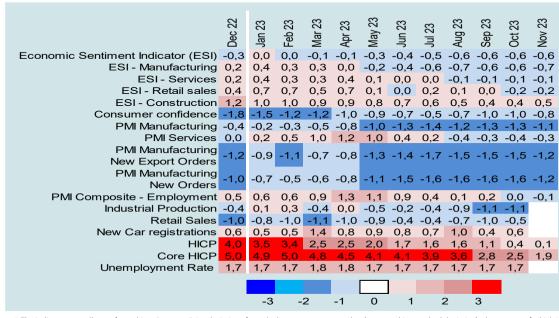# EUROZONE

Eurozone: a difficult end to the year

The end of the year is shaping up to be a difficult one for the eurozone, as displayed by the flash PMI indicators for December. The composite index, fell by 0.6 points to 47, and remains below the threshold of 50 (in contraction territory) for the seventh month in a row. The employment index has not plummeted, but has been gradually declining since April, reaching 49.6 in December, its lowest level in three years. At 6.5% in October, the unemployment rate in the eurozone stabilised at a historically-low level, which is increasingly looking like a floor. We expect the jobless rate to rise slightly over the next few months, in line with current trends in the PMI indices. The unemployment rate for young people (under 25) has already risen by one percentage point in six months, to 14.9% in October.

According to our forecast, confirmed by our Nowcast, real GDP in the eurozone is set to contract by 0.1% q/q in Q4 (following -0.1% q/q in Q3). Retail sales grew 0.1% m/m in October, but the three-month moving average reached its lowest level in two and a half years. Industrial production (excluding construction) reached its lowest level in three years, contracting by 0.7% m/m in October (including -3.4% m/m for the production of machinery and equipment excluding transport).

Harmonised inflation in the eurozone fell by 0.5 pp to 2.4% y/y in November, due to greater deflation in energy and a slowdown in the rise in prices of industrial goods (excluding energy) and services. The fall in inflation was the sharpest in Italy (-1.1 pp to 0.8%), Germany (-1.3 pp to 3.0%) and Finland (-1.6 pp to 0.8%). The PMI indicator for input prices in services has stabilised, following a significant decline in the first half of the year, but remains at a historically high level (61.7). A squeeze on corporate margins, against a backdrop of rising unit labour costs, could put the brakes on activity. Nevertheless, at this stage, we still expect a gradual recovery in activity in 2024, with stronger growth from spring onwards, driven by falling inflation and an initial cut in policy rates in April, according to our forecasts.

Guillaume Derrien *(article completed on 20/12/2023)*

Eurozone: economic indicators monthly changes*

	Dec 22	Jan 23	Feb 23	Mar 23	Apr 23	May 23	Jun 23	Jul 23	Aug 23	Sep 23	Oct 23	Nov 23
Economic Sentiment Indicator (ESI)	-0,3	0,0	0,0	-0,1	-0,1	-0,3	-0,4	-0,5	-0,6	-0,6	-0,6	-0,6
ESI - Manufacturing	0,2	0,4	0,3	0,3	0,0	-0,2	-0,4	-0,6	-0,7	-0,6	-0,6	-0,7
ESI - Services	0,2	0,4	0,3	0,3	0,4	0,1	0,0	0,0	-0,1	-0,1	-0,1	-0,1
ESI - Retail sales	0,4	0,7	0,7	0,5	0,7	0,1	0,0	0,2	0,1	0,0	-0,2	-0,2
ESI - Construction	1,2	1,0	1,0	0,9	0,9	0,8	0,7	0,6	0,5	0,4	0,4	0,5
Consumer confidence	-1,8	-1,5	-1,2	-1,2	-1,0	-0,9	-0,7	-0,5	-0,7	-1,0	-1,0	-0,8
PMI Manufacturing	-0,4	-0,2	-0,3	-0,5	-0,8	-1,0	-1,3	-1,4	-1,2	-1,3	-1,3	-1,1
PMI Services	0,0	0,2	0,5	1,0	1,2	1,0	0,4	0,2	-0,4	-0,3	-0,4	-0,3
PMI Manufacturing New Export Orders	-1,2	-0,9	-1,1	-0,7	-0,8	-1,3	-1,4	-1,7	-1,5	-1,5	-1,5	-1,2
PMI Manufacturing New Orders	-1,0	-0,7	-0,5	-0,6	-0,8	-1,1	-1,5	-1,6	-1,6	-1,6	-1,6	-1,2
PMI Composite - Employment	0,5	0,6	0,6	0,9	1,3	1,1	0,9	0,4	0,1	0,2	0,0	-0,1
Industrial Production	-0,4	0,1	0,3	-0,4	0,0	-0,5	-0,2	-0,4	-0,9	-1,1	-1,1	
Retail Sales	-1,0	-0,8	-1,0	-1,1	-1,0	-0,9	-0,4	-0,4	-0,7	-1,0	-0,5	
New Car registrations	0,6	0,5	0,5	1,4	0,8	0,9	0,8	0,7	1,0	0,4	0,6	
HICP	4,0	3,5	3,4	2,5	2,5	2,4	1,7	1,6	1,6	1,1	0,4	0,1
Core HICP	5,0	4,9	5,0	4,8	4,5	4,1	4,1	3,9	3,6	2,8	2,5	1,9
Unemployment Rate	1,7	1,7	1,7	1,8	1,8	1,7	1,7	1,7	1,7	1,7	1,7	1,7

-3	-2	-1	0	1	2	3

* The Indicators are all transformed into "z-scores", i.e. deviations from the long-term average value (expressed in standard deviation), the average of which is zero (except for the PMI/ISM indices where the average is 50, the threshold between the expansion zone and the contraction zone of the activity). Positive (negative) values indicate the number of standard deviations above (below) the mean value.
Reading note: the red colour indicates dynamic activity, high inflation and low unemployment, the blue colour indicates slower activity, low inflation and high unemployment.

GDP growth

Actual				Carry-over	Nowcast	Forecast		Annual forecasts (y/y)			
Q4 2022	Q1 2023	Q2 2023	Q3 2023	Q4 2022	Q4 2023	Q4 2023	Q1 2024	2022 (observed)	2023	2024	2025
-0,1	0,1	0,1	-0,1	0,4	-0,1	-0,1	0,1	3,4	0,5	0,6	1,6

See the Nowcast methodology. Contact: Tarik Rharrab
Source: Refinitiv, BNP Paribas