

## 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



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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.

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