

Eurozone PMI remains in contraction territory as ECB considers pace of rate cuts

The composite PMI remained broadly stable, increasing from 49.6 to 49.7 in October. The survey is in line with a weak economic environment with slowing inflation thanks to softening demand



For the ECB, the debate about how fast to move to neutral will no doubt be heated ahead of the December meeting

The eurozone PMI has been on the decline since June, causing doubts about an already frail economic recovery from the energy crisis. So much so that the European Central Bank has decided to pick up the pace in terms of rate cuts. Listening to ECB President Christine Lagarde at the latest press conference, she seemed to put a lot of weight on the deterioration of survey data in explaining the decision to cut rates in October.

That makes today's release all the more relevant for markets, which are increasingly pricing a 50bp cut for December. At the IMF meetings in Washington, hawks have been pushing back against a 50bp cut if economic circumstances do not deteriorate much further. This mostly indicates that the pace of cuts remains very much open ahead of following meetings.

The PMI was slightly up thanks to an easing contraction in manufacturing, hardly something to

cheer about since the manufacturing sector has been in contraction since late 2022. The services sector continues to drive economic growth for now, but the survey did note a further weakening of new orders for the sector.

This means that the outlook for the economy remains sluggish at best for the foreseeable future, with businesses responding by reducing headcount according to the survey. The weakening economy and sluggish incoming demand also means that the inflation environment remains benign according to the survey.

At the same time, hard data on July and August has not been all too bad, which means that GDP growth in the third quarter could surprise on the upside. With survey data continuing to come in weak though, this may prove to be a dead cat bounce. For the ECB, the debate about how fast to move to neutral will no doubt be heated ahead of the December meeting.

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