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EUROZONE PMIS SIGNAL STRONG START TO 2017

Berenberg Macro Flash

Eurozone PMI, February

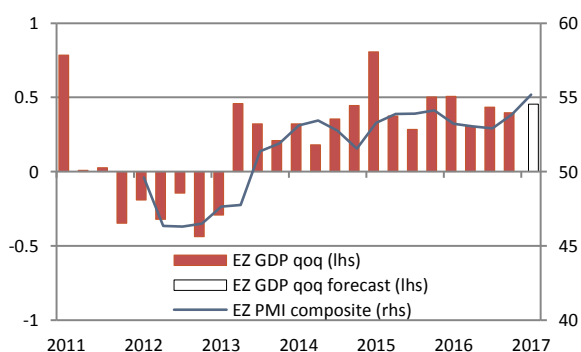
	Composite	Manufacturing	Services
Actual:	56.0	55.5	55.6
Previous:	54.4	55.2	53.7
Consensus:	54.3	55.0	53.7
Berenberg:	54.3	55.0	53.7

More evidence for a strong start into 2017 as activity surges to near six year high: The composite PMI rose to 56.0 in February, after 54.4 in January. The pick-up in activity was driven by record-high levels in both the manufacturing and service sector (70-month and 69-month high, respectively). Today's numbers bode well for growth in the Eurozone in Q1. Taking the average of January and February, the PMI stands at 55.2, which suggests a rate of expansion of the economy by 0.5% qoq and indicates an upside risk to our own call of 0.4% (see chart 1). The outlook remains positive with business optimism also improving further – firms' expectations of activity in a 12 months time rose to the highest since comparable data were available in July 2012.

The survey results provide further insights: Despite additional hires (job creation was the best since August 2007), the backlogs of work rose the sharpest in 69 months as order books picked up considerably (in services the fastest since April 2011). Also, while suppliers recorded the most widespread delays to delivery times since June 2011, they noted to have regained some pricing powers – causing rising inflationary pressure not only to stem from higher input costs.

Growth accelerated across the Eurozone, with the surprise being France where the PMI surpassed that of Germany for the first time since August 2012. Elsewhere in the Eurozone activity expanded by a 14-month high. For more on Germany and France, see below.

Chart 1: Eurozone – PMI composite, GDP (qoq, in %) and Berenberg GDP (qoq, in %) forecast



Quarterly average for PMI, with the average of January and February 2017 for Q1 2017. Source: Markit, Eurostat, Berenberg forecasts.



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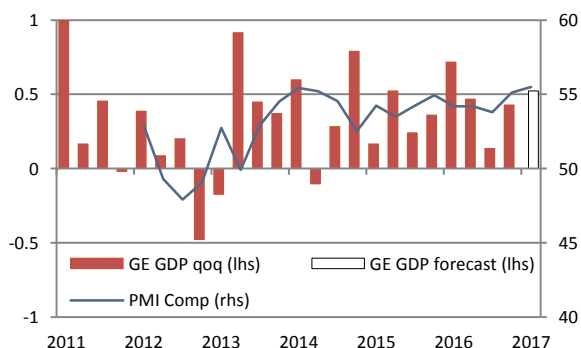
German PMI, February

	Composite	Manufacturing	Services
Actual:	56.1	57.0	54.4
Previous:	54.8	56.4	53.4
Consensus:	54.8	56.0	53.6
Berenberg:	54.8	56.1	53.4

Manufacturing drives German growth to near three year high. The composite number of the PMIs increased from 54.8 in January to 56.1 in February. Growth accelerated in both manufacturing and services. Manufacturing saw the more marked increase, to the highest level since January 2014, due to stronger output and new order growth (37-month high) – causing suppliers’ delivery times to lengthen to the greatest since June 2011. Service providers managed to rebound from their small January setback. Reflecting stronger growth in output and new business, both manufacturing and services increased their levels of staff, with the rate of job creation rising to the highest since June 2011. Input and output price inflation followed suit. While the former is still closely linked to higher prices for metals and oil-based products (manufacturing) and fuel (services), companies seem to gain pricing power – explaining the latter. What is also interesting is that with the German economy on the edge of full employment, service providers suggested higher salaries as drivers of input price inflation. Surely, this is a development the ECB will closely scrutinize as they look for factors pushing up core inflation, and inflation dispersion across the Eurozone.

The German economy is set to grow by 0.5% qoq in Q1: Judging by the average of January and February (55.5), the Eurozone’s biggest economy is off to a solid start into 2017 of 0.5% (**see chart 2**). We are more confident about this call after today’s numbers, also since new exports orders rose at the fastest rate since January 2014 – which should mitigate any drag from higher imports that caused the Q4 2016 numbers to come in weaker-than-expected (0.4% versus 0.5% our and consensus estimates). Tomorrow’s reading of the Ifo will provide further evidence and likely show that January’s sharp decline in expectations was just a blip.

Chart 2: Germany – PMI composite, GDP (qoq, in %) and Berenberg GDP (qoq, in %) forecast



Quarterly average for PMI, with the average of January and February 2017 for Q1 2017. Source: Markit, Eurostat, Berenberg forecasts.



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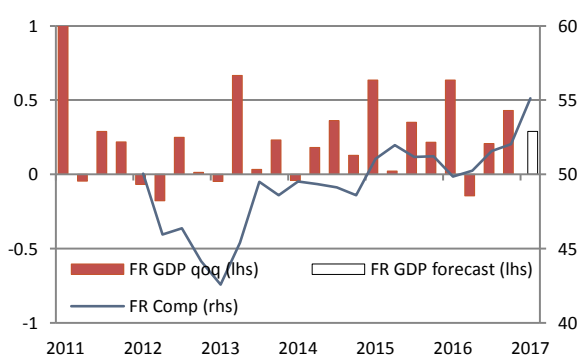
French PMI, February

	Composite	Manufacturing	Services
Actual:	56.2	52.3	56.7
Previous:	53.4	53.6	54.1
Consensus:	53.6	53.5	53.9
Berenberg:	53.6	53.5	53.9

Buoyant services push French activity to 69-month high in February, beyond that of Germany for the first time since August 2012. The PMI for the French economy surged to 56.2, after 54.1 in January. The rise of the composite was exclusively on the back of a jump in activity levels among service providers (56.7 from 54.1 in January). Growth among service providers benefitted from the sharpest expansion in five-and-a-half years of both new orders and employment. Manufacturing output also increased, but activity did not improve as dynamic as in the previous month (52.3 after 53.6).

The numbers bode well for the economy in Q1 2017. So far, we have pencilled in GDP to expand by 0.3% qoq. Based on the average of the PMIs in January and February (55.1), we see upside risks to that call (see chart 3). But two reasons are in play that leave us reluctant to edge up our call: Political risks loom large with the French elections ahead and previously the link between PMIs and GDP growth has not been perfect. In Q1 2016, PMIs had signalled a small contraction, while Q2 indicated some small recovery – it turned out to be the other way, with strong growth in Q1 and a contraction in Q2.

Chart 3: France – PMI composite, GDP (qoq, in %) and Berenberg GDP (qoq, in %) forecast



Quarterly average for PMI, with the average of January and February 2017 for Q1 2017. Source: Markit, Eurostat, Berenberg forecasts.

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