

Snap | 22 July 2022

## Eurozone: PMI drops below 50 in July, confirming recession worries

The sharp decline in the composite PMI from 52 to 49.4 indicates that recessionary pressures are becoming more widespread in the eurozone economy. For the European Central Bank, this confirms our view that it will only hike another 50 basis points in total this year



Yesterday marked the end of negative rates in the eurozone as the ECB raised interest rates by 50 basis points. In the statement, the ECB recognised that after having accomplished this, it will now be completely data-dependent moving forward and determine on a month-by-month basis how much rates will need to be increased.

Well, on day one of the ECB's data-dependent approach, the data is not looking great. The eurozone composite PMI has fallen below 50 – from 52 in June to 49.4 in July. This, according to the survey, signals contraction. This adds to our expectation of a eurozone moving rapidly towards a (shallow) recession.

The manufacturing sector is still experiencing the toughest environment at the moment. Production dropped sharply in July according to the survey and new orders are also on the decline. Perhaps more problematic is that service sector growth is also slowing substantially – the services

PMI dropped from 53 to 50.6, which is roughly in line with stagnation. While a strong tourist season could save the third quarter from contraction, weak German activity does put that view in doubt. Overall, the picture therefore shows weakness in activity across the board, which is resulting in sharp inventory run-ups and weaker hiring demand.

In terms of inflation, the PMI shows some easing of price pressures even though they do remain elevated. Global demand easing and easing of Covid constraints in China are helping supply chain problems to moderate, and weakening domestic demand in the eurozone is also making it harder for businesses to price through higher input costs to consumers. Of course, it is hard to predict the peak in inflation as it is so dominated by energy price developments, but early signs of alleviating price pressures make expectations of an inflation peak in the second half of this year reasonable.

For the ECB, today's PMI confirms our view of a modest set of rate hikes. After yesterday's 50 basis points, we only expect the ECB to hike a further 50 basis points in total as recessionary pressures are already cooling the economy quite significantly.

## 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>.