Eurozone PMI: early signs of an economy pulling through

Evidence of a decent February for the Eurozone is mounting as the PMI increases from 51 to 51.4. In an economy close to stagnation, this is a welcome sign and suggests continued, albeit slow growth in the first quarter

Car assembly plant, Italy

The consumer confidence and the ZEW Index were already better than expected, and now the PMI increased in February. This does not mean that growth worries are over as the manufacturing output index dropped to below 50, signalling contraction for Eurozone industry for the first time in almost six years. New orders for manufacturing decreased even faster than in January. The contrast with the service sector that saw the activity index increase from 51.2 to 52.3 could hardly be larger. Service sector businesses increased the pace of hiring in February and became significantly more optimistic about the outlook.

The German manufacturing sector continues to be a cause of concern for the Eurozone economy with orders from the auto sector coming in weak and orders from China still disappointing. While some rebound in production from previous disruptions are to be expected, current weakness does stress vulnerability to the significant downside risks that the Eurozone faces. On the other hand, the jump in the French PMI to 49.9 is cause for modest optimism as the disruptive impact of the yellow vest protests on the business economy seems to be fading.

For the ECB, which has been looking for clues about whether the slowdown was temporary or could be more severe, this week's data will add to a more optimistic view. Still, with downside risks abound and a manufacturing sector treading water even without Brexit or new tariffs causing further disruption, the ECB is still more likely to avoid further tightening for the moment than to turn more hawkish.

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