

Flash Note

Euro area: Flash PMIs

The sky is the limit

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Flash PMI surveys for the euro area ended the year on a strong note. The flash composite purchasing managers' index (PMI) increased to 58.0 in December, from 57.5 in November, above consensus expectations (57.2).

The robust momentum was led by a booming manufacturing sector, while services sentiment also improved.

The breakdown by sub-indices was pretty strong, with new orders and output rising strongly across both sectors.

Overall, today's PMIs point to further acceleration in euro area growth at the end of the year. We maintain our GDP growth forecast unchanged at 2.3% in 2017 and 2.3% in 2018.

Momentum in the euro area picked up further at the end of the year. The flash composite purchasing managers' index (PMI) increased to 58.0 in December, from 57.5 in November, above consensus expectations (57.2). The improvement was once again broad-based across sectors. Both the **manufacturing** (+0.5 to 60.6) and services (+0.3 to 56.5) indices improved in December, **with the former reaching its highest level since the series began in 1997**. The breakdown by sub-indices was pretty strong, with new orders and output rising strongly across both sectors. Job creation stayed at the highest for just over 17 years. However, there were continued reports of capacity constraints. Average delivery times lengthened to an extent not seen since May 2000 and backlogs rose especially sharply.

Overall, today's PMIs point to further acceleration in euro area growth at the end of the year (see Chart 1). Q4 (57.2) average composite PMI was higher than Q3 (56.0) and the highest since Q1 2011 (57.6). As a result, Markit noted that the **PMIs were now consistent with real GDP growth of 0.8% q-o-q in Q4** (up from 0.6% in Q3). We maintain our euro area GDP growth forecast unchanged at 2.3% in 2017 and **2.3% in 2018**. We continue to see a very gradual slowdown in the sequence of quarterly GDP growth rates, to around 2% by end-2018, as the result of less favourable tailwinds (global growth) as well as some modest headwinds (tighter financial conditions).

Table 1: PMI headline indices and sub-indices

Euro area PMI indices		December (Flash)	November	3 months before	Monthly move
Composite	Headline	58.0	57.5	56.7	↑
	New orders	57.9	57.3	56.5	↑
	Employment	55.7	55.7	54.5	↓
Manufacturing	Headline	60.6	60.1	58.1	↑
	New orders	61.6	61.4	58.5	↑
	New export orders	60.6	60.8	57.1	↓
	Employment	58.5	58.2	56.5	↑
	Output prices	56.3	56.8	55.2	↓
	Input prices	67.6	69.4	64.0	↓
Services	Headline	56.5	56.2	55.8	↑
	New business	56.5	55.8	55.8	↑
	Employment	54.6	54.8	53.7	↓

Source: Pictet WM – AA&MR, Markit

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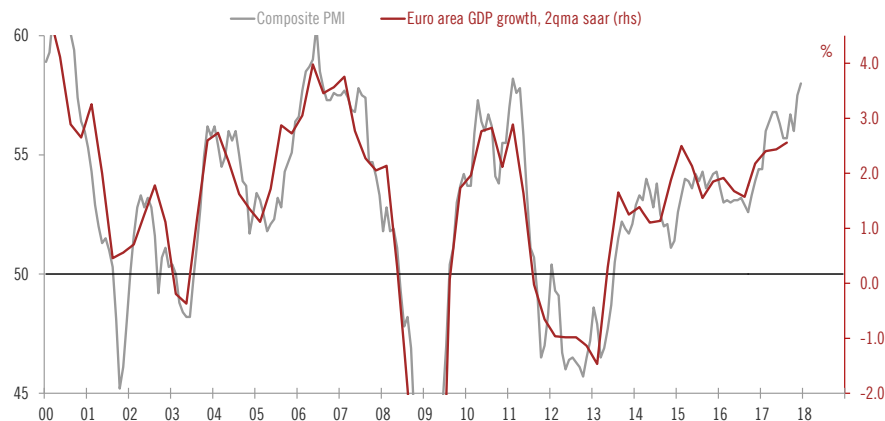
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Regarding price dynamics, price pressures abated somewhat in December. Markit noted that *"although price pressures abated, the robust growth of demand*

and tightening labour market hint at rising core inflationary pressure as we move through 2018”.

Chart 1: Euro area composite PMI and GDP growth



Source: Pictet WM – AA&MR, Markit

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In Germany, the flash composite PMI index rose to 58.7 in December, from 57.3 in November, above consensus expectations (57.2) and reaching its highest level since April 2011. The increase was driven by both services (+ 1.5 to 55.8) and manufacturing (+ 0.8 to 63.3), with the latter reaching a record high. *“This was partly thanks to another steep rise in the level of goods export orders, with firms reporting higher intakes from Asia, the US and elsewhere in Europe”*, according to Markit.

All in all, surveys suggest that the German economy is currently witnessing one of its strongest cyclical recoveries on record. Composite PMI is now consistent with a GDP growth of 1.0% q-o-q in Q4 (up from 0.8% in Q3).

In France, although the flash composite PMI decreased to 60.0 in December from 60.3 in November, this was above consensus expectations (59.6). The marginal dip was led by the services sector (-1.0 to 59.4), while the manufacturing index rebounded (+1.5 to 59.3), hitting its highest level since September 2000. The breakdown by sub-indices showed particularly encouraging numbers for the manufacturing sector.

All in all, PMIs continued to signal strong growth in the private sector. French composite PMI is now consistent with a GDP growth of 0.7-0.8% q-o-q in Q4 (up from 0.5% in Q3).

Outside the two largest euro area countries, Markit noted that “growth lagged behind France and Germany on average, though it continued to run at one of the fastest rates seen since the global financial crisis.”