

# The NewsLine

November 23, 2016

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## EUROZONE

# PMIs show economic momentum accelerating

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Today's survey results confirm that the eurozone economy moved up a gear in the final quarter of 2016. There is also much to suggest that the pace of growth will not only be maintained in the early months of 2017 but is likely to accelerate further.

The composite purchasing managers' index for industry and services in the eurozone edged up slightly further by 0.8 points in November and, at 54.1, reached the highest level since December of last year. The improvement came inter alia from France, whereas the German index deteriorated marginally. In the other eurozone countries covered by the survey sentiment improved somewhat more strongly and, thanks to a further increase in new orders and strong job growth, reached its highest level since January.

In Germany the composite index slipped a tad from 55.1 to 54.9 points. The high level – the November figure was still up slightly on the average for the year so far of 54.2 points – points to buoyant growth in the final quarter of 2016. Whereas the steep recovery in the sentiment barometer in the services sector seen in recent months continued and reached 55 points, the index for the industrial sector fell slightly by 0.6 points to 54.4. Today's survey results underpin our forecast of close to 2% growth in Germany this year. In addition, robust incoming orders, ongoing strong foreign demand and healthy employment growth all suggest that the German economy will get off to a good start in 2017. The survey also pointed to a pickup in price pressures.

The French purchasing managers' index for industry and services ticked up slightly in November from 51.6 to 52.3 points, helped by an improvement in the assessment of the situation in services where the index was in expansion

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territory for the fifth month in a row, climbing to 52.6 points. By contrast, the PMI for industry tumbled from 52.5 to 50.9 points. Incoming orders in November logged up the strongest increase for 18 months. For this year we are looking at growth of 1.2%.

The eurozone economy has proved fairly resilient in 2016. Shrugging off the Brexit vote, resurgent concerns about the banking sector in a number of eurozone countries and sputtering export demand, eurozone GDP probably increased by around 1.6%. Not exactly a boom, but there's no reason for gloom either, particularly as we expect the pace of growth to be maintained next year. Given the encouraging trend in new business and employment, today's survey results promise a good start to 2017 for the eurozone economy.

Although the positive lift from temporary supportive factors – especially the low oil price and mini-inflation – is likely to increasingly fade in the course of 2017, the eurozone economy is now able to stand on its own two feet. Domestic demand remains the main driver. Brisk private consumption is benefitting from the gradual decline in unemployment, which is poised to dip back below the 10% mark soon for the first time in more than six years. Investment is again likely to notch up an increase of almost 3%, but still languishes some 10% below its pre-crisis level. For 2017 we are penciling in GDP growth of 1.6% in the eurozone.

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