Economic Research Department

November 2025

Market Monitor – Europe

Growth ticked up while central banks paused

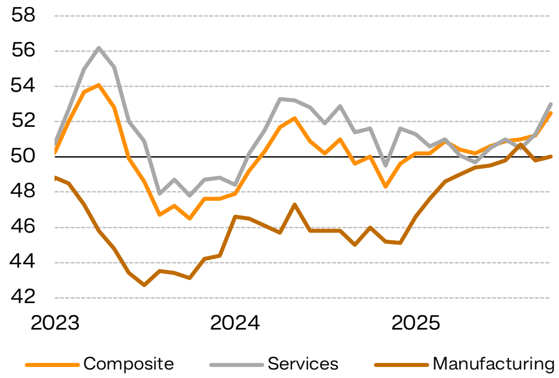
- Eurozone growth momentum picked up across various sectors.
- Eurozone inflation slowed towards the policy target, while UK inflation eased relative to expectations.
- The ECB held rates unchanged, while the BoE signalled greater openness to rate cuts.

Eurozone and UK growth momentum ticked up

Eurozone growth momentum edged up in Q3. The eurozone's gross domestic product (GDP) grew by 0.2% quarter-on-quarter (QoQ) in Q3, up from 0.1% in Q2. Among major member states, Spain sustained solid growth of 0.6% QoQ, France's GDP growth accelerated to 0.5%, while growth in Germany and Italy stabilised in Q3 after contracting in Q2. Survey indicators pointed to continued expansion in early Q4. The eurozone composite purchasing managers' index (PMI) increased from 51.2 in September to 52.5 in October, driven by the services PMI (from 51.3 to 53.0). Meanwhile, the eurozone manufacturing sector stabilised, with its PMI rising from 49.8 to 50.0.

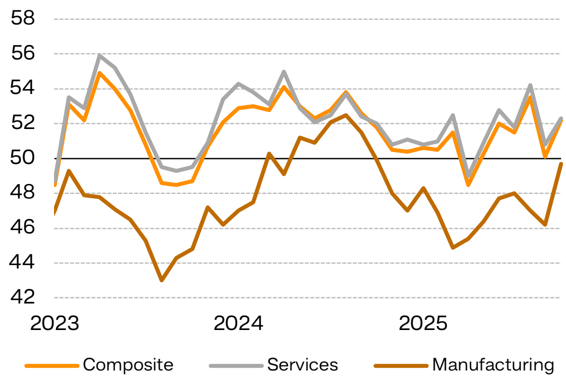
UK economic activity improved into early Q4. UK monthly GDP rose by 0.1% month-on-month (MoM) in August after a 0.1% decline in July. The primary driver was the production sector, which rebounded to a 0.4% MoM growth in August from a 0.4% contraction in July. Meanwhile, the services sector was flat, and the construction sector contracted by 0.3% MoM in August. Furthermore, recent survey data revealed improving momentum. The UK composite PMI rose from 50.1 in September to 52.2 in October, driven by an increase in the services PMI from 50.8 to 52.3 and a slower contraction in the manufacturing PMI, which improved from 46.2 to 49.7. Together, these figures reflected a gradual firming in growth and broadening improvements across sectors.

Eurozone PMI



Source: Bloomberg

UK PMI



Source: Bloomberg

The ECB and BoE stayed put

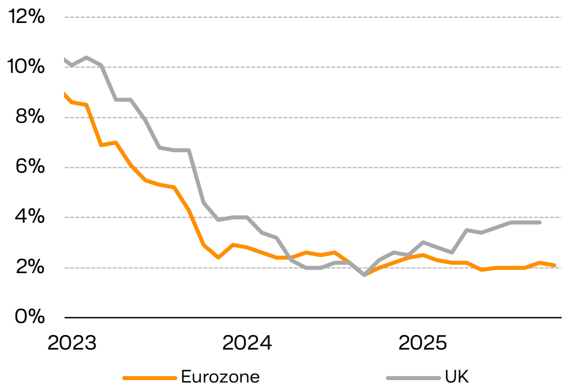
Eurozone inflation slowed towards the policy target. Eurozone headline inflation edged down to 2.1% year-on-year (YoY) in October from 2.2% in September, while its core inflation remained steady at 2.4%. Easing headline inflation reflected a wider YoY decline in energy prices (from -0.4% to -1.0%) and softer price gains in food, alcohol and tobacco (from 3.0% to 2.5%). That said, services inflation accelerated for the third consecutive month to 3.4% YoY in October, highlighting some underlying pressures. Overall, inflation risks in the eurozone remain balanced.

The European Central Bank (ECB) held rates unchanged and emphasised data dependence. In its October meeting, the ECB decided to keep its policy rates unchanged, leaving the deposit facility at 2.0%. According to the post-meeting statement, the ECB noted that the economy has been resilient, supported by a robust labour market, solid private sector balance sheets and prior easing steps. Besides, measures of longer-term inflation expectations remained near the 2% medium-term policy target. Given a backdrop of elevated uncertainty, the ECB has emphasised a data-dependent and meeting-by-meeting approach when determining its monetary stance. If downside risks intensify, the ECB will be ready to loosen monetary policy further.

UK inflation eased relative to expectations but remained elevated. UK headline inflation held at 3.8% YoY in September for the third month in a row, while its core inflation slowed from 3.6% to 3.5%. The headline and core readings were below the market consensus of 4.0% and 3.7%, respectively. In September, transport prices accelerated from 2.4% YoY in August to 3.8% due to a lower base of comparison, marking the primary inflation contributor. Service price gains remained at 4.7% YoY in September, while food and non-alcoholic beverage price gains decelerated from 5.1% to 4.5% in September, ending a 5-month upward trend. Overall, the figures reduced concerns over a potential re-acceleration in inflation.

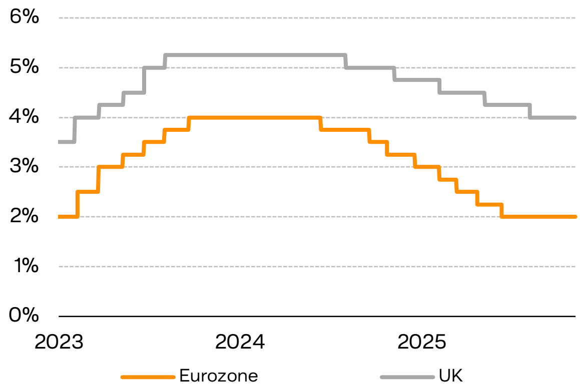
The Bank of England (BoE) signalled a greater openness to rate cuts. In November, the BoE's Monetary Policy Committee voted 5-4 to maintain its Bank Rate unchanged at 4.0%, with five members supporting a hold and four favouring a 25-basis-point cut. The BoE noted that the risk of persistent inflation has become less pronounced, while concerns over weakening demand have grown, marking a shift from its September focus on upside inflation risks. If disinflation continues and economic growth slows markedly, the BoE is likely to adopt a gradual approach in lowering its Bank Rate.

Inflation Rate (YoY Change)



Source: CEIC

Policy Rate



Source: CEIC

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