

Eurozone economy

PMI data eyed for clues of potential second quarter GDP rebound

- Eurozone GDP adds to signs of economic slowdown
- Survey data will provide first clues of Q2 health
- Sector PMI data suggest bad weather and timing of Easter may have subdued economic growth in March and April respectively

New GDP estimates add further confirmation to the slowing of the Eurozone economy in early 2018. The burning question, especially for policymakers, is whether the first quarter represents the start of a slowing trend, or whether it will prove to have been a temporary slowdown.

The survey data will act as a key guide to growth momentum going forward, with detailed sector data providing especially important clues as to the behaviour of businesses and consumers.

First quarter slowdown

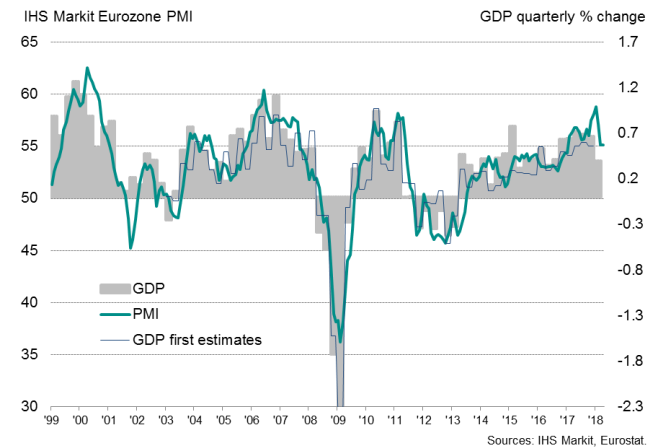
Data from Eurostat indicated that Eurozone GDP grew 0.4% in the first quarter of 2018, a relative disappointment compared to prior readings, which had shown the economy growing at a 0.7% rate throughout the second half of 2017.

Encouragingly, the official growth rate for the first quarter was below the signal from IHS Markit's Eurozone PMI, for which the first quarter average continued to run at a level broadly consistent with approximately 0.5-0.6% GDP growth.

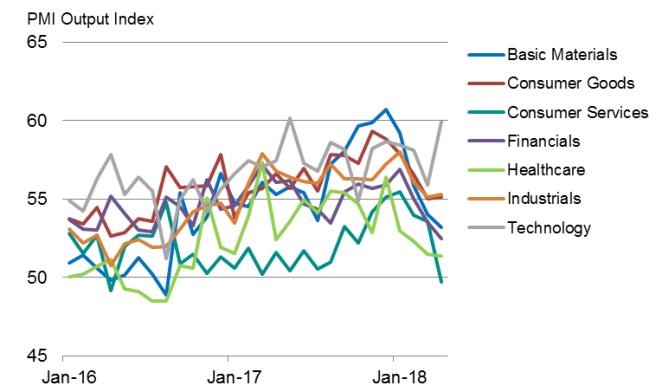
The survey data therefore suggest that there is some scope for the official data to be revised higher in later estimates, as has generally been the case in recent years. The average upward revision over the past year has been 0.14%, bringing the official data exactly into line with the PMI's signal for growth over 2017.

In the absence of revisions, there's also a possibility of the first quarter GDP undershoot relative to the PMI meaning the official data could rebound in the second quarter, assuming of course that the economy remains in good health. The PMI data will therefore most likely be the first indicator of whether the Eurozone's expansion peaked at the turn of the year.

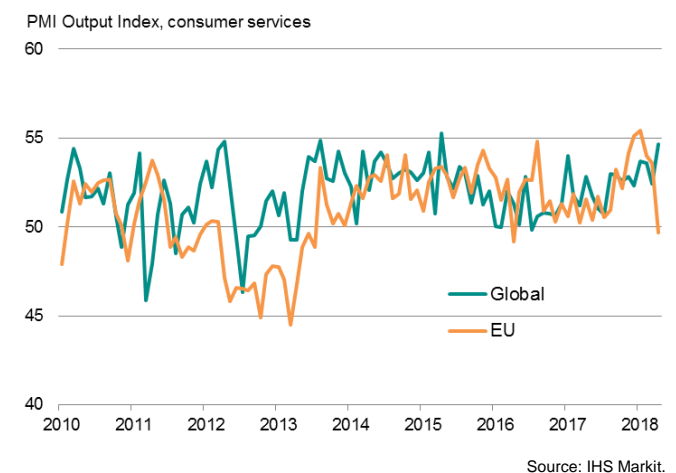
Eurozone PMI and GDP



IHS Markit EU sector PMI



Consumer services



Second quarter clues

The April PMI reading provides mixed news on the outlook for the second quarter. Although still well below peaks seen earlier in the year, at 55.1 the index remains broadly consistent with GDP growth of 0.5-0.6%, providing cause for optimism that the official data could rebound after noise at the start of the year.

The flash May PMI reading will add significantly greater information as to second quarter growth, as [the average PMI reading for the first two months of the quarter generally provides a very accurate guide to the full quarter's GDP.](#)

Although only available at the EU (rather than Eurozone) level, the [detailed sector PMI data](#) also provide some important clues as to underlying growth drivers.

The sector PMI highlight how consumer services companies – a key barometer of domestic demand (less affected by export trends than producers of consumer goods) – saw the weakest expansion of new orders of the seven major industry sectors covered by the PMIs in April, and was also the only sector to see a contraction of business activity.

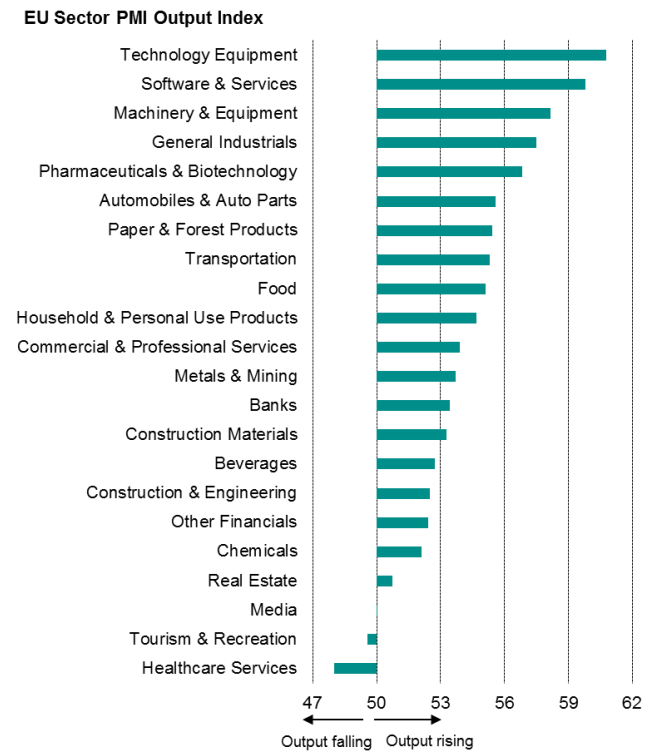
However, it's notable that the last time that European consumer services activity fell was April 2016, which was also a year in which Easter fell early (in March). Within the consumer services sector, tourism and recreation activity fell in April for the first time since last October.

The weakness in consumer services activity is also not evident at the global level, according to the global PMI sector comparisons, adding to the suspicion that the weakness may be related to Easter, which is more commonly celebrated in Europe than other regions.

It's therefore very possible that the April headline PMI readings in the Eurozone (and UK) were subdued by weak consumer-related services activity due to the timing of Easter, suggesting some rebound could be on the cards for May.

Flash PMI data are next published on 23rd May, while the detailed European sector PMI data are published on 7th June.

EU Sector PMI Output Index rankings, April 2018



Source: IHS Markit.

Chris Williamson

Chief Business Economist

IHS Markit

Tel: +44 207 260 2329

Email: chris.williamson@ihsmarkit.com

[Click here](#) for more PMI and economic commentary.

For further information, please visit www.ihsmarkit.com