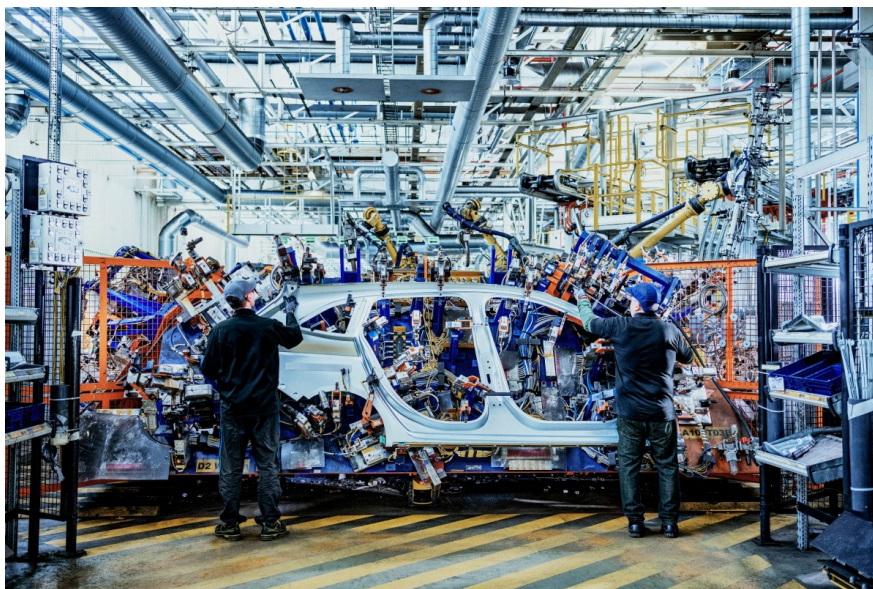


Eurozone PMI remains positive but reveals grim details

A record surge in energy prices is the most immediate impact of the Ukraine war on the eurozone economy, and is set to have a significant weakening effect on GDP in the months ahead



The manufacturing PMI suffered from increased supply chain problems

The most important aspect of today's PMI release was not the headline reading. The composite PMI fell from 55.5 to 54.5 in March, which was a modest drop but leaves it well into positive territory. That suggests that the first weeks of the Russia-Ukraine war have not yet caused output to drop in the eurozone. The manufacturing PMI suffered from increased supply chain problems and higher input prices, causing it to slide from 58.2 to 57. The services PMI also remained in positive territory, mainly thanks to the reopening of economies as pandemic restrictions have eased.

It is the underlying insights from the survey that show more concern about the health of the economy. Most importantly: businesses have clearly been impacted by the surge in energy prices seen since the war started. Both input and output prices surged at a record pace in March. This suggests a broadening of inflation as even higher energy prices are causing passthrough effects to happen more quickly than expected. We already expect inflation to soar above 7% in March and think that prices are set to increase further in April. The impact on consumer purchasing power will

be sizable and dampen consumption expectations as already reflected in the plunging [consumer confidence figures from yesterday](#).

Also important is that backlogs of work have been decreasing. Together with dropping business sentiment and weakening real wage growth, this results in a much weaker economic outlook for the months ahead. So while the PMI suggests that eurozone output continued to grow in March, the coming months could well see a much tougher economic environment, and declining GDP can therefore not be ruled out.

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 <http://www.ing.com>.