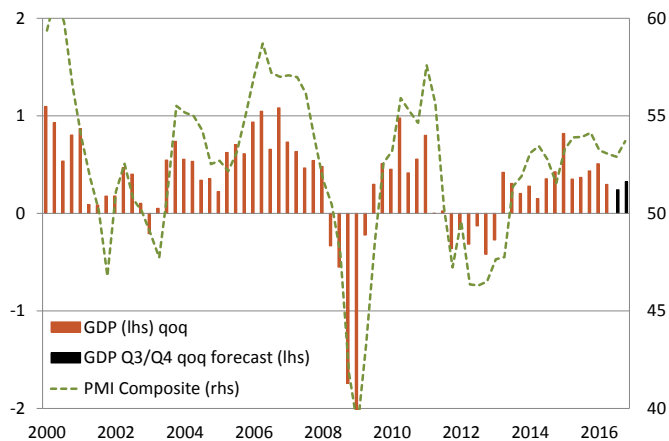
**Solid, broad-based growth in Germany:** Earlier data of the German PMI composite recovered from its 16-month low in September (55.1 vs. 52.8 in September) on the back of the sharpest rise in new business this year so far. Both services and manufacturing reported faster expansions (54.1 vs. 50.9 and 55.1 vs. 54.3, respectively), with the latter recording a 33-month high. The rebound in the PMI services in October indicates that September's 21-month low was just an outlier. The solid, broad-based rise is in line with this month's ZEW jump and last month's strong Ifo. Today's reading above the last two quarterly averages – 53.8 in Q3 and 54.2 in Q2, when the economy grew by (likely) 0.3% and (officially) 0.4% – signals steady GDP growth at the start of the final quarter in line with our forecast of 0.32%.

**Divergence in France between slower services and stronger manufacturing:** Separate data for France showed output rising at a slightly softer rate compared to September and consensus expectations (52.2 versus 52.7 and 52.8, respectively), due to weaker services (52.1 after 53.3 in September). Manufacturing, on the other hand, crossing the PMI's threshold of 50 that signals positive growth since February, improved to a 31-month high (51.3 vs. 49.7 in September) on rising exports indicating that the industrial sector shows signs of a comeback. Today's reading is above the average for Q3 of 51.6, its best level so far since Q2 2015. So, despite the slip, the October numbers could be an early sign for the upward trend of the French economy to be sustained in the fourth quarter.



## MACRO NEWS

### Quarterly PMI composite vs. GDP qoq growth, in %



Source: Markit.

### PMI Eurozone

	OCT	SEP	AUG	JUL	JUN	MAY
Composite	53.7	52.6	52.9	53.2	53.1	53.1
Services	53.5	52.1	52.8	52.9	52.8	53.3
Manufacturing	53.3	52.6	51.7	52.0	52.8	51.5

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