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Economic Briefing

Euro area PMIs show ray of hope

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Table of contents

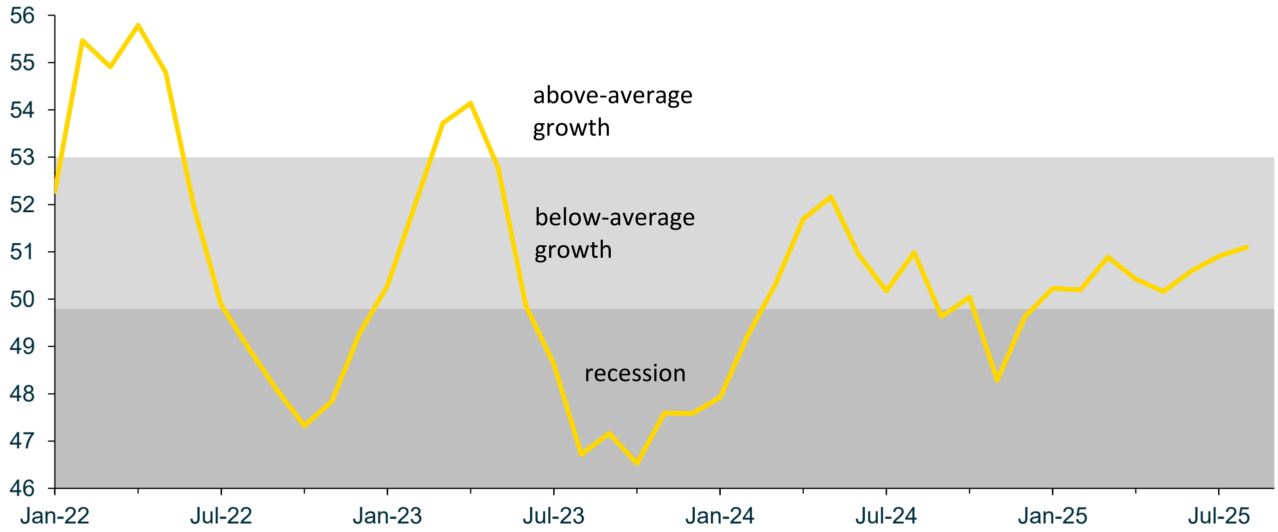
The composite Purchasing Managers' Index for manufacturing and the services sector in the euro area rose slightly in August from 50.9 to 51.1, continuing its recovery. The mood improved particularly in the manufacturing sector. The positive effect of the easing monetary policy appears to outweigh the negative effect of US tariffs.

The composite Purchasing Managers' Index (PMI) for manufacturing and the services sector in the euro area rose to 51.1 in August from 50.9 in July. Economists surveyed in advance had expected a slight decline. The mood in the manufacturing sector improved significantly (from 49.8 to 50.5). The index for services, on the other hand, fell slightly (from 51.0 to 50.7).

While the composite PMI in Germany rose only moderately (from 50.6 to 50.9), it increased more sizeably in France from 48.6 to 49.8. However, the composite PMI in France has fluctuated noticeably over the last twelve months. The smaller increase in the PMI in the eurozone also suggests that the trend in other euro area economies was weaker than in France and Germany.

Today's figure implies that the sentiment indicator for the euro area is continuing its modest recovery since the beginning of the year (Chart 1). The indicator remains in a range in which the economy has grown slightly in the past. The subdued development also points to only very moderate economic growth this year.

Chart 1 - The recovery in the euro area continues
Euro area composite PMI, seasonally adjusted monthly figures



Source: S&P Global, Commerzbank Research

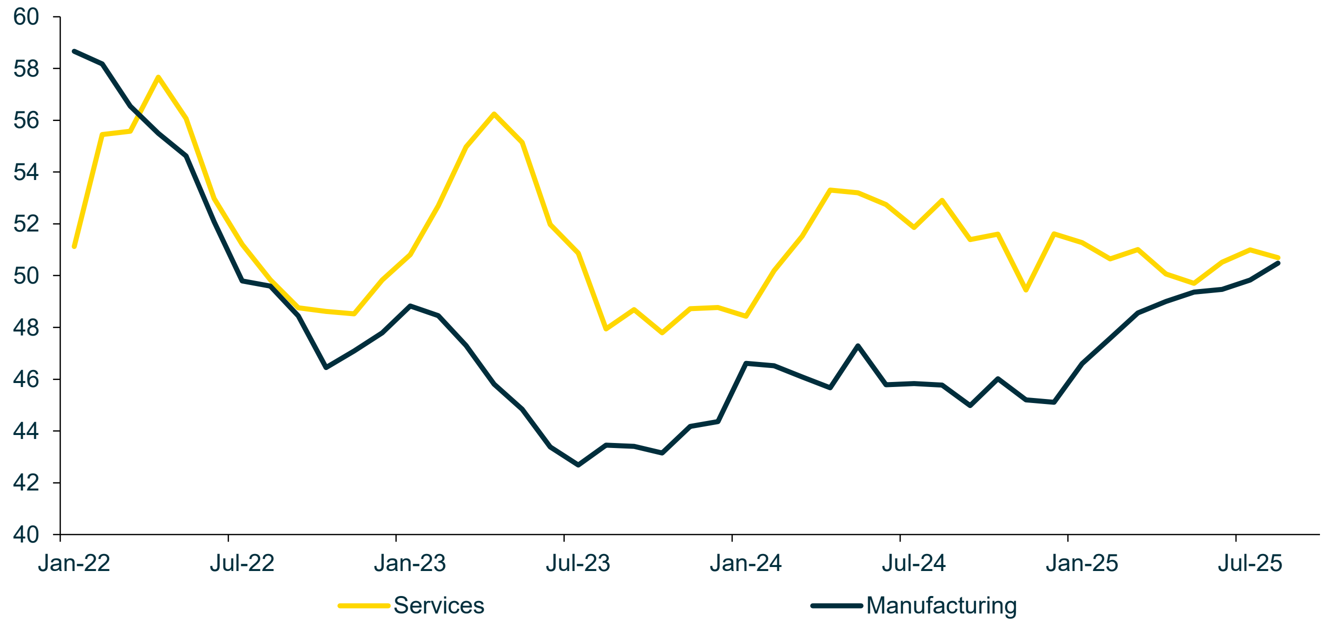
Monetary policy beats US tariffs

At 50.5, the index for the manufacturing sector in the euro area has exceeded the 50-point mark for the first time in three years (Chart 2). This means that the purchasing managers surveyed are expecting the manufacturing sector to expand for the first time in three years.

This is surprising given the tariffs imposed by US President Trump. The higher import duties make European goods more expensive on the US market and could weigh on euro area exports. However, the easing of monetary policy in the eurozone and in many of its trading partners' economies appears to be leading to an increase in new orders in the manufacturing sector. Lower interest rates make it easier to finance investments, for example, and thus stimulate the economy.

Chart 2 - The sentiment in the manufacturing sector crossed the 50-point mark

Purchasing Manager Index for the euro area, manufacturing sector and services, seasonally adjsutes monthly data



Source: S&P Global, Commerzbank-Research

Only moderate upturn in the euro area economy

The overall mood in the euro area economy is mediocre and improving only slowly. Diverging developments within the monetary union highlight the sluggish growth. This also applies to the economic outlook: Germany is likely to increase its government spending significantly in the coming years, while France and Italy will probably be forced to cut back on spending due to rising interest payments. Overall, we therefore expect only a sluggish recovery of the euro area economy in the course of this year.

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