Eurozone PMI ticks up in December and signals easing inflation pressures

Some good news for once, with the eurozone PMI ticking up in December. Inflation pressures continue to fade due to lower demand and moderating supply chain problems. For the ECB, the latter adds to doubts about yesterday's hawkish tone

The composite PMI improved from 47.8 to 48.8 in December. This still signals contraction, but as the quarter comes to a close, we can conclude that the contraction in the eurozone economy was likely mild. The easing of contraction was noted in both the manufacturing and services survey.

For manufacturing, output fell less in part because the drop in new orders also eased a bit. Very importantly though, delivery times improved for the first time since the start of the Covid-19 pandemic. This indicates that supply chain problems are quickly fading at the moment due to a combination of low demand for inputs and improvements in production. For services, new business continued to contract at a similar pace to last month but recreation saw an uptick in activity again.

For price growth, the easing of supply problems is adding to disinflationary pressures. Businesses reported a significant improvement in input cost inflation as they rose at the slowest pace since May 2021. Selling prices still increased at a fast pace, but the pace has been slowing. This is related to the declining need to price through higher costs to consumers and because of discount sales related to lower demand, according to the survey.

For the ECB, this must be quite a difficult survey to interpret. Yesterday, the central bank revealed a particularly hawkish take on the economic situation and ECB President Christine Lagarde noted that a mild recession is unlikely to be enough to tame inflation. While the downturn seems to be easing according to the survey, we also see that inflationary pressures continue to cool. For the doves on the governing council, the latter will likely fuel concern that the ECB could end up doing too much.

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