

Snap | 23 August 2021

## Eurozone PMI may be past its peak but still signals strong growth for 3Q

A slight decline in Eurozone PMI from 60.2 to 59.5 indicates that the rebound is set to keep GDP growth elevated for 3Q. But concerns about input shortages in manufacturing and inflationary pressures haven't yet abated



Source: Shutterstock

The decline in Eurozone PMI was expected after the strong rebound upon the reopening of the eurozone economy.

The August figure is still very strong by historical standards but shows some cooling from the July peak. This can be interpreted as a confirmation of solid growth that should keep 3Q GDP around 2% QoQ.

The tick down in the PMI occurred in both services and manufacturing. For services, it was just -0.1, which is related to waning confidence given the uncertainty around the delta variant. Still, data on current activity remains exceptionally strong, and employment is booming as the reopening of the economy means demand for workers.

Manufacturing PMI dipped from 61.1 to 59.2, illustrating that supply chain concerns remain. The backlog of work continues to increase in August, and hiccups in production remain as input shortages bite. With new orders still coming in strong, we don't expect weaker manufacturing expansion overall but imagine it will be spread out over the coming quarters.

According to the survey, price pressures align with expectations for continued elevated inflation in the second half of the year. Still, the increases in June and July were stronger, indicating that price pressures remain at high levels but do not seem to be increasing.

The eurozone economy is firing on all cylinders again as reopening has had the expected positive effect on growth. Concerns about the impact of the delta variant and input shortages remain but have not derailed the rebound thus far.

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