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Economic Research

Economic Briefing

Euro area – PMIs slightly better, but still far from good

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In December, the Composite Purchasing Managers' Index for manufacturing and the services sector in the euro area made up for at least part of the significant decline in the previous month, rising from 48.3 to 49.5 points. However, the index is still in a territory in which the economy has mostly shrunk in the past, and the trend is still pointing downwards. For a reliable turnaround signal, the index would have to rise further in the coming months. All in all, the euro area economy is unlikely to expand significantly in the winter half-year.

Good news for the euro area economy just before Christmas: the Composite Purchasing Managers' Index for manufacturing and the services sector rose from 48.3 to 49.5 points in December, making up for part of the significant decline in November. However, the index is still in a territory where the euro area economy has mostly shrunk in the past, and the trend is still pointing downwards despite the increase in December.

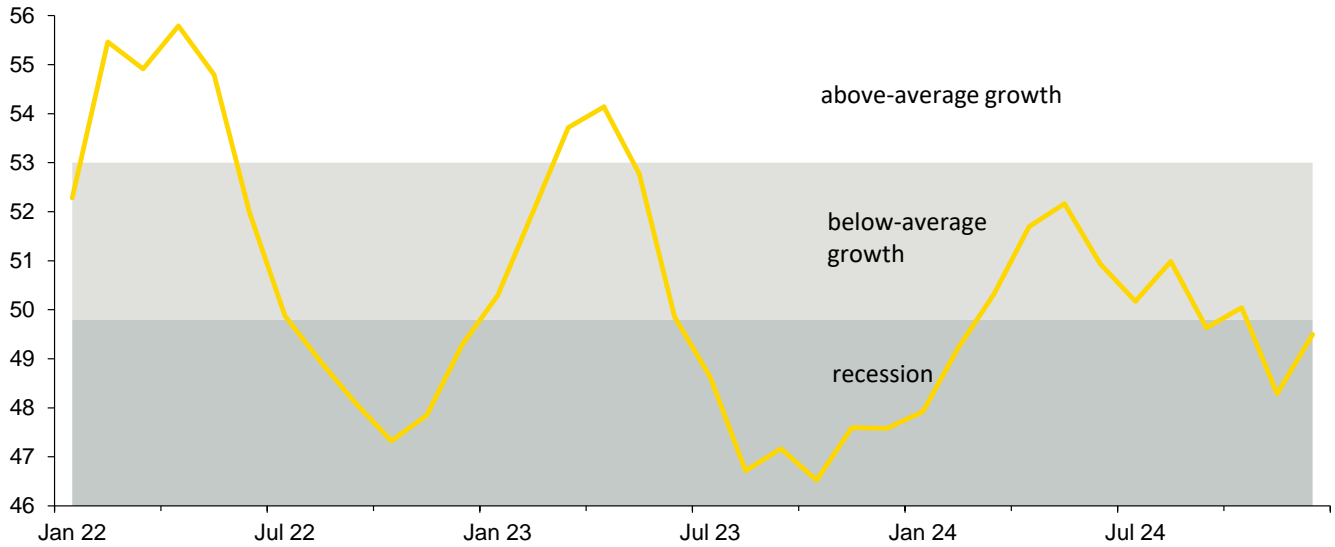


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Chart 1 - Euro area PMI still in recession territory

Euro area composite PMI, seasonally adjusted monthly figures



Source: S&P Global, Commerzbank Research

A look at the two sectors shows a mixed development. The index for the service sector improved quite significantly from 49.5 to 51.4, signaling a slight expansion of the sector again. In contrast, the index for manufacturing stagnated at the low November level and, with a value of 45.2, signals a clear contraction in this sector.

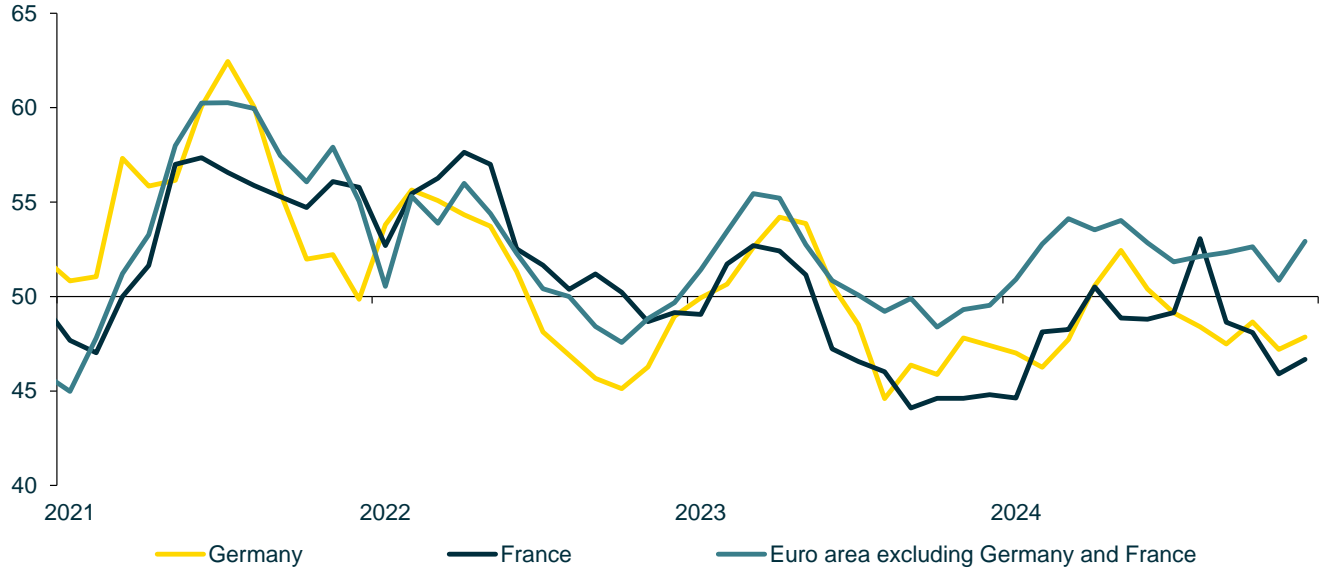
However, there were differences between the individual countries. While the situation in German and French manufacturing continued to deteriorate and the index for both countries is well below the 50-point threshold at around 42 points, it has improved in the rest of the eurozone and is now probably only just below this threshold at around 49 points.

The same applies to the composite index. While this remains below 50 for Germany and France despite the slight increase in December, the average for the other countries is well above 50 again, signaling an expansion of the economy (Chart 2).



Chart 2 - Germany and France still the weak spots of the euro area

Composite PMIs, seasonally adjusted monthly figures



Source: S&P Global, Commerzbank Research

All in all, it would certainly be premature to detect a reliable sign of a turn for the better from the December increase in the purchasing managers' index. This is yet to happen for the two largest countries in the monetary union in particular. In fact, there is much to suggest that the economy in the euro area will barely grow in the winter half-year.



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