

Eurozone businesses still optimistic despite PMI reality check

Businesses experienced the strongest quarter in six years, despite the composite PMI dropping to its lowest reading in five months.



Source: iStockphoto

With just a week to go in this quarter, all signs are pointing towards a strong GDP reading. This quarter's confidence numbers have remained very strong, pointing towards a continuation of solid growth in the Eurozone. Businesses proved to be slightly more cautious in June, mainly due to slower growth in new orders in the service sector.

The manufacturing PMI is still indicating strong improvements. New orders in manufacturing are growing at the fastest pace since February 2011 and backlogs of work continue to increase.

55.7

Eurozone composite PMI

Previously 56.8

Worse than expected

While industrial production has disappointed so far this year, catch-up growth in manufacturing output seems imminent over the coming months. It is interesting to note that export growth continues to improve and is rising at the fastest pace in six years as well. While geopolitical uncertainty is high and the euro has recently strengthened, export orders are still profiting from recent weakness in euro and the global cyclical upturn.

The picture that surveys are painting is rosy

While the PMI for services disappointed somewhat this month, the outlook remains positive for the months ahead. Consumer confidence is back at levels last seen when people still had francs, marks and pesetas in their wallets, which is supportive of faster consumption growth.

At the same time, businesses continue to hire new staff near the fastest pace in decades. This should underpin continued strength in the service sector for the coming months.

The picture that surveys are painting is rosy and while 2017 indeed looks like a strong year for Eurozone growth, the question remains if they aren't overselling it.

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