

Eurozone

Eurozone growth spurt loses momentum for second month running

- Flash PMI slips to six-month low in July
- Overall rate of expansion remains solid, with signs of bottlenecks limiting growth
- Cooling growth and weaker price pressures take heat off ECB policymakers

A fall in the flash PMI indicates that the eurozone's recent growth spurt lost momentum for a second successive month in July, but this still remains one of the strongest rates of expansion seen over the past six years.

The headline IHS Markit Eurozone Composite Output Index fell for a second successive month in July, down from 56.3 in June to a six-month low of 55.8, according to the 'flash' estimate (based on approximately 85% of final replies).

At this level, the survey data are historically consistent with GDP rising at a quarterly rate of 0.6%, cooling slightly from a pace of over 0.7% signalled for the second quarter.

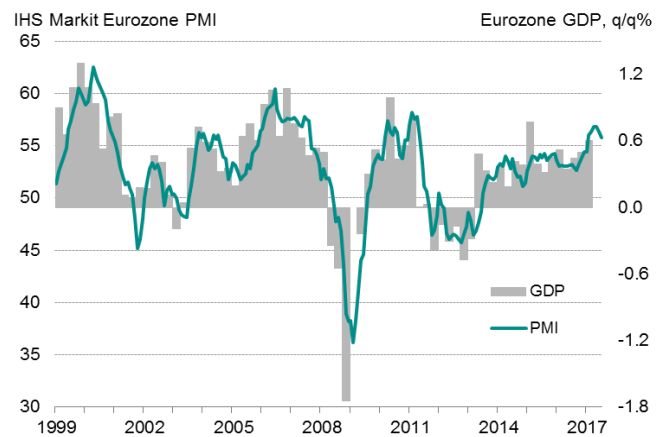
It's too early to know for sure whether the economy has merely hit a speed bump or whether the upturn is already starting to fade, but the evidence so far points to an economy that's hitting bottlenecks due to the speed of the recent upturn.

Forward looking indicators such as new order inflows remain elevated, near a six-year high, suggesting robust growth will be sustained in coming months. Job creation is consequently booming as companies seek to expand capacity in line with growing demand.

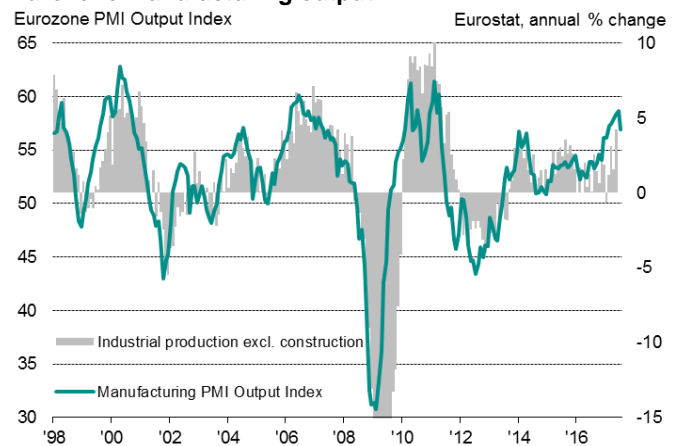
The survey registered one of the largest increases in employment seen over the past decade. Factories led the job market upturn, reporting the second-highest employment gain on record.

Capacity is being increasingly stretched. Even with employment growing at one of the fastest rates seen this side of the global financial crisis, the survey is still showing that backlogs of uncompleted orders are rising at a rate that's close to a six-year high.

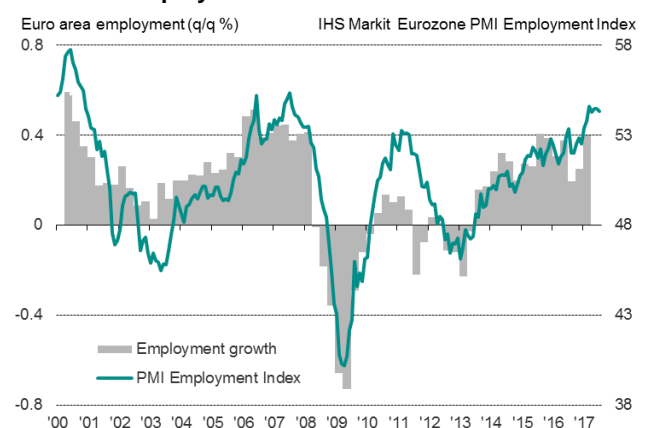
Eurozone PMI v GDP



Eurozone manufacturing output



Eurozone employment



Sources: IHS Markit, Eurostat.

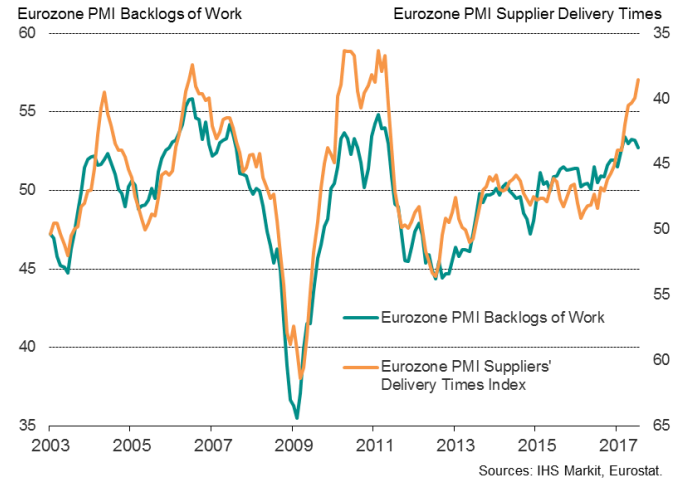
Manufacturing supply chains also lengthened to the greatest extent for over six years as demand exceeded supply.

The slowing in the pace of economic growth signalled by the surveys and the accompanying easing of price pressures adds to the belief that ECB policymakers will be in no rush to taper policy, and will leave all options open until the central bank sees a clearer picture of the sustainability of the upturn.

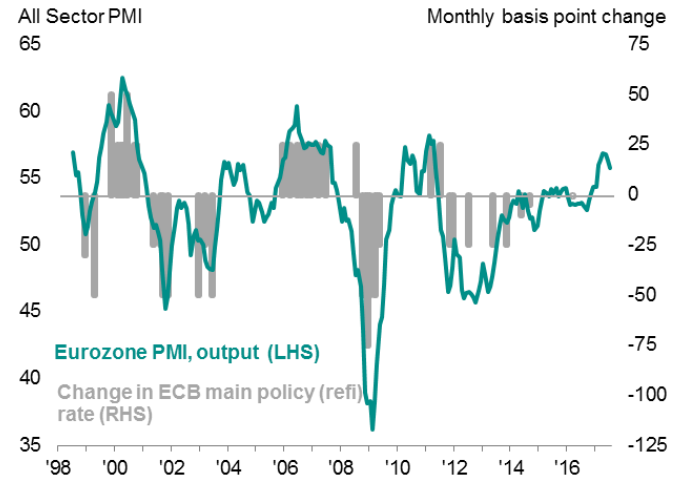
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Capacity constraint indicators



ECB policy and PMI business activity



ECB policy and PMI price pressures

