

Snap | 16 December 2019

## Eurozone PMI: stable with further weakening in manufacturing

The composite eurozone PMI was unchanged at 50.6 in December. Service sector resilience keeps GDP growth positive, but recession risk remains despite moderating global trade concerns



A bottling factory in Milan, Italy

Let's start with the positive news: the eurozone's service sector remains resilient as the industrial recession is about to be extended into its third year. Service sector strength is boosted by a surprising labour market and contagion has been limited so far as problems in industry are in part concentrated in the auto sector and its supplying sectors. Still, whether this remarkable resilience can continue is the question as employment growth is slowing, weakening the prospects for domestic demand growth over the winter months.

The further weakening in the manufacturing PMI came as somewhat of a surprise as surveys had recently indicated that the downturn had been moderating. The continued manufacturing contraction throughout Q4 indicates that recession concerns, while moderating somewhat due to better geopolitical news, can still not be discarded for now.

Risk of contagion to the service sector remains until downside risks have fallen and result in a pickup in manufacturing activity and confidence. While the first is happening with a phase one trade deal set to be signed soon and a British election result that lowers the chances of a cliff-edge

Brexit, the question is whether this comes soon enough to have a quick impact on manufacturing activity and confidence. If it does, the eurozone could be in for a positive surprise in 2020. If not, then talk of the F-word may be just as common in 2020 as it was 2019.

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