

Snap | 24 May 2022

Eurozone: PMI drops slightly as inflation pressures remain

The composite PMI fell from 55.8 to 54.9 in May, still signalling decent expansion. With inflation pressures remaining close to all-time highs, this keeps hawkish pressure on the ECB to act quickly despite growth concerns



Christine Lagarde,
president of the
European Central Bank

Squeezed purchasing power, weak consumer confidence, and tightening financial conditions are just a few of the headwinds the eurozone is facing at the moment. Nevertheless, the PMI doesn't indicate that this is translating into a contracting economy so far, but we do see the first signs of weakness coming through. This is mainly because of the service sector still profiting from fading pandemic restrictions. The May data showed some weakening as the service sector PMI fell from 57.7 to 56.3. While still signalling strong expansion, it is a sign that the reopening boom has started to fade.

The manufacturing PMI signalled stalling growth in April, but the indicator improved modestly in May from 50.7 to 51.2. Bugged by input shortages related to the war in Ukraine and lockdowns in China, the sector is having problems with production. At the same time, new orders also decreased for the first time since mid-2020, showing early demand concerns.

Inflationary pressures are barely abating though. Input costs have slightly dropped from record highs, and selling price expectations remain close to April's record high. Some early signs of improvement are unlikely to translate quickly into a fading inflation rate. Moreover, hiring intentions remain strong for now, which will add to labour shortages and subsequently to wage pressures.

For the ECB, this is a hawkish signal. The growth outlook is clearly worsening, but the current impact of high inflation and the war is not yet contractionary according to the survey. We have seen ECB doves pushing back at a 50 basis point hike in July, but this PMI release will likely continue the conversation about whether President Christine Lagarde's promise of no more negative rates by the end of 3Q will already be accomplished at the July meeting, or whether it will be 25bp in July and again in September. The next stop in terms of the ECB's data-driven lift-off is May inflation data, due out next week.

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>.