

Snap | 23 April 2026

Eurozone PMI shows stagflationary pressures increased in April

The flash estimate of the composite PMI fell into contraction territory in April. At the same time, inflationary pressures continue to strengthen, emphasising the stagflationary impact of the current shock. While a rate hike in April still seems to be a long shot, the European Central Bank will likely have to tighten monetary policy later this year



The flash estimate of the composite PMI fell below the boom-or-bust 50-level for the first time in 16 months.

Services sector activity tanks while manufacturing companies try to build inventories of crucial inputs

The flash estimate of the composite PMI fell to 48.6 in April, below the boom-or-bust level for the first time in 16 months. The downturn was especially visible in the services sector, where the activity index fell to 47.4, a 62-month low. Somewhat surprisingly, the Manufacturing PMI rose to 52.2, significantly above consensus expectations. While overall new orders decreased for the second month in a row, manufacturing new orders rose at the fastest pace in four years. However, given the supply disruptions caused by the war in the Middle East, it seems that manufacturing activity is currently supported by inventory building, with companies trying to secure crucial inputs in the wake of potential shortages. Although overall growth is clearly slowing, employment decreased only marginally, with staffing levels in the services sector remaining resilient.

Selling prices increase

In the wake of the energy shock and the supply side disruptions, input costs increased at the fastest level since 2022. Despite the slowdown in growth, output price inflation reached the highest level in 37 months. This is important, as ECB President Christine Lagarde stated during the March press conference that the ECB would be particularly attentive to selling price expectations of firms.

The fact that the S&P website temporarily couldn't cope with the amount of traffic after the PMI release only illustrates how crucial this report is ahead of next week's ECB meeting. Lagarde said in a recent speech that the uncertainty about the duration of the shock and the breadth of pass-through argues for gathering more information before drawing firm conclusions for monetary policy. This seems to make a change in interest rates next week still rather unlikely. However, the current PMI report shows that, despite the slowdown, some second round price effects are already arising. That might push the central bank into at least one rate hike later this year, to prevent the current inflation increase from raising inflation expectations.

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