

Eurozone: Leaves are falling, so is the PMI

A fall in the PMI in October signals a weakening of Eurozone momentum at the start of the fourth quarter. If the stock market corrects further, it would constitute an additional brake on the Eurozone's growth pace



ECB headquarters,
Frankfurt

52.7 Eurozone PMI, October
From 54.1 in September

With markets getting increasingly nervous about the Italian budget story and the Brexit troubles, it is important to have a good grip on the underlying growth picture. The flash PMI for October gives a first glimpse on where the Eurozone economy is heading. And the picture is not terrific.

The composite flash PMI fell to a 25-month low of 52.7 from 54.1 last month, with the manufacturing PMI coming in at 52.1 (from 53.2 in September), while the Services PMI shrank to 53.3 from 54.7. Sentiment in the more internationally oriented manufacturing sector is already

suffering from concerns regarding trade wars, tariffs, Brexit and an overall increase in political uncertainty. Manufacturing orders actually fell for the first time since November 2014. But the cooling is also spilling over to the services sector.

Employment growth continued to rise, though the pace of growth is weakening. At the same time price pressures remain important. While they are already easing somewhat in the manufacturing sector, services sector charges rose at one of the strongest rates in a decade.

How dangerous is the recent stock market rout in terms of the growth outlook? While you could argue that the stock market is tanking precisely because of fears of a severe slowdown, the relationship actually runs both ways. Falling asset prices reduce wealth and can thereby affect consumption and growth. Although most empirical studies find that the marginal propensity to consume out of equity wealth is lower in the Eurozone than in the US, the impact is certainly not zero. Recent [work](#) by the ECB shows that 1 euro change in financial wealth results in 0.7 cents worth of change in consumption in the short run and 4.5 cents in the longer run. So, a further decline in stock markets might be a modest brake on consumption growth. On top of that tanking stock markets could also weigh on business confidence, thereby affecting investment decisions. But before getting carried away by this reasoning we should still remember that the correction until now remains limited. Only when we get another 10 to 15% decline, we really should start to worry about the negative growth impact.

While today's figure is not yet a sign that an economic winter is near, it certainly confirms our story that peak growth is now surely behind us. The PMI figure is compatible with a 0.3% Quarter-on-Quarter GDP growth, a deceleration from the pace seen in the first half of the year. Thanks to base effects average GDP for this year is still likely to come out at 2.0%, but the current growth pace means that next year's GDP growth will fall back to something close to 1.5%.

Author

Peter Vanden Houte

Chief Economist, Belgium, Luxembourg, Eurozone

peter.vandenhoute@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by

the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.