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Eurozone PMI stagnates, with Middle East conflict adding to downside risk

The eurozone composite PMI came in at 50.2 in June – similar to May – indicating a stagnating economy after a robust first quarter. Concerns about escalation in the Middle East add a new downside risk to the growth outlook



The manufacturing sector has been the eurozone's bright spot in recent months as US frontloading and build-down inventories have helped to reinvigorate the weakened sector. The manufacturing output PMI continued to show expansion at 51 (51.5 in May), but the pace is slowing somewhat. New orders continue to show signs of bottoming out, which is encouraging after three years of decline.

The service sector remains a concern, with the business activity index remaining around stagnation levels. The average PMI for the quarter is the weakest since late 2023, which contributes to our view that overall economic activity in the second quarter has been very subdued. Exports to the US significantly boosted growth in the first quarter, and a reversal of frontloading could easily tip second-quarter growth negative.

One of the more annoying management cliches that social media throws at us is that disruption is the only constant, but it's hard to escape that conclusion these days. As we look at a decent PMI, concerns about Iran's response to this weekend's US strikes already bring the PMI's snapshot of the eurozone economy for June into question. While the extent and duration of the response are still very uncertain, the impact, although possibly limited, will be negative on the eurozone economy.

The current increase in energy prices already adds to headline inflation, and the energy-intensive manufacturing sector will see prospects weaken as energy prices trend higher. Besides that, uncertainty has been an important factor in dampening consumer and business confidence, which would add to weaker output. The current picture of a stagnating economy therefore sees more downside risks in the short term from the most recent developments in the Middle East.

Author

Bert Colijn

Chief Economist, Netherlands

bert.colijn@ing.com

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