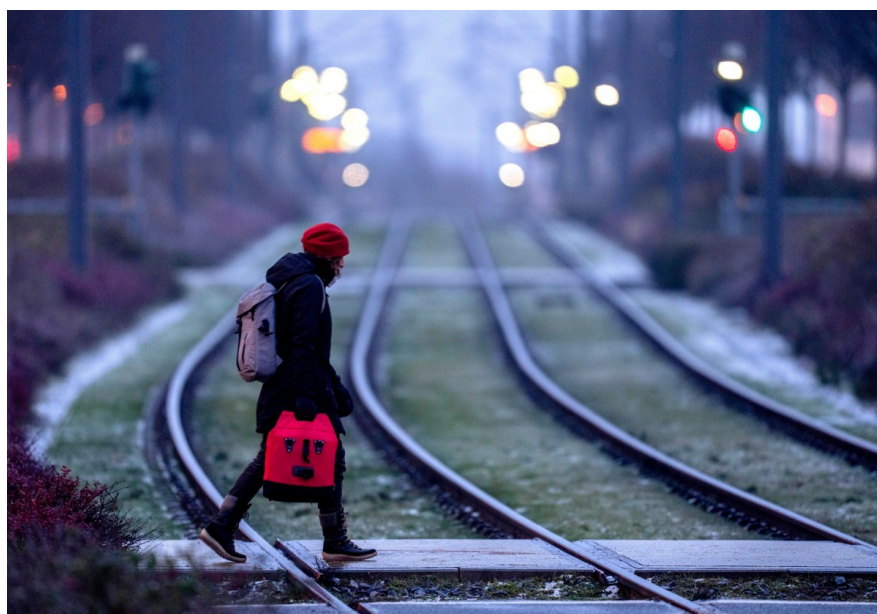


Snap | 24 January 2023

Eurozone PMI improves as mild winter helps economy

The jump in the composite PMI from 49.3 to 50.2 indicates that the economy is performing better than expected. Businesses are experiencing fewer cost pressures than before, but selling prices remain high. For the ECB, this should seal the deal for a 50 basis point hike next week



The eurozone economy was boosted in December by the mild winter weather

Sometimes you just need a bit of luck. The eurozone economy has avoided dramatic scenarios for the winter thanks to an extremely mild December in which gas storages have been depleted much less than feared.

Whether this is a recession or not is almost semantics at this point. The PMI jumped above the 50 level, which indicates growth in the business economy. While the difference between -0.1 and 0.1% growth is interesting for economists, the overall sense of stagnation will likely prevail for most.

More important is that improvements in the PMI were broad-based as both the manufacturing and services PMIs ticked up. New orders are still falling, but at a slower pace than before and businesses

have again seen hiring increase. The latter confirms our view that labour shortages are here to stay despite the sluggish economic performance. That brings upside risk to the wage growth outlook.

For inflation, the survey continues to bring good news on supply-side pressures. Input costs are rising much less rapidly than before, but for now that mainly seems to benefit corporate profitability as selling price growth is expected to remain high, according to the survey. This means that while headline inflation is set to fade more substantially over the coming months, risks to core inflation staying high remain.

For the ECB, this is once again a tricky report card. Falling inflationary pressures are good news, but stubbornly high selling prices and a strong labour market performance will cause alarm bells to ring in Frankfurt. For next week's governing council meeting, this means that the ECB is likely to stay the course and hike by another 50 basis points.

Author

Bert Colijn

Senior Economist, Eurozone

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>.