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Western European Economic Indicators and Insights

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Eurozone: Contraction Continues

Contraction Continues But No Deeper Amidst Survey Volatility.

Still very much reiterating the message of the previous data, the September final PMIs suggest that economic activity in the Eurozone is still contracting and on a broad basis geographically, albeit with better results having re-emerged for Germany, contrasting with a more downbeat French backdrop.

Underlying Trend Still Unchanged

The various PMI data have been volatile of late, implying not too much should be read into the drop back in services activity evident in this update or, perhaps, the fresh pick-up in manufacturing. Looking at the recent results, and *on a Eurozone-wide basis, it is very noteworthy that the aggregated PMI numbers suggest a contraction similar to that of previous months is still occurring*, with the average of the last quarter thereby broadly unchanged from that seen in Q2.

Services as Weak as Manufacturing

Specifically, the services PMI was a notch higher than the flash estimate, albeit still suffering a clear 1.1 points fall to 46.1, a larger drop than seen in August and the lowest reading in just over three years. Around half of the deterioration came in what are very volatile French numbers, with it notable that *the overall services reading has now fallen back in line to match the (less-pronounced) weakness in the more export sensitive manufacturing sector.* Fresh weakness in orders seems to be the culprit this time around, with the PMI data showing that services sector expectations had shown a clear fall back in August, led by a sharp drop in France.

As for price pressures, these showed prices falling for the fourth consecutive month, albeit with the pace of deflation slowing and with clear signs of rising input costs.

DE View: Given the continuing, if not increasing, volatility in parts of these PMI numbers, especially in the likes of the French and German components, not too much should be read into the September update save to underline that the Eurozone economy remains in recession, albeit probably still modestly so. Regardless, and perhaps more importantly, *the PMI data show no sign that this on-going recession in the Eurozone has any end in sight, but with the possible added downside risk coming from rising input cost pressures*, the latter possibly the factor behind the slump in services sentiment.

On a more upbeat note, however, the improved retail sales backdrop in numbers also released today (even in the likes of Spain) is encouraging especially against the backdrop of the squeeze on incomes caused by higher food and energy costs.