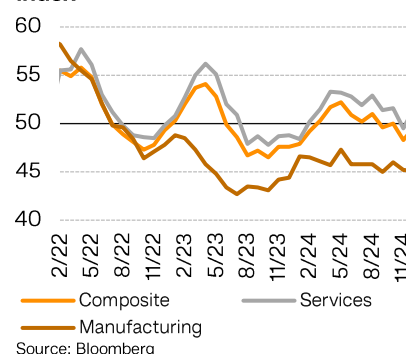


Market Monitor – Europe
European slowdown persisted in Q4 2024


- The eurozone PMI readings in December improved but remained soft, while the UK economy contracted for two straight months in October.
- Eurozone and UK inflation ticked up, with services inflation remaining sticky.
- The ECB cut rates again in December, whereas the BoE held rates unchanged.

Growth stayed soft in both the eurozone and the UK

Business activity in the eurozone contracted further. The eurozone composite PMI improved to 49.6 in December 2024, up from 48.3 in November and better than market expectations. While the pace of slowdown eased, the readings pointed to a continued contraction in business activity for two consecutive months, with falling new orders and employment. This revealed that underlying demand remained weak. The eurozone manufacturing PMI edged down mildly to 45.1 in December, pointing to a deep downturn even after staying in contractionary territory for 30 straight months. Meanwhile, the eurozone services PMI rebounded to 51.6 in December, from 49.5 in November. The overall declines in business activity reflected downturns in Germany and France, both of which are suffering from significant political uncertainty. Notably, Moody's downgraded France's credit rating from Aa2 to Aa3 in mid-December 2024, after Prime Minister Michel Barnier's government was ousted in a vote of no confidence.

Eurozone Purchasing Managers' Index


Economic Research

The UK economy contracted in October. The UK's GDP unexpectedly contracted by 0.1% month-on-month (MoM) in October 2024, following a 0.1% decline in September. The biggest drag came from the production sector, which dropped by 0.6% MoM in October. On a year-on-year (YoY) basis, the UK GDP grew by 1.3% in October, also below market consensus. Recent surveys pointed to some stabilisation and mild expansion in business activity. The UK composite PMI in December 2024 edged down mildly by 0.1 percentage points (ppts) to 50.4, but the latest readings were much softer than in 1H 2024. The UK sectoral performance was also mixed, with the manufacturing PMI down by 1.0 ppts to 47.0 and the services PMI up by 0.3 ppts to 51.1 in December.

Inflation ticked up

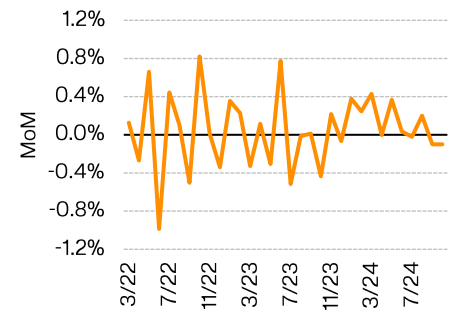
Services inflation remained sticky in the eurozone. In December 2024, eurozone headline inflation edged up to 2.4% YoY, marking the highest level in the past five months, consistent with market consensus. Faster price gains were attributed to fading low base effects of energy prices. Core inflation, which excluded food and energy items, stayed flat at 2.7% in December. Meanwhile, services inflation persisted, edging up by 0.1 ppts to 4.0% YoY in December. Elevated services prices continued to be major drivers for inflation in the eurozone.

UK inflation and wage growth ticked up. In November 2024, headline and core inflation in the UK edged up by 0.3 ppt and 0.2 ppt to 2.6% YoY and 3.5%, respectively. Faster price gains were seen among a wide range of segments, with the largest upward contribution coming from transport costs. Besides, services inflation stayed elevated at 5.0% YoY in November, suggesting that underlying domestic price pressures remained high. On a MoM basis, UK headline and core inflation in November were at 0.1% and 0.0%, respectively. Wage pressures also proved more persistent than expected. Growth in regular earnings (excluding bonuses) accelerated by 0.3 ppt to 5.2% YoY in the three months to October 2024. Taken together, inflation risks remained a concern in the UK.

The ECB cut rates again in December. The European Central Bank (ECB) lowered its key policy rates by 25 basis points (bps) in December 2024, marking the fourth rate cut in 2024. The ECB attributed the move to disinflation progress made in the bloc. In its latest economic forecasts, the ECB expects inflation to slow further, with core inflation projected to average at 2.9%, 2.3% and 1.9% for 2024, 2025 and 2026, respectively. However, GDP growth projections were revised to 0.7%, 1.1% and 1.4% for 2024, 2025 and 2026, down by 0.1 ppt, 0.2 ppt and 0.1 ppt from September's projections, respectively. In mid-December, ECB President Christine Lagarde said, "We are close to achieving our target," and "If the incoming data continue to confirm our baseline, the direction of travel is clear and we expect to lower interest rates further." These comments fuelled market expectations for continued rate cuts in 2025.

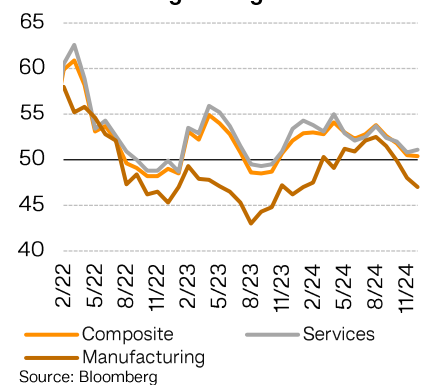
January 2025

UK GDP Growth Rate



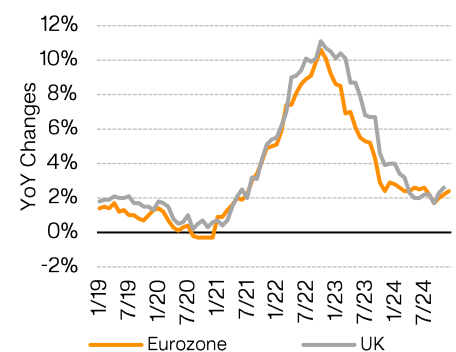
Source: CEIC

UK Purchasing Managers' Index



Source: Bloomberg

Inflation Rates



Source: CEIC

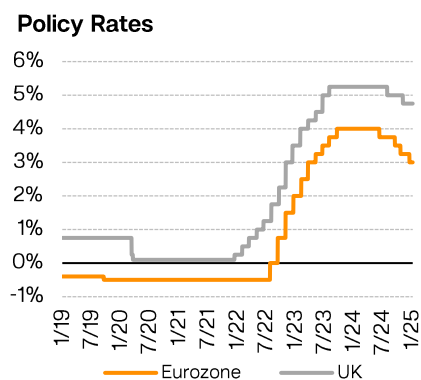
Economic Research

January 2025

BoE kept its policy rate unchanged in a 6-3 split vote. The Bank of England's (BoE) Monetary Policy Committee voted by a majority of 6-3 to keep its Bank Rate unchanged at 4.75% in December 2024. The three dissenting members preferred a rate cut of 25 bps. Regarding its monetary policy outlook, the BoE underscored that a gradual approach to removing monetary policy restraint remains appropriate. Clearly, the BoE is still cautious in reducing interest rates given persistent underlying inflation pressures.

Mixed performance in financial markets

Equity markets were mixed with notable pressures on the currency front. In December 2024, The German DAX and French CAC index were up 1.4% and 2.0% MoM, respectively, whereas the FTSE 100 index was down by 1.4% MoM. Meanwhile, the Euro and British pound depreciated by 2.1% and 1.7% MoM, ending December 2024 at US\$ 1.0354 and US\$ 1.2516, respectively.



Source: CEIC

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