

## Eurozone PMI jumps to neutral in March, but few signs of a quick recovery

The composite PMI increased from 49.2 to 49.9 in March, the best reading since June last year. Green shoots are emerging for later this year, but expect continued economic stagnation for now. The survey also indicates that services inflation eased, which helps our view of a June rate cut from the ECB



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The increase in the PMI is encouraging, but don't expect a material pickup in GDP growth for the first quarter yet. Still, momentum is picking up in the service sector where the PMI increased from 50.2 to 51.1. Business activity here is slowly picking up and businesses are becoming more upbeat about the outlook. Manufacturing continues to struggle as new orders continues to drop, although the pace of decline in production and new orders are both softening.

The rate outlook for the ECB hangs for a large part on how wage growth and services inflation develops. Services inflation has been rising month-on-month for a few months now and the PMI indicates that services cost pressures softened in March, while services output prices also moderated. This will be taken as an encouraging sign that price pressures are not accelerating further at the moment which could have been a barrier to a June rate cut.

So muddling through remains the name of the game for the eurozone economy in 1Q, but green shoots are emerging. GDP growth has been more or less stagnant since late 2022, but we expect cautious recovery towards the summer. A lot will depend on the consumer, who is gradually regaining purchasing power as real wage growth is now positive. With expected cautious rate cuts, the investment environment should also slowly get more attractive again. But as today's PMI indicates, the economy remains weak for the moment.

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