

Declining eurozone PMI: More ammunition for ECB doves

The Eurozone PMI declined from 52.2 to 51.5 in July, thanks to deepening manufacturing contraction. If the European Central Bank takes this release seriously at tomorrow's meeting, it would nudge them more towards quick action



Source: Shutterstock

Has the ECB already made its mind up about the course of action or can the July PMI still change things? Difficult to say, but surely governing council members will take note of it. As the second quarter has likely come in weak, this is an important first look at how the third quarter has kicked off and it does not look good.

Growth concerns remain significant

The economy is still growing, but the pace remains weak in the third quarter. With manufacturing dropping sharply according to the PMI (drop from 48.5 to 47), concerns about the growth environment remain significant. Even though service sector activity remains strong for now, the

question is how long that can be maintained when industrial production experiences a prolonged decline.

The strong service sector performance is in part driven by the surprising performance of the Eurozone labour market. As long as job and wage growth remains solid, the service sector will benefit from improving household consumption. The PMI indicates weakness in employment growth though, with manufacturing employment in Germany dropping sharply according to the indicator and falling for the third month in a row for the Eurozone as a whole. That foreshadows moderation in the service sector, making a swift recovery of growth unlikely.

Finally, the PMI signals a weakening inflation outlook with easing input prices on the industrial side. This has its impact on selling prices as businesses indicate slower inflation from both the industry and service sector side. As inflation pressures decline, the inflation outlook seems to be weakening if anything at the moment. All in all, the PMI paints a picture of an economy that is flirting more with the downside than with swift recovery. More ECB stimulus seems to be a done deal, but the timing remains an exciting question. If the ECB has yet to decide whether it is already tomorrow or September when it will act, this PMI has given the doves on the governing council even more ammunition.

Author

Bert Colijn

Senior Economist, Eurozone

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>.