
EURO ZONE BUSINESSES GROWING AT FASTEST RATE IN NEARLY SIX YEARS: PMI

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Reuters (24 March 2017)

Businesses across the euro zone marked the end of the first quarter by ramping up activity at the fastest pace in almost six years to meet burgeoning demand that came despite sharper price rises, a survey found.

IHS Markit's Flash Composite Purchasing Managers' Index - seen as a good guide to growth - climbed to 56.7 from February's 56.0, its highest reading since April 2011. Anything above 50 indicates growth.

It was above all forecasts in a Reuters poll and confounded median expectations for a fall to 55.8.

That, coupled with a sub-index measuring prices charged which rose to a near six-year high of 53.3, will be welcomed by

the European Central Bank which is still purchasing 80 billion euros a month of mostly government bonds to boost inflation.

"There is a nice broad-based strengthening of the euro zone economy, this is a really solid rate of expansion. It's an economy firing on all cylinders," said Chris Williamson, chief business economist at IHS Markit.

Earlier this month the ECB pledged to extend its bond buying program to at least the end of the year, citing weak underlying inflation and lackluster growth in the euro zone. It will, however, reduce its monthly spend from April.

But inflation was 2.0 percent in February - around the Bank's target - and Williamson said the PMI pointed to first quarter GDP growth of around 0.6 percent, above the forecast in a March 8 Reuters poll for 0.5 percent. [ECILT/EU]

"What we are picking up is an increase in suppliers' ability to hike prices due to strong demand. If that continues to intensify the ECB should become more worried," Williamson said.

After years of unprecedented stimulus, the ECB is facing calls to tighten policy, especially as inflation is now rising on the back of rebounding energy costs.

But the ECB has pushed back, arguing the inflation spike is only temporary and its super easy policies, including negative rates and trillions of euros of asset purchases, are still necessary to achieve lasting inflation.

Suggesting the upturn will continue into April, the new business index for the bloc's dominant service industry climbed to 56.2 from 55.6, a near six-year high. The headline PMI jumped to 56.5 from 55.5, its highest since April 2011.

Manufacturers ended the quarter on a similar high note, with their PMI coming in at 56.2, easily surpassing February's 55.4 and the highest in almost six years.

Economists in a Reuters poll had predicted the manufacturing and services PMIs would both fall to 55.3 but instead they were above even the most optimistic forecasts.

A sub-index measuring factory output, which feeds into the composite PMI, dipped to 57.2 from 57.3 but factories built up a backlog of work at a more rapid rate.

Indicating their confidence about the coming month, factories increased headcount at the fastest rate in nearly six years. The employment index rose to 55.1 from 54.3.

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(Editing by Toby Chopra)

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