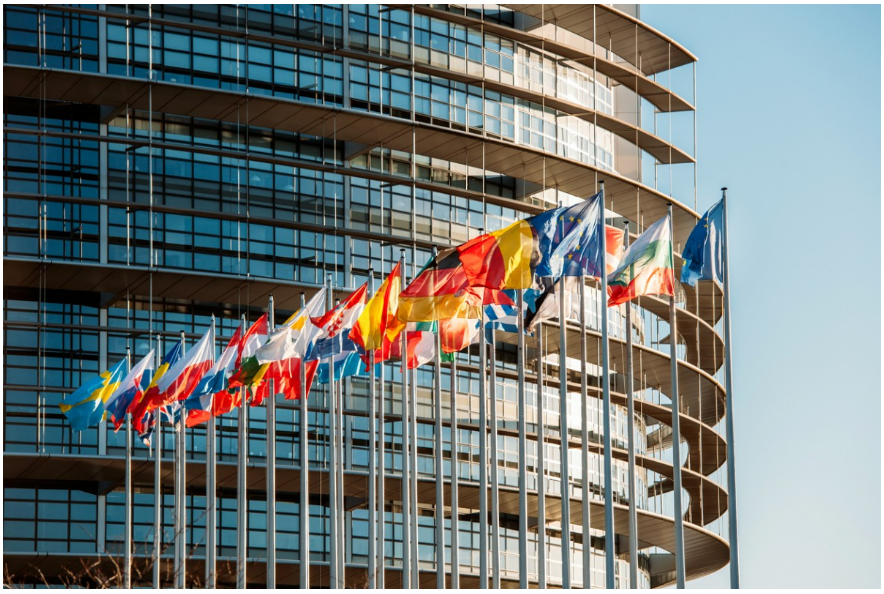
Eurozone euphoria continues

The Eurozone economy maintains a surprisingly strong pace as the composite PMI maintained a 6 year high.



Source: iStock

56.8

Eurozone Composite PMI

(Previously 56.8)

Better than expected

This indicates that growth in the second quarter continues to be strong and could even surprise on the upside on these strong figures. The increase was broad-based as both Germany and France saw their PMIs increase in May, while also output from both manufacturing and services improved across the Eurozone. Businesses continue to indicate that job growth is picking up speed and that backlogs of work are reaching new highs. This means that domestic demand continues to drive the strong growth in the Eurozone.

Recent indicators seem to suggest that Europe's worries are finally over. While the current outlook is indeed quite bright, it is not that all problems have been solved. The Eurogroup and the IMF did not reach agreement on Greece yesterday, meaning that it will be June or July by when a deal must be agreed, with a large redemption due in July. While Greece adopted a strong programme last week, disagreement over debt relief remains problematic. 2017 could therefore once again have a hot Greek summer.

For the ECB, this release was a mixed bag. The continued strength in the PMI indicates that the economic risks are becoming more balanced and selling price pressures on businesses were growing quickly in May, but the drop in input price growth shows that price pressures could be easing a little in the months ahead. This is in line with our expectations for inflation and could result in declining price growth over the summer months.

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