

## Eurozone PMI drops to 10-month low on Middle East conflict

Eurozone's PMI for March has dropped to a 10-month low, from 51.9 in February to 50.5. The survey suggests that manufacturing has so far been less hit than services and that input prices are once again on the rise. The economic outlook has weakened significantly, but all now rests on how the conflict unfolds



The Middle East conflict is starting to hurt European manufacturers

Ahead of the Middle East conflict, optimism among European businesses was strong. Growth was maintaining a decent pace over previous quarters, and expectations of increased public investment were boosting hopes of a rebound among manufacturers.

But the war has put paid to hopes of short-term growth acceleration. Businesses were much less optimistic in March, according to the Purchasing Managers' Index, and reported significant increases in input costs and supply chain disruptions.

The bright spot was the manufacturing sector, where the output PMI remained broadly stable (51.7 compared to 51.9 in February). This still indicates decent output growth for now, but the mood among manufacturers for the months ahead has become more downbeat.

The eurozone's vulnerabilities are once again laid bare. For energy-intensive industry, this means that a recovery will be harder to achieve, which matters significantly for overall production. And consumers are less confident with prices at the pump having jumped, which means that household consumption could be under pressure despite decent wage growth. The services PMI already reported a big decline, from 51.9 to 50.1.

For the eurozone economy, a return to strength depends very much on the length of the Middle East conflict. A fairly fast end would boost hopes of a more modest impact on consumer prices and would increase chances of a rebound for industry. But as today's PMI illustrates, business conditions have worsened for the moment, and optimism is taking a hit.

## 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 [www.ing.com](http://www.ing.com).