

Snap | 22 September 2023

## 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.

## 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>.