

Manufacturing a slowdown

Published 13 March 2019

Kevin Flanagan

Head of Investment and Fixed Income Strategy

As we enter the final month of the first quarter, investors will be looking for certain answers regarding the health of the Eurozone economy. It has been widely publicized that a slowdown in 2019 looks rather likely and is not being debated. The question then becomes; what type of a slowdown should investors be expecting?

The European Commission (EC) recently weighed in with their projection, and it was basically in line with the consensus forecast. For 2019, the EC looks for Eurozone GDP to decline 0.5 percentage points to +1.3%, essentially right in line with the broader economists' estimate of +1.4%. Within the latter's projection, there are estimates that fall below the +1.0% threshold, with the lowest reading coming in at +0.8%.

Figure 1: Eurozone Purchase Managers Index (PMI)

Source: Bloomberg, as of 22 February 2018.

Historical performance is not an indication of future performance and any investments may go down in value. You cannot invest directly in an index.

Interestingly, the springboard on an individual country basis is not very encouraging. Eurozone Gross Domestic Product (GDP) rose only + 0.2% in Q4, matching the Q3 figure and underscoring the genuine slowdown that is underway. However, Germany's numbers were the real disappointment: 0.0% in Q4 vs. -0.2% in Q3. These results ever so narrowly avoided a technical recession. Italy wasn't as lucky with negative prints in both Q3 and Q4.

At this point, we still do not envision an outright recession for the Eurozone in 2019. A key economic indicator we will be watching are the monthly PMI reports. For February, the 'flash' Eurozone Composite reading inched up a bit to 51.4 vs 51.0 for the prior month, representing the first increase since August of last year. Normally, a break in a downward trend would be viewed as modestly encouraging. However, let's dig a little bit deeper into this economic gauge. The Composite reading actually consists of two underlying components, one that measures manufacturing and the other, services. As the accompanying graph highlights, these two underlying components went in different directions in February. Services rose to a three-month highwater mark of 52.3, but manufacturing lost ground yet again, falling below the '50' threshold (the level that is associate as the marker between expansion and contraction) to 49.2, the lowest level since June 2013.

On an individual country basis, Germany and France both witnessed higher PMI Composite readings. While the manufacturing and services numbers for France were above their January readings, Germany's readings were split like the overall Eurozone's outcome, with manufacturing falling to a low of 47.6.

Conclusion

The Eurozone's PMI uptick provides some hope that a recession will be avoided this year, that is as long as it doesn't reverse course in the months ahead. However, there seems to be no denying the fact that a marked slowdown in economic growth is now in place, led by weakness in the manufacturing sector. This backdrop should keep the ECB from raising rates in 2019.

Related blogs

- + [On second thought...rates lower for longer](#)
- + [Rates going up...maybe not so fast](#)

Related products

- + [WisdomTree AT1 CoCo Bond UCITS ETF - USD \(CCBO\)](#)
- + [WisdomTree EUR Aggregate Bond Enhanced Yield UCITS ETF - EUR \(YLD\)](#)
- + [WisdomTree EUR Government Bond Enhanced Yield UCITS ETF - EUR \(GOVE\)](#)

Important Risks Related to this Article

Important Information

Marketing communications issued in the European Economic Area (“EEA”): This document has been issued and approved by WisdomTree Ireland Limited, which is authorised and regulated by the Central Bank of Ireland.

Marketing communications issued in jurisdictions outside of the EEA: This document has been issued and approved by WisdomTree UK Limited, which is authorised and regulated by the United Kingdom Financial Conduct Authority.

WisdomTree Ireland Limited and WisdomTree UK Limited are each referred to as “WisdomTree” (as applicable). Our Conflicts of Interest Policy and Inventory are available on request.

For professional clients only. The information contained in this document is for your general information only and is neither an offer for sale nor a solicitation of an offer to buy securities or shares. This document should not be used as the basis for any investment decision. Investments may go up or down in value and you may lose some or all of the amount invested. Past performance is not necessarily a guide to future performance. Any decision to invest should be based on the information contained in the appropriate prospectus and after seeking independent investment, tax and legal advice.

The application of regulations and tax laws can often lead to a number of different interpretations. Any views or opinions expressed in this communication represent the views of WisdomTree and should not be construed as regulatory, tax or legal advice. WisdomTree makes no warranty or representation as to the accuracy of any of the views or opinions expressed in this communication. Any decision to invest should be based on the information contained in the appropriate prospectus and after seeking independent investment, tax and legal advice.

This document is not, and under no circumstances is to be construed as, an advertisement or any other step in furtherance of a public offering of shares or securities in the United States or any province or territory thereof. Neither this document nor any copy hereof should be taken, transmitted or distributed (directly or indirectly) into the United States.

Although WisdomTree endeavours to ensure the accuracy of the content in this document, WisdomTree does not warrant or guarantee its accuracy or correctness. Where WisdomTree has expressed its own opinions related to product or market activity, these views may change. Neither WisdomTree, nor any affiliate, nor any of their respective officers, directors, partners, or employees accepts any liability whatsoever for any direct or consequential loss arising from any use of this document or its contents.