

## The eurozone's economic recovery gains momentum

The eurozone's composite PMI increased from 51.7 to 52.3, led by a jump in the manufacturing output PMI. With inflation softening according to the survey, the outlook for the region's economy is increasingly benign



Following a better-than-expected first quarter, it seems the eurozone's economic momentum is continuing in the second quarter as the PMI for May improved once more. Manufacturing output jumped to 49.6, which – according to the literal interpretation of the survey – means that the declines in production are now close to bottoming out. We note that this indicates better momentum gaining in the manufacturing sector, for now mainly driven by domestic orders improving.

Current improving economic activity is a clear break with the period of stagnation that the eurozone economy had been in over the course of 2023. A recovery of real wages is important here, but financial conditions have also eased somewhat compared to last year and expectations for global demand are improving. This translates into expectations of GDP growth of around 0.3 -0.4% per quarter this year.

For the European Central Bank, it will have come as a relief that inflation softened in May. According to the survey, input inflation eased and output price growth slowed, especially in the service sector. The latter will be closely watched by the ECB ahead of the rate decision in two weeks' time and could add to expectations of a rate cut despite economic activity picking up. Still, the scope for rate cuts remains limited for now as eurozone wage growth is expected to come in higher than initially hoped for later this morning.

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