

Eurozone PMI dampens expectations of a growth rebound

While the flash PMI for the manufacturing sector's output stabilised in July, the services PMI fell back, resulting in a decline of the composite PMI.



The flash composite PMI for the Eurozone fell back to 54.3, after the brief uptick to 54.9 in June. This was slightly below the consensus estimate.

The output index for the manufacturing sector remained stable, while it dropped to 54.4 in the services sector. More worrying is the fact that the increase in new orders for both sectors was the smallest since October 2016, indicating a potential further decline in the rate of expansion in the coming months. Trade frictions already seem to be taking their toll as new export orders in the manufacturing sector registered the smallest monthly increase since August 2016.

At the same time, job creation remains strong, which should give some support to domestic demand. Input price pressures cooled slightly in both manufacturing and services, although companies still seek to pass through past cost increases to customers.

While the decline of the composite PMI is a disappointment, the current PMI level still signals that the Eurozone recovery remains solid. This is grist to the mill for the ECB's thesis that the slowdown

seen since the beginning of the year was not the start of a more significant downturn.

However, while Europe is experiencing a heat wave in July, today's data can't be seen as a sign that the Eurozone economy is heating up. If anything, there are still plenty of events that could throw cold water on business confidence in the coming months. The risk of a trade war is lurking in the background while growing tensions in the Brexit negotiations might lead to a more cautious attitude amongst businesses.

We expect the Eurozone recovery to remain in 'steady as she goes' mode, but certainly not more than that. That means a quarterly growth pace of around 0.4%, with underlying inflation remaining rather subdued. A scenario that shouldn't inspire the ECB to change anything in its forward guidance on Thursday.

Author

Peter Vanden Houte

Chief Economist, Belgium, Luxembourg, Eurozone

peter.vandenhoute@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 www.ing.com.