Eurozone PMI posts surprise jump in March

The eurozone composite PMI jumped from 52 to 54.1 in March, mainly driven by services as manufacturing stagnated. Price pressures continue to fall but remain elevated, especially in services which will concern the European Central Bank

The jump in PMI was mainly driven by the service sector

It's hard to get a good sense of where the eurozone economy is headed these days. Underlying developments in the fourth quarter were particularly weak, but surveys have recently suggested that the first quarter of this year is already showing some improvements. Today's PMI perfectly fits that view as the jump from 52 to 54.1 suggests a fairly strong rebound in activity. Then again, hard data on industrial production and retail sales have not given a particularly strong view one way or another. Still, the first quarter is starting to look better than initially expected.

The positive impact was mainly driven by the service sector as the services PMI improved from 52.7 to 55.6. Growth was rather broad-based between business-to-business and consumer services, according to the survey. New orders are causing backlogs of work to increase in services, but in manufacturing we see the exact opposite. Manufacturing output PMI decreased from 50.1 to 49.9 and new orders continue to weaken. A key positive factor for manufacturing is that supply chain problems continue to fall sharply, which is helping production eat into backlogs at the moment.

The impact of the recent banking turmoil on the eurozone economy is not yet clear to see, but if problems remain contained we still expect a mild downward effect on economic activity for the coming quarters. That adds to a picture of weak economic growth for the quarters ahead as high inflation and monetary tightening weigh on economic prospects.

Overall, the inflation picture continues to improve. Price pressures are down for both manufacturing and services, but still at elevated levels. The latter is especially true for services, and the strong service sector performance adds to concerns about elevated services inflation for the months ahead. While forward-looking signs for energy, food and goods inflation are becoming more benign, this is not yet the case for services. For the ECB, this will be a key argument to continue hiking – albeit at a slower pace – at the coming two meetings. If financial conditions allow, that is.

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