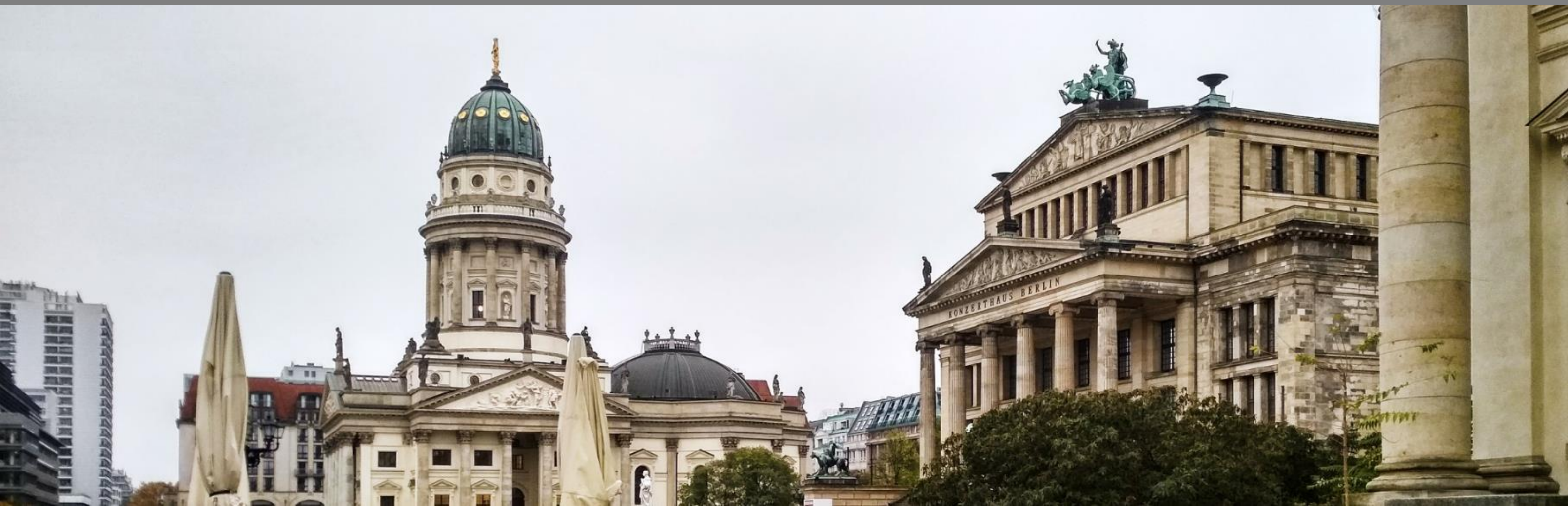
Economic Research

December 2024

Market Monitor – Europe

Growth momentum slowed further in Europe

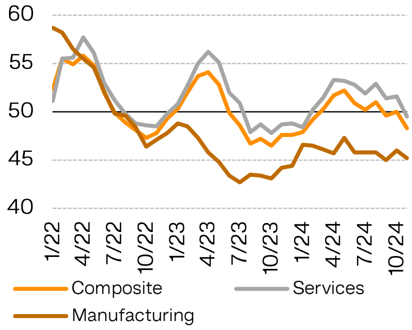


- The eurozone's business surveys pointed to a deeper contraction of activity, while the UK economy slowed notably in Q3.
- Eurozone and UK headline inflation edged up, with sticky services inflation.
- The ECB is likely to cut rates again in December, while the BoE would opt for a gradual pace of rate cuts ahead.

Growth momentum slowed further

Business activity in the eurozone fell into contraction. The eurozone composite PMI dropped from 50.0 in October to 48.3 in November, indicating contraction for the second time in the past 9 months. This decline is mainly attributed to a marked decrease in new orders. In addition, the services PMI fell significantly, notably by 2.1 percentage points (ppt), to 49.5 in November, the first contraction in the last 10 months. The manufacturing sector dipped, with the PMI declining by 0.8 ppt to 45.2 in November. All these PMI readings missed market consensus, reigniting concerns over stagnation risks in the eurozone. Among key member states, France experienced a notable contraction in business activity, with its composite PMI dropping by 2.2 ppt to 45.9 in November, the lowest reading in 10 months; Germany's composite PMI remained in contraction territory for the fifth consecutive month, while Spain's composite PMI stayed in expansion, buoyed by its strong services sector. Overall, the notable weakness in PMIs in recent months signifies that the eurozone may see a mild economic contraction in Q4 2024.

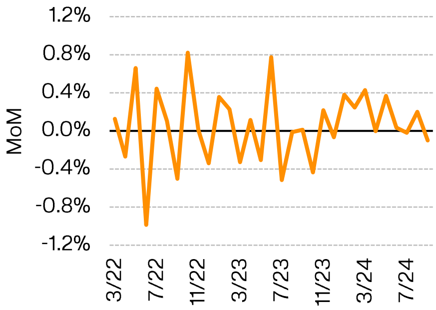
Eurozone Purchasing Managers' Index



Source: Bloomberg

The UK economy posted mild growth in Q3. UK GDP grew by 0.1% quarter-on-quarter (QoQ) in Q3, following a robust 0.5% expansion in Q2 and missing consensus forecasts of 0.2% growth. This represents the smallest growth rate in the past three quarters. On a year-on-year (YoY) basis, the UK economy grew by 1.0% in Q3, up from 0.7% in Q2. Compared to the previous month, the UK economy unexpectedly contracted by 0.1% in September, marking the first decline in five months and missing consensus forecasts of a 0.2% increase. Production output fell by 0.5% month-on-month (MoM) in September, led by a 1.0% MoM drop in manufacturing output. Furthermore, the UK's composite, manufacturing and services PMIs in November all declined notably by 1.3, 1.9, and 1.2 ppt to 50.5, 48.0 and 50.8, respectively. While the UK's business activity has been expanding for 13 consecutive months, the pace of expansion has been slowing for three straight months due to a sharp decline in new orders.

Monthly UK Gross Domestic Product

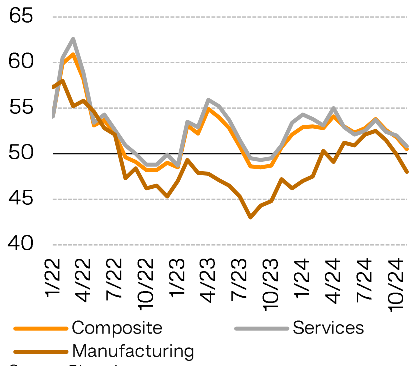


Source: CEIC

Inflation edged slightly higher

Services inflation remains sticky in the eurozone. In November, eurozone headline inflation picked up by 0.3 ppt to 2.3% YoY, while core inflation remained unchanged at 2.7%. The increase in headline inflation was largely due to the fading low base effects of energy costs. Particularly, the decline in energy prices has been narrowing for two consecutive months to 1.9% YoY in November. Meanwhile, services inflation slowed slightly by 0.1 ppt to 3.9% YoY in November and has been hovering between 3.9-4.1% over the past 7 months. Sticky services inflation has been a key factor slowing the disinflation progress in recent months.

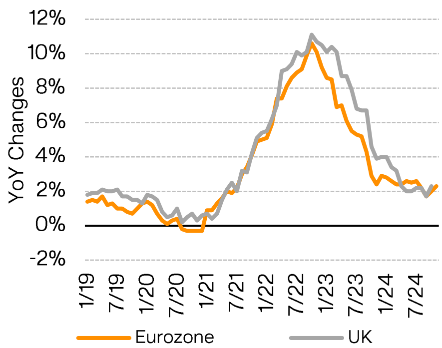
UK Purchasing Managers' Index



Source: Bloomberg

UK inflation ticked up. UK headline and core CPI inflation in October accelerated by 0.6 ppt and 0.1 ppt to 2.3% YoY and 3.3%, respectively, exceeding market expectations. The headline inflation rate of 2.3% YoY marks the fastest growth in six months, with the largest upward contribution coming from increases in electricity and gas prices. On a MoM basis, headline and core inflation rates in October also rose notably by 0.6 ppt and 0.3 ppt to 0.6% and 0.4%, respectively. Services inflation also remained elevated at 5.0% YoY in October, compared to 4.9% in September. In addition, the growth of regular pay (excluding bonuses) narrowed further by 0.1 ppt to 4.8% YoY in the three months to September, marking the slowest rise since June 2022. The unemployment rate edged up to 4.3% from July to September, compared to 4.0% in the three months to August. The ongoing easing of the job market and persistent services inflation remain key factors influencing further disinflation progress in the UK.

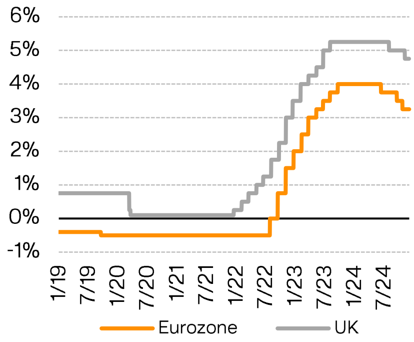
Inflation Rate



Source: CEIC

The ECB is likely to cut rates in December while the BoE would opt for a gradual pace of rate cuts. With the eurozone composite PMI sliding to a 10-month low, rising concerns over tepid economic growth could prompt the European Central Bank (ECB) to cut rates again at its upcoming monetary policy meeting in December. In addition, the Governor of the Bank of France, Francois Villeroy de Galhau, stated that the ECB should remain open to the possibility of a significant rate cut in December. Meanwhile, the Governor of the Bank of England, Andrew Bailey, suggested that the upcoming increase in the National Insurance Contributions proposed by the UK government reinforces a gradual approach to rate cuts. He cited that a gradual rate cut "will help us to observe how this plays out, along with other risks to the inflation outlook."

Policy Rate



Source: CEIC

Diverse performance in equity markets

Equity markets recorded mixed performance following the US presidential election. In November, European stock markets exhibited varied performance following the conclusion of the US presidential election. The UK FTSE 100 and German DAX index were up 2.2% and 2.9% MoM, respectively, whereas the French CAC index was down by 1.6% MoM in November. Meanwhile, the Euro and British pound depreciated by 2.8% and 1.3% MoM, ending November at US$ 1.0577 and US$ 1.2735, respectively. In early December, the political situation in France worsened rapidly, with Prime Minister Michel Barnier being ousted in a no-confidence vote. Political uncertainty in France would continue to induce significant volatility in the Euro and France's stock market.

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