

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.

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