

Market Monitor – Europe

## Eurozone PMIs diverged while UK activity stabilised



- The Eurozone's PMIs highlighted mixed performance across sectors, while UK activity stabilised.
- The UK agreed new trade deals with the US and South Korea.
- The European Central Bank stayed put, while the Bank of England cut rates and signalled a continued gradual easing cycle.

### Eurozone PMIs diverged, while UK activity edged up

**Eurozone business sentiment revealed divergent performance across sectors.** The eurozone composite purchasing managers' index (PMI) slowed from 52.8 in November to 51.5 in December 2025, indicating a slower pace of expansion towards the year end. For Q4 as a whole, the quarterly average PMI figure stood at 52.3, markedly higher than the 51.0 average recorded in Q3, suggesting an acceleration of economic growth in Q4. Sectoral data highlighted a continued divergence. The services sector continued to be the primary growth driver, registering a PMI of 52.4 in December 2025. Notably, the new order sub-index in services pointed to sustained growth in demand. That said, the manufacturing PMI fell further to 48.8 in December from 49.6 in November, as higher fiscal spending on infrastructure and defence is yet to deliver a meaningful boost in data. Among major member states, Spain outperformed with its composite PMI rising to a 12-month high of 55.6 in December, while growth momentum in other core economies such as Germany, France and Italy moderated.

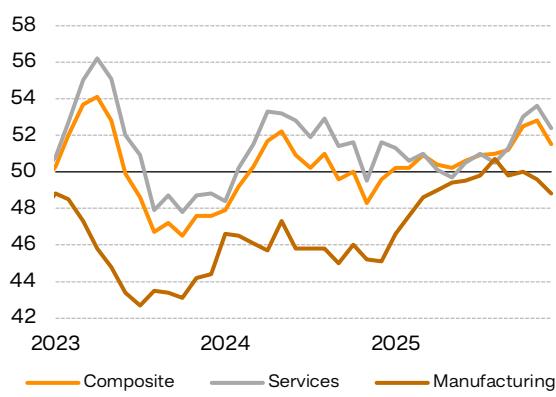
**UK activity showed signs of stabilisation towards the end of 2025.** Monthly GDP contracted by 0.1% month-on-month (MoM) in October, extending the 0.1% decline observed in September. The slowdown could be linked to the spillover effects of cyberattacks that disrupted automotive

## Economic Research Department

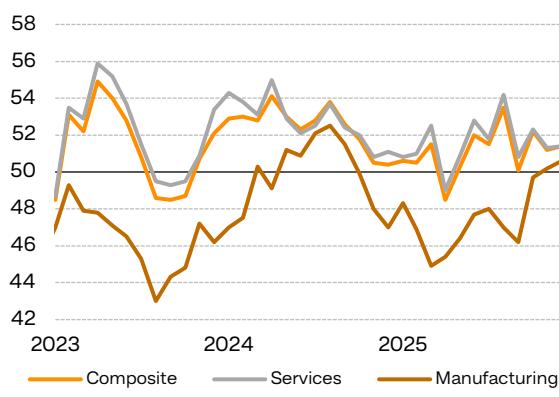
January 2026

production in September, alongside cautious sentiment ahead of the November fiscal budget. While the production sector rebounded to grow by 1.1% MoM in October (from -2.0% in September), this was insufficient to fully offset the contractions in the services (0.3%) and construction (0.6%) sectors. Nevertheless, business surveys suggested a turnaround, as the UK composite PMI edged up from 51.2 in November to 51.4 in December, driven by improvements in the manufacturing (from 50.2 to 50.6) and services sectors (from 51.3 to 51.4). Overall, the latest PMIs pointed to a gradual recovery in momentum towards the end of 2025.

### Eurozone PMI



### UK PMI



**The UK agreed new trade deals with the US and South Korea.** In early December, the UK secured a pharmaceutical trade deal with the US. Specifically, the US agreed to eliminate tariffs on UK medicines and refrain from targeting UK pricing practices in future trade investigations. In exchange, the UK National Health Service committed to investing 25% more on new treatments. The deal is expected to provide greater policy certainty for pharmaceutical manufacturers and the life sciences sector in the UK. Separately, the UK reached an upgraded free trade agreement (FTA) with South Korea in mid-December. The agreement secures continued tariff-free access for 98% of goods, eases rules of origin for automobiles, and enhances access to South Korea for UK financial firms. The UK Department of Business and Trade estimated that the updated FTA could boost services exports by GBP 400 million. These moves reflected the UK government's proactive efforts to deepen global economic cooperation.

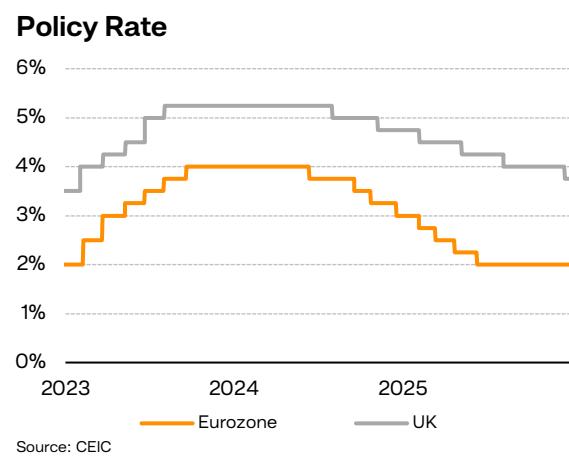
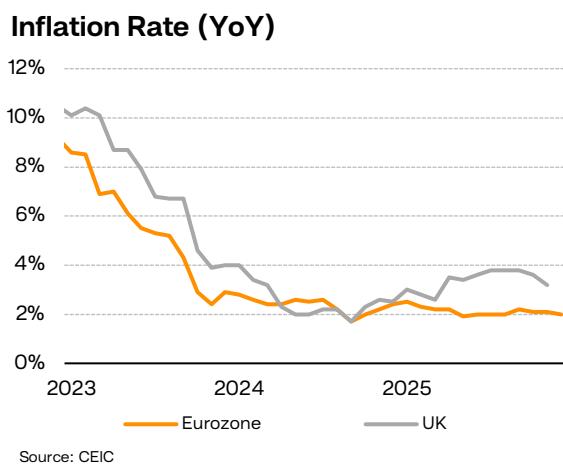
### The ECB stayed put in December, while the BoE cut rates

**Eurozone inflation continued to stabilise around the 2% policy target.** Eurozone headline inflation slowed from 2.1% year-on-year (YoY) in November to 2.0% in December, mainly caused by a wider decline in energy prices (from -0.5% YoY to -1.9%). Core inflation (excluding energy, food, alcohol and tobacco) edged down to 2.3% YoY in December, after holding steady at 2.4% for three months, aided by easing price growth in services (from 3.5% to 3.4%). Forward-looking indicators also offered comfort to policymakers. The European Central Bank's (ECB) wage tracker, a measure that covers active collective bargaining agreements, indicated softer negotiated wage growth (with smoothed one-off payments) of 3.2% in 2025 and 2.3% in 2026. This softening trend supports the view that services inflation will continue to moderate, keeping eurozone inflation anchored near the policy target.

**The ECB maintained a neutral policy stance amid an upgraded growth outlook.** At its December meeting, the ECB decided to keep its deposit facility rate unchanged at 2.0%. The decision was underpinned by upward revisions to the latest staff macroeconomic projections, which forecast GDP growth of 1.2% in 2026 and 1.4% in 2027, up from September's projections of 1.0% and 1.3%, respectively. Meanwhile, inflation projections reflected modest price pressure concerns, with CPI expected to average 1.9% in 2026 and 1.8% in 2027, respectively. Taken together, the current economic backdrop is conducive to the ECB maintaining a data-dependent, meeting-by-meeting approach to deciding the appropriate trajectory for future monetary policy.

**UK inflation moderated faster than anticipated.** UK headline inflation slowed to 3.2% YoY in November from 3.6% YoY in October, undershooting the market consensus. Core inflation also moderated to 3.2% YoY in November from 3.4% in October. The slowdown was broad-based, with a sharper moderation in goods prices from 2.6% YoY to 2.1% and a gradual easing of services price gains from 4.5% to 4.4%. These figures confirm that underlying price pressures are receding, validating the case for further easing ahead.

**The Bank of England (BoE) delivered another rate cut and signalled a gradual easing trajectory.** At its December meeting, the BoE voted 5-4 to lower the Bank Rate by 25 basis points (bps) to 3.75%, bringing the cumulative cuts for 2025 to 100 bps. Four dissenting members favoured holding the interest rate unchanged. In its post-meeting statement, the BoE cited several factors supporting the rate cut decision, including reduced risks of persistent inflation, subdued growth momentum and increasing slack in the labour market. Moving forward, the BoE indicated that the Bank Rate is likely to remain on a gradual downward trajectory, though internal divisions among voting members could complicate the pace and extent of future easing.



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