

Eurozone is likely in a shallow technical recession

The November PMI does not provide much evidence that eurozone GDP growth will turn positive in the fourth quarter, but the good news is that the downturn is not deepening. We're currently likely in a very shallow technical recession



The eurozone composite PMI ticked up from 46.5 to 47.1 in November, which still indicates a contraction in business activity. New orders continue to fall as backlogs of work are being depleted. This is more so the case for manufacturing, where the downturn is deeper than for services. Still, new orders fell slightly less in November than in October. This confirms the view that the downturn is not worsening at the moment, but there is little evidence of recovery either. Overall, it looks like this is a shallow technical recession.

The employment outlook continues to deteriorate. Services job growth had kept overall employment growing up till now but the survey suggests that employment in this sector is now growing at a snail's pace. With manufacturing shedding jobs, this is resulting in a marginal downturn. To us, this fits into the bigger picture of a labour market weakening on the back of a few quarters of negative growth.

Inflation is on a solid downward trend, but the PMI indicates that input cost pressures remain and that selling price inflation ticked up in November compared to last month. This is mainly coming from services as prices in manufacturing continue to fall. This serves as a warning that inflation pressures are not over yet, even though inflation does continue to move in the right direction with demand having weakened materially.

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