New York • London • Boston
DECISION ECONOMICS, INC.
Information for Decisions™

Western European Economic Indicators and Insights

New York: 212 884 9440
London: 011 44 20 7959 3045
Boston: 617 994 0500
Email: awroblewski@decisioneconomicsinc.com

December 14, 2012

EUROZONE: Contraction Eases?

by Andrew Wroblewski

Showing a second successive rise, the aggregated December flash PMI hit a nine-month high of 47.3, thereby still suggesting that economic activity in the Eurozone is contracting, but less clearly so, with some better signs emerging in regard to the services sector, particularly in Germany.

Services Diverging. Specifically, the manufacturing PMI undershot expectation slightly. Even so, it still staged a second successive rise, albeit just 0.1 point gain to 46.3, a nine-month high. *Once again providing a contrast, the flash services PMI improved much more clearly, rising 1.1 point to a five-month high of 47.8.* As for price pressures, these showed output prices falling for the ninth consecutive month and more clearly so, with the weakness in services demand taking the clearest toll.

Encouraging Signs But Q4 Still Soggier. The PMI data at the national levels have been volatile of late and also prone to revision. Even so, the fact that the surveys are showing a second successive rise is encouraging, actually meaning that the Q4 PMI reading is slightly above that for the previous quarter. However, given the clear falls in the latest official sales and output data, this better tone in surveys may not prevent actual GDP data for the current quarter showing a steeper drop than the 0.1% Q/Q decline posted in Q3, thereby once again highlighting the poor track record such surveys have had in calibrating actual activity. *Indeed, recognizing the shortcomings its surveys have had of late, the compilers of the PMI numbers no longer seem willing to give a numerical forecast for Q4 GDP (DE sees a 0.3% drop).*

Notably, it is somewhat ironic that just as the business survey backdrop starts to become less gloomy, actual data for the Eurozone have taken a clear turn for the worse of late, particularly on the consumer side, a weakening that certainly seem understandable given the labor market backdrop and inflation-induced squeeze on incomes.

DE View: However, the fact that business surveys are somewhat more up-to-date than official data, alongside the fact that they are turning up on a broad basis, will only sustain the overall view that the Eurozone may be in the throes of modest recovery into the first half of next year, albeit with the downside risks relating to the Eurozone consumer needing clear and continued monitoring.

As for the ECB, these numbers certainly mean that the further rate cut the Council apparently discussed this month will not be exercised at least not in January.