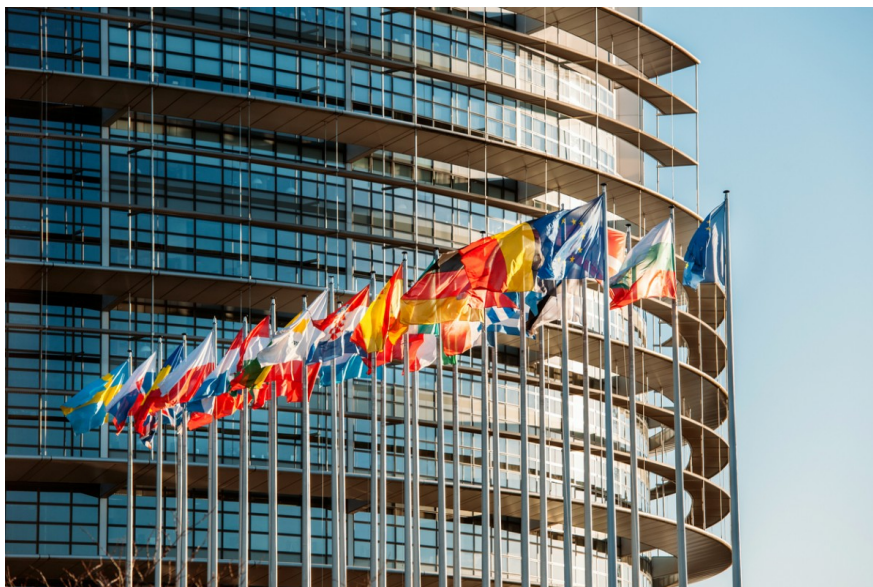


Snap | 22 June 2018

Eurozone PMI provides silver lining to 2Q performance

The increase in the PMI shows that calendar effects may have overstated the slowdown in May, but it doesn't provide much evidence that the soft patch has ended



Source: iStock

After dropping to a one-and-a-half year low in May, the eurozone PMI increased to 54.8 in June from 54.1. While not a fantastic result, the release does provide a silver lining to the current streak of disappointing data from the eurozone. Output growth picked up in the service sector, while the survey for manufacturing output continued to slide. New orders and hiring have been picking up from May, mainly due to a calendar effect as May had a large number of public holidays this year. The overall trend remains subdued compared to the fast-paced growth from late 2017.

As expected, optimism among businesses has been easing. In Germany, there was a split between improved optimism among service sector businesses and tanking confidence among manufacturers. This is where a possible trade war impact would be largest if indeed tariffs for the automobile sector were to go up, as has been alluded to by President Trump.

Even though the soft patch in eurozone data has been dragging on for a while now, pipeline inflation pressures continue to move in the right direction for the ECB. Input prices have been

increasing significantly in June and will put more pressure on inflation in the coming months. Service sector businesses indicated a fast increase in price growth, which would bring core inflation on track to improve in the months ahead, confirming the ECB's path towards the exit of quantitative easing.

The eurozone is ending the first half of 2018 much less positively than initially expected. While output growth has maintained a steady pace, 1Q was much slower than 4Q 2017 mainly due to one-off factors. It does not look like 2Q has been much better and while a growth pace of 0.4% quarter on quarter is certainly not bad, it could be that weaker confidence among businesses and consumers will bring permanence to the slower growth pace of the first half year. With trade war worries, the running down of QE and political uncertainty back on the menu, strong fundamentals will probably be met with bouts of concern for the second half of the year as well.

Author

Bert Colijn

Chief Economist, Netherlands

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 www.ing.com.