

Eurozone PMI better than expected in January

The composite PMI increased from 49.6 to 50.2. Though better than expected, it still corresponds to a stagnant economy with a contracting manufacturing sector. While price pressures are increasing again, the weak growth environment seems to take priority as the ECB gears up for more rate cuts



Optimism among manufacturers rose in January, showing that businesses are counting on improving growth over the course of the year

Some positive news from the eurozone at last. It's not much, but a small increase in the PMI to bring the level above 50 is at least something. The manufacturing sector saw an increase in its output index from 44.3 to 46.8, which still signals contraction but less so than before. The services sector continues to be the engine for growth, although the business activity PMI dropped slightly from 51.6 to 51.4. So overall, a roughly stagnant economy seems to persist for the moment.

Growth continues to be hampered by weak international demand. Export orders continue to decline for the moment and with US tariffs once again looming over the eurozone manufacturing sector, the outlook remains bleak. Interestingly though, optimism for manufacturers did increase in January, which shows that businesses are counting on improving growth over the course of the year. We think that's fair to expect, but modestly and mainly driven by stronger domestic demand.

The European Central Bank (ECB) meets next week and another rate cut of 0.25ppt is widely expected, with more to come. The ECB itself seems okay with that view as we heard in Davos this week. Still, inflationary pressures are moderately increasing again and businesses indicate that they are pricing those higher costs through to the consumer according to the PMI. While the biggest inflation risks have abated, this shows that upside inflation risks are not yet a thing of the past.

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