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Western European Indicators and Insights

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Eurozone: Deeper contraction?

The October final PMIs suggest that the Eurozone economy is seeing a much greater risk of fresh contraction into the current quarter, with the updated services numbers now showing more acute weakness than that for manufacturing as well as a clear revision down from the flash estimate. Specifically, and coming in 0.8 point below the flash estimate, the final services PMI very much weakened, slumping 2.4 points to 46.4, the second largest of what is now a run of seven successive declines, with the latest reading still being the lowest since July 2009 (also thereby further below its long-term average). More negatively, business within the sector saw a further sizable erosion, to the lowest since March 2009.

Weakness was widespread geographically, albeit with modest gains in activity occurring in Ireland and Germany. However, while Spain and Italy saw the steepest rates of reduction in October, France suffered a marked reversal of fortunes, with business activity contracting for the first time since August 2009 and at the fastest pace for over two-and-a-half years. Moreover, the month-on-month declines in both the French activity and new business indices were the steepest in the survey history.

These numbers will be causing added reverberations within the already-stunned ECB. Not only do they suggest that the recession risks may be increasing, they also suggest these risks may now be materializing and across the Eurozone, ie the rationale that the ECB used for its rate cut on Thursday. Regardless, the ECB will surely be asking to what extent financial market turbulence may be exacerbating downward pressure on activity via the damage that may be ensuing to the monetary policy transmission mechanism, noting in particular that the sharp weakening in the French PMI data may be a result of banking sector fragility in the country.