

Snap | 21 February 2022

Eurozone PMI booms, but also rings inflation alarm bells

The February PMI showed that the winter dip was short-lived. The survey hints at accelerating growth, but also gave evidence of second-round price effects in services and manufacturing. If anything, this PMI adds to reasons for the European Central Bank to become more hawkish



Today's PMI confirms that the economy is dealing with the pandemic better with each wave. The downturn in survey indicators has come to a quick halt this winter as February showed a sharp increase in the composite output PMI from 52.3 to 55.8, corresponding to accelerating economic activity. Demand continues to soar for both services and manufacturing, with improvements from foreign and domestic buyers. This is also resulting in continued strong demand for employment in an already tight labour market. With a further easing of Covid restrictions underway, this puts upward pressure on our meagre first quarter GDP forecast.

Most good news came from the manufacturing PMI, which showed a further easing of supply chain problems. Backlogs of work are still increasing as demand continues to grow, but this of course is helping production to recover. Because of this, the manufacturing sector is getting a second wind and this is also resulting in weaker increases in input prices. In fact, this was the

weakest increase since March last year.

Nevertheless, goods prices for consumers are still increasing faster than before, according to the PMI. The high producer prices are being priced through to the consumer, which is set to translate to higher consumer goods inflation. This may ease towards the end of the year, but for the moment we see further gains to come. Besides that, service sector input prices are now increasing quickly as wage growth and high energy prices become more pressing. This has also resulted in the fastest service sector output price growth recorded by the survey.

All in all, the PMI brings together a lot of elements that raise concern about medium-term inflation. The PMI suggests that the winter economic dip could be much milder than expected, labour market pressures continue to build and second-round effects are resulting in more broad-based price pressures at the moment. Expect this to add to hawkish pressures ahead of the European Central Bank March meeting.

Author

Bert Colijn

Chief Economist, Netherlands

bert.colijn@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.