

Snap | 23 September 2022

Eurozone PMI suggests the region may already be in recession

The third decline in a row for the eurozone PMI indicates that business activity has been contracting throughout the quarter. This confirms our view that a recession could have already started. At the same time, the August increase in energy prices is translating into stronger price pressures



Shoppers in Lubeck, Germany

The third quarter clearly marks a turning point for the eurozone economy. After a strong rebound from contractions caused by the pandemic, the economy is now becoming more severely affected by high inflation both at the consumer and producer level. Led by Germany, which saw its composite PMI drop to 45.9 in September, the eurozone saw its composite PMI fall to 48.2. Both services and manufacturing output are well below 50 at 48.9 and 46.2, respectively, signalling broad-based contracting business activity.

The manufacturing sector is bearing the brunt of the problems. Supply chain problems still disturb production, but weaker global demand has caused backlogs of work to fall as new orders are decreasing quickly. Incidental production stoppages due to high energy costs are also adding to declining production in the sector.

But with the tourism season behind us, there are few opportunities left for any marked catch-up effects in the eurozone economy. That has pushed the services PMI deeper into negative territory as consumers are starting to become more cautious in spending as energy bills rise across the monetary union. Overall, the view of a eurozone economy moving into recession seems confirmed by the gloomy September PMI survey.

The surge in gas and electricity prices in August is now leading to further price pressures emerging for businesses in September, even though other costs have been moderating due to weakening global demand. This confirms the stagflationary environment that the eurozone is currently in. The ECB has made clear that it will continue to hike in a determined manner for the short-run, as it tries to battle stubbornly high inflation. A 75 basis point hike in October is therefore definitely on the table, despite a weakening economy.

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>.