Eurozone PMI: muddling through lockdowns but beware of inflationary pressure

The PMI fell again in February as lockdowns have been extended. While output remains significantly below pre-crisis levels, the PMI does indicate that inflationary pressures are rising further

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Another month of weak PMIs confirms that the eurozone economy is set to contract once more in 1Q. Lockdowns have extended well into February - for some countries into March already – and the service sector is still suffering significantly. A decline in the services PMI from 45.4 to 44.7 indicates that the situation actually worsened slightly in February.

Manufacturing output continues to be the positive counterweight to services with an acceleration of growth in February, the PMI increased from 54.6 to a whopping 57.5. Growth in new business is strengthening with gains widespread among eurozone countries. With spending on services still very restricted, demand for goods remains high for now, not least because of quickly recovering demand from abroad.

The strong recovery of manufacturing has been surprising and is causing pressures on supply to become even larger. Input sales have surged and so have supply lead times. This is causing inflationary pressures as input prices rose at the fastest pace since 2011. After months of signalling a fall in selling prices, the PMI now sees selling prices for goods and services prices as unchanged.

For the months ahead, a sharper increase in goods prices seems to be in the making. With other temporary pressures already setting inflation higher, we expect this to add to a markedly higher inflation reading over the coming months. While we expect economic growth to start a sharp recovery this year, it will clearly lag inflation as lockdowns are still set to continue for the short-term.

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