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EUROZONE: PMIs Correct Back!

by Andrew Wroblewski*

Still Solid Undertones Evident!

Undershooting expectations for the first time in five months, the April aggregated flash PMI slipped 0.5 point to 53.5, unwinding some of the gain seen in March which took the headline to the highest in almost four years. Regardless, the latest reading remains almost a full point above its long-term average.

It was still the twenty-second successive month the index has been in alleged expansion territory, and with parts of the survey also showing signs of more momentum ahead. Specifically, the manufacturing PMI fell 0.3 point to 51.9, down from a ten-month high, with orders growth still positive. Meanwhile, the flash services PMI fell back 0.6 point to 53.7, down from the highest in 46 months.

Broader Growth More Evident

Geographically, there were more fragile signs from France, these coming alongside less upbeat German numbers. However, and notably so, there were even more solid readings from outside France and Germany, with the pace of overall growth at the fastest since mid-2007. Moreover, forward-looking indicators such as employment growth rose further to the fastest since August 2011, while backlogs of work rose for a third successive month. Also of clear note, price pressures were less weak, actually seeing clearer signs of rising input costs in both sectors and the first increase in selling prices within the factory sector in nine months!

Services Still the Stronger!

Otherwise, and in line with a long-held DE view, these April survey results continue to show the clearest strength in services. This continues to imply that lower prices are resulting in higher consumer spending, rather than encouraging households to defer purchases. Notably, the implied positive backdrop regarding consumers is corroborated by the April EU Commission Consumer Confidence reading which corrected back only slightly from a previous reading which was the highest since 2007.

The still solid tone to the PMI survey data echoes even clearer strength in other survey data. Indeed, alternatively-sourced business survey data paint a much better impression of the situation in France than the PMI numbers, especially in regard to manufacturing.

DE View: This improving backdrop is being (belatedly) recognized by FX markets and by the ECB, the question being the degree to which the central bank is trying to take too many plaudits for an economic recovery which, while far from strong, has actually been fermenting since the end of 2012.

Otherwise, markets may soon start to question the necessity of continued further easing the ECB envisaged out to September next year. Notably, the current PMI reading is historically consistent with stable monetary policy, ie no easing or tightening being in store! In addition, would the prospects of a Q1 GDP result of around 2% Q/Q saar (as DE envisages and which would be over twice the potential growth rate) start to make markets reassess and/or some of the more skeptical member of the ECB Council more vocal about the scale of proposed bond purchases?

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