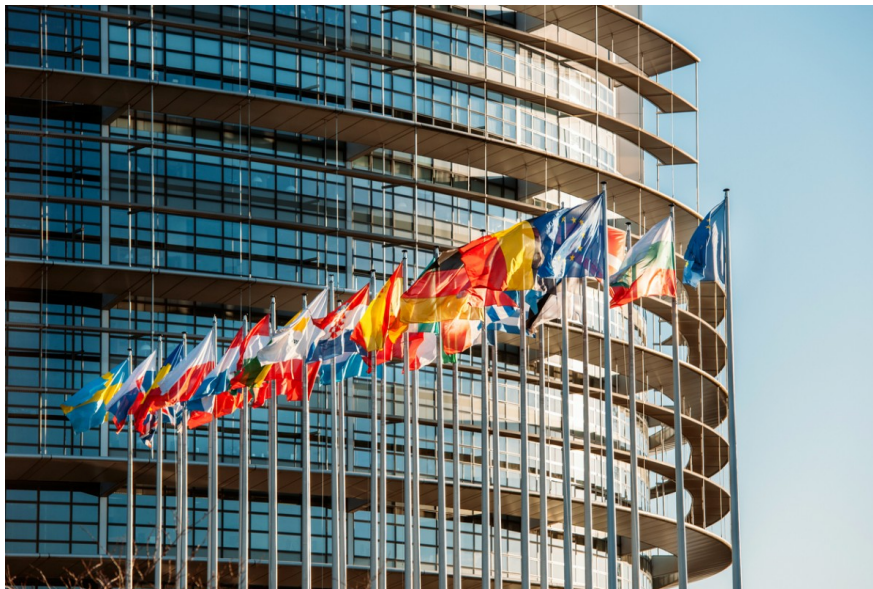


Eurozone PMI drops sharply in December

The decline from 52.7 to 51.3 suggests the revival of GDP growth in the Eurozone may not have happened at all. While the ECB was relatively optimistic about the growth outlook yesterday, today's PMI adds to the worries



Source: iStock

Yesterday, the ECB president Mario Draghi was talking about “continuing confidence with increasing caution” when discussing the Eurozone economy. Today, the PMI sends a message that is more along the lines of “continuing confidence with alarm bells ringing”.

GDP growth in the third quarter slowed to 0.2% with expectations of a bounce back straight after. Even though the PMI is still signalling output growth, the question is whether growth has even picked up at all despite one-offs affecting the third quarter reading.

New orders barely grew in December and export orders showed the sharpest contraction seen since the start of the indicator. The global economic environment is hindering Eurozone output, but internal factors like the French protests also played a role in the weak December reading. The weaker growth environment is translating in slower hiring as well at the moment, which means the outlook for consumption growth is becoming modest as well. Optimism in both industry and services weakened.

The ECB ended net asset purchases yesterday, but the question is how much policy can be normalised further in a slow economic environment.

A first rate hike is planned for autumn 2019 at the earliest. Today's PMI confirms an already slow growth environment and with plenty of downside risks possibly materialising before summer next year, doubts about the forward guidance are likely to increase.

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