

The NewsLine

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EUROZONE

Slight slowdown in late summer

Katharina Utermöhl
Phone +49.69.24431-3790
katharina.uterhoehl@allianz.com
Allianz SE
<https://www.allianz.com/economic-research/en>

 Allianz Research
<https://twitter.com/AllianzResearch>

Today's purchasing manager indices (PMIs) for the eurozone suggest that the economy has lost a little momentum but remains on an upward path. Next year the eurozone economy is likely to move back up a gear.

The composite purchasing managers' index for manufacturing and services in the eurozone slipped by 0.3 points in September and now stands at 52.6 – the lowest level for 20 months. The main culprit was a deterioration in the services sector. By contrast, industrial production clocked up the strongest growth since late 2014. While the composite index in Germany slipped again slightly, France saw another marked improvement. For the first time in four years the French composite PMI outstripped the German index. Beyond the two eurozone heavyweights, business activity was the slowest for 21 months.

In Germany the PMI composite index fell 0.6 points to 52.7 – the lowest reading for almost 18 months. The renewed deterioration in the services sector was particularly striking. Since July the German services PMI has tumbled by almost four points to 50.6. However, today's survey results also contain good news. German industrial production notched up further strong growth in September. Moreover, new orders also rose again, thanks mainly to brisk demand from abroad, which is now at its highest level since early 2014. The business outlook for the services sector over the coming 12 months also improved slightly in September.

In France the purchasing managers' index for manufacturing and services reached 53.3 points, its highest level since June 2015, and up from 51.9 points in the preceding month. In contrast to Germany, services sector business was the strongest for 15 months, whereas industrial production practically

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stagnated. Encouragingly, jobs growth in France perked up again having dipped in August.

The latest PMIs confirm our view that the eurozone economy slowed slightly further in the third quarter (0.2% q/q after 0.3% q/q in the previous quarter), but remains on an upward path. Following a brisk first quarter 2016 private consumption in particular has cooled off. Overall, we expect to see an increase in gross domestic product of 1.5% this year. But in the course of next year the economy is likely to move back up a gear (growth forecast 2017: 1.6%).

Today's survey results also provide positive news for the ECB: output prices ticked up marginally in September for the first time in 13 months. We are sticking with our forecast that eurozone inflation will move up sharply in the coming months as the oil price base effect drops out of the index. For 2017 we are penciling in an inflation rate of 1.6% after 0.3% this year.

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