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Eurozone PMIs show very tentative signs of bottoming out

The eurozone economy continues to trend around 0% growth and there are no signs of any imminent recovery. Price pressures are still increasing for the service sector, which provides another argument for the ECB not to cut before June

We don't expect the European Central Bank to start cutting rates until early summer

How you read today's PMI release for the eurozone reveals whether you're an optimist or a pessimist. The increase from 47.6 to 47.9 in the composite PMI for January cautiously shows signs of bottoming out but also still indicates contraction. We also note that France and Germany saw declining PMIs, making the increase dependent on the smaller markets. Manufacturing price pressures remain moderate despite the Red Sea disruptions, but the service sector indicates another acceleration in input costs.

To us, this shows that the eurozone economy remains in broad stagnation and that risks to inflation are not small enough to expect an ECB rate cut before June.

The eurozone continues to be plagued by falling demand for goods and services, although new orders did fall at a slower pace than in recent months. Current production and activity were weaker than in recent months, though, suggesting that January started with contracting output still. The slowing pace of contracting orders does suggest that there is a bottoming out happening though. Whether this is enough to show positive GDP growth in the first quareter depends on February and March. In any case, GDP growth is so close to zero that we still qualify the current environment as broad stagnation anyway.

The PMI continues to show some concern around inflation. Even though demand remains lacklustre, services cost pressures are on the rise again due to higher wage costs which are being transferred to consumers. Cost pressures on the goods side remain low despite Red Sea disruptions as energy prices trend lower and demand overall remains weak. This also means that goods inflation continues to trend down according to the survey. So, despite Red Sea problems prominently featuring in the news, inflation concerns currently stem more from services than goods, interestingly.

For the ECB, enough worries about inflation not trending down to 2% quickly still remain. We think that makes a first cut before June unlikely.

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