Eurozone PMI signals economy almost stalled in January

The PMI fell to 50.7 in January from 51.1, indicating that 1Q is again off to a disappointing start. The lack of recovery in January will add to the heated debate about the state of the economy at today's ECB meeting

Source: Shutterstock

The big question about the eurozone economy is currently when the bottom of the slowdown will be reached. A bounce back was already expected in 4Q, but even at the start of the new year there are few signs of recovery. The rate of output growth was the weakest since mid-2013 and new orders for goods fell for the fourth month in a row, according to the survey. Dropping export orders were again an important factor, indicating that the weaker global growth environment is as much part of the slowdown story as one-off domestic factors.

While the eurozone economy was starting to push the limits of production capacity last year, the PMI indicates that this is less the case at the moment. Backlogs of work are decreasing, indicating that output is being maintained by working through old orders as new orders are coming in at a weaker pace. Declining new orders are also the reason for cooling employment growth in both industry and services at the moment. Still, continued job growth will underpin domestic demand

for the coming months.

The weak PMI was heavily influenced by France again, which saw a steepening decline in output, according to the PMI. While the 'yellow vests' may have been an important driver here, the question is whether this is not also reflecting the global slowdown. In Germany, manufacturing did not get the bounce back that was eagerly awaited either. Service sector growth was the driver for a slightly higher composite PMI for Germany. A weak growth rate for the eurozone seems to be in the making for 1Q and questions about how temporary this slowdown is are becoming more prominent.

A cautious ECB is to be expected today and this PMI adds to the growth worries that will be addressed at the governing council meeting. Downside risks have clearly been dominant recently and the ECB is lucky that it does not have to make any big decisions this afternoon on data that reflects a lot of uncertainty about where the eurozone economy is headed this year.

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