

ECONOMIC NEWS

European Composite PMIs Continue to Rise

By Francis Généreux, Principal Economist

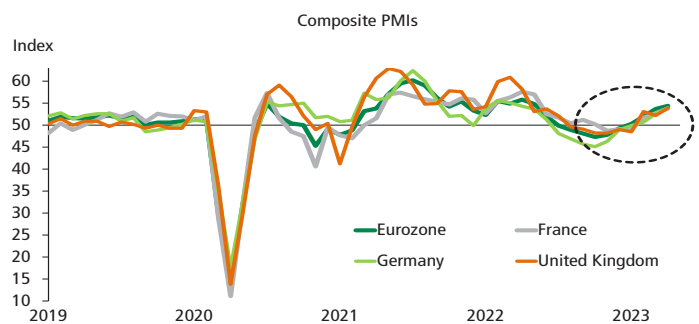
HIGHLIGHTS

- ▶ The flash eurozone composite PMI was up again in April, rising from 53.7 in March to 54.4, its highest level since May 2022.
- ▶ The gain came exclusively from the Services PMI, which increased from 55.0 to 56.6, while the Manufacturing PMI fell from 47.3 to 45.5.
- ▶ Composite PMIs were also up in France (from 52.7 to 53.8) and Germany (from 52.6 to 53.9). There too, Services PMIs continued their upward trend while Manufacturing PMIs were lower.
- ▶ The UK composite PMI was also up, from 52.2 to 53.9, it's highest reading in 12 months. The Services PMI rose from 52.9 to 54.9, while the Manufacturing PMI slipped from 47.9 to 46.6, its lowest level this year.

COMMENTS

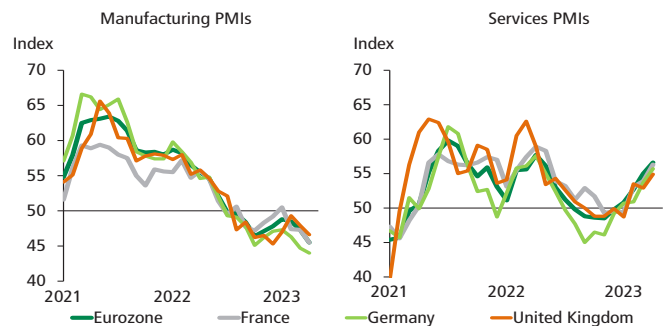
There were fears that the eurozone may have dipped into a recession over the winter, but today's PMI prints clearly indicate otherwise. The eurozone's strong composite PMI reading suggests modest growth in the first quarter. This is in keeping with the consensus forecast, which is calling for non-annualized real GDP growth of 0.1% in Q1. The composite PMI print also points to an even bigger gain for the second quarter. The same observation applies to the United Kingdom. However, services and manufacturing are moving in opposite directions. Services continue to recover nicely, while manufacturing is falling to levels compatible with an economic contraction. That could also mean the inflation fight is far from over in Europe. Yes, demand for goods is weakening and goods price pressure is easing. But strong demand for services suggests there's ongoing inflationary pressure on the services side, especially from wages.

GRAPH 1
Composite PMIs Continue to Improve



Sources: IHS/Markit, Datastream and Desjardins Economic Studies

GRAPH 2
Services PMIs Are Driving the Increase, While Manufacturing PMIs Are Down Again



Sources: IHS/Markit, Datastream and Desjardins Economic Studies

IMPLICATIONS

Today's composite PMIs suggest that after stalling in late 2022, Europe's economy was probably back on the path to growth early this year. But weak manufacturing PMIs tell us all is not well. Given the strong service numbers, it's likely central banks will continue tightening monetary policy in the second quarter.