Eurozone PMI once again signals contraction in activity in September

The PMI ticked up slightly from 46.7 to 47.1 in September. This is better than expected but does not ease concerns about a possible contraction in GDP in the second half of the year

To be fair, the PMIs are getting harder to read at this point. The slight tick-up from last month does end a streak of four consecutive declines in the composite PMI, but it remains firmly in contraction territory. While better than analysts had expected, the overall picture remains rather bleak on economic growth and adds to contraction concerns. Still, at least today's PMI indicates that the deterioration of conditions has stopped for the moment.

Perhaps that's the glass-half-full take because the underlying picture that the PMI paints is far from positive. The decline in demand is worsening as new orders fell at the fastest pace since late 2020. Manufacturing has performed poorly for quite some time, but the fact that services are the main contributor to the drop in new orders shows that the weakening of demand in the eurozone is becoming more broad-based.

Businesses are still working off old orders at the moment, which is keeping output reasonable right now. Still, that suggests a weaker outlook for the months ahead. With hiring slowing to a snail's pace, concerns about activity in the months ahead remain. Our base case is for a continuation of very slow growth, more or less stagnation, which means that a quarter of negative growth is certainly imaginable.

The inflation picture is also getting more complicated. The surge in oil prices and high wage growth have caused input prices to increase again, which is mainly the case for the service sector. In manufacturing, input prices have turned deflationary. Still, the increase in service sector costs has not resulted in accelerated selling price inflation. Weaker demand is resulting in slowing selling prices in services and in outright drops in prices for manufacturing. Music to the ears of the European Central Bank, no doubt.

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