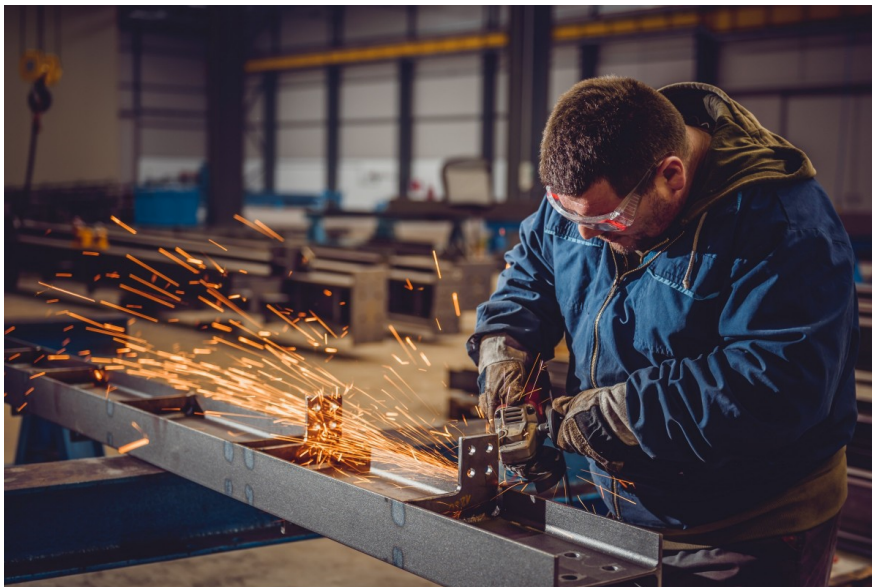


Eurozone: Upbeat PMI not enough to sway ECB

It's not all bad news coming out of the Eurozone. The increase in the June PMI from 51.8 to 52.1 marks the strongest reading in 2019, but continued manufacturing contraction warrants a high alert state from ECB



After some dismal PMIs at the start of the year, the cautious improvements in May and June can be seen as a positive sign. The way to interpret this is probably: growth remains weak at the moment, but the Eurozone is not getting closer to recession.

Another important conclusion from the June PMI: the dichotomy between services and manufacturing is only getting larger. The service sector has probably had a very strong quarter based on the survey data, while the contraction in manufacturing has only deepened. The inflow of new business has improved at the fastest pace since November, but that was completely service sector driven. New orders for manufacturing continue to decline and new orders from outside the Eurozone continue to drop as well.

The big question remains for how long this can continue, as manufacturing job growth has been coming down despite a small uptick in June. Without the strong labour market environment,

service sector output could falter as well. It has to be said that this is unlikely to happen in the coming months though, as overall job creation remains modest.

This leaves the Eurozone growth pace somewhat unexciting for the moment: moderate, with risks to the downside. For the ECB, this PMI will surely have come as an encouraging sign, but as manufacturing weakness remains significant, it is unlikely to impact the state of high alert in Frankfurt. Next week's inflation data and the G20 could have more of an impact, potentially causing the ECB to act as soon as next month already.

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