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Economic Research

Economic Briefing

# Euro-PMIs: Stagnation at precarious level

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**The composite Purchasing Managers' Index, the most reliable economic barometer for the euro area, rose slightly in October (from 49.6 to 49.7). Last month, the indicator had fallen surprisingly sharply. The indicator thus remains on the edge of the range in which the economy has often contracted in the past. There are therefore many indications that the euro area economy will be weak in the second half of the year.**

The composite Purchasing Managers' Index for the manufacturing and services sectors in the area rose slightly in October. The index rose from 49.6 to 49.7, which is in line with the average expectations of the economists surveyed in advance. The index for France fell significantly (from 48.6 to 47.3), but a surprisingly positive development in Germany (from 47.5 to 48.4) compensated for this. The indicator for Germany has thus halted its downward trend, having previously fallen four times in a row.

In the euro area as a whole, sentiment has deteriorated slightly in the services sector (from 51.4 to 51.2) and improved in manufacturing (from 45.0 to 45.9) (Table 1). The indicator for the economy as a whole thus remains at the edge of the range in which the economy has contracted in the past (Chart 1).

This does not bode well for the euro area economy in the fourth quarter. The ECB's falling key interest rates are clearly not yet having a positive effect. On the contrary, the previous interest rate hikes are still having an impact. In addition, consumer sentiment is only moving sideways despite higher real wages.

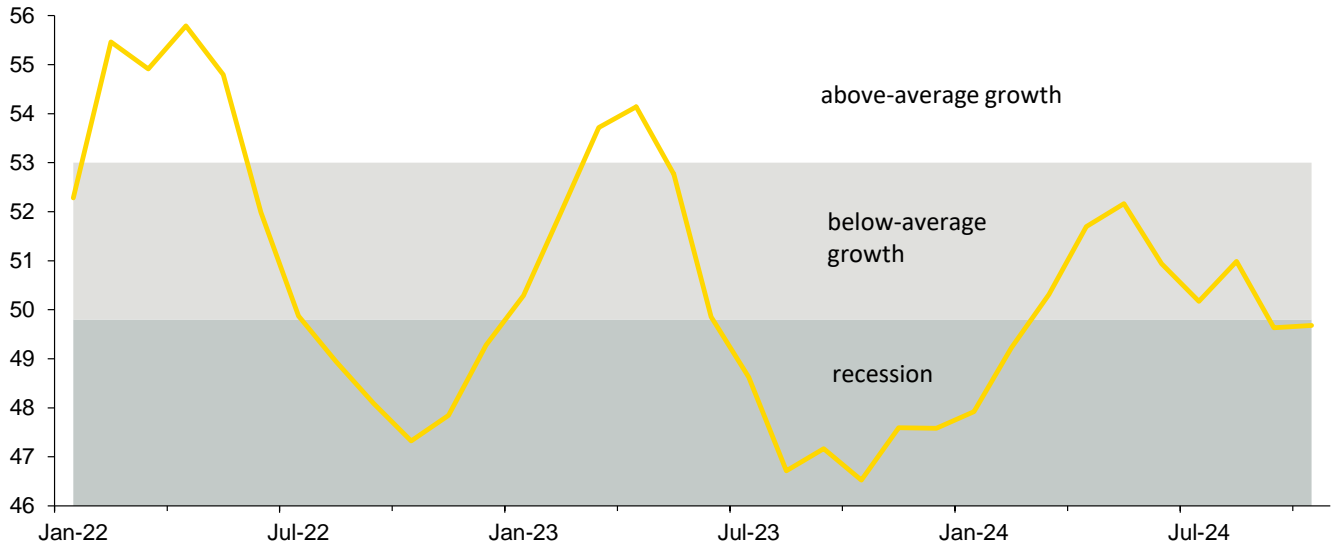


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**Chart 1 - Weak sentiment implies stagnation at most**

Euro area composite PMI, seasonally adjusted monthly figures



Source: S&P Global, Commerzbank Research

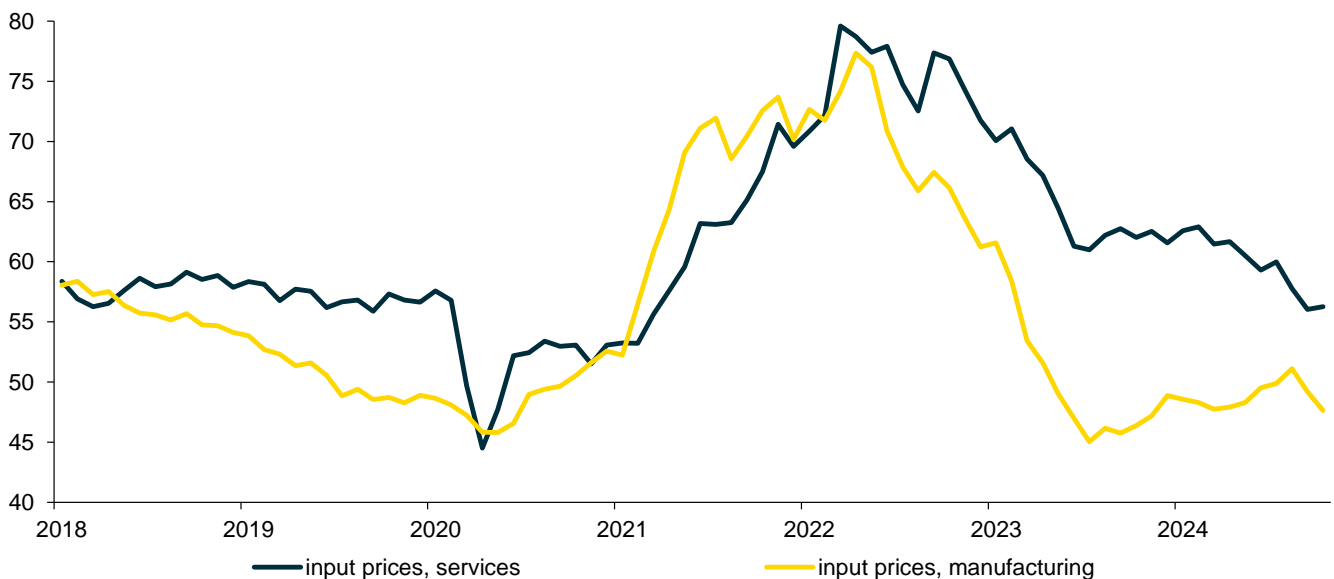
**ECB is likely to cut interest rates further**

Purchasing managers have also documented less pressure on prices for inputs into production. This applies to both services and goods (Chart 2). In both areas, respondents currently estimate price pressure to be roughly as low as in the years before the coronavirus pandemic. This could tempt the ECB to consider the fight against inflation as won.

The central bank’s attention will therefore probably now increasingly shift to the weak economy. For the doves in the ECB Governing Council, an economy that is barely growing is likely to be an argument that the current key interest rate is still too high. We therefore expect the ECB to cut interest rates by a further 25 basis points at its December meeting this year.

**Chart 2 - Input prices have fallen to levels before the pandemic**

Euro area PMI on input prices, seasonally adjusted monthly figures



Source: S&P Global, Commerzbank-Research

**Table 1 - Purchasing Managers Index**

Euro Area, Purchasing Managers Index, seasonally adjusted

Indicator	Oct-24	Forecasts		Sep-24	Aug-24	Jul-24
		CB	Consensus			
Manufacturing	45.9	44.8	45.1	45.0	45.8	45.8
Services	51.2	51.3	51.5	51.4	52.9	51.9

Source: Bloomberg, Commerzbank-Research



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