

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.

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>.