

Snap | 21 February 2025

## Eurozone PMI shows little relief from stagnation just yet

The PMI indicates stabilising economic activity, but declining new orders and hiring reveal a weak short-term outlook despite stock market optimism on Europe



The eurozone's main weaknesses were concentrated in France as Germany and the rest of the region showed expanding output

After a decent start to 2024, last year ended on a weak note as the eurozone economy fell back into an all-too-familiar stagnation. The start to 2025 shows signs of stabilisation, with the composite PMI for the eurozone at 50.2 in February, unchanged from last month. This suggests continued muddling through around 0%. That's not great, but there's at least no sign of activity deteriorating further. The weakness was concentrated in France as Germany and the rest of the eurozone showed expanding output.

Manufacturing has shown some signs of bottoming out, with the manufacturing output PMI increasing from 47.1 to 48.7. This still indicates contraction, but the pace of the decline is slowing. Services are still showing growth, but this is despite weakening new business. Consumer confidence crept up a bit in February but remained solidly below the long-term average. The downbeat consumer is causing household consumption to remain muted amid global uncertainty, which holds back services activity.

With orders still declining, businesses indicating that they are reducing workforces and

possibly disruptive tariffs on the table, the outlook remains very uncertain for the coming months. Stock markets have become more upbeat about Europe recently, but improving sentiment is difficult to justify looking at the short-term outlook.

Even though the European Central Bank seems convinced that inflation is under control, cost pressures do continue to creep up for businesses. In February, the PMI again flagged rising input costs that are being priced through to the consumer to some extent. Then again, it's a stretch to expect a marked flare up of medium-term inflation in the current weak demand environment. We expect the ECB to continue to lower rates for the time being.

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