Snap | 21 February 2018

Eurozone PMI drops in February

The composite PMI fell from 58.8 to 57.5 as growth in new orders eases. As backlogs of work continue to increase, any negative impact on GDP is likely to come much later

Source: Shutterstock

The first confidence indicators after the market turmoil show some declines, with falling consumer confidence and a sharp drop in the PMI. Looking back at the market volatility of early 2016 triggered by dropping oil prices and concerns about China, we saw that Eurozone confidence indicators were affected as well, but that the economic impact was negligible in the end. As the PMI indicates that the business outlook for the coming months has actually improved, it seems that the return of volatile markets has not had much effect on business confidence so far. Despite slowing growth in new orders, the economic outlook remains strong for the current and coming quarter.

When looking at underlying indicators, the story of the past months remains unchanged. Businesses continue to struggle with capacity constraints as new orders have come in at a surprisingly fast pace. Even though the pace of growth in new orders has fallen somewhat, hiring is still near record highs. This makes for a bright outlook for the Eurozone economy in the months ahead as consumption and investment are set to gain in this environment of expanding capacity. With slowing growth in new orders, but increased backlogs of work, the negative impact on the Eurozone economy could come much later.

Author

Bert Colijn
Chief Economist, Netherlands
bert.colijn@ing.com

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