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EUROZONE PMIS SIGNAL SOLID START TO 2017

Berenberg Macro Flash

Getting off to a good start: PMIs for the Eurozone and its major economies remained stable at a high level at the start of the year after strong gains in recent months. The largest monthly rise in employment since February 2008 is most encouraging while optimism for the year ahead rose to the highest since July 2012. Continued gains in demand should gradually reduce the slack in the economy, helping to reduce the still high unemployment rate of 9.8%. Although confidence among Eurozone firms remains high, input prices increased by the biggest amount in more than five years. While only a few firms passed on the higher costs to clients as competition remains high, rising demand in Eurozone should support a rise in firms' pricing power. While we are yet to see a "sustained convergence of inflation rates towards levels below, but close, to 2% over the medium term", these may be early signs of growing underlying inflation. The ECB will have an eye on whether pricing power continues and both input and output prices pick-up in a durable fashion throughout 2017.

The PMI composite for the **Eurozone** came in at 54.3, one notch below December's reading and slightly below expectations (54.5), see **chart 1**. While services slipped slightly to 53.6 after 53.7 and came short of expectations of a small expansion to 53.8, manufacturing continued its upward trend (55.1 after 54.9 and exceeding expectations of 54.8), reaching its highest level since April 2011. The reading, while early in the quarter, signals growth of just above 0.4% qoq in Q1 which is in line with our forecasts (0.38%), and would roughly mirror the pace at which the Eurozone economy probably expanded in Q4 (our forecast: 0.36%).

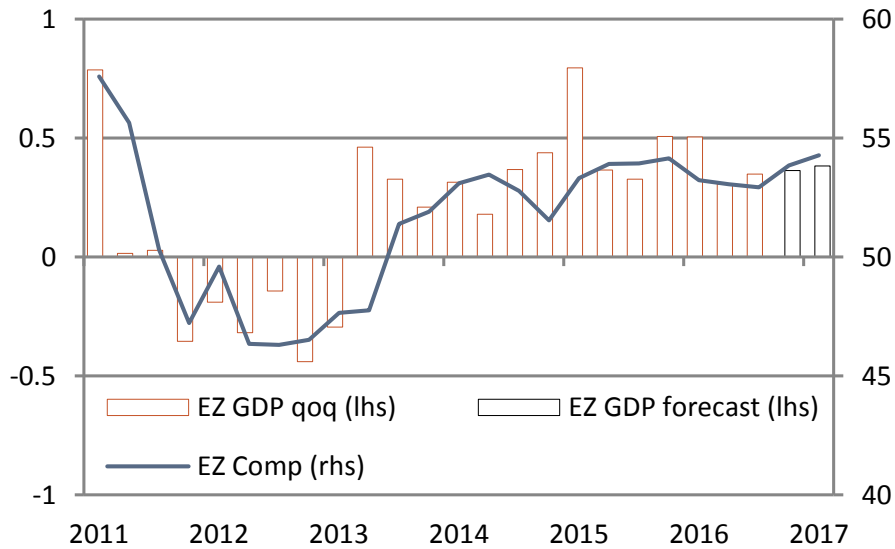
Growth in Germany remains solid (see chart 2). Manufacturing continued its solid march upwards to 56.5 from 55.6 in December and versus expectations of a slightly lower reading of 55.4. Services fell from 54.3 to 53.2, below expectations of 54.5. The PMI composite at 54.7, down from 55.2, indicates a pace of expansion of the economy by 0.5% qoq, in line with our forecast of 0.46% in Q1, after 0.53% in Q4 2016 when the PMI composite quarterly average was 55.1. At this stage slightly lower services reading are not of any concern, as "both manufacturers and service providers anticipate healthy growth in 2017", according to the press release. Firms continue hiring to accommodate for higher demand and in anticipation of more to come as order growth remains solid.

Sentiment in France strengthened in January (see chart 3). Services were up to 53.9, from 52.9 in December and above expectations of 53.2. Manufacturing came in fairly stable and in line with expectations (53.4 after 53.5). The composite number of 53.8 signals growth of just below 0.4% qoq, in line with our forecast for Q1 (0.37%), after 0.24% in Q4 2016 and a quarterly average of PMIs of 52.0. Firms in both sectors maintain their positive outlook for the year ahead, as the sharpest rise in staffing numbers since December 2011 shows.



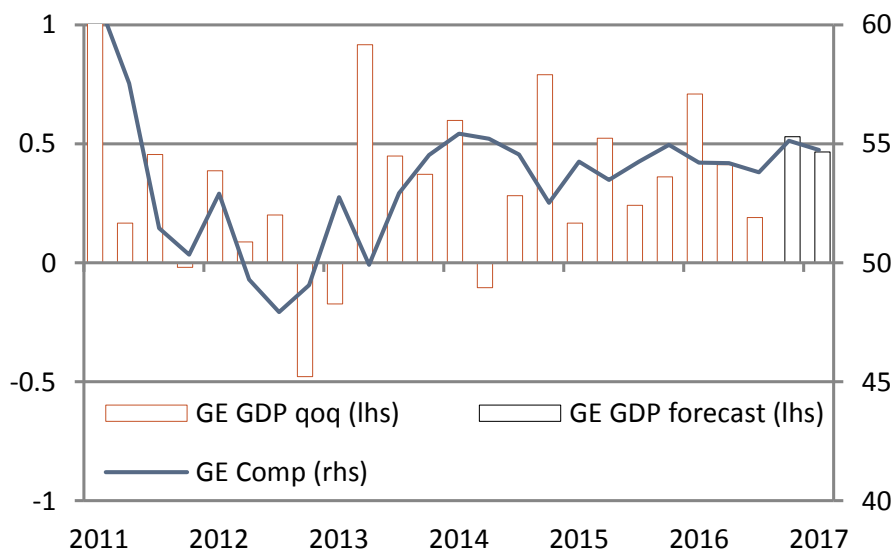
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Chart 1: Eurozone – PMI composite, GDP (qoq, in %) and Berenberg GDP (qoq, in %) forecast



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

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

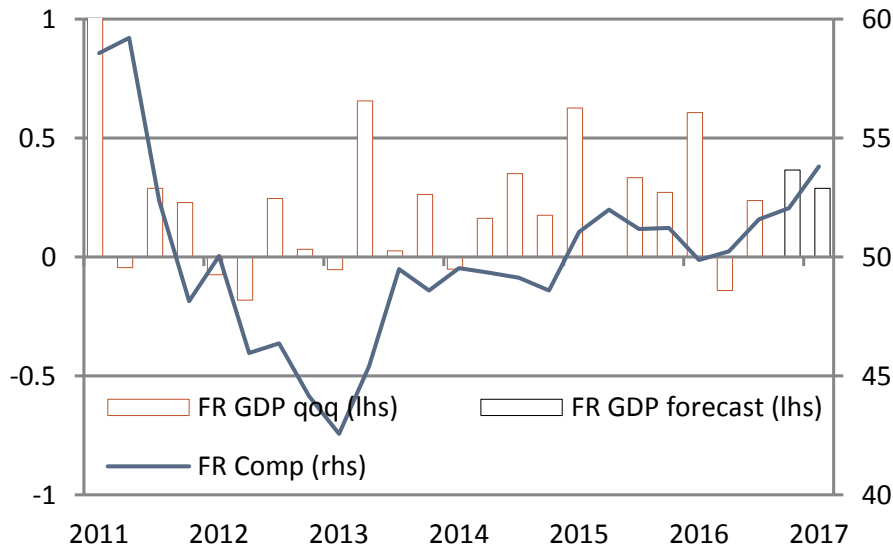


Quarterly average for PMI, with January 2017 for Q1 2017. Source: Markit, Eurostat, Berenberg forecasts.



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



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

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