



Florian Hense, Economist | florian.hense@berenberg.com | +44 20 3207 7859

EUROZONE PMIS SUGGEST GROWTH ACCELERATED IN Q1

Berenberg Macro Flash

Eurozone PMI, March

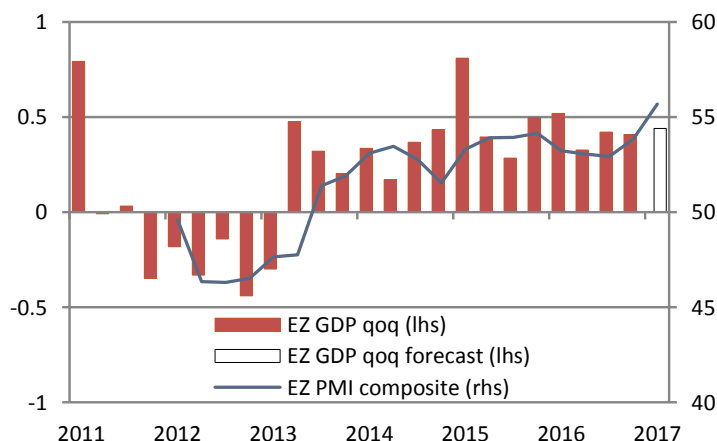
	Composite	Manufacturing	Services
Actual:	56.7	56.2	56.5
Previous:	56.0	55.4	55.5
Consensus:	55.8	55.2	55.3
Berenberg:	55.9	55.3	55.4

Spring is coming and Eurozone firms are cheerful – despite the political risks. The preliminary PMI composite improved from 56.0 in February to 56.7 in March. Taking the average of the first three months of this year together (55.7), the results show the Eurozone's rate of expansion hit a six-year high, pointing to upside risks to our forecast of GDP growth in Q1 of 0.4% (see chart 1). That both key sectors (services and manufacturing) and the two major economies of the Eurozone (Germany and France) contributed to the improvement reflects the broad-based recovery. With employment growth reaching the highest rate for nearly a decade (July 2007) and new orders surging (highest since April 2011), the economy is on track to maintain healthy momentum in the next quarter.

The PMI survey also showed rising inflationary pressures. While most of the pressure stemmed from higher oil, other commodity and food prices and a competitively-valued exchange rate, firms also noted rising wage growth and lengthening supply chains. As the factors of demand and supply become more balanced, firms' pricing power can strengthen. The ECB will need to keep an eye on whether these developments push the rate of core inflation up. Core inflation has remained sticky for the last 12 months at around 0.9%. As we expect inflationary pressures to build up only gradually, the ECB is not under pressure to withdraw stimulus yet.

For more on Germany and France, see further below.

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



Quarterly average for PMI. Sources: Markit, Eurostat, Berenberg forecasts.



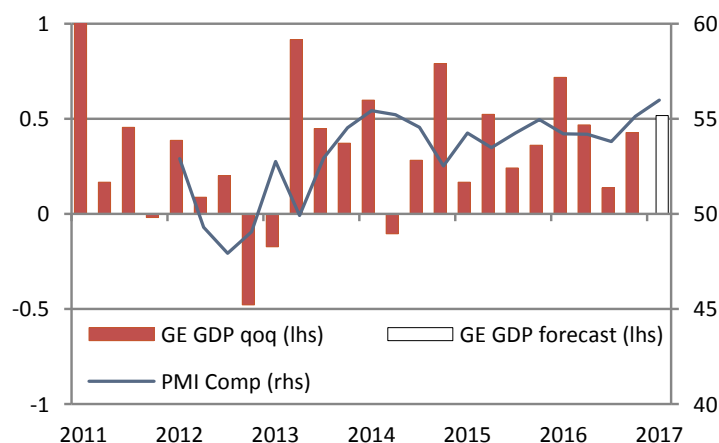
MACRO NEWS

German PMI, March

	Composite	Manufacturing	Services
Actual:	57.0	58.3	55.6
Previous:	56.1	56.8	54.4
Consensus:	56.0	56.5	54.5
Berenberg:	56.0	56.5	54.5

The German PMIs suggest that activity rose by the strongest pace in nearly six years, painting a rosy picture for the first quarter. The quarterly average for Q1 of 56.0, the highest level since Q2 2011, points to economic growth accelerating in the first quarter – in line with our forecast of an expansion to 0.5% from 0.4% in Q4 2016 when the PMI quarterly average stood at 55.1 (see chart 2). With new orders, including those from abroad, also rising to the highest level since April 2011, the upswing can carry in Q2. In response to the higher demand, firms raised prices and upped investment. While the rate of job creation in the private sector almost matched the survey record set six years ago, backlogs of work rose for the tenth month running – the longest sequence of growth for nearly six years. Inflationary pressures continued to build, with both input and output prices rising at the fastest rate in around six years.

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



Quarterly average for PMI. Sources: Markit, Eurostat, Berenberg forecasts.

French PMI, March

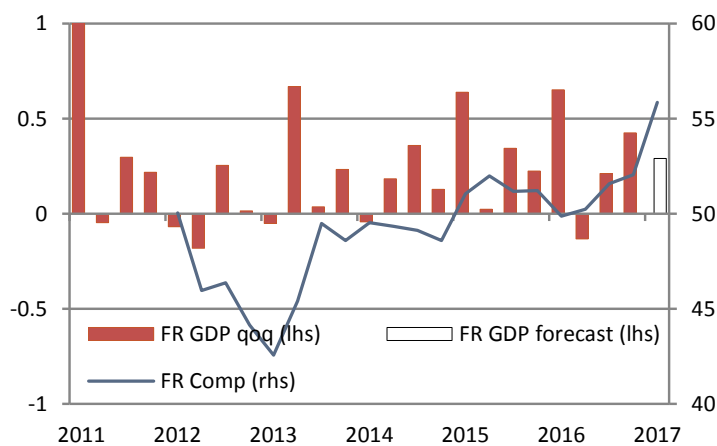
	Composite	Manufacturing	Services
Actual:	57.6	53.4	58.5
Previous:	55.9	52.2	56.4
Consensus:	55.9	52.4	56.1
Berenberg:	-	-	-



MACRO NEWS

The best news came from France, once again, where growth has risen above that of Germany. French businesses demonstrate optimism towards the upcoming elections amid expectations of pro-growth policies. Also, a strengthening foreign demand helps and reforms enacted over the last few years finally show some positive effects. Buoyant activity among French services sent the headline PMI to an almost 6-year high (May 2011). Activity in the manufacturing sector also increased, painting to a picture of a broad-based recovery of the French economy. The quarterly average points to an upside risk to our call for GDP growth in Q1 of 0.3% (see chart 3). The outlook also brightened further (9th consecutive month of expansion) with new orders rising to a 70-month high.

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



Quarterly average for PMI. Sources: Markit, Eurostat, Berenberg forecasts.

This message has been produced for information purposes for institutional investors or market professionals, it is not a financial analysis within the meaning of § 34b or § 31 of the German Securities Trading Act (Wertpapierhandelsgesetz), no investment advice or recommendation to buy financial instruments. The message does not claim completeness regarding the information on the developments referred to in it. On no account should it be regarded as a substitute for the recipient's procuring information for himself or exercising his own judgements. The message may include certain descriptions, statements, estimates, and conclusions underlining potential development based on assumptions, which may turn out to be incorrect. Berenberg and/or its employees accept no liability whatsoever for any direct or consequential loss or damages of any kind arising out of the use of this message or any part of its content. -- For full economics reports please visit our website or contact capitalmarkets@berenberg.de.

Joh. Berenberg, Gossler & Co. KG
60 Threadneedle Street
London EC2R 8HP
Phone +44 20 3207 7859
www.berenberg.com
florian.hense@berenberg.com