

Fast Comment Eurozone

Positive PMI activity provides the ECB room to go further

- Eurozone Composite PMI was 52.3 in Feb; Manufacturing 48.5; Services 53
- Services drove growth even as manufacturing activity remains soft
- Upside surprise in activity to give the ECB room to tighten further

Eurozone Composite PMI was 52.3 in Feb; Manufacturing 48.5; Services 53

The Eurozone flash Composite PMI rose above expectations to 52.3 in February, compared with 50.3 the previous month. The Manufacturing PMI fell more than expected to 48.5, compared with 48.8 earlier, and the Services PMI rose more than expected to 53, compared with 50.8 the month before.

Economic activity in France increased in February for the first time since October last year, and the economy also experienced a modest expansion in employment and an easing of input cost inflation. Still, new order intakes continued to decline, a sign of weak demand conditions, and business confidence weakened further. The German private sector also saw a return to growth amid signs of reduced strain on demand and easing supply-side constraints to production.

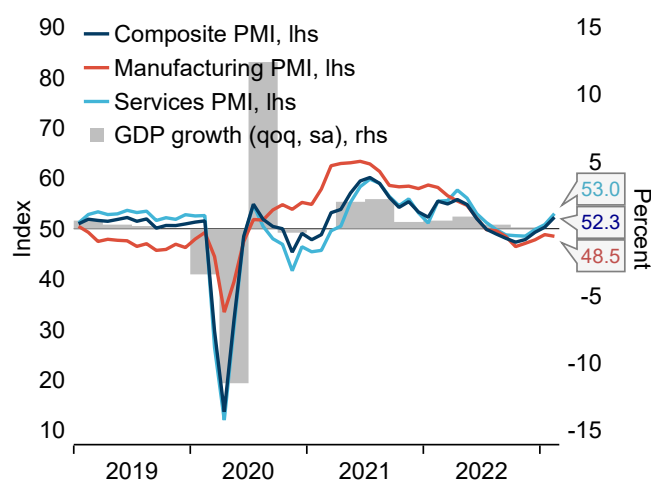
Services drove growth even as manufacturing activity remains soft

February's headline statistics reflected an improved performance of the service sector and a return to growth of manufacturing output: rising demand, easing supply chains, reduced order book backlogs and was also accompanied by improvements in confidence. Input price growth in the manufacturing sector fell considerably but remain high in the services sector. New orders and export orders remain well below historical medians.

Upside surprise in activity to give the ECB room to tighter further

The data so far this quarter is consistent with positive growth in the private sector, and should cement a relatively hawkish working majority in the Governing Council. We expect the Governing Council to raise policy rates by 50bp at its next meeting on March 16, and we see upside risk to our flat baseline policy forecast thereafter, with an increased likelihood of 25bp hikes in May and June.

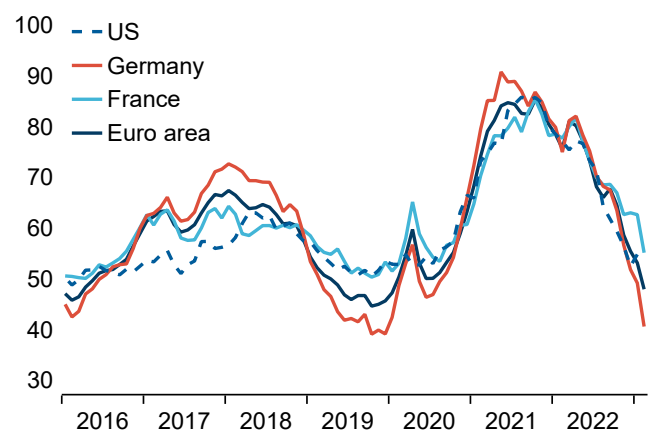
Euro Area Composite PMI and GDP qoq growth



Source: Macrobond

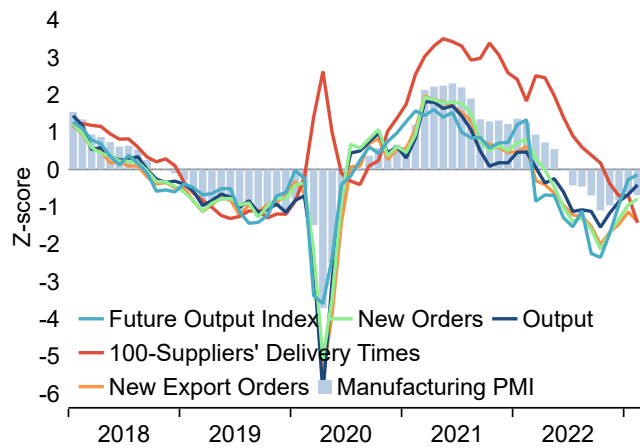
PMI Price Pressure Gauge

$0.5 \times (100 - \text{Delivery Times}) + 0.5 \times (\text{Input Prices})$



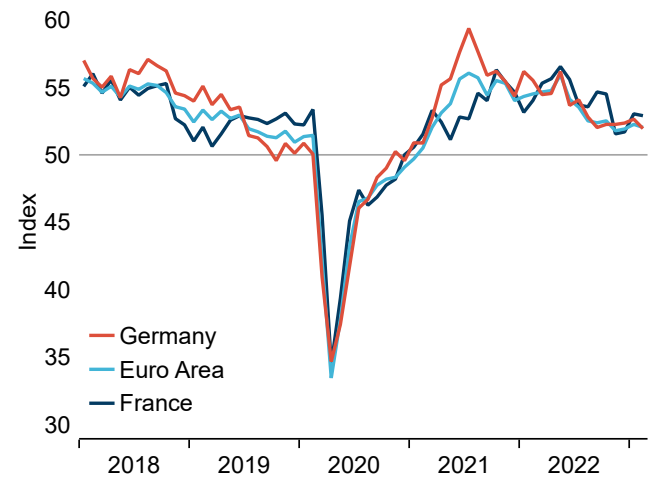
Source: Macrobond.

Eurozone Manufacturing PMI and subindices (standardized)



Source: IHS Markit and Macrobond.

Composite PMI Employment subindices



Source: IHS Markit and Macrobond

Headline PMI aggregates by region

	Latest value	Latest value relative to post-2005 distribution									1M chg	1Q chg	1Y chg
		44	46	48	50	52	54	56	58	60			
Eurozone													
Composite	52.3										2.0	4.4	-3.2
Manufacturing	48.5										-0.3	1.4	-9.7
Services	53										2.2	4.5	-2.5
France													
Composite	51.6										2.5	2.9	-3.9
Manufacturing	47.9										-2.6	-0.4	-9.3
Services	52.8										3.4	3.4	-2.8
Germany													
Composite	51.1										1.1	4.8	-4.6
Manufacturing	46.5										-0.8	0.3	-12.0
Services	51.3										0.6	5.2	-4.5

10th/90th pctile 25th pctile, 75th pctile Median Latest

Source: IHS Markit and Macrobond

Euro Area sector PMI and subindices										
	Latest value vs post-2011 distribution									
	40	45	50	55	60	65	70	75	80	85
Composite	52.3									
Backlogs of Work Index	49.2									
Employment	52.0									
New Orders	50.6									
Future Output	60.8									
Input Prices	65.4									
Output Prices	60.5									
Manufacturing	48.5									
Output	50.4									
Backlogs of Work Index	44.7									
Capacity Utilisation Index	47.8									
Employment	52.3									
New Orders	46.6									
New Export Orders	43.2									
100 - Suppliers' Delivery Times	44.7									
Stocks of Purchases	47.7									
Future Output	59.0									
Input Prices	51.2									
Output Prices	58.3									
Quantity of Purchases Index	42.8									
Stocks of Finished Goods Index	49.9									
Stocks of Purchases Index	47.7									
Services	53.0									
Backlogs of Work	50.9									
Employment	52.0									
Incoming New Business	52.1									
Future Business Expectations	61.5									
Input Prices	70.7									
Output Prices	61.3									

Circles denote latest values, diamonds medians, and bars denote 10/90th percentiles. Source: Handelsbanken, IHS Markit and Macrobond.

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