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Eurozone PMI shows improving economy as services inflation weighs on ECB

The composite PMI increased from 47.9 to 48.9 in February, indicating that the eurozone's economic slump is easing. The impact of the Red Sea disruptions on eurozone production appears to be easing, but services inflation remains a hurdle for bets on early ECB rate hikes

Things could be starting to brighten up in the eurozone, but the inflation picture painted by the survey is likely to be a key concern for the European Central Bank

The eurozone economy is far from out of the woods at the moment, but the PMI does indicate that some improving service sector activity could help the region to avoid another quarter of contraction. Manufacturing remains weak, with new orders falling once again. The output index for manufacturing fell from 46.6 to 46.2, indicating that there is no end is sight to the production recession that the eurozone is in.

It looks like the gap between the eurozone economies is widening. France experienced the best PMI in nine months – albeit still indicating contraction at 47.7 – while the German composite PMI dropped back to 46.1. The rest of the eurozone, for which no individual PMIs have been released so far, led the way with a stronger performance than the two large markets.

Interestingly, supply delivery times have fallen in February, which indicates that the Red Sea disruptions on eurozone production appear to be easing. This is also reflected in the inflation picture for goods, which still indicates falling prices.

The inflation picture painted by the survey still remains somewhat worrisome for the European Central Bank, though. Services businesses in particular continue to indicate faster rising prices, reflecting higher input costs. While inflation remained relatively benign in recent months, signs like this are good arguments for hawks to push against rate hikes in the coming two meetings.

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