

## Eurozone business activity is now contracting, according to PMIs

As the Olympic flame was extinguished, so was eurozone optimism. The August uptick in the PMI was met by a sharp decline in September. The PMI now stands at 48.9, which indicates contraction according to the survey. This further fuels growth concerns in the bloc as inflation worries fade



The Olympic flame is gone and so have hopes of a European growth recovery

Last month saw an uptick in services PMI, which was mainly due to French optimism related to the Olympics. But now that those Games are over, service sector sentiment has resumed its downward trend. The services PMI dropped to 50.5 in September, indicating broad stagnation in activity. Manufacturing output also fell, from 45.8 to 44.5. An all-round bad end to the quarter which, to us, means that GDP growth has likely weakened from its already modest 0.3% quarter-on-quarter pace.

The inflation outlook looks markedly better as the PMI indicates rapidly slowing input cost inflation for businesses. This is the case for both services and goods, despite still high wage growth and transportation costs. In turn, the lower cost growth results in slowing selling price inflation.

With the release of the [Draghi report](#), concern about weak eurozone activity has increased. While

Draghi's concerns are structural, the cyclical state of the eurozone economy perfectly illustrates why Europe needs a boost in growth. After the stagnation that followed the energy price shock, the eurozone economy is now barely experiencing any recovery. With inflation now close to the ECB target of 2% again, the main concern is shifting from inflation to growth.

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