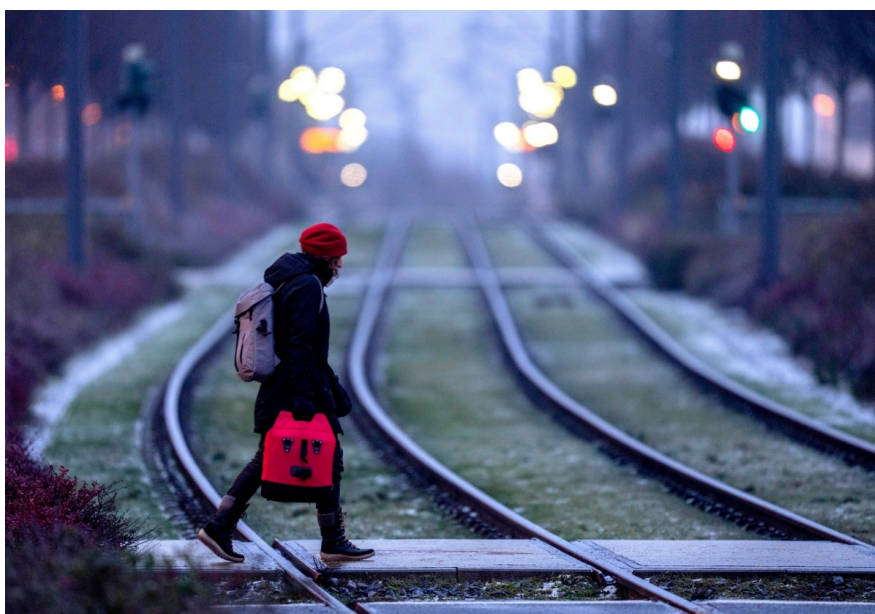


Eurozone PMI improves as mild winter helps economy

The jump in the composite PMI from 49.3 to 50.2 indicates that the economy is performing better than expected. Businesses are experiencing fewer cost pressures than before, but selling prices remain high. For the ECB, this should seal the deal for a 50 basis point hike next week



The eurozone economy was boosted in December by the mild winter weather

Sometimes you just need a bit of luck. The eurozone economy has avoided dramatic scenarios for the winter thanks to an extremely mild December in which gas storages have been depleted much less than feared.

Whether this is a recession or not is almost semantics at this point. The PMI jumped above the 50 level, which indicates growth in the business economy. While the difference between -0.1 and 0.1% growth is interesting for economists, the overall sense of stagnation will likely prevail for most.

More important is that improvements in the PMI were broad-based as both the manufacturing and services PMIs ticked up. New orders are still falling, but at a slower pace than before and businesses

have again seen hiring increase. The latter confirms our view that labour shortages are here to stay despite the sluggish economic performance. That brings upside risk to the wage growth outlook.

For inflation, the survey continues to bring good news on supply-side pressures. Input costs are rising much less rapidly than before, but for now that mainly seems to benefit corporate profitability as selling price growth is expected to remain high, according to the survey. This means that while headline inflation is set to fade more substantially over the coming months, risks to core inflation staying high remain.

For the ECB, this is once again a tricky report card. Falling inflationary pressures are good news, but stubbornly high selling prices and a strong labour market performance will cause alarm bells to ring in Frankfurt. For next week's governing council meeting, this means that the ECB is likely to stay the course and hike by another 50 basis points.

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