

Snap | 24 July 2018

## Eurozone PMI dampens expectations of a growth rebound

While the flash PMI for the manufacturing sector's output stabilised in July, the services PMI fell back, resulting in a decline of the composite PMI.



The flash composite PMI for the Eurozone fell back to 54.3, after the brief uptick to 54.9 in June. This was slightly below the consensus estimate.

The output index for the manufacturing sector remained stable, while it dropped to 54.4 in the services sector. More worrying is the fact that the increase in new orders for both sectors was the smallest since October 2016, indicating a potential further decline in the rate of expansion in the coming months. Trade frictions already seem to be taking their toll as new export orders in the manufacturing sector registered the smallest monthly increase since August 2016.

At the same time, job creation remains strong, which should give some support to domestic demand. Input price pressures cooled slightly in both manufacturing and services, although companies still seek to pass through past cost increases to customers.

While the decline of the composite PMI is a disappointment, the current PMI level still signals that the Eurozone recovery remains solid. This is grist to the mill for the ECB's thesis that the slowdown

seen since the beginning of the year was not the start of a more significant downturn.

However, while Europe is experiencing a heat wave in July, today's data can't be seen as a sign that the Eurozone economy is heating up. If anything, there are still plenty of events that could throw cold water on business confidence in the coming months. The risk of a trade war is lurking in the background while growing tensions in the Brexit negotiations might lead to a more cautious attitude amongst businesses.

We expect the Eurozone recovery to remain in 'steady as she goes' mode, but certainly not more than that. That means a quarterly growth pace of around 0.4%, with underlying inflation remaining rather subdued. A scenario that shouldn't inspire the ECB to change anything in its forward guidance on Thursday.

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