

## Eurozone growth maintains cruising speed

There was robust growth in the Eurozone in July but price rises are slowing.



**55.8** Eurozone composite PMI

Lowest in six months

### No alarm bells yet

The Eurozone composite PMI dropped from 56.3 to 55.8 in July, the lowest in six months. That still points to robust growth, but no acceleration. With the Eurozone economy growing at a very decent cruising speed, the lack of selling price growth indicated in the survey seems most concerning for the European Central Bank. While the PMI has been falling slightly over the past months, this is by no means an alarming sign. July's levels are still consistent with output growth of around 2% annualised growth. Most underlying factors still point to continued strength for growth in the months ahead. New orders and backlogs of work continued to grow, albeit at a more subdued pace. Growth in employment is still near a decade high, with manufacturing

businesses indicating the second fastest pace of job growth recorded.

## Difficulties for the ECB

Over the past months, survey indicators had been very optimistic compared to hard data about the economy and recently it seems like the two are starting to get back in sync with each other. Surveys are becoming somewhat less euphoric, while production and sales are improving. Today, IMF increased its growth forecast for the Eurozone for 2017 and 2018. We have also become more optimistic over the past months and expect growth to come in at 2% this year. Even though growth remains strong, inflation is likely to remain weak. Businesses indicated that selling price growth weakened further, to the lowest rate since January. This comes on the back of a further weakening in input price growth. This confirms our view of inflation below 1.5% for a while to come, making life hard for the ECB. We expect a gradual run-up to a tapering announcement and these weak price growth signals are in line with that.

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