

Eurozone PMIs recover brushing aside supply chain and delta concerns

Better than expected PMIs confirm the strong rebound expected for 3Q, as reopening services make up for the slight decline in manufacturing output due to supply chain problems. Inflation pressures persist, forcing a dovish ECB to remain on its toes for the autumn meeting



Source: Shutterstock

The composite PMI increased from 59.5 to 60.6 in July, which is the highest reading since 2000.

Easing restriction measures are boosting service sector activity at the moment, but concerns about the spread of the Delta variant resulted in a somewhat weaker business outlook for the year ahead. The manufacturing PMI ticked down slightly as supply chain problems are biting and cause production to be delayed.

Still, the picture painted by the survey is very rosy. Employment is rebounding quickly, new orders for manufacturing and services continue to grow rapidly, and reported recent activity ticked up in general, meaning that July has been a solid start to 3Q. The response to the Delta variant adds some uncertainty to the outlook, but expect the general direction of growth to be positive for now.

While the ECB committed itself yesterday to a very dovish monetary stance for the foreseeable future, strong inflation chances remain a risk to the outlook. While our base case continues to be one of inflation of around two percent until mid-2022 before dropping again, higher inflation for this period is not an unlikely scenario.

The PMIs once again confirm significant pipeline inflation pressures, especially for goods. Of course, the ECB will consider this transitory as it has said before but expect the debate to become more heated in the months ahead when a decision needs to be made about the end of the PEPP programme.

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.