

# ECONOMIC PULSE

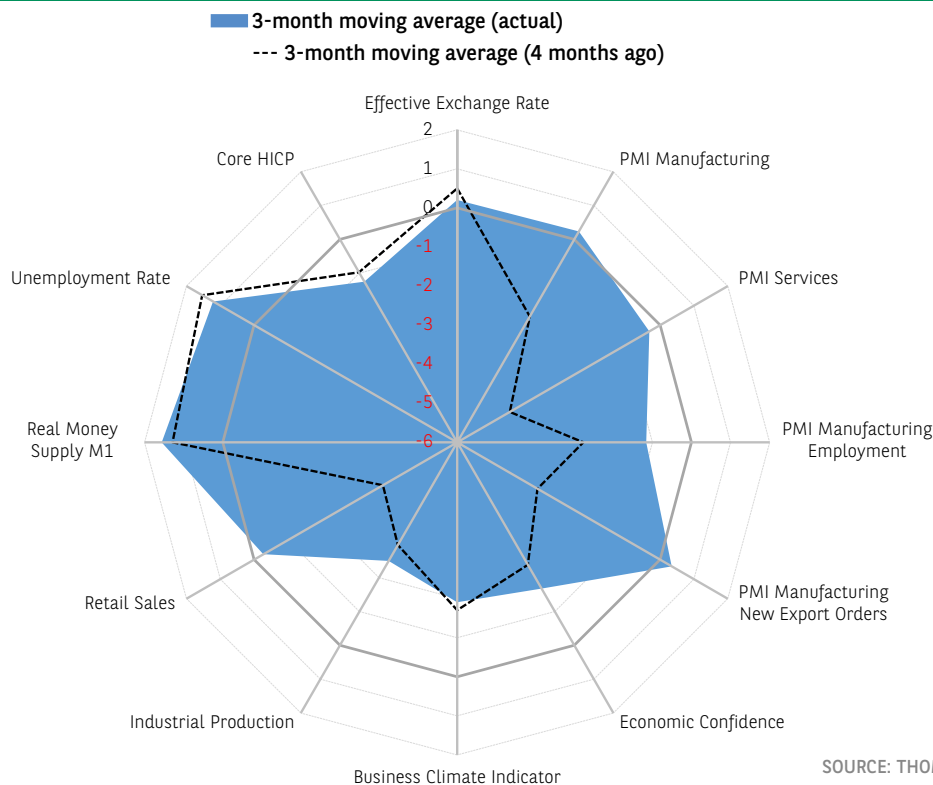
## EUROZONE : THE ECONOMIC RECOVERY IS RUNNING OUT OF STEAM

The economic position improved significantly over the last three months compared to the three months prior. The Purchasing Managers Index (PMI) for the euro zone improved in both manufacturing and services. The manufacturing PMI reached 53.7 in September, up from a low of 33.4 in April. Activity was driven in part by a recovery in new export orders. The PMI for this component rose sharply in September, to 55.6, its highest level since early 2018. The recovery in the services sector over recent months has been even stronger, given its record-breaking fall during the lockdown. However, this strong trend is now flattening out or perhaps even going into reverse. Although the services PMI for the euro zone hit 54.7 in July (from 12.0 in April) it has fallen back since then and dropped below the 50-point threshold in September. It is also below its long-term average. The recovery in the euro zone seems to have stalled. It will now depend on the confidence of economic agents and the strength of aggregate demand. On this point, the economic sentiment indicator (the European Commission's composite indicator that covers all sectors of the economy as well as consumers) has risen

only slightly in recent months and remains well below its long-term average. A return of consumer confidence in the euro zone seems like a necessary precondition for a strong recovery. Trends in the labour market will be crucial too. Although the unemployment rate has risen since the start of 2020, it remains relatively low. The fiscal support measures adopted have, so far, limited the increase in business failures and redundancies. This support is likely to continue as the majority of forecasts predict a significant rise in unemployment over the coming months. Uncertainties on the economic and health fronts, against a background of a resurgence in the epidemic, must not be exacerbated by uncertainty over the fiscal policies of euro zone member states. Monetary policy will remain accommodative, as the European Central Bank faces increasing deflationary pressure. Underlying inflation remains too low relative to past levels and to the ECB's target level.

**Louis Boisset**

### QUARTERLY CHANGES



The indicators in the radar are all transformed into 'z-scores' (deviations from the long-term average, as standard deviations). These z-scores have mean zero and their values are between -6 and +2. In the radar chart, the blue area shows the actual conditions of economic activity. It is compared with the situation four months earlier (dotted-line). An expansion of the blue area compared to the dotted area signals an increase in the variable.

