

Snap | 23 August 2022

Eurozone PMI hints at a eurozone economy in contraction

The August PMI indicates this economy is heading towards recession quickly if it's not already in one. Meanwhile, weaker demand is leading to some fading of inflationary pressure, but the question is how soaring energy costs will impact this in the coming months



The post-pandemic rebound in consumer spending on services is fading rapidly

The composite PMI fell from 49.9 to 49.2. Anything under 50 indicates falling business activity, so the survey is hinting at a contraction that started in the third quarter. This is consistent with our forecasts, and the colour that the survey gives on the weakness is not pretty.

The manufacturing output PMI ticked up a bit in August but remained deep in contraction territory at 46.5. New orders continue to fall and inventory build-up is very strong, which reflects the squeeze in demand that the eurozone economy is currently experiencing.

The services PMI fell rapidly in August to a level indicating stagnation in activity at 50.2. Demand also weakened for the service sector as the post-pandemic rebound in consumer spending on services is fading rapidly.

The good news is coming from the inflation side. While high costs continue to play a major role in

weakening demand, the pace of inflation seems to be fading among manufacturers and in the service sector. Weaker demand and easing input prices are helping selling price inflation moderate a bit, but the question is whether this can last now that natural gas prices are reaching new records again.

For the months ahead, economic weakness is set to persist. We expect that a eurozone recession has started as the purchasing power squeeze in the eurozone economy continues. For the ECB, this complicates matters significantly, but we do think that September will still see a 50 basis point rate hike. After that, we think the rapid cooling of the economy will cause the ECB to pause its hike cycle, if we can call it that...

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