

Snap | 22 April 2022

## Eurozone: PMI hints at faster growth and sends hawkish signal to the ECB

Consumers are ignoring the purchasing power squeeze for now as reopening effects boost service sector growth while manufacturing cools. We now expect the ECB's first rate hike to be in the third quarter



Source: Shutterstock

There were a lot of reasons to expect a more significant weakening in the PMI this month. Weak consumer confidence, high inflation, supply chain disruptions and tightening financing conditions were all set to have a negative effect on output this month. But the PMI indicates that the economy has proven to be quite resilient to these factors. It increased from 54.9 to 55.8 in April. This is mainly because of strong reopening effects still benefiting the eurozone economy.

The services PMI increased from 55.6 to 57.7, helped by sectors that still benefited from fewer Covid restrictions. So despite the record drop in real wages, consumers still seem eager to spend some of their savings built up during the lockdowns now that restrictions have eased.

Manufacturing did feel the impact of the war though. A sharp decline in the index from 53.1 to 50.4 corresponds to stagnating output growth and was driven by high prices and supply chain disruptions. The car sector was particularly hard hit again but other sectors also saw production hiccups due to input shortages related to the war and the new lockdowns in China. The survey also

reported weakening demand for goods, which is a sign of a more structural slowdown.

The eurozone economy continues to face challenges ahead. Prolonged high inflation will start to weigh more on household consumption over time with weaker demand for goods spilling over into services demand when catch-up demand fades. Also, investment will be weighed down by higher interest rates and weakening credit conditions in the coming months. Supply chain problems are already an issue now and are set to remain problematic given the build-up of containers in Shanghai and continued disruptions related to the war.

Nevertheless, this is a clear hawkish signal to the European Central Bank. With this PMI signalling continued economic recovery, risks to the inflation outlook remain skewed to the upside and that is likely to be another argument for the ECB to move faster than initially expected. We now expect a first hike to happen in the third quarter and another one in the fourth but keep a close eye on the growth environment as outperformance of expectations could mean more hawkish surprises are in store.

## 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>.