

Eurozone PMI surges in September

As Eurozone PMI beat expectations, economic performance seems like an unlikely barrier to ECB's tapering decisions



While analysts had expected a small decline in the composite PMI, Eurozone economic activity once again surprised on the upside. This rounds up a run of data that provide evidence of building pipeline inflation pressures.

The improved wage growth in the second quarter was announced last week, consumer confidence which reached the highest level since 2001 this month and today's PMI all point to increased strength in the Eurozone economy. This will help to build a case for ECB tapering next year, in addition to scarcity and the end of deflationary fears. Indeed, the PMI also indicated a strong rise in selling prices in the Eurozone in September.

With inflation set to remain well below target in the coming years, it's unlikely better economic data will persuade the ECB to announce a hawkish game plan for 2018

Although it increased, selling price inflation was still weaker in April according to the PMI. This

indicates that while price pressures are building slowly, it seems unlikely that recent developments will make a meaningful difference to the expected inflation path for the coming year.

Overall, the economy seems to be in strong shape. The manufacturing sector PMI reached a 77 month high in September. This further underpins expectations of strengthening industrial production in the Eurozone, although the PMI has been more positive than production figures have been for a while now. With the service sector PMI improving as well, this does paint a rosy picture for Q3 growth, setting the stage for a GDP growth rate of 2% or even slightly higher for 2017 as a whole.

That's not a bad economic environment to announce a wind-down of asset purchases for the ECB.

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