Eurozone PMI booms, but also rings inflation alarm bells

The February PMI showed that the winter dip was short-lived. The survey hints at accelerating growth, but also gave evidence of second-round price effects in services and manufacturing. If anything, this PMI adds to reasons for the European Central Bank to become more hawkish

Today's PMI confirms that the economy is dealing with the pandemic better with each wave. The downturn in survey indicators has come to a quick halt this winter as February showed a sharp increase in the composite output PMI from 52.3 to 55.8, corresponding to accelerating economic activity. Demand continues to soar for both services and manufacturing, with improvements from foreign and domestic buyers. This is also resulting in continued strong demand for employment in an already tight labour market. With a further easing of Covid restrictions underway, this puts upward pressure on our meagre first quarter GDP forecast.

Most good news came from the manufacturing PMI, which showed a further easing of supply chain problems. Backlogs of work are still increasing as demand continues to grow, but this of course is helping production to recover. Because of this, the manufacturing sector is getting a second wind and this is also resulting in weaker increases in input prices. In fact, this was the weakest increase since March last year.

Nevertheless, goods prices for consumers are still increasing faster than before, according to the PMI. The high producer prices are being priced through to the consumer, which is set to translate to higher consumer goods inflation. This may ease towards the end of the year, but for the moment we see further gains to come. Besides that, service sector input prices are now increasing quickly as wage growth and high energy prices become more pressing. This has also resulted in the fastest service sector output price growth recorded by the survey.

All in all, the PMI brings together a lot of elements that raise concern about medium-term inflation. The PMI suggests that the winter economic dip could be much milder than expected, labour market pressures continue to build and second-round effects are resulting in more broad-based price pressures at the moment. Expect this to add to hawkish pressures ahead of the European Central Bank March meeting.

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