

Snap | 23 April 2024

Eurozone PMI signals a pickup in growth

The PMI increased from 50.3 to 51.4 in April, suggesting that the eurozone economy is finally leaving stagnation and returning to growth at the start of the second quarter. Inflationary pressures remain for the service sector, but don't expect this to deter the ECB from cutting rates



Inflation in the eurozone inched down in June, but we think it'll be September - when more data is available - before the ECB seriously considers another rate cut

The eurozone economy is slowly getting out of its slump. The April PMI shows that the economy is gearing up for an acceleration in activity after a year and a half of broad stagnation. The services sector is doing the heavy lifting in this acceleration of activity. The manufacturing sector continues to signal declining output, although there are some visible signs of bottoming out. Still, expect services to continue to lead the recovery as weak global demand offsets improvements in domestic real wages for eurozone manufacturers.

Disruptions in the Red Sea remain a sidenote to the eurozone growth story for the moment. Businesses indicate that delivery times continue to shorten despite shipping problems. The problems are becoming smaller and demand for inputs are also still easing thanks to the poor manufacturing environment.

The survey still provides some warning signs on inflation. Services inflation accelerated again according to businesses, but not to the degree seen at the start of the year. The survey also

indicates that goods inflation is still negative, meaning that overall inflationary pressures remain moderate. For the European Central Bank, this serves as a sign that rate cuts shouldn't be aggressive – but it's unlikely to deter the ECB from cutting. We expect a first cut at the next meeting in June.

Overall, this provides a reasonably upbeat picture of the eurozone economy. After a long period of stagnation which started in late 2022, it looks like the eurozone is starting out on the road to recovery. With unemployment still at record lows, inflation looking rather benign and rate cuts on the cards, the economy in the eurozone is set to become more pleasant than in recent years.

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