EUROZONE PMI INDICATES SOFT RECESSION FOR 2023

On September 12th, we posted a cartoon that depicted, somewhat dramatic but meant to be satirical, the direction the Eurozone economy is heading:

Yesterday, having time as US markets were closed for thanksgiving, we all were able to read the following article on Bloomberg (if you are a subscriber):

Bloomberg (excerpt) Nov 23rd, 2023

Private-sector activity in the euro area kicked off the final quarter of 2023 with another dismal showing, suggesting the region's economy may be in recession.

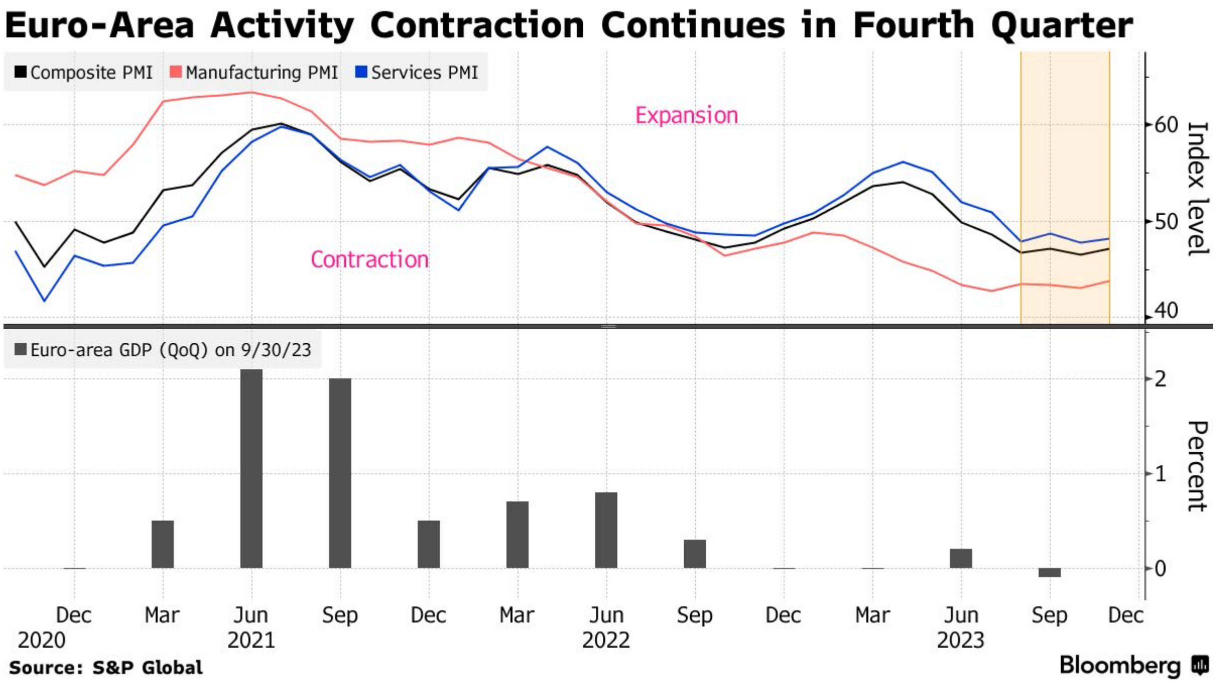
S&P Global's purchasing managers' index slowed to a three-year low in October, dropping to 46.5 — clearly below the 50 mark that separates expansion and contraction. Economists expected a slight improvement to 47.4.

The euro swung to a loss against the dollar, falling as much as 0.1% to $1.0655 and snapping a three-day rising streak. Bonds held onto earlier gains, which sent the 10-year German yield as much as 8 basis points lower to 2.79%. Bund yields are trading around 20 basis points off a peak touched earlier this month.

The currency bloc's economy faces several headwinds, including a rate-hiking campaign (that might be dead, barring any "better" news) by the European Central Bank and a slowdown in global activity.

Possibly rising energy prices as a result of the conflict in the Middle East risk might exacerbate its difficulties, although we believe that the situation is being managed.

Banks in the euro zone tightened credit standards further in the three months through September due to higher borrowing costs and the worsening economic backdrop, the ECB said Tuesday in its quarterly Bank Lending Survey.



Data for the third quarter due a week from now are likely to show euro-area output contracted 0.1% in the period.

That would be the first quarterly contraction since the pandemic, though **the economy did repeatedly fail to grow**.

That weakness may focus ECB officials meeting this week in Athens. After a record tightening cycle of 10 consecutive interest-rate hikes, policymakers have indicated that they'll keep both interest rates (borrowing costs) on hold for some time. **Consider longer bonds, just an idea.**

Traders priced in more easing by the central bank next year to support the economy, with a quarter-point cut fully seen by June. They still view a pause later this week as all but guaranteed.

October’s PMI downturn was broad-based across the euro area, S&P Global said. Indicators based on business surveys in the currency blocks’ top two economies — France and Germany — remained well below the 50 mark, and the contraction affected manufacturing as well as services in both countries.

More weakness also surfaced in the labor market – bright spot for interest rate hold.

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