

## No relief for eurozone economy at start of 4Q

The eurozone PMI fell from 47.2 to 46.5 in October, which indicates that weakness in the business economy is worsening. A technical recession is becoming a more realistic risk, with the upside that weaker demand is cooling price pressures



The eurozone economy remains in broad stagnation, with the risk of two quarters of negative growth increasing. The PMI is pretty clear about the direction of activity; manufacturing continues to be in contraction as the manufacturing PMI remained well below the neutral reading of 50 in October at 43.1. Services, which held up GDP growth at the start of the year, dropped further from 48.7 to 47.8, the worst reading in three and a half years. This indicates that the overspending in services has come to an abrupt end after the holiday season and that business activity is now broadly weakening.

The impact on employment is also visible. Over recent months, business employment growth has dropped to a snail's pace as manufacturing has been reducing headcount and the services sector has hired less. The October PMI indicates that overall employment is now contracting at the start of the fourth quarter as the services sector also sees employment stagnate.

The effect on prices is positive. Despite higher energy prices and continued high wage growth, we do see that businesses are seeing selling price inflation slow. For manufacturing, this results in deflation, while services inflation is weakening. For the European Central Bank, today's PMI gives a clear sign that another hike is not needed as weaker demand trumps higher input costs for businesses in terms of inflation pressures.

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