

Eurozone PMI drops again in June, confirming weakness in economy

The PMI dropped sharply in June, giving a broad sense of weakening economic activity towards the end of the quarter. Another quarter of negative GDP growth is not unimaginable, although the current slump clearly remains mild enough for the European Central Bank not to change course on rate hikes



The composite PMI dropped from 52.8 to 50.3, following a decline in May as well. Taken at face value, the survey indicates broad stagnation in the economy, which seems to be a fair assessment of current economic activity. While the survey indicates a worsening downturn in manufacturing as the output PMI for manufacturing dropped from 46.4 to 44.6, the services index continues to grow, albeit at a rapidly slowing pace (services PMI was down from 55.1 to 52.4). This suggests that the reopening boost to services activity is on its last legs at the moment, adding to the sluggish economic environment we're currently in.

Overall, it looks like the eurozone economy has entered a sluggish period where economic growth is hovering around 0%. After the weak May PMI reading and soft production and sales data for April, today's PMI adds to evidence that the rebound from two small negative growth quarters is set to disappoint. In fact, another quarter of negative growth is becoming more likely.

The upside to the weak economic picture is that inflation pressures continue to fade. The PMI suggests another month of easing price pressures both for manufacturing and services, although they remain more problematic in services. Nevertheless, the direction is positive as average prices charged for goods and services rose at the slowest pace in more than two years.

The sluggish economic picture combined with continued improving inflation would appear to be dovish for the ECB. However, none of this will provide a catalyst for the bank to change direction on rate hikes. Policymakers seem to prefer too much, rather than too little tightening right now, which sets the stage for another potential hike in September.

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