

Fast Comment Eurozone

Eurozone April PMI unexpectedly strong as two-speed economy emerges

- Eurozone Composite PMI was 55.8 in April - higher than expected
- Services sector makes up for weaker manufacturing - inflationary pressures rise
- April data supports ECB announcing timing of future rate hikes in June meeting

Eurozone Composite PMI was 55.8 in April - higher than expected

The Eurozone flash Composite PMI accelerated above expectations to 55.8 in April, compared with 54.9 in the previous month. The Manufacturing PMI fell less than expected to 55.3, compared with 56.5 the month before, and the Services PMI increased significantly above expectations to 57.7, compared with 55.6.

French PMI strengthened unexpectedly across all sectors, and indicators of future output also recovered some of the fall from the previous month. In particular, supportive demand following the further removal of pandemic restrictions appears to have driven the acceleration in services sector growth. Supply shortages continued to hinder manufacturing output. In Germany, Composite PMI fell less than expected, as manufacturing PMI weakened but services strengthened. Meanwhile, indicators of future output all continued to be weakened compared to the previous month. Moreover, the data pointed to a further surge in inflationary pressures, as the April release showed record increases in output prices for both sectors.

Services sector makes up for weaker manufacturing - inflationary pressures rise

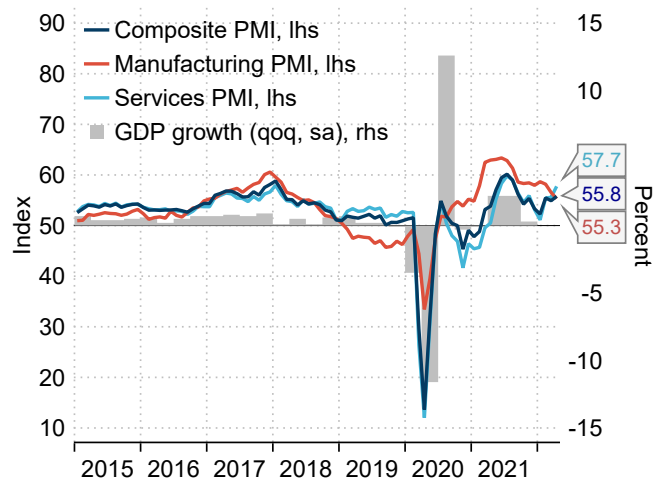
The services sector rebounded strongly in April, making up for a weaker manufacturing sector. In the former sector, incoming new business strengthened to historically high levels and indicators of future output bounced back somewhat from last month's sharp fall. Meanwhile, in the manufacturing sector, output continued to fall, as did new orders. Future output was largely unchanged following last month's fall, and inflationary pressures in output prices continued to rise.

April data supports ECB announcing timing of future rate hikes in June meeting

Whereas weakness in the manufacturing sector is indicative of the costs of Russia's invasion of Ukraine as well as ongoing supply disruptions, the strength in the services sector should push policymakers, especially the ECB, to worry relatively more about inflation rather than growth for the time being.

We still think uncertainty around the impact of the war in Ukraine on eurozone economies will contain the ECB from raising rates earlier than our expected first rate hike in December this year. Yet given the data released today, all else equal, this increases the chance that a rate hike could occur earlier than that. High-frequency indicators for consumers point to weakening consumer demand which could weigh on household consumption going forward and might have a bigger effect on services PMI once the pandemic opening has fully been reflected in the data.

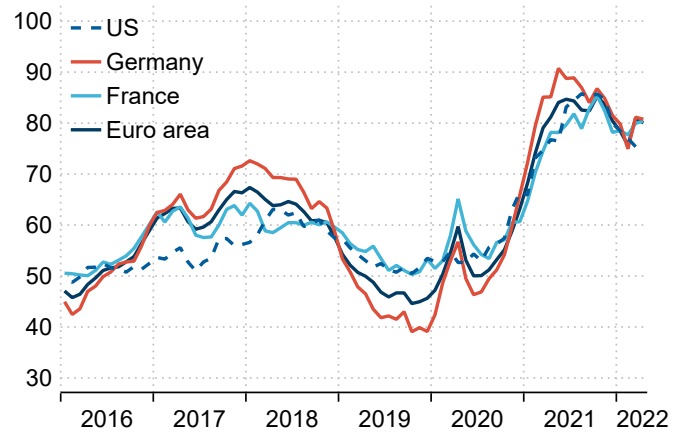
Euro Area Composite PMI and GDP qoq growth



Source: IHS Markit, Eurostat, and Macrobond

PMI Price Pressure Gauge

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



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
		42.5 45.0 47.5 50.0 52.5 55.0 57.5 60.0			
Eurozone					
Composite	55.8		0.9	3.5	2.0
Manufacturing	55.3		-1.2	-3.3	-7.6
Services	57.7		2.2	6.6	7.3
France					
Composite	57.5		1.2	4.8	5.8
Manufacturing	55.4		0.7	0.0	-3.5
Services	58.8		1.4	5.8	8.5
Germany					
Composite	54.5		-0.6	0.7	-1.4
Manufacturing	54.1		-2.8	-5.8	-12.2
Services	57.9		1.8	5.7	8.0

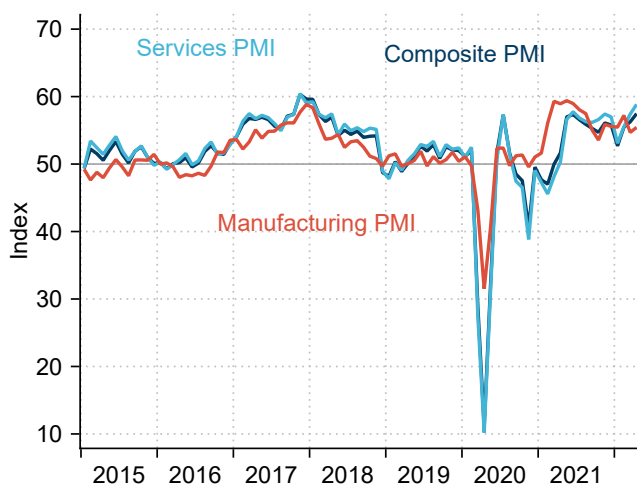
■ 10th/90th pctile ■ 25th pctile, 75th pctile ■ Median ● Latest

Source: IHS Markit and Macrobond

Euro Area sector PMI and subindices									
Latest value vs post-2011 distribution			MoM		QoQ		YoY		
		40 50 60 70 80							
Composite	55.8		0.9		3.5		2.0		
Backlogs of Work Index	54.7		0.6		0.5		0.8		
Employment	54.9		0.2		0.5		1.8		
New Orders	55.1		1.0		2.4		1.7		
Future Output	60.3		1.2		-7.0		-8.6		
Input Prices	81.1		-0.5		6.9		17.1		
Output Prices	68.5		2.8		6.7		14.1		
Productivity	49.5		0.0		-0.1		-1.0		
Manufacturing	55.3		-1.2		-3.3		-7.6		
Output	50.4		-2.7		-5.0		-12.8		
Backlogs of Work Index	54.4		-0.6		-2.4		-7.1		
Capacity Utilisation Index	66.5		0.0		-0.3		-6.2		
Employment	55.2		1.0		-1.8		-1.4		
New Orders	51.4		-2.3		-5.0		-12.5		
New Export Orders	49.3		-0.3		-4.9		-13.0		
100- Suppliers' Delivery Times	72.6		-1.5		-0.8		-7.5		
Stocks of Purchases	53.7		1.4		-1.1		7.2		
Future Output	55.2		0.9		-12.5		-15.1		
Input Prices	87.5		0.5		4.1		5.4		
Output Prices	77.1		2.9		4.4		12.8		
Productivity	47.9		0.0		-0.2		-7.7		
Quantity of Purchases Index	53.9		-1.8		-4.8		-10.7		
Stocks of Finished Goods Index	49.5		-0.2		0.5		6.0		
Stocks of Purchases Index	53.7		1.4		-1.1		7.2		
Services	57.7		2.2		6.6		7.3		
Backlogs of Work	54.8		1.0		1.6		3.6		
Employment	54.7		-0.1		1.4		2.9		
Incoming New Business	56.4		2.2		5.1		6.7		
Future Business Expectations	62.2		1.4		-5.0		-6.3		
Input Prices	78.8		-0.8		7.9		21.2		
Output Prices	65.4		2.8		7.5		14.5		
Productivity	50.1		0.0		0.0		1.4		

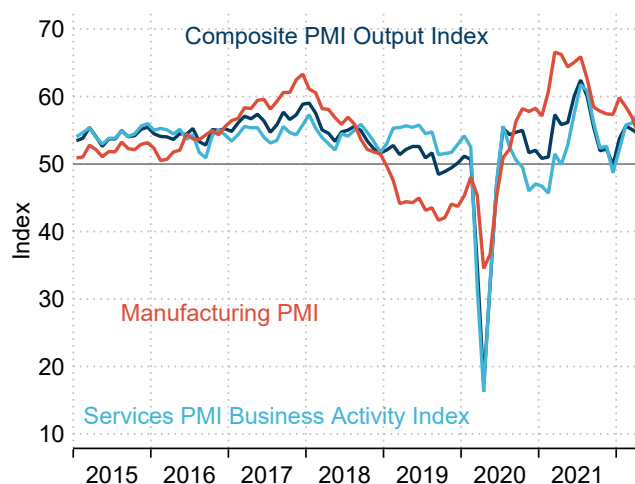
Circles denote latest values, diamonds medians, and bars denote 10/90th percentiles. Source: Handelsbanken, IHS Markit and Macrobond.

France PMI



Source: Macrobond

Germany PMI



Source: IHS Markit and Macrobond. Values are seasonally adjusted.

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