

ECONOMIC NEWS

European PMIs Move Higher

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HIGHLIGHTS

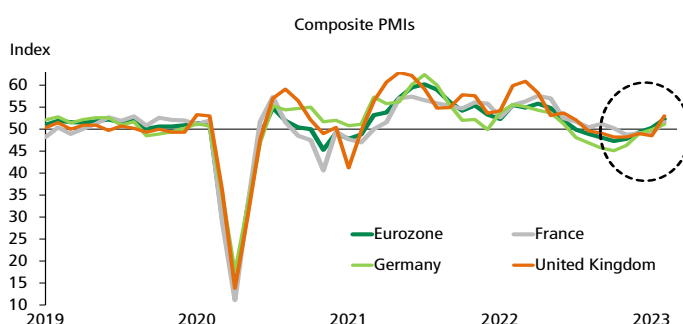
- ▶ The flash Eurozone PMI Composite Output Index was up again in February, from 50.3 in January to 52.3, its highest level since May 2022. The upturn was due entirely to the service sector, which rose from 50.8 to 53.0, while the manufacturing index fell from 48.8 to 48.5.
- ▶ The composite PMI climbed above 50 in both France (from 49.1 to 51.6) and Germany (from 49.9 to 51.1).
- ▶ The United Kingdom's composite PMI also rebounded sharply, from 48.5 to 53.0, its highest level since June 2022. Improvement was reported in both the manufacturing sector (from 47.0 to 49.2) and the service sector (from 48.7 to 53.3).

COMMENTS

European PMIs have been moving higher in recent months, bucking their 2022 trend. After clearly signalling deteriorating economic conditions, they've begun to recover without any meaningful contraction in real GDP. Most PMIs are now above 50, increasing the likelihood we won't see a recession in Europe and the UK after all. The cost of living crisis, soaring energy prices, uncertainty surrounding the war in Ukraine and rising interest rates may not have been as catastrophic as expected. Unseasonably warm weather in Europe this winter has certainly helped, limiting demand for natural gas.

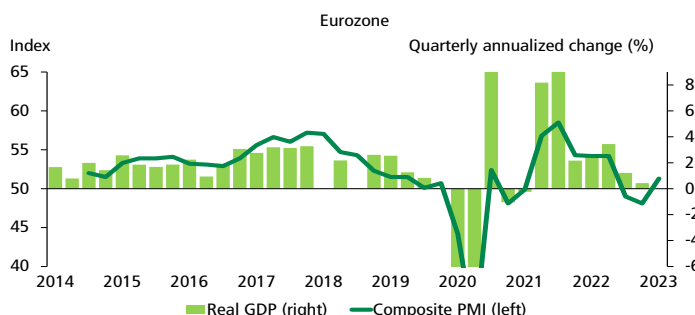
But if this solid PMI data translates to stronger economic growth, it could complicate matters for central banks if inflation comes down slower than anticipated. If that happens, the European Central Bank and possibly even the Bank of England may have to tighten monetary policy for longer. We're already seeing several bond yields move higher this morning.

GRAPH 1
Composite PMIs Are Up Sharply



Sources: IHS Markit, Datastream and Desjardins Economic Studies

GRAPH 2
The Eurozone's Rising Composite PMI Suggests Stronger Real GDP Growth



Sources: IHS Markit, Eurostat and Desjardins Economic Studies

IMPLICATIONS

Rising PMIs and PMIs topping 50 are a sign of stronger economic growth. They're also a sign central banks may have to continue raising interest rates.