Snap | 16 December 2021

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.

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