

Eurozone economy off to a great start to 2018

The Eurozone PMI increased from 58.1 to 58.6 in January, indicating high levels of economic activity at the start of the year. Price pressures surged, which the ECB will surely follow with interest, but is unlikely to act on tomorrow.



Source: istock

The PMI adds to the list of positive January indicators after the ZEW survey and consumer confidence already increased earlier. The picture that the PMI paints is one of an economy that has recently experienced accelerating growth and has reached the limits its production capacity. This means that employment growth continues at a rapid pace because businesses are hiring to keep up with the inflow of new orders. At the same time, businesses are investing more as capacity constraints are reached. This leads to a positive picture for economic growth in 2018 as employment growth will fuel consumption and investment will be boosted by the high capacity utilization. With backlogs of work high, that means that we are looking at a very strong start to the year for the Eurozone economy.

We believe 2018 could again be a year in which Eurozone growth beats expectations, but still

inflation is not picking up as wage growth remains weak. In fact, the recent appreciation of the euro will exert more downward pressure on the inflation rate later in 2018, which means we expect cautious communication from the ECB tomorrow. The surge in price pressures indicated by the PMI will be important to note though, as this was not just due to the higher oil prices but also thanks to improved pricing power. Even though the ECB remains concerned with reaching its inflation target in the years ahead, the mounting price pressures could cause an upside surprise to inflation estimates.

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