

## Eurozone economy maintains pace in August

No summer lull for Eurozone businesses as the composite PMI improves slightly in August and remains near historic highs.



### Continued robust growth with continued weak price pressures is in the making for Q3.

The Eurozone composite PMI increased from 55.7 to 55.8 in August as manufacturing sector growth improved significantly and service sector growth decreased somewhat. Both sectors' indices correspond to a healthy growth pace, but the question is whether this will also translate into an acceleration of industrial production this quarter.

Manufacturing PMIs in the Eurozone have been buoyant for quite some time now, but industrial production has failed to improve from its modest growth trend of recent years. As most indicators point to further recovery of manufacturing activity, we do expect to see some improvements in growth for the months ahead. The backlogs of work in manufacturing increased the fastest in 11 years, for example, an indication that stronger manufacturing output in the coming months is likely.

Even though service sector growth has been somewhat weaker recently, the fundamentals for

continued strength in the second half of 2017 are still there. Consumption is supported by the employment recovery, which continued in August although the pace of hiring slowed somewhat. Still, employment growth indicated by businesses remains near decade highs.

Price pressures continue to be weak, although selling prices did pick up according to businesses. Those selling prices reached a three-month high, but that does not mean that the Goldilocks economy is coming to an end anytime soon. As businesses indicated faster increases in selling prices earlier in the year, this will not convince the ECB that faster price growth is imminent ahead of Draghi's speech in Jackson Hole on Friday. In fact, we think that improvements in inflation to above 1.5% are unlikely for the coming months, so look for a cautious Draghi at the end of the week.

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