

## Eurozone PMI drops as service sector suffers from fourth wave

The composite PMI fell from 55.4 to 53.4 in December as service sector activity weakened more than expected, still 4Q GDP does look reasonable. Inflationary pressures dipped in December, too early to draw large conclusions from but still worth noting



Source: Shutterstock

While the number disappoints somewhat, it still leaves GDP growth looking OK-ish for 4Q despite the new restrictive measures introduced. The differences between countries are marked, as Germany saw a PMI at 50 indicating stagnation due to a contracting service sector. France saw growth continue at a fast pace, which should help keep the economic impact of the fourth wave modest in 4Q. Industrial production, in particular, was off to a strong start in October, as we learned on Tuesday. The question is what will happen in 1Q. We have already downscaled our expectations as Omicron risk on the back of already high cases could see more economic impact on the services side, as the German PMI illustrates.

Price pressures have been easing in December, albeit only cautiously. Both producer prices and selling prices came off their November peaks, but only just. It is a cautious sign of some easing pressures coming from supply shortages, which confirms some anecdotal evidence but it's way

too early to conclude that the worst is behind us. That said, much of the higher costs for goods producers still have to be priced through to the consumer, so don't expect to see an immediate impact in consumer prices anyway. Some easing of pressures from supply chains would be a sign of more temporary inflation pressures though, which is worth noting for the European Central Bank.

For the ECB this afternoon, this PMI confirms a very complicated outlook for the economy. Strong recoveries are being dampened by the latest wave of the virus, but the medium-term economic outlook remains relatively benign. At the same time, inflation is set to remain elevated for quite some time, but the December decline in price pressures is a first cautious sign that much of the current high inflation is likely to be temporary. All in all, a first move towards tightening, with dovish bells on, is probably what we can expect.

## Author

### **Bert Colijn**

Chief Economist, Netherlands

[bert.colijn@ing.com](mailto: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>.